Editorial Office & Headquarters
12, Sudder Street, Kolkata-700 016
Phone : (033) 2252-1031/34/35,
Fax : (033) 2252-1602/1492
Website : www.icwai.org.
Delhi Office
ICWAI Bhawan
3, Institutional Area, Lodi Road
New Delhi-110003
Phone : (011) 24622156, 24618645,
Fax: (011) 24622156, 24631532, 24618645

The Management Accountant

★ *Official Organ of The Institute of Cost and Works Accountants of India established in year 1944 (Founder member of IFAC, SAFA and CAPA)*

Volume 44 No. 9 September 2009

IDEALS
THE INSTITUTE STANDS FOR

❑ to develop the Cost and Management Accountancy profession ❑ to develop the body of members and properly equip them for functions ❑ to ensure sound professional ethics ❑ to keep abreast of new developments.

The Management Accountant Technical Data

Periodicity	Monthly
Language	English

Overall size - 26.5 cm. x 19.5 cm.
Printed Area - 24 cm. x 17 cm.
Screens - up to 130

Subscription

Rs. 300/- (Inland) p.a.
Single Copy : Rs. 30/-

Overseas

US $ 150 for Airmail
US $ 100 for Surface Mail

Concessional Subscription Rates for Registered Students & Grad CWAs of the Institute

Rs. 150/- p.a.
Single Copy : Rs. 15/- (for ICWAI Students & Grad CWAs)

Subscription rate and price of *The Management Accountant (Student Edition)*

Annual Subscription rate : Rs. 50
Price of Single copy : Rs. 5

Advertisement Rates for The Management Accountant

	Rs.	(US $)
Back Cover (colour only)	30,000	2,000
Inside Cover (colour only)	25,000	1,500
Ordy. Full page (B/W only)	12,000	1,200
Ordy. Half page (B/W only)	9,000	1,000
Ordy. Qrtr. page (B/W only)	5,000	500

Advertisement Rates for Student Edition

Full Page	Rs.	10,000
Back Page	Rs.	8,000
(Always Half Page only)		
Inside Half Page	Rs.	5,000
Inside Quarter Page	Rs.	3,000

The Institute reserves the right to refuse any matter of advertisement detrimental to the interest of the Institute. The decision of the Editor in this regard will be final.

MISSION STATEMENT

"ICWAI Professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting."

VISION STATEMENT

"ICWAI would be the preferred source of resources and professionals for the financial leadership of enterprises globally."

DISCLAIMER

The views expressed by the authors are personal and do not necessarily represent the views and should not be attributed to ICWAI.

Corrigendum

The August issue of the Management Accountant inadvertently mentions contributor of book reviews on Pages 664 and 665, Dr Sumita Chakraborty as Director (Studies). Her correct designation should be Deputy Director (Studies). The error is genuinely regretted.

Editorial

Cost Counter

The recent global downturn, more than any other time, has brought to the forefront the urgent need for cost management in organizations across the globe. With top line figures shrinking, companies are adopting measures to protect their bottom lines through cost control. Sustained cost management has two core benefits: the ability to gain an "operating advantage" and the creation of "structural advantage" within an organization. In such a scenario, it is but imperative to revisit the realms of costing and cost control and understand the role of Cost Accountants in changed environment.

Costing has undertaken a long journey from being just an inventory valuation and product-costing tool to a wider management philosophy. The shift in manufacturing from producing standardized goods in large quantities in 1980s led to cost accountants combining the rigour and conventional abilities of traditional costing techniques like job and process costing with the improved analytical capacity and 'causality' principle of activity based costing. The development of the concept of target costing was yet another important milestone in that it not only marked a shift from hitherto cost plus pricing to a target return pricing, but it also expanded the realm of costing beyond traditional cost accountants to product marketing and pricing mangers.

At this juncture it is important to differentiate between cost reduction as a one-time, short term measure to stabilize/ improve profits and cost optimization as a long-term, strategic measure which both leads to sustainable cost benefits and also adds value to customers. The secret behind the success of cost optimization strategy vis-à-vis a functional-centric cost reduction thinking is that the former is associated with an enterprise wide appreciation of process linkages, ability to discover cost drivers and managing the costs without affecting customer value drivers. These benefits of cost optimization have brought to the forefront the concept of Lean Management, which today finds wide applicability across all industries. The core idea behind the lean philosophy is to create more value for customers through fewer resources. To accomplish this, lean thinking changes the focus of management from optimizing separate technologies, assets, and vertical departments to optimizing the flow of products and services through entire value streams that flow horizontally across technologies, assets, and departments to customers.

This development highlights another new trend, namely the increasingly active and changed role of cost accountants in business. The Cost Management professional of today is no longer a passive agent, whose role is limited to auditing/ cost control functions; rather he is a trusted business partner, providing the vital cost information needed by management in the pursuit of an optimal mix of activities and processes to drive sustained customer value. An integral component of the Cost Management evolution is a focus on the importance of performance measurement. The Balanced Score Card highlights the symbiotic relation between costing management and enterprise resource governance for e.g. how ABC can be combined with information provided in the Balanced Scorecard to assist an organization in determining the true profitability of targeted customer segments. Similarly, costing can be used a broad strategic tool to examine the true cost of current processes in an effort to determine whether the expected benefits in customer outcomes arising from the process exceed the cost of engaging in the activity. The popularity of Kaizen and Six Sigma are pointers towards how cost management is an inextricable tool of management control.

The current issue brings forth a bouquet of rich articles on the topic of Costing. Efforts have been made to blend both theoretically strong articles along with practical issues to suit everyone's tastes. There are articles, which illuminate us on how the cradle-to-grave concept of Life Cycle Costing can be used a strategic tool for gaining comparative advantage and how lean tools can be used for better customer satisfaction. On the other hand, practising members have shared their experiences in their corporate spheres by highlighting how a Cost Accountant can leverage his/ her ERP costing configuration knowledge to achieve value maximization for his organization and informed us about the innovative cost accounting standards that can be used in the packaging industry. For the benefit of our members we have also compiled the International Best Practices Guidelines issued by IFAC. Our Central Council Members were involved in extensive and painstaking brainstorming with the experts in the business over the implications of IFRS on historical costing statements and their results have indeed been eye-opener for us. Their enriching views on this topic have also been included in the current issue so that members may be aware of the latest developments. We wish our readers a very happy Dusshera and joyous Id.

• President's Communique •

My dear professional colleagues,

My greetings to all of you for the 63rd Independence Day. I had the opportunity to hoist the National Flag at the ICWAI, HQ Kolkata in the presence of few council members and all officials of Kolkata. I am also happy to note that similar celebrations took place in our regions and chapter offices.

I am conveying to the members of our profession that whenever any opportunity is denied to our members in spite of our qualification and merits, we are immediately taking the action with the concerned responsible authorities to give due recognition to the Cost and Management Accountants.

Few days back all of us are aware about the press note issued by the Central Vigilance Commissioner regarding non recovery of crores of rupees by bankers on account of wrong certification by Chartered Accountants. Immediately we have brought this matter to the notice of our Minister and have demanded from MCA inventory valuation as per Cost Accounting Standards by companies with bank borrowing beyond a prescribed limit under Companies Act due to CVCs report. We are pursuing this matter.

The present generation is powered by knowledge to meet the challenges ahead. This can be acquired only by technical publications by the Institute and participating in training programmes organized on various current topics by the Institute from time to time. The members of the Institute should avail these facilities to interact with different persons drawn from several sectors as this experience of sharing knowledge is most essential to sharpen our tools. This includes our Training & Professional Development meetings on IFRS programmes.

Members should also devote their precious time to contribute articles to our journal 'Management Accountant'. I also appeal through this page, for our members, to share their experiences on select topics which can lay the foundation to develop them as guidelines and lead the way to shape them as monographs and Standards.

The members in practice who have a unique blend of knowledge and experience should come forth to disseminate them for the benefit of others. The Regional Councils and Chapters should organise Study Circle Meetings which will provide the platform to share this knowledge. The Institute through the Chairmen of Regional

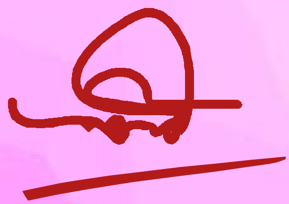
• President's Communique •

Council and Chapter Co-ordination Committee will ensure this message percolates and becomes a regular feature all over the country.

The month of August heralds Presentation of Budget by the Finance Minister followed by Draft Direct Taxes Code proposing moderate taxes to pep up investments, savings and most important the revival of the capital markets. Here again the definition of accountant has been limited to Chartered Accountants and we are taking up with the Finance Ministry to include Cost and Management Accountants also like we have already demanded our inclusion in Section 288A of Income Tax Act. The industry and business community has reacted favorably to the bold and innovative proposals of the Finance Minister and the slump in the business, seems to be a by gone word, with already the Industrial Sector showing a growth of 7.8% powered by the manufacturing sector. The global scenario is also one of revival, and the profession welcomes this turnaround, as without a healthy nation and business activity we cannot grow in isolation.

I am happy to inform you that ICWAI participated in the recent SAFA meetings and conference in Karachi, Pakistan. The team was led by me along with the immediate past president Shri Kunal Banerjee and Mr. V. C. Kothari and Mr. A.N.Raman. It was our pleasure in participating in the memorial lecture organized by ICMAP in the memory of their founder president Late Mr. Md. Shoaib, who happened to be our founder president also. The crowd applauded at Karachi when I proclaimed that I am the 52nd president having received the batton from Late Mr. Md. Shoaib and their successors.

Regards,



(GN Venkataraman)

President

Date : 25 August, 2009

Communiqué from Chairman Research and Journal Committee

Dear CMA Pariwar,

The Council of ICWAI has entrusted the responsibility to assist the Research and Journal related activities of the Institute to me recently. The Management Accountant Journal of the Institute is being published for many years to serve the profession.

It is now desired to start new features in the Journal to update the readers with latest developments not only in India but also around the globe. We propose to bring out special issues on:

1. Goods and Service Tax
2. Direct Tax proposals and Direct Tax Code
3. Cost Management and Innovative Strategy in current global recession
4. Cost and Management Accountant and proposed Companies Bill
5. Mergers and Acquisitions for consolidation and growth of businesses
6. Anti - dumping proceedings
7. CMA and good corporate governance code of SEBI
8. Cost Management for Healthcare
9. Valuation of businesses
10. Audit of Bank Borrowers and con-current audit of Banks' Branches
11. CMA an Entrepreneur

It is also proposed to publish special articles regularly on Direct and Indirect Taxes, Enterprise Management, Corporate Laws, Capital Markets, Audit, Banking and Finance, Entrepreneurship Development, International Financial Management, Cost Management during current global melt down, etc. The articles will be based on personal experience of the author. We shall personally invite Key Management Personnel in Public Administration, Public and Private Enterprises and Practicing Professionals to share their knowledge with the CMA fraternity.

It is also proposed to organize an Essay Competition for students and members, separately, on COST MANAGEMENT KEY TO SURVIVAL IN CURRENT GLOBAL MELTDOWN. We shall publish details of the Essay Competition in the next issue of the Management Accountant.

Current Economic Meltdown has exposed weaknesses of many economic principles and financial management systems and practices. New theories are being developed for economic management all over the world. It is desired to undertake basic research in new areas so far unheard of, whether in public fiscal management or for private enterprises. We invite proposals from academicians, professionals and students for research work in fields related to the professional development for Cost and Management Accountants. The research scholars will be suitably rewarded for their efforts.

Please volunteer for your interest in any of the above proposals by writing to:

Ms. Anamika Mukherjee,
Deputy Director (Research and Journal),
The Institute of Cost and Works Accountants of India,
12, Sudder Street,
Kolkata - 700 016
Email: rnj.anamika@icwai.org

You are welcome to write to me also if you have any views to share with me.

With best regards to all,

CMA V.C. KOTHARI
August 24, 2009

'We want to be equated with chartered accountants'

Q&A

A priority area of the new president of the Institute of Cost and Works Accountants of India (ICWAI), GN Venkataraman, is to make the institute more visible. In an interview with ***Sapna Dogra Singh,*** *he said ICWAI would also lobby with the government to accept the recommendations of the expert group on widening the scope of cost audit by including more companies and sectors. Edited excerpts:*

What are your priority areas for the year?

To provide more visibility to the institute and the profession of cost accounting would be my topmost priority. Another important area would be to push forward the expert committee's recommendations on widening the area of cost audit beyond 44 industries and products. The institute would pursue these with the government.

What are the main recommendations of the expert group?

All manufacturing companies with a paid-up capital of Rs. 50 crore or more will be required to conduct a statutory cost audit, which would bring about 25,000 firms under the ambit of cost audit. At present, only 44 industries and specific products within an industry come under cost audit.

The proposed change will have a major positive impact on the profession, because more firms will have to mandatorily appoint a cost auditor and have cost accounting records audited on an annual basis. At present, about 1,800 cost accountingt professionals practise in India, against 46,000 qualified people.

Which sectors has the expert group recommended for cost audit?

Except agriculture, it has recommended that all sectors be covered.

Do you see it happening in your tenure?

It is a process and there are certain things that need to done from the institute. I would be appointing a separate committee to oversee and implement some of the recommendations which don't need the ministry of corporate affairs' approval. Enterprise governance is one such area where cost audit and cost records have to be redefined, but this would be done without burdening the industry with all kinds of formats. The Institute would also bring our cost accounting standards as recommended by the expert group.

How many cost accounting standards would ICWAI come out with this year?

Of 39 cost accounting standards, six are already out and another five are on anvil, awaiting Council approval. Work on the remaining 28 would follow soon and in a couple of years, all standards would be issued. And till these come, there are generally accepted cost accounting standards to fill the gap.

What about the change of the name of the Institute that your predecessors have been demanding?

Yes, we are pressing for the name of the Institute to be changed to Institute of Cost and Management Accounting and we have been told it is under process.

ICWAI has objected to the amendment of Section 14A and Section 14AA of the Central Excise Act in the Finance Bill 2009.

We have asked the government to equate cost accountants with chartered accountants by recognising them under the definition of 'accountants' under Section 288 of the Income Tax Act. We are equally qualified and competent. Since we are specialists in indirect tax, cost accountants would be playing an important role when the GST (goods & services tax) would be implemented

— From the Business Standard

OBITUARY

We inform with a heavy heart the sudden demise of 24th president of ICWAI, Shri A.Venkata Ramana Rao in New Delhi on August 4th, 2009. We at ICWAI pray for peace of the departed soul and that his family has the strength to bear the irreparable loss.

Implications of IFRS on Historical Cost Accounting

Balwinder Singh*
A.N.Raman*

IFAC PAIB office requested ICWAI to prepare a note on the implications of IFRS on historical cost statements. The issue came up as ICWAI took a stand in IFAC - PAIB meeting that if cost statements are made based on ledger balances which are subject to IFRS the impact of fair value estimates would have changed the recorded transaction costs or historical costs. This may change the paradigm of historical costing. To study this Mr Balwinder Singh and Mr A.N.Raman , Central Council Members were assigned the responsibility by ICWAI.

Four meetings were conducted at Kolkata, Chennai , Mumbai and Delhi with a small group of interested professionals. Chennai meeting was led by Mr T.P.Gosh with participation from various experts, Kolkata meeting by Prof Asish Bhattacharyya of IIM Calcutta and Mr S.C.Vasudeva at Delhi. These meetings identified the following IAS/ IFRS which through application of fair value concept contained in the ledger balances will vitiate the historical nature of costs compiled. The points exchanged on various standards are tabulated below :

		PROPERTY, PLANT & EQUIPMENT	
1	IAS-16	<u>Book Value of Property, Plant & Equipment If Revaluation Model is adopted:</u> After recognition as an asset, an item of property, plant and equipment shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. <u>Depreciation</u> The depreciation charge for a period is usually recognised in profit or loss. However, sometimes, the future economic benefits embodied in an asset are absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (see IAS 2).	Depreciation based on revaluated amount will affect cost of production. Moreover, Under IFRS regular revaluations are required, thus, depreciation is always based on latest value of property, plant & equipment. Any basis of depreciation selected for accounting (straight line method or written down value method or any other method) will give non-comparable figures as regular revaluations are being done. Cost of conversion of inventories will be affected (far away from historical cost) due to allocation of depreciation of manufacturing plant and machinery. Cost of Intangible Asset will be affected (far away from historical cost) due to

*Central Council Member of ICWAI

		Similarly, depreciation of property, plant and equipment used for development activities may be included in the cost of an intangible asset recognised in accordance with IAS 38 Intangible Assets.	allocation of depreciation of assets used in the development of intangible asset. This, in turn will affect cost of production also if the intangible asset is used (after development) in the production process.
2	IAS-16	Depreciation – Component wise Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. An entity allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. For example, it may be appropriate to depreciate separately the airframe and engines of an aircraft.	This will affect allocation of depreciation of Plant & Machinery to costs of production. Presently, Cost Statements consider Asset wise depreciation allocation on various products rather than component wise depreciation.
3	IAS-16	Depreciable amount and depreciation period The depreciable amount of an asset shall be allocated on a systematic basis over its useful life. Depreciation method The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.	Present day Cost Statements derive depreciation based on systematic basis over useful life, subject to minimum depreciation prescribed under Schedule XIV of the Companies Act, 1956.
4	IAS-16	Asset Retirement Obligation Measurement at recognition: asset dismantlement, removal and restoration costs The cost of an item of property, plant and equipment includes the costs of its dismantlement, removal or restoration, the obligation for which an entity incurs as a consequence of installing the item. Its cost also includes the costs of its dismantlement, removal or restoration, the obligation for which an entity incurs as a consequence of using the item during a particular period.	Recognising Asset Retirement Obligation as the cost of Property, Plant & Equipment will increase the cost and consequential increase in depreciation. Cost of conversion of inventories will be affected (far away from historical cost) due to allocation of depreciation of manufacturing plant and machinery.
5	IFRS-1	First-time Adoption of International Financial Reporting Standard Full retrospective application of All IFRS is required. There are certain relaxations while adopting IFRS for the First Time. This includes following:	Depreciation based on Fair Value will affect cost of production. Cost of conversion of inventories will be affected due to allocation of depreciation based on Fair

		An entity may elect to measure an item of property, plant and equipment at the date of transition to IFRSs at its fair value and use that fair value as its deemed cost at that date. A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to IFRSs as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to: (a) fair value; or (b) cost or depreciated cost under IFRSs, adjusted to reflect, for example, changes in a general or specific price index.	Value of manufacturing plant and machinery.
6	IAS-2	<u>Net realisable value</u> Inventories are carried at cost or net realisable value, whichever is lower. Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. Estimates of net realisable value also take into consideration the purpose for which the inventory is held.	Cost of production will be affected on considering balances from IFRS based financial records in the case of raw materials and work in progress.
7	IAS-2	<u>Allocation of Fixed Overheads</u> The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances. Unallocated overheads are recognised as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased (re-computed based on actual production). In this case, there is no unallocated fixed overheads.	Considering different amount of allocation of fixed production overheads over different periods without any change in capacity installed therein, will lead to non-comparable cost of production over different periods of production.
8	IAS-2	<u>Inventories at Replacement Value</u> Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the finished	Considering inventories at net realisable value / Alternatively at replacement value will give different value of inventories in hand as compared to "Cost".

		products exceeds net realisable value, the materials are written down to net realisable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realisable value.	
		INVENTORIES ON DEFERRED SETTLEMENT TERMS	
9	IAS-2	An entity may purchase inventories on deferred settlement terms. When the arrangement effectively contains a financing element, that element, for example a difference between the purchase price for normal credit terms and the amount paid, is recognised as interest expense over the period of the financing.	The interest element is subjective and will lead to different cost of acquisition of inventories than the actual payment. This will affect cost of inventories and in turn cost of production.
10	IAS-19	Defined benefit plans may be unfunded, or they may be wholly or partly funded. The Standard requires an entity to: recognise a specified portion of the net cumulative actuarial gains and losses that exceed the greater of: (i) 10% of the present value of the defined benefit obligation (before deducting plan assets); and (ii) 10% of the fair value of any plan assets. The portion of actuarial gains and losses to be recognised for each defined benefit plan is the excess that fell outside the 10% 'corridor' at the end of the previous reporting period, divided by the expected average remaining working lives of the employees participating in that plan. In the long term, actuarial gains and losses may offset one another. Therefore, estimates of post-employment benefit obligations may be viewed as a range (or 'corridor') around the best estimate. An entity is permitted, but not required, to recognise actuarial gains and losses that fall within that range. This Standard requires an entity to recognise, as a minimum, a specified portion of the actuarial gains and losses that fall outside a 'corridor' of plus or minus 10%.	Recognising "Employee benefits" (actuarial gains and losses) in excess of certain amount and not recognising certain amount will understate the amount of "Employee Benefits" {If Corridor Approach is used} Thus, Cost of conversion and in turn cost of production will be affected.
		SHARE BASED PAYMENTS	
11	IFRS-2	For equity-settled share-based payment transactions, the entity shall measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity	Ascertaining the value of goods & services based on fair value of equity instruments will lead to inconsistent results. Fair value is subjective in nature and will vary from person to person. Cost of

		cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.	inventories and in turn cost of production will be affected.
12	IFRS-2	To apply the above, to transactions with employees and others providing similar services, the entity shall measure the fair value of the services received by reference to the fair value of the equity instruments granted, because typically it is not possible to estimate reliably the fair value of the services received,	Ascertaining the employee cost based on fair value of equity instruments will lead to inconsistent results. Fair value is subjective in nature and will vary from person to person. Cost of conversion and in turn cost of production will be affected. Similarly, cost of various services related to production process (overheads) will be affected leading to affect on cost of production.
13	IFRS-2	For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity shall remeasure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.	Ascertaining the value of goods & services based on fair value of liability and in-turn re-measuring the liability at the end of reporting period will lead to inconsistent results. Fair value is subjective in nature and will vary from person to person. Cost of inventories and Cost of conversion (overheads) will be affected and in turn cost of production will be affected.
14	IFRS-2	For share-based payment transactions in which the terms of the arrangement provide either the entity or the counterparty with the choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments, the entity shall account for that transaction, or the components of that transaction, as a cash-settled share-based payment transaction if, and to the extent that, the entity has incurred a liability to settle in cash or other assets, or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.	Ascertaining the value of goods & services based on fair value of equity instrument / liability and in-turn re-measuring the liability at the end of reporting period will lead to inconsistent results. Fair value is subjective in nature and will vary from person to person. Cost of inventories and Cost of conversion (overheads) will be affected and in turn cost of production will be affected.
15	IFRS-2	For other transactions, including transactions with employees, the entity shall measure the fair value of the compound financial instrument at the measurement date, taking into account the	Ascertaining the employee cost based on fair value of financial instruments will lead to inconsistent results. Fair value is

		terms and conditions on which the rights to cash or equity instruments were granted.	subjective in nature and will vary from person to person. Cost of conversion and in turn cost of production will be affected. Similarly, cost of various services related to production process (overheads) will be affected leading to affect on cost of production.
		IMPAIRMENT LOSS	
16		If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount. After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.	Impairment Loss is not considered as cost under the Cost Statements. Moreover, depreciation is based on carrying amount after impairment. Any basis of depreciation selected for accounting (straight line method or written down value method or any other method) will give non-comparable figures as carrying amount will change over different periods. Cost of conversion of inventories will be affected (far away from historical cost) due to allocation of depreciation of manufacturing plant and machinery.
		INTANGIBLE ASSET	
17	IAS-38	Training to Staff: An entity may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits from training. The entity may also expect that the staff will continue to make their skills available to the entity. However, these items fails to meet the definition of an intangible asset as an entity usualy has insufficient control over benefits. For a similar reason, specific management or technical talent is unlikely to meet the definition of an intangible asset, unless it is protected by legal rights to use it. In these cases, the expenditure is recognised as an expense when it is incurred.	Obtaining training expenses incurred on employees from IFRS based ledger balances and recording in Cost Statements will lead to incorrect cost results as all these expenses do not relate to a period in which these have been recorded in financial statements.

18	IAS-38	In some cases, expenditure is incurred to provide future economic benefits to an entity, but no intangible asset or other asset is acquired or created that can be recognised. In these cases, the expenditure is recognised as an expense when it is incurred. For example, <u>expenditure on research</u> is recognised as an expense when it is incurred except when it forms part of a business combination. Other examples of expenditure that is recognised as an expense when it is incurred include: (a) expenditure on start-up activities (ie start-up costs), unless this expenditure is included in the cost of an item of property, plant and equipment. Start-up costs may consist of establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or business (ie pre-opening costs) or expenditures for starting new operations or launching new products or processes (ie pre-operating costs). (b) expenditure on training activities. (c) expenditure on advertising and promotional activities. (d) expenditure on relocating or reorganising part or all of an entity.	Obtaining research expenses and other expenses (referred in left column) from IFRS based ledger balances and recording in Cost Statements will lead to incorrect cost results as all these expenses do not relate to a period in which these have been recorded in financial statements.
		INTANGIBLE ASSETS	
19	IAS-38	<u>Amortisation of intangible assets (related to production process)</u> <u>Recognition of Intangible Asset</u> An entity shall choose either the cost model or the revaluation model as its accounting policy. <u>Revaluation model:</u> After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value shall be determined by reference to an active market. Revaluations shall be made with such regularity that at the end of the reporting period the carrying amount of the asset does not differ materially from its fair value.	Amortisation based on revaluated amount will affect cost of production. Moreover, Under IFRS regular revaluations are required, thus, amortisation is always based on latest value of property, plant & equipment. Any basis of amortisation selected for accounting will give non-comparable figures as regular revaluations are being done. Cost of conversion of inventories will be affected due to allocation of amortisation of intangible asset used in production process.

20	IAS-38	Amortisation period and amortisation method The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortisation shall begin when the asset is available for use. Amortisation shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) The amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method shall be used. The amortisation charge for each period shall be recognised in profit or loss unless this or another Standard permits or requires it to be included in the carrying amount of another asset. Amortisation is usually recognised in profit or loss. However, sometimes the future economic benefits embodied in an asset are absorbed in producing other assets. In this case, the amortisation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the amortisation of intangible assets used in a production process is included in the carrying amount of inventories.	Presently, amortisation is done based on systematic basis over useful life subject to maximum period of 10 years, generally. IFRS based allocation purely on useful life without restriction will affect present day cost statements.
		INVESTMENT PROPERTY	
21	IAS-40	Investment property is property (land or a building—or part of a building—or both) held to earn rentals or for capital appreciation or both, rather than for: (a) use in the production or supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business. Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes. Fair value model After initial recognition, an entity that chooses the fair value model shall measure all of its investment property at fair value, except in the few cases specified in the Standard. The Investment property if transferred to owner-occupied property or inventories will be transferred at fair value to owner-occupied	In case of Construction business, the investment property (land or a building—or part of a building—or both) later on transferred to construction, the transfer is done at Fair Value. The cost of construction will get affected on considering the investment property (land or a building—or part of a building—or both) at Fair Value instead of Historical Cost. Similarly, in case of transfer to owner-owned property (i.e.-Property, Plant & Equipment for its own use), the transfer is done at Fair Value, which in turn will affect cost of production in case of depreciation on manufacturing

		BARTER TRANSACTION-ADVERTISING	
22	SIC-31	An entity (Seller) may enter into a barter transaction to provide advertising services in exchange for receiving advertising services from its customer (Customer). Advertisements may be displayed on the Internet or poster sites, broadcast on the television or radio, published in magazines or journals, or presented in another medium. In some cases, no cash or other consideration is exchanged between the entities. In some other cases, equal or approximately equal amounts of cash or other consideration are also exchanged. Revenue from a barter transaction involving advertising cannot be measured reliably at the fair value of advertising services received. However, a Seller can reliably measure revenue at the fair value of the advertising services it provides in a barter transaction, by reference only to non-barter transactions that involve similar advertising.	Cost of Advertising services obtained based on fair value of services provided is subjective and will affect determination of cost of advertisement.
		CHANGES IN ACCOUNTINGESTIMATES	
23	IAS-8	A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors. (Para-36 of IAS): The effect of a change in an accounting estimate, other than a change to which paragraph 37 applies, shall be recognised prospectively by including it in profit or loss in: (a) the period of the change, if the change affects that period only; or (b) the period of the change and future periods, if the change affects both. (Para-37 of IAS): To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.	Effects of change in estimates, if recognised in Cost Statements will affect the Cost statements as these do not pertain to current activity but to already ascertained cost. (Computed on original ascertained and recognised items of expenditure, depreciation and amortisation)

		BOT CASES (BUILT, OPERATE & TRANSFER)	
		In some countries, governments have introduced contractual service arrangements to attract private sector participation in the development, financing, operation and maintenance of such infrastructure. The infrastructure may already exist, or may be constructed during the period of the service arrangement. An arrangement within the scope of this Interpretation typically involves a private sector entity (an operator) constructing the infrastructure used to provide the public service or upgrading it (for example, by increasing its capacity) and operating and maintaining that infrastructure for a specified period of time. The service arrangement contractually obliges the operator to provide the services to the public on behalf of the public sector entity. Other common feature include: • the operator is obliged to hand over the infrastructure to the grantor in a specified condition at the end of the period of the arrangement, for little or no incremental consideration, irrespective of which party initially financed it.	
24	IFRIC-12	If the operator is paid for the construction services partly by a financial asset and partly by an intangible asset it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable. The grantor may also provide other items to the operator that the operator can keep or deal with as it wishes. If such assets form part of the consideration payable by the grantor for the services, they are recognised as assets of the operator, measured at fair value on initial recognition. The operator shall recognise a liability in respect of unfulfilled obligations it has assumed in exchange for the assets.	Recording of Asset, Infrastructure or Component at Fair Value ascertainment of cost based on that will vitiate the principle of Historical Cost.

		INTERIM FINANCIAL REPORTING	
25	IAS-34	Recognition and measurement Same accounting policies as annual An entity shall apply the same accounting policies in its interim financial statements as are applied in its annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements.	To the extent, Cost Statements are affected by using the date obtained from Annual financial statements, these shall also be affected to similar extent on using the date obtained from interim financial statements.

The summary implications of the discussions are as below :

- IFRS fair value affected expense balances can make serious impact on historical costing. This is true of manufacturing standards like, employee costs, inventory valuation, depreciation, some intangible expenses etc.
- Regulated industries will have give misleading cost structure if cost statements are submitted on the basis of fair value influenced IFRS.
- Board of directors should be told about the difference in profitability between historical cost structure based profitability and IFRS based.
- Due to the potential hazards all companies beyond a threshold limit should maintain profitability measured by cost accounting standards as a discipline whether coming under section 209(1)d) or not .
- It is very relevant like fertilisers wherein Govt decides subsidies based on historical cost structure.❑

PEOPLE IN THE NEWS

Hearty congratulations to Shri Rakesh Sharma, member of our Institute on being promoted as Asst General Manager- Costing, MIS and Audit of Malwa Industries Ltd., Ludhiana.

RETIREMENT

Our dear colleague at ICWAI, HQ, Kolkata, Shri Dilip Chakraborty has retired from the services of the Institute after a long and distinguished career on August 31, 2009. We at ICWAI, place on record, Shri Chakraborty's sincere and dedicated service to the Institute and wish him good health and best wishes for all endeavors in the future.

Strategic Focus on Primary and Secondary Packing-Need for Cost Accounting Standards

Dr.C.Samuel Joseph*

Introduction

Packaging is the science, art and technology of enclosing or protecting products for distribution, storage, sale and use. Packaging, as defined by Kotler and Keller, refers to "all the activities of designing and producing the container for a product". Packing cost includes corrugated container cost, protective packaging materials cost, protective packaging labour cost, overhead cost, return cost, replacement cost, shipping cost, repair cost, discard cost, insurance cost, opportunity cost, inventory cost, customer retention cost, buffer inventory cost.

Package labeling is any written, electronic, or graphic communications on the packaging. Thus, packaging contains, protects, preserves, transports, informs and sells. It is fully integrated into government, business, institutional and industry.

Packing can be classified into primary package, secondary package and tertiary package depending on the use. The container that holds the product is the primary package e.g. bottle, jar, tube, carton etc. Any outer wrappings that help to store, transport, inform display and protect the product are secondary packaging e.g. a gift box or a decorated carton etc. Tertiary packaging is used to group products for storage and transportation. The corrugated, brown carton is the most familiar. Large pallets of shrink-wrapped boxes are a common warehouse sight reflecting tertiary packaging. For any product, packaging may be necessary depending on the intended purpose. This section deals with the above classifications. Packing cost forms a substantial portion of the total cost and it is semi - fixed. The cost will depend on how much importance one give to safety, aesthetics, handling, storage, etc. In addition, the nature of the cost is controllable and as such a managed cost.

*M.BA., FICWA.,Ph.D, Senior Lecturer Department of Management Studies The American College, Madurai 625 019, E-mail: sam_608@yahoo.co.in

Objectives

1. The cost of packing material is the major determinant of the cost of the final product. Eg. Wooden boxes, low density polyethylene (LDPE), poly bags, glass, bi-axially oriented polypropylene (BOPP), polyester, cast polypropylene (CPP), thermocole etc. Thus cost ascertainment assumes a top priority.
2. Primary purpose of packaging is to serve against damage during the movement of the product. Most products have multiple levels of packaging. For eg. Centre fresh is packed in a polyethylene wrapper (Primary package). These wrapped mouth fresheners are either packed in PET jars or poly bags (secondary package). These jars/packages are then packed in corrugated boxes (tertiary/shipping package). Each of these packages serves a different purpose. As there are wide spectrum of packing it becomes necessary to develop cost accounting standards for ascertaining the cost of packing from safety of the products to its storage.
3. Package design and development are often thought of as an integral part of the new product development process and hence closely linked with the product to be packaged. Cost accounting standards need to be developed for cost ascertainment right from the identification of all the requirements, like structural design, marketing, shelf life, quality assurance, logistics, legal, regulatory, environmental, etc. The resources and cost constraints need to be established and agreed upon.
4. Package design may take place within a company or with various degrees of external package engineering, contract engineers, consultants, vendor evaluations, independent laboratories, contract packagers, or total outsourcing. An effective cost ascertainment system and verification and validation protocols are mandatory and recommended for all.
5. Package development involves considerations for sustainability, environmental responsibility, and applicable environmental recycling regulations. Development of sustainable packaging is an area of considerable interest. Thus Cost ascertainment assumes significance.
6. Capital cost for carrying out the process of packing is another vulnerable area which requires cost ascertainment. A choice of packaging machinery includes, technical capabilities, labor requirements, worker safety,

maintainability, serviceability, reliability, ability to integrate into the packaging line, capital cost, floor space, flexibility(change-over, materials etc,) throughput, efficiency, productivity, ergonomics, etc.

7. Shelf life, appeal, machinability and compatibility are the most important aspects in packing. A cost index has to be worked out with appropriate weightage by evaluating the performance of all the materials.

Scope

The scope of cost accounting standards may apply to all aspects from product protection, handling and storage, shipping and environmental responsibility. The above goals should be balanced or optimized to achieve the lowest overall cost.

1. Cost accounting standards may apply to the type of packing material used.
2. Cost accounting standards may apply to the treatment of incidental costs of acquisition of packing materials.
3. Cost accounting standards may apply to the specific impact of technology, labour inputs, warehousing, shipping, structural design, marketing, shelf life, quality assurance, logistics, legal, regulatory, environmental, etc. On in-house package designing and development.
4. An effective cost ascertainment system, verification and validation protocols are mandatory for total outsourcing the product packaging.
5. Cost accounting standards may apply to ascertain the capital cost of for carrying out the process of packing.

Principles

To design a package one must have clear principles in mind. These will vary with products, customers, distribution systems, manufacturing facilities etc. As packaging should always be economical the following principles are worth considering in achieving the lowest overall cost.

1. Identify the Physical Characteristics of the Product:

Product knowledge means more than knowing simply its dimensions and weight. The package designer must be aware of surface characteristics and susceptibility to abrasion or corrosion, the ability to hold a load in compression, internal characteristics affected by vibration, and particularly the products fragility. Guessing about any of these factors will surely lead to escalation of costs.

2. Determine Marketing and Distribution Requirements

Cost ascertainment should take care of marketing and distribution requisites in addition to product characteristics, the composition and attributes of the primary package, the identity of customers and their handling storage requirements, the package disposal criteria, total volume expected per shift/day/year, expected life cycle, the planned modes of transport and types of distribution channels.

3. Learn about the Environmental Hazards your products encounter

Knowledge of the distribution environment is the key to optimize the packing cost. For instance, rough handling, shock-in-transit, compression in storage or in-transit, high humidity and water, temperature extremes etc., All these contribute to costs of packing and as such the nature of material needs to be spelt out for developing cost standards.

4. Consider Alternative Available in packaging and unitizing:

There are many alternatives available for shipping containers, interior packaging, and unit loads. Comparing paper vs. plastic vs. wood vs. metal is a good exercise to optimize the cost of packing.

5. Develop the Methods of Packing

One must be aware of cost factors and the appropriateness of mechanizing or automating all or part of the operations. In addition the premium paid towards insurance on each and every item shipped depends on the method of packing.

Assignment of costs

The basis with which various costs are assigned will have to follow the cost accounting principles as follows:

Cost of Packing - Primary

i) Cost of Packing Material(Primary) - Actual. This can be ex-factory, F.O.R or F.O.B price as the case may be

ii) Freight Inwards - Actual (If the packing material is carried exclusively)

iii) Freight inwards - (If the material is carried along with other materials). In such a case assignment of costs should be,

a) By proportionate weight/volume/cubic/container

iv) Cost of design and use of the void filling material required to provide adequate protection to transport the product safely - Actual

v) Cost of direct labour wages associated with the particular selected protective void-fill material.

Cost of Packing - Secondary

i) Overhead cost - Those fixed costs associated with shipping process, assignment will be on the basis of number of employees engaged with the shipping process

ii) Inventory cost - both the space, labour and material cost associated with the storage and replenishment of packaging materials - Actual

iii) Insurance cost -

a) actual of the premium paid on each and every item shipped

b) If it is part of a comprehensive

policy then the assignment of the premium cost will be on the basis of the proportionate value insured

iv) Customer Retention cost - the cost per rupee spent per each buying customer divided by the marketing budget allotted to secure each of those customers

v) Opportunity cost - the intangible cost of doing non-revenue generating activity due to the unnecessary damage issues when using an inferior protective packaging material.

vi) Inspection cost -

a) If the packing done calls for certification by inspection of a third party - actual will be assigned

b) If the inspection is part of a routine work then the cost will be on the basis of time spent on inspection.

c) If the packaging work is outsourced completely no separate inspection cost will be charged.

vii) Environment cost/special cost: Those costs associated to minimize the impact of packing on the environment. Assignment of this cost will be on the basis of the proportionate value incurred.

viii) Adjustment has to be made for returnable/reusable containers and dunnage

General:

1. Proper records shall be maintained showing the quantity and cost of various packing materials such as card board boxes/ wooden boxes used for packing different types of products.
2. If the company manufactures such packing materials, proper record showing the cost of production of such items shall also be maintained. Records shall also be maintained showing wages and other expenses incurred in respect of different types and sizes of package adopted for.
3. When packing expenses are incurred in common the basis of apportionment of such expenses amongst different types and sizes should be equitable and clearly indicated and applied consistently.
4. Separate records of special expenses incurred on a export packing in respect of different types and sizes if any should be maintained and exhibited in the relevant cost statements for exports.
5. Details of spoiled packing materials shall be maintained in respect of each product.
6. Where any formulation is repacked due to defective packing, details of such packing for each formulation size-pack wise shall be maintained if repacking cost is significant.

Methods of Cost Savings in Primary & Secondary Packing:

Cost Savings can be generated in packaging by following methods,

1. Shape and Size can be altered to maximize the number of packets per box with less packing material.
2. Thickness of packaging material can be reduced like laminate, wrapper, tapes etc.,
3. Avoid excessive packaging like having over wraps on packed products
4. Printing can be reduced to minimum panel size on primary as well as on secondary packing.
5. Common packaging material for all the locations with common information.

Conclusion:

Therefore the role of packaging has assumed a heightened significance over the years. From being considered as a necessary element of protection, it has carved its own niche as a strategic weapon. The role of packaging today is not just restricted to a shelter for the core product, but has grown manifold as a promotional tool, means of advertising, and a platform for the consumers to interact with the product.

Packaging, and not the product, is the first touch-point that the customer comes into contact with. Thus, all these above aspects, which need to be considered in while ascertaining packing cost. Hence developing an Cost Accounting Standards for packing assumes greater significance.

References:

1. Paula Hook and Joe E.Heimlich, Ohio State University Extension Fact Sheet, Community Development.
2. Walter Soroka, 2000, Fundamentals of Packaging Technology, published by Institute of Packaging Professionals.
3. Kenneth Berger, Agricultural and Biological Engineering Department, University of Florida Gainesville.
4. Bourque, R.A. (2003). "Secondary Packaging." In Encyclopedia of Agricultural, Food and Biological Engineering, D.R.Heldman, Ed, New York , Marcel Dekkar, pp.873-879.
5. Chinnan, M.S and D.S.Cha. (2003)."Primary Packaging". In Encyclopedia of Agricultural, Food and Biological Engineering D.R.Heldman Ed, New York, Marcel Dekkar, pp.781-784.
6. Hanlon,J.F., R.F. Kelsey and H.E. Forcinio. (1998). Handbook of Package engineering, 3rd edition, Lancaster, PA. Technomic Publishing.
7. Steven, M.D. and J.H. Hotchkiss. (2003). "Package Functions". In Encyclopedia of Agricultural, Food and Biological Engineering D.R.Heldman Ed, New York, Marcel Dekkar, pp.716-719
8. Mihir Mukherjee, "Packaging cost determined by raw materials cost": Competing downstreams helps optimize cost, Jan 21, 2008. Sourcing Insights.
9. Lena Andersson, School of Mechanical Engineering Lund University, Sweden. "What drives the customer's choice of packaging and which factors influence the customer's packaging cost? - in the automotive and manufacturing industries.
10. Lectures in Packaging Logistics, MTT 211, Peter Hartwall (Arca)❑

Customer Satisfaction and Value Additions in Business Process Outsource (BPO)/ Financial Service Industry – A study as to how to Measure and Monitor by using Six Sigma and Lean tools

N. Raveendranath Kaushik*

Customer Satisfaction and Value Additions are the two key factors which drives the company to achieve its objectives. It is vital and becomes more important for a outsourcing company to have a proper controls in place on its key inputs and its requirements so that its final deliverables doesn't get affected. From the point of service provider it becomes necessary to use some of the six sigma and lean tools in its operation process so that each of its activities are tracked and monitored and any fluctuations or deviations are identified and corrected then and there itself. By having proper control on key inputs and any deviations in outputs can be easily avoided. This will result in meeting customer satisfaction and also adding value to the business.

Value addition and Customer satisfaction are key factors which drives the growth and existence of Business Process Outsourcing (BPO) or Financial Service industry. It becomes very important to understand in the modern business environment that it is not only the cost or economies of scale for which a company outsources its business to third party but, it also expects that the service provider adds some value to its existing business. Value addition in this context means that by outsourcing its business the company gets in return not only the service as per the contractual terms but, also expects some value addition services in terms of improvement in their regular operations, lowering of risks and issues in the process, better management and controls within etc..

*AICWA

All these days service of BPO/ Financial service industry were restricted to contractual terms. Service providers were serving the clients keeping in mind the objectives of achieving the Service Level Agreement (SLA) according to which they were paid by clients. So, if they achieved SLA during the period then they would be paid according to terms and so it was rather a straight business objectives, if SLA is met they would be paid or other wise they used to charge some service credit. So, the competition among the BPO/Financial service was based on the quotes for the contractual terms. Lower the cost of contractual terms there was every possibility to win the contract. As time passed the entire objectives of BPO/Financial services has undergone a changed. Now, the expectation is that in order to outsource the work to the service provider it should get in return for the satisfaction (meeting the SLA) some value additions to the business which they operate. So. now it is not only the customer satisfaction in terms of meeting contractual terms which the service provider should try to achieve but, it should also work towards adding value to the business so that more and more additional work follows.

Advantage of Value Additions to Clients

Below are the advantages which arise to the clients as a result of value addition generated from outsourcing the business to service providers-

- Identify the process risk which is internal to operations
- Re-engineering or Re-designing the existing process to make it more robust and efficient.
- Applying the learning's to other areas of operation.
- Brining in more and more internal controls so that time and cost is saved to great extent.

Advantage of Value Additions to Service providers

Below are some of the advantages which a service providers gain by adding value to the clients process -

- Clients happy with service may go a head with the plan for outsourcing more and more business which were not part of initial contract.
- Satisfied client acts as a good reference to prospect clients.
- Happy with satisfied service the client may compromise on some of critical targets and cooperate with the service providers in achieving those with out any service credits charges for not meeting targets.
- Extending of contract terms.
- Extra revenue for successfully implementing value addition ideas suggested by service providers.
- Value addition can act as best practice ideas for other company which does similar and identical type of business.

How to achieve maximum customer satisfaction and Value additions?

After studying the advantages of

value additions now the question which arises is how to achieve maximum customer satisfaction and value additions? Is there any well defined tools and techniques which service provider should use in order to increase customer satisfaction and bring value additions? Is it a difficult, time consuming, costly to measure customer satisfaction and value additions? The answer to all these questions is that it is easy to measure customer satisfaction and also it is easy to find the areas where value additions can be brought in the process. It doesn't require any extra cost or manhours for doing so, it is only through use of Six Sigma and Lean technique one can make the process more stabilized and can measure the performance to great extent. Six Sigma and Lean concept

Briefly speaking Six Sigma is a statistical and problem solving methodology that is focused on variation and defect reductions. A Lean system emphasizes the prevention of waste, any extra time, labour or material spent producing a product or service that doesn't add value to it. Usually, the application of Six Sigma and Lean concept is more applicable in manufacturing industry but, the concepts on which they work can also be used in Service industry in order to achieve the fruitful results.

BPO/Financial Service industry and use of Six Sigma and Lean concepts

Now, let us study on how we can use the tools and concepts of Six Sigma and Lean in BPO/Financial Service industry so that it helps in increasing customer satisfaction and value additions. Here, it becomes important that at time of transitioning the work from the clients and before go live of the process a well structured end to end process maps should be created and common problems areas are to be identified. Identification of problem areas helps in having a macro look at the process and developing a strategy to counter the problem areas at initial stage of go live. This is some what proactively identifying the problem areas and planning accordingly so that it will not affect the service delivery at time of go live. The clock of customer satisfaction starts from the day the project go live and it is very crucial to win over the customer at initial stages of delivery of output. Expectations by clients will be high and so it will be very important as a service provider that service delivery doesn't hamper the expectations and dream of customer at initial stages. By using some of the tools and techniques of Six Sigma and lean a process can be measured to a minutest extent and there by controls can be framed at initial stages and by doing so one can avoid the dangers of process failures. There are certain steps which should be followed which are discussed below which will lead to step by step implementation of Six Sigma and lean concepts in the process measurement -

Steps in process monitoring and measurement — using of Six Sigma and Lean

I) Process Dcfnition

The first and foremost step is to identify the different process in the main process and start breaking the process in to smaller and smaller units. While breaking entire process in to smaller activity, one should also identify the key inputs and its requirement and the final output and its requirements. This process will help in identifying broadly about who are the suppliers, what is the results, what are different activities in process, what are the key inputs and its requirements, what is to be done in the process and ,what is our output and its requirements. So, ones we are clear with the supplier,inputs,process and outputs then it will be important to know which are the controllable factors which we have control over it and those which are not under over control. The one which is under over control can be taken care by us but, the one which is not under our control meaning those for which clients are responsible for which we have an option to bring value additions should be clearly identified for each of input and outputs. It is also necessary that the activities in the process for which the delivery centre (i.e service provider) is responsible and accountable and for which client is accountable and responsible should be tracked in a matrix.

II) Identifying key inputs which impacts outputs

Ones the process is defined through process maps (high level and detailed level) the next step is to identify key inputs in the process activites which has an impact on the final key outputs (client driven SLA or internal targets). It will be better if this can be defined with some weights because the matrix derived based on weights will show easily the key inputs and output which should be targeted. Higher the weights it means very critical and one should ensure that they take necessary precaution and action to control those inputs. The basic idea here is to first control inputs where problem arises so that it takes care of automatically controlling the output.

III) Identifcation of risk in process and framing a control process to mitigate risk

This is one of the important steps and here we find out the risk inherent in the process. This can be identified by analyzing each and every activity or process steps which is drilled down from the main process. Each process steps is broken down based on following -

Severity It shows how severe the process activity on the final output. Weights from 1 to 10 are assigned which means 1 - low severity and 10- most sever. Each input activity is measured on the scale of 1 to 10 according to severity. Higher the severity it is most critical and this required special attention so that not having control on it will impact the output.

Occurrence It shows the potential causes of failure. Chances of failure occurring in the process if the input is not controlled should be depicted. Weights starting from 1 to 5 are assigned wherein 1 means probability of least occurrence and 5 means occurrence is more frequent.

Detection It shows how fast we can detect the defects in the process.

Weights from 1 to 10 are assigned which means, 1 easily identifiable and 10 is most difficult to identify.

Ones input activity is assigned with weights based on Serverity,Occurance and Detection the next step is to calculate the Risk Priority Number (RPN) which is calculated by multiplying weights of input activity. The process step which has higher RPN is the one which needs to be targeted and an action plan needs to be defined in order to reduce RPN. Severity remains same but, it is only occurrence and detection of defects which under go change after implementing the action plan. A good operation review should monitor the operations based on RPN and make sure that suitable action plans are implemented for those input activities which have high RPN and there by ensure that RPN is reduced (by frequent monitoring) in order to have a smooth and clear output.

IV) Controlling the process through a well defined control plan

Ones the process risk is identified and steps are taken to mitigate the risk, it becomes important to place a control on the process so that these type of risk will not arise again and again. This can be done by preparing a detailed control plan in which the various inputs and output metrics are identified from the process, documents and process risk activity. Here, a detailed plan is formulated and also the action points for each of critical input activity based on productivity, cost, cycletime, volume etc are identified and measured. A detail plan showing the responsibility and time frame by which the control plan is to be implemented is tracked. These control plans are frequently visited preferably ones in a month and it is reviewed with the results and progress done.

V) Measuring the performance of the process (Input and Output)

Ones the controls are in place the next important step is to measure the performance. After identifying the process risk areas and process activities which has maximum impact on the output, next step is to have a measurement in place and monitoring the same so that there is no further deviation in input activity. Key input and output metrics should be defined and accordingly metric tracking should be done on daily, weekly and monthly basis according to the importance of identifying the risk and criticality on output. It is important to note here that data points are captured based on criticality, if the inputs are very critical then it is better we track it on weekly basis so that any variation in inputs can be identified immediately and action taken accordingly. Control charts are one of the important technique by which we can identify the variations in the process. Control charts are derived by calculating Mean and Standard deviations. Upper control limit (UCL) which is 3+ Standard deviation shows the upper control limit within which the data point should exist. If any data point falls above UCL then it is a serious concern and it is time to analyse reasons for deviations and to take necessary action. Similarly, there is Lower control limit (LCL) which is 3-Standard deviation, which shows that lowest control limit within which the data point can vary/fluctuate. If the data point is below the LCL then it is also a area of concern which needs to be looked in to. There is also a mean which is plotted on the control chart and the ultimate objective is to make sure that mean coincides with the ultimate objectives, which is meeting targets. Any fluctuation of data points with in the UCL, LCL and Means then the variations need to be identified and those days details need to be studied on why there was fluctuation. Here, it is important to identify the reasons for variations. Usually, variations can be due to Special and General Cause. Special causes are those which are not under the control of management (like general strike, natural disaster etc.) and General causes may be some thing like software break down, head count problem etc. which has occurred during that period. It is important that General causes are identified and control plans are drafted and implemented so that a general cause does not have impact on the final output.

VI) Sharing the performance with the team

The last and final step is to make sure that the performance results are shared with the team members on regular basis. This is one of the important steps as it is a forum through which the performance are shared with the people who actually contribute towards achieving the targets. There are different forums and ways of sharing the performance in process among which the important are -

- Regular team meetings, interaction and day to day activity plan at the time of commencement of shift.
- Displaying of charts, targets and actual for the day, number of absenteeism for the day and activity planning, weekly performance trend, control points etc.
- Frequent review and monitoring the performance by quality team and also reviewing the action points as defined under risk analysis so that risk gets mitigated and also to establish that there is a proper control on the key input activity.

Conclusion

Ones a proper control is developed for key inputs and risk areas are mitigated then it is sure that resulting output will be 100% accurate. Meeting consistent target and identifying risk areas in the process will help in meeting customer satisfaction and also guides clients in brining changes in the way of operations where ever it is applicable. It also leads to setting up of a business culture where by the client can make use in other areas of operation. Clients will get a strong feeling and its confidence level goes up and will think of outsourcing its other areas of operation. By having a strong measuring and monitoring techniques on key inputs and their failures a service provider can add value to the business and also can improve upon customer satisfaction.❑

A Review of Literature on Life Cycle Costing

S. Aravanan*
P. Sivasakkaravarthi**

Introduction:

Life cycle cost(LCC) analysis is a concept of cost accounting, a form of management accounting, which became popular in the 1960s, when the concept was taken up by

US government agencies as an instrument to improve the cost effectiveness of equipment procurement. In the 1960's US department of defence started to assess the long term cost effect of products when making purchase decision. Most of the methodologies developed by the US Defence Department were only intended for procurement purposes. Till the beginning of 1980s the LCC analysis was mainly applied for military field. From that point, the concept has spread to the business sector, and is used there in management accounting, particularly new product development studies and project evaluations. After that period, the applications of LCC analysis have spread to other industries such as aircraft, electrical power plants, oil and chemical industries, and railway systems.

Meaning and Definition of Life cycle costing

Life Cycle Costing (LCC) is a young concept in the field of accounting. LCC also called Whole Life Costing is a technique to establish the total cost of ownership. It is a structured approach that addresses all the elements of this cost and can be used to produce a spend profile of the product or service over its anticipated life-span. LCC is the accumulation of costs for activities that occur over the entire life cycle of a product, from inception to abandonment by the manufacturer and consumer. Thus rightly it is some times called as a "cradle-to-grave cost" or "Womb-to-Tomb" cost. LCC analysis provides a framework for managing the cost and performance of the product over the duration of its life. The results of an LCC analysis can be used to assist management in the decision - making process when there is a choice of options.

A Review of Literature on Life Cycle Costing

In this article a review of literature available on Life Cycle Costing is done.

A systematic review of literature is an unbiased collection of all the data on a given topic and a critical appraisal and synthesis of this information. A thorough review of existing literature on a given subject matter creates a firm foundation for advancing knowledge on the subject. With this end in view an extensive review of literature pertaining to LCC is done. The review is divided into two parts:

(i) Review of general studies done on Life Cycle Costing

(ii) Review of special surveys/ project conducted on the application of Life Cycle Costing and Guidelines issued on Life Cycle Costing.

Review of general studies

In this section a review of 29 studies is given.

Harold E. Marshall and Rosalie T. Ruegg[1] in February 1977 conducted a study on Energy Conservation through Life-Cycle Costing. In their study they described the state of the art techniques for measuring life cycle savings of energy conserving approaches to building design. Application of LCC analysis and the results of applying such analysis to energy conservation problems have been described for retrofitting conventional heating cooling systems and for developing energy conservation standards for new buildings. One might conclude form this article that architects have only to apply LCC analysis to all design decisions to determine the most efficient allocation of resources for energy conservation in building. Theoretically this is true, and the authors feel convinced that a broder awareness of LCC techniques in the architectural profession will in fact lead to greater economic efficiency in the use of energy conservation designs for buildings. Impediments to universal application of these techniques do exist however, and it will be helpful to the practicing architect to know what they are.

Taylor W, B[2]**,** in the year 1981 undertook a study on assets. His paper examines the concept of life cycle costing and explains what is involved in the use of the technique. It relates the subject to asset management and particularly to the costs of physical asset ownership. It emphasizes the life cycle aspect of physical asset management and underlines the values of trade off between initial running, operating and disposal costs. It outlines

*Selection Grade Lecturer in Commerce, Department of Commerce, Pondicherry University, Puducherry-605 014. e-mail: ssa1954@yahoo.co.in

**M. Phil. Scholar in Commerce, Department of Commerce, Pondicherry University, Puducherry- 605014.

[1]Yoshio Kawauchi and Marvin Rausand, "Life Cycle Cost (LCC) analysis in oil and chemical process industries" June, 1999.

[2]HM treasury Guidance on Life cycle costing, April 1992.

[3]Calbie Berliner a djames A. Brimson, cost management for today's advanced manufacturing, 1988, P.241.

a methodology for the introduction of the technique, though allowing that the technique may be applied piecemeal. The paper includes a case study illustrating the significance of life cycle costing.

Yosef S Sherif and William J Kolarik[3] in the year 1981 conducted a study on Life cycle costing: Concept and practice. This paper traces the development of the life cycle costing (LCC) technique in the United States and classifies documented LCC literature by both model type and application. Literature in the field supports the idea that the LCC concept has evolved over the years to include facets of system effectiveness in addition to costs. It is also evident that LCC has developed more as a result of specific applications rather than hypothetical models. General system characteristics which contribute to the success of the LCC technique are also identified

Yosef S. Sherif[4] in May 1982 undertook a study on an optimal maintenance model for life cycle costing analysis. His paper outlines the optimal maintenance schedule that minimizes the system's future total expected maintenance cost. This minimum maintenance cost may be added to research and development costs, operation costs and salvage costs to obtain the total life cycle cost of the system. The case in which the system has constant failure rate is investigated under imperfect inspection policy.

Klaus L. Wubbenhorst[5] in August 1986 undertook a study on Life cycle costing for construction projects. The author discusses the concept of life cycle costing a valuable tool in an era of economic depression and high inflation. He points out the problems in the initiation of the process, the planning, realization, operation and disposal of complex systems. He describes the objectives of life cycle costing and presents a comprehensive way to apply it.

Asiedu and GU and Fabrycky and Blanchard[6], in the year 1991conducted a study on Life- Cycle Cost and Economic Analysis. In this study they highlighted: in researching life-cycle costing and interviewing experts in the field, it is important that a consistent definition is used as to make sure each of the respondents interpret the questions the same way. No exact definition has been agreed upon for lifecycle costing amongst experts in the field. This paper provides a conceptual framework for design and implementation of a life-cycle cost management system. The life-cycle is condensed into two major phases. The acquisition phase includes the activities from research and development, design, up to the installation of the system. The operation phase includes the activities during the actual use of the system.

R. GARY HICKS, and JON A. EPPS, PE[7] in the year 1994 conducted a study on life cycle cost analysis of asphalt- rubber paving materials. In their study they highlighted:

- A brief history of asphalt rubber use and cost information
- A description of the life cycle cost process used in this paper
- Comparative results to evaluate the LCC for hot-mix structural overlays, nonstructural surface courses, and chip seals containing conventional (or polymer modified) binders with similar applications containing asphalt rubber binders.

The findings indicate asphalt rubber is cost effective in many of the applications used by local agencies in Arizona and California. However, the reader should be aware that the estimated lives are based on interviews and on engineering judgment. Changes in the life estimates could affect the final conclusions.

J. Infrastruct. Syst[8]. in March 1996 conducted a study on Life-Cycle Costing in Municipal Construction Project in his study he highlighted: The objective of life-cycle costing (LCC) analysis is to optimize the total cost of ownership over the life span of an asset. A survey was conducted in the early months of 1995 of the largest municipalities in the U.S. to investigate the use of LCC analysis. The survey indicated that 40% of the municipalities use LCC analysis and that some had been using it for over 20 years. The reasons why 60% of the municipalities did not use LCC analysis include lack of formal guidelines and the difficulty of estimating future costs and incomes. Other aspects of the survey included the typical profile of the LCC analysis process including project types, work categories, and project stages. The criteria used in selecting projects for LCC implementation appear to be arbitrary. Finally, most municipalities assessed their LCC analysis process as a successful or a somewhat successful operation.

Aouad, G, Mari, F, Child, T, Brandon and P & Kawooya[9] in the year 1996 conducted a study on the development of an integrated life cycle costing model. In their study they highlighted an approach to the integration of design, construction and maintenance data. The proposed model uses the state of art technologies, namely Virtual Reality (VR) and object orientation. The life cycle costing model will ensure that design is given a holistic picture that will result in better management of facilities. Life cycle costing information once inserted into the design model will allow a clearer picture of the maintenance data to be displayed in a VR environment. The system is still under development. However, once it is fully developed it will offer many opportunities for maintenance and cost engineers.

Per Dahlén and Gunnar S Bolmsjo[10] in December 1996 conducted a study on Life-cycle cost analysis of the labor factor. In their study they highlighted: The purpose of this paper is to widen the field of application for life-cycle costing and carry through an analysis of investments done when raising the production factor labor in a Swedish engineering company. The analysis covers the costs for an employee over the whole employment cycle - from the recruitment until retirement. The costs for labor are suggested to be graphed in a way similar to the costs over the life cycle for production equipment. The costs are divided into three basic categories: Employment costs, Operation costs and Work environmental costs

Woodward, D. G.[11] in the year 1997 undertook a study on Life cycle costing-theory, information acquisition and application. Life cycle costing is not limited to forecasting of future costs in the beginning of a life cycle. Regarding the control of the whole life costs, it is essential that the costs be monitored throughout the life cycle. The focus of LCC changes during the product's life cycle. At the beginning of life cycle, LCC is mainly estimating of future costs. Over time, the focus of LCC shifts to monitoring the incurred costs.

James Walls III and Michael R. Smith[12] In September 1998 undertook a study on Interim Technical Bulletin recommends procedures for conducting Life-Cycle Cost Analysis. The Bulletin begins with a discussion of the broad fundamental principles involved in an LCCA. It discusses input parameters and presents simple examples of traditional LCCA in a pavement design setting. It discusses the variability and inherent uncertainty associated with input parameters, and provides recommendation on acceptable ranges for the value of time as well as discount rates.

It explores the use of sensitivity analysis in traditional LCCA approaches given the power and sophistication of today's computers and software. Simulation techniques such as Monte Carlo are recommended for incorporating variability associated with LCCA inputs into final results.

Yoshio KAWAUCHI and Marvin RAUSAND[13], in June, 1999 conducted a study on Life Cycle Cost (LCC) analysis in oil and chemical process industries. The study report presents brief history and a state-of-the-art survey of Life Cycle Cost (LCC) analysis, in general and in particular LCC analysis in oil and chemical industries based on a detailed literature survey, internet-web browsing, and interviews with experts. This report presents a LCC procedure consisting of six steps, which are "Problem definition", "Cost elements definition", "System modeling", "Data collection", "Cost profile development", and "Evaluation". Sub-activities to be encompassed in the six step procedure are described. This report also presents codes and standards related to LCC analysis and software tools for LCC analysis. Appendices include a list of references, samples of cost breakdown structure, and descriptions of software tools for RAM analysis.

Katile Amelio and Martha G. vangeem[14] in the year 2000 undertook a study on life cycle cost literature survey and database. The study highlighted: Life cycle cost analysis is currently a valuable tool in the construction industry and will become more so as resources become more scarce. Selecting the materials and components of structures and pavements based on a life cycle cost analysis can significantly decrease the lifetime cost of construction, maintenance and repair.

This literature survey gathers life cycle cost information for concrete and competing materials from a variety of sources, summarizes the results, and describes the resulting searchable database. The database is a resourceful tool for those who would like to obtain additional information on life cycle cost analysis and results.

Jay Goldbaum[15] in March 2000 conducted a study on Life Cycle Cost Analysis State-of-the-Practice. His study report provides an outline for the engineer seeking to conduct a Life-Cycle Cost Analysis (LCCA) in pavement design and selection. The guidance, recommendations, and default values provided here were collected from 10 years of paving projects. Most of these projects were constructed or rehabilitated in the mid 1980's in order to evaluate the current design and construction practices in the State of Colorado. At this time, Colorado department of transport uses a deterministic approach to the LCCA and is researching the move toward a probabilistic LCCA. It is recommended that this report be used as a guide in the pavement design and selection until data can be collected and evaluated on asphalt pavements designed and constructed using the Supepave technology

Asiedu & GU 1998 and Emblemsvag[16] in the year 2001 conducted a study on Activity-based life-cycle costing Product life cycle cost analysis. They highlighted: There are many challenges in life cycle costing. First of all, forecasting of future costs is always inexact, so the calculations are based on information which to some extent includes factors of uncertainty. Because of the inadequacies of companies' costing practices, monitoring of costs during the life cycle is not accurate enough and there is not enough information for the successful application of life cycle costing. Many barriers to utilizing approaches based on life cycle thinking have been recognized, such as inadequate costing data, non-uniform costing practices and suspicious attitudes towards the approaches .It seems that adoption of applications based on life cycle thinking has been very slow on the practical level, except for a couple of industries, such as the military sector and construction industry.

Vestal Tutterow and Gunnar Hovstadius, Aimee McKane[17] in the year 2002 conducted a study on Life Cycle Costing for Industrial Pumping Systems In their study they highlighted: Industries worldwide depend upon pumping systems for their daily operation. These systems account for nearly 20% of the world's industrial electrical energy demand and range from 25-50% of the energy usage in certain industrial plant operations. Purchase decisions for a pump and its related system components are typically based upon a low bid, rather than the cost to operate the system over its lifetime. Additionally, plant facilities personnel are typically focused on maintaining existing pumping system reliability rather than optimizing the systems for best energy efficiency. To ensure the lowest energy and maintenance costs, equipment life, and other benefits, the systems components must be carefully matched to each other, and remain so throughout their working lives.

Yehoshua Liebermann and Meyer Ungar[18] in December 2002 conducted a study on Efficiency of consumer intertemporal choice under life cycle cost conditions In his study he highlighted: This paper presents a conceptual framework for analyzing consumer LCC decision making. Within this framework the notion of choice efficiency is highlighted. The main contribution of the study is the direct estimation of consumers' choice efficiency, as compared to previous studies that estimate only consumers' implicit discount rates. Effects of situational and personal variables on efficiency of choice are estimated by means of a series of manipulated choice settings. The main empirical findings show situational effects of monetary size, type of object and time horizon. Additional findings show the effect of personal variables such as gender, marital status and education.

Nick Bakis, Mike Kagiouglou, Ghassan Aouad and Dalanthi Amaratunga[19]in the year 2003 conducted a study on An Integrated Environment for Life Cycle Costing in Construction. In their study they highlighted: Life Cycle Costing (LCC) has become increasingly important in construction over the last few years. However, despite its importance, it has found limited application so far. Two of the main barriers in its application are the shortage of LCC data and the complexity of the technique itself. This paper presents a computer-integrated environment, which aims to overcome those barriers by providing a framework/mechanism for collecting and storing the LCC data and a number of tools for assisting and simplifying the application of the technique. The main characteristic of the environment is that it provides a holistic approach to Life Cycle Costing by integrating the collection of the data and the LCC-aware design and management of buildings within a single framework. A database, which is flexible enough to accommodate the needs of any user, is used to store the LCC data. An integrated and interactive design tool is used to assist and simplify the LCC-aware design of buildings. A three-dimensional visualization tool is used to assist the facilities manager in the LCC-aware management of buildings. Information collected from each building is fed back into the system to update the existing LCC data.

Dr. Kaan Ozbay, Dr. Neville A. Parker, Dima Jawad and Sajjad Hussain[20] in July 2003 conducted a study on Guidelines for Life Cycle. This study through research establishes the guidelines for conducting LCCA. Most of the LCCA input parameters are inherently uncertain, such as the discount rate, the analysis period, and the type and timing of future rehabilitation activities that will take place in each of the life cycle options. In order to conduct LCCA in a reliable and trustworthy manner, a thorough understanding of the theoretical engineering and economics background must be acquired. The study report starts by setting LCCA in its broad perspective. It reviews the economic theory of LCCA, discusses the types and levels of analysis in project evaluation, and briefly goes over the historical background of LCCA. Towards the end, the report discusses a distinct application of LCCA in monitoring contractor's pay schedule. The LCCA guidelines, presented in this report, aim mainly at providing the reader with sufficient knowledge on how to perform LCCA, how to estimate its input parameters, and how to interpret its results.

Anni Lindholm and Petri Suomala[21] in the year 2004 conducted a study on - The Possibilities of Life Cycle Costing in Outsourcing Decision Making. The aim of this paper is to discuss the possibilities of life cycle costing in outsourcing decision making and companies' ability to accomplish comprehensive cost assessments on the basis of empirical evidence about the present practices of life cycle costing. The study indicates that decisions are rarely made within a long-term perspective and cost consciousness in companies is often quite poor. Because the field of life cycle costing is problematic for many reasons, its use has been limited on the practical level. However, LCC has good alignment with outsourcing objectives and it is a potential tool for outsourcing decision making.

Kensetsukonasarutantsukyo Kinkishibu[22] conducted a study in April 2004 entitled: Method to apply life-cycle-costing to planning and design. In his study he highlights the research results of life-cycle-costing of infrastructures. This research was performed by The Research Committee on Life-cycle-costing for three years from April, 2001 to March, 2004. Its objective was to study the basic concept of life-cycle-costing and its application to actual design and maintenance planning. The Committee was composed of thirty-two members and three working groups (WG) were established.

Their research results were reported group by group in this report. The research themes of each group are as follows: The first WG's study was on ordering system in terms of life-cycle-costing (review of conventional system, proposal of LCC system, etc.), the second WG's study was on estimation of life-cycle-costs (arrangement of items and unit prices affecting LCC, estimation of life-cycle-cost for various types of bridges,etc.,) and the third WG's study was on monitoring and life costing (case study on past examples of monitoring, trial of monitoring using piezoelectric films, etc.)

R. Kannan, C. P. Tso, Ramli Osman, H. K. Ho[23], in November 2004 conducted a study in Singapore. In their study they highlighted: A life cycle assessment (LCA) was conducted to quantify the non-renewable energy use and global warming potential in electricity generation from a typical oil fired steam turbine plant in Singapore. The study methodology, results and the empirical relations are presented, together with a brief overview of the Singapore power sector. The study also highlights the need for consideration of the reserves availability in the pricing mechanism and how such cost indices could be developed based on the LCA-LCCA.

D. Janz, W.Sihn, H. J. Warnecke[24] in the year 2005 conducted a study on Product Redesign Using Value-Oriented Life Cycle Costing. In their study they highlighted: Life Cycle Costing Based on a case study of vehicles. This paper explains the theoretical approach and analyses for designers to optimise costs and conduct product redesign by using Value-Oriented Life Cycle Costing

Kirkham, Richard[25] in January 2005 conducted a study on Re-engineering the whole life cycle costing process. The highlight of the study: The application of Whole Life Cycle Costing (WLCC) within the construction industry is rapidly increasing; notwithstanding, the underlying methodology of many WLCC models is variable and inconsistent. The deficiency in detailed recording of decisions based on WLCC analyses is a particular concern and moreover, attempts to capture the data related to these decisions are not evident. Data capture is vital in facilitating the iterative and logical application of WLCC. In an attempt to re-engineer the WLCC design process, the evolving research described hereinafter reports on the development of the 'Logbook: a WLCC model decision support software application. The application works simultaneously with a WLCC model to provide the designers of buildings with a repository of decisions made based on this data-from inception through to final design optimization. It is anticipated that the software will encourage the application of WLCC models as an iterative rather than retrospective process.

O.O. Ugwu, M.M. Kumaraswamy, F. Kung and S.T. Ng Automation[26] in October 2005 conducted a study on Object-oriented framework for durability assessment and life cycle costing of highway bridges This paper highlights the application of an object-oriented (OO) framework to decision-making in designing for durability in the bridge domain, and a prototype implementation of this framework. It discusses how an object-based solution could contribute towards achieving the objectives of durability and minimum maintenance costs at project level. The paper also gives recommendations for further work.

C.A. Ungureanu1and I.S. Jawahir[27] in the year 2007 conducted a study on the Aluminum versus Steel in Passenger Cars. The paper presents a new methodology for total life-cycle cost analysis and employs a case study involving the use of aluminum in automotive applications. This study is aimed at developing a new sustainability model to quantify the total cost encountered over the entire life-cycle of a vehicle considering all four life-cycle stages: (1) pre-manufacturing, (2) manufacturing, (3) use and (4) post-use. Also, the paper presents a quantitative evaluation of the environmental impact of using aluminum material in a vehicle.

The paper compares the use of aluminum with the traditional use of steel alloys in a given automotive application by providing details of economic and environmental performance of the vehicle over the total life-cycle.

Berent E.Tysseland[28] in October 2007conducted a study on projects. The Norwegian Ministry of Defense publication states that when procurement decisions are made, systems that yield the lowest possible life cycle cost (LCC) for the Norwegian Defense must be procured, even if this means that initial procurement cost becomes higher. However, several projects within the community are still carried out and reviewed based on initial procurement cost alone. This study investigates four hypotheses, based on agency theory and earlier LCC work, in order to help explain why this is happening. A questionnaire was administered to all projects currently running in the defense community. Findings regarding project uncertainty, information symmetry, the project leader's attitude and knowledge about LCC, as well as control variables are discussed both towards theory and in terms of managerial implications.

E. Scanff, K.L. Feldman, S. Ghelam, P. Sandborn, M. Glade and B.

Foucher[29] in March 2008 undertook a study on Life cycle cost impact of using prognostic health management (PHM) for helicopter avionics. Case studies were conducted using a stochastic model to predict the life cycle cost impact associated with the application of prognostic health management (PHM) to helicopter avionics. The life cycle costs of systems that assumed unscheduled maintenance and fixed-interval scheduled maintenance were compared to the costs of precursor-to-failure and life consumption monitoring PHM approaches, and the optimal safety margins and prognostic distances were determined.

Commentary on Review:

The literature of LCC is mostly conceptual in nature and there is relatively little evidence about the applications of LCC approaches. From the review of literature the following conclusions are drawn:

- When procurement decisions are made, systems that yield the lowest possible LCC must be procured even if this means that initial procurement cost becomes higher.
- Application of LCC in the construction of highway bridges contributes towards achieving the objectives of durability and minimum maintenance cost at project level.
- The application of whole life cycle costing within the construction industry is rapidly increasing.
- Value oriented life cycle costing if implemented ensures optimization of costs and conduct of product redesigns.
- To conduct life cycle cost analysis (LCCA) in a reliable and trustworthy manner, a thorough understanding of the theoretical engineering and economics background must be acquired.
- Most of the LCCA input parameters are inherently uncertain, such as the discount rate, the analysis period, etc.
- LCCA can provide a new tool for evaluating all the eco-costs and evaluating a cost effective eco-design of any product.
- There are many challenges in LCC: Forecasting of future costs is always inexact; because of inadequacies of companies' costing practices monitoring of costs during the life cycle is not accurate enough; non uniform costing practices and suspicious attitudes towards the approaches.
- Adoption of applications based on life cycle costing has been very slow at the practical level, except for a couple of industries such as military sector and construction industry.
- LCCA is currently a valuable tool in the construction industry and will become more so as resources become more scarce. Selecting the materials and components of structures based on LCCA can significantly decrease the lifetime cost of construction, maintenance and repair.
- LCC procedure consists of six steps: Problem definitions, cost elements definition, system modeling, data collection, cost profile development and evaluation.
- Given the power and sophistication of today's computers and software, sensitivity analysis can be used in traditional LCCA approaches. Simulation techniques such as Monte Carlo are recommended for incorporating variability associated with LCCA inputs into final results.
- The focus of LCC changes during the products' life cycle. At the beginning of life cycle, LCC is mainly estimating of future costs. Over time it is essential that the costs be monitored throughout the life cycle.
- The objective of life-cycle costing analysis is to optimize the total cost of ownership over the life span of an asset.
- In researching LCC and interviewing experts in the field, it is important that a consistent definition is used as to make sure each of the respondents interpret the questions the same way. However no exact definition has been agreed upon for LCC among experts in the field.
- LCC is a valuable tool in an era of economic depression and high inflation.
- LCC has developed more as a result of specific applications rather than hypothetical models.
- Cost decisions are rarely made within a long term perspective and cost consciousness in companies is quite often poor.
- LCC has become increasingly important in construction industry over the last few years. However despite its importance, it has found limited application so far.

Review of survey Reports and Guidelines:

In this section a review of five reports/ guidelines pertaining to LCC is given:

Pump Life Cycle Costs: A guide to LCC analysis for Pumping systems (January, 2001)[30] was the result of collaboration between the Hydraulic Institute, Euro pump and the US Department of Energies office of Industrial Technologies. Pumping systems account for nearly 20% of the world's electrical energy demand. LCC analysis is a management tool that can help companies minimize waste and maximize energy efficiency for many types of systems, including pumping systems. The LCC of any piece of equipment is the total lifetime cost to purchase install, operate, maintain and dispose of that equipment. Determining LCC involves following a methodology to identify and quantify all of the components of the LCC equation. The Guide further explains that the components of a life cycle cost equation typically include initial costs, installation and commissioning costs, energy costs, operation costs, maintenance and repair costs, down time costs, environmental costs and decommissioning and disposal costs. There are also financial factors to take into consideration in developing the LCC. These include: present energy prices, expected annual energy price increase (inflation) during the pumping system lift time, discount rate, interest rate and expected equipment life; The Guide also suggests a checklist of some useful means to reduce the life cycle cost of a pumping system.

The New South Wales Treasury (September 2004)[31] released a Guideline entitled: Total Asset management -life cycle costing Guideline. The guideline besides highlighting the meaning, significance and utility of LCC and LCC analysis concentrated on LCC models. The report also suggested the use of one or more of the following methods for analyzing cost data: Engineering cost method, Analogous cost method and Parametric cost method. Also the Report suggested a plan for LCC analysis.

Anni Lindholm and Petri Suomala (2005)[32] "Present and Future of life cycle costing- Reflections from Finnish companies". This discussion paper starts with a review of literature. Quoting the study of Lukka & Granlund the review reveals that none of the Finnish companies utilised the LCC approach that time (1996). Six percent of the Finnish companies have used LCC according to Hyvonen and Vuorinen (2000). In their present work the authors gathered the empirical observations of the present practices in LCC in Finland in spring 2004 through a questionnaire study aimed at industrial companies representing different industries. Altogether 43 responses only were received. Almost 70% of the respondents are involved with LCC annually or more often. In about half of the cases, LCC is used to compare alternative investment options. LCC calculations are done in the purchase phase always or quite often in 40% of the cases and in the rest of the cases LCC calculations are done only sometimes or not at all. Over 40% have assessed the economic life cycle of products with LCC and one third has used it for budgeting purposes. In conclusion of the discussion the paper points out the following: The need for LCC management becomes evident when examining the longitudinal cost structure of investment products. However in spite of the long history and potential usefulness of LCC, its use has been quite limited on the practical level. The recent observations of LCC in Finnish context indicate that, in general, utilization of LCC is rare. Overall, people seem to be rather seldom involved with LCC.

Phil Anderson, URS Corporation, (February 2006)[33] presented a Report entitled, 'life cycle costing' to the Department of Transportation Research, Colorado, USA. The research project was initiated by the Colorado Department of Transportation (CDOT). The purpose of this research project is to develop guidelines that allow CDOT to capture the long-term costs of adding additional capacity and other transportation related improvements to the state highway and bridge system. Historically, only the initial cost of a project has been analyzed to determine whether a project would be implemented. Future costs including maintenance, rehabilitation and reconstruction/replacement costs have not been traditionally considered in the decision making process to determine if a project moves forward. However, these costs are significant and have an impact on future budgets. Regarding methodology in developing long-term costs associated with increasing the assets of the state transportation system, recurring cost for maintenance, rehabilitation and reconstruction/ replacement were planned to be developed for each proposed asset. The proposed analysis period war 40 years.

The Report pointed out the following four activities as the major activities associated with developing initial and recurring project costs for highway and bridge projects: Initial construction, Maintenance, Rehabilitation and Reconstruction/ Replacement In the Report it is suggested that in addition to developing project cost for the four major activities costs for the recurring activities associated with the project's life also should be developed.

Davis Langdon Management consulting (May 2007)[34] in its report entitled, "Life cycle costing (LCC) Methodology" presented 'A common European methodology for life cycle costing'. In 2006 the European commission appointed Davis Langdon from the UK to undertake a project to develop a common European methodology for LCC in construction. The overall aim of the project was to help improve the competitiveness of the construction sector. To help achieve this aim, the key objective was to develop a common methodology at European level for evaluating LCC that would help improve the sustainability of the built environment.

The methodology for this research consisted of the following activities:

(i) Analysis and evaluation stage with preliminary results and

(ii) Development of an approach applicable at the European level for estimation of LCC and related indicators for building and constructed assets.

The following countries were selected for the study: UK, Germany, Netherlands, Sweden, Finland, Norway, Ireland, Spain, Greece, Czech Republic, Belgium and France.

To carry out the research project the consulting unit conducted an extensive review of existing literature, consulted experienced LCC practioners, had discussions with theoreticians of LCC and interacted with managers and directors involved in high level decision making on the basis of the results of the LCC analysis.

The project concluded with the development of a common European methodology. The proposed methodology is primarily aimed at public sector construction clients in European Union Member states. The aim of the proposed methodology was to define a common and consistent basis for undertaking LCC across Europe without replacing country- specific decision models and approaches. As a key area for further research the Report suggested the integration of the practical approaches to LCC and associated methodologies with the practical needs of clients and practitioners taking account of such issues as the quality of data, the need for simplicity of calculation methods etc.

Synthesis of the review of surveys/ projects

From the above review of surveys/ projects the following observations emerge:

(i) One of the key ways of improving competitiveness in the construction industry is the implementation of LCC tools and criteria in all key phases of construction process.

(ii) There are four major activities associated with developing initial and recurring project costs for highway and bridge projects: Initial construction, maintenance, Rehabilitation and Reconstruction / Replacement. As part of LCC analysis in addition to developing project cost for the four major activities costs for recurring activities associated with the projects life also should be developed.

(iii) LCC is a six-staged process:

Stage 1: Plan LCC Analysis

Stage 2: Select /Develop LCC model

Stage3: Apply LCC model.

Stage4: Document and Review of LCC results.

Stage5: Prepare Life Cost Analysis

Stage6: Implement and Monitor life cost analysis.

The first four stages comprise the Life Cost Planning phase with the last two stages incorporating the Life cost Analysis phase.

(iv) The LCC of any piece of equipment is the total lifetime cost to purchase, install, operate, maintain and dispose of the equipment. LCC of a Pumping system includes initial cots; installation and commissioning cost, energy costs, downtime costs, environmental costs and decommissioning and disposal costs.

(v) The recent observations of LCC implementation in Finnish companies indicate that in general, utilization of LCC is rare. This suggests that LCC might be primarily associated with capital budgeting rather than be perceived as part of continuous long-term cost.

Conclusion:

Life Cycle Costing is a relatively young concept of cost accounting. Mostly applied in the military field till the beginning of 1980s, from that point of time has spread to the business sector and is used there in management accounting. Also called Whole Life Costing it is a process of accumulation of costs for activities that occur over the entire life cycle of a product - from inception to abandonment by the manufacturer and consumer. The objective of LCC analysis is to optimize the total cost of ownership over the life span of an asset. From the review of literature it is ascertained that LCC procedure consists of six steps: problem definition, cost elements definition, system modeling, data collection, cost profile development and evaluation. Adoption of application based on LCC has been very slow at the practical level, except for a couple of industries such as military sector and construction industry.

References

1. Harold E. Marshall and Rosalie T. Ruegg in February 1977, Energy Conservation through Life-Cycle Costing, Management control systems and trust in outsourcing relations. Management Accounting Research. Vol. 14. No. 3, 281-307.
2. Taylor, W. B. 1981. The Use of Life Cycle Costing in Acquiring Physical Assets. Long Range Planning. Vol. 14. No. 6, 32-43
3. Yosef S Sherif, William J Kolarik, Omega, Volume 9, Issue 3, 1981, Pages 287-296,Life cycle costing: Concept and practice.
4. Yosef S. Sherif, Reliability Engineering, Volume 3, Issue 3, May 1982, Pages 173-177,An optimal maintenance model for life cycle costing analysis
5. Klaus L. Wübbenhorst,Long Range Planning, Volume 19, Issue 4, August 1986, Pages 87-97,Life cycle costing for construction projects
6. Asiedu, Y. & Gu, P. 1998. Product life cycle cost analysis: state of the art review. International Journal of Production Research. Vol. 36. No. 4, 883-908
7. R. Gary hicks, and Jon a. Epps, pe 1994, life cycle cost analysis of asphalt- rubber paving materials, Managerial Auditing Journal. Vol.16.No.1, PP, 17-27.
8. J. Infrastruct. Syst Journal of Infrastructure Systems, Vol. 1, No. 2, pp. 5-14. 1996, Life cycle costing in municipal construction projects
9. Aouad, G, Mari, F, Child, T, Brandon, P & Kawooya, A. (1997a). Construction Integrated Databases- Linking design, planning and estimating. Proceeding of the international conference on the rehabilitation and development of civil engineering infrastructures. American University of Beirut, June, pp 51-60.
10. Per Dahlén, Gunnar S Bolmsjo,

International Journal of Production Economics, Volumes 46-47, December1996, Pages459-467,Life-cycle cost analysis of the labor factor.

11. David G. Woodward Division of Accounting, Staffordshire University Business School, Leek Road, Stoke on Trent ST4 2DF, UK Available online 10 June 1998. Life cycle costing-Theory, information acquisition and application.
12. James Wall III and Michael R.Smith 1998, Intreim Technical Bulletin Recommended Procedures For Conducting Life Cycle Costing.
13. Yoshio Kawauchi and Marvin Rausand, 1999, Life Cycle Cost Analysis in oil and Chemical Process Industries.
14. Katil Amelio and Martha G. Vangeem, 2000, Life Cycle Cost Literature Survey and database.
15. Jay Goldbaum, CDOT Report Number CDOT-. R1-R-003, March 2000. Life-Cycle Cost Analysis, Life Cycle Cost Analysis: State-of-the-Practice.
16. Asiedu, Y., Gu, P. (1998), and Emblemsvåg, J. (2001), "Activity-based life-cycle costing", Managerial Auditing Journal, Vol. 16 No.1, pp.17-27.
17. Vestal Tutterow, Gunnar Hovstadius, and Aimee McKane, "Going with the flow: Life cycle costing for industrial pumping systems" (July 8, 2002). Lawrence Berkeley National Laboratory. Paper LBNL-51042.
18. Yehoshua Liebermann and Meyer Ungar, December 2002, Efficiency of consumer intertemporal choice under life cycle cost conditions.
19. Nick Bakis, Mike Kagiouglou, Ghassan Aouad and Dalanthi Amaratunga, 2003, an integrated environment for life cycle costing in construction.
20. Dr. Kaan Ozbay, Dr. Neville A. Parker, Dima Jawad, Sajjad Hussain July 2003, Guidelines for Life Cycle Cost Analysis, Federal Highway Administration,U.S. Department of Transportation Washington, D.C.
21. Anni Lindholm and Peri Suomala, 2004, the possibility of Life Cycle Costing in Outsourcing decision Making.
22. Kensetsukonsarutantsukyo Kinkishibu Raifu Saikuru Kosuto no Keikaku, Sekkei eno Han'ei Hoho Heisei 16nen VOL.; NO.; PAGE.385P (2004), Method to apply life-cycle-costing to planning and design.
23. R. Kannan, C. P. Tso, Ramli Osman, H. K. Ho, Energy Conversion and Management, Volume 45, Issues 18-19, November 2004, Pages 3093-3107

LCA-LCCA of oil fired steam turbine power plant in Singapore.

24. D. Janz, W. Sihn, H.-J. Warnecke CIRP Annals - Manufacturing Technology, Volume 54, Issue 1, 2005, Pages 9-12 Product Redesign Using Value-Oriented Life Cycle Costing.
25. Richard Kirkham Construction Management & Economics. Volume (Year): 23 (2005) Issue (Month): 1 (January) Pages: 9-14 the application of Whole Life Cycle Costing (WLCC).
26. O.O. Ugwu, M.M. Kumaraswamy, F. Kung, S.T. Ng Automation in Construction, Volume 14, Issue 5, October 2005, Pages 611-632 Object-oriented framework for durability assessment and life cycle costing of highway bridges
27. C.A. Ungueranu and I.S. Jawahir, 2007, Aluminum Vs steel in Passenger Cars. A conceptual framework for understanding the outsourcing decision. European Management Journal. Vol. 17. No. 6, 645-654.
28. Bernt E. Tysseland International Journal of Project Management, In Press, Corrected Proof, Available online 25 October 2007 Life cycle cost based procurement decisions: A case study of Norwegian Defense Procurement projects.
29. E. Scanff, K.L. Feldman, S. Ghelam, P. Sandborn, M. Glade, B. Foucher Microelectronics Reliability, Volume 47, Issue 12, December 2008, Pages 1857-1864,Life cycle cost impact of using prognostic health management (PHM) for helicopter avionics.
30. Pump Life Cycle Costs: A Guide to LCC Analysis for Pumping Systems collaboration between the Hydraulic Institute, Europump, and the US Department of Energyis Office of Industrial Technologies (OIT), (January 2001).
31. Total Asset Management Manual - Asset Disposal Strategic Plan for guidelines on technology life-cycle costs, The New South Wales Treasury (September 2004).
32. Annie Lindholm and Petri Suomala: "Present and Future Of Life Cycle Costing -Reflections from Finnish Companies", LTA, February, 2005.
33. Phil Anderson, URS Corporation, Life Cycle Costing, February 2006, Colorado Department of Transportation research branch.
34. Davis Langdon Management consulting (May 2007), "Life cycle costing (LCC) Methodology" presented 'A common European methodology for life cycle costing'. Enterprise Publications, European Commission. Rd Endorsed during 3Tripartite Meeting Group (Member States/Industry/Commission) on the Competitiveness of the Construction Industry.❑

ERP savvy CMA

N.K.Patel*

Industry needs professionals with in-depth costing domain knowledge and at the same time is ERP savvy; preferably with ERP costing configuration knowledge to guide organisation to derive maximum value out of ERP investment

- A leading engineering equipment manufacturer is not getting correct production cost information from ERP system and need to engage a consultancy firm to find root cause of the problem; reasons are system configuration problems, validation not built in to the system so user not entering costing relevant data, production people not entering activity used correctly etc.
- One of the leading Non ferrous metal extracting company cannot rely on product cost data from SAP system; because its' incorrect overhead rate calculation, planned activity hours and activity rates not properly defined and no body from company side is able to grasp system configuration setting for controlling module and its impact on cost calculation etc.
- An industrial crane manufacturer is not getting its trial balance and profit for each of its product group; as they wrongly define their organization structure and didn't leverage profit center functionality of SAP

All above mentioned problems would have been solved during ERP implementation stage itself; if company had involved the IT savvy professional with in-depth understanding of costing process of that industry with knowledge of how the costing works in typical ERP system.

*ICWA, CISA, Management Consultant

I had seen several instances of companies not getting correct cost information even after investing Rs. 1 to 2 crore in ERP system implementation. The problem is not with the ERP system/ package but it is with poor understanding of business user about data flow with in integrated ERP system that affects cost calculations; and resulting suboptimal system configuration. It is found that in several instances ERP controlling consultant doesn't use validation and substitutions to capture costing relevant data.

ERP system captures large amount of data from different interrelated transactions which can be used for better planning purpose but during my experience I found that almost all companies are not able to effectively leverage that data for cost planning and budgeting.

Discussion in previous paragraphs proves that industry needs costing professionals with ERP system knowledge to utilize the ERP for its' the intended purpose; providing relevant MIS on real time basis. There is scarcity of the ERP savvy costing professionals. I would like to take this opportunity to request ICWAI professional development committee to forge ERP education tie up for "FICO certification" on similar to what we have with ORACLE with different ERP vendors i.e. SAP, MICROSOFT, LAWSON etc.

The costing system knowledge with ERP understanding make CMA most suitable to take up independent consulting assignments and also to fine better jobs. The ERP savvy cost accountant is in great demand even in present down market.

The typical components of controlling module of SAP ERP system includes:

1. Overhead Cost Controlling (CO-OM)
   a. Cost and Revenue element Accounting (CO-CEL)
   b. Cost Center Accounting
   c. Internal Orders
   d. Activity based costing
2. Product cost controlling (CO-PC)
   a. Product cost planning
   b. Cost object controlling
   c. Actual costing / Material ledger
3. Profitability management
   a. Profitability analysis (CO-PA)
   b. Profit center accounting (EC-PCA)

At present I am giving brief outline about overhead cost accounting in SAP:

As we all know overhead cost is the cost that cannot be assigned directly to cost objects e.g. production orders; Overhead cost accounting addresses need for allocation of overhead cost and allows for analysis and controlling overhead costs.

As overhead grows as %of total cost; it is becoming increasingly important to analyze and control overhead costs. Similarly, increasingly sophisticated tools are needed to facilitate the application of overhead to production orders and other cost objects.

In SAP system, base for OH calculation is defined in cost sheet and then is assigned to production order thru costing variant.

Subcomponents of overhead calculation are

a) Cost and Revenue Element Accounting (CO-OM-CEL)

There are primary and secondary cost element defined in the system. They are the master data like GL master.

Primary cost elements is generally created for every P&L type GL account.

While secondary cost elements are

crated for posting with in controlling modules i.e overhead posting, activity postings etc.

The cost flows in CO can lead to the need for reconciliation between internal and external accounting in certain cases. Cost and Revenue Element Accounting is the CO component providing functionality that supports this possible requirement. The Reconciliation Ledger provides reporting capabilities for identifying the differences in costs between FI and CO, as well as a tool for creating reconciliation postings to FI, if desired.

b) Cost Center Accounting component (CO-OM-CCA)

The Cost Center Accounting component (CO-OM-CCA) tracks where costs occur in your organization. The cost center is an organizational unit in a controlling area. Cost centers can be defined according to several different design approaches. A typical approach could be for an enterprise to define a cost center for each low-level organizational unit that has responsibility for managing costs. As costs are incurred, they are assigned or posted to the appropriate cost center. These costs could include payroll costs, rent and utility costs, or any other costs assignable to a given cost center.

Each cost center is assigned to a category, e.g. Administration cost center, production cost center, etc. Each cost center master record has a field for the name of the person responsible for the cost center.

Cost centers can be grouped together to provide summary cost information. In fact, a fundamental requirement for implementing Cost Center Accounting is the creation of a standard hierarchy for a controlling area. The standard hierarchy includes all cost centers in that controlling area, and provides the ability to analyze summary costs at each node of the structure. This will be described in greater detail in the next Unit.

c) Internal Order

An Internal Order is an extremely flexible CO tool that can be used for a wide variety of purposes to track costs and, in some cases revenues, within a controlling area. Internal orders provide capabilities for planning, monitoring, and allocation of costs.

Internal orders may be used for a variety of purposes, and can be grouped into four general categories:

- Overhead order: for tracking overhead cost for particular purpose
- Investment order: To monitor cost incurred in creation of a fixed asset
- Accrual order: used to offset posting of accrued costs
- Order with revenue: Used to replace the cost accounting part of SD customer orders

d) Activity based costing

Traditionally, overhead costs are allocated from cost centers to cost objects through various methods, such as surcharges and activity allocations.

ABC has been implemented in R/3 as an enhancement to the cost management functionality. All overhead costs are still assigned to cost centers. The cost centers that utilize resources in carrying out a process allocate the cost of those resources to the process. (Example: a Purchasing cost center would allocate costs it incurred in preparing and distributing a Request for Quotations to a Procurement business process.) The processes are then consumed by cost objects (such as production orders) and the related costs are allocated to those cost objects.

Cost Center Accounting answers the question of where costs occur, whereas Activity-Based Costing answers the question of why (for what purpose) costs occur.❑

BOOK ON ECONOMICS RELEASED

It is a matter of pride that a book on Economics authored by Dr Girish Goyal, AICWA, ACS, PhD and Mrs Meena Saboo, MA, NET (Eco) and faculty of Economics at Jaipur Chapter of ICWAI was launched by MP, Dr Mahesh Joshi.

Written in a simple style, the book has 'Important points to learn and remember just before exam' for the benefit of students. The book is very comprehensive and divided into eight sections complete with diagrams, charts, tables, and schedules for better understanding. Many short questions have been given at the end of each chapter for practice purpose. The authors have linked the book to the 'Harit Rajasthan Programme' and have announced a complimentary copy for each student who plants and maintains five trees.

Dr Mahesh Joshi remarked that the book will prove to be a milestone for Foundation students.

International Good Practice Guidance (IGPC)*

The Professional Accountants in Business Committee (PAIB Committee) of IFAC has framed the International Good Practice Guidance (IGPG) as a benchmark to good practice in applying costing systems and methods and using costing information, particularly for managerial decisions. This will enable practicing cost accountants to provide a descriptive and historical view of costs and a predictive forward looking view that together provide the basis for analysis, evaluation, planning and decision support. PAIB Committee has enunciated six key independent principles of evaluating and improving costing in organizations:

A. The importance of costing to good financial management

The ability to identify, measure, interpret and present costs as they relate to an organization's economic flow of goods and services, both historically and in a forward looking context, is necessary for an informed understanding of the organizational drivers of profit and value.

Appropriate understanding and analysis of costs is essential to operational management. Cost information should provide insight into the costs of specific activities, goods and services and the cost of doing business and effecting changes over time. A costing system needs to assign operating cost as resources are consumed based on the resources' traceability to specific activities or outputs and measure the costs of individual activities and outputs. Since costing is inextricably linked to the organization's flow of resources, the more accurately a costing model represents the operational flow of resources, the more clarity decision makers will have in using cost data. Care needs to be exercised in selecting data and how it is prepared. Because costing can support both regular and non-routine reporting for accountability purposes and specific analyses in support of strategy, planning and general business decisions, the way it is presented is equally important as the actual data.

B. Fitness for purpose

Cost information should be prepared in a manner appropriate to the specific context and purpose of its use of which there are three principal applications:

(i) External reporting- historical and descriptive

(ii) Performance evaluation and analysis- interpretative and diagnostic

(iii) Planning and decision support- analytical and predictive

The context of costing actions ranges from purposes that are primarily concerned with recording past events- external reporting and accountability for past performance- to the support of a wide range of commercial and performance decisions in which the focus is on how to influence future events.

(i) External financial reporting is mainly historical and therefore descriptive of past performance at an aggregate level. Cost figures used in financial statements are based on absorption costing. However, cost information provided to management to support performance evaluation, analysis and planning and decisions support can be more effective where the information is based on a clear and timely link between causes and their effects.

(ii) Performance evaluation and analysis allows interpretative and diagnostic activities to evaluate and analyze past performance. The method calls for an appreciation of the underlying business operational models and the internal and external circumstances that affect them. Effective performance measurement, analysis and learning require that cost information be linked to the underlying resources and operations being evaluated.

(iii) Planning and decision support covers management actions to be implemented in every aspect of an organization's future operations. This calls for a clear understanding of an organization, the commercial or policy rationale for the decisions, and the organization's operational models and processes. It also requires clear definition of the status quo baseline cost against which changes will be measured. A cost accountant should be able to interpret and explain the significance of the costing information provided for decisions and its limitations and to explain the reasons for differences from the data used for legal purposes. Costing information can be presented in a range of formats, all of which should be reconcilable to each other.

*The Summary has been compiled by Ms. Anamika Mukherjee, Deputy Director, Research and Journal, ICWAI.

C. Business model/ reality driven

Cost models should be designed and maintained to reflect the cause and effect interrelationships and the behavioral dynamics of the way the organization functions. The information needs of decision makers at all levels of an organization should be taken into account, by incorporating an organization's business and operational models, strategy, structure and competitive environment.

A costing system should be designed to be complete, in that it accounts for all costs and should assign the costs of a resource to the cost object that consumed that resource. The purpose of cost modeling for decision support is to replicate the essential characteristics of an organization's actual resource acquisition, deployment and consumption in a series of mathematical relationships where the measured quantities of resources can be translated to money. Such models need to be dynamic so that they can describe economic behavior and how businesses change. Costing for decision support should also have a predictive capability- the ability to make forecasts. This will help focus on helping an organization achieving its strategic objectives, taking into account the nature of an organization, its business model, its culture, structure and competitive environment. An organization converting to a new costing system should consider whether its strategy and culture supports a new approach and whether a cost benefit review might offer the prospect of a subsequent strategic benefit.

D. Materiality/ cost effectiveness

The design, implementation and continuous improvement of costing methods, data collection and systems should reflect a balance between the required level of accuracy and cost of measurement based on the competitive situation of the organization.

In theory, every aspect of cost behavior in an organization is capable of being analyzed to determine its causes, which however involves expensive administrative efforts. Attempting to model every last costs item would bring diminishing returns on the value of extra accuracy and visibility. Thus there is always a trade-off between system cost and the qualities and quantity of available information, which is a matter of professional judgment. The costing system's execution needs to take into account the nature of an organization's operations; precision, accuracy, minimum frequency and visibility of cost information required by users; practicability of effort and data collection and processing; and the organization's overall IT strategy. The design, implementation and continuous improvement of costing models, data collection and systems should be subject to cost benefit analysis.

E. Comparability over time and consistency

Cost information should be collected and analyzed systematically and in such a way as to ensure comparability over time, whether in a routine information system or for a specific application and/ or purpose.

This principle inherently requires the professional accountant to maintain a level of organizational competency in costing and knowledge of the organization's costing techniques, practices and systems limitations and strengths. The system of data collection should be systematic, consistent with stated principles over time and continually adapted to accurately reflect the reality of an organization's operations, functions and decisions support needs. The complexity of the IT system will depend on the size, resources and needs of an organization. Models incorporated in the IT system should be thoroughly documented. Where costing systems rely on using non-financial information the aim should be to apply expectations of consistent preparation and reliability to the non financial information in a manner similar to that applied to financial services of data.

F. Transparency and audit ability

Definitions and sources of cost data, the operational and other non-financial data underpinning them, and the methods of calculating costs, should be transparent to users and recorded and capable of review, risk analysis and assurance.

This principle requires systematic documentation of the building a cost model and someone to assume responsibility for keeping it upto date. The descriptions should include the way source data is collected, the way cause and effect relationships are derived and applied, the construction of the models, the design specification of any IT system and the procedures for updating the same. It requires comprehensive requirements for audit of cost accounting using cost accounting standards. Changes to cost assignment methods, cost drivers etc. should be applied consistently from the date of change and cost information should be accompanied by advice on limitations of its accuracy and applicability. All assumptions formulated in preparing costing information should be periodically reviewed and updated.

IFAC has launched Costing Levels Continuum Maturity Model as international good practice guidance on evaluating and improving costing in organizations. This model meets the key principle D stated above.

Why: The Costing Continuum Maturity Model can be used as a self-assessment tool to help an organization determine its current capability and consider appropriate action for improving performance evaluation and analysis.

For whom: It can apply to any enterprise wide organization, internal department or sub contractor that:

a) provides products and services to users, commercial customers or public sector or non profit recipients.

b) Needs and appropriate level of resources (neither deficient nor wastefully excessive) to meet customers' prices sensitive needs.

c) Requires revenues or appropriated funds to sustain long-term payment for its resources and make investments in its future.

What: The model comprises of 12 maturity levels of data collection, calculations and reporting that range from being simplistic to those that offer a high level of transparency, foresight and improved insight into the effects incremental changes are likely to have on required resources and costs. Each next level up the continuum expands on the prior one and more benefits accumulate as the organization improves its capabilities. Different organizations may find themselves in between levels or at various places on the journey.

The 12 Costing Continuum Levels:

1. **Bookkeeping:** Exclusive financial accounting and reporting at its fundamental level.
2. **Process viability (process costing, lean accounting):** This level links and accumulates primary cost centers in time sequence. This costing technique, called lean accounting is used to support process improvement method called value stream mapping. A value stream includes all the value added activities involved in providing specific products and services to customers.
3. **Partial visibility (excluding internal support):** It includes the cost of processes that consumes resources in the cost of outputs. Non product making costs are not included.
4. **Visibility (with internal and external support):** This is the first level of the costing continuum that allocates indirect and shared costs to cost objects.
5. **Improving output information with approximate accuracy:** It calculates costs in greater detail for individual outputs not just their groups.

In level 5a, (traditional standard costing): the work centers within a cost center are individually tracked. Then each work center's accumulated costs are directly associated with a single unit of output to produce the individual output and its cost. The use of operational quantities results in reasonably accurate costs and standard metrics because they are direct.

Level 5b, (project accounting and job order costing) applies to organizations with special conditions where the organisations' work and processes are typically not repetitive or recurring and whose purpose is usually unique for the end user.

6. **Improved treatment of indirect costs to increase accuracy:** This level substantially increases the accuracy of output, product, and standard service- line costs by tracing indirect expenses to outputs in a way that is more consistent with the causality principle.

In level 6a (Activity based costing), two or more work activities for each work center are defined.

In level 6b (multiple stage activity based costing), multi levels of activity cots are added in two ways: (i) people activities are isolated from asset activities, (ii) activities that are relatively more indirect are traced to activities that are relatively less indirect.

In level 6c (automated multiple stage activity based costing), estimates of activity driver quantities provided by knowledgeable employees are replaced with actual measured quantities extracted form transactional operating systems.

7. **Customer profitability reporting:** In this level, customers become the ultimate final cost objects in the cost assignment network. Products and services volume and their mix are traced to each customer's cost object. Level 7 accomplishes this by adding calculated cost attributable to channels and customers that were not included in level 6. Level 7 final cost objects also include the associated revenues from priced products and services. Level 7 also assigns non-product and non customer caused costs to final cost objects. This prevents over-costing products and customers with costs with which they have no causal relationship.

8. **Unused capacity awareness:** Organizations at level 8 determine by estimating the amount of each resources, idle or unused capacity amount of time and assign these costs to a business sustaining cost objects called unused or idle capacity. This thus lays the groundwork for better quality of optimization decisions regarding incremental gains that result from change in output.
9. **Demand driven planning with capacity sensitivity (Activity Based Resource Planning):** From this level, there is a shift from cost push (top down) model to a quantitative demand pull (bottom up) model.

   Level 9a: One time customer orders with consumption relationships to resources

   Level 9b: Aggregate customer orders with consumption relationships to resources
10. **Time Driven Activity Based Costing:** In contrast to the pull ABC based activity based resource planning of level 9, where activity consumption rates are recalibrated after determining past period resource costs, level 10 freezes each output's activity time rate as a standard rate and calculates each activity cost as a standard cost. The net difference between actual resource cost and aggregate standard activity cost can be used as a measure for unused or deficient capacity.
11. **Resource consumption accounting:** Level 11 replaces activity-to-activity relationships in the multi-stage cost assignment network with resource-to-resource or activity-to-resource relationships, where understanding these relationships is essential to properly reflect resource costs and their characteristics. This level also introduces a resource specific cost object called a resource pool that serves to manage capacity and capture the cost characteristics unique to a set of homogenous resources.
12. **Simulation:** Simulation is a high form of modeling where modeling represents physical operations. Such simulations can project and estimate the level of resources and the total and unit cost of the processes and outputs that consume the resources. This type of simulated planning includes the reality if processing and wait times, product positions, resource capacity consumption rates and capacity constraints.

NOTE: This Guidance Note is available at www.ifac.org. Readers are requested to discuss this note further through their comments for publication in the Journal.

IFRS has Implications for Internal Auditors, Says New Report*

New Report Outlines Potential Impact of IFRS on Business Activities

As listed companies in more than 100 countries are now making a switch to filing financial statements using International Financial Reporting Standards (IFRS), business activities in organizations throughout the world are trying to determine their role in the transition and how they will be impacted. The Institute of Internal Auditors Research Foundation (IIARF) has released a new report, IFRS: What Internal Auditors Need to Know. The guidance aims to inform and prepare internal audit practitioners and their organizations for the potentiality of IFRS adoption.

"An important role played by the internal auditors is that of educator to management and the audit committee," said IIA President Richard Chambers, CIA, CGAP, CCSA. "In addition to understanding the changes IFRS will bring to the way the organization is run and governed, management and the board should have a clear grasp of the internal auditor's roles. The chief audit executive (CAE) is integral to ensuring that this is the case."

Although the accounting or finance department is in charge of the entire IFRS project from initiation through execution, the internal audit activity has various responsibilities throughout the process. The internal auditors should review the IFRS project plan to ensure the organization is prepared appropriately, the project is designed and scoped adequately, and the process is managed effectively and efficiently. During this pre-implementation phase, the internal auditors should:

- Ensure proper controls are in place.
- Perform readiness testing.
- Review the communication plan.
- Test the adequacy of the change management plan.
- Review management's budget to ensure necessary expenditures are included.

The internal auditors should work closely with the external auditors throughout the implementation process. They should help identify all affected areas and ensure all process documentation is updated. They should test internal controls, ensuring any necessary adjustments are made to the monitoring processes and that all controls function properly in the new IFRS environment.

Following IFRS implementation, the internal auditors should test, at a minimum, high-risk areas for accuracy and make sure certain controls are in place for the continuous monitoring of IFRS regulatory changes. They then should provide assurance to management that the revised internal control structure is working properly and feeding into accurate financial reports.

Internal auditors should also determine when their organization might be required to comply and step forward to initiate conversations with senior management, accordingly. They should make sure they are included in preliminary discussions on the conversion process, covering such topics as IT system upgrades, additional accounting and audit expertise, and obtaining board or audit committee support to ensure the needs for the project will be met.

IFRS: What Internal Auditors Need to Know points out that many business activities across organizations will be impacted by the transition to IFRS.

- Those involved in R&D and production will be involved in defining inventory capacity and measurement, determining components of property, the physical plant, and equipment; and clarifying phases of research and development.
- The communications function will help ensure that financial communications are appropriate and clear, and that they accurately reflect fair value accounting and its impact on key performance indicators.
- The legal staff will need to interpret IFRS contractual terms and conditions, which might result in the organization's need to revise processes and systems for entering into, drafting, approving, or monitoring contracts.
- The need for detailed hedge documentation and effectiveness testing will impact those responsible for treasury, and the tax department will have to work closely with the accounting staff to examine the impact IFRS might have on new financing structures.
- Human resources might be required to adjust the calculation base for certain types of compensation, such as profit sharing and bonuses.

*The news article has been taken from the website of The Institute of Internal Auditors.

- Marketing and sales might be confronted with issues related to branding and trademarks, net value of inventory, revenue recognition, conditions of sale, and embedded derivatives.

IFRS will obviously bring a number of changes to the way organizations conduct business and report on their financials. IFRS: What Internal Auditors Need to Know provides a few examples of the far-reaching implications, including:

- More entities - such as joint ventures, special purpose operations, and franchises - may be consolidated.
- Liabilities will be recognized and measured differently.
- Development costs will be deferred and amortized.
- Impairment charges will be recognized earlier and measured differently.
- Financial assets and liabilities will be measured differently.
- Depreciation computation will be more complicated.
- There will be a need to focus more on the economics underlying transactions and events.

By the end of 2009, the U.S. Securities and Exchange Commission (SEC) will offer approximately 110 U.S. companies the option to use IFRS. Then, in 2011, the SEC will evaluate the progress participating companies have made in achieving proposed milestones, and will determine whether to mandate IFRS adoption. If it is adopted, roll-out will take place in stages, beginning with the largest publicly traded companies; and the first wave of reports based on IFRS will be filed in 2014. If IFRS is, indeed, adopted in 2011, all listed companies will be required to use it by 2016.

NOTIFICATION

Ref. No. DS-3/1/7/09 July 29, 2009

Finance Act 2008 involving Assessment Year 2009-2010 will be applicable for the subjects Business Taxation (Intermediate) and Strategic Tax Management (Final) under Syllabus 2002 for the purpose of December 2009 term of Examination.

Arnab Chakraborty,
Director of Studies

NOTIFICATION

Ref. No. DS-3/2/7/09 July 29, 2009

Finance Act 2008 involving Assessment Year 2009-2010 will be applicable for the subjects Applied Direct Taxation (Intermediate), Applied Indirect Taxation (Intermediate) and Indirect & Direct - Tax Management (Final) for the purpose of December 2009 term of Examination under Revised Syllabus 2008.

Arnab Chakraborty,
Director of Studies

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

EXAMINATION TIME TABLE & PROGRAMME - DECEMBER 2009

	PROGRAMME FOR SYLLABUS 2002		PROGRAMME FOR SYLLABUS 2008 (REVISED)		
Day, Date & Time	Final - 2002 9.30 A.M. to 12.30 P.M.	Intermediate - 2002 2.00 P.M. to 5.00 P.M.	Intermediate - 2008 9.30 A.M. to 12.30 P.M.	Final - 2008 2.00 P.M. to 5.00 P.M.	Foundation 2.00 P.M. to 5.00 P.M.
Thursday, 10th December, 2009	Operation and Project Management and Control	Cost and Management Accounting	Financial Accounting	Capital Market Analysis & Corporate Laws	—
Friday, 11th December, 2009	Advanced Financial Management and International Finance	Information Systems and Technology	—	Financial Management & International Finance	—
Saturday, 12th December, 2009	Strategic Management and Marketing	Business Laws and Communication Skill	Commercial and Industrial Law & Auditing	Management Accounting– Strategic Management	—
Sunday, 13th December, 2009	Strategic Tax Management	Business Taxation	Applied Direct Taxation	Indirect & Direct– Tax Management	—
Monday, 14th December, 2009	Management Accounting– Design Making	Management Accounting– Performance Management	Cost & Management Accounting	Management Accounting-Enterprise Performance Management	Organisation and Management Fundamentals
Tuesday, 15th December, 2009	Management Accounting-Financial Strategy and Reporting	Advanced Financial Accounting	—	Advanced Financial Accounting & Reporting	Accounting
Wednesday, 16th December, 2009	Cost Audit and Management Audit	Auditing	Operation Management and Information Systems	Cost Audit & Operational Audit	Economic and Business Fundamentals
Tursday, 17th December, 2009	Valuations Management and Case Study	Quantitative Methods	Applied Indirect Taxation	Business Valuation Management	Business Mathematics and Statistics Fundamentals

PROGRAMME FOR MANAGEMENT ACCOUNTANCY COURSE - DECEMBER 2009 EXAMINATION

Thursday, 10 th December, 2009 9.30 A.M. to 12.30 P.M.	Thursday, 10 th December, 2009 2.00 P.M. to 5.00 P.M.	Friday, 11th December, 2009 9.30 A.M. to 12.30 P.M.	Friday, 11 th December, 2009 2.00 P.M. to 5.00 P.M.	Saturday, 12 th December, 2009 9.30 A.M. to 12.30 P.M.
Management Accountancy	Advanced Management Techniques	Industrial Relations & Personnel Management	Marketing Organisation & Methods	Economic Planning & Development

EXAMINATION FEES

Stage (s)	Final Examination	Intermediate Examination	Foundation Course Examination	Management Accountancy Examination
One Stage (Inland Centres) (Overseas Centres)	Rs.800/- US $ 100	Rs.700/- US $ 90	Rs.700/- US $ 60	Per Group Rs. 2500/-
Two Stages (Inland Centres) (Overseas Centres)	Rs.1600/- US $ 100	Rs.1400/- US $ 90		

1. Application Forms for Foundation Course, Intermediate and Final Examinations are available from Institute's Headquarters at 12, Sudder Street, Kolkata, Regional Councils and Chapters of the Institute on payment of Rs. 30/- per form. In case of overseas candidates, forms are available at Institute's Headquarters only on payment of US $ 10 per form.
2. Last date for receipt of Examination Application Forms without late fees is 25th October, 2009 and with late fees of Rs. 200/- is 4 th November 2009.
3. Examination fees to be paid through Bank Demand Draft of requisite fees drawn in favour of the Institute and payable at Kolkata.
4. Students may submit their Examination Application Forms along with the fees at ICWAI, 12 Sudder Street, Kolkata -700016 or Regional Offices or Chapter Offices. Any query can be sent to Sr. Director (Exam.) at H. Q.
5. For December 2009 term of Examinations questions on the subjects - "Business Taxation" and "Strategic Tax Management" for Syllabus 2002 & "Applied Direct Taxation", "Applied Indirect Taxation" and " Indirect & Direct Tax Management" for Syllabus 2008 will be set considering the Finance Act, 2008 involving Assessment Year : 2009-2010.
6. Examination Centres : Agartala, Ahmedabad, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Bhilai, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Berhampur(Ganjam), Calicut,Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Faridabad, Ghaziabad, Guwahati, Hardwar, Howrah, Hyderabad, Indore, Jaipur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Neyveli, Panaji(Goa), Patiala, Patna, Pondicherry, Pune, Rajahmundry, Ranchi, Rourkela, Salem, Shillong, Surat, Thrissur, Tiruchirapalli, Tirunelveli, Trivandrum, Udaipur, Vellore, Vijayawada, Vindhyanagar, Waltair and Overseas Centres at Dubai and Muscat.
7. A candidate who is completing all conditions will only be allowed to appear for examination.
8. Probable date of publication of result : Foundation - 1st February 2010 and Inter & Final - 20th February 2010.

C. Bose
Sr. Director (Examination)

The institute of Cost and Works Accountants of India

Examination Time Table & Programme - December 2009

CERTIFICATE IN ACCOUNTING TECHNICIANS [CAT]

Day & Date	Time	Foundation Course (Entry Level) Part - I
Monday, 14th December, 2009	02.00 P.M. to 05.00 P.M.	Organisation and Management Fundamentals
Tuesday, 15th December, 2009	02.00 P.M. to 05.00 P.M.	Accounting
Wednesday, 16th December, 2009	02.00 P.M. to 05.00 P.M.	Economics and Business Fundamentals
Thursday, 17th December, 2009	02.00 P.M. to 05.00 P.M.	Business Mathematics and Statistics Fundamentals

Day & Date	Time	Competency Level Part – II
Thursday, 10th December, 2009	09.30 A.M. to 12.30 P.M.	Financial Accounting
Friday, 11th December, 2009	09.30 A.M. to 12.30 P.M.	Applied Statutory Compliance

Examination Fees

Inland Centres	**Foundation Course (Entry Level) Part – I**	**Rs. 700/-**
	Competency Level Part – II	**Rs. 700/-**

1. Application Forms for CAT Examination will be available from Directorate of CAT at "ICWAI Bhawan", 3, Institutional Area, Lodi Road, Delhi - 110 003. Cost of Form Rs. 30/- per Form.
2. Last date for receipt of Examination Application Forms without late fee is 25th October, 2009 and with late fee of Rs. 100/- is 4th November, 2009.
3. Examination Fees to be paid through Bank Draft of requisite fees drawn in favour of "ICWAI A/C CAT" payable at New Delhi.
4. Student will send their Examination Application Forms along with the fees to Directorate of CAT at "ICWAI Bhawan", 3, Institutional Area, Lodi Road, Delhi - 110 003.
5. Examination Centres : Agartala, Ahmedabad, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Bhilai, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Berhampur(Ganjam), Calicut,Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Faridabad, Ghaziabad, Guwahati, Hardwar, Howrah, Hyderabad, Indore, Jaipur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Neyveli, Panaji(Goa), Patiala, Patna, Pondicherry, Pune, Rajahmundry, Ranchi, Rourkela, Salem, Shillong, Surat, Thrissur, Tiruchirapalli, Tirunelveli, Trivandrum, Udaipur, Vellore, Vijayawada, Vindhyanagar, Waltair.
6. A candidate who is fulfilling all conditions will only be allowed to appear for examination.
7. Probable date of publication of result : Foundation Course (Entry Level) Part - I is 1st February 2010 and Competency Level Part - II is 20th February 2010.

C. Bose
Sr. Director (Examination)

IFRS - The Global Financial Reporting Language

With businesses turning global, it is important that investors are able to compare companies under similar standards. Likewise, it is important for businesses operating in multiple countries to be able to create financial statements that are understandable in all of the countries they operate in. IFRS is a unified platform that should lead to greater transparency, comprehensibility, usefulness for users and comparability on a global scale. The question is whether the current complexity of IFRS really supports this basic goal.

D. Muthamizh Vendan Murugavel*

Introduction

International Financial Reporting Standards (IFRS) are standards, interpretations and the framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (IASB).

The IASB is a committee with 14 members, from nine different countries, which work to develop global accounting standards. The goal of this committee is to create global standards that are transparent, enforceable, understandable, and of high-quality. These members create the International Financial Reporting Standards that are used by so many countries around the world. Each committee member has one vote for each of the standards that is voted upon and this privately funded group of accounting standards setters are based in London.

IFRS are used in many parts of the world, including the European Union, Hong Kong, Australia, Malaysia, Pakistan, GCC countries, Russia, South Africa, Singapore and Turkey.

As of August 27, 2008, more than 113 countries around the world, including all of Europe, currently require or permit IFRS reporting. Approximately 85 of those countries require IFRS reporting for all domestic, listed companies. While some countries require all companies to adhere to IFRS, others merely allow it or try to coordinate their own country's standards to be similar. The IASB is working towards this goal in a partnership with some of the most influential accounting standard-setters across the globe.

A financial statement, consolidated or individual, prepared according to IFRS provides a view that is more accurate and fair. It is a unified platform that should lead to greater transparency, comprehensibility, usefulness for users and comparability on a global scale. The question is whether the current complexity of IFRS really supports this basic goal.

Importance of IFRS

IFRS is considered a "principles-based" set of standards in that they establish broad rules as well as dictating specific treatments. According to the IFRS, financial information should be understandable, relevant, reliable, and comparable.

International Financial Reporting Standards is gaining momentum throughout the world as a single, consistent accounting framework and is positioned to become the predominant GAAP (Generally Accepted Accounting Principles) in the near future.

The International Accounting Standards Board and the International Financial Reporting Standards that they issue are very important for the future of accounting. With businesses turning global, it is important that investors are able to compare companies under similar standards. Likewise, it is important for businesses operating in multiple countries to be able to create financial statements that are understandable in all of the countries they operate in.

Eventually, International Accounting Standards Board and other accounting organizations hope to see a convergence of all accounting standards throughout the world. This type of convergence, would allow for the best of circumstances for investors and other interested parties to be able to examine and compare companies in a transparent and equal way. With the coordination of the International Financial Reporting Standards (IFRS) with other accounting standards from around the globe, this goal of convergence may not be as far-fetched as it may sound.

Benefits to Clients

Beyond the legal requirement to comply, Corporates in India perceive that converting to IFRS would help in enhancing their reputation and relationships with the financial community. Other benefits include,

- Increased consistency between internal and external reporting
- Comparability with international competitors
- Increased access to international markets
- Improvement in risk rating

*Lecturer, PG & Research Department of Commerce, Gobi Arts & Science College, Gobi, Tamilnadu, India, E-mail: mvm_gasc @rediffmail.com

- Group-wide harmonization
- Improvement in planning and forecasting
- Support for management

IFRS in Indian Context

Globalization has helped Indian Companies raise funds from offshore capital markets. This has required Indian companies, desirous of raising funds, to follow the Generally Accepted Accounting Principles (GAAP) of the investing country. The different disclosure requirements for listing purposes have hindered the free flow of capital. This has also made comparison of financial statements across the globe impossible. A movement was initiated by an International body called International Organization of Securities Commissions (IOSCO), to harmonize diverse disclosure practices followed in different countries. The capital market regulators have now agreed to accept IFRS compliant financial statements as admissible for raising capital. This would ease free flow of capital and reduce costs of raising capital in foreign currencies. The policy makers in India have also realized the need to follow IFRS and it is expected that a large number of Indian companies would be required to follow IFRS from 2011. This poses a great challenge to the preparers of financial statements and also to the auditors. There is an urgent need to understand the nuances in IFRS implementations.

Indian Accounting Standards have not kept pace with changes in IFRS. There are significant differences between IFRS and I-GAAP, because Indian standards remain sensitive to local conditions, including the legal and economic environment.

Recognizing the significance of having full convergence with IFRS, the ICAI (Institute of Chartered Accountants of India) has decided to adopt a 'big bang' approach and fully converge with IFRS issued by IASB, from accounting periods commencing on or after April 01, 2011 subject to regulatory approvals. ICAI has undertaken a project to update all existing Accounting Standards to be compatible with IFRS.The Ministry of Corporate Affairs has also announced its commitment to convergence to IFRS by 2011.

IFRS in India would cover the following public interest entities in its first wave.

- Listed companies
- Banks, insurance companies, mutual funds, and financial institutions
- Turnover in preceding year > INR 1 billion
- Borrowing in preceding year > INR 250 million
- Holding or subsidiary of the above

India needs to step up action to reap benefits of IFRS convergence. For this purpose, it is imperative that certain regulatory amendments take place such as those relating to Schedule VI, preference capital, securities premium account, depreciation, and so on, to bring them in line with the requirements of IFRS.

Mr. Dolphy D'Souza, Partner & National IFRS Leader, Ernst & Young says "Without regulatory approvals the whole thing will fall flat. Certain regulatory amendments have to be taken up quickly. IFRS is not only going to help Indian companies benchmark their performance with global counterparts but also escape from filing multiple reports for Indian companies who have gone global."

Since India has adopted accounting standards which are based on the international standards, conversion for most companies would entail passing a few more journal entries, in order to transform accounts as per Indian GAAP into IFRS financial statements.

Impact of IFRS Convergence on Indian Industries

A common myth about IFRS is that transition is swift and painless. But implementing IFRS brings the need for change in the format of accounts, different accounting policies and more extensive disclosure requirements. Convergence to IFRS will greatly enhance an Indian entities' ability to raise and attract foreign capital at a low cost. A common accounting language, such as IFRS, will help Indian companies benchmark their performance with global counterparts. There will be escape from multiple reports for global Indian companies that have to prepare their financial statements under multiple GAAPs. With the knowledge of IFRS, the Indian Chartered Accountant would be globally acceptable.

Issues Relating to IFRS

Firstly, many IFRS reports currently have a strong national identity. The main effect of IFRS has been on how a company recognises measures and discloses items, not on the form or presentation of the results. Companies have adopted an approach that minimises the changes from previous national standards, reducing the ability, for example, to compare across an industry.

Secondly, due to the gaps and inconsistencies within the body of IFRS standards and the absence of industry-related accounting guidance, IFRS implementation has required extensive judgement to be used in the selection and application of IFRS accounting treatments, again reducing consistency and comparability. IFRS is not based on a coherent, integrated set of principles, while some individual standards specifically permit alternative accounting treatments.

Thirdly, companies are not confident that IFRS financial information is sufficient, or in some cases entirely appropriate, for the purposes of communicating their performance to the markets.

Fourthly, IFRS financial statements are significantly more complex than financial statements based on national accounting standards. This complexity threatens to undermine the usefulness of IFRS financial statements in making decisions. There is a real danger that the preparation of financial reports will become a technical compliance exercise rather than a mechanism for communicating performance and the financial position of companies.

IFRS - Challenges Specific to India

IFRS is a challenge that requires close attention to detail across an endless number of issues.Conversion from Indian GAAP to IFRS requires significant efforts. The preparers, users and auditors continue to encounter practical implementation challenges. Conversion to IFRS is more than a mere technical exercise. The consequences are far wider than financial reporting issues and extend to various significant business and regulatory matters including compliance with debt covenants, structuring of ESOP schemes, training of employees, modification of IT systems and tax planning. Companies also need to communicate the impact of IFRS convergence to their investors to ensure they understand the shift from Indian GAAP to IFRS.

It is believed that there are only a few differences between Indian GAAP and IFRS. But it does not make the conversion efforts for Indian companies minimal. Even though Indian GAAP is inspired from IFRS, there are significant differences between them especially in areas of business combinations, group accounts, fixed asset accounting, presentation of financial statement, accounting for foreign exchange and financial instruments, to name a few; Indian GAAP is still a long way behind IFRS. Most Indian companies tend to underestimate the efforts involved to convert to IFRS. As IFRS would become effectively mandatory in 2010-11, companies should start looking at the conversion process right now.

Early adoption of IFRS gives companies the opportunity to anticipate challenges, manage outcomes and implement the best solutions. Without careful study, the full impact of converting to IFRS will not be clear. Companies need to conduct a diagnostic study before proceeding for a full IFRS conversion. After completing the preliminary assessment, the management should prepare a detailed IFRS conversion programme. Given the enormity of the exercise, companies should consider a dedicated team that will work on the conversion exercise.

One key challenge in adopting IFRS is their use of fair value as the primary basis of asset/liability measurement. The IASB advocates its fair value approach on the grounds of relevance; the board quite simply considers fair value to be the most relevant measurement basis. The IASB has placed too much emphasis on 'relevant' information and has given insufficient consideration to the other attributes of accounting information, in particular reliability and understandability.

IFRS in International Context

A worldwide consensus has been building for many years on the need for high-quality global accounting standards that would better serve investors and facilitate more efficient allocation of capital. This is why the European Union (EU) introduced a regulation requiring all companies listed on a regulated market, including banks and insurance companies, to prepare their consolidated financial statements in accordance with IFRS from 2005 onwards. EU member states have the option to extend this requirement to unlisted companies and to unconsolidated financial statements. Till August 2008, more than 113 countries around the world, including all of Europe, currently require or permit IFRS reporting.

Many major stock exchanges across the world today require or accept IFRS financial statements. It is expected that more than 150 countries would follow IFRS by 2011. The US already allows IFRS for foreign filers. More importantly, by 2011, it is expected that the US will follow IFRS even for local filers. This is inevitable; else, the US may lose its capital market advantage.

Brazil is expected to move in 2010, and Canada in 2011. "It is expected that more than 150 countries would follow IFRS by 2011. The US already allows IFRS for foreign filers. More importantly, by 2011, it is expected that the US will follow IFRS even for local filers.

Risks in Introducing IFRS

If accounting entities under-estimate the complexity of converting to IFRS, there will be risks. As with any change, introducing IFRS also has its teething troubles. Primarily, these are the absence of a quality regulatory body, unclear tax legislation, and frequent changes to IFRS itself.

Companies must approach IFRS implementation responsibly. They cannot present their financial statement as having been prepared according to IFRS but in reality focus only on those areas of IFRS where they think there is a major difference compared to the former way of doing financial statements.

Errors most often occur when judging non-standard trans-actions. In IFRS what is important is the economic substance of such transactions and not the legal form.

Another problem arises when management decides to implement IFRS too late. IFRS is then implemented under great time pressure, and this can cause errors.

Implementing IFRS has increased financial reporting risk due to technical complexities, manual workarounds and management time taken up with implementation.

IFRS does not recognise the adjustments that are prescribed through court schemes; consequently all such items will be recorded through the income statement. There are other areas, such as consolidation of special purpose vehicles and accounting for arrangements in the nature of a lease that would require companies to record transactions on their books based on substance-over-form.

With IFRS, the complexity has been increased with the introduction of concepts such as present value and fair value. There are several recognition and measurement issues. Some of these would have cash tax liability or effective tax rate implications. A change in the definition of equity could result in the tax benefits of hybrid instruments, where 'interest' is treated as receiving a dividend.

Sec. 78 of the Companies Act, 1956 permits writing off of preliminary expenses, underwriting commission paid or discount allowed on issue of debentures, premium payable on redemption of debentures etc. to be adjusted against securities premium account. Treatment of such expenses is different in IFRS and in many cases would result in a charge to the income statement.

Adopting IFRS do not have any effect on credit ratings. In the European experience, none of the accounting changes arising from IFRS transition on their own resulted in changes in ratings. This is because business and financial risk assessments do not undergo radical change due to the new information disclosed under IFRS. What does reduce, however, is information risk- the fear of the unknown. It must also be bear in mind that, even today, rating companies look beyond reported Indian GAAP figures and make adjustments.

No country can abandon its own laws. It will always check to see if the IFRS pronouncements are fit for application in the specific country environment. There will always be a call for an endorsement process. Hopefully, the economic imperative and the endorsement procedure will both push for not having differences. Therefore, if India does not have an active role in the standard-setting process internationally, converging to IFRS, using an endorsement process and possibly accepting temporary carve-outs and quirks, is a safer route to take.

Under IFRS, companies would be required to prepare consolidated financial statements, and this would therefore require their unlisted subsidiary companies to prepare financial information under IFRS. The ground reality is that small companies and small accounting firms will find the implementation of IFRS to be challenging.

No widely accepted benefits of implementing IFRS emerged so far.

It is not clear how IFRS convergence would be achieved in India. Firstly, whether it would be convergence or adoption (adoption may result in nil or negligible departure from IFRS whereas convergence may result in significant departures from IFRS).

Requirements for Successful Implementation of IFRS

Successful implementation of IFRS would require companies to fully use IFRS as their basis of daily primary financial reporting, as well as for performance tracking in the form of forecasts, budgets and management accounts.

IFRS requires industry specialisation: There are no strong industry-specific themes in IFRS, primarily due to the lack of significant industry-specific guidance in IFRS and the general reliance on legacy GAAP in areas such as revenue recognition. Consequently, implementation in other countries has not revealed any visible pattern in industry-wise adoption of these accounting standards. It is appreciable that IFRS is less prescriptive and moves away from prescribing specific accounting treatment such as, say, accounting for multiple deliverable arrangements in the software services industry.

More work is required to improve disclosures. It may be helpful for companies to view financial statements not from a compliance perspective but as a way of communicating and explaining performance.

Tax authorities should consider IFRS implications on direct and indirect taxes and provide appropriate guidance from a tax perspective. The Institute of Chartered Accountants of India should make an all out effort to train and upgrade the profession in IFRS.

These milestones need to be achieved at the earliest; else the whole convergence exercise could get trapped in a hopeless tangle causing immense waste of time, resources, capital and cause inconvenience for Indian entities.

Conclusion

IFRS is a principle-based approach with limited implementation and application guidance. In the initial years, there will be immense learning and subsequently, revisions would arise from the global implementation of IFRS. A plan that would require companies to publish IFRS financial statements effective from April 1, 2011, without the requirement to present IFRS comparative information for the previous year, would ease the economic burden of compliance. The implementation of IFRS requires considerable change management effort, particularly in training financial staff and enhancing the understanding ability of non-financial staff. The journey to IFRS needs to be planned and carefully executed at both company and group levels, considering the implications of accounting, taxation, information technology and organisational change.

References

www.iasb.org , www.deloitee.com
www.asb.or.jp, www.google.co.in
www.kpmg.com,www.ey.com ,
www.cab.org.in❑

Limited Liability Partnership: A new Revaluation

Dr. A. Selvaraj*
K. Kannusamy**

Limited liability partnership concept was introduced in order to adopt a corporate form, which combines the organizational flexibility and tax status of partnership with advantage of limited liability for its partners. LLP is a body corporate formed and incorporated under the LLP Act, which is a distinct legal entity separate from that of its partners. Introducing LLPs, as a new business structure would fill the gap between business firms such as sole proprietorship and partnership, which are generally unregulated and Limited Liability Companies, which are governed by the Companies Act, 1956. In addition to an alternative business structure, LLPs would foster the growth of the services sector. The regime of limited liability partnership will provide a platform to small and medium enterprises and professional firms of Company Secretaries, Chartered Accountants, Advocates etc. to conduct their business/ profession efficiently which would in turn increase their global competitiveness.

As per the international experiences of the countries like UK and USA, and of the recommendations of the various corporate law reforms committee (Naresh Chandra Committee 2003, JJ Irani Expert Committee on Company Law 2005) the long and eagerly awaited Limited Liability Partnership Bill 2006 was tabled in Rajya Sabha on 15th December 2006. The Bill, introduced by the Ministry of Company Affairs, is viewed as a path-breaking reform initiative. This article highlight, the Genesis of the LLP in Indian environment, main provisions of the LLP Bill, some taxation and accounting issues related with LLP.

Introduction:

Limited liability partnership (here after LLP) concept was introduced in order to adopt a corporate form, which combines the organizational flexibility and tax status of partnership with advantage of limited liability for its partners. LLP is a body corporate formed and incorporated under the LLP Act, which is a distinct legal entity separate from that of its partners. It has perpetual succession. The word "Body Corporate" is defined in the Bill to include LLPs registered under the LLP Act, LLPs incorporated outside India, and Companies incorporated outside India. Any change in the partners will not affect the existence, rights or liabilities of the LLP. The Bill provides for entry of new partners in accordance with LLP agreement and exit of existing partners both with due notice to the Registrar. The provisions of the Indian partnership Act, 1932 has no application to LLPs.

*Reader in Commerce, PG & Research Department of Commerce, Gobi Arts & Science College, Gobichettipalayam - 638 453.
** Lecturer in Commerce, PG & Research Department of Commerce, Gobi Arts & Science College, Gobichettipalayam - 638 453.

Rationale of Limited Liability Partnership

In India, businesses mainly operate as companies, sole proprietorships and partnerships. Each of these is subject to different regulatory and tax regimes reflecting their organization and ownership. Introducing LLPs, as a new business structure would fill the gap between business firms such as sole proprietorship and partnership, which are generally unregulated and Limited Liability Companies, which are governed by the Companies Act, 1956. In addition to an alternative business structure, LLPs would foster the growth of the services sector. The regime of limited liability partnership will provide a platform to small and medium enterprises and professional firms of Company Secretaries, Chartered Accountants, Advocates etc. to conduct their business/profession efficiently which would in turn increase their global competitiveness.

The issue of Limited Liability Partnership (LLP) has been a matter of discussion for many years - the Abid Hussain Committee recommended legislation on LLP in 1997. Later, the concept of LLP and the pressing need to introduce it in India found mention in the report of Naresh Chandra Committee (2003) set up on regulation of private companies. More recently, the JJ Irani Expert Committee on Company Law (2005) recommended introduction of a LLP law. While Naresh Chandra Committee preferred the application of the LLP to the service industry, Irani Committee recommended that the small enterprise should also be included in the scope of LLP. In India need for introduction of a L.L.P legislation was felt for a long time but the process gained momentum when 2 nd Naresh Chandra Committee submitted its report on 23rd July 2005 and made the following observations: "In increasing litigious market environment, prospect of being a member of a partnership firm with unlimited liability is, to say the least, risky and unattractive. Indeed the chief reason why the firms of professionals, such as accountants, have not grown in size to successfully meet the challenge of the international competition. This makes an L.L.P a most attractive vehicle for partnership among professionals such as lawyers and accountants." In the Committee's view, the scope of L.L.P. should be made available to firms providing professional services, as opposed to trading firms, and/or manufacturing firms for the reason it will help evaluate its advantage and risks; and based on such evaluation and experience, the L.L.P. form could be considered for extension to small-scale industries.

The Central Government, in the meanwhile appointed an Expert Committee on Company law under the Chairmanship of J.J.Irani, its Report recommended as follows: "Limited Liability Partnerships should be facilitated through a separate enactment. Companies Act need not prescribe limitations on the number of members of other kinds of organizations." In view of the potential for growth of service sector, requirement of providing flexibility to small enterprises to participate in joint ventures and agreements that enable them to access technology and bring together business synergies and to face the increasing global competition enabled through W.T.O. etc, the formation of Limited Liability Partnerships (L.L.Ps) should be encouraged. It would be a suitable vehicle for partnership among professionals who are already regulated such as company Secretaries, Chartered Accountants, Cost Accountants, Lawyers, and Architects, Engineers and Doctors etc. However, it may also be considered for small enterprises not seeking access to capital markets through listing on stock exchange.

LLPs - International Experiences

The LLPs are very popular form of business in United States and United Kingdom. In the UNITED STATES1, Limited partnerships emerged in the early 1990s; while only two states allowed LLPs in 1992, over forty had adopted LLP statutes by the time LLPs were added to the Uniform Partnership Act (UPA) in 1996. In the United States, each individual state has its own law governing their formation. Although found in many business fields, the LLP is an especially popular form of organization among professionals, particularly lawyers, accountants and architects. UNITED KINGDOM2: The Limited Liability Partnership is a recent innovation of UK law, has been introduced by the Limited Liability Partnerships Act 2000. The Act became law on 1/4/2001. In an LLP, all partners have a form of limited liability, similar to that of the shareholders of a corporation. However, the partners have the right to manage the business directly, and (in many areas) a different level of tax liability than in a corporation. Under UK law, the LLP is a "fiscal transparency". In other words, it is not subject to taxation. Only the members are liable to taxation.

Introduction of LLP in India

Limited Liability Partnership Bill 2006: The long and eagerly awaited Limited Liability Partnership Bill was tabled in Rajya Sabha on 15th December 2006. The Bill, introduced by the Minister of Company Affairs, is viewed as a path-breaking reform initiative. Not only will the passing of the Bill bring the Indian partnership law framework more in line with international practices, it will provide an effective alternate corporate business vehicle to professionals and enterprises keen to institutionalize their activities and graduate to the next level. The main object of this new device is as "With the growth of the Indian economy, the role played by its entrepreneurs as well as its technical and professional manpower has been acknowledged internationally. It is felt appropriate that entrepreneurship, knowledge and risk capital combine to provide a further impetus to India's economic growth. In this background, a need has been felt for a new corporate form that would provide an alternative to the traditional partnership, with unlimited personal liability on the one hand, and, the statute-based governance structure of the limited liability company on the other, in order to enable professional expertise and entrepreneurial initiative to combine, organize and operate in flexible, innovative and efficient manner."3 The Bill defines "limited liability partnership" as a partnership formed and registered under this Act. This stipulates two requirements: (a) a partnership; and (b) registration. Thus, the LLP would be a partnership and its registration under the LLP Act would be compulsory.

The LLP Bill, 2006 is broadly based on the UK and Singapore LLP Acts. The Central Government has retained the power to make rules for carrying out the provisions of the Act. The LLP Bill does not have provisions related to taxation of LLP, which are expected to be addressed in the Income-Tax Act like all other business entities. The Bill is divided into XIV Chapters having 73 Sections and Four Schedules. The following are the main provisions of the Bill are as follows:

1. The LLP shall be a body corporate and a legal entity separate from its partners. Any two or more persons, associated for carrying on a lawful business with a view to profit, may by subscribing their names to an incorporation document and filing the same with the Registrar, form a LLP. The LLP will have perpetual succession.
2. The mutual rights and duties of partners of an LLP inter se and those of the LLP and its partners shall be governed by an agreement between partners or between the LLP and the partners subject to the provisions of the proposed legislation. The Bill provides flexibility to devise the agreement as per their choice. In the absence of any such agreement, the provisions of law shall govern the mutual rights and duties.
3. The LLP will be a separate legal entity, liable to the full extent of its assets, with the liability of the partners being limited to their agreed contribution in the LLP, which may be of tangible or intangible nature or both tangible and intangible in nature. No partner would be liable on account of the independent or un-authorized actions of other partners or their misconduct.

4. Every LLP shall have at least two partners and shall have at least two individuals as Designated Partners, of whom at least one shall be resident in India. The duties and obligations of Designated Partners shall be as provided in the law.
5. The LLP shall be under an obligation to maintain annual accounts reflecting true and fair view of its state of affairs. A statement of accounts and solvency shall be filed by every LLP with the Registrar every year. The accounts of LLPs shall also be audited, subject to any class of LLPs being exempted from this requirement by the Central Government.
6. The Central Government shall have powers to investigate the affairs of an LLP, if required, by appointment of competent inspector for the purpose.
7. The law would confer powers on the Central Government to apply such provisions of the Companies Act, 1956 to provide, inter-alia, for mergers, amalgamations, winding up and dissolutions of LLPs, as appropriate, by notification with such changes or modifications as deemed necessary. However, such notifications shall be laid in draft before each House of Parliament for a total period of 30 days and shall be subject to any modification as may be approved by both Houses.
8. The Indian Partnership Act, 1932 shall not be applicable to LLPs. Other entities may convert themselves to LLP in accordance with provisions of law.
9. The Central Government shall have powers to make rules for carrying out the provisions of the proposed legislation.

Taxation & Accounting Issues

The aspect of tax treatment of LLPs remains an area of uncertainty, since the Bill states that an LLP will be treated as a firm as defined under the Income Tax Act 1961 for the purpose of taxation. This show the way one to the following two implications:

1. That on the same basis as an ordinary partnership firm, the LLP will pay tax on its profits after deduction of business expenditure, salaries and interest paid to the partners. Partners will be liable to pay tax on salary and interest receipts, whereas the share in profits is exempt; same as the current provisions of the income tax Act 1961related with Firm.
2. Another way that only the profits in the hands of the LLP partners will be taxed. A L.L.P. will have Pass through Status (proposed by the Naresh Chandra Committee); the partners will be liable to pay tax on share of LLP's profits received in their hands. This also known as tax transparency.

Of the above two options the second option appears to be logical and acceptable on account of the following two reasons : The Naresh Chandra Committee Report as well as the Concept Paper on LLPs which was released by the Ministry of Company Affairs in November 2005 had very clearly recommended tax transparency for LLPs viz only the LLP partners should be subject to tax and not the LLP itself; The Bill has vide its First Schedule (CLAUSE No. 5) prohibited partners of LLPs from accepting any remuneration. This implies that they will be subject to Income Tax in respect of their share of profits received by them.

Naresh Chandra Committee has, said in its report that "the LLPs should be governed by a taxation regime that taxes the partners as individuals, rather than taxing the LLP itself, i.e., the LLPs should be treated in the same manner as the firm under the tax laws". This is, however, contrary to the system of taxation of firms under the I.T. Act. Presently, under the I.T. law, a partnership firm pays tax on its profits after deduction of business expenditure, salaries and interest to partners. Partners are then taxed on their salary and interest, whereas, their shares in the profits in the firm are exempt. Firms are not exempt from tax. As per the First Schedule, no partner of an LLP shall be entitled to remuneration for acting in the business or management. This, of course will apply only if there is no requirement regarding remuneration in the agreement constituting LLP. Hence, if no remuneration is to be paid, its allowance in the hands of LLP and taxation in the hands of the partners shall not arise. However, practically it is difficult that a partner working as working partners and he will not get any salary or commission for their works. Since the LLP is, visualize of as a company as it is under the Companies Act, it would be just and logical to tax an LLP like a company and ignore the existence of partners for tax purposes like shareholders. If the partners receive any income like interest from the LLP, the income so received would be taxable in the hands of the partners.

Even in under UK law, the LLP is a fiscal transparency. In other words, it is not subject to taxation despite being a body corporate with separate legal personality and providing limited liability to all its members. Only the members are liable to taxation. As the members (statutory minimum of two) may be non-UK resident persons-including offshore companies-then it follows that an LLP can trade in its own right free of UK corporation tax liability outside the United Kingdom. Similarly, in USA as in a partnership or limited liability company (LLC), the profits of an LLP are distributed among the partners for tax Purposes, avoiding the problem of "double taxation" often found in corporations.

Concept of LLP:

The following provisions regarding taxation and accounting treatment of transactions:-

(1) Income Tax and Capital Gains, for the purposes of taxation, any activity carried on by a limited liability partnership with a view to profit shall be treated as carried on in partnership

by its partners not by the LLP and, accordingly, the property of the limited liability partnership shall be treated for those purposes as property of the partners. (2) Where a limited liability partnership carries on a trade or business with a view to profit- assets held by the limited liability partnership shall be treated for the purposes of tax in respect of capital gains as held by its partners; and any dealings by the limited liability partnership shall be treated for those purposes as dealings by its partners in partnership (and not by the limited liability partnership as such), in respect of capital gains accruing to the partners of the limited liability partnership on the disposal of any of its assets shall be assessed and charged on them separately.

With the above discussion, it is clear, that the provisions are not clear in the proposed LLP bill. In one way they are proposing application of current provisions of income tax act related with the taxation of the Firm, on the other hand they said that LLP will not we liable for tax, their partners are liable for taxation, with the advantage of pass through statues of LLP, which will create controversy at the time of practical application of law.

Conclusion:

LLPs have been in trend in various other countries such as UK, USA, Australia, Singapore etc. It is a form of business entity, which allows individual partners to be restricted from joint liability of partners in a partnership firm. At present, this LLP bill is in form of mini companies act. The Liability of the partners incurred in the normal course of business is that of LLP and it does not extend to the personal assets of the partners.

This is a great relief to the partners, particularly professionals like Company Secretaries, Chartered Accountants, Cost Accountants, Advocates and other professionals. These professionals may also form multi-disciplinary LLPs to meet the changing economic environment. The Govern-ment of India should create a facilitating environment for entrepreneurs, service providers and professionals to meet the global competition. Along with that, it is necessary to made suitable changes in the provisions of income tax related with the taxations issues, because taxation is one the major motivational factor other then limited liability for the partners of LLPs. The introduction of LLPs in India is a good beginning towards a long journey. The hybrid structure of LLP will facilitate entrepreneurs, service providers and professionals to organize and operate in an innovative and efficient manner for effectively competing in the global market.

References:

1. Ministry of Company Affairs (2005), "Concept Paper on Limited Liability Partnerships", Press Note 5/2005 dated November 2005.
2. Ministry of Company Affairs (2005), Concept Paper on Company Law Reforms Dr. J.J. Irani Committee on Company Law, May.
3. Ministry of Finance and Company Affairs (2003), "Naresh Chandra Committee-Second Report on Regulation of Private Companies and Partnerships", Academic Foundation, Economical India, 2004, Page 87-96.
4. Institute of Company Secretaries of India (2005), "Seminar on Concept Paper on Limited Liability partnerships Law", PHD Chamber of Commerce, New Delhi, December 17, 2005.
5. Ministry of Company Affairs (2006), "Limited Liability Partnership Bill 2006" Presented in Rajya Sabha on 15 Dec 2006.
6. Kothri Vinod & Mukerjee Samik (2005): "Irani Committee Report-An Analysis of Corporate Law reform in India" The Chartered Accountant Vol 54 No1 July.
7. Jhaveri Shreyas & Sithapathy Vinita (2006): "Limited liability partnership: An insight", The Chartered Accountant Vol. 55 No 3 September.
8. www.mca.gov.in❑

Ref. Exam/264/8/2009 August 17, 2009

NOTIFICATION

The Examination Committee of the Council of ICWAI at its 264th meeting decided to fix the new examination dates as follows :

December Term	10	to	17	December
June Term	11	to	18	June

Accordingly, The December 2009 examination of ICWAI will be conducted from 10 to 17 December 2009.

C Bose

Sr. Director - Examinations

About Entrepreneurs, Brands and Brand Equities

K R Bhargava*

What is a brand?

A brand name can be a term, symbol or design or combination thereof that identifies and differentiates a seller's products or services from other products available in the market. Once a brand name is marked or embossed on a product; it positively indicates that this is a product of the company whose brand name is embossed on it. In other words, brand name is a linkage of the product with its brand name owner. If a product is not branded, it is like an orphan. It has inferior marketability in comparison to a branded product as it has none to look after its interests. As credit or discredit for good or bad performance of a branded product goes to the brand owner, he is expected to assure its performance to the satisfaction of the customers at their places by manufacturing quality product and assuring its performance by making appropriate arrangements. A continuous positive approach and action in this direction over a period of time assures consistent rise in demand of the product from the customers leading to development of a scenario known as customer loyalty. This process adds to the good will of the product and thereby builds its BRAND EQUITY. On the other hand, poor performance of the product and rendering of poor after sales services in relation to such a product during the warranty period and thereafter leads to shrinkage of market share. Such a post sales behavior of the brand owner is not acceptable to the customers as they pay higher price for the product purchased; having been disenchanted with the brand that used to be once their favorite, they shift to other brands available in the market. This trend slowly leads to decline in Brand Equity of the product.

The Brand Equity of a branded product can be measured in terms of the following equation:

Brand Equity= Market Price of the branded product-Market Price of the comparable unbranded product-Advertisement and Sale Promotion Expenses.

The Brand Equity can also decline if a brand owner resorts to business practices that are unethical in nature for personal gains. Satyam Computers case is latest in this regard.

How to increase Brand Equity?

We often see in the market that certain brands are costlier than others for different reasons. These brands in the market are known as Luxury brands, High End brands, Premier brands etc. People buy the branded products depending on their personal choice and affordability. Some consumers prefer to buy products of top brands irrespective of their price. Manufacturers tend to reach all consumers by designing, packaging and marketing their products in such manners that appeal to large range of consumers. As needs vary from person to person and area to area depending on various factors, therefore, for:-

1. increasing their market reach;
2. assuring continuous growth in revenues; and to
3. mitigate their risks companies diversify in range of their products to satisfy needs of different segments of the communities.

The efforts to reach the target segments of the large consumer base have to be effective and continuous and periodically reviewed to see the performance of the strategies. If a manufacturer / brand owner succeeds to secure growth in revenues and customers' loyalty to a significant level over a period of time for a broad range of his products, we can say he is on the path of building Brand Image of his firm. A strategic businessman, to make his business strategies successful, will first assure that he manufactures defect free products for trouble free performance during the warranty period and later addresses customers' complaints, if any, to their satisfaction to retain their loyalty.

In a dynamic competitive market, it is necessary to make consistent efforts to build long term association with customers by providing them efficient, cost effective and trouble free services to meet their ever changing needs. A good response of the brand owner in this regard helps him to build his Brand Equity. And these strategies are put to test when users of a particular brand, later in life, go to the market for a change of their existing products or for purchase of some other products; if they prefer to buy and in fact, buy new products of their old favorite brand, it can be confidently claimed that company has succeeded in retaining their old consumer base. Depending upon the initiatives and efforts made to create brand popularity and retain brand loyalty among consumers; a brand owner can succeed in enhancing his Brand Value and can succeed to raise funds from the

*The author is Chief Commissioner of Customs. Mumbai-Zone II, Jawaharlal Nehru Custom House, Nhava Seva, Raigad. Views expressed are personal and comments can be mailed at kuldiprbhargava @hotmail.com

market in response to his Initial Public Offerings / Public Issues for expanding or diversifying his business.

A brand owner must remember that advertising or sale promotion measures alone cannot help in building Brand Equity, quality and performance of the product plays a very critical role. It must perform to the consumer's satisfaction otherwise visible reputation is only a bubble. If consumer does not get the value for the money paid, he will neither revisit the Show Room nor the brand. A friend of mine who went to a reputed Show Room near Law Garden, in March, 2009, in Ahmedabad says as follows:

"I bought two T-Shirts of a reputed brand; after second hand wash, length and width of one of these had increased by 20%. I can't use this. I have taken vow to follow the principle of-No Never Again in regard to this brand. It is better to go to Sarojini Nagar market in New Delhi where you will get a product that will give you full money value."

Secrets behind a successful brand:

A sustained positive behavior of the brand holder in producing quality products will lead to consistent improvement of his brand image and thereby leading to ever increasing consumer base. He must note that people do not have time to re-indulge and re-engage with you to try you again and again when alternatives are available in the market. You cannot afford to be complacent. You have to be innovative in your strategies keeping always customer's interest at the centre. You have to ensure that he makes full use of your product by using it correctly and gets full value for his money. It must be kept in mind that it is customer that is king and not cash is the king. Cash comes from the customer; so, service him better to have ever increasing cash flow. This will help your firm to build higher Brand Equity.

And when you are popular and neighbor's envy, you have to be vigilant because there can be strategies as well conspiracies to displace you from the top position or even to acquire you. So you have to be constantly alert in your internal and external environment; not only to sustain your leadership position but also to further increase your market share or to face an aggressive acquisition. You will, therefore, need to develop a good intelligence apparatus to face these challenges and to develop appropriate business strategies to have an upper hand in the market. At times, your arch rivals may not be your known competitors but even unknown small timers can give you tough time; these guys may counterfeit your products and pose threats to your business or they can resort to other unethical practices to eat your market. The presence of such players in your marketing territory may not only affect your volumes and revenues but bring disrepute to your brand. Therefore, you need to take administrative, legal and other innovative measures to identify such entities and their products not only to sustain credibility of your brand but interests of your loyal customers and community at large. The case to quote, at this juncture, is of a major Indian Business House manufacturing Shaving Cream under their family brand name facing tough challenge from an unknown manufacturer with unregistered Brand Name -V-Mohan (Name Changed). The quality of both products was comparable but selling price of V-Mohan was less than half of the Premier Brand. Since V-Mohan was eating their market, they gathered market intelligence and found that this small player had not been discharging excise duty even on half of the production. They informed the law enforcement authorities and not only protected their own interest but interest of the community too.

As mentioned above, it takes hard work of years for the new entrepreneurs to build a strong brand in pursuance to their vision. They face many challenges, many ups and downs before they successfully establish their name in the market. In beginning, they lack resources, friends, market knowledge, technical know how, correct awareness of the legal framework of the prevailing environment etc. They are also unknown in the new world and there is always fear of failure; but in spite of all these odds, many succeed. And those who succeed are courageous, willing to take risk, unstoppable in their mission, strategically convert threats into opportunities and succeed to realize their vision and become role model for others. We often find many people complaining that independent India remained under-developed because of its controlled economic regime or License Raj. But to many enterprising spirits, this scenario did neither deter, nor could dishearten, or stop their journey in realizing their vision. They looked for opportunities in that difficult scenario only to realize their dreams. Dhirubhai Ambani founder of Reliance Industries who left a business empire of Rs. 990 bn for his people to manage started his career as a Petrol Pump boy; while working at this site, he dreamt to create a business empire. He established first Textile Plant of Reliance Industries at Ahmedabad in 1966 and using the contemporary legal framework got converted this plant in 1973 into a Manufacture in Bond facility under the Custom Act, 1962; a status that can be considered at par with current units in Special Economic Zone. The company could import duty free raw materials for manufacturing fabrics for export purpose and availed this and other export schemes effectively to increase the business within India and beyond India. In1977- 1978, Reliance imported Partially

Oriented Yarn (Polyester) for manufacture of fabrics and soon realized the necessity of backward integration and in 1982 established their own POY plant at Patalganga. The process of backward integration went on in subsequent days also not only to meet their own demand but of the Indian industry also. As a visionary, Mr. Ambani realized the importance of 90 % / 10 % Principle of Stephen Covey and, therefore, rather than cribbing and finding faults with the prevailing environment; he scanned the environment carefully, did SWOT analysis, developed appropriate strategies to deal with stakeholders, employees and others. He faced the challenges by leading, guiding and using talent of his men and availed the opportunities to grow, making sure that people associated with them also grow. In course of this process, not only Reliance flourished but it shared its wealth with other stakeholders also. This approach to business always assured reliance to increase its shareholder base for future businesses. To further appreciate his strategic acumen, we may recall that though in seventies Ahmedabad was known as Manchester of India having so many composite textile mills but it is only Reliance that made use of the aforesaid legal provisions of the Customs Act, 1962 to establish Manufacture in Bond facilities to grow in domestic and overseas market at lower costs.

There have been many stories similar to the preceding one in our past and present environment. And on the basis of these stories, we have identified some tips for our readers to follow for promoting themselves, their products and their organizations as BRANDS to be reckoned with. The only thing to remember is that at the base level of all human achievements is vision and entrepreneurship of human talent. It is the human being who can dream to fly; it is human being who can think how to fly; and then, only he can think how to sustain the flight. And this happens when you use your talent and talent of those who are around you. Another point to remember is -Vision and Entrepreneurship do not relate to business of producing and marketing of commercial goods and services alone. These relate to all areas of human activities. So, tips for a budding entrepreneur in any field are:

i. he must have a vision of his own; and if he is working in an organization, he can create his Vision within the over all frame work of Organizational Vision;

ii. he should be ready to take reasonable risks; and should set goals for his people;

iii. he ought to be a person of strong will and confidence to realize the vision not withstanding the strength of difficulties that may come across during the journey;

iv. he must not crib about unfavorable environment but should look for opportunities and supporters in it and beyond it to overcome difficulties;

v. he needs to be strategic in operations and must endeavor to seek support of everyone;

vi. he should not wait for a big break or big opportunity but should be ready to make humble beginning with available resources;

vii. he must be willing to burn midnight oil till his vision is not realized;

viii. he must be egoless and keen to build relationships and partnerships with people of different cultures to carry his mission forward;

ix. he must not indulge in blame game in the face of failures but should admit mistakes, learn from experiences and redesign H.R. and operational strategies to achieve goals;

x. he should be strategic and good in continuous internal audit of himself, his people, processes, products and strategies to see that all things fall in line at the desired time ; the auditing process will not afford him to be complacent;

xi. he should share his wealth, achievements and joys with his teams, friends and associates and continue to grow in ever changing environment.

Entrepreneurship produces amazing results and there is enough evidence available in history. We often hear that in market X is a premium brand, Y is a Luxury brand and Z is a market leader; and undoubtedly, it gives great satisfaction and sense of pride to the people associated with these brands but achieving these heights had not been easy and once achieved, these entrepreneurs did not rest; they continued their efforts to sustain their leadership position. And, we note that all these efforts give huge success and success gives huge dividends to the organizations, their entrepreneurs and all associated with them. Outside people look forward to have association with these great people and these great organizations in one or the other form to have good Return on Investments, they are willing to make. We have names such as TATA, Sony, Nokia, Microsoft, Infosys, Raymond, L G, Reliance, T C S, G.E., I B M and many more who command respect in the market not only from the consumers of their products but from all stakeholders associated with them.

The promoters of the premier brands and teams led by them must have toiled day and night to bring these organizations at their current level of repute and scale. For producing these brands of national and international repute, promoters needed talented, committed, skilled, hardworking, effective and innovative people in their organizations; without them, the present heights could not have been achieved. Some of these employees too were reputed brands in themselves; and undoubtedly world class organizations need world class employees. As we see, many Fortune Companies prefer graduates from reputed Management and Engineering Institutes. In India, IIM and IIT graduates are preferred over graduates of other Institutes because these graduates are products of institutes that have huge BRAND value and produce quality people. Though getting admission to these Institutes is extremely difficult but life is not easy thereafter also. Strategic hard work, commitment, devotion, desire to excel etc shown by the students at the time of seeking admission to these Institutes have to continue thereafter during and after the study days. We can certainly say that being a top brand or product of a brand is not enough, product has to perform to sustain its own and its producer's Brand value. It is only long term quality performance of the products that enables the promoters to establish themselves as a durable and reliable BRAND in the market. The same logic applies to all young men and women who want to achieve grater heights in their career. Being a product of a reputed institute or having been selected through a competitive examination is not enough. They must deliver as expected by their organizations. In order to realize their own vision and expectations of their organizations, they must follow the leads / path shown by great entrepreneurs in history who made their organization as one of the greats.

Individual as a 'brand':

To explain the concept of individual as Brand, we may discuss classical case of Indian Premier League. Though, it has a short history but it has become a huge success in sports / cricket circle. It is a next level of entrepreneurship. It is entrepreneurship of brands of repute. The organizers, team owners and players who participate in it are brands in their own right; and people of all walks of life are willing to spend money on them in whatever they do. In this League, team owners invest huge sums of money to select best players for their teams. And, we see in auctions cricketers are auctioned like commodities and they are purchased on the basis of their Brand value. X cricketer is auctioned for Rs. 20 Million, Y for Rs. 15 Million, Z for Rs. 7 Million and so on. The auction price is as per their brand equity / brand value. The brand value can be measured in terms of money they get as a Brand Ambassador or the money they get from BCCI. For enhancing their Brand value, each cricketer is required to consistently perform in the cricket field. If he consistently fails to perform, his brand value goes down. His products are Runs, Centuries, Fifties, Sixes, Fours, Wickets and Catches etc besides his attitude, teamwork, leadership skills, temperament, conduct, commitment etc on and off the field. Higher the ranking on these indicators greater will be the brand value. Based on this Brand Value, Tendulkar, Dhoni and others get contract from BCCI and further based on such value of higher equity, some of them get their assignments as Brand Ambassador of highly reputed national and international brands. This status of an individual can be termed as Next Level of Entrepreneurship.

Taking the discussion forward, we may say that for an actor besides his talent, acting skills, photogenic looks, attitude, conduct, temperament, values, etc, number of hit movies he or she has given will determine his brand value. For a doctor, besides his qualifications, experience, attitude, commitment to patients etc, number of successful surgeries he has performed will determine his Brand value. Based on this value, he will be in demand in hospitals and among patients. For an employee, in an organization, be it corporate or government, besides attributes like intelligence, technical know how, managerial and leadership skills, discipline, sincerity, commitment, integrity, attitude etc, results he or she delivers in terms of responsibilities assigned will determine his Brand value. If he or she has been a consistent comprehensive performer, they are likely to commands good reputation; in other words, good Brand value within the organization. Thus according to us, budding cricketers, actors, doctors and employees in organizations are also entrepreneurs in their respective areas of activity who have to consistently work hard and innovatively deliver in their respective fields to grow as one among the best in their respective fields. They need to create a vision of their own to become a brand and prove their brand value by delivering in terms of expectations of their employers. If they follow xi points mentioned herein above seriously and with sincerity, they are bound to become BRAND of huge repute. If their organizations also put catalytic strategies in place to groom them as future brands, results can be wonderful; and according to us, these organizations should do so because these enabled employees will create value for the companies / organizations leading to enrichment of the Brand Equity.❑

Carbon Emission Reduction trading in India: Offsetting the Danger of Carbon Credit

With growing concerns among nations to curb pollution levels while maintaining the growth in their economic activities, the emission trading (ET) industry has become active. As per Multi Commodity Exchange of India, with the increasing ratification of Kyoto Protocol (KP) by countries and rising social accountability of polluting industries in the developed nations, the carbon emissions trading is likely to emerge as a multibillion-dollar market in global emissions trading. Carbon credits are a tradable permit scheme. They provide a way to reduce greenhouse gas emissions by giving them a monetary value. Carbon Emission Reducation is treated in the derivative trading market as a commodity. In India this is new commodity to be traded in Indian derivative market. It started trading in NCDEX, India from the month of April, 2008.

Dr. Barnali Chaklader*

Introduction

With growing concerns among nations to curb pollution levels while maintaining the growth in their economic activities, the emission trading (ET) industry has become active. The ecological footprint shows that, despite the fact that one-fifth of the population in Asia still lives on less than US$ 1 per day (PPP-adjusted), the region is already living beyond its ecological carrying capacity (Zhang, 2006). As per Multi Commodity Exchange of India, with the increasing ratification of Kyoto Protocol by countries and rising social accountability of polluting industries in the developed nations, the carbon emissions trading is likely to emerge as a multibillion-dollar market in global emissions trading. Carbon credits are a tradable permit scheme. They provide a way to reduce greenhouse gas emissions by giving them a monetary value. A credit gives the owner the right to emit one tonne of carbon dioxide.Carbon credit trading was first bought to the public's attention in Kyoto 1996 with the development of the Kyoto Protocol. The Kyoto Protocol outlined targets for reduced carbon dioxide emissions and ways that these reductions could be achieved. Part of the Kyoto agreement says that if one does better than its emission target, it can sell its carbon credits to those who cannot meet its emission targets. The ultimate success and credibility of the Kyoto Protocol, or any future climate agreement, depends on whether most, if not all Parties, meet their greenhouse gas emission reduction commitments. Kyoto Protocol Article 18 calls on to approve "procedures and mechanisms" to determine and address cases of non-compliance, including the development of an indicative list of consequences taking into account the cause, type and frequency of non-compliance (Hargrave et.al, 1999). Under the Kyoto Protocol, developed countries, mostly in Europe agreed to cap green house gas emission between 2008-2012 to an average of 5.24 percent below 1990 levels. Company that fail to meet these targets can offset their excess emissions by investing in clean tech in developing countries or purchasing certificates if emission reduction from projects such as energy projects and hydroelectric power plants. About 60 to 70 percent of green house gas emission are created by fuel combustion in industries like cement, textiles, steel, fertilizers and power. One method suggested to reduce carbon dioxide was carbon credit trading.

Associate Professor (Finance & Accounting), Institute of Management Technology (IMT), Ghaziabad

Cap and Trade system for reducing green house gas emission

Green house gases refer to several gases recognized by scientists as enhancing green house effect. The most important of these in terms of their global contribution to climate change are carbon dioxide and methane. "Cap" is the quantitative limit of emission that is imposed by a regulator on a region, a country and a set of sectors. The cap is usually expressed in terms of certain amount of green house gas emission permitted to be emitted in one year. The cap is then broken down into allowances and then these allowances are distributed to each of the entities that have the legal obligation to comply with the cap. Each allowance corresponds to one unit of emission. At the end of the emission accounting period, each entity with a compliance obligation will need to hold allowances that are at least the same in number as its actual emissions in the period. The concerned company has to decide as to whether it would be beneficial for them to buy emissions or to devise ways and means to reduce emission by implementing changes in their operations. Carbon trading is one of the ways to meet environmental objectives.

Carbon Trading

Carbon credits can be created from projects that either sequester carbon dioxide or other greenhouse gases *or* save greenhouse gases from being emitted using new technologies. Reducing "carbon footprint," or the amount of energy one consumes, starts with buying carbon credits. The major sources of supply are India, China and Brazil. (www.mcxindia.com). Emissions trading

(ET) is a mechanism that enables countries with legally binding emissions targets to buy and sell emissions allowances among themselves. Currently, futures contracts in carbon credits are actively traded in the European exchanges. In fact, many companies actively participate in the futures market to manage the price risks associated with trading in carbon credits and other related risks such as project risk, policy risk, etc. However, critics say that this theory suits a lot of people as wealthy corporations saw it a way to buy off their obligations to reduce emission (Brown, 2006).

There is a growing recognition of carbon as a soft commodity that can be traded as carbon credits and in the form of other complex financial products, such as derivatives and exchange traded funds.

India, being one of the leading generators of CERs through Clean Development Mechanism, has a large scope in emissions trading. A CER is equivalent to one tonne a year of reduced carbon dioxide – equivalent greenhouse gas generated by an investment in a developing nation certified by the United Nations.

Currently, the total registered CDM projects are more than 300, almost 1/3rd of the total CDM projects registered with the United Nations Framework Convention on Climate Change (UNFCCC). The total issued CERs with India as a host country till now stand at 34,101,315 (around 34 million), again around 1/3rd of the total CERs issued by the UNFCCC. Further, there has been a surge in number of registered projects in India. In 2007, a total of 160 new projects were registered with the UNFCCC indicating that more than half of all registered.

About 60 to 70% of GHG are created by fuel combustion in industries like cement, textile, steel and fertilizers, apart from power. But bureaucratic slot and lack of awareness on ways of monetizing carbon credits has resulted in many Indian companies losing an opportunity (source: http:// www. Carbon creditworld.net/news.html).

Carbon market is not just the fastest growing market but also one of the most volatile markets. International investors in offset projects discount CERs coming from various sectors, regions and companies in India on the basis of perceived risk of default in actual delivery of CERs under the CDM process, access of the seller to alternate markets, size of the project, level of desperation and holding capacity of the seller, the quality of source of CERs etc. In India this is particularly true for Small and Medium Enterprises (SMEs) which are subjected to due diligence required by volume buyers. Now, there is an increasing tendency in Indian project proponents to develop their independent projects without prior Emission Reduction Purchase Agreements with parties from the developed countries and sell CERs as and when prices are favorable. However, in doing so, they are exposed to the international price movement for which they need to hedge their positions. Government of India notified "Carbon Credits" as a tradable commodity on commodity exchanges in its notification dated 4th January 2008. Indian companies generate CERs from emission offset projects which can be used by the international entities to meet their emission reduction commitment under Kyoto Protocol or any regional emission trading scheme such as European Union Emission Trading Scheme (EU-ETS).

In developing countries like Indian, the emission norms are much below the target fixed by Kyoto Protocol. They are entitled to sell the surplus credits to developed countries. The European countries and Japan are the major buyers of carbon credits. Thus this rewards those countries that meet their targets. India is considered as the largest beneficiary claiming about 31 percent of the world carbon trade through Clean Development Mechanism(CDM). (21st September, 2005 Telgraph).

Derivative Market in Carbon Emission Reduction

Futures and options markets are derivative markets (though certainly not the only types of derivative products), which means that they exist in relation to spot markets, which are the underlying primary markets in which actual physical commodities are bought and sold. Because futures and options contracts allow for the delivery of the underlying commodity upon expiration, there is a strong tendency for spot, futures and option prices to move in the same direction and react to the same economic factors. Companies entering into forward contracts are those who feel that prices may fall in the future.

The future market in CER would enable buyers and sellers of CERs to do price discovery and hedge their price risk on the commodity derivative markets. In the absence of a price discovery mechanism, sellers neither have information on the optimal value of their CERs nor are able to get desired value for their CERs.

Background and objective of the study

The trading of Carbon credit started in NCDEX commodity market from April 2008. NCDEX is a public limited company incorporated on April 23, 2003 under the Companies Act, 1956. It obtained its Certificate for Commencement of Business on May 9, 2003. It commenced its operations on December 15, 2003 regulated by forward market commission. Since the CER trading started in the NCDEX spot and future market, it was attempted to find out a causal link between the two. That is, whether spot market affected the price of future market of CER and similarly whether there is a causal effect of future market on spot market.

Objective of the Study

Study whether causality exists between CER spot market and CER future market and vice versa.

Research Methodology

The daily closing data of NCDEX CER spot index and NCDEX CER future index from April 10th, 2008 till December 28th, 2008 was taken. A stationarity test was conducted by plotting graphs which showed that the data in both the cases were non stationary. A unit route test through Phillips - Perron test was conducted at level which again showed that the data are non stationary. Granger Causality test was conducted after converting the non stationary data as stationary at first difference.

Data Analysis

Before carrying out the relationship between NCDEX CER spot index and NCDEX CER future index from April 10th, 2008 till December 28th, 2008, the stationarity of each series was investigated by employing the unit root tests developed by Phillips and Perron. This was then verified by Phillips & Perron test (PP test). Phillips & Perron (1988) suggested an alternative approach for checking the presence of unit roots in the data. They formulated a non-parametric test to the conventional t-test, which is robust to a wide variety of serial correlation and time dependent heteroscedasticity.

The PP unit root test requires estimation of the following equation (without trend).

$$X_t = \mu_t + \sum_{i=1}^{T} X_{t-T} + u_t \qquad \ldots(1)$$

The bias in the error term results when the variance of the true population

$$\sigma^2 = \lim_{T\to\infty} E(T^{-1}S_T^2) \qquad \ldots(2)$$

differs from the variance of the residuals in the regression equation:

$$\sigma_u^2 = \lim_{T\to\infty} T^{-1}\sum_{t=1}^{T} E(u_t^2) \qquad \ldots(3)$$

Consistent estimators of σ^2 and σ^2_u are:

$$S_u^2 = T^{-1}\sum_{t=1}^{T} (u_t^2)\text{; and}$$

$$S_{Tk}^2 = T^{-1}\sum_{t=1}^{T} (u_t^2) + 2T^{-1}$$

$$\sum_{t=1}^{k} \sum_{t=j+1}^{T} u_t u_{t-j} \qquad \ldots(4)$$

Where *k* is the lag truncation parameter used to ensure that the autocorrelation of the residuals is fully captured. It can be seen from equation (4) that when there is no autocorrelation the last term in the formula defining S^2_{Tk} is zero and $\sigma^2_u = \sigma^2$.

The PP test-statistic [$Z(t\mu)$] under the null-hypothesis of I(0) is

$$Z(t_\mu) = \langle S_u \mid S_{tk} \rangle t_\mu - \tfrac{1}{2}(S_{tk}^2 - S_u^2)$$

$$\left[S_{tk} \left\{ T^2 \sum_{t=2}^{T} (Y_t - Y_{t-1})^2 \right\}^{1/2} \right]^{-1} \ldots(5)$$

Since our null hypothesis was p = 1 and table I and table II show that the PP test statistics is less than the critical value. Therefore null hypothesis is accepted and our data series is non stationary. To avoid spurious

Table I

PP unit route test on CER spot prices at level

PP Test Statistic	-0.977161	1% Critical Value*	-3.4613
		5% Critical Value	-2.8747
		10% Critical Value	-2.5737

*MacKinnon critical values for rejection of hypothesis of a unit root.

Table II

CER PP test of future prices at level

PP Test Statistic	-1.00154275504	1% Critical Value*	-3.461343662768
		5% Critical Value	-2.87466019349
		10% Critical Value	-2.57369856145

Table III

CER PP Test result of spot prices at first difference

PP Test Statistic	-15.14719	1% Critical Value*	-3.4615
		5% Critical Value	-2.8747
		10% Critical Value	-2.5737

*MacKinnon critical values for rejection of hypothesis of a unit root.

Table IV

CER PP Test results of future prices at first difference

Phillips-Perron Test Equation
Dependent Variable: D(SER01,2)
Method: Least Squares

PP Test Statistic	-13.55376	1% Critical Value*	-3.4615
		5% Critical Value	-2.8747
		10% Critical Value	-2.5737

MacKinnon critical values for rejection of hypothesis of a unit root.

regression we have taken the first difference of the data and the following table III and table IV show the results thus obtained. Here these calculated values are greater than the table value and we find that both the data series are stationary at first difference.

Data Series Subjected to Granger Causality Test

Thus the data series were converted to stationary data to test Granger Causality Test.

Granger (1969) causality test between X_t and Y_t which are stationary, i.e. I(0) can be expressed as:

$$Y_t = b_0 + \sum a_j X_{t-j} + \sum b_j Y_{t-j} + U_t \quad (6)$$

$$X_t = c_0 + \sum c_j X_{t-j} + \sum d_j Y_{t-j} + V_t \quad (7)$$

Where U_t and V_t are mutually uncorrelated white-noise series. In order to test the pattern of causality, it is necessary to test equations (6) and (7) and test the null-hypothesis that $a_j = d_j = 0$ for all j (j=1,…, m) against the alternative hypothesis that a_j and d_j are not equal to zero for at least some j's. Acceptance of null-hypothesis implies lack of causal relationship between X and Y. Just as the acceptance of $a_j = 0$ implies that X does not cause Y, acceptance of $d_j = 0$ implies that Y does not cause X.

As the objective was to explore whether causality exists between CER spot market and CER future market and also whether causality exists between CER future market and CER spot market, I conducted Granger Causality test and found that CER future market Granger causes spot market as our calculated value of F statistic is more than our critical value. It is clearly evident from table V, VI and VII that although CER future market is correlated with spot market but CER spot market is not correlated with CER future market as in the later case F statistic is less than the critical value. (Read ser 02 as future market and ser 01 as spot market in table V, VI and VII) Lag of 2 in our test was an automatic information criteria. The lags were increased to 3 and 4 and similar result was obtained.

Table V

Pairwise Granger Causality Tests
Date: 02/16/09 Time: 14:46
Sample: 1 224
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Probability
SER02 does not Granger Cause SER01	220	23.6078	5.4E-10
SER01 does not Granger Cause SER02		2.39522	0.09358

Table VI

Pairwise Granger Causality Tests
Date: 02/16/09 Time: 19:20
Sample: 1 224
Lags: 3

Null Hypothesis:	Obs	F-Statistic	Probability
SER02 does not Granger Cause SER01	219	15.5041	3.7E-09
SER01 does not Granger Cause SER02		1.52131	0.20997

Table VII

Pairwise Granger Causality Tests
Date: 02/16/09 Time: 19:21
Sample: 1 224
Lags: 4

Null Hypothesis:	Obs	F-Statistic	Probability
SER02 does not Granger Cause SER01	218	18.3729	6.0E-13
SER01 does not Granger Cause SER02		1.11904	0.34852

Conclusion

It has been observed in the past that trading of commodity future market brings changes in the spot market in the form of spiraled prices of commodities. That was the reason for banning of commodity likes potatoes, chick pea, oil, Soya bean, rice grain in the future market. The same trend is observed in CER NCDEX market for the period I have chosen for my study. We can conclude that trading and changes in prices in CER future market can bring about changes in CER spot market.

References

Brown Patrick, June 15th, 2006. The Carbon Credit Myth, Island Tides, Vol 18, No.11

Tim Hargrave, Ned Helme, Suzi Kerr and Tim Denne, "Defining Kyoto Protocol Non-Compliance Procedures and Mechanisms", Center for Clean Air Policy, October 1999

OECD (2000), Greener Public Purchasing: Issues and Practical Solutions, Paris.

Dasgupta, S., Laplante, B. and N. Mamingi (2001), Pollution and Capital Market in Developing Countries, Journal of Environmental Economics and Management, Vol. 42, pp. 310-335

Zhang, Z.X. (2006), Cutting Carbon Emissions While Making Money: A Wishful Thinking or A Win-Win Opportunity?, The Keynote Address at the Plenary Session on Making Money from Saving Carbon at the 29th International Association for Energy Economics International Conference, Potsdam, Germany, June 8-10

Granger , C.W.J. (1969), " *Investigating causal relations by econometric methods and cross spectral methods*", Econometricia , 34, 424-438

Phillips, P.C.B., Perron, P. (1988), "*Testing for a Unit Root in Time Series Regression*", Biometrica, 75, 335-46.❑

SEBI

CIRCULAR / PRESS NOTE

Amendments to the Equity Listing Agreement

CIRCULAR NO.CFD/DIL/LA/2/2009/21/7, DATED 21-7-2009, ISSUED BY CORPORATION FINANCE DEPARTMENT, DIVISION OF ISSUES AND LISTING, SEBI

1. It has been decided to amend the Equity Listing Agreement to prohibit listed companies from issuing shares with superior rights as to voting or dividend vis-à-vis the rights on equity shares that are already listed. Accordingly, this circular is issued, in exercise of powers conferred by sub-section (1) of Section 11 of the Securities and Exchange Board of India Act, 1992, to protect the interest of investors in securities and to promote the development of, and to regulate the securities market.

2. The full text of the amendment is given at Annexure A.

3. All Stock exchanges are advised to:

(a) give effect to the above mentioned policy amendments and appropriately amend the relevant Clauses of the Equity Listing Agreement in line with the text of the amendment specified in Annexure A.

(b) communicate to SEBI the status of implementation of the requirements of this circular in the next Monthly Development Report.

4. Applicability

The amendment as specified in Annexure A shall come into force with immediate effect.

5. This circular is available on SEBI website at www.sebi.gov.in under the categories "Legal Framework" and "Issues and Listing".

Annexure A

1. After clause 28, the following clause shall be inserted, namely:-

"28A. The company agrees that it shall not issue shares in any manner which may confer on any person, superior rights as to voting or dividend vis-à-vis the rights on equity shares that are already listed."

SEBI

CIRCULAR / PRESS NOTE

Amendments to SEBI (Disclosure and Investor Protection) Guidelines, 2000

CIRCULAR NO.CFD/DIL/DIP/36/2009/09/07, DATED 9-7-2009, ISSUED BY CORPORATION FINANCE DEPARTMENT, DIVISION OF ISSUES AND LISTING, SEBI

LINK: http://www.sebi.gov.in/circulars/2009/cfdcir362009.pdf

SEBI

CIRCULAR / PRESS NOTE

Revision in Filing Fees - Amendments to SEBI (Mutual Funds) Regulations, 1996

CIRCULAR NO. IMD/ CIR.NO.5/2009, DATED 8-7-2009, ISSUED BY INVESTMENT MANAGEMENT DEPARTMENT, SEBI

1. We are enclosing a copy of the gazette notification No. LAD-NRO/GN/2009-10/11/167759 on SEBI (Payment of Fees) (Amendment) Regulations, 2009 dated 29 June, 2009, inter alia, containing amendments to SEBI (Mutual Funds) Regulations 1996 on the captioned subject for your information and implementation.
2. It is clarified that the revised filing fee would be applicable to those scheme(s) whose scheme information document(s) has been filed with SEBI on or after July 1, 2009.
3. This circular is issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, read with the provisions of Regulation 77 of the SEBI (Mutual Funds) Regulations, 1996, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

SEBI

CIRCULAR / PRESS NOTE

Firm commitment requirement for registration as Foreign Venture Capital Investors

CIRCULAR NO. IMD/DOF-1/FVCI/CIR.NO.1/2009, DATED 3-7-2009, ISSUED BY INVESTMENT MANAGEMENT DEPARTMENT, DIVISION OF FUNDS 1, SEBI

Link: http://www.sebi.gov.in/circulars/2009/fvci0109.pdf

SEBI

CIRCULAR / PRESS NOTE

Mutual Funds- Empowering investors through transparency in payment of commission and load structure

CIRCULAR NO. IMD/ CIR.NO.4/168230/09, DATED 30-6-2009, ISSUED BY INVESTMENT MANAGEMENT DEPARTMENT, SEBI

Link: http://www.sebi.gov.in/circulars/2009/imd_cir_3009.pdf

RBI

CIRCULAR / PRESS NOTE

Deferred Payment Protocols dated April 30, 1981 and December 23, 1985 between Government of India and erstwhile USSR

A.P. (DIR SERIES) CIRCULAR NO.2, DATED 3-7-2009, ISSUED BY FOREIGN EXCHANGE DEPARTMENT, RBI

Attention of Authorised Dealer Category-I (AD Category-I) banks is invited to A.P. (DIR Series) Circular No.59 dated March 24, 2009, wherein the rupee value of the special currency basket was indicated as Rs.67.2425 effective from March 05, 2009.

2. AD Category-I banks are advised that a further revision has taken place on May 19, 2009 and accordingly, the rupee value of the special currency basket has been fixed at Rs.64.6153 with effect from May 22, 2009.

3. AD Category-I banks may bring the contents of this circular to the notice of their constituents concerned.

4. The Directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act (FEMA), 1999 (42 of 1999) and are without prejudice to permissions / approvals, if any, required under any other law.

RBI

CIRCULAR / PRESS NOTE

RBI/2009-10/106

A.P. (DIR Series) Circular No. 05

July 22, 2009

To
All Category - I Authorised Dealer banks

Madam / Sir,

Issue of Indian Depository Receipts (IDRs)

Attention of Authorised Dealer Category-I (AD Category-I) banks is invited to Companies (Issue of Indian Depository Receipts) Rules, 2004 (IDR Rules) notified by the Ministry of Corporate Affairs and subsequent amendments made thereto and Circular No. SEBI / CFD / DIL / DIP / 20 /2006 / 3 / 4 dated April 3, 2006 issued by the Securities and Exchange Board of India (SEBI) regarding issue of Indian Depository Receipts by foreign companies in India and the SEBI (Disclosure and Investor Protection) Guidelines, 2000.

2. In order to facilitate the eligible companies resident outside India to issue Indian Depository Receipts (IDRs) through a Domestic Depository and to permit persons resident in India and outside India to purchase, possess, transfer and redeem IDRs, it has been decided to operationalise the IDR Rules, notified by the Government of India, as amended from time to time, with immediate effect.
3. Accordingly, eligible companies resident outside India may issue Indian Depository Receipts (IDRs) through a Domestic Depository. The permission has been granted subject to compliance with the Companies (Issue of Depository Receipts) Rules, 2004 and subsequent amendments made thereto and the SEBI (DIP) Guidelines, 2000, as amended from time to time. In case of raising of funds through issuance of IDRs by financial/banking companies having presence in India, either through a branch or subsidiary, the approval of the sectoral regulator(s) should be obtained before the issuance of IDRs.

Investment by Persons resident in India / FIIs / NRIs in IDRs

4. The FEMA Regulations shall not be applicable to persons resident in India as defined under section 2(v) of FEMA, 1999, for investing in IDRs and subsequent transfer arising out of transaction on a recognized Stock Exchange in India. Foreign Institutional Investors (FIIs) including SEBI approved sub-accounts of the FIIs, registered with SEBI and Non-Resident Indians (NRIs) may also invest, purchase, hold and transfer IDRs of eligible companies resident outside India and issued in the Indian capital market, subject to the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000 notified vide Notification No. FEMA 20 / 2000-RB dated May 3, 2000, as amended from time to time. Further, NRIs are allowed to invest in the IDRs out of funds held in their NRE / FCNR(B) account, maintained with an Authorised Dealer / Authorised bank.

Fungibility

5. Automatic fungibility of IDRs is not permitted.

Period of redemption

6. IDRs shall not be redeemable into underlying equity shares before the expiry of one year period from the date of issue of the IDRs.

Procedure for transfer and redemption of IDRs

7. At the time of redemption / conversion of IDRs into underlying shares, the Indian holders (persons resident in India) of IDRs shall comply with the provisions of the Foreign Exchange Management (Transfer or Issue of Any Foreign Security) Regulations, 2004 notified vide Notification No. FEMA 120 / RB-2004 dated July 7 2004, as amended from time to time. Accordingly, the following guidelines shall be followed, on redemption of IDRs:
   i. Listed Indian companies may either sell or continue to hold the underlying shares subject to the terms and conditions as per Regulations 6B and 7 of Notification No. FEMA 120/RB-2004 dated July 7, 2004, as amended from time to time.
   ii. Indian Mutual Funds, registered with SEBI may either sell or continue to hold the underlying shares subject to the terms and conditions as per Regulation 6C of Notification No. FEMA 120/RB-2004 dated July 7, 2004, as amended from time to time.
   iii. Other persons resident in India including resident individuals are allowed to hold the underlying shares only for the purpose of sale within a period of 30 days from the date of conversion of the IDRs into underlying shares.
   iv. The FEMA provisions shall not apply to the holding of the underlying shares, on redemption of IDRs by the FIIs including SEBI approved sub-accounts of the FIIs and NRIs.

Others

8. The proceeds of the issue of IDRs shall be immediately repatriated outside India by the eligible companies issuing such IDRs. The IDRs issued shall be denominated in Indian Rupees.
9. AD Category -I banks may bring the contents of this circular to the notice of their constituents and customers.
10. Necessary amendments to the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000 and Foreign Exchange Management (Transfer or Issue of Any Foreign Security) Regulations, 2004, are being issued separately.
11. The directions contained in this circular have been issued under Sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions / approvals, if any, required under any other law.

Yours faithfully,
(Salim Gangadharan)
Chief General Manager-in-Charge

INSURANCE MATTERS

CIRCULAR / PRESS NOTE

Redressal of Public Grievances (Amendment) Rules, 2009 - Substitution of rule 9

NOTIFICATION NO. G.S.R. 510(E), DATED 7-7-2009, ISSUED BY DEPARTMENT OF FINANCIAL SERVICES, MINISTRY OF FINANCE

Whereas, the draft of certain rules further to amend the Redressal of Public Grievance Rules, 1998 were published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i), dated the 2nd April, 2009 vide notification of the Government of India in the Ministry of Finance, Department of Financial Services (Insurance Division) Number 233(E), dated the 2nd April, 2009 inviting objections and suggestions from all persons likely to be affected thereby within a period of forty-five days from the date on which copies of the Gazette of India, in which the said notification was published, were made available to the public;

And, whereas, the copies of the said Gazette were made available to the public on the 9th April, 2009;

And, whereas, the objections and suggestions received from the public have been considered by the Central Government;

Now, therefore, in exercise of the powers conferred sub-section (1), section 114 of the Insurance Act, 1938 (4 of 1938) the Central Government hereby makes the following rules further to amend the Redressal of Public Grievances Rules, 1998, namely:-

1. (1) These rules may be called the Redressal of Public Grievances (Amendment) Rules, 2009.

   (2) They shall come into force on the date of their final publication in the Official Gazette.

2. In the Redressal of Public Grievances Rules, 1998, for rule 9, the following rule shall be substituted, namely:-

   "9. Pay and Allowances of Ombudsman. - (1) The ombudsman shall be allowed a fixed pay of eighty thousand rupees per month and any pension to which he is entitled from the Central Government or a State Government or any other organization or institution shall be deducted from his salary.

   (2) The effective date for application of the revised pay and admissibility of other allowances and perquisites shall be such as may be determined by the Central Government."

INSURANCE MATTERS

CIRCULAR / PRESS NOTE

E-Payment by Life Insurance Companies

CIRCULAR NO.18/AML-CIR/IRDA/E-PAYMENTS/JUL-09, DATED 9-7-2009, ISSUED BY INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY

LINK: http://www.irdaindia.org/lifecirculars/E-payment-CIR090709.pdf

INSURANCE MATTERS

CIRCULAR / PRESS NOTE

INSURANCE REGULATORY & DEVELOPMENT AUTHORITY

July 3, 2009

IRDA/AGENTS/ORD/ 17 /JULY 2009

Re: Guidelines on Qualifications of Corporate Insurance Executives and Faculty of Agents' Training Institutes.

The large scale recruitment of agents by insurers in last few years and phenomenal growth in sales through corporate agencies has necessitated large number of professionals in the fields of training and marketing. Firstly, the insurers have expanded their training facilities to accommodate new agent recruits and are making efforts to recruit the faculty required. Secondly, the corporate agents of insurers required large number of persons who are qualified to be specified persons or corporate insurance executives. In the above context several insurers represented to IRDA to suitably modify the training requirements for the faculty of Agents' Training Institutions, Corporate Insurance Executives, Specified Persons etc.

As per IRDA Guidelines on Licensing of Corporate Agents, the minimum qualification of Chief Insurance Executive (CIE) is FIII / AIII or such other qualification or experience that IRDA, may at its sole discretion, consider adequate. As of now only these two qualifications are being considered.

To identify the qualifications which are suitable for the above positions in insurance company and evaluate their equivalence to presently specified qualifications, Chairman, IRDA constituted the standing panel with the following members:

1. Executive Director (Administration), IRDA, Hyderabad (Chairman & Convenor)
2. Managing Director, IIRM, Hyderabad
3. Secretary General, Life Insurance Council, Mumbai
4. Secretary General, General Insurance Council, Mumbai
5. Secretary General, Insurance Institute of India, Mumbai

The Standing Panel considered various issues connected with the qualifications and made recommendations which are submitted to the Authority.

After considering the recommendations of the Standing Panel, Authority accepted the following recommendations and ordered that this be incorporated in Circulars concerned:

1. The qualifications required for Corporate Insurance Executive (CIE) , Specified Person, Faculty of ATI shall include the following qualifications:

a. An Associate/Fellow of the Insurance Institute of India, Mumbai.

b. an Associate/Fellow of the Institute of Chartered Accountants of India, New Delhi; with diploma in Insurance and Risk Management.

c. an Associate/Fellow of the Institute of Costs and Works Accountants of India, Calcutta;

d. an Associate/Fellow of the Institute of Company Secretaries of India, New Delhi;

e. an Associate/Fellow of the Actuarial Society of India, Mumbai;

f. possessing Certified Associate ship of Indian Institute of Bankers (CAIIB)

g. MBA (Two year) Course / PG Diploma (One year) course in Insurance from Amity School of Insurance & Actuarial Science, Noida

h. PG Diploma (One year) course in Insurance from Institute of Insurance and Risk Management, Hyderabad

i. MBA (Two year) course in Insurance from National Insurance Academy, Pune

j. PGMBA (Two Year) course in Insurance from National Law University, Jodhpur

k. PGMBA (Two year) course in Insurance from MET, Mumbai

l. MBA (Two year) course in Insurance from Birla Institute of Management Technology, Noida

2. The persons with above qualifications (except at (a)) shall undergo a "Workshop for Insurance executives" at National Insurance Academy, Pune or Insurance Institute of India, Mumbai or Institute of Insurance and Risk Management, Hyderabad as prescribed by the Authority.

3. Faculty of Agents Training Institute:

With regard to the qualification of faculty of Agents' Training Institutes, point no. 6 of STANDARD INSTRUCTIONS AND GUIDELINES issued on October 4, 2004 is modified as below:

"Every Institute should have at least one qualified permanent faculty who is an Associate or Fellow from the Insurance Institute of India for each stream i.e. for Life and Non-Life. However, the training institutes can employ faculty with more than 15 years of service in the insurance company with last three years in managerial capacity i.e. Scale III Officer and above in the public sector insurance companies".

The above guidelines come into force with immediate effect.

(A Giridhar)

Executive Director

Programme on

MANAGEMENT OF TAXATION-SERVICE TAX, VAT, EXCISE, CUSTOMS & TDS

16-18 September, 2009
at
BANGALORE

THE INSTITUTE OF COST & WORKS ACCOUNTANTS OF INDIA
(Set up under an Act of Parliament in the year 1944) – founder member of IFAC, CAPA and SAFA

MANAGEMENT OF TAXATION - SERVICE TAX, VAT, EXCISE, CUSTOMS &TDS

COURSE COVERAGE

- An Overview of Service Tax
- Export & Import of Services
- Valuation of Taxable Services
- Service Tax Credit - Eligibility, Availment Procedures and Problem Areas
- CENVAT Credit
- VAT - General Issues & Problems & GST
- Issues in TDS and Impact on Direct Taxation
- Issues & Problems in Excise & Customs

Senior and Middle level Executives of Public and Private Sector Undertakings, Government Departments, Autonomous bodies, Banks, Financial Institutions, Insurance Companies and Multinationals will find the programme rewarding.

METHODOLOGY

The programme will be developed through lectures, discussions and case studies using audio-visual equipments.

FACULTY

The Sessions will be handled by Eminent and Expert Faculty Members in the field of Finance.

VENUE

Hotel The Park

14/7 Mahatma Gandhi Road, Bangalore-560042
Phone:080-25594666

DATES

16-18 September, 2009, (10.00-17.00 Hrs.)

PARTICIPATION FEE

Rs. 12,000/- (Rupees Twelve thousand only) per participant. The programme is **Non Residential.**

Fee includes course fee, course material, Lunch & Tea/coffee during the programme

The Cheque/DD to be sent along with nominations in favour of **The Institute of Cost and Works Accountants of India' payable at New Delhi.**

Details for ECS Payment: State Bank of India, Lodhi Road Branch, New Delhi - 110 003

Current A/c No.: 30678404793 MICR Code : 110002493 IFSCCode: SBIN0060321.

For Kind Information:

For outstation programmes the participants are requested to get the confirmation from the Institute before proceeding to the venue. The Institute will not be held responsible if any participant reaches the venue for the postponed/cancelled programme without getting the confirmation from the Institute. The cancellation/ postponement of the programme, if any, will be intimated to only those organizations whose nominations have been received by the Institute on time.

REGISTRATION

For further details and Registration please contact:

Sh. D. Chandru *Addl. Director (PD&P)*
The Institute of Cost and Works Accountants of India
ICWAI Bhawan, 3 Institutional Area,
Lodi Road, New Delhi - 110 003, Phones: 011-24622156, 24618645, (D) 24643273 (M) 9818601200
Tele-Fax : 011-43583642 / 24622156 / 24618645
E-mail : mdp@icwai.org, cep.chandru@icwai.org
Website : www.icwai.org

ABOUT THE INSTITUTE

The Institute of Cost & Works Accountants of India was established by the Government of India as an autonomous professional Institute in 1959 to provide training, education and research facilities in cost and management accounting. The Institute is a member of the International Federation of Accountants (IFAC), the Confederation of Asian & Pacific Accountants (CAPA) and the South Asian Federation of Accountants (SAFA).

THE OBJECTIVES

- To promote the knowledge of Cost and Management accountancy, to provide educational facilities for training of young men and women for building careers in management accounting.
- To improve the decision making skills and administrative competence relevant to management accounting and corporate management in general.
- To create knowledge through research both applied and conceptual relevant to management on cost accounting and its undenying disciplines so as to disseminate such knowledge through publications.

THE TRAINING PROGRAMMES

- The Institute's efforts are directed towards quality training and introducing new programmes to meet emerging challenges of the corporate world.

  Broadly the programs are classified as :
- Training programs for practicing managers of both public and private sectors. Banks, Financial Institutions, Insurance Companies, Multinationals and Government Departments.
- Programmes for its own professional members, and
- Tailor-made in house training programs for Industry, Govt. Departments and Public Services. It also offers specific programs for Defence, Railways, Telecom and Public Utility Services.

President
Shri G. N. VENKATARAMAN

Vice President
Shri B. M. SHARMA

Chairman, Continuing Education Programme Committee
Shri A. G. DALWADI

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

(Set up under an Act of Parliament in the year 1944) – founder member of IFAC, CAPA and SAFA

Intensive Programme

on

FINANCE FOR JR. FINANCE AND ACCOUNTS OFFICERS AND NON-EXECUTIVES (F&A)

06-09 OCTOBER, 2009

at

GOA

COURSE COVERAGE

- **Budgeting and Budgetary Control**
- **Capital Budgeting**
- **Financial Aspects of Contract Management**
- **Compliance under Companies Act**
- **Compliance under Income Tax Law**
- **Auditing - Internal Audit, Statutory Audit and Government Audit**
- **Understanding and Analysis of Financial Statements**
- **Accounting Standards**
- **International Financial Reporting Standards (IFRS)**

PROGRAMME ON FINANCE FOR JUNIOR FINANCE AND ACCOUNTS OFFICERS AND NON-EXECUTIVES (F&A)

Dear Sir/ Madam,

We are happy to inform you that we are organizing an intensive residential programme on 'Finance for Junior Finance and Accounts Officers and Non-Executives (F&A)'during 06- 09 October, 2009 at Goa.

We request you to kindly nominate the finance executives/ non executives (F&A) for this programme which will be of immense use and benefit to the participants and organizations on this subject.

With regards,

A.G. Dalwadi
Chairman,
CEP Committee, ICWAI

FOR WHOM

Junior Finance Executives, Accounts Officers and Non-Executives (F&A) of Public and Private Sector Undertakings, Government Departments, Autonomous Bodies, Banks, Financial Institutions, Insurance Companies and Multinationals will find the programme rewarding.

METHODOLOGY

The programme will be developed through lectures, discussions and case studies using audio-visual equipments.

FACULTY

Eminent experts and professionals will be dealing with the subjects.

VENUE

Hotel Bogmalo Beach Resort Bogmalo Beach, GOA Phone: 0832-2538222-25

DATES

06-09 October, 2009

(Check-in Time -12.00 Mrs. on 61h October, 2009)

(Check-out Time -12.00 Hrs. on 91h October, 2009)

PARTICIPATION FEE

The Programme is Residential.

Rs.28.000/- (Rupees Twenty Eight Thousand) per Participant. (The charges for accompanying Spouse would be Rs.4,000/-

towards accommodation and all meals for all the three days). Fee includes Course Fee, Course Material, Accommodation, all Meals and Visits.

The Cheque/ DO to be drawn in favour of **'The Institute of Cost and Works Accountants of** India' **payable at** New **Delhi.**

Details for ECS Payment:

State Bank of India, Lodhi Road Branch, New Delhi -110 003 Current A/c No.: 30678404793 MICR Code : 110002493 IFSC Code : SBIN0060321

For Kind Information :

For outstation programmes the participants are requested to get the confirmation from the Institute before proceeding to the venue. The Institute will not be held responsible if any participant reaches the venue for the postponed/cancelled programme without getting the confirmation from the Institute. The cancellation/ postponement of the programme, if any, will be intimated to only those organizations whose nominations have been received by the Institute on time.

REGISTRATION

For further details and Registration please contact:

Shri D. Chandru, Add). Director (PD&P)
The Institute of Cost and Works Accountants of India
Professional Development and Programme Directorate
ICWAI Bhawan, 3 Institutional Area,
Lodi Road, New Delhi -110 003
Phones : 011-24622156-57-58,24618645, (D) 24643273 (M) 9818601200
Tele-Fax : 011-43583642 / 24622156 / 24618645
E-Mail : mdp@icwai.org, cep.chandru@icwai.org
Website : www.icwai.org

ABOUT THE INSTITUTE

The Institute of Cost & Works Accountants of India was established by the Government of India as an autonomous professional Institute in 1959 to provide training, education and research facilities in cost and management accounting.The Institute is a member of the International Federation of Accountants (IFAC), the Confederation of Asian & Pacific Accountants (CAPA) and the South Asian Federation of Accountants (SAFA).

THE OBJECTIVES

- To promote the knowledge of Cost and Management accountancy, to provide educational facilities for training of young men and women for building careers in management accounting.
- To improve the decision making skills and administrative competence relevant to management accounting and corporate management in general.
- To create knowledge through research both applied and conceptual relevant to management on cost accounting and its underlying disciplines so as to disseminate such knowledge through publications.

THE TRAINING PROGRAMMES

The Institute's efforts are directed towards quality training and introducing new programmes to meet emerging challenges of the corporate world.

Broadly the programs are classified as :

- Training programs for practicing managers of both public and private sectors, Banks, Financial Institutions, Insurance Companies, Multinationals and Government Departments.
- Programmes for its own professional members, and
- Tailor-made in house training programs for Industry, Govt. Departments and Public Services. It also offers specific programs for Defence, Railways, Telecom and Public Utility Services.

President
Shri G. N. VENKATARAMAN

Vice President
Shri B. M. SHARMA

Chairman, Continuing Education Programme Committee
Shri A. G. DALWADI

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

(Set up under an Act of Parliament in the year 1944) – founder member of IFAC, CAPA and SAFA

Intensive Programme

on

SERVICE TAX, VAT AND TDS

06-09 OCTOBER, 2009

at

GOA

COURSE COVERAGE

- **Service Tax Levy: Background, Evolution and Current State of the Law**
- **Export & Import of Services**
- **Valuation of Taxable Services**
- **Service Tax Credit - Eligibility, Availment Procedures and Problem Areas**
- **Availing of Tax Credit**
- **Adjustment to Output Tax to Input Tax Credit**
- **Returns, Assessments and Refund**
- **Progress towards Proposed Implementation of GST**
- **TDS - Aspects of TDS relating to Income from Salaries (Sec. 192), Rent (194-1), Contractors and Sub-contractors** (194-C). **Payments relating to Professionals** (194-J) and **Foreign Remittances (195)**
- **VAT - General Issues & Problems**
- **Issues in Service Tax, VAT & TDS**

PROGRAMME ON

'SERVICE TAX, VAT AND TDS'

Dear Sir/ Madam,

We are happy to inform you that we are organizing an intensive residential programme on 'Service Tax, VAT and TDS' during 06-09 October, 2009 at Goa.

We request you to kindly participate/nomina te your executives for this programme which will be of immense use and benefit to the participants and organization.

With regards,

A.G. Dalwadi
Chairman,
CEP Committee, ICWAI

FOR WHOM

Senior and Middle level Executives from Public and Private Sector Enterprises, Banks, Financial Institutions, Insurance Companies, Multinational Companies and Government Departments will find the programme rewarding.

METHODOLOGY

The programme will be developed through lectures, discussions and case studies using audio-visual equipments.

FACULTY

Eminent experts and professionals in the field of Service Tax & Direct Taxation will be dealing with the subjects.

VENUE

Hotel Bogmalo Beach Resort
Bogmato Beach, GOA, Phone: 0832-2538222-25

DATES

06-09 October, 2009
(Check-in Time -12.00 Hrs. on 6th October, 2009)

(Check-out Time -12.00 Hrs. on 9th October, 2009)

PARTICIPATION FEE

The Programme is Residential.

Rs. 28,0007- (Rupees Twenty Eight Thousand) per Participant. (The charges for accompanying Spouse would be Rs. 4,0007- towards accommodation and all meals for all the three days). Fee includes Course Fee, Course Material, Accommodation, all Meals and Visits.

The Cheque/ DD to be drawn in favour of "The Institute of Cost and Works Accountants of India' payable at New Delhi.

Details for ECS Payment:

State Bank of India, Lodhi Road Branch, New Delhi -110 003

Current A/c No.: 30678404793

MICR Code : 110002493 IFSC Code : SBIN0060321

For Kind Information :

For outstation programmes the participants are requested to get the confirmation from the Institute before proceeding to the venue. The Institute will not be held responsible if any participant reaches the venue for the postponed/cancelled programme without getting the confirmation from the Institute. The cancellation/ postponement of the programme, if any, will be intimated to only those organizations whose nominations have been received by the Institute on time.

REGISTRATION

For further details and Registration please contact:

Shri D. Chandru, Addl). Director (PD&P)

The Institute of Cost and Works Accountants of India
Professional Development and Programme Directorate
ICWAI Bhawan, 3 Institutional Area,
Lodi Road, New Delhi -110 003

Phones : 011-24622156-57-58,24618645, (D) 24643273 (M) 9818601200
Tele-Fax : 011-43583642 / 24622156 / 24618645
E-Mail : mdp@icwai.org, cep.chandru@icwai.org
Website : www.icwai.org

ABOUT THE INSTITUTE

The Institute of *Cost* & Works Accountants of India was established by the Government of India as an autonomous professional Institute in 1959 to provide training, education and research facilities in cost and management accounting.The Institute is a member of the International Federation of Accountants (IFAC), the Confederation of Asian & Pacific Accountants (CAPA) and the South Asian Federation of Accountants (SAFA).

THE OBJECTIVES

- To promote the knowledge of Cost and Management accountancy, to provide educational facilities for training of young men and women for building careers in management accounting.
- To improve the decision making skills and administrative competence relevant to management accounting and corporate management in general.
- To create knowledge through research both applied and conceptual relevant to management on cost accounting and its underlying disciplines so as to disseminate such knowledge through publications.

THE TRAINING PROGRAMMES

The Institute's efforts are directed towards quality training and introducing new programmes to meet emerging challenges of the corporate world

Broadly the programs are classified as :

- Training programs for practicing managers of both public and private sectors, Banks, Financial Institutions, Insurance Companies, Multinationals and Government Departments.
- Programmes for its own professional members, and
- Tailor-made in house training programs for Industry, Govt. Departments and Public Services. It also offers specific programs for Defence, Railways, Telecom and Public Utility Services.

President
Shri G. N. VENKATARAMAN

Vice President
Shri B. M. SHARMA

Chairman, Continuing Education Programme Committee
Shri A. G. DALWADI

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

(Set up under an Act of Parliament in the year 1944) – founder member of IFAC, CAPA and SAFA

International Residential Seminar
on
STRATEGIC FINANCIAL MANAGEMENT
08-12 OCTOBER, 2009
at
DUBAI

COURSE COVERAGE

- Mergers & Acquisition : The Middle East Experience
- Dubai Financial Markets
- Derivative Market in Dubai : Dubai Gold & Commodity Exchange
- Real Estate Market in Dubai : Current Scenario & Future Prospects
- Understanding Islamic Finance
- Experience of Indian Banks in Dubai
- Understanding IFRS
- Financial Risk Management
- Understanding Business Environment of UAE & the Middle East
- Financial Performance of Top UAE Companies
- Doing Business in Dubai (Opening Branches by Foreign Companies)
- Tax Environment in the GCC

Dear Sir/ Madam,

We are happy to inform you that we are organizing an International programme on 'Strategic Financial Management' during 08-12 October, 2009 at Dubai.

We request you to kindly nominate your executives for this programme which will be of immense use and benefit to the participants and organization on this subject.

With regards,

A.G. Dalwadi
Chairman,
CEP Committee, ICWAI

METHODOLOGY

The programme will be developed through lectures, discussions and case studies using audio-visual equipments.

FOR WHOM

Senior and Middle level Executives of Public and Private Sector Undertakings Multinationals, Autonomous Bodies, Banks, Insurance Companies, Financial Institutions and Government Departments will find the programme rewarding.

FACULTY

The programme sessions will be handled by the eminent & expert faculty members in the field of Financial Risk Management.

VENUE

Hotel Dhow Palace
Bur Dubai, Near Burjuman Shopping Mall
Dubai, UAE, Phone : 971-4-3599992, Fax : 971-4-3599292

DATES

08-12 October, 2009

PARTICIPATION FEE

The programme is Residential.

Rs. 1,30,0007- (Rupees one lakh thirty thousand only) per participant on single room basis.

Fee Includes : Course fee, course kit including course material, accommodation, all meals, economy class airfare for traveling together including all airport taxes, visa fee, airport transfers, medical insurance and visits.

Fee Excludes : Local conveyance, incidentals and personal expenses.

The Cheque/ DD to be sent along with nominations in favour of **The Institute of Cost and Works Accountants of India' payable at New Delhi.**

Please Note

- The passport of the participants should be valid for a minimum period of six months from the date of travelling.
- There should not be any additional pages attached with the passport as no Embassy gives Visa on the additional pages.
- The passport should bear an 'ECNR' stamp or the 'Emigration Check Required' stamp should be suspended.
- Programme participation is limited to 15 executives on first-come-first-served basis as lot of requests have already been made.
- Request for registration along with fees will be refunded if we are unable to accommodate. However once registration is accepted by our office, no refund will be made, but change of participation is possible with sufficient time.

❖ **LAST DATE FOR REGISTRATION ALONG WITH FEE & VALID PASSPORT: 25th SEPTEMBER, 2009**

REGISTRATION

For further details and Registration please contact:

Shri D. Chandru, Addl. Director (PD&P)
The Institute of Cost and Works Accountants of India
Professional Development and Programme Directorate
ICWAI Bhawan, 3 Institutional Area,
Lodi Road, New Delhi - 110 003
Phones : 011-24622156-57-58, 24618645 (D) 24643273 (M) 9818601200
Tele-Fax : 011-43583642 / 24622156 / 24618645
E-Mail : mdp@icwai.org,cep.chandru@icwai.org
Website : www.icwai.org

LIST OF ORGANISATIONS BENEFITED FROM THE EARLIER INTERNATIONAL PROGRAMMES OF THE INSTITUTE

- Airports Authority of India
- Bharat Sanchar Nigam Ltd.
- Central Warehousing Corporation
- Chennai Petroleum Corporation Ltd.
- Coal India Ltd.
- Delhi Development Authority
- HSCC (I) Ltd.
- HUDCO
- ICRA Ltd.
- IFFCO-Tokio General Insurance Co. Ltd.
- Indian Farmers Fertilizers Coop. Ltd.
- Indian Oil Corporation Ltd.
- Inland Waterways Authority of India
- KRIBHCO Ltd.
- LIC Housing Finance Ltd.
- Life Insurance Corporation of India Ltd.
- Mahanagar Telephone Nigam Ltd.
- Ministry of Chemicals & Fertilizers, Govt, of India
- Ministry of Commerce & Textiles, Govt. of India
- Ministry of Rural Development, Govt. of India
- MMTC Limited
- National Institute of Urban Affairs
- Nepal Electricity Authority, Nepal
- Neyveli Lignite Corporation Ltd.
- NHPC Limited
- NMDC Limited
- Numaligarh Refinery Ltd.
- Oil and Natural Gas Corpn. Ltd.
- Oil India Limited
- Oriental Insurance Company Ltd.
- Orissa Hydro Power Corporation Limited
- Petronet LNG Limited
- Power Finance Corporation Limited
- Syndicate Bank
- Tamil Nadu Newsprint and Papers Ltd.
- The Andhra Pradesh Paper Mills Limited
- United India Insurance Co. Ltd.
- Zuari Industries Ltd.

ABOUT THE INSTITUTE

The Institute of Cost & Works Accountants of India was established by the Government of India as an autonomous professional Institute in 1959 to provide training, education and research facilities in cost and management accounting. The Institute is a member of the International Federation of Accountants (IFAC), the Confederation of Asian & Pacific Accountants (CAPA) and the South Asian Federation of Accountants (SAFA).

THE TRAINING PROGRAMMES

The Institute's efforts are directed towards quality training and introducing new programmes to meet emerging challenges of the corporate world.

Broadly the programmes are classified as :

- Training programmes for practicing managers of both Public and Private Sectors, Banks, Financial Institutions, Insurance Companies and Government Departments.
- Programmes for its own Professional Members, and
- Tailor-made in-house training programmes for Industry, Government Departments and Public Services. It also offers specific programmes for Defence, Railways, Telecom and Public Utility Services.

President
Shri G. N. VENKATARAMAN
Vice President
Shri B. M. SHARMA
Chairman, Continuing Education Programme Committee
Shri A. G. DALWADI

DEPARTMENT OF PUBLIC ENTERPRISES GOVERNMENT OF INDIA

and

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

(Set up under an Act of Parliament in the year 1944) – founder member of IFAC, CAPA and SAFA

Jointly Organising

Intensive Programme on

COST CONTROL AND COST EFFECTIVENESS

21-23 OCTOBER, 2009

at

HYDERABAD

COURSE COVERAGE

- **Linking Cost Control and Cost Effectiveness to Business Strategy**
- **Understanding Internal Cost Structure**
- **Sensitivity Analysis**
- **Cost Control and Cost Effectiveness Issues in**
  - **– Value Engineering and Quality Management**
  - **– Performance Evaluation**
  - **– Technology Optimization**
- **Strategic Cost Management**
- **Pricing and Product Mix Decisions**
- **Target Costing for Cost Competitiveness**
- **Effective Long Term Cost Reduction: A Strategic Perspective**
- **Optimizing Financing Cost - Long Term and Short Term**

PROGRAMME ON
COST CONTROL AND COST EFFECTIVENESS

OBJECTIVES

The Public and Private Sector Enterprises in India have proved time and again about their professional approach to managing the business, by emerging as the front runners in various industry segments. The additbn to the growing band of Navratnas every year, re-emphasise this aspect. Many are waiting in the anvil to prove their efficiency, if they are provided a level playing field.

The urge to emerge profitable has to be inculcated through the entire spectrum of management specially among the senior and middle level executives. The support process involves imparting training in proven cost management techniques and skills.

The present programme aims at highlighting the areas for incorporating cost-effectiveness and improving overall cost efficiencies towards better resource mobilization and its management for the Corporate Sector.

FOR WHOM

Senior and Middle level Executives from Public and Private Sector Enterprises, Banks, Financial Institutions, Insurance Companies, Multinational Companies and Government Departments will find the programme rewarding.

METHODOLOGY

The programme will be developed through lectures, discussions and case studies using audio-visual equipments.

FACULTY

Eminent Experts in the field of Cost Management will be dealing with the subjects.

VENUE

Hotel Taj Deccan, Road No. 1, Banjara Hills, Hyderabad - 500 034, Phone : 040-66663939

DATES

21-23 October, 2009 (10.00 - 17.00 Hrs.)

PARTICIPATION FEE

The programme is Non-Residential.

Rs. 12.000/- (Rupees Twelve thousand only) per participant. Fee includes course fee, course material, lunch, tea /coffee during the programme.

The Cheque/ DD to be drawn in favour of **The Institute of Cost and Works Accountants of India' payable at New Delhi.**

Details for ECS Payment : State Bank of India, Lodhi Road Branch, New Delhi -110 003 Current A/c No.: 30678404793 MICR Code : 110002493 IFSC Code : SBIN0060321

For Kind Information : *For outstation programmes the participants are requested to get the confirmation from the Institute before proceeding to the venue. The Institute will not be held responsible if any participant reaches the venue for the postponed/ cancelled programme without getting the confirmation from the Institute. The cancellation/postponement of the programme, if any, will be intimated to only those organizations whose nominations have been received by the Institute on time.*

REGISTRATION

For further details and Registration please contact:

Shri D. Chandru, Addl. Director (PD&P)

The Institute of Cost and Works Accountants of India

Professional Development and Programme Directorate

ICWAI Bhawan, 3 Institutional Area,

Lodi Road, New Delhi - 110 003

Phones : 011-24622156-57-58, 24618645(0) 24643273 (M) 9818601200

Tele-Fax: 011-43583642 / 24622156 / 24618645

E-Mail : mdp@icwai.org, cep.chandru@icwai.org

Website: www.icwai.org

ABOUT THE INSTITUTE

The Institute of Cost & Works Accountants of India was established by the Government of India as an autonomous professional Institute in 1959 to provide training, education and research facilities in cost and management accounting. The Institute is a member of the International Federation of Accountants (IFAC), the Confederation of Asian & Pacific Accountants (CAPA) and the South Asian Federation of Accountants (SAFA).

THE OBJECTIVES

★ To promote the knowledge of Cost and Management accountancy, to provide educational facilities for training of young men and women for building careers in management accounting.

★ To improve the decision making skills and administrative competence relevant to management accounting and corporate management in general.

★ To create knowledge through research both applied and conceptual relevant to management on cost accounting and its underlying disciplines so as to disseminate such knowledge through publications.

THE TRAINING PROGRAMMES

The Institute's efforts are directed towards quality training and introducing new programmes to meet emerging challenges of the corporate world

Broadly the programs are classified as :

♦ Training programs for practicing managers of both public and private sectors, Banks, Financial Institutions, Insurance Companies, Multinationals and Government Departments.

♦ Programmes for its own professional members, and

♦ Tailor-made in house training programs for Industry, Govt. Departments and Public Services. It also offers specific programs for Defence, Railways, Telecom and Public Utility Services.

President

Shri G. N. VENKATARAMAN

Vice President

Shri B. M. SHARMA

Chairman, Continuing Education Programme Committee

Shri A. G. DALWADI

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

(Set up under an Act of Parliament in the year 1944) – founder member of IFAC, CAPA and SAFA

Intensive Programme

on

Global Convergence of Accounting Standards and International Financial Reporting Standards (IFRS)

27-30 OCTOBER, 2009

at

KOCHI (COCHIN)

COURSE COVERAGE

- **Indian Accounting Standards and International Financial Reporting Standards (IFRS)**
- **First Time Adoption of IFRS**
- **Preparation of Financial Statements under IFRS**
- **Select Standards in IFRS**

PROGRAMME ON Global Convergence of Accounting Standards and International Financial Reporting Standards (IFRS)

Dear Sir/ Madam,

We are happy to inform you that we are organizing an intensive residential programme on 'Global Convergence of Accounting Standards and International Financial Reporting Standards (IFRS)' during 27-30 October, 2009 at Kochi (Cochin).

We request you to kindly participate/ depute your executives for this programme which will be of immense use and benefit to your executives and organization on this subject.

With regards,

A.G. Dalwadi
Chairman,
CEP Committee, ICWAI

FOR WHOM

Senior and Middle level Executives from Public and Private Sector Enterprises, Banks, Financial Institutions, Insurance Companies, Multinational Companies and Government Departments will find the programme rewarding.

METHODOLOGY

The programme will be developed through lectures, discussions and case studies using audio-visual equipments.

FACULTY

Eminent experts and professionals will be dealing wrth the subjects.

VENUE

Hotel Gokulam Park
Katoor
Kochi - 682 017
Phone: 0484-2400707

DATES

27-30 October, 2009
(Check-in Time -12.00 Mrs. on 27th October, 2009)
(Check-out Time -12.00 Mrs. on 30th October, 2009)

PARTICIPATION FEE

The Programme is Residential.

Rs. 26,000/- (Rupees Twenty Six Thousand) per Participant. (The charges for accompanying Spouse would be Rs. 2,500/- towards accommodation and all meals for all the three days). Fee includes Course Fee, Course Material, Accommodation, all Meals and Visits.

The Cheque/ DD to be drawn in favour of **'The Institute of Cost and Works Accountants of India' payable at New Delhi.**

Details for ECS Payment:

State Bank of India, Lodhi Road Branch, New Delhi -110 003 Current A/c No.: 30678404793

MICR Code : 110002493   IFSC Code : SBIN0060321

For Kind Information :

For outstation programmes the participants are requested to get the confirmation from the Institute before proceeding to the venue. The Institute will not be held responsible if any participant reaches the venue for the postponed/cancelled programme without getting the confirmation from the Institute. The cancellation/postponement of the programme, if any, will be intimated to only those organizations whose nominations have been received by the Institute on time.

REGISTRATION

For further details and Registration please contact:

Shri D. Chandru, Addl. Director (PD&P)
The Institute of Cost and Works Accountants of India
Professional Development and Programme Directorate
ICWAI Bhawan, 3 Institutional Area,
Lodi Road, New Delhi -110 003
Phones : 011-24622156-27-28, 24618645
(D) 24643273 (M) 9818601200
Tele-Fax : 011-43583642 7 24622156 7 24618645
E-Mail : mdp@icwai.org, cep.chandru@icwai.org
Website : www.icwai.org

ABOUT THE INSTITUTE

The Institute of Cost & Works Accountants of India was established by the Government of India as an autonomous professional Institute in 1959 to provide training, education and research facilities in cost and management accounting.The I nstitute is a member of the International Federation of Accountants (IFAC), the Confederation of Asian & Pacific Accountants (CAPA) and the South Asian Federation of Accountants (SAFA).

THE OBJECTIVES

★ To promote the knowledge of Cost and Management accountancy, to provide educational facilities for training of young men and women for building careers in management accounting.

★ To improve the decision making skills and administrative competence relevant to management accounting and corporate management in general.

★ To create knowledge through research both applied and conceptual relevant to management on cost accounting and its underlying disciplines so as to disseminate such knowledge through publications.

THE TRAINING PROGRAMMES

The Institute's efforts are directed towards quality training and introducing new programmes to meet emerging challenges of the corporate world.

Broadly the programs are classified as :

♦ Training programs for practicing managers of both public and private sectors, Banks, Financial Institutions, Insurance Companies, Multinationals and Government Departments.

♦ Programmes for its own professional members, and

♦ Tailor-made in house training programs for Industry, Govt. Departments and Public Services. It also offers specific programs for Defence, Railways, Telecom and Public Utility Services.

President

Shri G. N. VENKATARAMAN

Vice President

Shri B. M. SHARMA

Chairman, Continuing Education Programme Committee

Shri A. G. DALWADI

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

(Set up under an Act of Parliament in the year 1944) – founder member of IFAC, CAPA and SAFA

ORGANISING

MANAGEMENT DEVELOPMENT PROGRAMME

ON

EXCISE, SERVICE TAX, VAT & GST

SPECIAL EMPHASIS FOR PROBLEMS ENCOUNTERED BY INDUSTRIES & COMMERCE

22-23 September 2009

10 am- 5 pm (both the days) at R&T Centre of ICWAI

84 Harish Mukherjee Road, Kolkata-700 025

COURSE COVERAGE

SESSION-1

- CHANGES IN BUDGET 2009 AND THEREAFTER THROUGH FINANCE ACT-2009
- ANALYSIS OF ISSUES ARISING THROUGH BUDGET 2009

SESSION-2

LTU (LARGE TAX PAYER UNIT)

- CRITICAL ISSUES UNDER LARGE TAX PAYER UNIT
- SCOPE, BENEFITS & IMPLICATION

SESSION-3

GOODS AND SERVICE TAX(GST)

- INTEGRATION OF STATE AND CENTRAL TAX-ROAD MAP
- SCOPE & HURDLES
- WAY FORWARD

SESSION-4

VALUE ADDED TAX(VAT)

- PROBLEMS FACED BY TRADE & INDUSTRIES AND ITS SOLUTIONS
- ASSESSMENT PROCEDURES
- INPUT TAX CREDIT-DISPUTES AND SOLUTIONS

SESSION-5

CENVAT

- RESTRICTIONS AND RELAXATION ON CENVAT FOR MANUFACTURERS AND SERVICE PROVIDERS
- UTILISATION OF CAPITAL CENVAT-CRITICAL FACTORS
- AVAILMENT AND UTILISATION OF CENVAT OF COMMON INPUTS AND SERVICES ON EXEMPTED AND UNEXEMPTED GOODS AND SERVICES

SESSION-6

EXCISE AUDIT-2000(EA-2000)

- ITS COVERAGE AND SCOPE
- FREQUENCY AND COMPLIANCE

SESSION-7

RESPONSIBILITY OF SERVICE RECEIVER ON BEHALF OF SERVICE PROVIDER

- HOW MANY SERVICES AS PER SERVICE TAX RULES

- DEFINITION OF FOREIGN SERVICE PROVIDER
- COMPLIANCE BY SERVICE RECEIVER AND ITS SCOPE

SESSION-8

RECENT CASE LAWS

- ANALYSIS AND IMPLICATION
- QUESTION & ANSWER

Dear Sir/ Madam,

We take immense pleasure to inform you that The Continuing Education Programme Committee (CEP) of The ICWAI is organising a two day professional programme on EXCISE, SERVICE TAX, VAT & GST, SPECIAL EMPHASIS FOR PROBLEMS ENCOUNTERED BY INDUSTRIES & COMMERCE on 22-23 September 2009 at R&T Centre, 84 Harish Mukherjee Road,Kolkata-700 025. Participation in the programme will lead to a very rewarding experience.

EXCISE, SERVICE TAX, VAT & GST are crucial topics of Business Finance. These will be discussed threadbare in the programme by eminent professionals in the respective fields with open house sessions.

We request you to kindly participate in the programme/ nominate your executives to take full advantage of the unique and special knowledge-bank that your representative will acquire and effectively utilize to the benefit of his/her organization.

With kind regards,

Chairman.CEP Committee, ICWAI

For Whom

Senior and Middle Level Executives of Private and Public Sector Undertakings, Multinationals, Autonomous Bodies, Banks, Insurance Companies, Financial Institutions and Government departments.

Methodology

The programme will be developed through lectures, discussion and case studies with audio-visual presentation.

Faculty

Eminent Experts in the field will be dealing with the subjects.

Venue

R&T Centre of ICWAI, 84 Harish Mukherjee Road, Kolkata-700 025.

Dates

22-23 September 2009, (10.00-17.00 Mrs)

Participation Fees

Rs.2000.00 **(Rupees Two thousand only) per participant, Rs.1500.00 (Rupees one thousand five hundred only) for practicing Members, The programme is Non-Residential**

Fees includes course fees, course material, lunch and tea/coffee, during the programme.

The Cheque /DD to be sent along with nominations in favour of (ICWAI)The Institute of Cost and Works Accountants of India', payable at Kolkata

For Kind Information

For outstation programmes the participants are requested to get the confirmation from the Institute before proceeding to the venue. The Institute will not be held responsible if any participant reaches the venue for the postponed/cancelled programme without getting the confirmation from the Institute. The cancellation/ postponement of the programme, if any, will be intimated to only those organizations/ Individuals whose registration has already been made.

REGISTRATION FORM

Dear Sir,

We hereby inform you that the following executives of our organization are being deputed as delegates for the Seminaron EXCISE, SERVICE TAX, VAT & GST scheduled to be held at R&T Center of ICWAI, 84, Harish mukherjee Road, Kolkata-700 025 on 22- 23 September 2009.

SI. No	Name	Designation	Contact No	E-mail
1				
2				
3				
4				

NB: Additional sheet/s may be used in case of more participants / delegates

We enclose our cheque/DD no......................dated.....................drawn in favour of ICWAI, payable at Kolkata towards their delegation fee.

Yours faithfully,

(Name, Designation & Address)

Phone:

Place:

Fax:

Date:

e-mail:

REGISTRATION

For further details and Registration please contact:

Shri D.Chandru
Additional Director (CEP)
The Institute of Cost and Works Accountants of India
Professional Development and programme Directorate
ICWAI Bhawan (2nd Floor)
3, Institutional Area
Lodi Road, New Delhi-110003
Ph. : (011)2462 2156,24618645(0)
(011)2464 3273, 09818601200(M)
Fax : (011)2462 2156,2461 8645
Email : cep.chandru@icwai.org

Shri Swapan Kumar Mazumder
Assistant Director
Professional Development &
Programmes Directorate
ICWAI-Kolkata
Phone (0) (033)22521031/1034/1035,
(033)22521602/1492
Mobile: 9831043067
Fax: 91-33-22521602/1492
E-mail: cep.swapan@icwai.org

ABOUT THE INSTITUTE

The Institute of Cost & Works Accountants of India was established by an Act of the parliament as an autonomous professional institute in 1959 to provide training, education and research facilities in cost and management accounting. The institute is a member of the International Federation of Accounts (IFAC), the Confederation of Asian & Pacific Accountants (CAPA) and the South Asian Federation of Accountants (SAFA).

THE OBJECTIVES

To promote and regulate the profession of Cost and Management accountancy, to provide educational facilities for training of young men and women for building careers in management accounting.

To improve the decision making skills and administrative competence relevant to management accounting and corporate management in general. To create knowledge resources through research both applied and fundamental relevant to cost & management accounting & management and its allied disciplines.

THE TRAINING PROGRAMME

The Institute's efforts are directed towards quality training and introducing new programmes to meet emerging challenges of the corporate world. Broadly the programmes are classified as under

- Training programmes for practicing managers/executives of both public and private sectors, Banks, Financial Institutions, Insurance Companies, Multinationals and Government Departments.
- Programmes for its own professional members, and
- Tailor-made in house training programmes for Industry, Goyt. Departments and Public Services. It also offers specific programmes for Defence, Railways. Telecom and Public Utility Services.

President
Shri G. N. VENKATARAMAN

Vice President
Shri B. M. SHARMA

Chairman, Continuing Education Programme Committee
Shri A. G. DALWADI

EASTERN REGION

The following office Bearers of EIRC of ICWAI have been elected for the year 2009-10 in the Council Meeting of the Eastern India Regional Council held on 8th August 2009 :

Manas Kumar Thakur	Chairman
Ajay Deep Wadhwa	Vice-Chairman cum Secretary
Pallab Bhattacharya	Treasurer

ASANSOL CHAPTER

The following members have been selected as Executive Committee Members for the year 2009-10 :

M. Viswanathan	Chairman
Utpal Majumdar	Vice-Chairman
Subrato Banerjee	Secretary
Jaydip Ghosal	Jt. Secretary
Sudip Dasgupta	Treasurer
Kajal Mishra	Jt. Treasurer

CUTTACK BHUBANESWAR CHAPTER

The following members have been unanimously selected the office bearers for the year 2009-10 :

Srinibas Mohapatra	Chairman
Sambit Kumar Samanta	Vice-Chairman
Manas Ranjan Lenka	Secretary cum Treasurer

ROURKELA CHAPTER

Following members are the new office bearers for the year 2009-10 :

V. Nandagopal	Chairman
S.C. Agarwalla	Vice-Chairman
B.C. Mohapatra	Vice-Chairman
Mihir Kumar Sahoo	Secretary
S.C. Sahoo	Jt. Secretary
Basanta Kumar Dash	Treasurer

WESTERN REGION

AHMEDABAD CHAPTER

The following office bearers were unanimously elected for the year 2009-10:

H. C. Shah	Chairman
N. A. Shah	Vice Chairman
P.H. Desai	Secretary
V. H. Savalia	Treasurer

AURANGABAD CHAPTER

The following members are the new Managing Committee Members for the year 2009-10 :

S. B. Mundade	Chairman
R. D. Khandalkar	Vice Chairman
H. B. Shah	Secretary
S. S. Kulkarni	Jt. Secretary
L.G.Toshniwal	Jt. Secretary
P.P. Mohani	Treasurer

NORTHERN REGION

The following office bearers were unanimously elected for the year 2009-10:

Sanjay Gupta	Chairman
Rakesh Bhalla	Vice-Chairman
B.L. Jain	Secretary & Treasurer

JHANSI CHAPTER

The following office bearers were elected for the year 2009-10:

S. K. Banerjee	Chairman
R. N. Pal	Vice-Chairman
K. R. Nair	Secretary
P. V. Ramakanth	Jt. Secretary
Sanjay Kumar	Treasurer

KANPUR CHAPTER

The following members are the new Managing Committee Members for the year 2009-10 :

A.K. Bhargava	Chairman
Rakesh Misra	Vice-Chairman
D. S. Misra	Secretary
S. K.Verma	Jt. Secretary

NANGAL CHAPTER

The following office bearers were unanimously elected for the year 2009-10:

R. L. Sharma	Chairman
K. D. Bali	Vice Chairman
Maninder Singh	Secretary
Pradeep Chohan	Jt. Secretary

NOIDA CHAPTER

The following office bearers were unanimously elected for the year 2009-10:

Suraj Prakash	Chairman
V. S. Gupta	Vice Chairman
R.Venkataramanan	Secretary
Chetan Mehar	Jt. Secretary
G.P.Rao	Treasurer

UDAIPUR CHAPTER

The new Managing Committee of the Chapter for the year 2009-10 is as under :

B. S. Gupta	Chairman
P. L. Porwal	Vice Chairman
P. C. Choudhary	Vice Chairman
Y. L. Jain	Secretary

SOUTHERN REGION

TRIVANDRUM CHAPTER

The following office bearers were elected for the year 2009-10:

H.Padmanabhan	Chairman
S.Hariharasubramanian	Vice Chairman
S. Sathi Chandran	Secretary
B.V. Subramaniam	Treasurer