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EDITORIAL

Financial markets have started functioning differently in this era of global melt down. Global economic scenario has affected stock exchange markets all over the globe.

Namita Soni has conducted an empirical study on size effect and seasonality. A study on Impact of NPAs on profitability of banks was made by Dr. Jatana.

An empirical study of mutual funds giving useful inferences on investment profiling was made by Dr. P.D. Saini.

The papers touching the issues like IFRS and farm accounting have given a new perspective. Perceived Risk Appetite and revenue mortgage loan are other big issues analysed by Prashantha Atma and Sofia Jasmeen.

Issuer rating service with an appraisal of ICRA's rating model was also analysed. Shuchi Pahuja has talked Environmental Accounting and Reporting Standards.

Professor Nageshwar Rao
Chief Editor
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Greetings!

Much water has flown down the Thames and the Ganga since my earlier communication to you. On the International front, an update of the ‘Key World Economic Outlook, July 2009’ reveals the global economy is beginning to pull out of recession; however, it is not over yet. As the financial system remains impaired the recovery is likely to be sluggish. The main priority therefore remains restoring the health of the financial sector. Accordingly, at the G-8 summit in Italy (July 8-10), the economy should rightly have been the focus; instead it was spread among issues such as climate change etc.

Comparatively the domestic front was more positive. The results of the general elections were received with a sigh of relief by many, as the nation was spared the ordeal of a hung parliament. The recent budget may also be termed as good when viewed at against the prevailing economic scenario globally as well as in India. It seeks to minimize the impact of global recession. As per the Economic Survey the Indian economy has withstood the adverse global economic situation and posted a growth rate of 6.7 percent in 2008-09. It also predicts an early revival. In fact, the industry seems to be responding to the stimuli provided by the government in the first few months of 2009. The strong signs in industrial growth, recruitment advertisements and capital issues stirs hope ahead for a down-turn hit economy. The wheel of fortune seems to be moving forward. The Sixth pay commission also holds cheer for the university and college teaching fraternity. It lays emphasis on research and the move to IFRS throws open a number of issues for research, such as fair value measurement, accounting for new financial instruments etc.

Friends, you will be happy to learn that the maiden attempt at conducting the National Accounting Talent search was a success. Due to the support of all the regional chapters nearly a thousand participants registered from the length and breadth of the country. Your cooperation is also solicited for the second contest to be held on 29th November 2009. Preparations for the annual conference on 14-15th November at Gwalior are in full swing and we hope to see you all participate in large numbers. It gives me great pleasure to inform you that I have been extended a special invitation to attend the Annual meeting and conference of the American Accounting Association as President of IAA and shall carry your good wishes to its members.

Dr. Shirin Rathore
President
Indian Accounting Association
New Delhi
## CONTENTS

<table>
<thead>
<tr>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size Effect and Seasonality: An Empirical Study</td>
<td>1</td>
</tr>
<tr>
<td>Namita Soni</td>
<td></td>
</tr>
<tr>
<td>Impact of Market Conditions on Investment Profiling in</td>
<td>11</td>
</tr>
<tr>
<td>Changing Market Conditions: An Empirical Study of Mutual Funds</td>
<td></td>
</tr>
<tr>
<td>P.D. Saini</td>
<td></td>
</tr>
<tr>
<td>Impact of NPAs on Profitability of Banks</td>
<td>21</td>
</tr>
<tr>
<td>Renu Jatana</td>
<td></td>
</tr>
<tr>
<td>Reverse Mortgage Loan of State Bank of India in Andhra Pradesh: An Analysis</td>
<td>28</td>
</tr>
<tr>
<td>Prashanta Athma and O. Bhavani</td>
<td></td>
</tr>
<tr>
<td>Environmental Accounting and Reporting (EAR) Standards</td>
<td>37</td>
</tr>
<tr>
<td>Shuchi Pahuja</td>
<td></td>
</tr>
<tr>
<td>Perceived Risk Appetite among Individual Investors: A Study</td>
<td>44</td>
</tr>
<tr>
<td>Sofia Jasmeen</td>
<td></td>
</tr>
<tr>
<td>A Study of Issuer Rating Service with an Appraisal of ICRA's Rating Model</td>
<td>53</td>
</tr>
<tr>
<td>Mansumi Bhattacharyya</td>
<td></td>
</tr>
<tr>
<td>Farm Accounting in India: Needs an Accounting Standard</td>
<td>61</td>
</tr>
<tr>
<td>Padmanava Mohapatra</td>
<td></td>
</tr>
<tr>
<td>IFRS - Global Perspective</td>
<td>69</td>
</tr>
<tr>
<td>C.K. Sonara, Ashav Patel, Kanisha Shah and Bhumika Punjabi</td>
<td></td>
</tr>
<tr>
<td>IAA News</td>
<td>76</td>
</tr>
</tbody>
</table>
SIZE EFFECT AND SEASONALITY:
AN EMPIRICAL STUDY

*Namita Soni

ABSTRACT

One of the most popular anomalies of Efficient Market Hypothesis is size or small-firm effect. In 1981, R.W. Banz and Marc R. Reinganum examined the impact of size of the firm measured on the bases of total market value on their total and risk-adjusted rates of returns. They found that both total and risk-adjusted rates of return tend to fall with increase in the relative size of the firm. The market value of the firm’s outstanding equity was used as a measure for the firm’s size. Banz used NYSE stocks while Reinganum used the AMEX stocks for his studies. The results indicate that a huge premium for the small-firm investors. The paper examines sectorwise relationship of size effect and seasonality. Prowess database of CMIE has provided the data and seven sectors were identified.

Size effect implies that small firms stocks tend to outperform large firms stocks by a significant margin over a long period of time. In simple terms size effect (also known as small firm effect) implies that small firms stocks provide higher risk adjusted returns than the stocks of large firms. Hence, extra-normal returns can be earned by holding the stocks of small firms. The well-documented tendency of small-capitalization stocks to generate higher returns than those warranted by the Capital Asset Pricing Model (Security Market Line) is called the size effect.

The existence of the size effect has some specific implications for both the CAPM and the efficient market hypothesis. The CAPM assumes that the expected return from an asset is a function of its price variance. This figure is usually reported as beta and is synonymous with risk. This relationship is thought to be linear and positive, hence the adage "high risk, high return". Several assumptions were made by Sharpe (1964), Lintner (1965) and Mossin (1966) when they developed the CAPM. First they assume that an investor’s portfolio will maintain a constant proportion between risky and risk-free assets. A second assumption is that all investors can lend or borrow money at the risk-free rate.

A more established theory known as the efficient market hypothesis also conflicts with Banz’s findings. A capital market is said to be efficient if it fully and correctly reflects all relevant information in determining security prices. Thus it is impossible to make economic profits by trading on the basis of such information. This is implied because people are assumed to be rational. An indication of abnormally high profits will attract investors and increase the demand for that security. In turn the price for that security will increase eliminating excess profits. Since the size of a company is public information, buying stocks on the basis of firm size should not
lead to higher returns. However, Banz's study indicates otherwise. But Banz does not offer a theoretical explanation for the size effect. Thus the Size effect contradicts two widely accepted theories, the CAPM and the efficient market hypothesis.

**OBJECTIVE**

The study primarily aims to assess the relationship between size effect and seasonality in seven identified sectors.

**HYPOTHESIS**

The hypothesis to be tested in the study is:

- There is no significant difference between the size premium earned by the small firm shares in January and Non-January months and April and non-April months in selected sectors.

**UNIVERSE**

The universe consists of all the shares listed in Bombay Stock Exchange for the period of eleven years i.e. from 1st January 1997 to 31st December 2007. Over the past 133 years, BSE has facilitated the growth of the Indian corporate sector by providing it with an efficient access to resources. The major corporate in India has sourced BSE's services in raising resources from the capital market. Today, BSE is the world's number one exchange in terms of the number of listed companies and the world's fifth in transaction numbers. The market capitalization as on December 31, 2007 stood at 1.79 trillion United States Dollars.

**SAMPLE**

The sample for finding out the existence of size effect in BSE, consists of 481 companies forming the part of BSE-500 index. The sample for the purpose of studying the existence of size effect in different sectors consists of the companies listed in the seven sectoral index of Bombay Stock Exchange. These indices cover 90% of the sectoral market capitalisation and are based on the Free-Float methodology. The sectors studied are: 1. BSE Auto Index, 2. BSE Capital Goods Index, 3. BSE Consumer Durables Index, 4. BSE FMCG Index, 5. BSE Healthcare Index, 6. BSE IT Index.

**DATA COLLECTION**

The monthly adjusted closing price has been collected from the Prowess database of CMIE. PROWESS is financial software widely used in research studies in India. The basic data collected for the purpose of study incorporates the adjusted monthly closing share prices of the company forming the part of BSE-500 index, and the adjusted monthly closing share prices of the companies included in the Sectoral Indices of Bombay Stock Exchange.

**SAMPLE PERIOD**

The sample period for the study stretches from January 1997 to December 2007. The annual information of the companies is collected in the month of December. The research
window is a complete 11-year period with 132 monthly, 44 quarterly and 11 annual observations for every size-sorted portfolio as well as market portfolio. This period has witnessed metamorphic changes in Indian economy and transformation of Indian stock market from a dull to an emerging market in international arena due to stock market reforms.

OPERATION DEFINITION OF SIZE MEASURES
Size measures and their measures alongwith operational definitions stated as follows:

<table>
<thead>
<tr>
<th>S.no.</th>
<th>Size Measure</th>
<th>Operational Definition</th>
<th>Nature</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Market Capitalisation</td>
<td>The market price of the company's share multiplied by number of shares outstanding.</td>
<td>Market based measure</td>
</tr>
<tr>
<td>2.</td>
<td>Net Sales</td>
<td>The difference between gross sales and sales returns. It shows the level of business operations of a company.</td>
<td>Non-market based measure</td>
</tr>
<tr>
<td>3.</td>
<td>Capital Employed</td>
<td>Total interest bearing debt or loan funds (i.e. long term debt plus bank borrowing) added to shareholders funds.</td>
<td>Accounting based measure</td>
</tr>
<tr>
<td>4.</td>
<td>Total Investment</td>
<td>Current funds of a firm invested in the long-term assets. It affects the risk of the firm.</td>
<td>Accounting based measure</td>
</tr>
<tr>
<td>5.</td>
<td>Total Asset</td>
<td>Book value of total asset, it reflects the asset base needed to support business operations.</td>
<td>Accounting based measure</td>
</tr>
</tbody>
</table>

ANALYSIS AND INTERPRETATION
The previous studies conducted in the field suggest that a large part of size effect is captured by the seasonal and cyclical patterns. Keim (1983) documented that nearly 50% of the size effect in U.S. market is due to abnormally large January returns on small firms' stocks. The size effect has been documented to be a seasonality phenomenon in U.S. market. This section of the study aims at finding out that whether size effect is the seasonal phenomenon in different sectors. Two possible seasonality effects has been tested viz- an April effect i.e. Turn of the year effect which is analogous to January effect in US market and a January effect as there is increasing integration of Indian economy with the rest of the world in the globalization era. Only the returns of small firm portfolio are taken for the study so as to see the difference in the return of small firm portfolio in January and other month and in April and other month. To test whether
size premium is earned by the small firm portfolio in January over Non-January months and in April and non-April months the market model is used, the alpha value of all the January months is calculated and then the alpha value of other non-January months is calculated and comparison is done. Similarly for April and non-April months alpha is also calculated.

The hypothesis to be tested is:

**H0** = There is no significant difference between the size premium earned by the small firm shares in January and Non-January months and April and non-April months in different sectors.

**H1** = There is significant difference between the size premium earned by the small firm shares in January and Non-January months and April and non-April months in different sectors.

**SEASONALITY EFFECT IN AUTOMOBILE SECTOR**

No evidence of size effect is seen in the automobile sector. Exhibit 2 shows whether there is difference between the size premium earned by the small firm shares in January and Non-January months and April and non-April months.

### Exhibit 2

**Result of the Seasonality Effect in Automobile Sector**

#### a. Size Premium in the month of January and Non-January Months

<table>
<thead>
<tr>
<th>Basis of Size</th>
<th>All months Average</th>
<th>t (All months)</th>
<th>January</th>
<th>t (January)</th>
<th>Non-January</th>
<th>t (Non-January)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>0.607</td>
<td>0.673</td>
<td>-1.914</td>
<td>-0.663</td>
<td>0.768</td>
<td>0.82</td>
</tr>
<tr>
<td>Total Asset</td>
<td>0.437</td>
<td>0.491</td>
<td>-0.869</td>
<td>-0.305</td>
<td>0.51</td>
<td>0.551</td>
</tr>
<tr>
<td>Investment</td>
<td>1.076</td>
<td>1.188</td>
<td>-0.74</td>
<td>-0.255</td>
<td>1.138</td>
<td>1.209</td>
</tr>
<tr>
<td>Capital Employed</td>
<td>0.29</td>
<td>0.33</td>
<td>0.054</td>
<td>0.019</td>
<td>0.285</td>
<td>0.312</td>
</tr>
<tr>
<td>Market Capitalization</td>
<td>0.879</td>
<td>0.874</td>
<td>-1.483</td>
<td>-0.46</td>
<td>1.004</td>
<td>0.961</td>
</tr>
</tbody>
</table>

*significant at 5% level

Source of data is CMIE, Prowess database.

#### b. Size Premium in the month of April and Non-April Months

<table>
<thead>
<tr>
<th>Basis of Size</th>
<th>All months Average</th>
<th>t (All months)</th>
<th>April</th>
<th>t (April)</th>
<th>Non-April</th>
<th>t (Non-April)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>0.607</td>
<td>0.673</td>
<td>2.889</td>
<td>0.989</td>
<td>0.438</td>
<td>0.477</td>
</tr>
<tr>
<td>Total Asset</td>
<td>0.437</td>
<td>0.491</td>
<td>3.183</td>
<td>1.106</td>
<td>0.25</td>
<td>0.25</td>
</tr>
<tr>
<td>Investment</td>
<td>1.076</td>
<td>1.188</td>
<td>2.02</td>
<td>0.687</td>
<td>0.957</td>
<td>1.037</td>
</tr>
<tr>
<td>Capital Employed</td>
<td>0.29</td>
<td>0.33</td>
<td>2.871</td>
<td>1.008</td>
<td>0.122</td>
<td>0.136</td>
</tr>
<tr>
<td>Market Capitalization</td>
<td>0.879</td>
<td>0.874</td>
<td>2.273</td>
<td>0.697</td>
<td>0.746</td>
<td>0.727</td>
</tr>
</tbody>
</table>

Empirical results are presented in Exhibit 2. It shows that in the month of January negative returns are shown by the small firm portfolio using all the alternative measures of size except that of portfolio sorted on the basis of capital employed. As the Automobile sector shows no sign of size effect thus the small portfolio in the non-January months also does not show any significant size premium.
The Exhibit 2(b) shows that in the month of April positive return is earned by the small firm portfolio using all the measures of size but the returns of the April month are not statistically significant. It shows that the size premiums for April and non April months based on market capitalization are 2.273% and 0.746%, showing that the returns are higher in the month of April but the t-value .697 for the April month is not significant. Hence, the null hypothesis of no significant difference between the size premium in January and Non-January month and April and non-April months in Automobile sector is accepted.

SEASONALITY EFFECT IN CAPITAL GOODS SECTOR

The capital goods sector shows no existence of size effect when monthly returns are taken. The sectors show the existence of size effect taking quarterly and annual return. To test whether there is difference between the size premium earned by the small firm shares in January and Non-January months and April and non- April months the returns of small firm are seen in January and other months and April and other months.

Exhibit 3
Result of the Seasonality Effect in Capital Goods Sector

<table>
<thead>
<tr>
<th>Basis of Size</th>
<th>All months Average</th>
<th>t (All months)</th>
<th>January</th>
<th>T (January)</th>
<th>Non-January</th>
<th>t (Non-January)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>1.784</td>
<td>1.724</td>
<td>-3.685</td>
<td>-1.121</td>
<td>2.087</td>
<td>2.001*</td>
</tr>
<tr>
<td>Total Asset</td>
<td>1.729</td>
<td>1.667</td>
<td>-4.839</td>
<td>-1.475</td>
<td>2.127</td>
<td>2.014*</td>
</tr>
<tr>
<td>Investment</td>
<td>2.153</td>
<td>2.093*</td>
<td>-0.617</td>
<td>-0.188</td>
<td>2.204</td>
<td>2.063*</td>
</tr>
<tr>
<td>Capital Employed</td>
<td>1.928</td>
<td>1.79</td>
<td>-4.334</td>
<td>-1.268</td>
<td>2.285</td>
<td>2.058*</td>
</tr>
<tr>
<td>Market Capitalization</td>
<td>1.814</td>
<td>1.612</td>
<td>-4.815</td>
<td>-1.351</td>
<td>2.21</td>
<td>2.002*</td>
</tr>
</tbody>
</table>

* significant at 5% level
Source of data is CMIE, Prowess database.

The results show that in the month of January negative returns are shown by the small firm portfolio using all the alternative measures of size. But in the other months all the small firm portfolio provide significant extra normal returns, which shows that though there is no size effect seen in the Capital Goods Sector but when the returns of January are excluded the small firm portfolio show extra normal returns.
Exhibit 3 shows that in the month of April positive return is earned by the small firm portfolio using all the measures of size but the returns of the April month are not statistically significant except that of the portfolio sorted on the basis of investment. But taking the over all result of the sector it is clear that no significant extra normal return is earned in the month of April over that of non-April months.

Hence, the null hypothesis of no significant difference between the size premium in January and Non-January month is rejected as significant extra normal returns are seen in the month and non January months. Thus it could be concluded that size effect is not a seasonal phenomenon in Capital Goods sector. The null hypothesis of no significant difference between the size premium in April and non-April months in Capital Goods Sector is accepted.

**SEASONALITY EFFECT IN CONSUMER DURABLE GOODS SECTOR**

The Consumer Durable Goods Sector has shown no sign of size effect when monthly returns are taken. To test whether size premium is earned by the small firm portfolio in January over Non-January months and in April and non-April months.

**Exhibit 4**

| Result of the Seasonality Effect in Consumer Durable Goods Sector |
|---|---|---|---|---|---|
| **a. Size Premium in the month of January and Non-January Months** |   |   |   |   |
| Basis of Size | All months Average | (All months) | January | T (January) | Non-January | T (Non-January) |
| Net sales | 0.325 | 0.159 | -8.199 | -1.27 | 1.025 | 0.487 |
| Total Asset | 0.867 | 0.47 | -8.178 | -1.403 | 1.566 | 0.823 |
| Investment | 1.32 | 0.717 | -7.67 | -1.318 | 1.973 | 1.039 |
| Capital Employed | 1.109 | 0.597 | -7.433 | -1.263 | 1.744 | 0.909 |
| Market Capitalization | 0.383 | 0.193 | -11.237 | -1.801 | 1.343 | 0.66 |
| **b. Size Premium in the month of April and Non-April Months** |   |   |   |   |
| Basis of Size | All months Average | (All months) | April | T (April) | Non-April | T (Non-April) |
| Net sales | 0.325 | 0.159 | 12.663 | 2.001* | -0.278 | -0.278 |
| Total Asset | 0.867 | 0.47 | 19.311 | 3.199* | -0.05 | -0.029 |
| Investment | 1.32 | 0.717 | 17.988 | 2.969* | 0.462 | 0.257 |
| Capital Employed | 1.109 | 0.597 | 17.501 | 2.85* | 0.276 | 0.152 |
| Market Capitalization | 0.383 | 0.193 | 18.32 | 2.788* | -0.488 | -0.251 |

* significant at 5% level

Source of data is CMIE, Prowess database.

The results show that in the month of January negative returns are shown by the small firm portfolio using all the alternative measures of size. But in the other months all the small firm portfolios provide significant extra normal returns but these returns are not statistically significant. The null hypothesis of no significant difference between the size premium in January and Non-January in Consumer Durable Goods Sector is accepted.
Exhibit 4(b) shows that in the month of April positive returns are earned by the small firm portfolios using all the measures of size and the returns of the April month are statistically significant. Thus in the Consumer Durable goods sector the size effect is a seasonal effect when April month returns are concerned. Thus the null hypothesis of no significant extra normal return is earned in the month of April over that of non-April months is rejected.

SEASONALITY EFFECT IN FAST MOVING CONSUMER GOODS SECTOR

The Fast Moving Consumer Goods Sector has shown no sign of size effect when monthly returns are taken. To test whether size premium is earned by the small firm portfolio in January over Non-January months and in April and non-April months the returns of these months are calculated.

Exhibit 5
Result of the Seasonality Effect in Fast Moving Consumer Goods Sector

<table>
<thead>
<tr>
<th>Basis of Size</th>
<th>All months Average</th>
<th>t (All months)</th>
<th>January</th>
<th>T (January)</th>
<th>Non-January</th>
<th>t (Non-January)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>-0.136</td>
<td>-0.133</td>
<td>-3.048</td>
<td>-0.887</td>
<td>0.095</td>
<td>0.09</td>
</tr>
<tr>
<td>Total Asset</td>
<td>-0.560</td>
<td>-0.526</td>
<td>-2.55</td>
<td>-0.712</td>
<td>-0.367</td>
<td>-0.334</td>
</tr>
<tr>
<td>Investment</td>
<td>-0.472</td>
<td>-0.421</td>
<td>-4.669</td>
<td>-1.245</td>
<td>-0.119</td>
<td>-0.103</td>
</tr>
<tr>
<td>Capital Employed</td>
<td>-1.566</td>
<td>-1.462</td>
<td>-3.419</td>
<td>-0.95</td>
<td>-1.307</td>
<td>-1.182</td>
</tr>
<tr>
<td>Market Capitalization</td>
<td>0.281</td>
<td>0.25</td>
<td>-3.629</td>
<td>-0.963</td>
<td>0.555</td>
<td>0.48</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Basis of Size</th>
<th>All months Average</th>
<th>t (All months)</th>
<th>April</th>
<th>t (April)</th>
<th>Non-April</th>
<th>t (Non-April)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>-0.136</td>
<td>-0.133</td>
<td>-2.479</td>
<td>-0.749</td>
<td>0.01</td>
<td>0.011</td>
</tr>
<tr>
<td>Total Asset</td>
<td>-0.560</td>
<td>-0.526</td>
<td>-2.144</td>
<td>-0.623</td>
<td>-0.433</td>
<td>-0.398</td>
</tr>
<tr>
<td>Investment</td>
<td>-0.472</td>
<td>-0.421</td>
<td>-2.905</td>
<td>-0.803</td>
<td>-0.3</td>
<td>-0.262</td>
</tr>
<tr>
<td>Capital Employed</td>
<td>-1.566</td>
<td>-1.462</td>
<td>-2.576</td>
<td>-0.743</td>
<td>-1.413</td>
<td>-1.293</td>
</tr>
<tr>
<td>Market Capitalization</td>
<td>0.281</td>
<td>0.25</td>
<td>-2.584</td>
<td>-0.712</td>
<td>0.434</td>
<td>0.379</td>
</tr>
</tbody>
</table>

* significant at 5% level
Source of data is CMIE, Prowess database.

The results show that in the month of January negative returns are shown by the small firm portfolio using all the alternative measures of size. Exhibit 5(b) shows that in the month of April also negative returns are shown in the small firm portfolios using all the measures of size. As the earlier findings state that no size effect is seen in the sector thus the returns of other months i.e. non-January months are also found to be insignificant. Thus the null hypothesis of no significant difference between the size premium in January and Non-January and April and non-April months in Fast Moving Consumer Goods Sector is accepted.
SEASONALITY EFFECT IN HEALTHCARE SECTOR

The Healthcare Sector has shown no sign of size effect when monthly returns are taken. To test whether size premium is earned by the small firm portfolio in January over Non-January months and in April and non-April months the market model is used.

Exhibit 6
Result of the Seasonality Effect in Healthcare Sector

<table>
<thead>
<tr>
<th>Basis of Size</th>
<th>All months Average</th>
<th>t (All months)</th>
<th>January</th>
<th>T (January)</th>
<th>Non-January</th>
<th>t (Non-January)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>1.592</td>
<td>1.869</td>
<td>-5.463</td>
<td>-1.833</td>
<td>1.963</td>
<td>2.267*</td>
</tr>
<tr>
<td>Total Asset</td>
<td>1.257</td>
<td>1.556</td>
<td>-5.928</td>
<td>-2.106</td>
<td>1.66</td>
<td>2.031*</td>
</tr>
<tr>
<td>Investment</td>
<td>1.674</td>
<td>1.817</td>
<td>-8.004</td>
<td>-2.515</td>
<td>2.219</td>
<td>2.4*</td>
</tr>
<tr>
<td>Capital Employed</td>
<td>1.184</td>
<td>1.384</td>
<td>-7.774</td>
<td>-2.641</td>
<td>1.713</td>
<td>2.003*</td>
</tr>
<tr>
<td>Market Capitalization</td>
<td>1.613</td>
<td>1.902</td>
<td>-5.248</td>
<td>-1.765</td>
<td>1.97</td>
<td>2.281*</td>
</tr>
</tbody>
</table>

* significant at 5% level

Source of data is CMIE, Prowess database.

The results show that in the month of January negative returns are shown by the small firm portfolio using all the alternative measures of size. In the non-January months significant extra normal returns are earned in the Healthcare Sector. The results show that if the returns of the January months are excluded from the study then size effect becomes visible in the Healthcare sector. Thus the null hypothesis of no significant difference in the January and non-January months in the Healthcare sector is rejected.

Exhibit 6(b) shows that in the month of April positive returns are shown in the small firm portfolios using all the measures of size but these returns are not statistically significant. Thus the null hypothesis of no significant difference between the size premium in April and non-April months in Healthcare Sector is accepted.

SEASONALITY EFFECT IN INFORMATION TECHNOLOGY SECTOR

Strong size effect is seen in the Information Technology Sector. Thus to find whether the size effect is the seasonal phenomenon the returns of small portfolio in January and Non-January months and April and non-April months are studied.
Exhibit 7
Result of the Seasonality Effect in Information Technology Sector

a. Size Premium in the month of January and Non-January Months

<table>
<thead>
<tr>
<th>Basis of Size</th>
<th>All months Average</th>
<th>t (All months)</th>
<th>January</th>
<th>T (January)</th>
<th>Non-January</th>
<th>t (Non-January)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>6.096</td>
<td>3.57*</td>
<td>3.105</td>
<td>0.538</td>
<td>5.771</td>
<td>3.233*</td>
</tr>
<tr>
<td>Total Asset</td>
<td>6.253</td>
<td>3.43*</td>
<td>1.853</td>
<td>0.302</td>
<td>6.113</td>
<td>3.236*</td>
</tr>
<tr>
<td>Investment</td>
<td>5.312</td>
<td>3.504*</td>
<td>2.303</td>
<td>0.451</td>
<td>5.138</td>
<td>3.273*</td>
</tr>
<tr>
<td>Capital Employed</td>
<td>6.253</td>
<td>3.43*</td>
<td>1.853</td>
<td>0.302</td>
<td>6.113</td>
<td>3.236*</td>
</tr>
<tr>
<td>Market Capitalization</td>
<td>5.661</td>
<td>3.173*</td>
<td>1.377</td>
<td>0.229</td>
<td>5.557</td>
<td>3.006*</td>
</tr>
</tbody>
</table>

*significant at 5% level

Source of data is CMIE, Prowess database.

b. Size Premium in the month of April and Non-April Months

<table>
<thead>
<tr>
<th>Basis of Size</th>
<th>All months Average</th>
<th>t (All months)</th>
<th>April</th>
<th>t (April)</th>
<th>Non-April</th>
<th>t (Non-April)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>6.096</td>
<td>3.57*</td>
<td>-2.98</td>
<td>-0.539</td>
<td>6.272</td>
<td>3.595*</td>
</tr>
<tr>
<td>Total Asset</td>
<td>6.253</td>
<td>3.43*</td>
<td>-5.324</td>
<td>-0.068</td>
<td>6.569</td>
<td>3.536*</td>
</tr>
<tr>
<td>Investment</td>
<td>5.312</td>
<td>3.504*</td>
<td>-3.616</td>
<td>-0.738</td>
<td>5.527</td>
<td>3.573*</td>
</tr>
<tr>
<td>Capital Employed</td>
<td>6.253</td>
<td>3.43*</td>
<td>-5.324</td>
<td>-0.068</td>
<td>6.569</td>
<td>3.536*</td>
</tr>
<tr>
<td>Market Capitalization</td>
<td>5.661</td>
<td>3.173*</td>
<td>-2.935</td>
<td>-0.508</td>
<td>5.835</td>
<td>3.201*</td>
</tr>
</tbody>
</table>

The results show that in the month of January positive returns are shown by the small firm portfolio using all the alternative measures of size but the returns are not statistically significant. While in the non-January months significant extra normal returns are earned in the Information Technology Sector.

Exhibit 7(b) shows that in the month of April negative returns are shown in the small firm portfolios using all the measures of size. In the non-April months significant extra normal returns are earned by the small firm portfolio. Thus the null hypothesis of no significant difference in the January and non-January months and April and non-April months in Information Technology Sector is rejected.

SEASONALITY EFFECT IN METAL SECTOR

In the Metal Sector the existence of size effect is shown through the earlier results. To find out whether the size effect is the seasonal phenomenon the returns of small portfolio in January and Non-January months and April and non-April months are studied.
The results show that no significant returns are earned in the month of January using all the alternative measures of size and in the non-January month significant size premium is earned by the small firm portfolio. Exhibit 8(b) shows that in the month of April also no significant extra normal returns are earned by the small firm portfolios. In the non-April month's significant size premium is earned by the small firm portfolio.

Thus the null hypothesis of no significant difference in the January and non-January months and April and non-April months in Metal Sector is rejected.
IMPACT OF MARKET CONDITIONS ON INVESTMENT PROFILING IN CHANGING MARKET CONDITIONS: AN EMPIRICAL STUDY OF MUTUAL FUNDS

*P.D. Saini

ABSTRACT
The Indian capital market has now been grossly researched. The main emphasis of these studies has been to comment on the Efficiency of Indian Capital Market, testing Capital Asset Pricing Model and studying the impact of corporate fundamentals and macroeconomic factors on the stock prices etc. The object of present study is to study the features and factors the investor's preference for mutual fund products in changing market conditions, to analyze the investment preferences of individual investors across their psychographic characteristics (lifestyles) and to study and analyze investment performance mutual fund schemes and to see the extent to which fundamental characteristics as nature, sponsorship and investment objectives have influenced their performance and to study the working of various mutual fund schemes and to identify the hurdles in their smooth functioning and to make recommendations for their sound working.

INTRODUCTION
Investment Profiles might be characterized as `teasers' to attract attention to an opportunity. However, as interest increases and the `due diligence' process progresses to a point of seriousness, potential investors will always want to see the detailed business plan. The Investment Profile should never be viewed as a substitute for the business plan. An investment profile defines an individual's preferences in investment decisions, for example:

- Short term trading (active management) or long term holding (buy and hold).
- Risk averse or risk tolerant/seeker
- All classes of assets or just on (stocks for example)
- Value stock, growth stocks, quality stocks, defensive or cyclical stocks.
- Big cap or small cap stocks.
- Use or not of derivatives.
- Home turf or international diversification
- Hands on, or via investment funds.

*Faculty Member, Faculty of Commerce, Dayalbagh Educational Institute, (Deemed University), Dayalbagh, Agra (U.P.)
The investment profile is determined by • Objective personal or social traits such as age, gender, income, wealth, family, tax situation • Subjective attitudes, linked to the temper (emotions) and the beliefs (cognition) of the investor • Generally, the investor's financial return/risk objectives, assuming they are precisely set and fully rational.

REVIEW OF LITERATURE

With the growing importance of the subject under study, some literature covering different aspects of investor's preferences have been produced by economists, researchers and practitioners.


Ippolito (1992) says that fund/scheme selection by investors is based on past performance of the funds and money flows into winning funds more rapidly than they flow out of losing funds.

Kulshreshta (1994) offers certain guidelines to the investors in selecting the mutual fund schemes.

Madhusudhan V Jambodekar (1996) conducted a study to assess the awareness of mutual funds among investors, to identify the information sources influencing the buying decision and the factors influencing the choice of a particular fund. The study reveals among other things that Income Schemes and Open Ended Schemes are more preferred than Growth Schemes and Close Ended Schemes during the then prevalent market conditions.

Goetzman (1997) states that there is evidence that investor psychology affect fund/scheme selection and switching.

DATABASE AND RESEARCH METHODOLOGY

Research Objectives

• To analyze the investment preferences of individual investors across their psychographic characteristics (lifestyles)
• To study and analyze investment performance of the last ten years mutual fund schemes and to see the extent to which fundamental characteristics as nature, sponsorship and investment objectives have influenced their performance.
• To study the working of various mutual fund schemes and to identify the hurdles in their smooth functioning and to make recommendations for their sound working.

Sources of Data: For the purpose of the study Primary data has been collected through questioners. The respondents include salaried and professional persons of various income groups. The secondary data were collected from journals and web sites such as sbimf.com, amfiindia.com, HDFC bank.com.

Sample Size and Sampling Technique: For the study purpose 50 samples were taken on the basis of 'Judgment Sampling Technique'.

12
Sample Area: Agra

Tools Applied
for the study purpose Liker Scale, Rating Scale, and Semantic differential method, has been applied. For the purpose of study of knowledge level of the investors about the Mutual funds $\chi^2$ test has been applied at 5 % level of significance.

$H_0$: O=E. $H_1$: O≠E.

For study of ‘Investment objective among present investors’, ‘Average Investment period’ and ‘Average investments made by investors’; Weighted Mean value (WMV) has been applied, according to that ranks from 1 to 7 have been applied.

Z-test has also been applied to find out whether the Performance ranking seeks as important source of information while making investment decisions.

$H_0$ (Null hypothesis): There is no significant difference between the sample mean and hypothetical population mean i.e. $\text{Mean}_p=4$

$H_0$: $\text{Mean}_s = \text{Mean}_p$. $H_1$: $\text{Mean}_s \neq \text{Mean}_p$. Level of Significance = 5%

Z-test has also been applied to find out whether the Fund Summary seeks as important source of information while making investment decisions.

$H_0$ (Null hypothesis): There is no significant difference between the sample mean and hypothetical population mean i.e. $\text{Mean}_p=3$

$H_0$: $\text{Mean}_s = \text{Mean}_p$. $H_1$: $\text{Mean}_s \neq \text{Mean}_p$. Level of Significance= 5%

Z-test has also been applied to find out whether the Banker seeks as highly influential while making investment decisions.

RESULTS & DISCUSSION
• Knowledge about Mutual Funds: For the purpose of study of knowledge level of the investors about the Mutual funds $\chi^2$ test has been applied at 5 % level of significance.

$H_0$: O=E. $H_1$: O≠E.

<table>
<thead>
<tr>
<th></th>
<th>O</th>
<th>E</th>
<th>(O-E)</th>
<th>(O-E)^2</th>
<th>(O-E)^2/E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Great deal</td>
<td>9</td>
<td>12.5</td>
<td>3.5</td>
<td>12.25</td>
<td>0.98</td>
</tr>
<tr>
<td>Fair Amount</td>
<td>15</td>
<td>12.5</td>
<td>2.5</td>
<td>6.25</td>
<td>0.50</td>
</tr>
<tr>
<td>Little</td>
<td>23</td>
<td>12.5</td>
<td>10.5</td>
<td>110.25</td>
<td>8.82</td>
</tr>
<tr>
<td>Nothing</td>
<td>3</td>
<td>12.5</td>
<td>-9.5</td>
<td>90.25</td>
<td>7.22</td>
</tr>
</tbody>
</table>

$\Sigma(O-E)^2/E_c = 17.52$

$\chi^2$ tab (d.f= 3) at 5% Level of Significance = 7.81

Here, $\chi^2_{cal} > \chi^2_{tab}$ at 5% Level of Significance i.e. 17.52>7.81

Therefore, Null Hypothesis is rejected, and alternate hypothesis is accepted. At 95% level of confidence there is a significant difference between O and E i.e. O≠E. The study concluded
that the respondents had fair or little knowledge about mutual funds. It is reflected by the Bar diagram (Chart-1) that 46% of respondents had little knowledge, 30% had fair knowledge about mutual funds

- **Mutual fund investment Objectives among present Investor:** For study of 'Investment objective among present investors', Weighted Mean value (WMV) has been applied, according to that ranks from 1 to 7 have been applied.

<table>
<thead>
<tr>
<th>Objectives</th>
<th>WMV</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safety</td>
<td>2.42</td>
<td>2</td>
</tr>
<tr>
<td>Increase wealth</td>
<td>2.60</td>
<td>1</td>
</tr>
<tr>
<td>Tax benefits</td>
<td>2.20</td>
<td>3</td>
</tr>
<tr>
<td>High Profits</td>
<td>2.60</td>
<td>1</td>
</tr>
<tr>
<td>Less Risky</td>
<td>1.86</td>
<td>5</td>
</tr>
<tr>
<td>Any time Withdraw of money</td>
<td>1.94</td>
<td>4</td>
</tr>
<tr>
<td>Professional management</td>
<td>1.76</td>
<td>6</td>
</tr>
<tr>
<td>Secure Future of Family</td>
<td>1.72</td>
<td>7</td>
</tr>
</tbody>
</table>

The study concluded that the main object of investors to invest in mutual funds is good returns and capital appreciation followed by safety, Tax Benefits and liquidity.

- **Average Time Period for the Investments:** For study of 'Average Investment period' Weighted Mean Value (WMV) has been applied, according to that ranks from 1 to 7 have been applied.

<table>
<thead>
<tr>
<th>Investment period</th>
<th>% of Respondents</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 to 10 years</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>3 to 5 years</td>
<td>12</td>
<td>3</td>
</tr>
<tr>
<td>1 to 3 years</td>
<td>66</td>
<td>1</td>
</tr>
<tr>
<td>Less than 1 year</td>
<td>14</td>
<td>2</td>
</tr>
</tbody>
</table>

From Table - 3, it concluded that 66% of respondents are investing for 1 to 3 years time period. Average time period for investment is 2.47 years; reason being most of the respondents are investing in Tax benefits scheme where Lock-in-period is 3 years.

- **Average Investments:** For study of amount of Average investments, Weighted Mean value (WMV) has been applied, according to that ranks from 1 to 7 have been applied.

<table>
<thead>
<tr>
<th>Investment period</th>
<th>% of Respondents</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,00,000 to 2,00,000</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>50,000 to 1,00,000</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>25,000 to 50,000</td>
<td>32</td>
<td>2</td>
</tr>
<tr>
<td>Less than 25,000</td>
<td>48</td>
<td>1</td>
</tr>
</tbody>
</table>
From Table - 4 it is reflected that 48% of respondents had invested up to Rs. 25000/- 32% between Rs. 50,000 to Rs. 1,00,000. The reason of this fact is most of the respondent cater to their requirement of taxation and they have invested money as per their requirements.

- **Importance of the Sources of information:** For the purpose of study, which source of information is most important to the investors, the researcher has applied 'Weighted Mean Value' followed by 'Ranking'. The results reflect that 'Performance Ranking' got the first priority followed by 'Fund summary' and 'magazine article'. The past performance of investments play vital role in future investment profiling.

<table>
<thead>
<tr>
<th>Sources of Information</th>
<th>WMV</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offer documents/kim</td>
<td>2.34</td>
<td>5</td>
</tr>
<tr>
<td>Fund summary</td>
<td>3.22</td>
<td>2</td>
</tr>
<tr>
<td>Performance Ranking</td>
<td>3.40</td>
<td>1</td>
</tr>
<tr>
<td>Magazine Article</td>
<td>2.94</td>
<td>3</td>
</tr>
<tr>
<td>Fund Advertisement</td>
<td>2.86</td>
<td>4</td>
</tr>
</tbody>
</table>

- **Importance of the Performance Ranking:** On an average people seeks performance ranking as an important source of information. On a five-point scale of 1 to 5 (not at all important to extremely important) the mean score and S.D. has been calculated. The calculated values are 3.4 and 1.058 respectively. However 54% of the people surveyed said that this source of information is important consequently test of hypothesis has been applied. Now following hypothesis test has been applied,

Null Hypothesis = no significant difference between the sample mean and hypothetical population mean i.e. Mean = 4

H₀: Meanₙ = Meanₚ

H₁: Meanₙ ≠ Meanₚ

Level of Significance= 5%; S.E. = σ/√ₙ i.e. 1.058/√50=0.1496

Zₐₙ = Difference

S.E. = (4-3.4)/0.1496

= .6/0.1496=4.011

Zₐₙ>Zₜₐₙ at 95% level of confidence: i.e. 4.011>1.96

At 95% level of confidence, Null Hypothesis Rejected and alternate Hypothesis accepted which prove that there is significant difference between the sample mean and hypothetical population mean, so this is not accepted as important source of information.

- **Importance of the Fund summary:** On an average people seeks Fund Summary as an important source of information. On a five-point scale of 1 to 5 (not at all important to extremely important) the mean score came out to be 3.22 and S.D. 1.101. However 46% of the people surveyed said that this source of information has become important. Now following hypothesis test has been applied.
Null Hypothesis = no significant difference between the sample mean and hypothetical population mean i.e. Mean_p=3

\[ H_0: \text{Mean}_s = \text{Mean}_p; \quad H_1: \text{Mean}_s \neq \text{Mean}_p; \]

Level of Significance= 5%; S.E. = \( \sigma / \sqrt{n} \) i.e. 1.101/\( \sqrt{50} \)=0.1557

\[ Z_{cal} = \frac{\text{Difference}}{\text{S.E.}} \]
\[ = (3.22-3)/0.1557 \]
\[ =0.22/0.1557=1.413 \]

\( Z_{cal} < Z_{tab} \) at 95% level of confidence: i.e.1.413<1.96

Null Hypothesis Accepted therefore with 95% level of confidence it can be said that there is no significant difference between the sample mean and hypothetical population mean, therefore, it is accepted that fund summary is an important source of information.

**Impact of Banker on Investment decisions:** On an average people seek Banker has high impact on investment decisions as compare to others. On a five-point scale of 1 to 5 (not at all influential to highly influential) the mean score came out to be 3.78 and S.D. 1.316. However 68% of the people surveyed said that the Banker is influential one. Now following hypothesis test has been applied.

Null hypothesis = there is no significant difference between the sample mean and hypothetical population mean i.e. Mean_p=4

\[ H_0: \text{Mean}_s = \text{Mean}_p; \quad H_1: \text{Mean}_s \neq \text{Mean}_p; \]

Level of Significance= 5%; S.E. = \( \sigma / \sqrt{n} \) i.e. 1.316/\( \sqrt{50} \)=0.1861

\[ Z_{cal} = \frac{\text{Difference}}{\text{S.E.}} \]
\[ = (4-3.78)/0.1861 \]
\[ =0.22/0.1861=1.182 \]

\( Z_{cal} < Z_{tab} \) at 95% level of confidence: i.e.1.182<1.96

Null Hypothesis accepted therefore with 95% level of confidence it can be said that there is no significant difference between the sample mean and hypothetical population mean, so this is accepted as influential one.

**Impact of Financial Adviser on Investment decisions:** On an average people seek Financial Adviser has impact on investment decisions as compare to others. On a five-point scale of 1 to 5 (not at all influential to highly influential) the mean score came out to be 3.22 and S.D. 1.237. However 38% of the people surveyed said that the Financial Adviser is influential one.

Null Hypothesis = there is no significant difference between the sample mean and hypothetical population mean i.e. Mean_p=4

\[ H_0: \text{Means} = \text{Mean}_p; \quad H_1: \text{Means} \neq \text{Mean}_p; \]

Level of Significance= 5%; S.E. = \( s / \sqrt{n} \) i.e. 1.237/\( \sqrt{50} \)=0.1749
$Z_{\text{cal}} = \frac{\text{Difference}}{\text{S.E.}}$

$= \frac{(4-3.22)}{0.1749}$

$= \frac{0.78}{0.1749} = 4.459$

$Z_{\text{cal}} > Z_{\text{tab}}$ at 95% level of confidence: i.e. $4.459 > 1.96$

Null Hypothesis Rejected therefore with 95% level of confidence it can be said that there is significant difference between the sample mean and hypothetical population mean, so this is accepted only as somewhat influential.

- **Factors while making investment decisions:** It has been tried to find out the various factors affecting decisions of investments regarding mutual funds. Which factor plays important role while making investment?

<table>
<thead>
<tr>
<th>Factors</th>
<th>WMV</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk in fund</td>
<td>3.38</td>
<td>3</td>
</tr>
<tr>
<td>Past performance of fund</td>
<td>4.34</td>
<td>1</td>
</tr>
<tr>
<td>Reputation of fund manager</td>
<td>1.92</td>
<td>10</td>
</tr>
<tr>
<td>Reputation of fund company</td>
<td>3.54</td>
<td>2</td>
</tr>
<tr>
<td>Withdraw of money facility</td>
<td>3.26</td>
<td>5</td>
</tr>
<tr>
<td>Fund Expenses</td>
<td>2.34</td>
<td>7</td>
</tr>
<tr>
<td>Investment Style of Fund</td>
<td>3.06</td>
<td>6</td>
</tr>
<tr>
<td>After sale of service</td>
<td>3.30</td>
<td>4</td>
</tr>
<tr>
<td>Scope (No. of funds in family)</td>
<td>1.96</td>
<td>9</td>
</tr>
<tr>
<td>Fund Distribution channel</td>
<td>2.16</td>
<td>8</td>
</tr>
</tbody>
</table>

From the above table - 5 it is reflected that with Weighted Mean Average 4.34, Past performance is the most important factor for affecting decisions of investment followed by reputation of fund company.

- **Importance of Past performance of Fund:** On an average people seek past performance of the fund as extremely important factor affecting investment decisions. On a five-point scale of 1 to 5 (not at all important to extremely important) the mean score came out to be 4.34 and S.D. 0.8856. However 52% of the people surveyed said that the Past performance is extremely important. Now following hypothesis test has been applied.

Null hypothesis= there is no significant difference between the sample mean and hypothetical population mean i.e. $\text{Mean}_p = 5$

$H_0: \text{Means} = \text{Mean}_p$; $H_1: \text{Means} \neq \text{Mean}_p$;

Level of Significance= 5%; S.E. = $\sigma/\sqrt{n}$ i.e. $0.8856/\sqrt{50} = 0.1252$

$Z_{\text{cal}} = \frac{\text{Difference}}{\text{S.E.}}$

$= \frac{(5-4.34)}{0.1252}; 0.66/0.1252 = 5.2716$

$Z_{\text{cal}} > Z_{\text{tab}}$ at 95% level of confidence: i.e. $5.2716 > 1.96$
Null Hypothesis Rejected therefore with 95% level of confidence it can be said that there is significant difference between the sample mean and hypothetical population mean, so this is accepted only as important Factor, not as extremely important.

- Reputation of the Fund Company: On an average people seek Reputation of the Fund Company as Important factor affecting investment decisions. On a five-point scale of 1 to 5 (not at all important to extremely important) the mean score came out to be 3.54 and S.D. 1.099. However 66% of the people surveyed said that the Reputation of Fund Company is important. Now following hypothesis test has been applied.

Null hypothesis = there is no significant difference between the sample mean and hypothetical population mean i.e. Mean_p=4

\[ H_0 : \text{Mean}_s = \text{Mean}_p; \quad H_1 : \text{Mean}_s \neq \text{Mean}_p; \]

Level of Significance = 5%; S.E. = \( \frac{\sigma}{\sqrt{n}} \) i.e. 1.099/\( \sqrt{50} \)=0.1554

\[ Z_{cal} = \frac{\text{Difference}}{S.E.}; \]

= \( \frac{4-3.54}{0.1554} \);

=0.78/0.1554=2.96

\[ Z_{cal} > Z_{tab} \text{ at 95% level of confidence: i.e. } 2.96 > 1.96 \]

Null Hypothesis Rejected therefore with 95% level of confidence it can be said that there is significant difference between the sample mean and hypothetical population mean, so this is accepted only as somewhat important Factor.

- Reputation of the Fund Manager: On an average people seek Reputation of the Fund Manager as least important factor affecting investment decisions. On a five-point scale of 1 to 5 (not at all important to extremely important) the mean score came out to be 1.92 and S.D. 1.278. However 78% of the people surveyed said that the Reputation of Fund Manager is not important. Now following hypothesis test has been applied.

Null hypothesis = there is no significant difference between the sample mean and hypothetical population mean i.e. Mean_p=2 that it is not at all important.

\[ H_0 : \text{Means} = \text{Mean}_p; \quad H_1 : \text{Means} \neq \text{Mean}_p; \]

Level of Significance = 5%; S.E. = \( \frac{\sigma}{\sqrt{n}} \) i.e. 1.278/\( \sqrt{50} \)=0.1807

\[ Z_{cal} = \frac{\text{Difference}}{S.E.}; \]

= \( \frac{2-1.92}{0.1807} \);

=0.08/0.1807=0.442

\[ Z_{cal} < Z_{tab} \text{ at 95% level of confidence: i.e. } 0.442 < 1.96 \]

Null Hypothesis Accepted therefore with 95% level of confidence it can be said that there is no significant difference between the sample mean and hypothetical population mean, it means it is accepted as not important Factor.

- Attitude of Investor towards Mutual Funds: Investor’s attitude towards Mutual funds shows good results. It is liked by the investors. Respondents are very clear that it is favorable
investment instrument to invest their part of money. According to them it is profitable as well and easy to purchase but on the part of safety they were indifferent, they think it as somewhat risky not too much.

- **Study of Moderating Variables**: In the study various moderating variables were found like Sex moderates between Marital status and objectives, and Age moderates between sex and Objectives, Knowledge moderates between Education and Selection Criteria, Sex moderates between Friends/family and Investment decision.

![Diagram of Moderating Variables]

**CONCLUSIONS**

The preceding discussion reveals that investment profiles are used to present an investment opportunity to potentials investors in a succinct manner. It has been concluded that 46% of the investors are having little knowledge about mutual funds, capital appreciation and high profits are the main motives of the investors. The study concluded that investors are not interested in long term investments.

According to Hypothesis testing it is proved that Performance Ranking Important Source of information for the investors for investment purpose. Respondent's attitude was positive towards mutual funds, according to them it is favorable, profitable and easy to purchase investment instrument.

**RECOMMENDATIONS**

1. From the study it has been found out that very less number of people are having knowledge about impact of market conditions on investment profiling so the various Asset Management Companies should try to increase the Knowledge level of the people collectively in the interest of both the investors and the industry.
2. To maintain the investor's faith in Mutual Fund Instrument and particular AMC it must provide good services and try to ensure the safety and profitability of their investment as their main objective is making High Profits and Safety of their money.
3. AMC's should concentrate on Bankers and Financial advisers to penetrate the market because their influence on the investors is very high.

4. Investors seeks Performance ranking and fund summary most important source of the information for making investment decisions so AMC's should try to make available timely information of market conditions to investors.

REFERENCES
Markowitz Harry (March, 1952), "Portfolio Selection", The Journal of Finance, Volume 7, Number 1 (p. 77-91).
ABSTRACT

The severity of the incidence of non-performing assets (NPA henceforth) in Indian public sector banks (PSB's henceforth), noted in the early 1990s, raised a severe hue and cry in various quarters. In fact, the problem started much earlier, which became evident from continued recapitalisation of many PSBs since 1985-86. Whatever by the root cause, malfunctioning of the PSBs increased by the end of the 1980s. This led to the setting up of the Narasimham Committee (1991), which, in fact, identified NPA as one of the possible cause/effects of the malfunctioning of the PSBs. In order to quantify the NPA problem, Narasimham Committee (1991) made it mandatory on the part of the banks to publish annually the magnitude of NPAs. NPAs are those categories of assets (advances, bills discounted, overdraft, cash credits etc) for which any amount remains due for a period of 180 days. Following the recommendations, banks started publishing in their annual reports NPA data, which were astonishingly high. RBI (1999) report of NPA stated that reduction in NPA should be treated as a ‘national priority’.

Multiplicity of factors is responsible for ever-increasing size of NPAs in banks. A few prominent reasons for assets becoming NPAs are as under:

- Poor credit appraisal system
- Lack of proper monitoring
- Reckless advances to achieve the budgetary targets.
- There is no or lack of corporate culture in the Bank. Inadequate legal provisions on foreclosure and bankruptcy.
- Change in economic policies/environment.
- No transparent accounting policy and poor auditing practices.
- Lack of coordination between banks.
- Directed lending to certain sectors.
- Failure on the part of the promoters to bring their portion of equity for their own source or public issue due to market turning lukewarm.

OVERVIEW OF NON-PERFORMING ASSETS (NPAs) OF SCHEDULED COMMERCIAL BANKS

Asset quality of banks registered significant improvements simultaneously with the rapid increase in the quantum of credit to the commercial sector. The robust industrial
performance and wider option available to SCBs for recovery of their dues showed up in a significant reduction in the level of NPAs. A significant improvement in recovery of NPAs combined with a sharp increase in gross loans and advances by SCBs led to a sharp decline in gross NPAs to gross advances ratio to 5.2 percent at end-March 2005 from 7.2 percent at end-March 2004.

Public sector banks gross as well as net NPA (Non Performing Assets) have declined marginally during the first three months of 2006-07. Nineteen public sector banks have reduces their net NPAs by Rs.947 crore and gross NPA by Rs.329 crore during the April-June period of 2006-07 compared with the preceding quarter ended in March 2006. The average net NPA of 11 public sector banks as a percentage of advances has come down from 1.33% to 1.19% during April-June 2006. Eleven public sector banks now have less than 1% net NPA. Andhra Bank has the lowest net NPA to net advances ratio of 0.7%. Six other banks- Bank of Maharashtra, State Bank of India, State Bank of Travancore, Bank of India, SBBj & Union Bank of India have NPA levels between 1 and 2%. Dena Bank has the highest net NPA level among all public sector banks. The net NPA of all public sector banks have been reduced to Rs.11,012 crore at the end of june 2006 compared with Rs.11,959 crore at the end of March 2006. The gross NPA on the other hand declined to Rs.34,433 crore from Rs.34761 crore during the same period.

Table 1
Non-Performing Assets of Scheduled Commercial Banks

<table>
<thead>
<tr>
<th>Items</th>
<th>Gross NPAs (Rs. Crore)</th>
<th>% to gross advances</th>
<th>% to total assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Group</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Sector</td>
<td>51,538</td>
<td>48,399</td>
<td>42,106</td>
</tr>
<tr>
<td>Private Sector</td>
<td>10,355</td>
<td>8,782</td>
<td>7,782</td>
</tr>
<tr>
<td>Foreign</td>
<td>2,894</td>
<td>2,192</td>
<td>1,927</td>
</tr>
<tr>
<td>SCBs (1+2+3)</td>
<td>64,787</td>
<td>59,373</td>
<td>51,815</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Items</th>
<th>Net NPAs (Rs. crore)</th>
<th>% to Net advances</th>
<th>% to total assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Sector</td>
<td>19,335</td>
<td>16,904</td>
<td>14,561</td>
</tr>
<tr>
<td>Private Sector</td>
<td>4,128</td>
<td>4,212</td>
<td>3,161</td>
</tr>
<tr>
<td>Foreign</td>
<td>933</td>
<td>639</td>
<td>808</td>
</tr>
<tr>
<td>SCBs (1+2+3)</td>
<td>24,396</td>
<td>21,755</td>
<td>18,530</td>
</tr>
</tbody>
</table>

Source: Pratiyogita Darpan Indian Economy of special issue 2007, P.231

As per the recommendation of the Narsimham Committee the Reserve Bank of India introduced prudential accounting norms applicable from the financial year 1992-93, interest is not to be debited on the accrual basis but on the cash basis. The Prudential accounting norms are based on the NPA concept.
Jatana

N - No income,
P - Provisioning and
A - Asset classification.

NPA has affected the profitability, liquidity and competitive functioning of banks and finally the psychology of the bankers in respect of their disposition towards credit delivery and credit expansion.

- They erode current profits through provisioning requirements.
- They result in reduced interest income.
- They acquire higher provisioning requirements affecting profits and accretion to capital funds and,
- They limit recycling of funds, set in asset-liability mismatches etc.

### Table 2

11 Banks Showing NPA Below 1%

<table>
<thead>
<tr>
<th>Bank</th>
<th>NPA as % of advances</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June-05</td>
</tr>
<tr>
<td>Andhra bank</td>
<td>0.38</td>
</tr>
<tr>
<td>PNB</td>
<td>0.09</td>
</tr>
<tr>
<td>Indian Overseas Bank</td>
<td>1.00</td>
</tr>
<tr>
<td>Oriental Bank</td>
<td>1.00</td>
</tr>
<tr>
<td>Corporation Bank</td>
<td>1.15</td>
</tr>
<tr>
<td>SB of Mysore</td>
<td>1.06</td>
</tr>
<tr>
<td>Allahabad bank</td>
<td>0.99</td>
</tr>
<tr>
<td>Vijaya Bank</td>
<td>0.97</td>
</tr>
<tr>
<td>Sundicate Bank</td>
<td>1.54</td>
</tr>
<tr>
<td>Canara Bank</td>
<td>1.67</td>
</tr>
<tr>
<td>Bank of Baroda</td>
<td>1.47</td>
</tr>
</tbody>
</table>

Source: Pratiyogita Darpan Indian Economy of special issue 2007, P.231

### Impact of profitability

The efficiency of a bank is not always reflected only by the size of its balance sheet but by the level of return on its assets. NPAs do not generate interest income for the banks, but at the same time banks are required to make provisions for such NPAs from current profits.

In the context of crippling effect on a bank’s operations in all spheres, asset quality has been placed as one of the most important parameters in the measurement of a bank’s performance under the CAMLES supervisory rating system of RBI.

The enormous provisioning of NPA together with the holding cost of such non-productive assets over the years has acted as a severe drain on the profitability of the public sector banks. In turn, PSBs are seen as poor performers and unable to approach the market for raising additional capital. Equity issues of nationalize banks have already tapped the market.
are now quoted at a discount in the secondary market. Other banks hesitate to approach the market to raise new issues.

In the context of were competition in the banking industry, the weak banks are at disadvantage for leveraging the rate of interest in the deregulated market and securing remunerative business growth. The options for these banks are lost. Spread factor is the margin between the cost of resources employed and the return on funds deployed (interest earned on credit and investments) and cost of funds employed (interest paid on deposits)

When the interest rates were directed by RBI, there were no option for banks except to adopt them. But today in the deregulated market the banks decide their lending rates and borrowing rates. In the competitive money and capital markets, inability to offer competitive market rates adds to the disadvantage of marketing and building new business.

To see the impact of NPAs (in percentage) on profitability for selected banks gross advances, gross NPAs, standard assets, interest earned on standard assets and interest loss in different years in examined and it is found that for SBBJ it has been shown in table 5.1.

Table 3
Impact of NPAs (in percentage on probability of SBBJ

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Advances</th>
<th>Gross NPA</th>
<th>Standard Assets</th>
<th>Average gross *NPA</th>
<th>Average *Standard assets</th>
<th>Interest earned on standard assets</th>
<th>Yield on average standard assets %</th>
<th>Interest loss for the year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>13.83</td>
<td>7.96</td>
<td>5.87</td>
<td>7.285</td>
<td>5.855</td>
<td>0.7044</td>
<td>12.030</td>
<td>0.876</td>
</tr>
<tr>
<td>1997</td>
<td>11.73</td>
<td>7.13</td>
<td>4.60</td>
<td>7.545</td>
<td>5.235</td>
<td>0.5980</td>
<td>11.423</td>
<td>0.861</td>
</tr>
<tr>
<td>1998</td>
<td>16.11</td>
<td>10.45</td>
<td>5.66</td>
<td>8.790</td>
<td>5.130</td>
<td>0.7924</td>
<td>15.446</td>
<td>1.357</td>
</tr>
<tr>
<td>1999</td>
<td>16.15</td>
<td>10.14</td>
<td>6.01</td>
<td>10.295</td>
<td>5.835</td>
<td>0.9015</td>
<td>15.449</td>
<td>1.590</td>
</tr>
<tr>
<td>2000</td>
<td>12.91</td>
<td>7.83</td>
<td>5.08</td>
<td>8.985</td>
<td>5.545</td>
<td>0.8128</td>
<td>14.658</td>
<td>0.812</td>
</tr>
<tr>
<td>2001</td>
<td>9.36</td>
<td>5.77</td>
<td>3.59</td>
<td>6.800</td>
<td>4.335</td>
<td>0.6103</td>
<td>14.078</td>
<td>0.957</td>
</tr>
<tr>
<td>2002</td>
<td>8.15</td>
<td>4.16</td>
<td>3.99</td>
<td>4.965</td>
<td>3.790</td>
<td>0.7182</td>
<td>18.947</td>
<td>0.940</td>
</tr>
<tr>
<td>2003</td>
<td>5.36</td>
<td>1.24</td>
<td>4.12</td>
<td>2.700</td>
<td>4.055</td>
<td>0.7828</td>
<td>19.304</td>
<td>0.784</td>
</tr>
<tr>
<td>2004</td>
<td>3.26</td>
<td>1.61</td>
<td>1.65</td>
<td>1.425</td>
<td>2.885</td>
<td>0.3300</td>
<td>11.438</td>
<td>0.162</td>
</tr>
<tr>
<td>2005</td>
<td>2.40</td>
<td>1.18</td>
<td>1.22</td>
<td>1.395</td>
<td>1.435</td>
<td>0.2562</td>
<td>17.853</td>
<td>0.249</td>
</tr>
</tbody>
</table>

(Source : Annual Report of SBBJ Bank)

Loss of interest in SBBJ has increased from Rs.87.6 crores in 1996 to Rs.159.0 crores in 1999 thereafter it irregularly increasing and decreasing. It was Rs.24.9 crores in 2005. It revels that recovery from NPAs is in positive side.

Impact of NPAs on Profitability of Oriental Bank of Commerce

Loss on interest on OBC has increased from Rs.50.18 crores in 1996 to Rs.75.43 crores in 1998 thereafter it declined during the year 1998-2001 and again increases 2002 which decline
Rs.15.50 crores in 2005. Here also loss of interest is decreasing which shows that banks are performing well with NPAs.

**Table 4**

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Advances</th>
<th>Gross NPA</th>
<th>Standard assets</th>
<th>Average gross NPA</th>
<th>Average Standard assets</th>
<th>Interest earned on standard assets</th>
<th>Yield on average standard assets</th>
<th>Interest loss for the year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>7.36</td>
<td>5.64</td>
<td>1.72</td>
<td>4.62</td>
<td>1.90</td>
<td>0.2064</td>
<td>10.863</td>
<td>0.5018</td>
</tr>
<tr>
<td>1997</td>
<td>6.16</td>
<td>4.84</td>
<td>1.32</td>
<td>5.24</td>
<td>1.52</td>
<td>0.1716</td>
<td>11.289</td>
<td>0.5915</td>
</tr>
<tr>
<td>1998</td>
<td>6.30</td>
<td>4.50</td>
<td>1.80</td>
<td>4.67</td>
<td>1.56</td>
<td>0.2520</td>
<td>16.153</td>
<td>0.7543</td>
</tr>
<tr>
<td>1999</td>
<td>5.54</td>
<td>3.61</td>
<td>1.93</td>
<td>4.05</td>
<td>1.87</td>
<td>0.2895</td>
<td>15.522</td>
<td>0.6294</td>
</tr>
<tr>
<td>2000</td>
<td>5.21</td>
<td>3.59</td>
<td>1.62</td>
<td>3.60</td>
<td>1.77</td>
<td>0.2592</td>
<td>14.602</td>
<td>0.5256</td>
</tr>
<tr>
<td>2001</td>
<td>6.57</td>
<td>3.21</td>
<td>3.36</td>
<td>3.40</td>
<td>2.49</td>
<td>0.5712</td>
<td>22.939</td>
<td>0.7799</td>
</tr>
<tr>
<td>2002</td>
<td>6.94</td>
<td>1.44</td>
<td>5.50</td>
<td>2.32</td>
<td>4.43</td>
<td>0.9900</td>
<td>22.347</td>
<td>0.9899</td>
</tr>
<tr>
<td>2003</td>
<td>5.87</td>
<td>0.00</td>
<td>5.87</td>
<td>0.72</td>
<td>5.68</td>
<td>1.1150</td>
<td>19.613</td>
<td>0.1412</td>
</tr>
<tr>
<td>2004</td>
<td>9.06</td>
<td>1.29</td>
<td>7.77</td>
<td>0.65</td>
<td>6.82</td>
<td>1.5540</td>
<td>22.785</td>
<td>0.1469</td>
</tr>
<tr>
<td>2005</td>
<td>6.00</td>
<td>0.49</td>
<td>5.51</td>
<td>0.89</td>
<td>6.64</td>
<td>1.1570</td>
<td>17.424</td>
<td>0.1550</td>
</tr>
</tbody>
</table>

(Source: Annual Report of SBBJ Bank)

**Impact of NPAs on Profitability of ICICI Bank**

Loss on interest on OBC has increased from Rs.20.9 crores in 1997 to Rs.77.2 crores in 2002 thereafter it declined during the year 2002-05 the loss in interest was Rs.10.1 crores. This bank has not much effect of NPA on their profitability as its recovery part is tactics one.
Table 5
Impact of NPAs (in percentage) on Profitability of ICICI Bank

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Advances</th>
<th>Gross NPA assets</th>
<th>Standard assets</th>
<th>Average gross *NPA</th>
<th>Average *Standard assets</th>
<th>Interest earned on standard assets</th>
<th>Yield on average standard assets %</th>
<th>Interest loss for the year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>2.24</td>
<td>1.73</td>
<td>0.51</td>
<td>0.0561</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>1.93</td>
<td>1.14</td>
<td>0.79</td>
<td>0.0948</td>
<td>14.58</td>
<td>0.209</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>4.72</td>
<td>2.88</td>
<td>1.84</td>
<td>2.010</td>
<td>1.315</td>
<td>0.2390</td>
<td>18.17</td>
<td>0.365</td>
</tr>
<tr>
<td>1999</td>
<td>2.54</td>
<td>1.53</td>
<td>1.01</td>
<td>2.205</td>
<td>1.425</td>
<td>0.1410</td>
<td>9.89</td>
<td>0.218</td>
</tr>
<tr>
<td>2000</td>
<td>5.42</td>
<td>2.19</td>
<td>3.23</td>
<td>1.860</td>
<td>2.120</td>
<td>0.4850</td>
<td>22.87</td>
<td>0.425</td>
</tr>
<tr>
<td>2001</td>
<td>10.23</td>
<td>5.48</td>
<td>4.75</td>
<td>3.835</td>
<td>3.990</td>
<td>0.7600</td>
<td>19.05</td>
<td>0.730</td>
</tr>
<tr>
<td>2002</td>
<td>8.72</td>
<td>5.21</td>
<td>3.51</td>
<td>5.345</td>
<td>4.130</td>
<td>0.5970</td>
<td>14.45</td>
<td>0.772</td>
</tr>
<tr>
<td>2003</td>
<td>4.70</td>
<td>2.21</td>
<td>2.49</td>
<td>3.710</td>
<td>3.000</td>
<td>0.4480</td>
<td>14.93</td>
<td>0.553</td>
</tr>
<tr>
<td>2004</td>
<td>4.27</td>
<td>1.55</td>
<td>2.72</td>
<td>1.880</td>
<td>2.605</td>
<td>0.5168</td>
<td>11.09</td>
<td>0.208</td>
</tr>
<tr>
<td>2005</td>
<td>1.50</td>
<td>0.72</td>
<td>0.78</td>
<td>1.135</td>
<td>1.750</td>
<td>0.1560</td>
<td>8.91</td>
<td>0.101</td>
</tr>
</tbody>
</table>

(Source : Annual Report of SBBJ Bank)

Impact of NPAs on Profitability of The Bank of Rajasthan

Table 6
Impact of NPAs (in percentage) on Profitability of Bank of Rajasthan

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Advances</th>
<th>Gross NPA assets</th>
<th>Standard assets</th>
<th>Average gross *NPA</th>
<th>Average *Standard assets</th>
<th>Interest earned on standard assets</th>
<th>Yield on average standard assets %</th>
<th>Interest loss for the year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>12.07</td>
<td>8.82</td>
<td>3.25</td>
<td>6.61</td>
<td>2.57</td>
<td>0.390</td>
<td>15.18</td>
<td>1.003</td>
</tr>
<tr>
<td>1997</td>
<td>17.61</td>
<td>9.14</td>
<td>8.47</td>
<td>8.98</td>
<td>5.86</td>
<td>1.101</td>
<td>18.77</td>
<td>1.685</td>
</tr>
<tr>
<td>1999</td>
<td>18.55</td>
<td>9.86</td>
<td>8.69</td>
<td>9.68</td>
<td>10.09</td>
<td>1.304</td>
<td>12.92</td>
<td>1.251</td>
</tr>
<tr>
<td>2001</td>
<td>15.73</td>
<td>8.86</td>
<td>6.87</td>
<td>8.24</td>
<td>8.23</td>
<td>1.168</td>
<td>14.19</td>
<td>1.169</td>
</tr>
<tr>
<td>2002</td>
<td>11.39</td>
<td>6.80</td>
<td>4.59</td>
<td>7.83</td>
<td>5.73</td>
<td>0.826</td>
<td>14.42</td>
<td>1.129</td>
</tr>
<tr>
<td>2004</td>
<td>5.34</td>
<td>2.50</td>
<td>2.84</td>
<td>2.75</td>
<td>4.49</td>
<td>0.568</td>
<td>12.65</td>
<td>0.347</td>
</tr>
<tr>
<td>2005</td>
<td>3.30</td>
<td>0.99</td>
<td>2.31</td>
<td>1.75</td>
<td>2.58</td>
<td>0.485</td>
<td>18.79</td>
<td>0.328</td>
</tr>
</tbody>
</table>

(Source : Annual Report of SBBJ Bank)
Jatana

Loss on interest on OBC has increased from Rs.71 crores in 1995 to Rs.168.5 crores in 1997 thereafter it declined during the year 1998-2005. In 2005 the loss in interest was Rs.32.8 crores. In 2000 and onwards loss of interest is in decreasing the which is good sign for banks profitability.

A Comparative Picture of Interest Loss for selected banks is shown in bar diagram

A comparative picture of interest loss for selected banks shown that it was much for all the selected banks upto 2003 but after it declined and for ICIC bank, it was comparatively less. Thus we may conclude that among the four selected banks ICICI is performing well in managing the NPA as regard their profitability in comparison to other banks.
ABSTRACT
The paper makes an attempt to analyse areawise reverse mortgage loan practices of SBI in Andhra Pradesh.

INTRODUCTION
India, the seventh largest country in size, is the second largest populated after China with a total population of about 1140 million\(^1\) in 2008 with a substantial percentage of about 77 million\(^2\) senior citizens, above 60 years of age in the country, which is expected to raise to 140 million by 2016 and 220 million by 2030. The percentage of the senior citizens to the total population is on an increasing scale ever since 1961. It raised from 5.62 percent in 1961 to 5.96 percent in 1971, 6.49 percent in 1981, 6.76 percent in 1991 and 7.44 percent in 2001\(^3\) requiring a special focus from the Government. Old age is mainly associated with health problems; fall in the earning capacity, drying up of regular sources of incomes leading to dependency on children, relations and others, posing a threat to the aged people to lead a decent life. Government in order to safeguard the interest of the aged people has been launching various financial products and providing banking services since many years. One such scheme is Reverse Mortgage Loan (RML).

The demographic projections reveal that the senior citizens segment is growing at a fast pace all over, warranting for a well-planned programme from the Government. In this scenario, the RML scheme launched in India two years ago is making efforts to spread its wings all over the country.

OBJECTIVES
The study is undertaken with the following objectives:
• To analyse the working of the scheme of State Bank of India (SBI) in the state of Andhra Pradesh.
• To assess the level of awareness of the scheme among the senior citizens.

\(^{1}\)Based on United Nations World Population Prospects: The 2008 Revision
\(^{2}\)6.2 Million Seniors in 2009
\(^{3}\)Based on the 2001 Census
ATHMA AND BHAVANI

METHODOLOGY
Data have been collected both from primary and secondary sources. A questionnaire has been administered to 150 senior citizens selected at random in the twin cities of Hyderabad and Secundarabad to assess awareness among them about the RML scheme. Data from secondary sources include SBI records, SBI brochure and websites. Gender wise, Region wise and Area wise analysis of RML of SBI in the state of Andhra Pradesh is made. Of the six providers of RML, SBI is taken up for the study, as it is the premier banking institution spread all over the country.

Spearman Rank Correlation is employed to assess region wise correlation between number of loans advanced and the amount of loan amount advanced.

ABOUT THE RML SCHEME
RML was proposed by the then finance minister, Dr. P. Chidambaram, in the union budget 2007. RML was introduced by National Housing Bank (NHB) and the final operational guidelines were issued by NHB on May 31, 2007. The major RML lenders in India include National Housing Bank, Dewan Housing Finance Limited, State Bank of India, Punjab National Bank, Indian Bank and Central Bank of India. The scheme is introduced as a solution for the financial needs of senior citizens after retirement and it helps them in regaining their feeling of independence. Reverse mortgages have potential market in the metros with hardly any old age social security schemes and financial help lines. In India, RML is still at an infancy stage where as the idea has evolved in United Kingdom during the great depression of 1929, and in United States of America (U.S.A), it was introduced in the year 1962. The scheme is popular in US, Europe, Australia and parts of Asia. India is the first developing economy to have launched the scheme.

The RML scheme is launched to protect the old age people with house property enabling them to have an independent income to support them. The bank makes payment to the borrowers against the mortgage of their residential house property. The RML is disbursed either by way of periodic installments or by lump sum payments. The most attractive feature of the scheme is that the borrower continues to live in his/her house and he/she is not required to repay the loan during his/her lifetime. The recovery of the loan occurs only after the demise of the last surviving borrower (in case of joint loan) or leaving the house permanently. The loan along with the accumulated interest is repaid through the sale of the property pledged. In case, the loan amount along with the accumulated interest is higher than the market value of the mortgaged property, then the lender will have to suffer the loss and if any excess amount is realised by way of sale of the property, such excess amount will be remitted to the borrower in case of permanent leaving of the house or to his/her heirs in case of the death of the borrower. The borrower can also exercise an option to free his/her property from reverse mortgage during his/her lifetime by repaying the loan amount. In this article, the study is about the performance of RML offered by State Bank of India in the state of Andhra Pradesh. SBI has launched RML scheme for senior citizens on October 12th, 2007. The loan is offered by all the branches of SBI at an interest rate of 10.75 percent p.a and it is subject to change after the revaluation of the property at the end of every five years.
The main features of the scheme are given in the table below.

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Parameter</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Objective of the scheme</td>
<td>To provide a source of additional income for senior citizens of India who own self-acquired and self-occupied house property in India.</td>
</tr>
<tr>
<td>2</td>
<td>Eligibility</td>
<td></td>
</tr>
<tr>
<td>A.</td>
<td>No. of borrowers</td>
<td>Single or jointly with spouse in case of living spouse.</td>
</tr>
<tr>
<td>B.</td>
<td>Age of first borrower</td>
<td>Above 60 years</td>
</tr>
<tr>
<td>C.</td>
<td>No. of surviving spouses on the date of sanction of loan</td>
<td>Should not be more than one. Borrowers will have to give an undertaking that they will not remarry during the currency of the loan. If the borrowers choose to remarry, the loan will be foreclosed.</td>
</tr>
<tr>
<td>D.</td>
<td>Age of spouse</td>
<td>Above 58 years</td>
</tr>
<tr>
<td>E.</td>
<td>Residence</td>
<td>Borrower should be staying at self-acquired and self-owned house/flat against which loan is being raised, as his permanent primary residence. Mobile/Telephone/Credit card bills/Certificate from the Housing Society where the borrower is staying/affidavit made before the Executive Magistrate may be accepted as proof of residence. Borrowers will be required to inform the bank when they cease to use this residence as their permanent residence. Borrowers will be required to inform the bank when they cease to use this residence as their permanent residence.</td>
</tr>
<tr>
<td>F.</td>
<td>Title of the property</td>
<td>Borrowers should have clear and transferable title in their names. Title verification and search report for a period of 30 years will be required to be obtained from the Bank's empanelled advocate at borrowers' cost.</td>
</tr>
<tr>
<td>G.</td>
<td>Title of the property and number of borrowers</td>
<td>Title in single name and loan availed jointly with spouse. Titleholder should make a registered will in favour of the other spouse. The Will should confirm that this is the last Will and that it supersedes all earlier Wills, if any. The borrower to undertake that no fresh Will shall be made during the currency of the loan.</td>
</tr>
<tr>
<td>H.</td>
<td>Encumbrances</td>
<td>The property should be free from any encumbrances. However, in case of property purchased by availing Home loan from SBI and mortgaged to SBI, it will be considered for RML, subject to closure of the Home Loan Account out of the proceeds of RML.</td>
</tr>
</tbody>
</table>
Athma and Bhavani

I. Residual Life of property
   Should be at least 20 years in case of single borrower and 25 years in case of spouse being below 60 years of age.

(3) Security
   The RML shall be secured by way of equitable mortgage of residential property.

(4) Tenor
   Age of the younger of the borrowers
   - Between 58 and up to 68 years: 15 years
   - Age of the younger of the borrowers
     - Above 68 years: 10 years
   Or till death of the borrower(s), whichever is earlier.

(5) Disbursement
   By credit to an SB account in the joint names of the borrowers by E or S

(6) Periodicity of availing loan
   1. Monthly/Quarterly payments
   2. Lump sum payment

(7) Quantum of the loan
   The loan amount would be 90% of the value of the property. The loan amount would include interest till maturity.

Source: SBI Brochure

Region wise - Gender wise Analysis of RML scheme in SBI is provided in the table 2.

Table 2
RML: Region wise and Gender wise Analysis as an 31-03-09

<table>
<thead>
<tr>
<th>Area</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Loan(Rs)</td>
<td>Number</td>
</tr>
<tr>
<td>Andhra</td>
<td></td>
<td>35</td>
<td>43316911</td>
</tr>
<tr>
<td>Rayalaseema</td>
<td>5</td>
<td>18183437</td>
<td>3776081</td>
</tr>
<tr>
<td>Telangana</td>
<td>17</td>
<td>18220370</td>
<td>1167000</td>
</tr>
<tr>
<td>Total</td>
<td>57</td>
<td>79720718</td>
<td>10278081</td>
</tr>
</tbody>
</table>

Source: SBI Records

The number of loans advanced under RML is 66 by the end of 31st March 2009 of which loans given to males are 57 accounting to 86 percent and the balance 9 accounting to 14 percent to women. Of the total loans, Andhra region occupied the first position with 62 percent followed by Telangana region with 27 percent and Rayalaseema with 11 percent. From the table it can be
observed that in all the regions it is the males who showed interest in availing this facility, the main reason being ownership. In most of the cases, the house property owned by the women is very less. In India the total number of house owners who have availed the facility from SBI is 2000 of which Andhra Pradesh has accounted for only 3.3 percent.

The total loan amount advanced by the bank under the RML scheme is around Rs 9 crores of which Rs 4.87 crores is advanced in Andhra Region accounting to 54 percent followed by Rs 2.2 crores in Rayalaseema with 24 percent and Rs 1.94 crores 20 percent in Telangana Region. One of the noteworthy features to be observed is that, though Rayalaseema occupied 3rd position in terms of number of loans, it ranked 2nd in terms of amount disbursed. The reason being high value of the house property being used for obtaining RML. The probable reason for Andhra Region obtaining 1st in availing RML facility could be more number of senior citizens with house property, high level of awareness, greater need for regular source of income and probably higher level of insecurity.

Area-wise Gender-wise Analysis of RML of SBI in Andhra Pradesh is presented in table 3.

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Branch/Place</th>
<th>Female</th>
<th>Male</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Loan (Rs)</td>
<td>Number</td>
<td>Loan (Rs)</td>
</tr>
<tr>
<td>1</td>
<td>Eluru</td>
<td>1500000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>Gudivada</td>
<td>-</td>
<td>11665000</td>
<td>1665000</td>
</tr>
<tr>
<td>3</td>
<td>Guntur</td>
<td>13400000</td>
<td>53334000</td>
<td>6734000</td>
</tr>
<tr>
<td>4</td>
<td>Hyderabad</td>
<td>11167000</td>
<td>1216630786</td>
<td>17797786</td>
</tr>
<tr>
<td>5</td>
<td>Kadapa</td>
<td>11000000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>6</td>
<td>Kakinada</td>
<td>-</td>
<td>85640000</td>
<td>5640000</td>
</tr>
<tr>
<td>7</td>
<td>Karimnagar</td>
<td>-</td>
<td>1259584</td>
<td>259584</td>
</tr>
<tr>
<td>8</td>
<td>Khammam</td>
<td>-</td>
<td>31100000</td>
<td>1100000</td>
</tr>
<tr>
<td>9</td>
<td>Machilipatnam</td>
<td>1325000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>10</td>
<td>Monubolu</td>
<td>-</td>
<td>32600000</td>
<td>2600000</td>
</tr>
<tr>
<td>11</td>
<td>Nalgonda</td>
<td>-</td>
<td>1230000</td>
<td>230000</td>
</tr>
<tr>
<td>12</td>
<td>Narsaraopet</td>
<td>31110000</td>
<td>62798000</td>
<td>3908000</td>
</tr>
<tr>
<td>13</td>
<td>Nellikodur</td>
<td>-</td>
<td>180000</td>
<td>80000</td>
</tr>
<tr>
<td>14</td>
<td>Rajamandhry</td>
<td>12125298</td>
<td>2125298</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Srikalahasti</td>
<td>12160000</td>
<td>2160000</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Tirupathi</td>
<td>12776081</td>
<td>14160234</td>
<td>18799518</td>
</tr>
<tr>
<td>17</td>
<td>Vijayawada</td>
<td>-</td>
<td>42165910</td>
<td>31659103</td>
</tr>
<tr>
<td>18</td>
<td>Visakhapatnam</td>
<td>-</td>
<td>53415510</td>
<td>3415510</td>
</tr>
<tr>
<td>Total</td>
<td>91027808</td>
<td>15779720718</td>
<td>89998799</td>
<td></td>
</tr>
</tbody>
</table>

Source: SBI Records

As per the above table 3, it is clear that RML scheme has spread its wings across the state of Andhra Pradesh, catering to 66 beneficiaries spreading over 18 places/branches. Out of total beneficiaries, 57 are males and 9 are females. The highest number of loans has been obtained in...
Hyderabad numbering to 13 (20 percent) out of which 12 are males and one is obtained by a female occupying first place followed by Narsaraopet with nine customers out of which 6 loans are availed by males and 3 by females (14 percent). Third position with 8 male customers (12 percent) is occupied by Kakinada, followed by Guntur with 6 male customers (9 percent) at fourth. Tirupathi and Visakhapatnam stand at the fifth position with total number of loans advanced 5 each (8 percent), followed by Vijayawada, Monubolu, Khammam, Eluru, Gudivada, Kadapa, Karimnagar, Machilipatnam, Nalgonda, Nellikodur, Rajamandhary and Srikalahasti.

From the disbursements point of view, one interesting observation made is, even though number of loans advanced are only 4 in Vijayawada ranking 5th position, it occupied 1st place in terms of loan amount disbursed followed by Tirupathi, Hyderabad, Guntur and Kakinada occupying next four places. Hyderabad, though ranked first in terms of number of loans given, in terms of amount disbursed, it ranked 3rd position. This shows that the value of the property mortgaged under RML scheme is high in case of Vijayawada. It is Nellikodur, which occupied the last position both in terms of number of loans advanced and the amount sanctioned.

Region wise Area wise Analysis of RML in SBI is given in table 4. When the area wise data is analysed with in each region, it is found that in Andhra Region, Vijayawada occupied the 1st position followed by Guntur, Kakinada, Narsaraopet and Visakhapatnam in terms of loan amount disbursed. Though Narsaraopet occupied 1st position with 9 beneficiary accounts in terms of number of loans disbursed, it occupied 4th position in loan amount disbursed. In Rayalaseema Region, it is Tirupathi, which topped followed by Srikalahasthi and Kadapa in terms of loan amount sanctioned. In Telangana Region, it is Hyderabad, which topped followed by Khammam, Karimnagar and Nalagondaa in terms loan amount disbursed.

However, the overall analysis shows that it is Vijayawada (Andhra Region), Tirupathi (Rayalaseema Region) and Hyderabad (Telangana Region) topped the list of amount of loan sanctioned under RML scheme in the state of AP representing one from each region.

The correlation between number of loans advanced and the loan amount disbursed is assessed with the help of Spearman Rank Correlation.

The rank correlation for Andhra Region is .782 indicating a high positive relationship between the number of loans and the amount disbursed. In case of Rayalaseema, it is .667 and the rank correlation is .875 in case of Telengana Region. Among the three regions, the correlation is very high in case of Telangana followed by Andhra and Rayalseema. On the whole, on an average more the number of loans in a particular region, higher the amount of loan disbursed, which is clear from the overall rank correlation of .7662.

It can be clearly seen that, though the scheme was launched two years ago, the response from the senior citizens has been lukewarm as the RML scheme could do very little business in India against the estimated market of around Rs 5000 crores. The slow pick up of the scheme could be due to low level of awareness among the senior citizens. It is evident from the table 5, that out of 150 respondents selected at random from various places in the twin cities of Hyderabad and Secunderabad, only 47 senior citizens (31.33 percent) of different age groups are aware of the RML scheme, where as 103 (68.67 percent) senior citizens are not aware of the scheme.
age groups, it is in the age group of 63-68, the awareness about the RML is more and the awareness is low, in the age group of 69-73.

Table 4
RML: Region wise and Area wise Analysis as on 31-03-09

<table>
<thead>
<tr>
<th>Region/Area</th>
<th>Number of loans</th>
<th>Rank (number of loans)</th>
<th>Amount of loan advanced (Rs)</th>
<th>Rank (amount)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Andhra</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eluru</td>
<td>1</td>
<td>VII</td>
<td>500000</td>
<td>IX</td>
</tr>
<tr>
<td>Gudivada</td>
<td>1</td>
<td>VI</td>
<td>1665000</td>
<td>VIII</td>
</tr>
<tr>
<td>Guntur</td>
<td>6</td>
<td>III</td>
<td>6734000</td>
<td>II</td>
</tr>
<tr>
<td>Kakinada</td>
<td>8</td>
<td>II</td>
<td>5640000</td>
<td>III</td>
</tr>
<tr>
<td>Machilipatnam</td>
<td>1</td>
<td>VII</td>
<td>325000</td>
<td>X</td>
</tr>
<tr>
<td>Monubolu</td>
<td>3</td>
<td>VI</td>
<td>2600000</td>
<td>VI</td>
</tr>
<tr>
<td>Narsaraopet</td>
<td>9</td>
<td>I</td>
<td>3908000</td>
<td>IV</td>
</tr>
<tr>
<td>Nellikodur</td>
<td>1</td>
<td>VII</td>
<td>80000</td>
<td>XI</td>
</tr>
<tr>
<td>Rajamandhry</td>
<td>1</td>
<td>VII</td>
<td>2125298</td>
<td>VII</td>
</tr>
<tr>
<td>Vijayawada</td>
<td>4</td>
<td>IV</td>
<td>21659103</td>
<td>I</td>
</tr>
<tr>
<td>Visakhapatnam</td>
<td>5</td>
<td>V</td>
<td>3415510</td>
<td>V</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>41</td>
<td></td>
<td>48651911</td>
<td></td>
</tr>
<tr>
<td><strong>Spearman's Rank Correlation</strong></td>
<td>.782</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Rayalaseema</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kadapa</td>
<td>1</td>
<td>II</td>
<td>1000000</td>
<td>III</td>
</tr>
<tr>
<td>Srikalahasti</td>
<td>1</td>
<td>II</td>
<td>2160000</td>
<td>II</td>
</tr>
<tr>
<td>Tirupathi</td>
<td>5</td>
<td>I</td>
<td>18799518</td>
<td>I</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>7</td>
<td></td>
<td>21959518</td>
<td></td>
</tr>
<tr>
<td><strong>Spearman's Rank Correlation</strong></td>
<td>.667</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Telengana</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hyderabad</td>
<td>13</td>
<td>I</td>
<td>17797786</td>
<td>I</td>
</tr>
<tr>
<td>Karimnagar</td>
<td>1</td>
<td>III</td>
<td>259584</td>
<td>III</td>
</tr>
<tr>
<td>Khammam</td>
<td>3</td>
<td>II</td>
<td>1100000</td>
<td>II</td>
</tr>
<tr>
<td>Nalgonda</td>
<td>1</td>
<td>III</td>
<td>230000</td>
<td>IV</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>18</td>
<td></td>
<td>19387370</td>
<td></td>
</tr>
<tr>
<td><strong>Spearman's Rank Correlation</strong></td>
<td>.875</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Overall Rank Correlation</strong></td>
<td>.766</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: SBI Records
Table 5
RML: Age-wise awareness of the respondents

<table>
<thead>
<tr>
<th>Age</th>
<th>Number of Respondents who are aware</th>
<th>Number of Respondents who are not aware</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>58-62</td>
<td>12</td>
<td>18</td>
<td>30</td>
</tr>
<tr>
<td>63-68</td>
<td>13</td>
<td>22</td>
<td>35</td>
</tr>
<tr>
<td>69-73</td>
<td>11</td>
<td>31</td>
<td>42</td>
</tr>
<tr>
<td>74-78</td>
<td>09</td>
<td>26</td>
<td>35</td>
</tr>
<tr>
<td>79 and above</td>
<td>02</td>
<td>06</td>
<td>08</td>
</tr>
<tr>
<td>Total</td>
<td>47</td>
<td>103</td>
<td>150</td>
</tr>
</tbody>
</table>

Source: Questionnaire

The success of any scheme depends on the awareness about the product as it determines the penetration levels into the target market. In the process of making the RML product more saleable, banking institutions with NHB in the forefront have taken up various remedial measures for building up awareness among the senior citizens. To mention a few, launching counseling centers at various places to counsel the senior citizens, tying up with Consumer Association of India for running the counseling centers, tying up with several non-governmental organizations in various cities in India, conducting seminars on RML in different parts of the country, establishing liaison with different organizations of retired persons, organizing talks with senior citizens to apprise and familiarize them about the product etc, are such measures.

The main strengths of the scheme for its success are given below:

- Borrowers with low incomes can plan their post-retired life happily as RML acts as an additional source of income.
- The loan disbursements under RML are treated as loan but not as income in the hands of the borrower therefore does not attract any taxes.
- After the demise of the borrower, the spouse is allowed to live in the same house.
- The borrowers have the option to prepay the loan. There is no penalty for prepayment.

CONCLUSION

RML is very much popular in western countries, and the reasons for this could be more social rather than financial. In India, it has got an altogether a different dimension as the house property is mostly associated with emotions and sentiments because of the life time savings of the senior citizens being invested in the house property. Unlike western culture, in Indian society, grown-up children tend to stay with their aged parents. It has become a practice with the old people to pass on their house property to their children after them. Therefore they may not be prepared to mortgage the property. Sentiments, peoples' attitude to save for the future to have a planned life after their retirement along with lack of proper awareness about the scheme could be the main reasons for the poor response in India. Another reason as to why the scheme has not gained much momentum as expected could be the global recession due to which there is a fall in
the real estate prices as a result of which the market value of the houses also have fallen. As the valuation of the property is the basis for securing the RML, low valuation must have resulted in less number of borrowers.

According to the available statistics, approximately it is only 4 percent of the retired people who get pension and those who are pensioners also; the amount may not be sufficient for them to meet the requirements of the old age. Never the less, a beginning has been made, and it is yet to tap the estimated 5000 crore market In the due course of time more number of senior citizens may opt for the scheme once they understand that RML is launched not for social service purposes but it is a market based commercial solution for the socio-economic problems that are being faced by them.

END NOTES
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3. Gireesh Chandra Tripathi and Dr. K. Chandrashekhar Iyer, "Assessment of Reverse Mortgage Products in Indian Market".

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ABSTRACT

This paper analyses environmental accounting and reporting (EAR) standards and guidelines in various countries and examines the need for comprehensive EAR standards in India. The analysis shows that despite a great deal of grass root activity in the environmental accounting area, the accounting standards setters at the international and national levels have generally chosen to avoid dealing directly with the topic of environmental issues in financial reporting. Till date, only a few international standards exist concerning how these issues may be treated in annual reports. Though the accounting profession in India has tremendous potential to support industry in developing environmental and sustainability solutions, it has yet to contribute in this area by developing a conceptual framework and by issuing a standard on EAR.

Keywords: Environmental Accounting and Reporting (EAR); Conceptual Framework; Sustainability; Stakeholders; Accountant.

The concept of environmental financial accounting deals with identification, measurement, recognition and disclosure of an organization's environmental costs, benefits, assets, liabilities and contingencies as a component of financial or sustainability reports. During the last two decades, the accounting profession worldwide has made various deliberations on the concept. Various supra-national bodies like UN, FEE, GRI have shown keen interest in the topic and have started issuing guidelines on EAR. Governments of some countries (e.g. Denmark, Norway, Australia, and Spain) have also responded to stakeholders’ pressure by introducing mandatory disclosure/reporting requirements on environment for companies. However in India, there is yet a need to take steps to formulate the accounting and valuation techniques and to issue mandatory guidelines to incorporate environmental issues in company’s annual reports. In this paper, an attempt has been made to summarise recent laws and guidelines relating to EAR in some countries. The main object of the paper is to evaluate the need for comprehensive EAR laws in India. It is hoped that the future potentials and recommendations outlined in the article would form a central part of a future debate within the profession as to their respective importance and priority. The paper has been structured as follows: the present
Section is introductory in nature. Section 2 summarises EAR laws in some countries. Section 3 examines need for EAR standards in India and finally, Section 4 concludes the paper.

**EAR LAWS IN SOME COUNTRIES**

The development of environment, health and safety policy statements has a long history in USA. In this country, there are a number of rules on reporting and recording of costs and liabilities that pertain to environmental matters. In late 1990s, the Emerging Issues Task Force (EITF) of FASB started examining some issues relating to environmental accounting in its different reports like 'Accounting for the costs of Asbestos Removal', 'Accounting for Environmental Liabilities' and 'Capitalisation of costs to treat environmental contamination'. FAS-143 was developed in 2001 to provide uniformity in how companies evaluate asset retirement obligations (ARO). FAS-143 applies to "legal obligations", associated with the retirement of tangible long-lived assets such as property and equipment. Prior to the adoption of FAS 143, FASB Statement No. 5 "Accounting for Contingencies" (FAS 5) was the principal tool used to evaluate environmental liabilities.

The Securities & Exchange Commission (SEC) under Regulation S-K, requires US public companies to disclose in the "description of business" section of the annual report 'effects of compliance with environmental laws which may have on capital expenditure, earnings and competitive position' and 'any pending or contemplated administrative or judicial proceedings, including those arising under environmental laws'. The Toxic Release Inventory (TRI) tells companies with more than 10 full-time employees to submit data on emissions of specified toxic chemicals to the Environmental Protection Agency (EPA).

In UK, the UK Financial Reporting Standard FRS-12 (Provisions, contingent liabilities and contingent assets) issued by Accounting Standards Board (ASB) in 1998, specifically looks at the accounting procedures required for dealing with issues, such as contaminated land. In addition, FRS-10 (Goodwill also applies to partial settlements of AROs and intangible assets); FRS 11 (Impairment of fixed assets and goodwill); FRS 15 (Tangible fixed assets) and FRS 18 (Accounting policies) may also be helpful for organisations in implementing environmental accounting policies and procedures (Environment Agency, 2004). The Operating and Financial Review (OFR) is a legal requirement for all UK listed companies to provide a narrative within their Annual Report on the company's strategies, performance, future plans and key risks which may include ethical, social, environmental, brand and reputational risks.

In Spain, ICAC (Instituto de Contabilidad y Auditoria de Cuentas) issued an accounting standard for electricity companies in 1998. "Note 19th" of the standard requires disclosure of information on the environment particularly in respect of environmental investments, environmental expenses, provisions for environmental issues and contingent liabilities in the financial statements.

There are many other countries that require companies to report on environmental and social issues. A summary of environmental reporting requirements in some of these countries is given in Exhibit 1.
**Exhibit 1: Mandatory Environmental Reporting in Some Countries**

<table>
<thead>
<tr>
<th>Country</th>
<th>Requirements and Legislation</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union</td>
<td>Based on the Integrated Pollution Prevention and Control Directive (IPPC), member states will be required to register emission data from large companies (so called IPPC installations) and report this data to the commission.</td>
</tr>
<tr>
<td>Australia</td>
<td>Corporations Law Section 299(1) (f) introduced in 1999 and requires companies that prepare a director’s report to provide details of the entity’s performance in relation to environmental regulations.</td>
</tr>
<tr>
<td></td>
<td>Financial Services Reform Act was introduced in March 2002 and requires fund managers and financial product providers to state &quot;the extent to which labour standards or environmental, social or ethical considerations are taken into account in the selection, retention or realization of the investment.&quot;</td>
</tr>
<tr>
<td></td>
<td>National pollutant Inventory requires industrial companies to report emissions and inventories for specific substances and fuel to regulatory authorities for inclusion in a public database.</td>
</tr>
<tr>
<td>Belgium</td>
<td>Article 4.1.8 of VLAREM II (1995) stipulates that certain companies have to issue an annual environmental report. Companies subject to this obligation are listed in Appendix 1 of VLAREM I and mainly concern Class I and Class II hazardous activities.</td>
</tr>
<tr>
<td>Canada</td>
<td>The Securities Commission requires public companies to report the current and future financial or operational effects of environment protection requirements in an Annual Information Form.</td>
</tr>
<tr>
<td>Denmark</td>
<td>The law on Annual Accounts, introduced in 2001, requires reporting on intellectual capital resources and environmental aspects in the management report, if it is material to providing a true and fair view of the company’s financial position.</td>
</tr>
<tr>
<td></td>
<td>The Law on Green Accounts and statutory order from the Ministry of Environment and Energy has been applicable since 1996 and obligates certain listed activities/companies to draw up green accounts.</td>
</tr>
<tr>
<td>France</td>
<td>&quot;Law No. 2001-420 related to new economic regulations (Art. 116)&quot; (May 2001), environmental and social reporting is mandatory for publicly-quoted companies, starting with data for the 2002 financial year.</td>
</tr>
<tr>
<td>Norway</td>
<td>The Accounting Act (1999) requires that all companies include more detailed environmental information in Director's reports in annual financial reports from 1999 onwards.</td>
</tr>
<tr>
<td>Sweden</td>
<td>Amendment to the Annual Accounts Act applicable since 1999. Companies that are required to have environmental permits or must notify the environmental authorities, have an obligation to include a brief disclosure of environmental information (mainly related to</td>
</tr>
</tbody>
</table>
permit conditions and restrictions) in the board of director's report section of the annual report

The Netherlands

- The Environmental Protection Act (1997) includes a section on environmental reporting. This section indicates which companies are required to report on environmental matters. To date, over 250 companies have each published two reports a year: one public report and one governmental report.

USA

- In U.S.A., companies with over ten full time employees are required to submit data on emission of specified toxic chemicals to the EPA under the Toxic Release Inventory (TRI). In addition, the Securities and Exchange Commission requires disclosure on legislative compliance, judicial proceedings and liabilities relating to the environment in Form K-10.


In Japan, the Law of promotion of environmentally conscious business activities requires "specified entities", to publish an environmental report every year. The Pollutant Release and Transfer Register (PRTR) Law requires reporting of releases to the environment of specific chemical substances. The Finnish Accounting Act requires companies to include material non-financial issues in their directors' report of the annual/financial report. In France, the concept of "Ecological Balance Sheet" has been developed, which contains information about the acquisition and utilization of equipment used to reduce pollution, recycled by products and reduced energy and raw materials consumption. As evident from the Exhibit, environmental and social reporting is mandatory in this country for publicly quoted companies from the 2002 financial year.

Bulgaria introduced environmental accounting in 1992 through the Accountancy Act. This Act requires all companies to complete a form entitled "Environmental Protection Costs", which contains details of expenditure for environmental purposes on non-current assets such as, construction, rehabilitation and preservation cost of sites, the upgrading of equipment and intangible assets such as software and patents. The cost of maintaining these "environmentally motivated assets" is also reported.

In many other countries like South Africa, Italy, Poland, Malaysia, Bangladesh and Sri Lanka, there is no extensive statutory requirement for companies to disclose environmental information in annual reports. Though some of these countries have extensive environmental legislations and companies are required to furnish some environmental information to authorities on regular basis, but no accounting and reporting requirement to general public is there.

FEE has issued a number of guidelines on EAR including a paper on generally accepted framework for environmental reporting in 1999, detailing objectives, qualitative characteristics and users of environmental information. The Global Reporting Initiative (GRI) describes itself
as a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines. Its Guidelines are for voluntary use by organizations for reporting on the economic, environmental, and social dimensions of their activities, products, and services based on reporting principles. The International Standards Organization (ISO) has developed an extensive range of standards. Among those ISO 14000 series is directly related to the environment. UN Global Compact is another initiative that facilitates a network of UN agencies, business, labor, NGOs and governments to promote companies to adhere to ten principles in the areas of human rights, labor, environment, and anti-corruption.

There also exist some guidelines and standards on audit and assurance of environmental statements like the International Standard on Assurance Engagements (ISAE) 3000 developed by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) and AA1000 Assurance Standard (AA1000AS) issued by UK-based AccountAbility. Some other countries like Australia, Germany, Japan, Sweden etc also have some guidelines/ standards/recommendations on the Verification, Validation and Assurance of Environmental and Sustainability Reports.

**NEED FOR EAR STANDARDS IN INDIA**

Since early 1970s, business organizations in India have been subject to various environmental laws and regulations, the Environment (Protection) Act, 1986 being the most significant step in this direction. In order to protect and conserve environment, stringent requirements as to production processes and equipment use have been imposed in major polluting industries. A gazette notification on environmental audit was issued by Ministry of Environment and Forest (MoEF) on 3.3.1992, requiring submission of an Environmental Statement to the Pollution Control Board (PCB). It is applicable to any person carrying on an industry, operation or process requiring consent from regulatory authorities to operate under any law relating to environment. In this environmental statement, the concerned industry is required to provide information on water and raw material consumption, pollution generated, nature of hazardous wastes and solid wastes and the disposal practices, impact of pollution control measures and conservation of natural resources. Companies are also required to publish information on Energy Conservation (steps taken for this and benefits derived therefrom) in the annexure to Director’s Report under Sec. 217(1) (e) of Companies Amendment Act, 1988.

Recent legislation in India has expanded the scope of responsibility for pollution prevention and clean up for business organisations. With growing legal and social awareness, there has been a significant increase in environmental costs and liabilities, to the extent that they have become a significant part of total costs and liabilities. Concealing them or their improper disclosure might expose interested stakeholders to unknown levels of risk. On the other hand, reporting of this information in annual or environmental reports would enable the concerned stakeholders to get an understanding of the company’s stance on environmental conservation, how it specifically deals with environmental issues and in assessing environmental risks involved therein. Therefore, environmental reporting should be made mandatory in India.
Companies (private as well as public) should also be encouraged by the government and by their wider stakeholders, to focus on their environmental and social impacts and to develop appropriate ways to internalize and reduce their associated costs, and to report towards greater environmental sustainability. The ICAI may require an explicit consideration of social and environmental issues (particularly significant environmental cost and liability) at different suitable locations in the annual reports of companies as part of environmental financial accounting/corporate governance. Moreover, SEBI may require listed companies to disclose information on some important items like compliance with environmental laws, pending judicial proceedings arising under environmental laws and significant environmental liabilities, under on prescribed form. For this purpose, a clause in the listing agreement (like clause 49 for Corporate Governance) may be inserted for strict compliance.

Till date in India, there is no financial reporting or auditing standard dealing explicitly with environmental or sustainability issues. In the absence of any accounting standard or guideline, identification, measurement and recognition of environmental issues by companies is, to some extent, judgemental. The environmental information voluntarily provided by these companies in annual reports or through other mediums lacks in quality and consistency (Pahuja, 2007). There is an urgent need, therefore, to adopt a more disciplined and systematic approach towards accounting and disclosure of environmental information so as to provide useful, objective and timely environmental information to the concerned stakeholders. An environmental accounting framework should be developed in India which could contribute standards for accounting and reporting. The emphasis of this framework should be to raise awareness of environmental issues and to develop guidelines for identification, measurement, recognition and disclosure of environmental issues with recommendations on best practices. In addition, to increase credibility and reliability of environmental information supplied to various interested stakeholders, it is necessary that this information should be verified by some independent auditor. This gives rise to the need for environmental information audit in India.

Accounting sector in India need to become more aware of the impact that social and environmental issues can have on the financial results of the companies. They should also be well acquainted with the techniques to incorporate these issues in annual reports and in methods of auditing sustainability reports. Identification and allocation of environmental costs (and cost drivers) and benefits within internal accounting systems (environmental management accounting) should also be considered by professional accounting bodies. For this, a substantial revision to the way in which auditors are educated and trained may be required. There is a need to provide formal education and training to the next generation of accountants in the area of EAR. Similarly, there is a need to provide continuing education to already qualified accountants in industry and commerce. It would be best if these issues were fully integrated into the normal accounting, auditing and taxation syllabi of professional accounting bodies. Research into issues such as carbon pricing, life-cycle costing, environmental taxes, sustainability accounting, carbon efficiency management and product distance evaluations, would perhaps be avenues by which the accounting profession can play its part in reducing global warming.
CONCLUSION
The accounting profession in India has tremendous potential to support industry in developing environmental and sustainability solutions. Both at the individual accountant's level and at the institute level more could be done to manage, account and report on environment related issues. There is an urgent need for development of a standard on EAR to help companies in properly identifying, measuring, recognising and disclosing relevant costs, benefits, assets, liabilities and contingencies relating to environment. The profession should also contribute in this area by developing an environmental and sustainability reporting framework on the lines of those developed by FEE and GRI. A more integrated form of reporting should be developed - in which key environmental, social and sustainability indicators are presented to various internal and external stakeholders for helping them in making informed decisions. However, the basis for all information to be disclosed in the annual report should be to exhibit a true and fair view of the firm's financial situation. Environmental issues must be disclosed in the annual reports if they have or may in the future affect the firm's revenues, costs, or growth or survival of the business. In addition, concerned stakeholders can be directed to separate environmental/ sustainability reports or to organization's website for detailed information on environmental policies, systems and procedures. In nutshell, the annual report package of companies as a whole should be enlarged to recognize the new realities of the information demands of the market place.

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Environment (Protection) Rules, 1992, India.
PERCEIVED RISK APPETITE AMONG INDIVIDUAL INVESTORS: A STUDY

*Sofia Jasmeen

ABSTRACT
With the new stable government there is optimism and a new ray of hope in the stock market. The risk appetite among Indian individual investors has started picking up. The present study identifies the risk appetite among individual investors, explores the relationship between personal profile of the investors and the risk appetite and offers the implications for future research. The results indicated that most of the investors are moderate in their risk appetite. Further, the results show that association between the profile of the investor and the investment appetite is not significant. The study has practical implications while designing investment plan to suit individual investors.

INTRODUCTION
Risk appetite may be defined as the degree of uncertainty that an investor is willing to accept in respect of negative changes to its business or assets. The risk appetite among Indian retail investors has started to pick up on the back of improving global economic sentiment. It is perhaps the tentative signs that the worst of the global financial crisis may be behind us. According to Vineet K. Vohra, India head of ING Investment Management, the Indian and Chinese markets have "young" investor bases, which tend to be more positive in their investment outlook and have bigger appetite for risks. (Shireen Abraham :2008) There is optimism and a new ray of hope in the market with the stable government. The news drove the Indian equity benchmark Sensitive Index, or Sensex, up and people are taking a closer look at investment opportunities on the subcontinent. Those opportunities are abundant, ranging from financial services to infrastructure to consumer goods and private education, says William Nobrega, a managing partner at Miami-based Conrad Group, which provides business consulting and investment banking services (David Bogoslaw:2009).

Today's retail investor is well informed and takes calculated decisions with the help of media exposure. One of the significant features of investments is that it has proliferated into district head quarters and small towns; another striking feature is that there is a rise of women investors. In the words of Mr Kejriwal "I believe this is the target audience people should be looking at. The savvy women investors have arrived and their numbers are growing. She was not there five years ago. (Rasheeda Bhagat: 2004). Against this backdrop this paper proposes to study risk appetite among individual investors.

*Faculty, University-Industry Hub, Osmania University, Hyderabad
RECENT STUDIES ON RISK APPETITE

In their article Jinhui Luo, Philip Saks, Steve Satchell (2008) investigated the concept of risk appetite. A number of methodologies for building a risk appetite index are proposed. It is shown how this index can be utilised to improve portfolio construction in currency markets. Portfolios are constructed using quadratic optimisation. Different strategies, in particular Carry, Value and Momentum, are combined via our optimisation procedure, leading to return outcomes that possess certain desirable properties relative to an equally weighted benchmark. Joost M.E. Pennings, Ale Smidts (2000) have compared two major approaches to measuring risk attitude. One, based on the expected utility model is derived from responses to lotteries and direct scaling. The other measure is a psychometric approach based on Likert statements that produces a unidimensional risk attitude scale. While the measures demonstrate some degree of convergent validity, those measures based on lotteries were better predictors of actual market behavior. In contrast the psychometric scale showed more agreement to self reported measures of innovativeness, market orientation, and the intention to reduce risk. Prasanna Gai and Nicholas Vause proposed a method for measuring investor risk appetite based on the variation in the ratio of risk-neutral to subjective probabilities used by investors in evaluating possible future returns to an asset. Unlike other indicators advanced in the literature, this measure of market sentiment distinguishes risk appetite from risk aversion, and is reported in levels rather than changes.

William G. Keeris (2008) considers three risk components within the risk profile namely: specific risk, depends on special individual factors of the investments; management risk, reflects the span of control problem of the organization of the investor; and systematic risk, depends on distinguishing local levels. The author states that the calculations do show the effect of diversification, but not in all cases. It depends on the order in which assets associated with different risks are added. Risk Tolerance Questionnaire (RTQ) designed (2006) to assess investment risk tolerance, RTQ scores were positively correlated with scores on two other investment risk measures, but were not correlated with a measure of sensation-seeking (Zuckerman, 1994), suggesting that investment risk tolerance is not explainable by a general cross-domain appetite for risk. Importantly, RTQ scores were positively correlated with the riskiness of respondents’ actual investment portfolios, meaning that investors with high risk-tolerance score tend to have higher-risk portfolios. Finally, respondents with relatively more investment experience had more risk-tolerant responses and higher-risk portfolios than less experienced investors. David L. Schwarzkopf (2006) based on a technique derived from risk perception studies of health and environmental issues, an experiment with 224 business students examined how an individual’s risk perception can account for both managerial and customer perspectives. Factors described as customer participation, extent of the effect, and management input, together with the respondent’s self-assessed understanding of the decision process, help categorize overall risk perceptions and are shown to be associated with behaviors based on the decision’s riskiness. James H. Dulebohn (2002) presented the results of an investigation of the determinants of investment risk behavior in employer-sponsored retirement plans. Using a field survey of 795 college and university employees, the author examined the significance of demographic and attitudinal/dispositional variables on employees’ risk behavior in selecting
among investment allocation options provided by defined contribution pension plans. The results identified primary causes of risky investment behavior including income, age, other retirement plan participation, self-efficacy, knowledge of investment principles and general risk propensity. Moreover, contrary to the conventional assumption that risk aversion is both relatively low and stable over time, Sofia and Valpy (2005) found that home bias fluctuates over time suggests that risk aversion is in fact time-variant and path-dependent. Wang, Shi, Fan (2006) found that individual investors underestimate the risk in stock markets, have lower risk perceptions about rising stocks than objective risks. The study shows that market policy and other institutional factors affect individual investors. Investors' attitude towards risk is a key factor driving the movement in asset prices. Global reduction in investors' risk appetite has coincided with episodes of global financial market correction. In this paper, Laurence Fung, Chi-sang Tam, Ip-wing Yu (2008) derived a measure for risk appetite based on the methodology of Gai and Vause (2006) for investors in the US, the UK, Germany, Japan, and Hong Kong, and use them to help assess the issues of financial integration and financial market interdependence. The results from the indicators point to very limited financial integration between these five financial markets.

STATEMENT OF THE PROBLEM

In the light of above studies a need was felt to study the risk appetite among individual investors. Firstly, the study identifies the risk appetite among individual investors using a standardized self assessment test. Secondly, it attempts to explore the association between personal profile of the investors and the risk appetite. Lastly, it offers the implications for future research.

METHODOLOGY

The present study is an empirical one based on primary data, which is collected with the help of a questionnaire. The questionnaire is an adapted one from a paper Financial Risk Tolerance by J.Grable & RH Lytton in the Financial Services Review (Bakul Chugan: Seek and Thou Shalt Find, ET:19-3-07). Based on the responses, the respondents are categorized as conservative, moderate and aggressive. The data have been collected from 117 respondents from the Twin Cities of Hyderabad and Secunderabad. For the purpose of analysis percentages and chi-square test have been used with the help of SPSS package.

PROFILE OF THE RESPONDENTS

Analysis of the profile indicates that the age group of above 20 years and below 30 years constitutes the largest group amongst the respondents. It accounted for 46 per cent of the sample followed by above 40 years and below 50 years category (18.8 per cent) and Above 50 and below 60 (14.5 per cent) class. Classification based on gender indicates that a little more than two thirds are males. Qualification wise, the profile shows that graduates constitute the major chunk of the sample followed by post-graduates. Further, the classification indicates that professionals - graduates and post-graduates constitute a significant proportion. Profession-wise classification indicates that majority of the respondents are from the BPO industry (83 per
cent). Income-wise analysis reveals that one third have income between Rs.150000 to Rs. 300000. This is followed by below Rs. 150000 group and above Rs. 3 lakhs and below Rs. 5 lakhs. Religion wise it could be observed that more than 72 per cent are Hindus. This followed by Christians (16.2 per cent), Muslims (7.7 per cent) and Sikhs (3.4 per cent).

RESULTS AND DISCUSSION

Table 1: Perceived Risk Appetite

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conservative</td>
<td>33</td>
<td>28.2</td>
<td>28.2</td>
<td>28.2</td>
</tr>
<tr>
<td>Moderate</td>
<td>73</td>
<td>62.4</td>
<td>62.4</td>
<td>90.6</td>
</tr>
<tr>
<td>Aggressive</td>
<td>11</td>
<td>9.4</td>
<td>9.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>117</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary Data

A perusal of table 1 indicates that a vast majority (62.4 per cent) of the respondents perceived themselves to be moderate regarding their risk appetite. This is followed by those who perceived themselves to be conservative (28.2 per cent) and the remaining 9.4 per cent are aggressive. The ING survey noted that Indian investors were slowly moving to low risk investments. Besides noting a significant rise (18 percent) in the percentage of Indian investors who favored gold, the survey revealed that a significant number of Indian respondents (82 percent) viewed lower risk investments as favorable, while 68 percent favored high risk investments (Shireen Abraham:2008)

Table 2: Age and Perceived Risk Appetite

<table>
<thead>
<tr>
<th>Age</th>
<th>Perceived Risk Appetite</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Conservative</td>
<td>Moderate</td>
</tr>
<tr>
<td>Below 20 Years</td>
<td>3 (33.3%)</td>
<td>5 (55.6%)</td>
</tr>
<tr>
<td>Above 20 and Below 30 Years</td>
<td>10 (18.5%)</td>
<td>37 (68.5%)</td>
</tr>
<tr>
<td>Above 30 and Below 40 Years</td>
<td>5 (41.7%)</td>
<td>5 (41.7%)</td>
</tr>
<tr>
<td>Above 40 and Below 50 Years</td>
<td>8 (36.4%)</td>
<td>13 (59.1%)</td>
</tr>
<tr>
<td>Above 50 and Below 60 Years</td>
<td>5 (29.4%)</td>
<td>12 (70.6%)</td>
</tr>
<tr>
<td>Above 60 Years</td>
<td>2 (66.7%)</td>
<td>1 (33.3%)</td>
</tr>
<tr>
<td>Total</td>
<td>33 (28.2%)</td>
<td>73 (62.4%)</td>
</tr>
</tbody>
</table>

Chi-Square 10.461

df 10

p 0.401

Source: Primary Data

47
Attempt has been made to see whether age influences the risk appetite. It may be observed that in all the categories, except the age group of above 30 and below 40 years, and above 60 years groups, majority of them perceived themselves to be moderate. A large majority in the category of above 60 are conservative. The age group of above 30 and below 40 years seems to be experimental groups. It may be found that equal number of respondents is there in conservative and moderate groups. Most of the people who considered themselves to be aggressive are from above 30 and below 40 years, and above 20 and below 30 years. Further, the association between age and risk appetite among the sample indicates that the chi-square value of 10.461 has no significance since the p-value is more than 0.05. Therefore, the association between age and risk appetite is not significant.

Table 3: Gender and Perceived Risk Appetite

<table>
<thead>
<tr>
<th>Gender</th>
<th>Perceived Risk Appetite</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Conservative</td>
<td>Moderate</td>
<td>Aggressive</td>
<td>Total</td>
</tr>
<tr>
<td>Male</td>
<td>22 (27.2%)</td>
<td>50 (61.7%)</td>
<td>9 (11.1%)</td>
<td>81 (100.0%)</td>
</tr>
<tr>
<td>Female</td>
<td>11 (30.6%)</td>
<td>23 (63.9%)</td>
<td>2 (5.6%)</td>
<td>36 (100.0%)</td>
</tr>
<tr>
<td>Total</td>
<td>33 (28.2%)</td>
<td>73 (62.4%)</td>
<td>11 (9.4%)</td>
<td>117 (100.0%)</td>
</tr>
<tr>
<td>Chi-Square</td>
<td></td>
<td></td>
<td></td>
<td>0.939</td>
</tr>
<tr>
<td>df</td>
<td></td>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>p</td>
<td></td>
<td></td>
<td></td>
<td>0.625</td>
</tr>
</tbody>
</table>

Source: Primary Data

Gender wise it may be observed that a vast majority in both the categories are moderate. Further, it may be observed that women are more conservative than men. The above table also shows that men are aggressive compared to women. Further the chi-square value of 0.939 at p value of 0.625 shows that Gender and perceived risk appetite have no significant association.

Religion is considered one of the influencing factors, in making people to accept risk. Therefore, analysis is made to see the influence of religion on risk appetite. The sample shows that a large majority of the respondents from all the religions except Christianity have considered themselves to be moderate. Whereas among Christians respondents constituting 47.4 per cent considered themselves to be conservative among Muslims one third of the sample considered themselves to be conservative. Among Hindus less than one fourth of the sample considered themselves to be conservatives. It may also be observed in the sample that more number of Hindus considered themselves to be aggressive regarding risk appetite so far as investment decisions are concerned. Further, the chi-square value of 7.691 at p value of 0.262 indicates that the association between Religion and perceived risk appetite is not significant.
Table 4: Religion and Perceived Risk Appetite

<table>
<thead>
<tr>
<th>Religion</th>
<th>Conservative</th>
<th>Moderate</th>
<th>Aggressive</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hindu</td>
<td>20 (23.5%)</td>
<td>57 (67.1%)</td>
<td>8 (9.4%)</td>
<td>85 (100.0%)</td>
</tr>
<tr>
<td>Muslim</td>
<td>3 (33.3%)</td>
<td>6 (66.7%)</td>
<td>0 (0.0%)</td>
<td>9 (100.0%)</td>
</tr>
<tr>
<td>Christian</td>
<td>9 (47.4%)</td>
<td>7 (36.8%)</td>
<td>3 (15.8%)</td>
<td>19 (100.0%)</td>
</tr>
<tr>
<td>Sikh</td>
<td>1 (25.0%)</td>
<td>3 (75.0%)</td>
<td>0 (0.0%)</td>
<td>4 (100.0%)</td>
</tr>
<tr>
<td>Total</td>
<td>33 (28.2%)</td>
<td>73 (62.4%)</td>
<td>11 (9.4%)</td>
<td>117 (100.0%)</td>
</tr>
</tbody>
</table>

Chi-Square 7.691
Df 6
p 0.262

Source: Primary Data

Table 5: Qualification and Perceived Risk Appetite

<table>
<thead>
<tr>
<th>Qualification</th>
<th>Conservative</th>
<th>Moderate</th>
<th>Aggressive</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below Graduation</td>
<td>7 (30.4%)</td>
<td>12 (52.2%)</td>
<td>4 (17.4%)</td>
<td>23 (100.0%)</td>
</tr>
<tr>
<td>Graduates (Professionals)</td>
<td>7 (21.2%)</td>
<td>23 (69.7%)</td>
<td>3 (9.1%)</td>
<td>33 (100.0%)</td>
</tr>
<tr>
<td>Graduate (Other than Professional)</td>
<td>7 (25.9%)</td>
<td>19 (70.4%)</td>
<td>1 (3.7%)</td>
<td>27 (100.0%)</td>
</tr>
<tr>
<td>Post-Graduates (Professionals)</td>
<td>7 (33.3%)</td>
<td>13 (61.9%)</td>
<td>1 (4.8%)</td>
<td>21 (100.0%)</td>
</tr>
<tr>
<td>Post-Graduates (Other than Professionals)</td>
<td>5 (38.5%)</td>
<td>6 (46.2%)</td>
<td>2 (15.4%)</td>
<td>13 (100.0%)</td>
</tr>
<tr>
<td>Total</td>
<td>33 (28.2%)</td>
<td>73 (62.4%)</td>
<td>11 (9.4%)</td>
<td>117 (100.0%)</td>
</tr>
</tbody>
</table>

Chi-Square 6.309
Df 8
p 0.613

Source: Primary Data

Attempt has been made to see whether qualification of the respondents influence their risk taking capacity. It may be observed that, except the category of Post-Graduates (other than professionals), a vast majority of the respondents have assessed themselves to be moderate risk takers. It may also be observed that more number of Post-Graduates (other than professionals) are conservative compared to other groups. One third of the respondents in the
category of Post-Graduates (Professionals), a little less than one third of respondents below graduation, one fourth of Graduates (other than professionals) and little over one fifth of the respondents in Graduates (Other than Professionals) considered themselves to be conservative. Further it may also be observed that more number of respondents in below graduation category (17.4 per cent) and Post-Graduates (other than professionals) (15.4 per cent) considered themselves to be aggressive. Further the chi-square value of 6.309 at p-value of 0.613 shows that there is no significant association between qualification and perceived risk taking appetite.

<table>
<thead>
<tr>
<th>Profession</th>
<th>Conservative</th>
<th>Moderate</th>
<th>Aggressive</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teaching</td>
<td>1 (16.7%)</td>
<td>3 (50.0%)</td>
<td>2 (33.3%)</td>
<td>6 (100.0%)</td>
</tr>
<tr>
<td>Accounting</td>
<td>3 (37.5%)</td>
<td>5 (62.5%)</td>
<td>0 (0.0%)</td>
<td>8 (100.0%)</td>
</tr>
<tr>
<td>Software professional</td>
<td>2 (40.0%)</td>
<td>3 (60.0%)</td>
<td>0 (0.0%)</td>
<td>5 (100.0%)</td>
</tr>
<tr>
<td>Associates in BPO</td>
<td>27 (27.6%)</td>
<td>62 (63.3%)</td>
<td>9 (9.2%)</td>
<td>98 (100.0%)</td>
</tr>
<tr>
<td>Total</td>
<td>33 (28.2%)</td>
<td>73 (62.4%)</td>
<td>11 (9.4%)</td>
<td>117 (100.0%)</td>
</tr>
<tr>
<td>Chi-Square</td>
<td></td>
<td>5.836</td>
<td></td>
<td></td>
</tr>
<tr>
<td>df</td>
<td></td>
<td>6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>p</td>
<td></td>
<td>0.442</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary Data

The sample consists mainly of Associates working in BPO (83 per cent). It may be observed that a large majority (63.3 per cent) assessed themselves to be moderate. Similarly, in other categories also, 60 per cent respondents have rated themselves to be moderate. It may also be observed that, except in teaching profession, in other categories a minimum of one fourth to the extent of forty per cent have rated themselves to be conservative. It may be an exception that out of six respondents from teaching profession 2 constituting 33.3 per cent have rated themselves to be aggressive in risk taking. The association between profession and perceived risk taking appetite indicate that it is not significant.

Lastly analysis has been made based on the income of the respondents. It may be observed that majority belonging to all the categories all moderate. This is more pronounced among the respondents with above. Rs. 7.5 lakhs (83.3 per cent) and Rs. 3 lakh to Rs. 5 lakhs group (75 per cent). This is followed by the groups of above Rs. 3 lakhs to Rs. 5 lakhs and Below Rs. 1.5 lakhs. It is also observed that more than one third belonging to the category of Above Rs. 5 lakhs to Rs. 7.5 lakhs and below Rs. 1.5 lakhs have considered themselves to be conservatives. Further a little more than one fourth sample belonging to the category of Rs.1.5 lakhs to Rs.3 lakhs and one fifth of the sample belonging to the category of Rs. 3 lakhs to Rs.5 lakhs considered to be conservative. A little more than 10 per cent of the sample belonging to the category of Rs.5 lakhs to Rs.7.5 lakhs (14.3 per cent) and below Rs.1.5 lakhs , above Rs.1.5
to Rs3 lakhs have considered themselves to be aggressive. The association between income and perceived risk taking appetite shows that the association is not significant.

**Table 7: Income (Per annum) and Perceived Risk Appetite**

<table>
<thead>
<tr>
<th>Income (Per annum)</th>
<th>Conservative</th>
<th>Moderate</th>
<th>Aggressive</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below Rs. 150000</td>
<td>12 (35.3%)</td>
<td>18 (52.9%)</td>
<td>4 (11.8%)</td>
<td>34 (100.0%)</td>
</tr>
<tr>
<td>Above Rs. 150000 to Rs. 300000</td>
<td>10 (25.6%)</td>
<td>25 (64.1%)</td>
<td>4 (10.3%)</td>
<td>39 (100.0%)</td>
</tr>
<tr>
<td>Above Rs. 300000 to Rs. 500000</td>
<td>5 (20.8%)</td>
<td>18 (75.0%)</td>
<td>1 (4.2%)</td>
<td>24 (100.0%)</td>
</tr>
<tr>
<td>Above Rs. 500000 to Rs. 750000</td>
<td>5 (35.7%)</td>
<td>7 (50.0%)</td>
<td>2 (14.3%)</td>
<td>14 (100.0%)</td>
</tr>
<tr>
<td>Above Rs. 750000 to Rs. 900000</td>
<td>1 (16.7%)</td>
<td>5 (83.3%)</td>
<td>0 (0.0%)</td>
<td>6 (100.0%)</td>
</tr>
<tr>
<td>Total</td>
<td>33 (28.2%)</td>
<td>73 (62.4%)</td>
<td>11 (9.4%)</td>
<td>117 (100.0%)</td>
</tr>
</tbody>
</table>

Chi-Square 5.456

Source: Primary Data

**DISCUSSION**

The study indicates that most of the individual investors are moderate in their risk appetite. A considerable number are conservative. Approximately 10 per cent of the sample have rated themselves as aggressive. Further, the study indicates that there is no association between age, gender, education, religion, profession, income and the risk appetite of the respondents. The study gives a few insights for example the age group of above 30 and below 40 years seem to be experimental groups. Likewise, women seem to be a little more conservative than men. Further, the data indicates that the income groups of above Rs. 5 lakhs per annum are willing to take more risk. Some of these findings may be considered while designing investment plans.

**CONCLUSIONS AND IMPLICATIONS FOR FURTHER RESEARCH**

The present study makes an attempt to address one of the important aspects of investments viz., risk appetite in relation to the profile of individual investors. The study indicated that most of the investors rated themselves of be moderate. This is followed by being rating themselves as conservative. Moderates and conservatives together constitute more than 90 per cent of the sample. This corroborates with the study conducted by a survey by global financial institution ING Asia/Pacific. One of the limitations of the study is that the size of the sample and the area of the study being Hyderabad and Secunderabad of Andhra Pradesh. This
Indian Journal of Accounting

requires further study to confirm the results. Though the study indicates that the association between the profile of the investor and the investment appetite is not significant, a few important points may be considered. For example investment instruments designed must keep in view the 90 per cent investors who are moderate and conservative. Since above 30 years and below 40 years groups is a little adventurous, the institutions while designing plans may aim at them. The study also shows that women are little more conservative, the investment plans should be designed suitably in order to cater to their needs. Further, little risky instruments may be offered to the income groups above Rs. 5 lakhs per annum. Some of these considerations will help to bring more number of people into the fold of investors.

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David Bogoslaw http://www.businessweek.com/investor/content/may2009/pi20090518_580433.htm

A STUDY OF ISSUER RATING SERVICE WITH AN APPRAISAL OF ICRA's RATING MODEL

*Mausumi Bhattacharyya

ABSTRACT

Credit rating is widely known to be an assessment of creditworthiness of a borrower with respect to a debt instrument. Recently, credit rating agencies have started rating organizations by the name of Issuer Rating service. Even without any immediate debt issue plans, corporate and non-corporate entities may get themselves rated to brighten up their image. ICRA pioneered this concept in India. This study attempts to evaluate the issuer rating system in India followed by an analysis of ICRA’s rating model with the help of Discriminant Analysis technique. While, some of the rating variables showed excellent degree of association with the discriminant score, a few appeared to be inconsistent.

INTRODUCTION

The last two decades have witnessed the rise of credit rating agencies to a formidable position in the financial markets throughout the globe. Proliferation of financial activities consequent upon globalization of finance capital rendered this critical area of information service particularly indispensable. With the emergence of newer instruments carrying growing amount of risks, services of rating agencies have assumed greater significance. Credit rating agencies are said to offer an objective evaluation of the credit worthiness of a borrower by way of estimating default probabilities in respect of financial instruments. In other words, rating agencies make an assessment of the ability and willingness of a borrower to make timely repayment of principal and payment of interest with regard to debt issues. Till recently, credit rating was solely an instrument specific exercise, not a general purpose assessment of the credibility of the issuer. Of late, rating agencies have started offering issuer rating, i.e. rating of the entities or organizations as such. Thus, issuer rating is not security specific, rather an entity centric exercise. Against this backdrop, the present paper attempts to draw out the trajectory of issuer rating service in India and also to take up an empirical study aimed at evaluating ICRA’s issuer rating methodology.

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Indian Journal of Accounting

METHODOLOGY

Initially, historical-analytical approach will be adopted to trace the genesis, significance and relevance of issuer rating service. Afterwards, discriminant analysis technique will be applied to evaluate the efficacy of ICRA’s issuer rating methodology. The quantitative analysis is particularly directed towards the following objectives:

- To identify the variables having major impact on issuer rating
- To assess their relative importance in the total discriminant score
- To ascertain the degree of misclassification in the rating process.

THE TRAJECTORY

ICRA, the Indian partner of Moody’s Investors Service, introduced issuer rating service in India for the first time in 2005. ICRA’s issuer rating provides an “opinion on the general creditworthiness of the rated entities in relation to their unsecured obligations”. It is an extension of rating coverage to corporate entities that may not have any immediate debt issue plans. Fitch also launched issuer ratings in India followed by CARE. This rating is offered by Fitch to all entities in India which have an outstanding National Long-Term issue rating from the agency. CARE Issuer Rating (CIR) is similar to long term instrument rating except for the fact that they are specific to an issuer, not to an instrument. Issuer rating factors in expected performance of the entity over an immediate time horizon of around three years and reflects the overall debt management capability of the entity with respect to its senior unsecured debt obligations.

Issuer ratings find enhanced significance in the context of Basel II standards. With the implementation of the Basel II standards, particularly, with regard to capital adequacy norms, many banks and financial institutions are likely to focus on getting their portfolio, even those without outstanding public issuances, rated by an external agency. The demand for issuer rating is gradually picking up although it is not mandated by the financial market regulators. This growth may be explained by the tendency on the part of the corporate houses to use it as a marketing tool. A good issuer rating brightens up the image of the entity and tends to give the issuer an extra mileage. At the same time, issuer rating, although a voluntary exercise as of now, helps investors to form an idea about the rated company’s strengths and weaknesses.

RATING SEEKERS

Issuer rating services are offered to a wide range of issuers, namely-

- Manufacturing companies
- Infrastructure sector companies
- Housing finance companies
- Banks and financial companies
- Service companies
- Non-banking financial companies
- Municipal and other local bodies
RATING PROCESS

Issuer rating, like any other rating assignment, starts with a mandate for rating by the rating seeker. After the initial acceptance of the assignment rating agencies start collecting information which is followed by onsite meeting with top management and analysis of the inputs obtained. The findings are placed before the rating committee for acceptance or otherwise and finally rating is assigned. The entire process takes about a month or so depending on the size and complexity of firm's operation. ICRA uses a seven point scale for issuer rating starting with AAA through C. Fitch India applies an eight point scale which coincides with its national rating scale. CARE also offers issuer rating at eight point scale. AAA signifies the best risk profile in each case.

RATING MODEL

Credit rating agencies use a format that divides the analytical task into several categories, providing framework that ensures all salient issues are considered. The first several categories are oriented to fundamental business analysis; the remainder relate to financial analysis. Each category is assigned a score in the course of the rating process. An assessment of debt protection level of an entity requires a broader framework, involving a thorough review of business fundamentals, including judgments about the company's competitive position and evaluation of its management and its strategies. Such judgments are highly subjective; indeed, subjectivity is at the heart of every rating. One should bear in mind that ratings represent an art as much as a science.

Rating decisions are at times influenced by financial measures and at other times business risk factors play a dominant role. When a firm is weak in one aspect while strong in another, ratings make a balance of conflicting factors. To put it in a different way, the degree of a firm's business risk sets the expectations for the financial risk it can afford. The analysis of industry characteristics and how a firm is positioned to succeed in that milieu establishes the financial benchmarks used in the quantitative part of the analysis. The broad frame of rating methodology remaining the same, thrust changes depending on the nature of the entity to be rated.

In the analysis of issuer's inherent strength, profit potential assumes an important role. It is a crucial determinant of credit protection. A company that generates higher operating margins and returns on capital has a greater ability to generate equity capital internally, attract capital externally and withstand business adversities. The analysis proceeds from historical performance to projected profitability. Because a rating is an assessment of likelihood of timely payments in future, the evaluation emphasizes on projected future performance. Another important aspect of assessment is management's plans for achieving earnings growth. The following table offers in brief the dynamics of rating parameters.
Table 1: Issuer Rating Factors

<table>
<thead>
<tr>
<th>Industry Dynamics</th>
<th>Financial Risk Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Pattern of business cycle</td>
<td>• Accounting policies</td>
</tr>
<tr>
<td>• Vulnerability to technological change</td>
<td>• Debt servicing track record</td>
</tr>
<tr>
<td>• Demand - supply scenario</td>
<td>• Cash flow position</td>
</tr>
<tr>
<td>• Trends in realization</td>
<td>• Financial flexibility and liquidity</td>
</tr>
<tr>
<td>• Competitive position</td>
<td>• Profitability position</td>
</tr>
<tr>
<td>• Governmental support to the sector</td>
<td>• Capital structure / leverage and asset protection</td>
</tr>
<tr>
<td>• Diversification factors</td>
<td>• Off-balance-sheet financing</td>
</tr>
<tr>
<td><strong>Operational performance</strong></td>
<td><strong>Management Capability</strong></td>
</tr>
<tr>
<td>• Size or scale consideration</td>
<td>• Organization structure</td>
</tr>
<tr>
<td>• Infrastructural facilities</td>
<td>• Corporate strategies and roadmap for achieving corporate objectives</td>
</tr>
<tr>
<td>• Manpower availability</td>
<td>• Internal control and audit system</td>
</tr>
<tr>
<td>• Manufacturing technology</td>
<td>• Performance of group companies</td>
</tr>
<tr>
<td>• Marketing set up covering economic and demographic characteristics,</td>
<td>• Personnel policies</td>
</tr>
<tr>
<td>including size and growth rates, customer mix, industrial concentration and location</td>
<td>• Macroeconomic Issues</td>
</tr>
<tr>
<td>• Cost, reliability and quality of service.</td>
<td>• Macroeconomic volatility</td>
</tr>
<tr>
<td>• Compliance with environmental norms</td>
<td>• Access to imported raw material or technology</td>
</tr>
<tr>
<td>• Capacity utilization</td>
<td>• Exchange rate risk</td>
</tr>
<tr>
<td><strong>Regulation</strong></td>
<td>• Taxes, royalties and duties</td>
</tr>
<tr>
<td>• Existing regulatory framework</td>
<td>• Changing tariff barrier</td>
</tr>
<tr>
<td>• Level of compliance</td>
<td>• Corruption issues</td>
</tr>
<tr>
<td>• Impacts of changes in regulation on the operation of the firm</td>
<td></td>
</tr>
</tbody>
</table>

EMPIRICAL STUDY

An empirical analysis of ICRA’s issuer rating has been conducted on the basis of published rating reports. The study is aimed at tracing out the relative significance of key financial variables in the rating process. The non-financial parameters which are diverse in nature and less amenable to modeling have grossly been kept aside. The quantitative analysis has been carried out using SPSS software.

SAMPLE

Samples have been selected from ICRA’s database exhaustively since inception of this rating in 2005 up to 31st March 2008 barring a few cases in respect of which no detailed financial results are available. Because issuer rating is an absolutely voluntary exercise, only a few companies have shown interest in it. Therefore, total number of companies opting for issuer rating is far less than those seeking instrument ratings for obvious reasons. The analysis comprises inputs of 17 companies which have been rated by ICRA at different points in time during the period of present study.
DISCRIMINANT ANALYSIS

Keeping in mind the objectives of the study, discriminant analysis technique has been chosen as the appropriate statistical technique. Discriminant analysis is a technique used to classify observations into one of several a priori groupings dependent upon the observations’ individual characteristics (Altman, 1968). It is used primarily to classify and/or make predictions in problems where the dependent variable appears in qualitative form. Therefore, the first step is to establish explicit group classifications. The observations in the present study i.e. companies under consideration are classified into two groups. The first group consists of the companies with AAA issuer rating and the second group contains companies below AAA issuer rating grade. ICRA considers 6 financial ratios as key indicators of health of a company. Besides, growth rates of 4 profitability parameters have also been incorporated into the analysis. The said growth rates have been worked out for three consecutive years prior to the year of rating for the purpose of analysis. Discriminant analysis also helps us to rank the independent variables in order of their relative significance in the total discriminant score.

The following variables are considered by ICRA in the award of issuer rating grades:
1. Profit After Tax/Operating Income [PAT/OI] - (x₁)
2. Profit Before Interest and Tax/ Average (total debt + net worth + deferred tax- liability) [PBIT/TDNW] - (x₂)
3. Earnings before Depreciation, Interest and Tax/ Interest and Financial Charges [EBDIT/ IF] - (x₃)
4. Net Cash Accruals/ Total Debt [NCA/TD]- (x₄)
5. Total Debt/ Net worth [TD/NW] - (x₅)
6. Current Ratio [CR] - (x₆)
7. Growth rate of Net Sales [NSR] - (x₇)
8. Growth rate of Operating Income [OIR] - (x₈)
9. Growth rate of OPBDIT [OPBDITR] - (x₉)
10. Growth rate of PAT [PATR] - (x₁₀)

The following discriminant function is formulated as a linear combination of discriminating independent variables:

\[ f(x) = a_1x_1 + a_2x_2 + a_3x_3 + a_4x_4 + \ldots + a_nx_n \]

Where
- \( a_1, a_2, \ldots, a_n \) are standardized canonical discriminant function coefficients and
- \( x_1, x_2, \ldots, x_n \) are independent or discriminating variables as listed above.

Values of ten independent variables have been collected in respect of the 17 companies under consideration. 7 companies with AAA rating have been classified as Group 1 companies and the remaining 10 companies with below AAA rating have been placed in Group 2.

FINDINGS AND INTERPRETATIONS

Initially, a Wilk's Lambda test is carried out to find out whether there are differences between the means of identified groups of subjects on a combination of dependent variables.
Wilk's Lambda is the ratio of the within group sum of squares to the total sum of squares. It is a direct measure of the proportion of total variance in the discriminant scores not explained by differences among the groups. It ranges between 0 and 1. A large value of lambda indicates that the group means are not different, i.e. the groups tend to be homogeneous. In the present study the value of lambda (.386) imply that the group means are reasonably different. Significant group mean difference is a desired precondition of discriminant analysis.

Table 2: Wilk's Lambda

<table>
<thead>
<tr>
<th>Wilk's lambda</th>
<th>Chi-square</th>
<th>Degree of freedom</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>.386</td>
<td>9.531</td>
<td>10</td>
<td>.483</td>
</tr>
</tbody>
</table>

A chi-square transformation of Wilk's Lambda is used along with the degrees of freedom to determine its significance. A significance value of .483 also corresponds to a moderate degree of difference between the group means and hence supports the results of Wilk's Lambda test.

Table 3: Canonical Discriminant Function Coefficients

<table>
<thead>
<tr>
<th>Canonical variables</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAT/OI (x&lt;sub&gt;1&lt;/sub&gt;)</td>
<td>.970</td>
</tr>
<tr>
<td>PBIT/TDNW (x&lt;sub&gt;2&lt;/sub&gt;)</td>
<td>.871</td>
</tr>
<tr>
<td>EBIT/IF (x&lt;sub&gt;3&lt;/sub&gt;)</td>
<td>.016</td>
</tr>
<tr>
<td>NCA/TD (x&lt;sub&gt;4&lt;/sub&gt;)</td>
<td>-.522</td>
</tr>
<tr>
<td>TD/NW (x&lt;sub&gt;5&lt;/sub&gt;)</td>
<td>.410</td>
</tr>
<tr>
<td>CR (x&lt;sub&gt;6&lt;/sub&gt;)</td>
<td>.829</td>
</tr>
<tr>
<td>NSR (x&lt;sub&gt;7&lt;/sub&gt;)</td>
<td>.705</td>
</tr>
<tr>
<td>OIR (x&lt;sub&gt;8&lt;/sub&gt;)</td>
<td>-.251</td>
</tr>
<tr>
<td>OPBITR (x&lt;sub&gt;9&lt;/sub&gt;)</td>
<td>-.130</td>
</tr>
<tr>
<td>PATR (x&lt;sub&gt;10&lt;/sub&gt;)</td>
<td>-.20</td>
</tr>
</tbody>
</table>

When variables are measured in different units, the magnitude of unstandardized coefficients provides little indication of the relative contribution of the variable to the overall discrimination. Standardizing the coefficients allows us to examine the relative standing of the measurements. The coefficients of the canonical variable are used to compute a canonical variable score for each case.

As per the standardized correlation coefficients, x<sub>1</sub> has most significant contribution to the discriminant score followed by x<sub>2</sub>, x<sub>6</sub>, x<sub>7</sub> and x<sub>9</sub> and x<sub>3</sub>. The standardized coefficients reveal the relative degree of association of the independent variables with the total discriminant score. Certain ratios, however, showed definite inconsistencies in their nature of association with the total discriminant score. For instance, x<sub>4</sub>, x<sub>8</sub>, x<sub>9</sub> and x<sub>10</sub> provide negative association with the discriminant score, which could not be explained by the logic of finance. Therefore it may be assumed that ICRA places less emphasis on those ratios while arriving at an issuer's rating.
grade or altogether exclude them from the rating exercise. It may also be apprehended that these ratios are considered in ICRA’s rating model in association with certain other factors which are not known to us. Thus from the whole exercise we may come to an understanding that financial ratios do not play a decisive role in the rating assignments; rather, subjective parameters may change the shape of an issuers rating to a great extent. However, the fact that some of the financial ratios are found to have distinctly logical relative contribution to the total score, implies the soundness of the model.

This table shows that out of 17 observations, classified in two groups, namely Group 1 and Group 2, only 2 of the originally grouped cases are misclassified. In other words, two cases which were predicted to be Group-2 members (below AAA rating), have been actually placed in Group-1 (AAA rating). All other observations are however, found to be rightly classified. Cross validation is done by classifying each case by the function derived from all cases other than that case. That is, leave-one-out classification is used as a form of cross validation. The cross validation results indicate that 2 out of 7 cases in Group-1 and 5 out of 10 cases in Group-2 have been wrongly classified. 88.2% of original cases and 58.8% of cross validated cases are found to be correctly classified. Therefore, 11.8 % of original cases and 41.2% of the cross validated cases are misclassified. A high percentage of proper classification indicates the robustness of the model. Misclassifications, however, may be explained by the non-inclusion of subjective parameters in the present model. Therefore, the present study considerably justifies ICRA’s issuer rating model.

CONCLUDING REMARKS

Issuer rating culture is gradually picking up among Indian corporates. Even non corporate entities also have started seeking this service. This speaks of growing brand or image consciousness on the part of the rating seekers. Such consciousness will surely go a long way in bringing about transparency and enhancing efficacy of financial market.
Although rating agencies claim to take into consideration many a subjective parameter in their rating process, models fail to capture their essence in full. Accepting this shortcoming, this model focused only on the key financial parameters leaving aside the qualitative ones. Among the variables, considered by ICRA, the ratio of PBIT and debt plus net worth, current ratio and net sales growth rate play the most decisive role in issuer rating. A significant percentage of observations have been found to be properly classified implying the soundness of the grouping and the rating exercise as well. As rating is a science and an art at the same time, it may be concluded that qualitative factors may change the shape of the ratings any time. In spite of such possibilities, this model helps to identify the key financial determinants of ratings and their relative significance in the discriminant score. The present endeavour is constrained by the poor disclosure of qualitative considerations on the part of ICRA. As the concept of issuer rating is at nascent stage, only a handful of companies have shown interest in getting rated up till. Therefore, this study has been based on a small sample size. With more companies seeking issuer rating, size of the sample could be larger and quite logically, such analysis might then yield more consistent results. At the same time, it must be stressed that ICRA should make more transparent disclosure of its issuer specific rating rationales. In that case, the degree of misclassifications may tend to decrease.

REFERENCES
FARM ACCOUNTING IN INDIA: NEEDS AN ACCOUNTING STANDARD

*Padmanava Mohapatra

ABSTRACT
It is essential to maintain accounts of agricultural farms. Though agricultural income is tax free in India subject to certain stipulations, an assessing officer may call for information on agricultural income. A mere estimation of income is not always acceptable. In such situations, accounting for farms comes in handy to any farmer. No doubt, an average farmer in our country is illiterate but it is not an excuse to avoid accounting. Due to the non-availability of financial statements of the farm, loans and advances are provided by the bankers on the security of the agricultural lands- the financial potentialities and soundness of a farmer are overlooked. As a result of development, farm accounting has attracted great attention and a few publication notably one with the title Farm Accounting by the Institute of Cost and works Accountant of India have been published. But compared to the popularity and development of this subject in countries like U.K, & U.S.A. one should state that, this subject is still in its infant stage of development in this country. India is based on agriculture and 58% of its population are dependent on agriculture. At about 60% of the total labour force are employed in this sector. The net worth of a big agricultural farm is as good as a small scale industry. Still it has not its own accounting system. In order to change the existing scenario of agricultural sector, a well developed farm accounting with a proper accounting standard should be introduced very soon. The ICAI should do needful. It will give the agricultural sector, a real status of an Industry. This research paper is based on both primary and secondary data- aims to study the awareness of farmers to the Farm Accounting and to suggest for its improvement.

INTRODUCTION
Agriculture fulfils the basic needs of the people by providing food grains for livelihood. Secondly, it is used as raw materials in certain food making industries. Thirdly, foreign currency is earned by exporting. Fourthly, it provides high labour employment to the society i.e. 60% in India as compared to global is 36%.Fifthly it provides self employment to the people. Without hesitation we may accept that the agriculture is the backbone to our society and it adds value to the business world, still it is unorganized in our country and without having proper farm accounting and accounting standard. Even though the big farmers having turn over more than lacks after their personal use have no accounting record. In many cases farmers are illiterate and in some cases farmers are not interested to have a record. In most of the cases the farmers
are not aware to the farm accounting and its benefits. On account of these reasons farm accounting is not popular in India.

LITERATURE SURVEY

Jorgen San (1961) described agricultural organization as a source of abundant labour supply and a transferable surplus. Kuznet (1968) said, revolution in agriculture productivity is an indispensable base of modern economic growth. Rosen M.R. and Wolpin K.I. University of Chicago Press (1993) says, investment in assets like, bullock and other assets are much more in agricultural sector in India. Almost all assets held by farmers contribute directly to production. Vogal S.J., Oxford University Press (1994) said, production linkage and agriculture demand led industrialization. Kapoor Anjali, American Journal of Agriculture Economics (1997) said that, small and fragmented land holding, low amount of fixed capital and low level infrastructure limit the working capital requirement of farm households in India. ICWAI (recent) introduced Farm Accounting in ICWA intermediate course to promote and educate the cost and management accountants in farm accounting. Kali Prasad M. V. (2005) discussed about the basics of farm accounting, books of accounts and common costs involved in farm accounting. He advised to go with segment accounting for different crops in order to reduce the cost of cultivation and to help in scientific farming. Gupta R.L. and Radhaswami M. (2006) said, as a result of development, farm accounting has attracted great attention and a few publication notably one with the title Farm Accounting by the Institute of Cost and Works Accountant of India have been published. But compared to the popularity and development of this subject in countries like U.K. & U.S.A. one should state that, this subject is still in its infant stage of development in this country. Pattnaik N, Economic Times (2007) narrated at least 58% of the Indian population is dependent on agriculture and higher growth in this crucial sector can ensure food security for them. It is clear from the above literature study that, the Farm Accounting is popular and advanced in western countries and is introduced very recently in India. As a larger part to our population lives on agriculture the subject should be very soon developed to have a change in economic scenario of modern India.

SIGNIFICANCE OF THE STUDY

India ranks second worldwide in farm output. Agriculture and its allied accounted for 16.6% of GDP in 2007 and 60% of the total labour force of the country are employed in agricultural sector. A comparative statement to the effect is given below-

<table>
<thead>
<tr>
<th>Sector</th>
<th>% of GDP</th>
<th>% of Labour Force</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>18.5</td>
<td>60</td>
<td>2nd in Output</td>
</tr>
<tr>
<td>Industry</td>
<td>26.4</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>Service Sector</td>
<td>55.1</td>
<td>23</td>
<td>15th in Output</td>
</tr>
</tbody>
</table>

Source- Indian Economic: Service Sector in India
In spite of all above, it is unfortunate that, the sector is still unorganized and without having a proper record of accounting. In certain western countries Farm Accounting is popular and developed. It is not only used for the assessment of tax but also used as a source of information to adopt new strategies and practices for the betterment of the farm. In India most of the people who are engaged in this sector are illiterate and given a status of Poor Farmer. On the contrary those who are engaged in non-agricultural setup are regarded as Baboo. So the so-called farmers are not interested to engage their educated sons in agriculture rather they are interested to send them to urban to earn their livelihood and to have a prestigious title of Baboo. In this contest it is right to say that, the educated sons and daughters of the farmers should come to this sector with a sophisticated Farm Accounting and Modern technology in order to have a changed name of Agricultural Industry in place of agriculture and an Entrepreneur in place a poor farmer.

It is essential to maintain accounts of agricultural farms. Though agricultural income is tax free in India subject to certain stipulations, an assessing officer may call for information on agricultural income. A mere estimation of income is not always acceptable. In such situations, accounting for farms comes in handy to any farmer. No doubt, an average farmer in our country is illiterate. Illiteracy is not an excuse to avoid accounting.

Loans and advances are given by the bankers on examination of financial statements and records of a firm. A farmer is unable to provide financial statements to the banker because of its non-preparation. He can not prove his financial potentialities and soundness of his farm in a quantitative manner even if he has. The categories of the agricultural lands as done by the British people earlier, is considered as a base for grant of loans and advances to the farmers.

**OBJECTIVES OF THE STUDY**

The present research paper aims-
1. To study the awareness of farmers to Farm Accounting.
2. To suggest for the improvement of farm accounting.

**RESEARCH METHODOLOGY**

- **Data:** The study is based on both primary and secondary data. The present research work is basically based upon the exploratory study of primary data collected through direct interview method.

- **Population/ Universe of the study:** For the present research work the categories of farmers are designed by the researcher as follows:
  - Holding less than 10 acres of agriculture land: Small Scale Farmer
  - Holding more than 10 and less than 20 acres of agriculture land: Medium Scale Farmer
  - Holding more than 20 acres of agriculture land: Large Scale Farmer

- **Size of Sample:** Researcher had taken 5, 10 and 5 farmers respectively from each categories above for direct interview and gathered information for analysis. The farmers are chosen at a random around to the Bhubaneswar, the capital city of Orissa. Relevant data are collected through personal interview.
FARM ACCOUNTING

Agricultural farms are rather complicated and so far no standard has been issued by the Institute of Chartered Accountants of India on this type of business. In the absence of any such standards, generally accepted accounting principles should be adhered to.

Accounts to be opened

Recording of day-to-day cash transactions in a cash account is the basic requirement of an agricultural farm. The farmer may simultaneously cultivate food grains, Oil seeds, fruits, vegetables, flowers, medicinal herbs, etc. It would be a good idea to maintain separate accounts for each segment of farming. In all probability, Rabi and Kharif are the two crops in our country. For each segment, accounts can be maintained for each crop separately. In addition to the regular books of account, a farmer should maintain the following other registers and records:

- Fixed asset register to record purchase and usage of fixed assets.
- Loans register to record the source, receipt and payment of loans.
- Stock register to record stock of inputs and out puts.
- Crop diary to monitor the crop from tilling to harvesting.
- Notional expenses register to record the notional costs to family members of the farmer.
- Lease register to record details of securing leases, lease rents paid, balance of lease period, etc
- Creditors registers to record purchase of fertilisers and other inputs on credit, advance, part and final payments to the creditors.
- Debtor registers to record credit sale of outputs and other joint & by-products, receipt of cash from the debtors.

Terms used in accounting for farms

Average harvest selling price

Sale proceeds of agricultural produce would normally be a U-shaped curve, with prices reigning high both at the beginning and end of the season and low prices during the peak season. An average price is to be considered to determine the value of closing stock.

Standing crops

As on March, 31st harvesting may not take place and the crops are still on trees. The value of crops remaining on trees and field as on March, 31st would represent standing crops. A good part of expenditure spent on the farm would yield in or after April. Therefore, it would be essential to recognise the value of standing crops as on the date of Balance sheet. (This is comparable to work in progress in normal case).

Crop costs

This would represent direct and variable expenditure such as input cost, labour, cost of transplanting and harvesting, etc.
**Common costs**

This would represent expenditure such as servicing and maintenance of tools and equipment, irrigation costs, and animal power etc. Common costs can be spread over crops in a reasonable basis, like maintenance of farm shed on the basis of the length of the crop.

**Deferred costs**

Land development costs, partitioning, seasoning, etc are treated as deferred revenue expenditures since they last over a period of time. Crop rotation costs to restore nitrogen fixation, etc, are also amortised over a period of time.

**Notional costs**

Along with the farmer, his family members too may work on the farm. Certain of the output like fruits and vegetables may be consumed by the household. Along side the boundaries, grass may be grown for grazing the animals. These animals give milk, which is consumed either by the farmer's household. All these transactions do not directly result in cash transactions but have a significant impact on the cost of output.

There should be a mechanism to record these transactions to exercise a good control over the cost and returns on such farms.

**Accounting for income**

Main revenue would come from the sale of produce. By products such as sale of manures, hay, etc. contribute towards a part of income. Complications would arise due to in house consumption, sharing the produce with work force, payment of wages in terms of food grains, payment of lease rentals by way of produce, etc. The agricultural farm requires a great deal of animal power. Cattle would be reared by the farm. In fact a part of the farm would be left open for the cattle to graze and move around. The head count of cattle is taken as the date of each balance sheet and carried accordingly to the financial statements. Such a farm may yield considerable amount milk and milk products. Such output may be treated as by products. Alternately, a separate record may be maintained for dairy farming activity if the costs and revenues are material. Records can also be maintained segment wise such as food grains, oil seeds, vegetables - leafy vegetables, roots and gourds. Fruits such as citrus and non-citrus. Such a record would entail better management of farms. Common accounting standard to the effect is highly needed.

**USEFUL ACCOUNTING TECHNIQUES**

The three branches namely, Financial, Cost and Management Accounting have the relevance and use in the agricultural sector. Various tools and techniques of accounting have immense utility to this sector and need to be used. Those are-
Financial Accounting
   Ratio Analysis, Comparative Analysis, Trend analysis

Cost Accounting
   Cost analysis, Job & Batch Costing, Process Costing including Joint & By product, Stock analysis and valuation etc.

Management Accounting
   Budgetary Control, Standard Costing, Marginal Costing and Break Even Analysis & ABC analysis etc.

OBSERVATIONS AND STUDY FINDINGS
Study of awareness of farmers about different registers

The present study identified 9 common accounting registers to record the transactions of an agricultural farm (Table 2). It is found that most of the farmers are known to the concept of cash book but it is unfortunate that, at about 20% of them are maintaining the same. Basic need of Debtor's and Creditor's registers are known to 50% of the total sample but the same is kept by 10% of them in a right format. The awareness of Fixed asset, Loan and Stock registers are only 10%, 20% and 10% respectively but these are not maintained by the farmers in written form rather they prefer to remember the related transactions in their mind for future reference. Sometimes it leads towards the mutual distrust and quarrel.

<table>
<thead>
<tr>
<th>Tools/techniques</th>
<th>Awareness level ( N-20 )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Book</td>
<td>70%</td>
</tr>
<tr>
<td>Fixed Asset Register</td>
<td>20%</td>
</tr>
<tr>
<td>Loan Register</td>
<td>25%</td>
</tr>
<tr>
<td>Stock Register</td>
<td>15%</td>
</tr>
<tr>
<td>Crop Diary</td>
<td>-</td>
</tr>
<tr>
<td>Notional Register</td>
<td>-</td>
</tr>
<tr>
<td>Lease Register</td>
<td>-</td>
</tr>
<tr>
<td>Creditor Register</td>
<td>50%</td>
</tr>
<tr>
<td>Debtor Register</td>
<td>50%</td>
</tr>
</tbody>
</table>

Source: Primary survey by the author

Study of awareness of farmers about the financial statements

It is observed that, the net worth of a large class farmer is not less than a small scale industry. On account of the high cost of parental agricultural land, land and building used for agriculture, tools and machines like tractors and live stock used in farm activities, the net worth of a large class farmer is presumed to be more than rupees 25 lacks. But it is unfortunate that,
the farmers have no idea about the financial statements like Profit & Loss Account and Balance Sheet. Very few large scale farmers (10%) have the idea of double entry system of accounting but they are maintaining their farm records under single entry as they are busy in other way and no proper look to this sector. Rest of this group and most of the middle class farmers are unaware to both double and single entry system of accounting. Simple they keep their farm records in a haphazard, irregular and improper way. The small farmers have neither the idea nor the record of accounting in any manner. In an average we may say that, the farmers not aware to the Farm Accounting.

<table>
<thead>
<tr>
<th>Table-3: Awareness Level of Financial Statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Awareness level (N-20)</td>
</tr>
<tr>
<td>Depreciation</td>
</tr>
<tr>
<td>Capital Account</td>
</tr>
<tr>
<td>Bank Account</td>
</tr>
<tr>
<td>Trial Balance</td>
</tr>
<tr>
<td>Profit &amp; Loss Account</td>
</tr>
<tr>
<td>Balance Sheet</td>
</tr>
</tbody>
</table>

Source: Primary survey by the author

**Study of awareness of farmers about Tools & Techniques**

The present study identified 10 common accounting tools and techniques (Table 4) and tried to judge the awareness level of the farmers to this effect. It is observed that, the concept of only 4 tools are known to the farmers but they are not using those.

<table>
<thead>
<tr>
<th>Table-4: Awareness Level of Different Tools &amp; Techniques</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tools/techniques</td>
</tr>
<tr>
<td>Awareness level (N-20)</td>
</tr>
<tr>
<td>Budgetary Control</td>
</tr>
<tr>
<td>Capital Budgeting</td>
</tr>
<tr>
<td>Cost-Volume- Profit Analysis</td>
</tr>
<tr>
<td>Process Costing</td>
</tr>
<tr>
<td>Standard Costing</td>
</tr>
<tr>
<td>ABC Analysis of stores control</td>
</tr>
<tr>
<td>Stores ledger</td>
</tr>
<tr>
<td>Ratio Analysis</td>
</tr>
<tr>
<td>Comparative Financial Statement Analysis</td>
</tr>
<tr>
<td>Working Capital Analysis</td>
</tr>
</tbody>
</table>

Source: Primary survey by the author
CONCLUSION

To make this sector developed and sophisticated the use of farm accounting is a must. Government should take care to educate the farmers in this respect. In school level education, both the boys and girls should be imparted teaching on accounting with a special reference to farm accounting. Secondly, the bankers are providing loans and advances to the farmers on the basis of securities and mortgage of agricultural lands and other assets. They are not giving priority to the financial statements at all. They may take a plea that, those are not available. Hence farmers should learn and to encourage their followers to go for farm accounting. The next generation with the knowledge of accounting can change the scenario of agricultural sector.

Thirdly, at Gram Panchayat level special arrangement should be made by the government to provide accounting training to the farmers and their family members. Ready made easy formats should be provided to them to maintain accounts and to prepare financial statements for their farms. Last but not the least the ICA should come with a new accounting standard for the farm accounting in India.

India is based on agriculture and 58% of its population are dependent on agriculture. At about 60% of the total labour force are employed in this sector. The net worth of a big agricultural farm is as good as a small scale industry. Still it has not its own accounting system. Therefore this sector is not sophisticated, simply accepted as the work activities of labourers and regretted by young educated. In order to change the existing scenario of agricultural sector, a well developed farm accounting with a proper accounting standard should be introduced very soon. The ICAI should do needful. It will give the agricultural sector, a real status of an Industry.

REFERENCE

4. ICWA Study Material
ABSTRACT

International Accounting Standards Committee was formed in June, 1973. The IASC issued IAS for the fulfillment the objective is to harmonize accounting between various countries to conduct international business smoothly and raise finance in global market IFRS is a set of accounting standards which is excepted worldwide. i.e. Europe & Australia adopted in the year of 2005, Japan, China, India and South Africa will adopt in 2011, New Zealand has adopted in 2007 and Canada also adopted in 2008. The main objective of the IFRS is to follow every activities of the business by the same accounting standard in the world. Now a day it is the necessity to adopt IFRS for the gain and development to each and every company.

INTRODUCTION

The main objective of IFRS is to have a uniform set-up of accounting language which should be need by all countries of the world and giving for the development of a global capital market.

International Financial Reporting Standards (IFRS) are standards and interpretations adopted by the International Accounting Standards Board (IASB).

Many of the standards forming part of IFRS are known by the older name of International Accounting Standards (IAS). IASs were issued between 1973 and 2001 by the board of the International Accounting Standards Committee (IASC). In April 2001 the IASB adopted all IAS and continued their development, calling the new standards IFRS.

The framework states that the objective of financial statements is to provide information about the financial position, performance and changes in the financial position of an entity that...
Indian Journal of Accounting

is useful to a wide range of users in making economic decisions, and to provide the current financial status of the entity to its shareholders and public in general.

IFRS is a set of established accounting standards that is rapidly gaining worldwide acceptance. Standards are promulgated by the London-based International Accounting Standards Board (IASB). IASB includes representatives from major countries, including the U.S.

Generally more focused on objectives and principles and less reliant on detailed rules and interpretations than U.S. GAAP, IFRS currently consists of a single volume of approximately 40 standards and 25 interpretations.

- Standards include IASs and IFRSs
- Interpretations include SICs and IFRICs

STRUCTURE OF IFRS

IFRSs are considered a "principles based" set of standards in that they establish broad rules as well as dictating specific treatments.

International Financial Reporting Standards comprise:

- Standing Interpretations Committee (SIC) - issued before 2001.

There is also a Framework for the Preparation and Presentation of Financial Statements which describes some of the principles underlying IFRS.

ADOPTION OF IFRS IN VARIOUS COUNTRIES

IFRS are used in many parts of the world, including the European Union, Hong Kong, Australia, Malaysia, Pakistan, India, GCC countries, Russia, South Africa, Singapore and Turkey. As of August 27, 2008, more than 100 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. For a current overview see IAS PLUS's list of all countries that have adopted IFRS.

Russia

The government of Russia has been implementing a program to harmonize its national accounting standards with IFRS since 1998. Since then twenty new accounting standards were issued by the Ministry of Finance of the Russian Federation aiming to align accounting practices with IFRS. Despite these efforts, essential differences between national accounting standards and IFRS remain. Since 2004 all commercial banks have been obliged to prepare financial statements in accordance with both national accounting standards and IFRS. Full transition to IFRS is delayed and is expected to take place from 2011.
Australia

The Australian Accounting Standards Board (AASB) has issued 'Australian equivalents to IFRS' (A-IFRS), numbering IFRS standards as AASB 1-8 and IAS standards as AASB 101 - 141. Australian equivalents to SIC and IFRIC Interpretations have also been issued, along with a number of ‘domestic’ standards and interpretations. These pronouncements replaced previous Australian generally accepted accounting principles with effect from annual reporting periods beginning on or after 1 January 2005 (i.e. 30 June 2006 was the first report prepared under IFRS-equivalent standards for June year ends). To this end, Australia, along with Europe and a few other countries, was one of the initial adopters of IFRS for domestic purposes. The AASB has made certain amendments to the IASB pronouncements in making A-IFRS, however these generally have the effect of eliminating an option under IFRS, introducing additional disclosures or implementing requirements for not-for-profit entities, rather than departing from IFRS for Australian entities. Accordingly, for-profit entities that prepare financial statements in accordance with A-IFRS are able to make an unreserved statement of compliance with IFRS. The AASB continues to mirror changes made by the IASB as local pronouncements. In addition, over recent years, the AASB has issued so-called 'Amending Standards' to reverse some of the initial changes made to the IFRS text for local terminology differences, to reinstate options and eliminate some Australian-specific disclosure. There are some calls for Australia to simply adopt IFRS without ‘Australianising’ them and this has resulted in the AASB itself looking at alternative ways of adopting IFRS in Australia.

European Union

All listed EU companies have been required to use IFRS since 2005. In order to be approved for use in the EU, standards must be endorsed by the Accounting Regulatory Committee (ARC), which includes representatives of member state governments and is advised by a group of accounting experts known as the European Financial Reporting Advisory Group. As a result IFRS as applied in the EU may differ from that used elsewhere. Parts of the standard IAS 39: Financial Instruments: Recognition and Measurement were not originally approved by the ARC. IAS 39 was subsequently amended, removing the option to record financial liabilities at fair value, and the ARC approved the amended version. The IASB is working with the EU to find an acceptable way to remove a remaining anomaly in respect of hedge accounting.

Canada

The use of IFRS will be required in 2011 for Canadian publicly accountable profit-oriented enterprises. This includes public companies and other "profit-orientated enterprises that are responsible to large or diverse groups of shareholders."

Singapore

In Singapore the Accounting Standards Committee (ASC) is in charge of standard setting. Singapore closely models its Financial Reporting Standards (FRS) according to the IFRS,
with appropriate changes made to suit the Singapore context. Before a standard is enacted, consultations with the IASB are made to ensure consistency of core principles.

**United States and convergence with US GAAP**

In 2002 at a meeting in Norwalk, Connecticut, the IASB and the US Financial Accounting Standards Board agreed to harmonize their agenda and work towards reducing differences between IFRS and US GAAP (the Norwalk Agreement). In February 2006 FASB and IASB issued a Memorandum of Understanding including a program of topics on which the two bodies will seek to achieve convergence by 2008. US companies registered with the United States Securities and Exchange Commission must file financial statements prepared in accordance with US GAAP. Until 2007, foreign private issuers were required to file financial statements prepared either (a) under US GAAP or (b) in accordance with local accounting principles or IFRS with a footnote reconciling from local principles or IFRS to US GAAP. This reconciliation imposed extra expense on companies which are listed on exchanges both in the US and another country. From 2008, foreign private issuers are additionally permitted to file financial statements in accordance with IFRS as issued by the IASB without reconciliation to US GAAP. [7] There is broad expectation among U.S. companies that the SEC will move to allow or require them to use IFRS in the near future and a growing acceptance of that scenario, according to Controllers’ Leadership Roundtable survey data. In August 2008, the SEC announced a timetable that would allow some companies to report under IFRS as soon as 2010 and require it of all companies by 2014.

**India**

The Accounting Standards issued by the ICAI depart from the corresponding IFRS in order to ensure consistency with the legal, regulatory and economic environments of India.

At a meeting held in May 2006, keeping in mind the extent of differences between IFRS and Indian Accounting Standards, as well as the fact that convergence with IFRS would be an important policy decision, the ASB decided to form an IFRS Task Force. The objectives of the Task Force were to explore.

(a) The approach for achieving convergence with IFRS and
(b) Laying down a road map for achieving convergence with IFRS with a view to make India IFRS Compliant.

Based on the recommendation of IFRC Task Force, the council of ICAI, at 2691 meeting, decided to adopt a 'big bang' approach and fully converge with the IFRS issued by IASB from accounting periods commencing on or after 1st April, 2011.

IFRS will be adopted for listed and other public interest entities such as banks, insurance companies and large-sized organizations.

IFRS will be adopted in a phased manner, starting with listed companies, or those with a turnover of Rs. 100 Crores. This will benefit industry by allowing it to operate in a globally competitive environment. Currently, there are 33 Indian GAAP standards of which only two are fully IFRS compliant.
## IFRS - AT GLOBAL

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The Global Move Towards IFRS

Today IFRS is used in over 100 countries:
- Required across all EU countries, starting in 2005
- Argentina, Brazil, Canada and India have announced mandated use
- Ongoing convergence efforts between FASB and IASB
- By 2014, it is expected that:
  - All major countries will have adopted IFRS to some extent
  - China and Japan will be substantially converged to IFRS
  - U.S. public companies will begin to be required to use IFRS

Table 1: Global IFRS Reporting for the year 2004 and 2007

<table>
<thead>
<tr>
<th>Year</th>
<th>USGAAP</th>
<th>IFRS</th>
<th>Others</th>
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<tr>
<td>2004</td>
<td>203</td>
<td>29</td>
<td>268</td>
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<tr>
<td>2007</td>
<td>183</td>
<td>204</td>
<td>113</td>
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(Source: www.iasb.org)

Figure 1 is showing global reporting trends of IFRS for the year of 2004 and 2007, in the year 2004 US GAAP has reduced in 2007 and others had also reduced, But adoption of IFRS has increased from 29 to 204. So, we can say that it is an increasing trend adoption of IFRS in global scenario.
CONCLUSION

Major Changes have taken place recently in financial reporting. There have been various trends (such as the emergence of narrative reporting, including “management commentary”), but the most important change is convergence around IFRS. At present, the ABS of the ICAI formulates accounting standards based on IFRS, however, these standards remain sensitive to local conditions, including the legal and economic environment. Now a day, it is necessary to adopt IFRS for the gain to each and every country of the world. There are main three drivers of IFRS.

- Enhances transparency/comparability
- Eases flow of capital globally, thus possible reduction in cost of capital
- Facilitates accounting and reporting

REFERENCES

2. Kumar, Manoj, "IFRS, are banks ready?", The Economic Times, 17th September, 2008.
Report on the XXXI All India Accounting Conference and International Seminar of the Indian Accounting Association
Ahmedabad, November 22-23, 2008

The XXXI All India Accounting Conference and International Seminar on Accounting Education and Research was held at Gujarat University-Ahmedabad, during 22-23, Nov-2008, under the auspices of IAA Gujarat Branch and Gujarat University's Sd School of Commerce.

The conference was inaugurated by Shri Jainarayan Vyas, Hon'ble Health Minister, Gujarat State. The Chief Guest released the latest edition of Prof. Shirin Rathore's book on "International Accounting." The members of IAA congratulated Prof. Nageswara Rao on becoming Vice Chancellor of Allahabad Open University with a standing ovation. The members conveyed their heartfelt thanks while expressing happiness for the excellent work done by Shri A.S Durga Prasad in the Design and Development of IAA Website—http://www.indianaccounting.in.

At the International Seminar on Accounting Education and Research a number of thought-provoking research papers were presented followed by deep discussion into some of the interesting research areas in Accounting Education and Research. The Key note addresses of all three technical sessions were presented before the commencement of the paper presentations. Then the three technical sessions took place concurrently on both days of the conference with rich deliberations.

The Association conferred IAA Fellowship awards on (i) Prof. U.L. Gupta; (ii) Shri Sukumar Bhattacharya; (iii) Prof. Shanmuga Sundaram and (iv) Prof. B. Banerjee. The Association conferred IAA Young Researcher Award-2008 on Dr. S. Rachappa. The Best paper Awards were given vide the following details:

**International Seminar: Accounting Education and Research**
- **In Search of Research: A Study on the Accounting Research in India**
  By Mr. K.V. Ramana Murthy
- **Technical Session-I: Corporate Reporting & Accounting Standards in the Global Scenario**
  - **An Analytical Study on Investors’ Perceptions on Corporate Reporting Practices**
  By Dr. Sailesh Paramar
- **Technical Session - II: Capital Markets: Trends in India & Abroad**
  - **Indian Capital Market - Recent Trends**
  By Dr. Ansuja Tiwari & Mr. Rajeev Srivastava
- **Technical Session - III: Global Taxation: Current Issues**
  - **Taxation in Karnataka State: A Comparative Study of VAT & GST**
  By K. Eresi

Prof. Shirin Rathore has become the first Lady President of IAA while Prof. GL Dave and Prof. Harish S Ozah have become the Sr. Vice President and Jr. Vice President respectively. Prof. VK Mohan; Prof SS Modi; Dr Hitesh J Shukla; Dr Ajay Soni and Dr Basav Raj are elected to the Executive for a period of three years. Prof. M.Srinivas; Dr. Lalit Gupta; Dr.KChAVSN Murthy; Dr. Anil Kumar, Dr. PK Bhandgar, Prof. M.Sulochana, Dr.Sanjay Bhayani, Prof. NC Tripathy, to the Executive, besides Prof. Umesh Holani (the 32nd Conference Secretary) are coopted to the EC for a period of one year. Dr. Bhavesh A Lakhanji and Prof. Apparao are also
coopted to the EC as special invitees. It is decided to conduct National IAA Talent Search Examination with Prof. G. Soral as Coordinator and Prof. Shirin Rathore; Prof. K. Eresi and Prof. Sugan Chand Jain as members of organizing committee to this effect. Two new local branches at Midnapore and Trivandrum were approved subject to the fulfillment of the conditions to form a new branch. The proposal of Gwalior Branch was accepted to host the 32nd Annual Conference.

As a whole the 31st All India Accounting Conference was highly successful and the delegates expressed high degree of delight with the rich academic contributions and reasonable stay arrangements of the host. Members expressed full satisfaction at the arrangements made by the Conference Secretariat while thanking the Conference Secretary Prof. Harish Srivastava Oza, the Organizing Secretary and his team. 

Prof. D. Prabhakar Rao
General Secretary, IAA

IAA Annual General Meeting Notice
A meeting of the IAA General House will be held at the Venue of 32nd Annual Conference, Gwalior with Prof. Shirin Rathore in the Chair on 15th November 09 at 12.30 p.m. to transact the following agenda: 1. Consideration of the minutes of AGM meeting held at Ahmedabad, 2. Consideration of the Accounts of the Association, 3. Topics for the next IAA Annual Conference, 4. Election of Executive Members as per the Constitution, 5. And any other item with the permission of the Chair. All the members are requested to attend the meeting.

IAA Executive Meeting Notice
A meeting of the IAA Executive Committee will be held at the Venue of 32nd Annual Conference, Gwalior with Prof. Shirin Rathore in the Chair on 14th November 09 at 8.30 p.m. to transact the following agenda: 1. Consideration of the minutes of EC meeting held at Ahmedabad, 2. Nomination of 3 members of EC to constitute panel nominating the Jr. Vice President, 3. Consideration of the election of the members on vacancies as per rules, 4. Co-option of members to EC, 5. And any other item with the permission of the Chair. All the Executive Members are requested to attend the meeting.

Note: Honourable members are requested to contact the Conference Secretary, Prof Umesh Holani for accommodation etc., at his address Institute of Commerce & Management, Jiwaji University, City Centre Road, Gwalior-474002, Email: umeshholani32@gmail.com, Phone: 0751-2442704 (O) 2663284 (R) 09425735596 (M)

Proposals for Young Researcher Award - 2009
IAA invites proposals on Research Work done during the last five years in the area of Accounting by scholars/faculty members of not more than 35 years of age as on 31-12-2008, for the consideration of IAA Young Researcher Award-2009. Proposals are invited only from the life members of IAA. Proposals may be submitted on or before 15th October 2009, to Dr. D. Prabhakara Rao, Professor & former Head, Dept of Commerce & Management Studies, Andhra University, Visakhapatnam-530003. email: drdpr_2009@yahoo.co.in Phone: 09440131863
IAA FELLOWSHIP AWARDS - 2008 (Ahmedabad)
1. Prof. UL Gupta, JNV University, Jodhpur
2. Shri Sukumar Bhattacharya, Founder President, IAA Research Foundation, Calcutta
3. Prof. Shanmukha Sundaram, Periar University, Salem
4. Prof. B. Banerjee, University of Calcutta, Calcutta

IAA Young Researcher Award - 2008 (Ahmedabad)
- Dr. S. Rachappa, Narsee Monjee Inst of Management Studies, NMIMS University, Vile Parle (W), Mumbai - 400 056

Best Papers at Ahmedabad Conference – Nov. 2008 (Ahmedabad)
31st All India Accounting Conference – Ahmedabad

International Seminar: Accounting Education and Research
- In Search of Research: A Study on the Accounting Research in India
  By Mr. K.V. Ramana Murthy (IAA Hyderabad Branch)

Technical Session-I: Corporate Reporting & Accounting Standards in the Global Scenario
- An Analytical Study on Investors’ Perceptions on Corporate Reporting Practices
  By Dr. Sailesh Paramar (IAA Sourashtra Branch)

Technical Session - II: Capital Markets: Trends in India & Abroad
- Indian Capital Market - Recent Trends
  By Dr. Ansuja Tiwari & Mr. Rajeev Srivastava

Technical Session - III: Global Taxation : Current Issues
- Taxation in Karnataka State: A Comparative Study of VAT & GST
  By K. Eresi (IAA Bangalore Branch)

Best Papers at Jodhpur Conference – Dec. 2007

International Seminar: Accounting Education and Research in the Competitive Environment
- Accounting Deserves Recognition as Technical Education
  By Prof. Lalith Gupta & Dr. ML Vadera

Technical Session-I: Transfer Pricing
- An Empirical Study on Transfer Pricing Practices in India
  By Prof. Sanjay Bhayani

Technical Session - II: Accounting for Small & Medium Enterprises
- Accounting Practices of Small & Medium Enterprises – A Comparison between India & Namibian SMEs
  By Dr. UL Pillai, Mrs S. Vardia & Prof. G Soral

Technical Session - III: Shareholder Value Creation
- Shareholder Value Creation Related Performance Matrics: An Empirical Analysis of select Indian Companies
  By KR Jalaja

NATIONAL ACCOUNTING TALENT SEARCH 2009: A REPORT

With a view to arouse interest of youngsters in the subject of accounting and make Indian Accounting Association reach younger generation, a nation-wide accounting knowledge competition was organized for under-graduate students on Feb 22, 2009.

The national executive of IAA resolved to hold such a competition on the occasion of IAA National conference held at Ahmedabad in last week of November, 2008. Prof G Soral, Head, Deptt of Accountancy and Statistics, M L Sukhadia University, Udaipur was assigned the task to act as Coordinator of the competition. The other members of the organizing committee
included as advisors: Prof Shirin Rathore, President IAA (University of Delhi), Prof D Prabhakar Rao, General Secretary, IAA (Andhra University), Prof K Eresi (Bangalore University) and Prof Sugan C Jain (formerly University of Rajasthan); and as Deputy Coordinators, Prof Surendra Bhanawat (JRN Rajasthan Vidyapeeth University) and Shri B L Heda (M L Sukhadia University).

A website titled www.accountingtalent.org was launched to facilitate registration of the candidates on-line. A nominal registration fee of Rs 200 was charged per candidate for participation in the competition. Around one thousand candidates registered for the competition out of which 829 participated. The examination was conducted on twenty-four centers all over the country namely Agra, Ahmedabad, Ajmer, Allahabad, Amritsar, Bangalore, Bhavnagar, Bhubaneshwar, Bikaner, Delhi, Jaipur, Jalgaon, Jodhpur, Kolkata, Mumbai, Nagpur, Pondicherry, Pune, Rajkot, Sagar, Srinagar, Thriruchirapalli, Udaipur, and Vadodara.

The results were declared on March 10, 2009 as per schedule on the website. Mr Ramandeep Singh Arora (Delhi) bagged the Best Performance Award (Rs 10,000 cash and trophy) while Mr Arpit Jain (Delhi) won the Second Best Performance Award (Rs 5,000 cash and trophy). The Third Best Performance Award (Rs 2,000 cash and trophy) was won by Ms. Rupali Gupta (Jaipur). Besides the three best performers, Outstanding Performance Awards (Rs 1,000 cash and certificate) were bagged by six candidates who scored above 99th percentile. Those of the remaining who scored 90th percentile and above were seventy-six in number and were conferred the Brilliant Performance Award (certificate). All the remaining participants were given Participation certificates. While the certificate distribution could take place with the cooperation of senior IAA members all over the country, the cash prizes and trophies shall be distributed during the forthcoming national conference of IAA at Gwalior.

The historic achievement of successful organization of the event was the result of efforts of members of the organizing committee, IAA Executive members, branch secretaries and IAA members at large all of whom offered their services on purpose. This being an annual activity, the date of next competition has already been announced as November 29, 2009. Details are available on the website.

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XXXII All India Accounting Conference & International Seminar on Accounting Education and Research

(November 14-15, 2009)

Jointly Organised by Institute of commerce and Management, Jiwaji University, Gwalior and Indian Accounting Association (Gwalior Branch)

Invitation

The Institute of Commerce and Management, Jiwaji University, Gwalior and the Gwalior Chapter of the IAA, take delight in inviting you to participate and contribute a paper at the XXXII, annual conference of the Indian Accounting Association during Nov. 14-15, 2009 at Gwalior. The conference aims at providing a good forum for interaction on contemporary issues in accounting education and research and direct interface between professionals, academician and industry.

IAA

The Indian Accounting, a congregation of academicians, professionals and executives from business, industry and government is a foremost forum of those who are keenly interested in the advancement and dissemination of accounting knowledge and believe that research on a continuing basis coupled with improved imparting of its education is imperative for bridging
Indian Journal of Accounting

the gap between theory and practices of accounting in organization effectiveness and economic development. The association was founded on March 17, 1969 and was inaugurated on Feb. 14, 1970 by the then A G of uttar Pradesh. A member organization of the key accounting bodies in the world and held in high esteem by them. It has a network of 30 branches in India with more than 2000 life member, and a research foundation as an affiliate at Kolkata. It also brings out a biannual research journal 'Indian Journal of Accounting' to give wider publicity to research finding. The association offers life membership through its chapter nation wide, has attracted in past years a large number of delegates from across the country and abroad.

JIWAJI UNIVERSITY

Jiwaji University was established on May 23, 1964. Right of its inception, this university has been in the forefront in attracting the student not only from various part of India, but from other countries also. This is a multi-faculty university and caters higher education in art, Social Science, life Science, Physical Science, Commerce and Management, Engineering, Pharmacy, Physical Education, Tourism Studies etc. University has been the initiator of various innovative courses viz. Neuro Science, Food Technology, Chemical Sales and Marketing Management, Master in Instrumentation and Chemical Method of Analysis, Environment Chemistry, etc. The territorial jurisdiction of its affiliation is extended to Gwalior, Shivpuri, Guna, Ashok Nagar, Datia, Bhind, Morena, and Sheopur. It is running some courses through distance learning also. More than 200 colleges are affiliated with Jiwaji University.

Institute of Commerce & Management

Established in 1980 Institute of Commerce and Management is one of the oldest teaching department in the state of Madhya Pradesh. Having created a niche in the areas of teaching and research the department aims to equip students with intellectual background to enable them to undertake a successful career with requisite inputs of business studies. Our aspirations are realized with support from state - of - the - art infrastructure that we have developed. We are running M.com, MPhil (commerce), MBA(Full Time), MBA(Part time) and BBA. Further the department serves as a hub for doctorate and post doctoral research endeavors various sphere of commerce and management. A number of seminars, workshops etc. were organised by this department since its inception.

IAA Chapter Gwalior Branch

Gwalior Branch of Indian Accounting Association is one of the fastest growing offshoots of Indian Accounting Association. Since its establishment in the year 2006, its membership has seen a health increase. It has organized a lot of local and regional seminars and workshops. It has been doing its share to increase the presence of the profession in the region. The present endeavor is its second effort but conscious attempt to integrate its efforts with national mainstream.

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The paper must be in usual standard format with abstract and particulars of authors; to be sent to the Conference Secretary / Organising Secretary (two hard copies with one soft copy in MS word, Font: Times new Roman, 12 size and 1.5 line spacing) latest by October 20, 2009. Paper would be subjected to blind review by a technical committee before accepting them for presentation at the conference. Further the accepted papers would be classified into two categories high quality papers and satisfactory papers. High quality papers would be allowed a time of 12 minutes for presentation and while only the summary of the satisfactory paper will be allowed to be presented in three minutes. Only the papers received on or before the stipulated time may be published will be consider for presentation after review (full paper or abstract at discretion of the editor) in the conference souvenir. The papers are to be sent to the conference secretary at the following address

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In collaboration with RAJASTHAN CHAMBER OF COMMERCE AND INDUSTRY, JAIPUR

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