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Editorial

The last decade of the century perhaps was the most eventful period in the history of independent India. A move was initiated for integrating Indian economy with global economy. The reforms package was unfolded gradually. By now the first stage reforms are through. Second stage reforms are in the offing. This produced some results. Consumers have now a wider choice of items to pick from. AT Kearney have rated India as the third most attractive destination for new investment and seventh most attractive destination for foreign direct investment, of course behind China, Mexico and Brazil, the big three emerging markets, but ahead of major markets like Spain and Poland.

The above developments in the economy presented a challenge and also an opportunity for academia. The academy is expected to rise to the call of time and shape country's human resource as per the need of the economy. After all it is human being that guides the destiny. We see a move, though a feeble one, in the right direction through the writings of the scholars.

The present edition of the Journal carries nine contributions on contemporary issues in accounting. Mentioning that "Indian companies have to be world class, follow rigorously total quality management, use diversification and outsourcing as strategies, make wider use of information technology and offer products at lower prices", Dr. Mohi-ud-din Sangami has presented a rationale for the adoption of Strategic Cost management and Activity Based Costing. The case study of Ahmedabad Municipal Transport Service by Dr. B.N. Trivedi and Dr. B.H. Deasi emphasized on strengthening controls, cost reduction increasing efficiency and making the fare rates more realistic for establishing this vital public utility on sound footing. Indian Railways, the biggest public sector enterprise in India, are life-line of the country's economy. Following the earlier theme and critically examining the accounting in Indian Railways, Dr. Kamlesh Pritwani has concluded that for Indian Railways, "to survive and grow in a diverse economic environment as a commercially competitive and financially viable system, a broader change of vision is needed."

Corporate governance is a buzz word in seminars these days. Issues involved have been subject of inquiry by a large number of committees in India and abroad. Dr. K.R. Sharma in his paper on accountants and corporate governance has focused on the role and responsibility of accountant in corporate governance. Examining various aspects of corporate governance in depth including the legal and ethical issues involved, Mrs. Sunita Sharma and Dr. G.C. Maheshwari have emphasized on independence of directors for better results.

With globalisation there is a strong move for harmonisation of accounting practices at international level. Most countries including India are evolving accounting standards in tune with the International Accounting Standards. Dr. G.L. Dave has surveyed the practices in Indian corporate sector, looking at the relevance of accounting standards for corporate reporting. Stating various accounting requirements under tax laws, Shri C.M. Jain has examined the role of auditors in the establishment and enforcement of accounting standards. Reiterating the role and relevance of public sector enterprises in the wake of globalisation of Indian economy, Dr. R.L. Tamboli has viewed that maximisation of social contribution can be an appropriate device for the appraisal of managerial performance in public sector enterprises.

Udaipur
December 31, 2000

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Strategic Cost Management and Activity Based Costing: An Indian Perspective

Dr. Mohi-ud-din Sangami*

Introduction

Cost has always played a key role in business. Analysis of cost has, therefore, been an important activity. However, in yesteryears this analysis was done with a somewhat limited perspective. With the management of business getting transformed from a reactive to a proactive mode, cost analysis and management has undergone a paradigm shift. As customers become more demanding and seek greater value, importance of effective cost management becomes even greater. Thus, old understanding developed from the standpoint of internal efficiency, that led to operating practice, Price = Cost+Profit, became a subject of past. Price can no longer be regarded as dependent variable whose value gets determined on the basis of two independent variables viz., cost of production and desired profit. Given the present scene, where prices are dictated by market forces, this practice is definitely out of tune with current realities. The new realization changes some of the very objects of business. Instead of single-minded attempt to maximize shareholders' wealth the focus now is to first maximize value for the customers. In such a scenario, profit becomes the consequence and not the cause of business, thereby changing the relationship to Cost = Price-Profit (Chakraborthy, 1995). Under this revised definition of cost, a need arises for managing the costs in a way to ensuring the functions the customer is seeking and doing the same at a price that the consumer considers reasonable. This is done through Strategic Cost Management.

Strategic Cost Management

Under strategic cost management, the fulcrum of business in customer satisfaction. Costing is guided by marketing orientation of the organization. In fact, marketing cum finance (costing) functionaries can fit well under strategic management and can spread the message of costing and cost strategies under marketing orientation and customer focus. They can better achieve, apart from cost reduction and cost effectiveness, competitive advantage, success and growth of the organization (Murthy, 1998). The concept of customer focus and strategic cost management is depicted in Figure 1.

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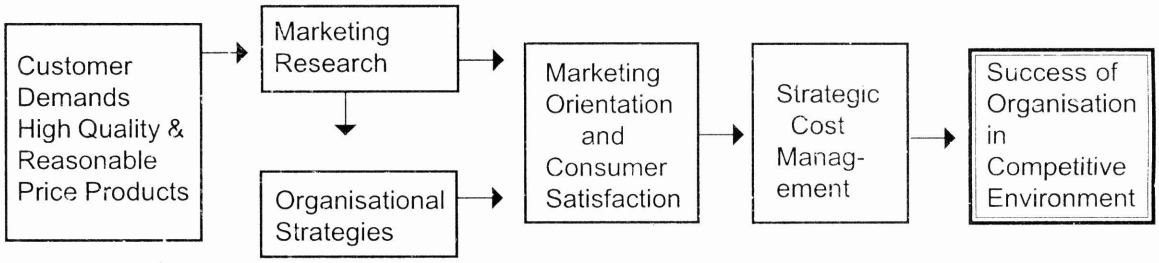


Fig. 1: Customer Focus and Strategic Cost Management.

In the model shown in Figure 1 customer represents a basic component and the market built around the customer is wider component of business environment. National and global competition, signifies the dominant force influencing and shaping the market, essentially to satisfy the consumer. Marketing strategies are derived from product-market task environment. Strategic cost management is total cost management strategy framed to adjust to product market task environment and thus blend marketing orientation with cost management in total organizational perspective. The process of strategic cost management thus involves:

i) Surveying customers' needs: A customer need survey is carried out to determine the factors regarded as important by customers in providing the level of service they require. These factors are prioritized and a quantified assessment of the business organization is obtained from customers. These views are utilized in framing future strategies of the organization, to re-design the product and providing off product services.

ii) Collection of strategic cost information to conduct analysis regarding cost activities, cost drivers and cost objects, to help reduce and control costs within set limits.

iii) Create awareness for total cost management. For successful total cost management, organization wide awareness programme needs to be undertaken right from the top echlon of the company to shop floor level. Every one concerned should be made aware that the total cost management strategy stands for computing cost and providing information to all operational functionaries for continuous business improvement and business re-engineering (Burch 1994). For this instead of technical jargons common terms for cost activities to be controlled should be used like set-up time in machine shop, the number of quality checks, the number of movements of materials on shop floor, etc. Thus to achieve total cost management in an organization-wide perspective, there is urgent need to identify cause and effect relationship between activities and costs. This can be done by installation of Activity Based Costing (ABC) in costing management system of a company.

Activity Based Costing (ABC)

The basic philosophy of ABC is 'resource consumption.' Activities consume resources, so activities incur costs, products consume activities and products create demand for products. For producing products resources of organization are used, that are identified as activities and aggregated into cost drivers and cost pool as shown in Figure 2.

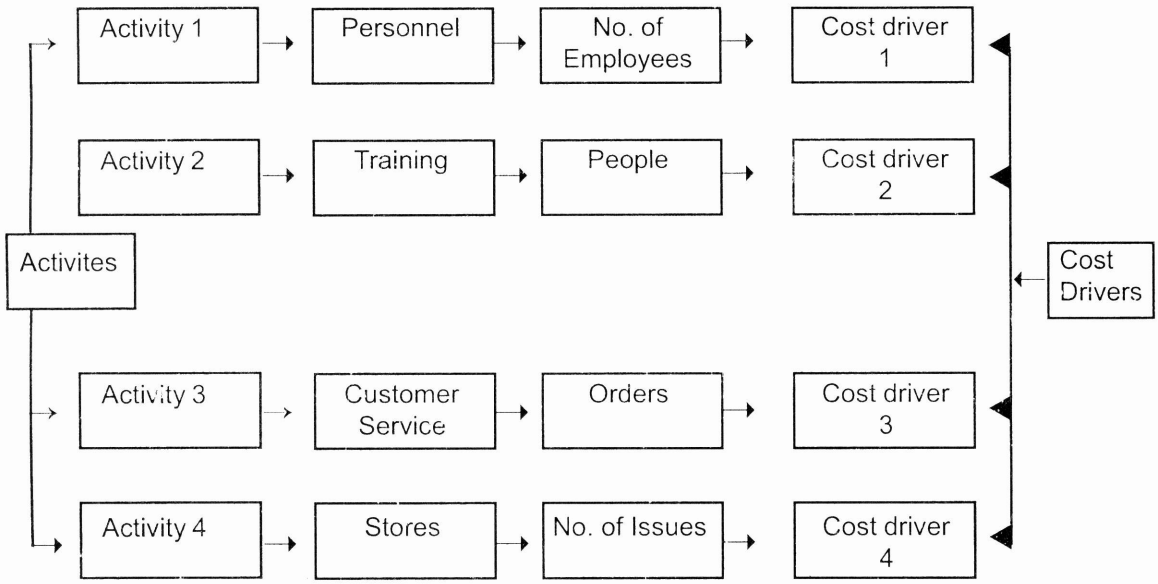


Figure 2: Activities and Cost Drivers.

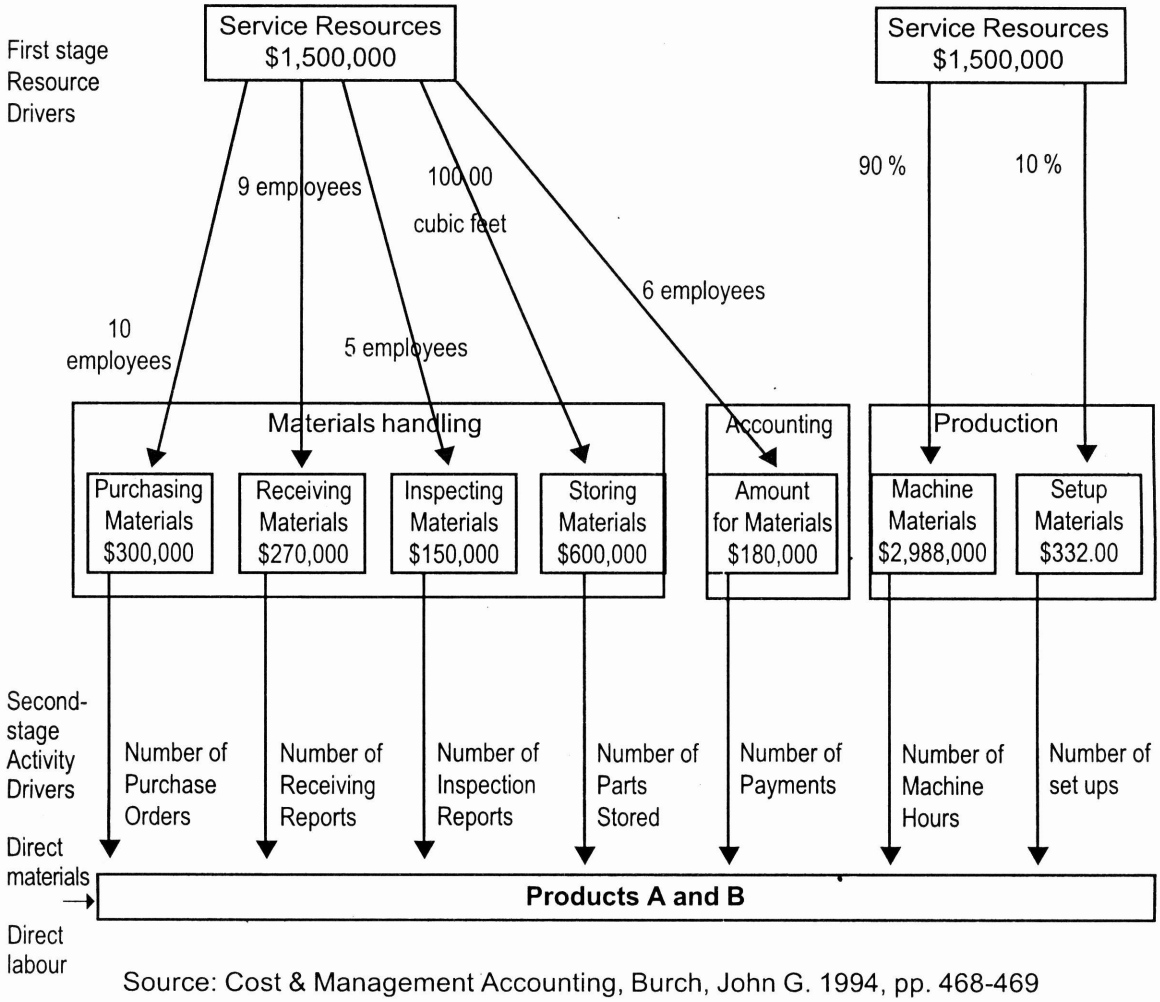
Here an activity means the process that meets a particular work need of the organization like stores, service for customers, maintenance, inspection, quality audit, receiving, training personnel etc. 'Cost drivers' means a measurable event which is used to assign costs. For example for stores - number of issues, for customer service - number of orders, for maintenance - volume of products, for inspection - number of supplies, for quality audit - volume of products, for receiving - number of receipts, for training personnel - number of people to be trained and so on. 'Cost pool' is equal to activity related total cost.

With the help of the above concepts, value added and non-value-added activities are identified in a transaction. A value added activity alone is taken into account for cost calculation and ways are chalked out to eliminate non-value added activities. Costs are attacked in response to the price resistance demonstrated by customers, by distributing overheads on the basis of activity and ensuring accurate product costing on the basis of objective analysis, like statistical regression.

The ABC involves the following six steps :

1. Establishing cost objects
2. Critically analyzing and defining activities
3. Idenfitying major activities in the organization
4. Determining a Cost-Driver for each activity
5. Creating cost pool for each major activity
6. Tracing the costs of activities to products

The process of ABC is illustrated in Figure 3



Source: Cost & Management Accounting, Burch, John G. 1994, pp. 468-469

Figure 3: Activity-Based Costing Model Showing Activity Cost Pools included in Activity Centres.

From the above analysis it can be delineated that ABC helps to understand:

i) What causes the activity to take place?

ii) Why it takes place as often as it does?

iii) What are the linkages between activities?

iv) Why an activity consumes the resources it does?

v) What value the activity adds?

vi) Who is seeking value the activity adds?

Thus ABC provides a good understanding of business processes and permits breaking down the functional barriers. It adds in focusing attention to value maximization, strategic pricing, market positioning and business process re-engineering. Realizing the significance of ABC, a cross-section of industries throughout the world have adopted this system. 36% of the US based companies use ABC (Schiff 1993). 32% of British companies have adopted this system during the previous five years (Bright et al 1993). Among Canadian companies 14% have already

implemented ABC. 'Strategic Cost Management' have been benefitted a great deal. Not only have these firms realised multiples of their investment in ABC they have been successful in using the technique to prove product lines, rationalize operations, expand into new markets etc. (Gujrati & Panda 1997).

Indian industries can not turn a deaf ear to ABC and can not afford to lag behind in acclimatizing to strategic cost management, in their quest for total cost management. In fact the Indian companies would be forced to adopt this technique of total cost management, because of the following reasons :

1. **Cut-throat Competition by Foreign Companies :** With the opening up of Indian economy to foreign business foreign investment in India has registered a remarkable growth. In the year 1991, the foreign investment approved was Rs. 5.30 billion. This had gone up to Rs. 320.70 billion in 1995. With the Government of India to lure more foreign investment, the amount would go up further in the shape of investment in Indian companies and through the multinational companies establishing their operations in India.

   With India accepting the membership of WTO the competition has been perceived. As WTO brings with it growing onslaught of fierce competition, first from imported goods and services, second from foreign companies, including trans-national establishing wholly owned and controlled entities in India, including acquisition of established Indian companies with a view to producing goods and services for the Indian market, relying on their proprietary trademarks, technology, know-how and other inputs. With step by step movement towards the introduction of capital account convertibility, the Indian industry has started feeling the pinch of competition from global players. If the Indian companies have to be successful in this cut-throat competition, they must adopt measures to improve quality of their products/ services and offer them at competitive price. ABC as a tool of strategic cost management can offer an effective solution to this problem.

2. **Thrust on Total Quality Management :** Total Quality Management has become a buzz-word for all world class companies. The quality revolution is now sweeping across India like a storm. The total number of companies certified under ISO-9000 standards has crossed 1500 level and is steadily increasing. Nowadays ISO-9000 standards are considered a bare minimum set of guidelines to transform a company, from an informal, individualistic person dependent quality system to a formal, team oriented, system dependent one. Total Quality Management, however, calls for much more than just system standardization. It is an integrative management concept for continuously improving the quality of goods and services through participation at all levels and functions in the organization, to better meet the need and expectations of customers.

   The Total Quality Management emphasizes to follow the first step of 10-100-1000 Rule as illustrated in Figure 4.

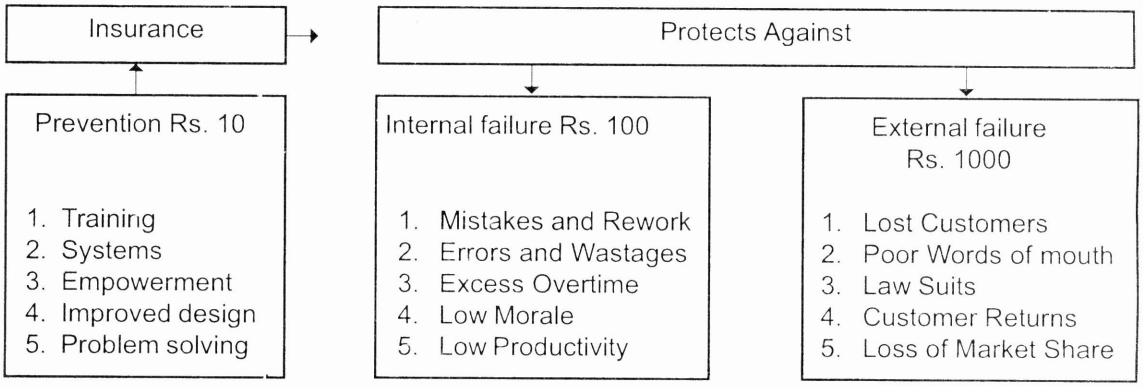


Figure 4: Total Costs of Service Quality through 10-100-1000 Rule

Typically, in most companies, not much money is spent on prevention, more is spent on monitoring and most is spent on fixing errors. Implementing a continuous improvement strategy results in spending more on prevention, less on monitoring and least on fixing errors. The companies in India are following traditional costing system that is not structured to capture the important cost of quality information (Goel 1988). In order to perform TQM Rule 10, information is needed about activities that add value. The people involved in performing these activities consume resources for which customers pay. Knowing the cost of these activities is possible through ABC, as ABC supports efforts to improve process. Once activities can be traced to individual products and services then additional strategic information is made available. The effect of delay and inefficiency becomes readily apparent. The company then focuses on reducing these costs. The new information provided by ABC helps managers make better decisions about product design, process improvement and systems and structures, thus facilitating the implementation of Total Quality Management.

Another landmark development is the emergence of QS-9000 quality standards pioneered by Big 3 of US auto industry, namely General Motors, Ford and Chrysler and accepted by almost all auto giants the world over, including Mitsubishi, Toyota, Renault and Fiat (Pandit, 1995). Section 2 of QS-9000 specifies certain areas for continuous improvement. These areas are by and large the same that are described as activities under ABC, like machine set-up, die change and machine change over time, scrap, rework and repair, testing requirements, excessive cost of non-quality, excessive handling and storage, customer dis-satisfaction because of repairs, returns and complaints and so on. All these activities are shown as non-value adding activities and need to be eliminated under ABC. Thus there is a close relationship between QS-9000, that is going to become an important requirement in time to come, and ABC that has the potential to supplement this standard.

3. **Emergence of World Class Manufacturing :** In an age where the distance in terms of time and space have shrunk and the world has become a global village, the change has influenced every activity of man including manufacturing. Gone are the days when lot of time was taken for moving a technology from conception to commercial stage. The Radio took 36 years to reach commercial manufacturer, TV took 18 years but it took only 3 years for information technology like Internet to reach the consumer. Because of information explosion it takes lesser time for a technology to be developed and practically implemented. This phenomenon has changed the rules of manufacturing. Nowadays every manufacturer through R&D

attempts to remain responsive to new demands of market. Over the years, due to competition in the international markets, the manufacturers have developed certain principles and standards, which make them world class. These world class manufacturers differ from traditional manufacturers in many ways. The salient features of a world class manufacturer and a traditional manufacturer are given in Table 1.

Table 1

No.	Attribute	Traditional manufacturer	World class manufacturer
1.	Organizational mind set	A mind set for standards as a basis for organizational performance	A mind set for questioning the standards and setting them only to reset again (journey through continuous improvement path)
2.	Organizational capabilities	Organized for building products for specified markets	Organized for building certain organizational capabilities and mind set that could adopt to any future requirements in terms of markets and products
3.	Organizational structure	Logical building blocks are the functional areas	Terms based on business process (that cuts across and unify several functional areas) are the building blocks
4.	Organizational performance measures	Performance measures based on internal parameters, such as labour and machine utilization, price of purchased items and meeting certain standards.	Performance measures based on customer driven parameters, such as quality, on time delivery etc.
5.	Cost	Cost is function of trade-off considerations with quality, delivery, quick response etc. (enterprise driven) controls cost for cost reduction.	Ever decreasing costs (customer driven). Controls cause no costs for cost reduction.

A world class manufacturer as shown in table 1 has a mind set that believes that standards are guiding force for performing, monitoring and controlling all activities; organizations are in continuous journey towards perfection, on a path to continuous improvement. They have understood the need for challenging the socalled standards to re-set them.

A world class manufacturer adopts itself to market conditions, that it is always ready to respond to customer's needs in terms of products and services.

A world class manufacturer designs an organizational structure for the company so that structures and systems provide a basis for short circuiting several paths and beat competition on time dimension. The guiding principle for creating organizational structures have shifted from creating gangs of functional areas, to marshalling teams of people from different functional areas, to effectively perform a common business process (Mahadevan 1998).

A world class manufacturer focuses on customer. Quality and timely delivery are main areas of thrust for people involved in organization. In this process, they have to be in continuous quest to reduce costs by eliminating non-value adding activities and controlling the costs of value adding activities. Thus they have to master the art of cost reduction through rationalization of activities (Mahadevan 1998)., In this direction, newer systems of cost management could gear up the information system in such a way that it identifies opportunities for improvement. ABC a newer system, is the best fit for such a situation.

4. **Increased Trend of Diversification :** Diversification has Proved to be a successful strategy of Indian corporates. It may be ITC, DCM, JK Corporation, Tatas, Ambanis or any other big business house, diversification has become a common practice. According to Kaura (1987) out of a sample of 251 companies, 63.3% diversified. In this way new product lines are added to a company's business and new divisions are created as profit centres. HMT Ltd. has product lines like watches, tractors, lamps and export business. Godrej has diversified products like food items, toiletries, white goods like refrigerators and washing machines and so on and so forth. The companies are producing not only a wide range of products but some are also manufacturing varieties within a given product line. For example Titan produces as many as 35 models of wrist watches. Ajanta clock company produces over 30 models of wall clocks in seven different colours and Britannia Industries produces more than 35 brands of biscuits (Gujrati & Panda 1997). With the opening up of the economy, business houses, in India in collaboration with foreign companies, have gone for diversification and many companies are in the fray for diversification.

   Product diversity has been considered a conducive condition for the application of ABC (Merz and Hardy 1993). Thus the use of ABC in the emerging diversified companies can prove very useful in improving their performance with respect to product profitability and market share.

5. **Lower Price as a Market Strategy :** To cut costs by adopting various methods and offering the product at lower price is a new market phenomenon. Proctor and Gamble have cut costs ferociously that reduced expenses by over $3 billion since 1992. The company plans to whack another $2 billion out of costs to keep the fun going (Fortune 1996). Similarly Matsushita, Akai and Goldstar are live evidence of cutting costs and offering products at lower prices. (Management Accountant, February 1997).

   Taking this into consideration, most Indian companies have started tightening their belts. The time worn refrain, "a rupee saved is a rupee earned", is back on everybody's lips. At Delhi-based Rs. 750 crore JK Corporation, the areas that have come under scrutiny are manpower costs, communication expenses and maintenance costs. Towards cost reduction all divisional heads were asked to reduce communication expenses by 25% and efforts were made to sub contract the functions like maintenance, security, telephone operation and daily transport. This had resulted in major cost savings. (Management Accountant, March 1997). In the same way, Rs. 461 crore Satya Group of Companies used E-mail instead of telephone/Fax in majority of their offices, that brought down their administration costs substantially. On the same pattern Rs. 2,000 crore Amtrex, Lalbhai group had gone to such an extreme that its office staff, such as peons were trained to double up as make shift telephone operators, or in some cases, even as computer operators. This reduced their manpower costs to a great extent. (Management Accountant, March 1997).

In view of stiff competition, cost reduction and price cutting have become important strategies to defeat competitors and gain better market share. Indian companies are realizing this and have started implementing the same. HCL offered Personal Computer (PC) for Rs. 50,000 in 1984, when everyone else was selling the same for Rs. 1,00,000 plus. And then when rivals reacted and brought the price down, HCL cut the Busybee PC's price to Rs. 25,000 and swept the market. (Management Accountant, February 1997). At around the same time, Nirma that began as a medium scale enterprise, developed a washing powder and challenged the Indian giant like Hindustan Lever Ltd. (HLL) by selling the washing powder at half the price of HLL's Surf. This helped Nirma in gaining market share and growing up to a Rs. 700 crore giant. This forced HLL to reduce costs and offer its products at lower price. On the same pattern, Gulshan Kumar's T-Series Cassettes priced open the audio market and stole customers from market leader HMV by retailing cassettes at every cornerside shop at rock bottom prices. (Management Accountant, February 1997).

Same way AKAI's trumpeting call to redefine the value of Indian rupee has brought a revolution in cost and price management of Indian white goods industry. The big slash in prices of colour TVs has forced all TV giants to pull prices down and manage their costs accordingly. Indian companies have realized that the alternative product differentiation, suggested by Michael Porter, was unlikely to work for long in Indian context, as it takes very little time to make a similar product using technological developments. Moreover, Indian consumers are not expected to take up foreign levels as multinationals imagine. It is the cost leadership, that will make a big difference (Shirli 1994). In this backdrop, Indian companies have to be cost efficient and price competitive. This is emphasized in ABC making it is a must for Indian companies.

6. **Out-Sourcing as a Competitive Strategy** : Instead of manufacturing all required items in-house or integrating backwards a company for strategic reasons can depend on suppliers and thereby gain advantage. Competition has forced even leading companies like IBM, GE and Mercedese to focus on their core strengths and leave the rest to others. In this kind of partnering, perhaps, the greatest leverage of all comes from fuller utilization of external suppliers' investment, innovation and specialized professional capabilities that would be prohibitively expensive or even impossible to duplicate internally. In rapidly developing market places and technological situations, such a strategy decreases risk, shortens cycle time, lowers investment and creates better responsiveness to customers' need. Take the case of Nike Inc., the largest suppliers of athletic shoes world wide, that outsources 100 percent shoes and manufactures only key technical components. Nike creates maximum value by concentrating on pre-production (R&D) and post-production activities (marketing, distribution and sales) linked together by best marketing information system in the industry. It even outsources the advertisement component of its marketing programme. This drove Nike to the top of product recognition scale. As a consequence it grew at 20 percent compound rate of growth and earned 81 percent ROCE during 80's (Pai, 1997). In India, companies have started adopting such a strategy. Maruti Udyog managed its vendor development programme to its advantage. Under outsourcing strategy certain activities are undertaken within the company and certain activities are assigned to outside suppliers. Activity Based Costing can help in identifying activities to be undertaken in-house and those to be got done from outside.

7. **Globalising of Indian Companies** : The world economy has undergone a radical transformation during the last two decades and the countries are undergoing a perceptible

change. With strong waves of globalization sweeping the world, business enterprises are the entities most effected by this. While enterprises have certainly gained entrepreneurial freedom, they are simultaneously exposed to a series of unexpected challenges (Shah 1997). To reap the fruits of globalization and taste foreign markets, Indian companies have started to respond. Some companies have entered into strategic alliance with big MNCs, through contractual agreements like joint R&D,. joint product development, long term sourcing agreements, joint manufacturing/marketing and shared distribution/services. The Indian corporates have the benefit of acquiring advanced technology, enhance production skills, enter new markets and develop new products. Take the case of Arvind Mills, through strategic alliance with Almac Knit Fabrics of the US and FM Hammerle of Europe, it has successfully launched new brands "Arvind Almac" and "Arvind Hammerle" in the international market. Similarly the Maharashtra based Dynamic Dairy, a supplier of cheese to Macdonalds and Eri International, has come up as an international supplier of milk products (Pai, 1997).

Titan an Indian Watch Company, competing in global market appears as an unbelievable story. With presence in eight countries. Titan expects 20 to 25 percent (about 8.5 Lakh pieces) of its watch sales to come from international market. Likewise Asian Paints, focussing on total customer satisfaction, adopting new products to local needs at a reasonable price have been able to get 50 percent market share in Fiji and is expected to command 20 percent market share of household paints in Australia by mid 1999 (Pai, 1997). Like wise Tata Tea, Ispat International and a number of other Indian companies have become global, and many more are in the pipeline. An implication is that Indian business enterprises must think in global terms when taking up a business activity. They have to be cost efficient and price competitive. ABC could help Indian companies going global, to face competitors that are already using ABC as a tool of strategic cost management.

8. **Wider Use of Information Technology :** Information explosion and rapid advancements in the field of processing and transmission of information have made a decisive impact on managerial and organizational culture. Due to the slash in the prices of computers and other functions connected with them, almost all Indian business houses have installed computers. The number of personal computers that was 19.5 million in 1997 had gone up to 50 million in 1998 and within two years it is expected to go up to 400 million (Economic Times, December 14, 1998). This suggests that Indian industries are going for computerisation to meet their information collection, and processing need and there may be wider use of information technology in the years to come. "Before the advent of computers", notes Johnson (1991), "Activity Based Costing was a practical difficultly as it would have been almost impossible to collect and compile large amount of non-volume sensitive cost driver information. Using such information, ABC traces overhead costs first to the activities that consume resources and then allocates the activity costs to different products or services depending upon their percentage consumption of cost drivers". Thus the growth in investment in information technology by Indian firms is a fit case for the introduction of ABC in costing system.

Conclusions

As Indian companies respond to the demands of market, they will have to be vibrant in tandem with the market forces to produce what the customer wants and price the product the way the customer is willing to pay. Because of intense competition, they have to develop the competitive edge of lower price by managing costs strategically. For this they will have to adopt

Activity Based Costing as a tool of strategic cost management. The rationale for adopting this technique is also supplemented by the fact that Indian companies have to be world class, follow rigorously total quality management, use diversification and outsourcing as strategies, make wider use of information technology and offer products at lower prices. These strategies can not bear fruits under traditional costing system. Installation of ABC becomes a must in the years to come. Moreover, Indian companies will have to adopt increased automation that will bring the proportion of direct labour to indirect overheads drastically down. In this way, taking direct labour cost as a basis for allocating and apportioning overheads would not be logical as may lead to serious distortion in product costs and lead managers to choose a loosing competitive strategy, by deemphasizing and overpricing products that are highly profitable and by expanding commitments of complex and unprofitable lines (Kaplan 1988). The fret that ABC is a costly item is now over. Studies have shown that the inital cost of installation of ABC is recovered in no time, as non-value added activities are identified for elimination. Take, for example, the case of Menon and Menon, a 45 crore company in Kolhapur (in south-west Maharashtra), that adopted ABC in 1996 had a saving, among other things of Rs. 2 Lakh every month on power costs (Wadkar 1998). This provided a strong case for the installation of ABC in Indian companies.

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Accounting for Passenger Transport Service: A Case Study of Ahmedabad Municipal Transport Service Gujarat

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Introduction:

Transport is a matter of passionate public concern as personal mobility is a highly valued goal, economic prosperity depends increasingly on movement of goods over long distances, and changes in transport technology are rapid, violent and disturbing.

The public spends a significant proportion of income on transport, and argues hotly about its price, efficiency and social and environmental effects. The transport of raw materials for industry, movement of exports. internal distribution of goods, journey to work and for leisure all depend on the availability of satisfactory means of transport. Most people now-a-days live in towns and cities and the transport related problems arise mainly there. There is no simple set of solutions that may solve this human problem. But the transport system can not be left solely to market forces, for there are other objectives also, such as

(i) Social objective: The market would not, left to itself, ensure that all members of community have a reasonable opportunity for mobility.

(ii) Environmental objective: The movement of goods and people imposes costs on community in terms of environmental damage and accidents.

(iii) Resource objective : The market alone can not prevent extravagant use of scarce resources, notably energy.[1]

The transport activities must therefore be strictly managed in the interest of all three non-transport objectives.

Traffic is a function of activities. Vehicles do not move about the roads for misterious reasons. They move because people want them to move in connection with activies they are engaged in. Traffic flows between city to city and countryside as there are complementary activities generating cross-movements. Activities are numberless but transport is used in four basic ways in connection with these activities : [2]

(i) Conveyance of passengers in bulk

(ii) Conveyance of persons individually or in small numbers

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1. *Transport Policy - A Consultation document*-VOL-I; London; p.1,2.
2. Transport (Ed.) Denys Munby-Penguin *Modern Economies*, p.154

(iii) Transport of raw materials, merchandise and food.

(iv) Mobile services.

In determining whether or not a new road should be built or an improvement made to an existing road economic criteria and environmental criteria are used. Road schemes are normally subject to economic assessment using cost benefit technique.[3] The majority of schemes are now appraised using cost benefit analysis (COBA).[4] This method provided a basis of relating economic merits of different road schemes and different variations within schemes. It compared traffic benefits discounted to present day, with cost incurred in building it. The calculations of benefits take into account:

(i) The reduction in accidents due to new roads that normally form about 20% of total benefits.
(ii) Saving in operating costs, that vary widely from substantially positive to negative, where for example a by pass increases the journey length.
(iii) Saving in working time that averages over 50% - cars 26%, goods vehicles 22% and buses 3%.
(iv) Saving in non-working time that averages under 30%.

Road Transport Costs:

Transport is generally an intermediate product. It eliminates temporal and spatial gaps between producers and consumers. The commodity in transit may be either a physical product moving from producer to consumer or a person travelling to work so that his labour (the product) may be available at the point required by his employer or if the product is not transportable, the consumer travelling to the point of consumption. Transport costs can be regarded as consisting of three elements, viz. track cost, locomotive cost and terminal cost.

The analysis of road transport expenditure is a complex problem, as the road transport industry is in different hands and the system of management varies widely affecting transport costs. It caters to passengers and goods but it is generally not possible to link the expenditure to both the services directly. In case of combined management or repair workshop, the expenditure can be allocated to both the services on some rational basis. The accounts maintained by transport undertakings and private operators can form the basis of computing the transport cost.

The cost of road haulage can be divided into the following main categories:[5]

I. Vehicle Operating Expenses
   (1) Wages & Salaries
   (2) Fuel
   (3) Tyres
   (4) Lubricants
   (5) Other Expenses

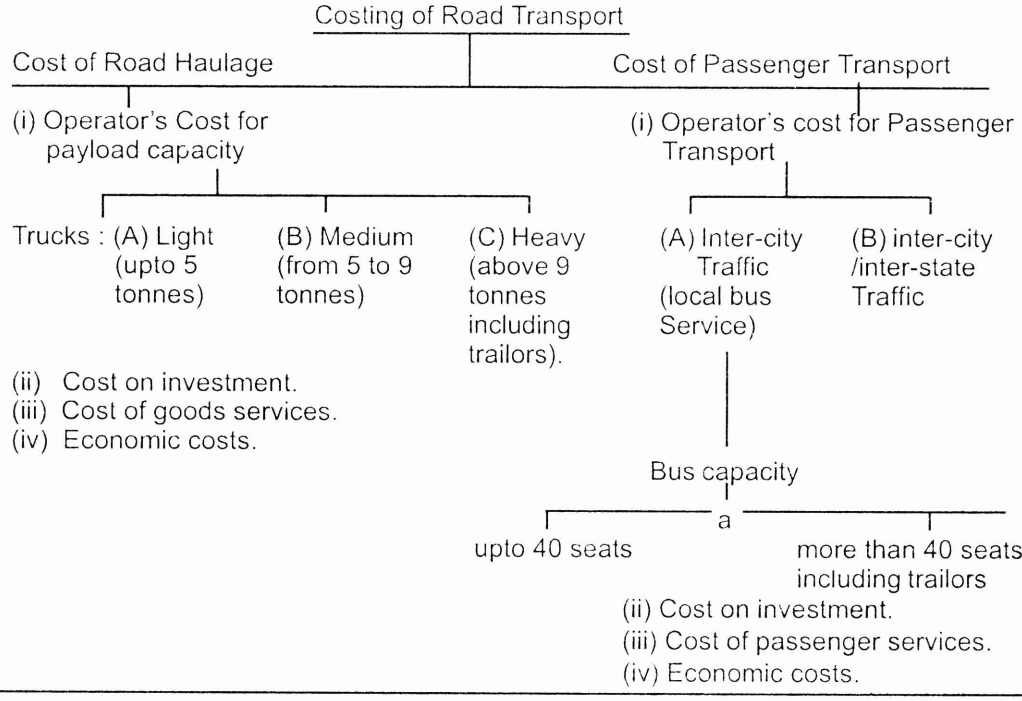
II. Maintenance of Vehicles
   (1) Repairs
   (2) Depreciation
   (3) Administration

III. Other Traffic Expenses
   (1) Depot Expenses
   (2) Insurance & Compensation
   (3) Others

IV. Fixed
   (1) Maintenance of Buildings
   (2) Vehicle Licence duties
   (3) General

3. *Investment Appraisal of Inland Transport in the public sector*. VOL-2; Paper-5.
4. *A Computer Program for Economy Appraisal of Highway Schemes.*
5. B.T.C. *Annual Reports & Accounts,* 1962. VOL-II; p. : 81.3.

Table 1



Source : K.K. Laler, Transport Costs (Rail & Road) Vora & Company Publishers Private Limited, Bombay. pp : 27 - 40.

The relative importance of these categories varies from operator to operator. Fuel costs obviously vary in direct proportion to the milleage run. They also depended, though with less sensitivity, on loading and on the nature of the route traversed. Drivers' wages and expenses are escapable in short run if they are employed on short term basis or if alternative modes of traffic are available. Depreciation fairly related directly to use and not simply to number of passengers or time. It is escapable in the short run by leaving the vehicle idle.[6] It is fairly a common practice that tyres are supplied on contract basis at an agreed rate per vehicle mile, making tyres. cost a variable cost.

Costs vary not only with volume of traffic, type of traffic and physical conditions of transportation, they also depend on when the service is provided. As a result of immediate perishability of transport the cost per unit of service sold is inversely proportional to the degree to which capacity is utilized. The distinction between "Potential Cost" that are the unit costs and which would prevail if all capacity could be fully utilized all the time, the "Actual Capacity Cost" that is the cost relevant if the capacity actually offered were fully utilized and 'Actual cost Per Passenger or Per Kilometer' that is the cost per unit for the actual loading achieved.[7] Regarding operator's cost it includes the costs of road vehicle and passenger and goods tax levied by State. For Inter State Traffic, some neighbouring states give free permits to a limited number of

6. Weldon's cost Accounting and Costing Methods treated it as a fixed cost. Bigg's Cost Accounting treated it as a variable cost. For an economist's view see G.J. Ponsonby, "Department with special Reference to Transport", *Economic Journal* : Vol.66, 1956.
7. Dear, D.M., "Some Thoughts on the Comparative Costs of Road and Rail Transport", *Bulletin of the Oxford Institute of Statistics*, Vol. 24 No.1 February 1962.

buses/trucks on reciprocal basis, but in other cases buses' and trucks' tax is payable in all states throughout which a truck/bus passes. The tax actually paid for each group of vehicles should, therefore be taken into account.

The highway costs are apportioned over different types of vehicles "The usual method of costing highway resources is to recognise two principal categories of costs: basic costs required to construct and maintain a sufficiently strong road to carry a normal load of light traffic and special costs, the outlay for larger and more durable highway construction required to withstand heavier vehicle traffic. The user portion of the basic costs is allocable to all users of highways, light and heavy alike, on aggregate cost basis taking one common unit of utilization. All costs in excess of basic costs are allocated on marginal cost basis, due to heavy vehicle traffic for which these extra costs have to be expended.[8]

Operating Costs : The main constituent elements of this group are shown as under :

Transport Cost = A + (B + B*C /100 + D) / E

where
A : Cost per truck/bus Kilometer.
B : Distance of payload haul/passenger.
C : % of empty return haul/passenger.
D : Distance of empty haul/passenger at terminals.
E : Average payload per truck/bus.

Pricing : Public utilities are often said to require special attention because of their monopoly position. It must be emphasized at the outset that state interest in the price policy of transport operators is no longer simply an attempt to prevent the exercise of monopoly power. Control may have originated for this reason but transport today is a sector in which a high degree of competition prevails not only between various public transport agencies but also between public and private transport. Transport pricing is of special interest as there is reason to believe that competition shall bring this about automatically. The variations between agencies in respect of proportional significance of overheads, immediate perishability of the facility, differing circumstances under which track is provided and various social policies traditionally forced on transport sector. All these combined to create special problems. For outstanding expenses there is no unique solution and it may be decided as to which of the operation's expenses and possibly, what else in addition should be covered by his charges. Secondly, it must be decided as to how these costs shall be recovered since there are various pricing techniques from which to choose.

Marginal Cost Pricing : For considering general pricing a rule for public enterprises in a mixed economy was developed in the thirties by professors Hotelling[9] and Lerner independently.[10] The Hotelling and Lerner rule stated that only marginal costs of production need to be taken into account and that recovery of such costs should be effected by instructing public enterprises to charge a price equal to marginal cost.

Implementation of the rule however, may imply failure to cover total costs. This may occur both in cases where it is equal to long run marginal cost. It is taken that, (a) If short run marginal costs are charged where plants are run below capacity in short run. i.e. below minimum average cost for existing capital equipment. (b) If long run marginal costs are charged in the concern

8. "The Cost structure of highway transportation" - By Peck and Mayer, Published in *"The Economics of Competition in the Transportation Industries."* - Harward University - 1960.
9. Hotelling H., "The General Welfare in Relation to the Problem of Taxation and Railway Utility Rates." *Econometrica.* Vol - 6: No - 3, July 1938.
10. Lerner A.P., *The Economics of Control.*

operating under condition of long run decreasing costs. According to Hotelling - Lerner proposition, it must not be hide bound by traditional accounting conventions in determining the policies of public transport services and that financial losses should be made good from general taxation, including any surplus of other public services. Serious criticism of the view prevails but to conclude that the case against marginal cost pricing is overtaking and hence it should be dismissed as totally irrelevant to the problem of transport co-ordination may not be correct. If the marginal cost rule is used by all concerns within specialized sector, say transport, then although the share of national resources used in the sector may be too large or too small. at least the utilized resources shall be properly allocated within the sector, ignoring external effects.[11]

Ahmedabad was founded on 26th February, 1411. (According to Hindu Calendar on 17th April, 1942). The name of Manecknath is associated in legends with the founding of the city.[12] Ahmedabad is the largest city in Gujarat, commercial and industrial centre with the textile industry as its base. Since the date of foundation, the city has continued to grow in prosperity and wealth. Experienced financiers and merchants, skilled workforce and artisans live here. There existed a dominant ethics of hard work, frugality and a money making that suited the rigours of modernization and met the need of capital and labour both.

Ahmedabad Municipal Transport Service (A.M.T.S.)

Ahmedabad Municipal Transport Service (AMTS) was established on 1st April, 1947. It was the first nationalized institution rendering passenger transport service to the people of Ahmedabad. The service celebrated its Golden Jubilee in 1997. It runs buses on a large number of routes even when it incurs loss. Passenger fare is the only source of income for the service.

The services provided by ATMS include:

(1) Students' Concession Scheme
(2) Handicaped Concession Scheme
(3) Deaf and Dumb Concession Scheme
(4) Free service for Blind persons
(5) Special Bus Service on Special Occasions
(6) Non-pick up Hours Service
(7) Incentive scheme for Drivers and Conductors

Operating Results : In 1947-48, the first year of its operation, AMTS operated 38 routes, that gradually increased to 168 by 1997, its Golden Jubilee year. Its daily per passenger income increased from Rs. 10.01 in 1947-48 to Rs. 16.46 in 1997. The number of passengers moved by the AMTS that was 397.44 Lakh in 1947-48, increased to 2923.00 Lakh in 1996-97, i.e., seven and half times the original. Dispite all these. it has been running the activity at loss. The loss was Rs. 1520.72 Lakh in 1996-97. An important factor causing loss was facilities and concessions provided to certain sections of society on social considerations and efforts of AMTS to meet the increasing demand for transport services in the city and surrounding areas.

The AMTS is a non profit organisation maintaining its financial records and books of accounts as per the conventional double entry book keeping system with 31st March as accounting year. The annual accounts included Profit and Loss Account and Balance Sheet. Important details

11. Mischan E.J. "Welfare Criteria for External Effects", *American Economic Review*, Vol. 51 : No.4, September 1961.
12. Rajyogor, S.B., *His fosy of Gujrat* I Edition 1982, pp. 175-176.

given in the form of sechdules are:

(1) Loan Raised from Public
(2) Loan from Ahmedabad Municipal Corporation
(3) Sinking Funds for Public Loan
(4) Reserves
(5) Depreciation
(6) Fixed Assets
(7) Fleet of Vehicles
(8) Temporary Advances
(9) Calculation of Actual Cash Loss
(10) Cash Flow Statement

For showing income and expenses, the following statements are prepared.

(1) Statement Showing Traffic Passenger Per Month
(2) Statement Showing Traffic Passenger Per Day
(3) Statement Showing Relief Given under Scheme of Concession
(4) Statement Showing Workshop Charges and Pie-chart to show How a Rupee was Spent under Various Headings.

Costing Records: The statements of cost accounting records included:

(1) Statement showing Average Daily Breakdown.
(2) Statement showing Breakdown for every 10,000 Gross Kilometers.
(3) Statement showing Daily Average Number of Hours lost on account of Breakdown.
(4) Statement showing Load Factor or Occupation Ratio

The cost statements displayed the cost of services for one kilometer. Costs are divided into two parts:

(1) Operating expenses, to include expenses like salary, stores, depreciation etc.
(2) Non operating expenses, to include interest on capital, interest on debt, income - tax, etc.

Determination of Passenger Fare:

It may be interesting to ascertain whether the cost of operations has played any role in the determination of fare and to what extent. Theoretically a manufacturing organisation should add profit to cost for fixing price under normal circumstance. However, whether a service oriented institution should add profit to its cost, means charge total cost or only variable cost, requires thoughtful discussion. According to K.M. Gwilliam,[13] "from the operator's view point costing in road transport is in three main respects: (i) The typical operating unit- the bus / vehicle; (ii) The typical administration unit having a reference to drivers' log sheet and fuel and repairs bill; and (iii) Allocation of track cost with reference to the use of roads. Thus the road haulage cost structure will include two types of cost: (1) Variable costs, to include drivers' wages, fuel, repairs, depreciation, etc., and (2) Fixed costs of licenses, - insurance, administration and depot cost. Further, ideally the costs should be broadly classified into potential costs, that are unit costs with full capacity utilisation and actual capacity cost, that is the relevant costs. One more class may be added in the form of actual cost per passenger showing the cost per unit for actual capacity utilisation.

13. Gwilliam K.M., *Transport and Public Policy*, 1964: pp. 30 - 39.

Transport pricing is of special interest as there are complications in this sector that prevent competition. The pricing also depends upon differing circumstances under which the track is provided. Thus, ideally one must decide which of the operators' expenses and possibly what else in addition should be covered by the fare, One must also decide how cost should be recovered since there are different pricing techniques like marginal cost pricing, variable cost pricing, total cost pricing, cost plus profit pricing etc. Hotlling[14] Lerner[15] rule stated that only marginal cost of production need to be taken into account and that recovery of such cost should be effected by instructing public enterprises to charge a price equal to marginal cost. It was also stated that if short run marginal costs (below minimum average cost) are charged, "where the capacity is not fully utilised, there will be financial loss. Such financial loss should be made good from general taxation or surplus of other public enterprises."

In contrast to marginal cost rule, the principle "he who benefits should pay," is frequently used as the basis for covering total cost. In addition total cost coverage may provide some check on efficiency of public corporation. Thus, it appears desirable that full costs are recovered from users so that there is emphasis on control of costs.

The transport service may be offerd below direct costs in case the concern does not realise what its direct costs are, and/or the concern is obliged to provide some services below direct costs as a social duty.

Cost and Pricing in AMTS :

The operating costs of the AMTS are divided into fixed costs and variable costs, Depreciation as a cost item is mentioned as third category. In order to understand whether the costs of operation have played any role in the determination of passenger fare at the ATMS the annual published accounts for ten years from 1987 to 1997 were compiled in Table 2. The analysis of cost-price relationship has been presented over Table 3 to 6. On consideration of the relation between annual cost per kilometer and annual income per kilometer it may be observed that both these variables are closely related, as the value of coefficient of correlation is 0.99. Similarly. the value of r at 0.99 showed that the relationship was significant as well as positive. This meant that any change in costs was to bring about a similar change in income and since the income was mainly through passenger fare, any increase in costs was supposed to bring about a similar increase in the fare, when a distance of one kilometer is considered. The relationship was similar in annual income as well as annual cost per passenger. Both these variables were interrelated and any change in costs was supposed to be reflected in terms of increase in fare.

Realistically the comparable variables should be annual income per passenger kilometer that takes care of both, number of passengers and distance travelled. The relevant statistics are available from accounting year 1991 onwards and based on these data the value of coefficient of correlation (r) at 0.54 showed that the relationship was not close. The coefficient of determination (r^2) at 0.29 suggested that a change in cost does not bring about an equal change in income. Thus, in the given case, a change in differencial or incremental costs is not reflected in differential or incremental revenue and therefore, it appears that the cost as a basis of fare fixation can not be considered a significant variable, as is often made out in public. This means that if there is

14. Hotelling H., "The General Welfare in Relation to the Problems of Taxation and of Railway Utility Rates" *Econometrica*. VOL-6, No.3, July 1938.
15. P.Lerner A., *The Economics of Control*.

any cost increase in a year the fare did not increase immediately in the following year. This showed that the AMTS had tried to bear with the increased costs as much as possible over several years and the burden was shifted to passengers only when it was unavoidable by increasing the fare. During last ten years only three fare increases were effected in 1992, 1993 and 1997.

The fare charged from an adult that was Rs. 0.75 for two kilometers in 1990 and was raised to rupee one for every two kilometers in 1992 (33%). This resulted in increased loss per passenger by 6.45%. Similarly, when the fare was increased to Rs. 1.50 in 1993 (100% increase over 1990), this resulted in increase in the loss per passenger of 83%. Lastly when the fare was increased to Rs. 2.00 in 1997 (100% increase over 1992), this resulted in increase in loss per passenger of 74%. The above exercise proved that:

(1) The AMTS did not shift the cost increase over to passengers immediately after in had taken place.

(2) Whenever the fare was increased, the entire cost increase was not shifted.

(3) The objective of service to society appeared to have guided these decisions of the organisation in general.

(4) The financial deficit was met by taking loan from the Ahmedabad Municipal Corporation and other financial institutions, creating increased financial burden on the organisation.

Suggestions:

It appeared that the organisation did not follow the policy of prudent financial management of its affairs. Its working suffered due to the lack of planning and decision making. The financial position of the ATMS has become weak due to continuous operational loss. It depended on budgetary financial support from Ahmedabad Municipal Committee and Gujrat State Government. It may therefore, be suggested for an improvement to the existing system that:

(1) The financial accounting and cost accounting systems adopted by the AMTS should be strengthened.

(2) As a non-trading organisation, it may prepare Receipts and Payments Account and Income and Expenditure Statement instead of Profit & Loss Account. Detailed analysis of revenue and costs should be done and the cost pre passenger kilometer and other details should be shown.

(3) Presently the non operating costs included only financial expenses and other costs are included in the operating costs. It is suggested that these costs should be divided in two parts: Fixed Operating Costs, and Variable Operating Costs.

It is also suggested that AMTS should be provided financial assistance by the State Government as well as the Central Government for the replacement of old and outdated vehicles and for investment in infrastructure. Just as Gujarat State Transport Corporation (GSTC) was given under the RTC Act of 1950. This will help in improving the quality of transport service and subsidise the service provided to certain sections of the society, like students and physically disabled.

It goes without saying that an efficient transport system is needed to serve the society at large and to meet the ever increasing demand for such a service.

Table 2
Statement Showing Cost
Revenue Income & Net Earnings at AMTS From 1988 to 1997 (Rs. Lakh)

Particulars	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Income										
1. Bus Fare Income	1815.68	2190.98	2231.78	2506.98	3203.83	3510.21	4264.94	4572.08	4937.76	5723.76
2. Other Income	87.56	337.76	241.96	340.27	428.80	208.35	271.28	187.19	367.36	283.96
Total Income	1903.24	2528.74	2473.74	2847.25	3632.63	3718.56	4536.22	4759.27	5305.12	6007.72
Non-Operating Costs										
A. Rates & Taxes	65.92	70.30	75.64	94.48	138.29	185.34	146.08	191.68	159.28	220.43
B. Financial Charges	229.37	457.50	382.03	445.50	580.43	642.82	729.76	782.19	696.24	812.40
Total Costs (1)	295.29	527.80	457.67	539.98	718.72	828.16	875.84	973.87	855.52	1032.83
Operating Costs										
A. Fixed Costs										
1. Licensing & Insurance	15.00	15.00	15.00	20.00	55.00	88.00	43.00	80.45	44.27	58.73
2. Salary & Wages	1293.32	1726.52	1706.09	1873.75	2003.99	2288.90	2487.08	2719.56	3233.55	3703.43
3. Lease Charges	0.00	0.00	51.13	113.07	211.95	243.50	311.84	251.07	230.07	498.38
Total Fixed Costs (2)	1308.32	1741.52	1772.22	2006.82	2270.94	2620.40	2841.92	3051.08	3507.89	4260.54
B. Variable Costs										
1. Fuel and Lubricants	419.64	424.00	432.77	538.75	659.23	695.12	837.58	924.61	957.24	1224.42
2. Repairs & Maintenance	251.84	249.71	323.83	386.63	461.85	524.00	612.31	639.85	647.68	771.82
3. Misc. Expenditure	139.39	180.12	115.73	219.60	315.46	345.24	317.38	201.18	180.20	250.71
4. Depreciation	84.77	106.72	95.84	89.25	65.11	66.62	59.57	56.85	64.76	46.85
Total Variable Costs (3)	895.59	960.55	968.17	1234.23	1501.65	1630.98	1826.84	1822.49	1849.88	2293.80
Total Costs (1+2+3)	2499.20	3229.87	3198.06	3781.03	4491.31	5079.54	5544.60	5847.44	6213.29	7587.17
Net Gain or Loss	-595.96	-701.13	-724.32	-933.78	-858.68	-1360.98	-1008.38	-1088.17	-908.17	1579.45

Source: Ahmedabad Municipal Transport Service

Table 3
Statement Showing Per Passenger: Income & Costs at AMTS From 1988 to 1997

Particulars	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
1. Income Per	78%	10.5%	10.3%	125%	137%	155%	189%	208%	212%	205%
Passenger	0.78	1.05	1.03	1.25	1.37	1.55	1.89	2.08	2.12	2.05
2. Cost Per	0.00102	0.00135	0.00134	0.00167	0.00170	0.00212	0.00231	0.00256	0.00248	0.00259
Passenger	1.02	1.35	1.34	1.67	1.70	2.12	2.31	2.56	2.48	2.59

Source: Ahmedabad Municipal Transport Service

Table 4
Statement Showing Income & Costs Per Kilometer at AMTS From 1988 to 1997

Particulars	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
1. Income Per Kilometer	4.60	6.00	5.60	6.70	8.30	8.70	10.00	10.60	11.63	11.64
2. Cost Per	0.0000612	0.0000768	0.0000724	0.0000894	0.0001027	0.0001198	0.0001234	0.0001306	0.0001362	0.0001470
Passenger	6.12	7.68	7.24	8.94	10.27	11.98	12.34	13.06	13.62	14.70

Source: Ahmedabad Municipal Transport Service

Table 5
Statement Showing Incremental and Differential Relationship in Income and Costs at AMTS From 1988 to 1997

Particulars	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
1. Income Per Bus Passenger K.M.	NA	NA	NA	0.1	0.1	0.17	0.12	0.13	0.13	0.13
2. Cost Per Bus Passenger K.M.				0.13	0.12	0.15	0.15	0.16	0.15	0.16

Source: Ahmedabad Municipal Transport Service

Table 6
Statement Showing Effect of Fare Charges On Income and Net Result Per Passenger (Paise) at AMTS From 1990 to 1997

Particulars	1990	1992	1993	1997
1. Cost Per Passenger	1.34	1.70	2.12	2.59
2. Income Per Passenger	1.03	1.37	1.55	2.05
Net Result (Loss) Per Passenger	0.31	0.33	0.57	0.54
1. Cost Per K.M.	7.24	10.27	11.9	14.70
2. Income Per K.M.	5.60	8.30	8.70	11.64
Net Result (Loss) Per K.M.	1.64	1.97	3.20	3.06

Year	Fare (Paise)	Fare increase (%)	Loss (Paise)	Loss Increase (%)
1. 1990 (Base Year)	0.75	---	0.31	---
2. 1992	1.00	33	0.33	6.45
3. 1993	1.50	100	0.57	83
4. 1997	2.00	166	0.54	74

Source: Ahmedabad Municipal Transport Service

Accounting In Indian Railways: A Critical Study

*Dr. Kamlesh Pritwani**

Introduction:

Indian Railways, a massive organization has been serving as a life line of Indian economy. The economic, agricultural and industrial development of the country has been inextricably interwoven with Indian Railways' development and fortune. Every year Indian Railways transport 40 percent of the nation's freight (76% of long haul bulk freight) and 4 billion people.

The Nineth Five Year Plan indicated an annual growth rate of 5 percent in freight and 3.1 percent in passenger traffic. Although this is realistic under the current restrictive environment it can be stated that the nation would be better served with a higher growth, more in line with the anticipated GDP growth of 7 to 8 percent.

I. Structure of Railway Accounts:

A significant feature of Indian Railways has been its development as a public utility as well as a commercial undertaking simultaneously. Due to global trends and requirements of financial viability, it has remained a government owned and managed organization. Accounts are maintained in the Indian Railways however, on commercial basis, outside regular Government Accounts and by maintaining a link between the two. The investment in Indian Railways is budgeted under five heads of accounts viz., Capital Account, Depreciation Reserve Fund, Railway Development Fund, Revenue Account and Miscellaneous. The Capital-at- Charge Account is the main source of finance for the Railways. The Railway Accounts can be broadly divided into two main parts viz., earnings and expenses.

1. Accounting for Earnings:

Earnings of Indian Railways are classified as X, Y and Z classification (passengers, goods and sundry). As and when goods, passengers and other services are transported, necessary fare and freight is collected at station/ booking offices and remitted to cash offices/ banks through cash/ credit notes or through negotiable instruments, that are finally booked to the earnings of the Railways. The earnings of Railways are classified under three sub major heads with separate abstract for each sub major head as brought out above.

2. Accounting for Expenses:

The expenses in the Railways broadly are classified as revenue expenses and works expenses. The classification is shown in Figure 1.

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(A) Revenue Expenses: The revenue expenses of the Railways are classified under 13 sub major heads, with a separate abstract for each major head, The sub major heads are further divided in minor, sub and detailed heads. The structure of accounts classification corresponds in line with the revised classification of the demands for grants. The classification lends it self to computerisation and its utility from the point of view of analysis of costs will be still greater when compilation will be done by computers in due course of time.

(B) Works Expenses: The expenditure on capital account that includes creation, requisition and replacement of assets is met out of various funds generated internally from surplus and externally by borrowings or through capital-at-charge by the Central Government. Various funds maintained for this purpose are as under:

(i) Capital Accounts: These Accounts are complied every year and included in the Annual Report of the Railways. Various processes of accounting followed in Railways' accounts offices leap up to these Accounts. The financial results of the working of the Railways cannot be adequately gauged unless separate accounts are maintained for capital transactions as distinguished from the revenue transactions.

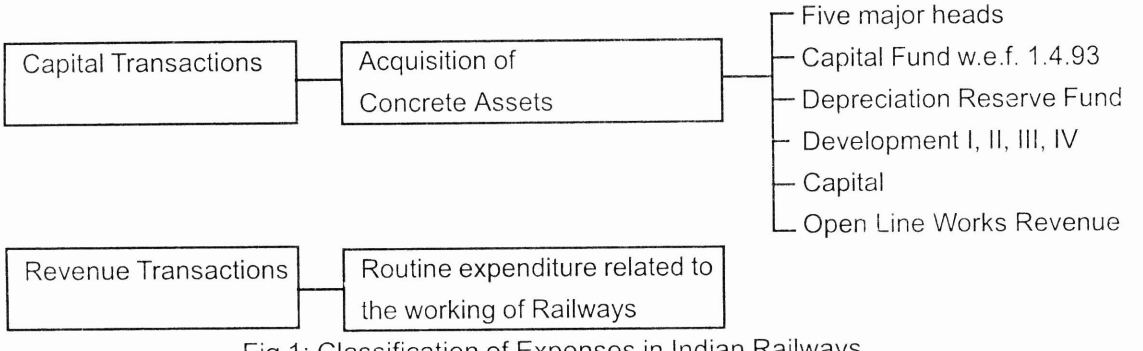

Fig 1: Classification of Expenses in Indian Railways

To give an overall view of the expenditure of capital nature incurred by the Railways as distinguished from the expenditure actually charged to capital (loan account), a separate account namely Block Account is compiled that exhibits the entire expenditure of capital nature, irrespective of the head of account to which it has actually been charged.

(ii) Government Accounts: The accounts maintained in accordance with the requirement of government accounts are collectively termed as the 'Finance Accounts'. The Finance Accounts are compiled annually, for the purpose of presenting in a condensed form. Various transactions brought to account in the books of the Railways are duly classified in accordance with the heads of accounts prescribed for government accounts. The government accounts are kept under the following three parts:

Part-I Consolidated Fund of India

Part-II Contingency Fund of India

Part-III Public Accounts of India

In addition to the revenue and capital heads, some account heads in the books are operated for the purpose of maintaining link between the Commercial Accounts and the Government Accounts of the Railways, These are Demands Payable, Loans & Advances. Miscellaneous Advances, Deposits, Capital Outlay, General PF etc.

II. Financial Accounting and Costing — Present Scenario:

The accounts of earnings are maintained for Zonal Railways. There is no break up by Divisions. The records of Railways do not indicate complete financial results of Divisions. Expenditure accounts are however, maintained for different spending units like Divisions, Workshops, H.O.s etc. At Divisional level, the financial targets also do not relate to earnings but only to expenditure within the budget allocation. There is no separate profit & loss account for each Division. It is also not feasible under the present accounting setup to prepare such accounts, specially due to the size of the Railway organization. The monthly financial review prepared at Division level compares the actual expenditure with the proposed budget under sub-heads of grants. There is thus no arrangement for establishing financial accountability. A manager's personal accountability is diluted by spreading out the responsibility over a vast area populated by accountants, financial advisors and horizontally placed proposal initiators. The Operating Ratio (main financial performance indicator in IR) is worked out on Zonal Railway Basis. The Divisions, which are operating units of Indian Railways, are thus accountable for expenditure but not seriously concerned with earnings. This is a serious drawback that needs to be remedied in order to introduce greater accountability at Division level and for improving financial viability of the Railways.

Costing System:

Indian Railways do not have an appropriate cost accounting and cost control system. A major weakness of the prevailing system is that while the costs are incurred at functional level by activity centres, the cost data are compiled by accounts department. As a result, cost consciousness at functional level is practically nil.

There is misconception that Indian Railways have a system of costing for its various activities. The misconception is based on the fact that unit costs in respect of several of its activities are available on the records of Indian Railways. Maintenance cost per equated track km is one such example. It may be stated that total expenditure divided by total units produced, cannot be described as costing. The expenditure is generally incurred, without any knowledge of predetermined costs. This should better be termed as 'Unit expenditure' instead of 'Unit cost'. In this way costing is intermixed with Financial Accounting in the present working. This is a wrong practice.

Indian Railways' functional departments are generally aware of the physical targets assigned to them and their output in physical terms. However, they do not seem to have any concern for the costs of their activity. This status was not unexpected as under the existing system, there is computation of costs on expenditure basis only, and not on costing principles.

Rail transportation is a labour intensive activity. It depends to a great extent on the team effort of a large number of departments. In the absence of comprehensive costing system, which may capture costs of numerous factors affecting the profitability of operations, all the members of Railway network cannot be motivated to work unitedly for the realisation of the corporate goal, namely, 'minimising costs, and maximising revenue'.

It can be also specified that, 'In the absence of appropriate Managerial Accounting and Costing Models, the most cost effective measures are not employed at various activity levels in day-to-day operations'.

III. New Dimensions of Accounting:

The role of finance and accounts department in Indian Railways, has unfortunately not progressed much beyond internal audit and financial accounting functions. New concepts and practices of accounting have not yet been even introduced in Railways. For instance even management of cash and fund flows, the key factors in determining investment profile as well as judging the soundness of expenditure commitments as investment decisions at a particular point of time, are overlooked in the Railways.

Areas of Concern :

In addition to what is given above some areas of concern are :

1. **Responsibility Accounting :** The Tandon Committee in March 1994, had recommended that 'responsibility centres' should be identified within the Railway departments and designed as cost or profit centres with sub-groups, developing accounting system for different type of responsibility centres and modernising the 'Financial Management Information System'.

   The Hassan Iqbal Committee had recommended that 'Indian Railways should follow' Activity Based Unit Costing System' at all levels. This will eventually bring a drastic change in productivity, cost effectiveness and financial viability of Indian Railways'.

   However, Indian Railways have not been serious in implementing the above suggestions at practical level. Recently, 'Responsibility Accounting' has been introduced at preliminary stage in Vadodara Division (Western Railway). The staggering figures in respect of expenditure on personnel during 1950-51 and 1994-95 respectively at Rs. 113.8 crore and 10514.5 crore, showing an increase of approximately 101 times, indicated that the maximum expenditure was incurred on labour cost without consideration of Responsibility Centres and Labour Cost Accounting. This force fully brings out that there was a need of establishment of responsibility centres throughout the organization to reflect the plans and the activities of each of these centres by assigning responsibility for revenues and costs to pertinent responsibility centres.

2. **Environmental Accounting :** Indian Railways, by transporting passengers, materials and items from one part to the other unify the nation. The activities of the Railways have a significant impact on environment also, by virtue of the widespread nature of the activity. Railways caused forest denudation by using timber for sleepers. The Railway track forms an ecological continuum that passes through diverse eco-systems.

   It is surprising that an industry with so much potential for pollution and hurting the environment has ignored this aspect altogether. There is an urgent need for measuring the cost of environmental destruction and depletion and degradation of natural resources. This is a serious requirement in the context of growing international concern in this respect.

3. **Depreciation Accounting :** Depreciation Accounting over the years has emerged as a critical accounting practice. In Indian Railways, provision for annual depreciation in Accounts poses peculiar problems. The assets of the Railways are financed out of funds available under Capital-at-charge, Depreciation Reserve Fund, Development Fund and Capital Fund. The Capital-at-charge is the sum made available from the general revenue for investment in the Railways. It does not include the cost of assets created out of other funds.

   The assets of Railway are depreciated on 'Straight Line' basis. The assets are justified for

replacement on their codal life and sometimes on the consideration of non-economical repairability. However, the codal life of various assets have not been revised for a long time. Thus the existing system of depreciation accounting needs to be reconsidered and designed on rational basis. Some of the major issues emerging from the above description are as under:

(1) There is a need for evaluating the Division's contribution to total Indian Railway's business - both in physical and financial terms. For this the targets for originating passenger and freight traffic should be fixed Division wise. Actual performance should be judged with reference to targets on day-to-day basis for effective financial control.

(2) In relation with the existing financial accounting system the costing system should be re-oriented. Indian Railways should follow Activity Based Unit Costing System, at all functional levels.

(3) 'Responsibility Accounting' should be introduced at all functional levels. Further for enhancing earnings and fixing responsibility delegation of powers upto the lowest level is needed.

(4) Indian Railways should install proper cost accounting system to establish cost accountability and cost control. Different establishments should be treated as cost centres for this purpose. Concerted efforts should be made at all levels to reduce operating costs.

(5) Realistic costs of various activities should be worked out keeping in view the make or buy decisions for various manufacturing and processing activities.

(6) 'Payments by results' with realistic 'allowed time' for labour and wastages of materials in manufacturing and processing activity should be introduced. This will result in optimum utilization of man power even for additional activities.

(7) Projects should be critically analysed at the time of making estimates and designing the projects. 'Discounted Cash Flow' and 'Rate of Return' (ROR) should be worked out for profitable projects.

(8) Most of the Instructions, Codes and Manuals of Indian Railways have become out of date. These require to be revised, keeping in view the technological advancement in finance and accounting fields.

(9) The work culture in Indian Railways, all said and done, has not kept pace with the global trends. Comprehensive computer based costing models should be developed in association with expert cost consultants to improve the man power utilisation and raise efficiency level for minimising the waste.

Conclusions:

The present precisely is the appropriate time when Indian Railways should examine their strategic role in the financial, economic and social development of the nation. The future may not be the same as the past. It should foresee rising fuel prices, worsening pollution and competitive road transport costs in time to come and devise a strategy to meet the situation.

The developments like change over from steam to diesel, diesel to electric traction and 'unigauge system' are expected to create many hazards at functional level. In these critical circumstances, effective financial performance of Indian Railways depends upon cost consciousness at all functional levels.

To sum up, Indian Railways are faced. with a number of challenges in a diverse economic environment and to survive and flourish as a commercially competitive and financially viable system a broader change of vision is needed. The Accounting Factors which should be partialable focused are:

Accounting Factors

- To enhance earnings from alternative sources.
- To make systematic efforts to reduce operating costs.
- To install proper cost accounting system to bring about cost accountability and cost control, different shops with in the system should be treated as cost centres.
- To take steps, for implementing concurrent accounting approaches viz., Environmental, Cash Flow, Inflation, Social Responsibility Accounting etc. at all functional levels.
- To strengthen 'Cost Benefit Analysis'.
- To generate 'Accounts Based Management Information Reports' at various activity levels.

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Accountants and Corporate Governance

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The term governance in common parlance is used to mean the way people are governed and the way the affairs of the state are administered and regulated. This concept, drawn from the public administration, has received increasingly greater attention in business world in the sense of direction and control of companies by their top management. Many expert committees have examined the role and the scope of corporate governance in different countries including in India in recent past. It continues to be a popular subject of discussions at the forums of academia as well as practitioners.

The report of the Cadbury Committee on financial aspects or corporate governance stated that "Corporate governance is a system through which companies are directed and controlled. (CC Report Introduction p.5) It is referred to as the structure, systems and processes in a corporation that are considered appropriate for its effective functioning and in enhancing its wealth generating capacity.

As per the CII Task Force Report, Corporate Governance deals with laws, procedures, practices and implicit rules that determine a company's ability to take managerial decisions vis. a vis. its elements, particularly its shareholders, creditors, state and the employees.

In wider sense corporate governance may be taken to mean guarding, promoting and balancing the interests of all stakeholders, shareholders customers, employees, society, environment etc. It may also be taken to mean giving good value to shareholders for their investment, good quality of product at competitive price to consumers, fair remuneration and working environment to employees, all within the framework of law and maintaining social equity. This can be summed up as establishing shareholders' long-term equity, protect genuine interests of honest and efficient employees, quality conscious customers and also suppliers and distributors, at the same time, fairly and transparently. In a way this is like a company acting as a good citizen, abiding by laws, code of business ethics, maintaining good social relationships, good manners, etiquette etc. Higher level of corporate governance means managing the affairs of the company to achieve better results, satisfying as well as maintaining the faith and confidence of investors as well as other stakeholders.

There are three constituents involved in corporate governance. First the shareholders who invest their savings, second the management that runs the affairs of the company and third the board of directors who represent the shareholders and direct its affairs in the best interest of all concerned. In a company. the board of directors bear the responsibility of effective corporate governance.

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Since business organizations are expected to match up to social expectations the concept and scope of corporate governance have different flavour in different countries of the world. The American conception of good governance is based on maximization of shareholder equity within the legal framework. The Japanese view good corporate governance to mean good return to shareholders and also lifetime employment to employees. In India under the influence of Gandhian trusteeship theory it is taken to mean maximization of public good.

Challenge in Corporate Governance :

The corner stone of corporate governance, 'maximisation of shareholders' wealth in legal and ethical manner' appears simple. But in practice there are a number of problems in achieving it. Thus while there is wider agreement on the need for good corporate governance the practice most times is away from it. For instance some times the promoters, even when they have contributed a small portion to equity, manipulate themselves in commanding position and serve themselves, in total disregard of the interest of other stakeholders. The directors and the professional accountants sometimes show lack of professional commitment. The regulatory authorities at times fail to detect violation of laws, rules and guidelines by companies and no serious attempt is made to ensure compliance. The auditors, under the mistaken belief that it may fracture their professional relationship with the company, do not raise their voice loudly, do not bring out real facts before public through their reports, taking shelter under the argument of security of information obtained under special relationship with the client. The public interest groups, including the investors' and consumers' forums, are still not well organized in all the countries and make feeble claims regarding enforcement of their right of information. Lack of political will to enforce the law in many cases emboldens the law-breakers. All these features ultimately result in poor corporate governance. In this way poor corporate governance is the reflection of lack of commitment and professionalism in various segments in the society.

Corporate Governance Code :

Clearly laid down operating principles, rules, regulations and guidelines are considered necessary for smooth working in corporate bodies. While the rules, regulations and guidelines may differ at different times and may even be situation specific, the basic principles remain the same for all. times and all situations. Among these the one for top management is known as governance code. A formal corporate governance code is one that prescribes certain norms and standards to be followed in the conduct of corporate business. Persons at apex level and senior executives are expected not only to be conversant with the code but also to set personal example in following it. Then alone the code can become part of the organisation's culture.

Cadbury Committee Report :

A committee was set up in the UK in May 1991 under the chairmanship of Sir Adrian Cadbury (Sir Adrian Cadbury, former Chairman Cadbury Schweppes) by the Financial Reporting Council, the London Stock Exchange and accountancy profession for reviewing the aspect of corporate governance related with financial reporting and accountability. The objective of the Committee was to help raise the standard of corporate governance and the level of confidence in financial reporting and auditing by setting out clearly what it sees as the respective responsibilities of those involved and what it believed was expected of them. The Committee had submitted a 19 point report and a Code of Best Practice in December 1992.[1] The report laid

stress upon role of board of directors, duties of board and its composition, role of non-executive directors, directors' emoluments, accounting practices and principles, effectiveness of internal control system and need for auditors acting with due care.

Though the Code had no legal basis, all companies registered in the UK and listed on the London Stock Exchange were required to state in their annual reports from July 1993, the extent to which they complied with the Code and give reasons for areas of non-compliance. A summarized version of the Code is given as Appendix A.

Apart from suggesting the best practice, regarding the board of directors, the non-executive directors, the executive directors and reporting and control, the Committee observed that there was an expectation gap regarding the role of auditors. It therefore, emphasized upon setting up 'audit committees', and efficiency of 'internal audit', in companies.

Another report released, in the United Kingdom in August 1997 known as the Hampel Committee also, suggested a code on corporate governance.[2]

CII Task Force Desirable Corporate Governance Code :

A task force was set up by the Confederation of Indian Industry (CII) with Shri Rahul Bajaj (Shri Rahul Bajaj, Chairman and Managing Director, Bajaj Auto) as Chairman. The task force had prepared a draft code on 'Desirable Corporate Governance', that was released for public discussion and debate in April 1997. The report contained 17 specific recommendations on corporate governance. After making modifications in the draft on the basis of feed back received from members the Code was released in April 1998.[3] A summarized version of the Code is given in Appendix B.

The Code suggested a more pro-active role for non-executive directors in corporate decisions and in maximizing long-term value of shareholders' equity. Since the shareholders are residual claimant, this objective was based on the premise that in well performing financial markets, whatever maximized shareholders' value necessarily maximized corporate value, and shall satisfy the claims of creditors, employees and the state also.

It may be observed that among 17 recommendations in the Code, first 10 were for companies, 2 for financial institutions (14 and 17) 3 for stock exchanges where the securities of the companies were listed (11, 12 and 15) and 2 were for government (13 and 16).

SEBI Guidelines on Corporate Governance :

The stock market regulator SEBI had appointed a committee under the chairmanship of Shri Kumarmangalam Birla with terms of reference "to suggest one amendments to listing agreement and any other measures to improve the standards of corporate governance in the listed companies in areas, such as continuous disclosure of material information; two to draft a code of corporate best practices; and three to suggest safeguards to deal with insider information and insider trading."

The Committee examined the issues and submitted its report. A brief abstract of the Report is given as Appendix C.

Public Sector Financial Institutions—Guidelines for Nominee Directors :

The public sector financial institutions in India have a set of 19 guidelines for the persons nominated as directors on corporate boards. The guidelines emphasized on long term dividend policy, accounting policies, restriction on investment in non-productive assets and subsidiaries, reckless resource raising, transfer of profitable divisions, equity dilution/increase by promoters on preferential basis, audit review committees etc.[4]

Persons nominated as directors on the boards of companies by financial institutions are expected to not only take care of the interest of the financial institution concerned but also to ensure observance of these guidelines.

The Organisation for Economic Cooperation and Development (OECD) had resolved to spearhead the efforts to prepare a set of internationally applicable 'Principles of Corporate Governance', based on the experience in member countries with inputs from international organisations, such as the World Bank. In furtherance of the above objective a Conference of Asian Countries was organised in Korea in March 1999 in association with the Korean Development Institute, the Government of Japan and the World Bank. Representatives from India, China, Hong Kong, Indonesia, Malaysia, Philippines, Singapore and Thailand had attended it. The draft guidelines on corporate governance prepared by the task force set up by the OECD were released in February 1999. These guidelines were finalised and adopted during the annual meeting of the OECD in Paris on May 26, 1999.

It is stated in the guidelines that there can be no single model of good corporate governance and that there should be continuous evolution and improvement in this respect. It laid down certain globally acceptable principles. A brief abstract of the principles is given as Appendix D.

Global Corporate Governance Advisory Board :

A high profit 'Global Corporate Governance Advisory Board' was set up at the initiative of A Denial Meiland, CEO, Egon Zehnder International in 1998 for a term of five years. The board had Mr. Percy Barnevik, Chairman Investor AB, Mr. John G. Smale, Chairman, Executive Committee General Motors, Mr. David W. Johnson, Chairman, Campbell Soup, Mr. John H. Bryan, Chairman and CEO Sara Lee Corp, Mr. Yoh Kurosswa, Chairman, Daimler - Benz A.G., Mr. Cor Boonstra, President and Chairman, Phillips Electronics NV, Mr. Ratan Tata, Chairman, Tata Group, and Sir Adrian Cadbury, former Chairman, Cadbury Schweppes. Mr. Ira M. Millstein of Yale School of Management was made counsel to the board. The board 'serves as a polestar for directors globally, to help directors carry out their duties of care and loyalty, and thereby help preserve the free market system by ensuring that corporations globally are governed properly and appropriately."[5]

The board has a five years schedule during which it will discuss each year; issues relating to corporate governance and prioritize what ought to be researched over the year. Egon Zehnder will fund all research work involving university scholars.

A closer view of the Cadbury Committee Report, the CII Code, the SEBI Guidelines and the OECD Principles reveals that all these lay emphasis upon structure of board of directors, role of non-executive directors, directors' responsibility statement, committees of the board such as audit committee, nomination committee and compensation committee, greater transparency, financial and non-financial disclosures, scope and quality of audit and role and responsibility of

regulatory authorities. The major issues and expectations mentioned in these Codes and Guidelines in respect of the board of directors and the accountants are discussed here.

Board of Directors :

Board of directors are the highest decision making body of a company. They are expected to provide appropriate direction and control in the functioning of the organisation. For fulfilling this expectation it has been emphasised in various Codes that there should be a single board (CII I) where if possible majority, or at least one third of the members, should be professionally competent (CII II), so that they may exercise check over the executive directors and benefit the company by their knowledge and experience (Cadbury 1.3 & SEBI 2). The interest of a director should be limited to some Companies, say 10 (CII III & SEBI 7), so that they may attend meetings of the board regularly, give more time and participate actively in its deliberations. The non-executive directors should not be relatives of the executive directors and the CEO, but independent persons of well-recognized merit and strong background. (CII IV & Cadbury 2.1 and 2.2) The non-executive directors should be compensated adequately by way of sitting fee, commission and stock option for their work. (CII V).

Board Meetings : The meetings of the board should be held regularly, at least once in two months. (CII I & SEBI 6) Full facts and details as per the requirement of a decision should be placed before the board. (SEBI 10) The information provided should be audited by internal auditors. Internal harmony should prevail inside the board and the decisions should be arrived at after proper deliberations.

The agenda for board meetings should not be over stuffed. There should be a system of action follow up and compliance of decisions taken should be placed at the subsequent meeting.

Nominee Directors : The persons nominated by financial institutions to the boards of the companies are expected to, apart from watching the interest of their organizations, watch the interest of the investors at large. For this the directors should take interest in the working of the company and ensure that an effective system of internal control exists. They should therefore, be qualified and competent persons so that they may provide expert advice and enrich the deliberations by their deep insight of the system. Under the present circumstances this function can be carried out best by persons who have knowledge and expertise is accounting and finance. (CII XVII).

Committee of the board such as audit committee, nominations committee, compensation committee etc, should be formed to ensure that the board may give greater attention to important issues. Related issues can be deliberated and examined in depth by these committee and then the matter may be brought before the board for final decision. (CII VIII).

The board should ensure that an objective and professional relationship is maintained with the auditors. (Cadbury 4.2) To report how well the affairs of the company are conducted a 'directors responsibility statement' should appear in the annual report of the company.

Thus very high emphasis has been placed on the composition, competence, assumption of responsibility, commitment and accountability of the directors in the governance of corporate bodies in all the Codes. The position has been very clearly stated in the OECD Principles of Corporate Governance by mentioning that it is the duty of the board to act fairly with regard to all groups of shareholders and to assure compliance with applicable laws. (OECD P5).

Role of Accountant :

The accountant, in whatever capacity he may be placed, as director finance or non-executive director, financial controller, chief accountant, internal auditor or statutory auditor has a special role and responsibility in corporate governance. As an expert in accounting and finance he can contribute a great deal and make the functioning of the boards more result oriented and fruitful. As a professional person he is expected to show high level of competence and commitment and the same should be reflected in the governance of the company he is associated with.

Some of the aspects of corporate governance that directly concern the accountants are as under:

Transparency and Disclosures : Good governance is necessarily transparent governance and vice versa. With the growth of financial press and equity research the days of opaque accounting and reporting are coming to an end. Moreover when the companies sourcing funds from international markets through GDRs and ADRs are making all sorts of disclosures it is not credible to deny similar information to Indian investor. For transparency in corporate governance the decision making done in the closets of board rooms, the sanctum sanctorium, should be done instead in open and free environment and socially responsible manner. The issues, stakes and considerations should be examined in depth with seriousness they deserve and decisions should be taken independently and objectively. For this necessary information should be made available to the board and its committees in time.

Improvement in accounting and reporting is a necessary condition for improvement in corporate governance. Absolute transparency in accounting may be difficult to achieve. However, apart from meeting the statutory requirement, standard accounting practices with limited discretion should be adopted. In the process of accounting, apart from the considerations like relevance, materiality, prudence, understandability, substance over form it should be ensured that the output is reliable, complete, objective and a faithful presentation of the reality. In this respect the OECD Principles of Corporate Governance have emphasised that timely and accurate information should be disclosed on all matters regarding the financial situation, performance, ownership and governance of the company. (OECD P4).

The level of disclosure in corporate reports should as such not remain limited to statutory requirement, but additional information, both financial and non-financial that may be considered of interest to various stakeholders, such as pattern of share-holding, promoters' contribution, net-worth of company, movement of share prices in case of listed companies, value added, segment wise performance, remuneration of directors etc should be provided. (CII IX) The information provided should also be suitably revised from time to time.

Like the extent of disclosure, the quality of information disclosed should be also emphasized. It is suggested that the norm in case of domestic companies raising funds from market should be at par with the disclosure requirement in case of companies obtaining funds through global depository receipts. (CII XII and XV).

In order that investors can understand the economic implications of intercorporate holding, it is suggested that the companies should prepare and publish 'group accounts' in addition to company wise accounts. (CII X and SEBI 8).

For ensuring high level of commitment and greater compliance of their regulations, the stock exchange should insist upon a compliance certificate from the Chief Executive Officers and Chief Finance Officers of the companies. (CII XI).

Audit Committees : To assist the board in fulfilling its functions relating to corporate accounting and reporting and to provide effective supervision of the financial reporting process an audit committee of non-executive directors is expected to be formed : (Cadbury 4.3) This is also considered necessary for establishing objective relationship between employees and management. The audit committee has an important role in the functioning of the board for fulfilling their responsibility regarding corporate accounting, reporting, financial controls etc. It has been suggested that persons with knowledge of accounting and finance should be nominated on audit committees, so that they may serve the committees better. (CII VIII & SEBI 4) Further the members of the audit committee should have full access to financial data of the company, its subsidiary and associated companies.

Audit : Companies have a system of audit of accounts by internal auditors and or external auditors. Internal audit functions as an integral part of a company's system of internal control. It has a complementary relationship with statutory audit, with similarity in qualification, experience and role, except that while the internal auditor reports to the board of directors the statutory auditors report to the shareholders.

Statutory auditors are appointed by companies to conduct audit of accounts. The nature and the scope of audit and also the rights and responsibilities of the auditors are determined by company laws and guidelines on standard audit practices. As the auditors are appointed by shareholders of the company they have certain expectations from them. At the same time the auditors have a special relationship with the management of the company, as their friend, philosopher and guide. In most cases it is a long-term relationship and the same auditors get re appointed from year to year. Apart from financial audit, they also provide certain other financial services, such as tax planning and tax audit, investment advice, project appraisal etc.

Though auditors are not directly concerned with corporate governance, their special position in law, their relationship with management, and their long-term association with the companies, put them in a special position. Often their continuous association with the company without rotation and quality of audit are mentioned as issues affecting the quality of corporate governance.

The auditors are, therefore, expected to understand their responsibility and refrain from endorsing the financial documents that are detrimental to the interest of various stakeholders. To be exemplary any misdemeanor on the part of the management should be brought to book, so that the guilty may be prosecuted and penalised. It was suggested by the Kumaramangalam Birla Committee Report that the companies should arrange to obtain a certificate from the auditors regarding compliance of corporate governance. (SEBI 16) This certificate should form part of their reports to stock exchanges and the shareholders.

Reporting on Corporate Governance :

With initiative from the CII, the SEBI and public sector financial institutions and publication of the guidelines and Reports on Corporate Governance the general awareness about its need and utility has increased. Some Indian companies have started including a report on corporate governance in their annual report. Bajaj Auto Ltd., Cheminor Drugs, Bombay Suburban Electricity Supply Co..Ltd., ITC, Infosys Technologies Limited, Bangalore[8] and BPL Limited Palakkad (Kerala)[9] are some such companies. These companies have provided information on corporate governance in their annual reports of 1997-98 and after. The position of the last two among the above companies in this respect is briefly given in Appendix E.

The information given by some companies is a proof of corporate India giving it greater

attention. This is expected to exert moral pressure on other companies to follow the suit. The SEBI guidelines specify for listed companies to submit information regarding compliance with the Code. (SEBI 16) It is suggested that a concensus should be evolved and a definite time frame should be set for the adoption of the Governance Code by all companies.

Conclusions :

The description given above very clearly reveals that the movement for good corporate governance is global. All stakeholders including the individual investors, institutional investors, corporate bodies, market regulators have shown high concern about it. In the United States of America there is a competition for the selection of the best-governed company. While it may be difficult to find a company meeting all the requirements of good governance, Campbell Soup were identified as falling closest to it in the USA and were awarded prize for two years in row. In India also there is wider appreciation and understanding of the need and there are ripples in the corporate world. In India the CII has instituted such an award.

The professional accountants have a special responsibility in this respect. They are expected to work in the interest of investors at large, so that their trust and confidence in corporate governance may be maintained.

Since the accountants are guided in their work by the code of professional ethics and standard audit guidelines, there is a need for updating the codes and the guidelines in tune with the requirement of dynamic business scene. For this the level of professional independence and competence should be raised. Transparency in their relationship with board, rotation of audit work, peer review etc., considered useful for strengthening independence of the auditors, should be introduced.

With globalization the international scene is changing fast, and to cope up with these changes, the scope of corporate governance should be gradually enlarged to include other related issues, such as transparency in governance, disclosure of more information, dividend policy, accounting policy, transfer of investment and profits, transfer of brands and services, changes in management in case of mergers and acquisitions etc. These matters, apart from affecting long-term shareholder value and interest of other stakeholders are expected to affect the growth of corporate sector as a whole. These issues therefore, should be resolved to the satisfaction of all concerned.

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Appendix A

The Code of Best Practice

1. The Board of Directors

1.1 The board should meet regularly, retain full and effective control over the company and monitor the executive management.

1.2 There should be a clearly accepted division of responsibilities at the head of a company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision. Where the chairman is also the chief executive, it is essential that there should be a strong and independent element on the board, with recognised senior members.

1.3 The board should include non-executive directors of sufficient calibre and number for their views to carry significant weight in the board's decisions.

1.4 The board should have a formal schedule of matters specially reserved to it for decision, to ensure that the direction and control of the company is firmly in its hands.

1.5 There should be an agreed procedure for directors in the furtherance of their duties to take independent professional advice if necessary, at the company's expense.

1.6 All directors should have access to the advice and services of the company secretary, who is responsible to the board for ensuring that board procedures are followed and that applicable rules and regulations are complied with. Any question of the removal of the company secretary should be a matter for the board as a whole.

2. Non-Executive Directors

2.1 Non-executive directors should bring an independent judgement to bear on issues of strategy, performance, resources, including key appointments and standards of conduct.

2.2 The majority should be independent of management and free from any business or other relationship, which could materially interfere with the exercise of their independent judgement, apart from their fees and shareholding. Their fees should reflect the time which they commit to the company.

2.3 Non-executive directors should be appointed for specified terms and re-appointment should not be automatic.

2.4 Non-executive directors should be selected through a formal process and both this process and their appointment should be a matter for the board as a whole.

3. Executive Directors

3.1 Directors' service contracts should not exceed three years without shareholders' approval.

3.2 There should be full and clear disclosure of directors' total emoluments and those of the chairman and highest paid UK director, including pension contributions and stock options. Separate figures should be given for salary and performance related elements and the basis on which performance is measured should be explained.

3.3 Executive directors' pay should be subject to the recommendation of a remuneration committee made up wholly or mainly of non-executive directors.

4. Reporting and Controls

4.1 It is the board's duty to present a balanced and understandable assessment of the company's position.

4.2 The board should ensure that an objective and professional relationship is maintained with the auditors.

4.3 The board should establish an audit committee of at least three non-executive directors with written terms of reference which deal clearly with its authority and duties.

4.4 The directors should explain their responsibility for preparing and accounts next to a statement by the auditors about their reporting responsibilities.

4.5 The directors should report on the effectiveness of the company's system of internal control.

4.6 The directors should report that the business is a going concern, with supporting assumptions or qualifications as necessary.

Appendix B

Desirable Corporate Governance : A Code

Board of Directors :

(1) **Structure of the Board and Number of Meetings :** A single board, if it performs well, can maximize long term value of equity for the shareholders, just as well as two or multi-tired board. The full board should meet a minimum of six times a year, preferably at an interval of two months, and each meeting should have agenda items that require at least half a day's discussion.

(2) **Composition of Non - Executive Directors :** A listed company with a turnover of Rs. 100 crore and above should have professionally competent and aclaimed non-executive directors, who should constitute at least 30 percent of the board, if the chairman of the company is a non-executive director, and at least 50 per cent of the board, if the chairman and managing director (CMD) is the same person.

(3) **Ceiling on Directorship :** No single person should hold directorship in more than 10 companies (against the present limit of 20 companies). The ceiling excludes directorship in subsidiaries (where the group has over 25 percent but no more than 50 percent equity stake.)

(4) **Role of Non-Executive Directors :** For non-executive directors to play an important role in maximizing long term value of shareholders, they need to become active participants in boards, not passive advisors, and know how to read a balance sheet, profit and loss account, cash flow statement and financial ratios and have some knowledge of various company laws. This, of course, excludes those who are invited to join boards as experts in other fields, such as science and technology. Sufficient sitting fee should be paid to non-executive directors to induce serious effort by them.

(5) **Commission/Stock Option to Non-Executive Directors :** To secure better efforts from non-executive directors, companies should pay commission, over and above the sitting fee, for the use of the professional inputs. An appropriate mix of commission and stock option should be considered, to align the non-executive directors towards keeping an eye on short-term profits as well as longer-term value of shareholders.

(6) **Attendance of Board Meetings :** While re-appointing members of the board companies should give the attendance record of the concerned directors. As a general practice, one should not reappoint any non-executive director who has not attended a minimum of 50 percent of the total board meetings.

(7) **Key Information :** In the interest of good governance certain key information must be placed before the board, and must form part of the agenda papers.

(8) **Audit Committee :** The listed companies with either a turnover of over Rs. 100 crore or a paid up capital of Rs. 20 crore, whichever is less, should set up audit committees within two years. Audit committees should consist of at least three members, all drawn from non-executive directors, who should have adequate knowledge of finance, accounts and basic elements of company law.

Desirable Disclosure :

(9) **Additional Shareholder Information :** Under additional shareholder information, listed public companies should give data on high and low monthly averages of share prices in all the stock exchanges, where the company is listed for the reporting years, a statement on value added and greater details on business segments or divisions.

(10) **Consolidation of Group Accounts :** Consolidation of group accounts should be optional and subject to the financial institutions allowing companies to leverage on the basis of group assets and the income tax department using the group concept in assessing corporate income tax.

(11) **Compliance Certificate by CEO and CFO :** Major Indian stock exchanges should gradually insist upon a compliance certificate signed by the CEO and the CFO, which clearly states that the management is responsible for the preparation, integrity and fair presentation of the financial statements and other information in the annual report.

Capital Market Issues :

(12) **Quality and Quantity of Disclosure in Prospectus :** In case of listed companies with paid up capital of Rs. 20 crore or more, the quality and quantity of disclosure that accompanies a global depository receipts (GDR) issue should be the norm for any domestic issue.

(13) **Funding Against Security of Shares and other Papers :** The Government must allow far greater funding to the corporate sector against the security of shares and other paper.

(14) **Appointment of Nominee Directors :** It would be desirable for financial institutions as pure creditors to re-write their covenants to eliminate having nominee directors, except in the event of serious and systematic debt default and in case of the debtor company not providing six monthly or quarterly operational data to the concerned financial institution.

(15) **Quality of Information in case of Debt Issues :** If any company goes to more then one credit rating agency, it must divulge in the prospectus and the issue documents, the rating of all the agencies that did such an exercise.

Companies making foreign debt issues can not have two sets of disclosure norms : an exhaustive one for the foreigners, and a relatively minuscule one for Indian investors.

(16) **Companies Defaulting on Public Deposits :** Companies that default on fixed deposits should not be permitted to accept further deposits and to make inter-corporate loans or investments until the default is made good and not declare dividend until the default is made good.

(17) **Financial Institutions to Withdraw Nominee Directors :** Financial institutions should take a policy decision to withdraw from boards of companies where they have little or no debt exposure and where their individual shareholding is five percent or less or total FIs' holding is under 10 percent.

Appendix C

Kumaramangalam Birla Report : An Abslract

1. The Recommendations should be made applicable to listed companies, their directors, management, employees and professionals associated with such companies and other body corporates.
2. The board of directors of a company should have an optimum combination of executive and non-executive directors, with not less than fifty per cent of the board consisting of non-executive directors. In case the company has a non-executive chairman, at least one third of the board should consist of independent directors.
3. A non-executive chairman should be entitled to maintain a chairman's office at the company's expense and also allowed reimbursement of expenses incurred in performance of his duties, so as to enable him tc discharge his responsibilities effectively.
4. A qualified and independent audit committee should be set up by the board of the company as per the composition and frequency suggested. Powers and functions of audit committee have also been prescribed.
5. The board should set up remuneration committee to determine on their behalf and on behalf of shareholders with agreed terms of reference, the company's policy on specific remuneration package for executive directors including pension rights and any compensation payment.
6. Board meetings should be held at least four times in a year, with a maximum time gap of four months between any two meetings.
7. A director should not be a member in more tan 10 committees or act as a chairman on more than five comrnittees, across all companies in which he is director.
8. Companies should be required to give consolidated accounts in respect of all their subsidiaries. Companies should be required to give segment wise reports, where a company has multiple line of businesses.
9. A management discussion and analysis report should form part of the annual report to the shareholders covering industry structure, opportunities and threats, segment wise or product wise performance, outlook, risks and concerns, internal control system, financial and operational performance and material developments in human resources/industrial relations.
10. Disclosures must be made by the management to the board relating to all material financial and commercial transactions, where they have personal interest that may have a potential conflict with the interest of the company at large.
11. For appointment of new directors, shareholders must be provided with a brief resume of the candidate, nature of his expertise and his other directorships.
12. Information like quarterly results, presentation to analysis etc., may be put on its web site or on its regional stock exchanges' web sites. A half-yearly financial performance report should be sent to all shareholders.
13. A board committee under the chairmanship of a non-executive director should be formed to specifically look in to shareholders' complaints.
14. The power of share transfer should be delegated to an officer or a committee or to the registrars and transfer agents. Shares should be transferred once in a fortnight.
15. These recommendations may be implemented through the listing agreements.

16. The company should arrange to obtain a certificate from his auditors regarding compliance of corporate governance provisions. This certificate should be sent to stock exchange and all shareholders.

Appendix D

The Organisation for Economic Cooperation (OECD) Principles of Corporate Governance :

The OECD have laid down certain principles, which can be globally adopted. These are :

1. **The Right of Shareholders :** Basic rights cover a wide ambit of rights from the first step of registration as an owner, transfer of shares, providing relevant and timely information on a regular basis.
2. **Equitable Treatment of Shareholders :** This is vital in many cases for controlling shareholders, boards and management, use their control over the corporation and over information to the detriment of non-controlling and foreign investors.
3. **The Role of Stakeholders :** The corporate governance framework should recognize the legal rights of stakeholders and encourage active cooperation in creating wealth jobs and the sustainability of financially sound enterprises.
4. **Disclosure and Transparency :** It is an essential element of an effective corporate governance system. Timely and accurate information should be disclosed on all matters regarding the financial situation, performance, ownership and governance of the company. An independent audit and an audit committee are essential.
5. **The Role of Board :** Accountability of the board to the company and its shareholders is a basic tenet of sound corporate governance. It is the duty of the board to act fairly with respect to all groups of shareholders and to assure compliance with applicable laws.

Appendix E

Infosys Technologies Limited, Bangalore:

Infosys Technologies Limited; Bangalore had included a report on corporate governance in the annual report for 1997-98 for the first time. It has been mentioned in the report that the Company had attempted to substantially comply with the two Codes, the Cadbury Committee and the CII. The Company complied with all the recommendations in the CII Code, except for three. The position regarding these three was stated as under.

1. The Chairman is also the Managing Director of the Company. The CII Code had recommended that in companies where the chairman is also managing director, at least 50 percent of the board members should be represented by non-executive directors (CII Recommendation 2). The non-executive directors of the company constituted 40 percent of the board strength in the year. Three of the non-executive directors were co-opted by the members in October 1997 and the fourth on April 10, 1998.
2. The CII Code recommended that no single person should hold directorship in more than 10 companies. (CII Recommendation 3). But in the Company the non-executive directors held directorship in more than 10 companies.
3. The CII Code recommended that non-executive directors should be entitled to stock option, so as to enable them to bring in long-term value to the shareholders. (CII Recommendation 5). However, the non-executive directors in the company were not entitled to stock option.

Regarding the Cadbury Committee it is mentioned in the report that the Company complied with all, except for two recommendations. Regarding these two recommendations it is stated that.

1. The Cadbury Committee had recommended that the chairman and the managing director should not be the same person. But the Company had one and the same person, Shri N.R. Narayana Murty, as Chairman and Managing Director.
2. The Cadbury Committee had recommended that the board should consist of a majority of non-executive directors. But the Company had six executive directors and four non-executive directors.

Audit Committee: The Company had set up an audit committee consisting of its three senior non-executive directors, Mr. Deepak M. Satwalekar, Mr. Sushim M. Dutta and Mr. Ramesh Vangal to deal with accounting matters, financial reporting and internal control. The Committee provided over all direction in risk management function of the Company, including quality of internal and management audit, interacting with both internal and external auditors, as and when necessary, to ensure that the accounts of the company were properly maintained and the transactions are in accordance with prevailing laws and regulations. The Committee met and reviewed the annual and interim financial statements, before they were submitted to the board. The Committee also monitored the proposed changes in the accounting policy, reviewed internal audit of transactions and discussed accounting implications of major transactions.

BPL Limited, Palakkad:

BPL Limited had also included a report on corporate governance in their annual report for 1997-98 for the first time. As per the report the Company had complied with all the recommendations of the CII Code, except for three. Regarding these three it was stated that:

1. Five of the directors of the company (Mr. T.P.G. Nambiar, Mr. Ajit G. Nambiar, Ms. Anju Nambiar, Mr. Rajeev Chandrasekhar and Mr. M.A. Uppal) were holding directorship, in more than 10 companies. However, none of the above five directors was holding directorship in 10 or more companies with manufacturing as their core activity. (CII Recommendation 3).
2. The Company was not paying any commission to non-executive directors on sale or profit of the company, nor it had the practice of offering stock option. The non-executive directors were paid a sitting fee of Rs. 2,000/- per meeting, apart from reimbursement of out of pocket expenses incurred by them while working for the company. (CII Recommendations 5).
3. The company was not consolidating the accounts among group companies or among subsidiaries. (CII Recommendation 10).

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Independent Directors : What & Why?

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For quite sometime, the management thinkers, administrators and law makers have been engaged in devising the mode of corporate governance which would lead to 'good corporate practices' that have been illusive ever since the famous work of Cadbury Committee (1992) to Kumarmangalam Birla Committee (1999). The reason for this concern has been the very nature of the corporate form of enterprise, which is founded on the assumption of divorce between management and ownership. Though the management is supposed to be carried out by the elected representatives of shareholders called directors yet in real life it is the directors or their appointees such as company secretary who propose the appointment of the directors who are supposed to function in such a way as would lead to the maximization of the shareholder value, but more often directors act contrary to the supposed premise, which is never devoid of self interest. Though the responsibilities and liabilities of the directors are enshrined in the Companies Act, yet they are neither conclusive nor comprehensive enough to encompass all possible situations of decision making. The directors are supposed to maintain unbiased behavior and this is sought to be regulated by means of ever increasing disclosures required to be made of director's interest.[1] However, there are umpteen number of cases where directors have been found guilty of maximizing self interest at the cost of splintered shareholders (Berle & Means, 1958), who seldom participate actively in decision-making and those who represent a particular segment of stakeholders, such as nominee directors or workers' directors have not been instruments of maintaining impartiality and independence of directors in situations of economic decision-making, apparently for the company, but indirectly, in the interest of self. The present paper seeks to expound the concept of independent director as propounded by Kumarmangalam Birla Committee (1999) and examine the constituents that go in the making and observance of "independence of the director", both individually and collectively as the board.

Concept of Independent Director:

Shareholders invest their money in a corporation with the objective of maximizing return on their investment. Therefore, creation of long term shareholder value is important for companies, who aspire to raise funds either by equity shares or from other creditors. The long term shareholder value maximisation can be achieved by having a proper system of governance of the corporation. Hence, the main objectives of various Corporate Governance Committees worldwide have been

1. The Companies Act, 1956 (S.299).

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to put in place a system by which long term shareholder value can be created. The 1994 Toronto Stock Exchange Committee on Corporate Governance defind Corporate Governance as "the process and structure used to direct and manage the business and affairs of the corporation with the objective of enhancing shareholder value, which includes ensuring financial viability of the business".[2] Here the main thrust is on the `process and structure' which will enhance shareholder value. Another most important aspect of corporate governance is transparency of management system, which will guarantee check and balance between shareholders, directors, auditors and the management (Shekhar Datta, 1997). The transparency of management system can be examined by the quality of disclosure, whether financial or non-financial, made by the board.[3] `Process', `structure' and `transparency' are germane to Corporate Governance system. The most important factor in these three is structure of the board[4], which directs and controls the process of management and is also accountable to various stakeholders. The board's main function should be that of giving strategic direction and making major policy decisions as distinct from exercising surveillance over the day-to-day management functions. Therefore, the functions of strategic direction and policy decisions can not be achieved until and unless the board is committed and competent enough to ensure excellence through periodic and objective assessment of management's performance, and for which an objective and independent board is essential. And, since board's function is to do strategic planning and policy making, it should include those individuals as its members who have qualities like analytical and deliberative ability; sound judgement, and inclination to take a long and balanced view (Bansal, 1989). A Good board is like a constellation of stars, each representing a cluster of different qualities and experiences but all moving together in one direction. As far as, the size of the board is concerned, the law prescribes minimum 3 directors for a public company[5] and 2 for any other company[6]. However, the maximum limit has not been specified. Under the law a company may have a director[7], a manager[8] and a managing director[9]. However, the words commonly used in corporate world are inside and outside directors, executive and non-executive directors, chairman of the company, president, etc., which are not defined under the Companies Act, 1956. However, these words are associated to a director as per his nature, who is either an insider or outsider, executive or non-executive, nominee of the government or of the financial institutions, or chairman of the board. The Act has distinguished between manager, managing director and board of directors. Manager and managing director exercise their powers subject to superintendence, control and direction of board of directors. The law does not provide for the execution of day-to-day management functions by the board of directors. However, Kumarmangalam Birla Committee recommended that "where the chairman of the board is an executive chairman then at least half of the board should comprise of independent directors and if the chairman is non-executive, at least one-third of the board should comprise of independent directors".[10] Board of Directors do

2. www.osler com.
3. CII draft "Desirable Corporate Governance in India - A Code.
4. Section 252(3) of the Companies Act, 1956 states, The directors of a company collectively are referred to in this Act as the "Board of directors" or "Board".
5. Section 252(1)
6. Section 252(2)
7. Section 2(13).
8. Section 2(24).
9. Section 2(26).
10. Following the recommendations of Kumarmangalam Birla Committee, SEBI has given the explanation of independent director. The SEBI code states that the "independent director", would mean a director who, apart from receiving director's remuneration does not have any other material pecuniary relationship or transaction with the company, its promoters, its management or its subsidiaries, which in judgement of the board may affect independence of judgement of the directors.

have certain duties attached to their office and they are liable for any non-compliance of their duties as per the provisions of the Companies Act, 1956 viz., duty of fiduciary obligation, duty of care, duty to attend board meetings[11], duty to disclose interest[12] (Singh, Avtar, 1989). The board is accountable to the stakeholders of the company and this accountability can be shown by exercising internal control and giving direction to the management and periodically reporting the activities and progress of the company in a transparent manner.[13] And this aim of having transparency in the work can not be achieved without an Independent element[14] which is comprised of effective and competent (Coulson, 1997) individuals on the board. The independent element on the board can be brought by appointing non-executive directors.

The word 'Independent Director' has not been described or defined under the Companies Act, 1956. However, law has not been silent on the issue. In Nagappa Chettiar v. Madras Race Club,[15] it was held that the test of absence of interest of the chairman is vital for him to be independent and impartiality of a chairman is vital in order to fulfil his duty properly.[16] Sections 297,299 and 300 of the Companies Act, 1956 require disclosure of interest of directors (and where the director is a interested person then he cannot take a decision independently). In Walchandnagar Industries Ltd. v. R.K. Motishaw [17], Justice Chagla held that the director should be disqualified by reason of a very small and petty contract, which he entered into with the company for the supply of one tin of ghee. The court had to enforce the provision of the law in larger and wider interest, which the legislature had in mind and in order to prevent directors from using their responsible office to their own advantage. The forgoing case underlines the duty to disclose interest by the director to the board, however petty it may be, to guard the interest of shareholders at large. The directors are under fiduciary duty to act in the interest of the company as a whole and its shareholders in particular. Hence, where the directors of a company diverted a contract opportunity[18] of the company to themselves and by their votes as holders of three fourth majority resolved that the company had no interest in the contract, it was held that the benefits of the contract belonged in equity to the company and the directors could not validly use their voting power to vest it in themselves. Their Lordships observed: ".....But, on the other hand, men who assume complete control of a company's business must remember that they are not at liberty to sacrifice the interests, which they are bound to protect, and while ostensibly acting for the company, divert in their own favour business which should properly belong to the company they represent."[19] Whenever there is one person holding the position of the Chairman and Chief Executive Officer or Managing Director there is likely to be concentration and abuse of power for self-interest at the cost of shareholders.

Cadbury Committee Report [20] on Corporate Governance has recommended that the board should have (1) presence of strong and independent element, with a recognised senior member,

11. Section 283(g).
12. Section 299-300.
13. Kumarmangalam Birla Committee Report on Corporate Governance, 1999.
14. Cadbury Committee Report, 1992.
15. (1949) 19 Com Cases 175, 197 (Mad).
16. Cf. Wall v. London and Northern Assets Corporations. (1989)2 Ch. 469(CA).
17. (1953) 23 Comp Cas 343 (Bombay).
18. It lies under the 'doctrine of corporate opportunity' which has been described as an 'act of a director or controlling shareholder in diverting from the benefit of the corporation any enterprise or transaction in which reasonable persons would agree that the corporation had some expectancy or interest'.
19. Cook v. Deeks (1916) 1 AC 554: (1916-17) All ER Rep 285.
20. Vide paras 1.2, 1.5, 2.1 and 2.2 read together.

(2) independent professional advise at the company's expense by the directors to fulfil their duties, (3) non-executive directors should bring an independent judgement to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct, and (4) the majority of directors should be independent of management and free from any business or other relationship, which could materially interfere with the exercise of their independent judgement, apart from their fees and shareholding.

But, then the question arises as to who can act as an independent director? The TSE Committee opines that a variety of persons, including retired employees of the corporation and representatives of a controlling shareholder, major creditors, customers or suppliers of the corporation, would qualify as independent directors, notwithstanding their potential conflict of interest" (TSE Committee, 1994). The test of independence of a director is material connection or relationship between the director and the corporation, which hampers the director's ability to make objective judgment in the interest of the corporation and its shareholders. An individual is said to be independent if neither he nor his employer has received, or is expected to receive, substantial remuneration (in salary or dividends) from the company on whose board he sits. Geoffrey Mills(1985) defines an 'independent' director as one who 'is not bound by any firm allegiances' (p.9). Independent director are perceived to be in a better position than inside directors/non-executive directors to make objective decisions and to assess management's recommendations, because they would have no personal interest in those decisions and recommendations. They can bring in forth righteousness in discussion on business issues by evaluating the merit of the case, instead of remaining passive or partisan.

The word "unrelated" directors used in 1994 Toronto Stock Exchange Report refers to those directors who are free from any interest and any business or other relationships[21], which could, or could reasonably be perceived to, materially interfere with the directors' ability to act in the best interest of the corporation. However, a significant shareholding should not, in itself, make directors related.[22]

The Kumarmangalam Birla Committee report expects non-executive directors (those who are independent) help bring in an independent judgment to bear on board's deliberations especially on issues of strategy, performance, management of conflicts and standards on conduct. The characteristic features of independent/ non-executive directors as per Committee are- recognition of importance of board's task, integrity, a sense of accountability, track record of achievements, ability to ask tough questions, financial literacy, experience, leadership qualities, ability to think strategically, significant degree of commitment to the company, ability to devote adequate time for meeting, preparation and attendance.

The competent independent director should have abilities such as - integrity, drive and determination, objectivity, balance, commitment, individuality, sensitivity and independence, strategic and ethical awareness, a sense of accountability and responsibility, a holistic perspective and ability to understand the context within which he operates (Coulson, 1997). Thus, a person who is committed and competent in participating at board meetings using his skills, experience and ability to raise questions on the performance of the management and is also able to assume certain role and responsibility is entitled to become an independent director, his main objective will be maximization of shareholder value and accountability to all other stakeholders of the corporation.

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21. other than interests and relationships arising from shareholding.

22. www.osler.com

Though the board of directors, by whatever name called,[23] have been in existence ever since the creation of corporate entity as a legal device to run business, yet only now people have started questioning the process of functioning of boards and the role played by the directors on boards. Possibly, the answer lies in non-performance and passiveness of boards in the interest on shareholders.

The directors owe fiduciary duties towards the shareholders, to perform their role as directors and trustees of money of shareholders in particular and corporation in general. Section 299 of the Companies Act, 1956 requires the director to disclose his interest or concern in the agreements or contracts to the company's board. This section 299 has transformed the fiduciary relationship of the director into statutory duty (Chandratre). Section 283 states that the director's office would become vacant if he is in breach of the provisions of section 299. The dictionary meaning of 'fiduciary' 'as a noun' is a person to whom property or power is entrusted for the benefit of the other. As an adjective its meaning is 'of or pertaining to the relation between a fiduciary and his principal. This implies that directors have to work in the interest of shareholders who are basically their 'principals'. But this does not mean any agent and principal relationship between directors and shareholders. The law recognizes this.[24] Therefore, the deeper meaning of fiduciary relationship is to work in a manner that protects the interest of the shareholders without jeopardizing the growth and development of the company. The person while discharging his duties as director, is expected to act honestly and without negligence (Saxena, 1998). However, still the directors were found guilty of breach of their fiduciary duty towards the shareholders. The breach of fiduciary duty takes place either by misrepresentation of facts, committing fraud, or by non-disclosure of facts/interest of directors, etc. In modern times, the directors are not only accountable to the shareholders of the company but they are also responsible to see the well-being of the society at large. One can differentiate these duties in to three categories i.e., Objectivity in decision making, Accountability to shareholders, and Transparency in disclosures (Gopalsamy, 1997). These duties can be performed by determining the functioning of the board of directors in an independent manner. A perusal of some cases of corporate mismanagement, will lead to instances of collision of greed and naivete (Mukherjee, 1998), FERA violations, large scale diversion of funds to associate companies and risky ventures, unfocussed business decisions leading to loss, preferential allotment of shares to promotors at low price and spinning off profitable business operations to subsidiary companies (Sekhar, 1998), highlight that the directors work towards maximization of self-interest at the cost of splintered shareholders. To quote some-

1. "Promotors of Acme have fled from the address in the prospectus; the promoter of Alps Motor Finance claims that he has sold the company; Ankush's promoter refused to talk; Patliputra Credit has provided a fake registered office address".[25] These are cases of misrepresentation of facts in prospectus leading to compromised legal responsibility.
2. "Large-scale cornering of shares through skilful manipulation of a public issue has enabled

23. In India, company legislation was first enacted in 1850. Earlier system of corporate governance was in the hands of managing agents, a system abolished since 1970. See: Loknathan, P.S., 1935, *Industrial Organisation in India*, George Allen and Unwin Ltd., and Buchanan D.H. *The Development of Capitalist Enterprises in India, New York. Macmillan, 1934.*
24. Automatic Self-Cleansing Filter Syndicate Co. Ltd. v. Cuningham, (1906) 2 Ch 34: 94 LT 651, where it was held that "directors are agents not of a majority of the shareholders, but of the company, of the whole entity made up of all the shareholders.
25. *The Indian Express,* 23/7/2000.

a member of the board of directors to acquire the largest chunk of shares held by any individual in the Trichur based Dhanalakshmi Bank. Close to 6% of the shares of the enhanced equity capital of the bank has been cornered by Mr. R. Kalyanaraman, a director of the bank".[26] This case illustrates violation of fiduciary duty by directors and their unethical behaviour for self-aggrandizement.

3. "Vikas WSP apparently inflated turnover and profit figures and artificially boosted its profitability over the past few years". It was also alleged that the Vikas WSP failed to come out with any evidence to remove serious doubts cast on the company's financial statements and that the company was also not transparent on issues relating to corporate governance".[27] This was a case of creative accounting leading to cosmetic annual reports to shareholders and thus ultimately leading to corporate mismanagement and non-disclosure of material facts.
4. Continuous deteriorating performance of Thermax Ltd., a Pune-based company, for five years, where the board comprised of seven internal directors and four external directors. The company had to close one of its subsidiary because of continuous loss. This was a case of non-performing board. Where usurpations by executives took place when the board turned a blind eye to the facts or failed to call spade-a-spade. This is why the investor protection was given a central place in Corporate Governance in various committee reports.

Corporate Governance is a system by which a corporate entity is directed and controlled in a given economic, political and social environment. It also entails the interplay between different stakeholders of a corporation, viz., board of directors, equityholders, debtholders, employees, customers and government. Quality of a board can be determined by the quality of individuals who are serving on it. The committees on Corporate Governance, worldwide, have put more stress on larger number of non-executive independent directors on boards to bring in the elements of objectivity and independence in the decision making process for the maximization of the shareholder value. Since the function of the board is to give direction, its primary concern is towards laying down the strategies and major policies. Another role, which the independent director is expected to play, is through board committees viz., audit committee, nomination committee, and remuneration committee. Increased number of cases of misrepresentation of facts, non-disclosure of material facts and lack of transparency in annual reports have led various committees to recommend constitution of a fully independent audit committee where one of the member have the knowledge of accounting and audit reporting. In corporate world it is also seen that the directors, especially the CEOs nominate their own persons as board members, who are 'Yes-boss' type. In such cases, the CEO is vested with unfettered powers in decision making. Therefore, the nomination committee members/agencies are required to be constituted of independent persons, who may bring in the element of independent on the board, who are competent and committed and can bring in vast range of skills and experience, so as to add value to the decision making process. Like wise in remuneration committee the members are expected to be independent. The remuneration committee is expected to align the pay and performance of the board members, especially the CEO.

Thus, independent directors on boards are expected to solve the problem of free-riders, deployment of capital judiciously, rationale pay for the CEOs and other executive directors, exercising check on wastage of resources of the company, avoiding short term profits as against

26. *The Economic Times*. Ahmedabad. 27/8/1997.
27. Investor's Guide *The Economic Times*, 7/8/2000 and *The Economic Times* 18/8/2000.

long-term corporate value (Latham, 1998), transparency in company reports, nomination of committed and competent persons on board and accountability to stakeholders of the company.

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Accounting Standards and their Relevance to Corporate Reporting Practices in Indian Corporate Sector

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Accounting Standards :

Accounting principles essentially constitute a frame of reference for accounting practices. Accounting Standards and policies are guidelines of operative significance. Standards are normative prescriptions relating to accounting policies and practices. They specify as to how the items, which go to make the financial statements, should be dealt with in accounts and disclosed in the annual reports to highlight the performance of the enterprise concerned. The main purpose of the standards is to provide information to the users regarding the basis on which accounts have been prepared, rather than to dictate the manner in which accounts should be prepared. Accounting Standards consist of different rules to be adopted for the treatment of different items before presentation of financial statements.

Accounting Standards in India :

In India, the statements on Accounting Standards are issued by the Institute of Chartered Accountant of India, to establish standards that have to be complied with to ensure that financial statements are prepared in accordance with the Generally Accepted Accounting Principles in the country (hereafter referred to as Indian G.A.A.P.). These standards are largely drawn from the International Accounting Standards (as India is a member of the I.A.S.C.) suitably modified to cater to the requirement of local business.

Accounting Standards Board (ASB) :

The Institute of Chartered Accountants of India (ICAI) had set up an Accounting Standards Board (ASB) in 1977. The main function of the ASB is to formulate Accounting Standards (AS). While formulating the standards, the ASB takes into consideration the applicable laws, customs, usages and prevailing business environment.

The ASB was set up in 1977, but the first Accounting Standard was issued by it in 1979. The Accounting Standards are issued under the authority of the Council of the ICAI. Till date, eighteen (18) Standards have been issued. Out of the eighteen (18) standards fifteen (15) are "mandatory".

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Objectives of the Present Study :

A study of "Accounting Standards and their Relevance to Corporate Reporting Practices with Special Reference to Indian Corporate Sector." was conducted at the time when only 15 standards were issued by the ASB. The objective of the study was to review International and Indian Accounting Standards, to examine the disclosure practices of Indian corporate sector, extent of compliance and to ascertain the difficulties faced by corporate sector during implementation of the Standards.

Methodology :

1. The study was limited to the period from 1990-91 to 1994-95. i.e., for five years. The study was also limited to 50 companies, 25 from public sector and 25 from private sector.
2. The companies were selected from the list of companies classified by the Reserve Bank of India. These 50 companies were selected by stratified sampling method.
3. The reporting pattern of the companies was judged through annual reports of the companies and other published documents. Secondary sources were used for this purpose.
4. The source for annual reports of the companies were companies themselves and the annual report library of the Institute of Chartered Accountants of India, Indraprastha Marg, New Delhi and the Library of Ministry of Company Affairs, Paryavaran Bhawan, New Delhi.

Findings of the Study :

It was observed that on the whole the performance of public sector companies was more satisfactory than that of the private sector companies. Major findings on the basis of annual reports analysis were as follows :

1. The Companies in both the sectors were complying with the Accounting Standards while preparing their annual reports differently.
2. Most of the private sector and public sector companies, however, partially followed Accounting Standards, as was evident from their annual reports.
3. Most of the private sector and public sector companies complied with the provisions of Accounting Standard No. 2 (Accounting for Inventories), No. 6 (Accounting for Depreciation) No. 10 (Accounting for Fixed Assets) and No. 13 (Accounting for Investments).
4. The companies selected for study presented full information on "Change in Financial Position". These companies not only provided last 10 years' Balance Sheets but also provided Net Working Capital, Dividend Per Share, Profit before Tax, Equity and Debt Ratio etc.
5. All companies gave the inventory valuation method, which was as regards finished goods product at cost, scrap at realizable value and goods-in transit at cost etc.
6. Accounting Standard No. 8, which deals with "Accounting for Research and Development" was complied with by all public sector companies. The companies provided details of expenditure under the head, achievements under the head, part of revenue expenditure and capitalized expenditure, expenditure on training etc.
7. All companies in both the sectors provided information regarding Contingent Liabilities after Balance Sheet Date in footnotes or notes in Balance Sheet.
8. Most of the companies prepared separate schedules of fixed assets, depreciation, investment, inventories etc.
9. Almost all companies provided depreciation on straight line basis at the rates specified in Schedule XIV of the Companies Act, 1956.

10. Prior Period Items and Extraordinary Items were disclosed mainly by public sector enterprises, rather than private sector companies.
11. Disclosure by private sector companies were less than that by the public sector companies, with respect to Accounting Standards.
12. There was comparatively better compliance of mandatory standards than the recommendatory standards.
13. There was a gradual improvement in the compliance of both, the recommendatory and the mandatory standards.
14. All the selected companies, of both the sectors, provided information in a statement form regarding the accounting policies.

Drawbacks/Shortcomings of Accounting Standards :

Major short comings of the system of formulating, issuing enforcing and policing the Accounting Standards were as under :

1. As all the Accounting Standards were not made mandatory there was no compulsion for the public and private sector enterprises to comply with all the Accounting Standards. It was not possible to perform a comparative study of different enterprises in such a situation.
2. Clear direction was lacking as to which Accounting Standard should or should not be applied by a company belonging to a specific industry while maintaining accounts.
3. The Accounting Standards issued by the ICAI are not backed by law. The Standards can be effective in improving the quality of financial reporting only if their application was ensured through law. As there was no law in the country to compel public or private enterprises to comply with the Standards issued by the ICAI, making them "mandatory" did not have much significance.
4. Standards' setting in India have not encouraged neutral and unbiased criticism of its performance. In the absence of healthy criticism, the Standard setters do not become aware of the faults and demerits of the Standards designed by them.
5. The ICAI was not an autonomous body. As a result the standards' setters were easily influenced by certain interested groups. These groups influenced the standard setters' decisions to their benefit.
6. Company laws, which direct and regulated business accounting and reporting are formulated and enforced by Government. Through these laws, there is Governments' interference in accounting and reporting by companies. The companies therefore, consider Accounting Standards as an additional burden to comply with.
7. Lack of awareness about usefulness and standard accounting practices among users of financial statements and absence of any organised effort to make them aware, was the main reason for the companies not complying with the Standards.

Suggestions :

In the light of the drawbacks and shortcomings of Accounting Standards given above, the following suggestions may be given to make them more relevant to the Indian accounting and reporting practices :

1. The ICAI should take steps to lay down standard acounting practices in other areas that have not yet been covered by it.
2. The companies should be classified into groups depending upon their product, and for each group of companies specified sets of Accounting Standards should be made mandatory.
3. Directions may be issued by the competent authority giving relaxation to companies with a

lower than specified capital for not following certain Accounting Standards that may be considered of lesser significance.

4. To ensure maximum benefit to companies shareholders, debenture holders and other sections of business community, Accounting Standards should be modified, made simple, understandable and easily implementable.
5. To achieve uniformity at international level the ICAI should formulate new Accounting Standards on the lines of the International Accounting Standards. There is a need for harmonization of Indian and International Accounting Standards.
6. To ensure greater compliance of standards, legal backing should be provided for these Standards. For this, the Companies Act may be amended. This may further be supplemented by the establishment of special legal forums that may hear cases of disputes over the applicability of Accounting Standards.
7. The ASB should be made autonomous, so that there is least interference from government or other interests.
8. There is a need for review of Accounting Standards from time to time.
9. Recently an amendment has been made in the Companies Act, 1956 and the Accounting Standards have been made mandatory. Now if a company, in public sector or in private sector, does not follow the standards action can be taken against the company under Companies Act 1956. A further Study should, therefore, be conducted to examine how effectively the companies are following these Standards after they have become mandatory under Companies Act 1956, and what action was taken against defaulter on non-compliance of these Standards.

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Table-1

Compliance of Mandatory Accounting Standards by 25 Private Sector and 25 Public Sector Companies

	Private Sector										Public Sector									
	1990-91		1991-92		1992-93		1993-94		1994-95		1990-91		1991-92		1992-93		1993-94		1994-95	
	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
AS-1 No. of companies making full disclosure (%)	22 (88)	3 (12)	22 (88)	3 (12)	22 (88)	3 (12)	24 (96)	1 (4)	24 (96)	1 (4)	23 (12)	2 (5)	23 (92)	2 (8)	24 (97)	1 (3)	24 (97)	1 (3)	24 (97)	1 (3)
AS-4 No. of companies making disclosure for accounting for contingencies (%)	20 (80)	5 (20)	20 (80)	5 (20)	22 (88)	3 (12)	25 (100)	0 (0)	25 (100)	0 (0)	22 (88)	3 (12)	22 (88)	3 (12)	24 (96)	1 (4)	24 (96)	1 (4)	24 (96)	1 (4)
AS-5 No. of companies disclosing prior period items (%)	7 (28)	18 (72)	7 (28)	18 (72)	8 (32)	17 (68)	13 (52)	12 (48)	13 (52)	12 (48)	24 (96)	1 (4)	25 (100)	0 (0)	25 (100)	0 (0)	25 (100)	0 (0)	25 (100)	0 (0)
AS-7 No. of companies making Disclosure of accounting for const ruction contracts (%)	5 (20)	20 (80)	7 (28)	18 (72)	7 (28)	18 (72)	7 (28)	18 (72)	7 (28)	18 (72)	5 (20)	20 (80)	5 (20)	20 (80)	7 (28)	18 (72)	7 (28)	18 (72)	7 (28)	18 (72)
AS-8 No.of Comp. making full disclosure of acc. for R & D %	14 (56)	11 (44)	14 (56)	11 (44)	14 (56)	11 (44)	14 (56)	11 (44)	14 (52)	11 (48)	13 (68)	12 (32)	17 (80)	8 (20)	26 (100)	5 (0)	25 (100)	0 (0)	25	0
AS-9 No.of comp. making full disclosure of acc. for revenue recognition (%)	13 (52)	12 (48)	13 (52)	12 (48)	14 (52)	12 (48)	14 (56)	11 (45)	14 (56)	11 (44)	8 (32)	17 (68)	8 (32)	17 (68)	8 (14)	17 (60)	10 (40)	15 (60)	10	15

Table-1 (Contd)

	Private Sector										Public Sector									
	1990-91		1991-92		1992-93		1993-94		1994-95		1990-91		1991-92		1992-93		1993-94		1994-95	
	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
AS-10 No.of comp. making full disclosure of acc.for fixed assets (%)	25 (100)	0 (0)	25 (100)	0 (0)	25 (100)	0 (0)	25 (100)	0 (0)	25 (100)	0 (0)	25 (100)	0 (0)	25 (100)	0 (0)	25 (100)	0 (0)	25 (100)	0 (0)	25 (100)	0 (0)
AS-11 No.of comp. making full disclosure acc.for changes in for eign exchange rates (%)	9 (36)	16 (64)	9 (36)	16 (64)	11 (44)	14 (56)	18 (72)	7 (28)	20 (80)	5 (20)	5 (20)	20 (80)	11 (44)	14 (56)	11 (54)	14 (56)	20 (80)	5 (20)	50 (80)	5 (20)
AS-12 No.of comp. making full disclosure of acc for Govt. grants (%)	3 (12)	22 (88)	4 (16)	21 (84)	4 (16)	21 (84)	4 (16)	21 (84)	4 (16)	21 (84)	22 (88)	3 (2)	22 (88)	3 (12)	24 (96)	1 (4)	24 (96)	1 (4)	25 (100)	0 (0)
AS-13 No.of companies making full disclosure of accounting for investments (%)	25 (100)	0 (0)	25 (100)	0 (0)	25 (100)	0 (0)	25 (100)	0 (0)	25 (100)	0 (0)	25 (100)	0 (0)	25 (100)	0 (0)	25 (100)	0 (0)	25 (100)	0 (0)	25 (100)	0 (0)
AS-14 No. of comp. fully disclosing accounting for amalgamation (%)	0 (0)	25 (100)	0 (0)	25 (100)	1 (4)	24 (96)	2 (8)	23 (92)	2 (8)	23 (92)	0 (0)	25 (100)	0 (0)	25 (100)	0 (0)	25 (100)	(0) (0)	25 (100)	1 (4)	24 (96)
AS-15 No.of Comp. fully disclousing accounting for retirement benefits (%)	20 (80)	5 (20)	20 (80)	5 (20)	23 (92)	2 (8)	23 (92)	2 (8)	23 (92)	2 (8)	18 (72)	7 (28)	18 (72)	7 (28)	22 (88)	3 (12)	22 (88)	3 (12)	22 (88)	3 (12)

Table-2

Recommendatory Standards — Compliance of Disclosure Requirements

	Private Sector										Public Sector									
	1990-91		1991-92		1992-93		1993-94		1994-95		1990-91		1991-92		1992-93		1993-94		1994-95	
	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
AS-2 No.of companies making full disclosure of accounting of inventory valuation (%)	19 (76)	6 (24)	19 (76)	6 (24)	22 (88)	3 (12)	22 (88)	3 (12)	24 (96)	1 (4)	20 (80)	5 (20)	23 (92)	2 (8)	24 (96)	1 (4)	24 (96)	1 (4)	25 (100)	0 (0)
AS-3 No.of companies publishing SCFP in annual reports (%)	19 (76)	6 (24)	19 (76)	6 (24)	21 (84)	4 (16)	22 (88)	3 (12)	23 (92)	2 (8)	24 (96)	1 (4)	24 (96)	1 (4)	25 (100)	0 (0)	25 (100)	0 (0)	25 (100)	0 (0)
AS-6 No.of companies making full disclosure of accounting for de preciation (%)	25 (100)	0 (0)	25 (100)	0 (0)	25 (100)	0 ()(	25 (100)	0 (0)	25 (100)	0 (0)	25 (100)	0 (0)	25 (100)	0 (0)	25 (100)	0 (0)	25 (100)	0 (0)	25 (100)	0 (0)

Table-3

Disclosure Practices of Indian Corporate Sector (1994-1995)

Disclosure Variables (Accounting Standards)		Private sector (25 units)			Public sector (25 units)			Total (50 units)		
		Full	Partial	No	Full	Partial	No	Full	Partial	No
Accounting Policies	AS-1	1	23	1	13	11	1	14	34	2
Valuation of Inventories	AS-2	6	18	1	20	5	0	26	23	1
Changes • Financial Position	AS-3	13	10	2	20	5	0	33	15	2
Contingencies and Events Occuring after Balance Sheet date	AS-4	13	12	0	15	9	1	28	21	1
Prior Period and Extraordinary Items and Changes in Accounting Policies	AS-5	2	11	12	23	2	0	25	13	12
Depreciation Accounting	AS-6	8	7	0	25	0	0	43	7	0
Accounting for Construction Contracts	AS-7	2	5	18	3	4	18	5	9	36
Accounting for Research and Development	AS-8	9	5	11	17	8	0	26	13	11
Revenue Recognition	AS-9	0	14	11	5	5	15	5	19	26
Accounting for Fixed Assets	AS-10	19	6	0	24	1	0	43	7	0
Accounting for the Effects of Changes in Foreign Exchange Rates	AS-11	4	16	5	8	12	5	12	28	10
Accounting for Government Grants	AS-12	1	3	21	12	13	0	13	16	21
Accounting for Investments	AS-13	11	14	0	20	5	0	31	19	0
Accounting for Amalgamations	AS-14	1	1	23	0	1	24	1	2	47
Accounting for Retirement Benefits	AS-15	4	19	2	12	10	3	16	29	5
Total		104	164	107	217	91	67	321	255	174
Percentage (Sector wise and aggregate)		27.8%	43.7%	28.5%	57.8%	24.3%	17.9%	42.8%	34%	23.2%

Table-4
Disclosure Pattern of Corporate Enterprises (Public Sector)

S.No.	Company	AS1	AS2	AS3	AS4	AS5	AS6	AS7	AS8	AS9	AS10	AS11	AS12	AS13	AS14	AS15
1.	Air India Ltd.	F	F	F	F	F	F	NO	F	NO	F	NO	P	F	NO	F
2.	Air India Chartered Ltd.	P	F	P	P	F	F	NO	P	NO	F	NO	P	F	NO	NO
3.	The Associated Cement Co.Ltd.	F	F	P	F	F	NO	F	F	F	F	F	F	NO	P	
4.	Bharat Heavy Electricals Ltd.	F	F	F	P	F	F	NO	F	F	F	F	P	F	NO	F
5.	Balmer Lowrie & Co.Ltd.	P	F	P	F	F	F	NO	P	F	F	F	F	F	NO	F
6.	Cement Corporation of India	P	F	F	F	F	F	P	F	NO	F	P	P	F	NO	P
7.	The Fertilizer Corporation of India Ltd.	F	F	P	F	F	F	F	F	NO	F	P	F	F	NO	NO
8.	GSFC	P	P	P	P	P	F	NO	P	NO	F	P	F	P	NO	P
9.	Hindustan Copper Ltd.	F	F	F	P	F	F	NO	F	NO	F	P	P	F	NO	F
10.	Hindustan Fluoro Carbons Ltd.	P	F	P	F	F	F	NO	F	NO	F	NO	P	F	NO	P
11.	Hindustan Machine Tools Ltd.	F	F	F	F	F	F	NO	F	NO	F	P	F	F	NO	P
12.	Hindustan Organic Chemicals Ltd.	F	F	F	F	F	F	NO	F	P	F	F	F	F	NO	F
13.	Hindustan Petroleum Corporation Ltd.	P	F	F	P	F	F	P	F	NO	F	P	P	F	NO	P
14.	Hindustan Prefab Ltd.	P	F	F	F	F	F	NO	F	NO	F	NO	P	F	NO	F
15.	Hotel Corporation of India Ltd.	P	P	F	F	F	F	P	P	P	F	P	F	F	NO	P
16.	Indian Petro Chemicals Corporation Ltd.	NO	P	F	P	F	F	NO	F	P	F	P	P	P	NO	NO
17.	Minerals & Metal Trading Corporation of (I) Ltd.	F	F	F	F	F	F	NO	P	F	F	F	F	P	P	F
18.	National Film Development Corp.	P	F	F	P	F	F	NO	F	NO	F	P	P	P	NO	P
19.	National Small Industries Corp.	F	F	F	F	F	F	NO	F	NO	F	F	F	F	NO	F
20.	National Thermal Power Corp.	F	F	F	P	F	F	F	F	NO	F	F	P	F	NO	P
21.	Oil India Ltd.	F	F	F	F	F	F	P	P	P	F	P	P	F	NO	F
22.	Oil & Natural Gas Commission	F	P	F	F	P	F	NO	F	NO	F	P	P	F	NO	F
23.	ONGC Videsh Ltd.	P	F	F	F	F	F	NO	P	P	F	F	F	P	NO	F
24.	Scooters India Ltd.	P	P	F	F	F	F	NO	P	NO	F	NO	F	F	NO	F
25.	Steel Authority of India ltd.	F	F	F	NO	F	F	F	F	F	F	P	F	F	NO	P

F=FULL, P=PARTIAL, NO= NO DISCLOSURE

Table-5
Disclosure Pattern of Corporate Enterprises (Private Sector)

S.No.	Company	AS1	AS2	AS3	AS4	AS5	AS6	AS7	AS8	AS9	AS10	AS11	AS12	AS13	AS14	AS15
1	Birla Jute & Industries Ltd.	P	F	F	F	P	P	NO	NO	NO	P	P	P	P	NO	P
2	B.S.L. Ltd.	P	P	F	F	P	F	NO	NO	P	F	F	NO	P	NO	P
3	Cyanamid India Ltd.	P	F	F	F	NO	F	NO	F	NO	F	F	NO	F	NO	P
4	Escorts Tractors Ltd.	P	P	F	F	NO	F	P	NO	P	F	NO	F	P	NO	P
5	Goetz India Ltd.	P	P	NO	P	P	P	NO	NO	P	F	NO	NO	P	NO	P
6	Grasim India Ltd.	F	P	P	F	NO	P	P	F	P	P	P	NO	P	NO	P
7	The Great Eastern Shipping Co.Ltd.	P	P	P	F	NO	P	P	F	P	P	P	NO	P	NO	P
8	Hero Honda Ltd.	P	F	F	P	P	P	P	NO	P	F	P	NO	F	NO	P
9	Hoechst Marion Roussel Co. Ltd.	P	NO	F	F	P	F	F	NO	P	P	P	NO	P	NO	NO
10	Indian Aluminium Co. Ltd.	P	P	NO	P	P	F	NO	NO	P	F	P	NO	F	NO	P
11	J.K.T. Ltd	P	F	F	P	NO	P	NO	P	P	P	P	NO	P	NO	P
12	J.K. Synthetics Ltd.	P	P	P	F	P	F	NO	P	P	F	P	NO	F	NO	P
13	Khaitan Electrical Ltd	P	P	NO	F	NO	F	NO	P	P	F	P	P	P	NO	F
14	Khatau Junker Ltd.	P	P	P	P	NO	F	NO	NO	NO	F	NO	NO	F	NO	P
15	Larsen and Toubro Ltd.	P	P	F	P	NO	F	F	F	NO	P	NO	NO	P	NO	P
16	LML Ltd	P	P	P	P	F	P	P	F	NO	P	P	NO	P	NO	F
17	McDowell & Co. Ltd.	P	P	P	P	P	F	NO	P	P	F	P	NO	F	NO	P
18	Milton Plastics Ltd	P	F	P	F	NO	F	NO	P	P	F	P	NO	P	NO	P
19	Reliance Industries Ltd.	P	P	P	P	NO	F	NO	NO	P	F	P.	NO	F	NO	P
20	Roche Products Ltd.	P	P	P	P	NO	F	P	NO	NO	F	NO	NO	P	NO	P
21	Rolta India Ltd.	NO	P	F	F	P	P	NO	F	NO	F	P	NO	F	NO	P
22	Shri Dinesh Mills Ltd.	P	F	P	P	NO	F	NO	F	NO	F	P	NO	F	NO	F
23	Tata Tea Ltd.	P	P	F	F	F	F	NO	F	NO	F	P	NO	F	NO	P
24	TVS Whirlpool Ltd.	P	P	F	P	P	F	NO	F	P	F	P	NO	P	NO	F
25	Western Hatcheries	P	P	F	F	NO	F	NO	F	NO	F	P	NO	F	F	NO

F=FULL, P=PARTIAL, NO= NO DISCLOSURE

Table-6
Percentage of Private and Public Sector Companies Disclosing Individual Accounting Standards using Three Point Scale (1994-95)

Disclosure Variables (Accounting Standards)		% of Private Sector Companies Making				% of Public Sector Companies Making			
		Full Disclosure	Partial Disclosure	Total Disclosure	No Disclosure	Full Disclosure	Partial Disclosure	Total Disclosure	No Disclosure
Accounting Policies	AS-1	4	92	96	4	52	44	96	4
Valuation of Inventories	AS-2	24	72	96	4	80	20	100	0
Changes in Financial Position	AS-3	52	40	92	8	80	20	100	0
Contingencies and Events Occuring after Balance Sheet date	AS-4	52	48	100	0	60	36	96	4
Prior Period and Extraordinary Items and Changes in Accounting Policies	AS-5	8	44	52	48	92	8	100	0
Depreciation Accounting	AS-6	72	28	100	0	100	0	100	0
Accounting for Construction Contracts	AS-7	8	20	28	72	12	16	26	72
Accounting for Research and Development	AS-8	36	20	56	44	68	32	100	0
Revenue Recognition	AS-9	0	56	56	44	20	20	40	60
Accounting for Fixed Assets	AS-10	76	24	100	0	96	4	100	0
Accounting for the Effects of Changes in Foreign Exchange Rates	AS-11	16	64	80	20	32	48	80	20
Accounting for Government Grants	AS-12	4	12	16	84	48	52	100	0
Accounting for Investments	AS-13	44	56	100	0	80	20	100	0
Accounting for Amalgamations	AS-14	4	4	8	92	0	4	4	96
Accounting for Retirement Benefits	AS-15	16	76	92	8	48	40	88	12

Accounting Requirement Under Tax Laws and Indian Accounting Standards

C.M. Jain *
FCA

Requirement of Books of Accounts :

Under Income Tax Act, 1961, an assessee is expected to maintain proper books of accounts to enable the tax authorities to determine the income chargeable to tax,tax liability and to realise the tax. The requirement of section 44 AA and rule 6F for compulsory maintenance of books of account may be summarised by grouping different taxpayers in to four categories.

Category A :

Person carrying on "specified professions", when their gross receipts from the profession does not exceed Rs. 1,50,000. (w.e.f. April, 6, 2000) in any one of the three years immediately preceding the previous year fall into category A. Person coming under this category are required to maintain such 'books of accounts and other documents' as may enable the Assessing Officer to compute their taxable income under the Income Tax Act. It may be noted that the Board has not prescribed books of account to be maintained for persons falling under this category.

Category B :

Person carrying on 'specified professions', whose gross receipts from the profession exceed Rs. 1,50,000 (w.e.f. April 6, 2000) in any one of the three years immediately preceding the previous year fall in this Category. Persons coming in this category are required to maintain the following books of account under rule 6 F :-

* A Cash book
* A Journal
* A Ledger
* Carbon copies of bills
* Original bills of expenses.

Apart from the aforesaid books of accounts and documents, the persons carrying on medical profession are required to keep the following additional books/documents :

* A daily cash register in form 3C
* An inventory under broad heads, as on the first and the last day of the year.

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Category C :

Persons carrying on a 'non-specified profession' or business, whose income from such business or profession does not exceed Rs. 120,000 or the total sales, turn over or gross receipts thereof are not in excess of Rs. 10,00,000; in any of the three years immediately preceding the previous year fall in this Categoy. Persons coming in this category are not required to maintain the books of account.

Category D :

Persons carrying on a "non-specified profession" whose income from such a business or profession does not exceed Rs. 120,000 and the total sales, turnover or gross receipts thereof are not in excess of Rs. 10,00,000; in any of the three years immediately preceding the previous year fall in Category D. This category also includes, with effect from the assessment year 1998-99, an assessee covered under section 44 AD or section 44AE or section 44 AF, if it is claimed that the profits and gains from the business are lower than the profits and gains computed in accordance with sub section (1) of section 44 AD or sub-section (2) of section 44 AE or sub-section (1) of section 44 AF, as the case may be.

Persons coming in this category are required to maintain such "books of account and other documents" as may enable the Assessing Officer to compute their taxable income under the Income Tax Act. However, the Board has not prescribed the books of account to be maintained for this category.

Accounting Standards :

In India, the Statement on accounting standards are issued by the Institute of Chartered Accountants of India to establish standards that have to be complied with to ensure that financial statements are prepared in accordance with the Generally Accepted Accounting Standards in the country. These standards are large/y drawn from the International Accounting Standards Committee International Accounting Standards, as India is a member of the (IASC), but are suitability modified to cater to the requirement of local business.

In exercise of the power conferred by section 145(2) of the Income Tax Act, 1961 the Central Government had of late notified (F.No. 132/7/95- TPL Circular No. 9949 dated 26th January, 1996) that the provisions of the Accounting Standards have to be followed in the preparation of financial statements in case an assessee prefers Mercantile Basis Accounting. The first Accounting Standard formulated by the Accounting Standards Board and issued on approval by the Council of ICAI was 'AS1-Disclosure of Accounting Policies' and the second Accounting Standard was 'AS5-Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies.

Under the provisions of the Companies Act, 1956, the following Accounting Standards have been made compulsory :-

AS1- Disclosure of Accounting Policies
AS2- Valuation of Inventories
AS3- Changes in Financial Position
AS4- Contingencies and Events Occurring after the Balance Sheet date.
AS5- Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies.
AS6- Depreciation Accounting

AS7- Accounting for Construction Contracts
AS8- Accounting for Research and Development
AS9- Revenue Recognition
AS10- Accounting for Fixed Assets
AS11- Accounting for the Effects of Changes in Foreign Exchange Rates.
AS12- Accounting for Government Grants
AS13- Accounting for Investments
AS14- Accounting for Amalgamations
AS15- Accounting for Retirement Benefits in the Financial Statements of Employers
AS16- Borrowing Costs

Accounting Standard 17 relating to 'Segment Reporting' will be mandatory in respect of accounting period commencing on or after 1.4.2001 for the following :-

i. Enterprises whose equity or debt securities are listed on a recognised stock exchange in India, and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognised stock exchange in India, as evidenced by the board of directors' resolution in this regard.

ii. All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs. 50 Crore.

The objective is to establish principles for reporting financial information about the different types of services an enterprise produces and the different geographical areas in which it operates.

Accounting Standard 18 relating to Related Party Disclosures' will also be mandatory in respect of accounting periods commencing on or after 1.4.2001. It will be a 'specified' Accounting Standard for the purpose of section 211 of the Act in respect of all companies. Accordingly, companies will be required to comply with AS18 under section 211 of the Companies Act, 1956. The statutory auditors of the companies, while reporting under section 227(3)(d) of the Act, will be required to give due consideration to the requirements of AS18 along with other specified Accounting Standards. The objective is to establish requirements for disclosure of related party relationships, transactions between a reporting enterprise and its related parties.

Issues in Accounting Standards :

The end product of the financial accounting process is financial statements that are useful to stakeholders with divergent outlooks and interests. The process needs a standard base and established guidelines. Ultimately, there must be a determination as to whether the financial statements have been prepared in accordance with the Generaly Accepted Accounting Principles expressed in the form of Standards or not.

A number of issues engage our attention when we discuss Accounting Standards. Some of these are :

1. Whether the introduction of Accounting Standards common to very large corporations and small/medium enterprises is desirable?
2. Whether the Accounting Standards setting process should be more dynamic and proactive?
3. Whelther the different regulatory bodies should set up their own Accounting Standards Boards or there should be a single 'Accounting Standards Board' for the country, covering all the segments of the society?
4. Should non-adherence to Accounting Standards and qualification in audit report attract the

attention of an ombudsman to initiate punitive action?

There is a framework for the preparation and presentation of financial statements which assists not only the standard setting committee but also users of financial statements and auditors.

Accounting Standards make financial statements more reliable and meaningful. The need of the hour therefore, is adherence to Accounting Standards, transparent accounting policies, accounts with true and fair disclosures and accountability to the stakeholders of this economy.

The Accounting Standards Board of The Institute of Chartered Accountants of India has, since its inception in 1977, issued 18 Accounting Standards. These Accounting. Standards have become the norm in financial statements in india, even though in the past they had no legal and binding validity. The success or otherwise of these Standards is due to their acceptability to auditors. The success of any programme of change, like that of Accounting Standards, to a great extent depends upon the attitude of different interest groups. This is especially true when the proposed changes are not backed by legal sanction. The two prominent interest groups in the area of financial reporting are company management and auditors. Their views and attitude can significantly influence compliance with Accounting Standards by companies. Against this background, we will discuss the results of a study conducted to ascertain the attitude of auditors and managers towards Accounting Standards.

The study of attitude is considered significant because attitude is often considered to be a variable that determines behaviour. Thus a favourable attitude towards Accounting Standards from auditors could mean that auditors are willing to enforce compliance. The study of attitude is of significance to policy makers like the Institute of Chartered Accountant of India who can develop strategies to change the attitude. The success of Standards will depend to a large extent upon their acceptance by management.

Auditors and Accounting Standards :

The role of auditors in the establishment and enforcement of Accounting Standards cannot be overemphasized. Traditionally, they have played a major role in the development of accounting. Owing to the leverage they have with management, they are a major force in ensuring compliance with the Accounting Standards by companies. This role of the auditors has an added significance in the Indian context. The only way, at present, to enforce Accounting Standards is through a threat to disclose the departures from standards in the audit report.

Even though the Standards in India are issued by the Institute of Chartered Accountants of India, it need not necessarily mean that all its members agree with the standards and the standard setting programme. The history of Accounting Standards in other countries shows that while the bodies of professional accountants were issuing Standards, their members had strong reservations about them. There have been also instances where the auditors tried to find loopholes in the Standards to help their clients avoid compliance with Standards.

In this context, the attitude and views of the auditors can have a significant bearing on the success or otherwise of the Standards in the country.

A study undertaken to assess the attitude of auditors vis-a-vis the Accounting Standards brought out that on the whole, there was favourable attitude towards Accounting Standards. However, though the support base for the standards, the Institute of Chartered Accountants of India was strong, the Institutes should be wary of resistance to standards, which require more disclosure or reduce flexibility. The Institute should at the same time take steps to ensure that the views of different interest groups are heard in the establishment of Accounting Standards, so that they receive acceptability.

Refeunce : Mathers, James, "An Audit of attitude". *Chantercal Accountant*, August 1998

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Maximisation of Social Contribution : A Measurement Device For Managerial Performance In Public Sector Undertakings

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The Concept:

Huge national resources, both financial and non-financial, have been invested in public sector undertakings in India with a major expectation that it would contribute to welfare of people. Public welfare should be the main objective of public sector undertakings. This may be best reflected by their social contribution. Profit maximisation, production maximisation, sales maximisation or other economic achievements, such as growth through business combinations, pools, cartels, reorganisations, amalgamations, mergers etc can not be regarded as objectives of public sector undertakings. The financial criteria of wealth maximisation and use of financial leverage are also not relevent, as finance whether by way of equity or/and in the form of long term loans come from the same source. The most appropriate justification for public sector therefore, can be Maximisation of Social Contribution (MAXSOCON).

The Research Objectives:

MAXSOCON may be understood as maximisation of public interest or public welfare. This may be achieved through optimum use of scarce national resources for regeneration of resources, efficiently and effectively. MAXSOCON thus is a function of efficient procurement and effective disbursement of national resources in public interest as well as for the welfare of the society. The present research paper focuses on MAXSOCON as a measurement device for managerial performance and business growth in public sector undertakings, keeping the following objectives in view:

1. To identify the variables responsible for MAXSOCON in public sector undertakings.
2. To study the inter-relationship between different variables classified as contributors, determinants and indicators of MAXSOCON.
3. To examine the structure and pattern of MAXSOCON in public sector.
4. To project MAXSOCON in public sector, undertaking wise, group-wise (Central, and State undertakings), and for public sector as a whole.
5. To make a comparative study of MAXSOCON between Central and State Undertakings.

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The Methodology:

The present paper is based on author's Ph.D. research work on "Financial Analysis for Identification of Business Growth: Special Reference to Public Sector Undertakings". The study used data from both primary and secondary sources, besides information from published annual reports and other documents and survey reports of BPE, RBI, CSO, CMIE, DESR, SED, COPU, etc. covering a period of 10 years from 1974 to 1984. The study was based on 10 selected public sector undertakings in Rajasthan; 5 belonging to Rajasthan State Government and 5 to the Central Government. These were GSM, RSAICL, RSIC, RSMM and RST of the State and HCL, HMT, HZL, IL and SSL of the Centre respectively. The sample units were selected using purposive sampling technique developing three criteria:

(i) The selected unit must be a registered government company either in manufacturing, mining or commercial field and be a non-banking, non-investment, non-charity and non-service rendering company.

(ii) The unit must have sufficiently long standing i.e. not less than 10 years since incorporation.

(iii) The unit must have a relatively significant affiliation with Rajasthan, particularly in case of Central Government undertakings.

Four multivariate techniques viz., Factor Analysis, Ratio Analysis, Growth Analysis Profile and Discriminant Analysis were used for the analysis of data. The Factor Analysis helped in understanding the correlation between selected 40 variables, identification of signficant variables and developing clusters of variables. A set of 30 financial ratios was used for the analysis of capital structure and capital employed, fixed assets, working capital, profitability, productivity, activity, social contribution, etc. Growth profiles were developed taking compound growth rates of important variables (based on Factor Analysis) related to specific aspects using exponential curve equation, $Yc=ABx$. A MDA model was developed to discriminate between growing and non-growing units.

Social Contribution & Public Sector :

Public sector undertakings reflected the aspirations of people, as they have certain expectations from them. Apart from the commercial objectives, like achievement of norms and targets, a reasonable return on investment etc. they were expected to contribute towards welfare of people. This can be achieved in a number of ways, such as by fixing a 'Social Welfare Price' for the factors of production, creating conditions where 'No one is to be exploited 'by the property owner skimming off a part of final product' etc. Similarly, contribution to government revenue by way of taxes, such as production duty, excise duty, sales tax, corporate tax, customs duty etc., interest on government loans, a reasonable dividend on investment etc., may be considered as social contribution. The revenue so raised directly or indirectly may be used for public welfare. But the loss incurred by public sector undertakings reduced the contribution to national exchequer as well as to the society.

Social contribution may be also in the form of foreign exchange earnings through exports, value addition, development of R&D appropriate for indigenous production, greater use of locally available raw materials, diversification, employment to weaker sections of the society, construction of townships, expenditure on general welfare programmes for employees etc. Expenditure on pollution control and environmental protection, safety measures, projects for the benefit of employees and their wards may also be considered as social contribution in its widest sense.

Rationale for Social Contribution by Public Sector Enterprises:

Social contribution is compensation for social cost or discomfort suffered by the society due to certain acts of commission and omission by enterprise, such as pollution from chemicals, emission of smoke from factory-chimneys, traffic congestion resulting from excessive urbanization etc. On operational side, social contribution not only compensates social costs but also contributes toward social welfare. Public sector enterprises, wherein social wealth is invested, are expected to generate social welfare, "even in cases where economic welfare is high."

The Investment decisions based on 'Cost-Benefit Analysis approach', in which cost is public expenditure and benefit is public welfare, not monetary profit, is usually confined to public sector projects, as the advantages and disadvantages are defined in terms of social gains and losses. Most private sector projects are not concerned with wider social effects, but "with the effect on profits, sales or producer's status." Public sector undertakings are not merely for profit making, while private sector undertaking are. They are as such expected to contribute towards public welfare, "their success is measured by what and how much they contribute to public welfare."

The Social Contribution may be in terms of social effectivencess. "When transfers in kind are not the immediate goal the beneficiaries being a mixed income group or the greater part of the community, it may be more appropriate to restrict estimates to cost effectiveness of a number of alternative projects, any one of which is thought to be politically desirable." The five potential benefits of social contribution viz., (i) contribution towards better income distribution, (ii) employment-generation, (iii) merit wants, (iv) higher degree of self sufficiency, and (v) better consumption-pattern, have been suggested by Puttaswamaiah.

Social Contribution Analysis :

To judge the social contribution dimension of public sector undertakings considering different aspects, apriori choice of related variables was made. Nine out of the set of forty Variables were selected for analysis of social contribution by public sector undertakings. These were :

* Social Contribution (SOCO)
* Value Addition (VA)
* Exports (EX)
* Employment (EMP)
* Research and Development Expenditure (R&D)
* Diversification (DIVE)
* Contribution to Govt. Exchequer (CONT)
* Township and Welfare Expenditure (TWE) and
* Employment to Weaker Sections (EWS)

The Expenditure on Environmental Protection and Pollution Control was included initially but later on dropped due to non availability of data from most of the units under study.

The above nine variables were further divided into two groups viz., monetary, and non-monetary. Social contribution, Value Addition, Exports, R&D, Contribution to Government Exchequer and Townships and Welfare Expenditure were monetary variables, while the other three viz., Employment, Employment to Weaker Sections and Diversification were non-monetary variables. The variable Social Contribution (SOCO) included all monetary contributions excluding

Value Addition.

Factor Analysis :

One hundred observations (i.e. for ten undertakings for ten years) of each of the selected nine social contribution variables were used for multi-variate' factor analysis. A correlation matrix and a factor matrix were obtained from this analysis.

Correlation Matrix :

Table S1 shows correlation between variables of social contribution in selected public sector undertakings. It was observed from the above that Social Contribution as such had high correlation with contribution to state exchequer, (r=0.989), value addition (r=0.97), exports (r=0.83), diversification, (r=0.84), township and welfare expenses (r=0.777), employment (r=0.776), moderate correlation with employment to weaker sections (r=0.537) and low correlation with R&D expenditure (r=0.159). Infact all these variables were essential elements of social contribution.

Table S1 : Correlation Martrix : Social Contribution

Variables	06.SOCO	11.VA	21.EX	22.EMP	23.R&D	24.DIVE	25.CONT.	31.TWE	36.EWS
06.SOCO	1.000	0.970	0.830	0.776	0.159	0.840	0.989	0.777	0.537
11.VA		1.000	0.772	0.842	0.122	0.852	0.961	0.825	0.623
21.EX.			1.000	0.530	-0.079	0.762	0.747	0.592	0.288
22.EMP.				1.000	-0.015	0.769	0.766	0.902	0.902
23.R&D					1.000	-0.129	0.216	0.021	0.003
24.DIVE.						1.000	0.812	0.691	0.474
25.CONT.							1.000	0.739	0.522
31.TWE								1.000	0.887
36.EWS									1.000

Value Addition had high correlation with contribution to government exchequer (r=0.961), diversification (r=0.852), employment (r=0.842), township and welfare expenditure (r=o.825), exports (r=0.772), moderate correlation with employment to weaker sections of society (r=0.623) and low correlation with R&D (r=0.122). Diversification had high correlation with exports (r=0.762), employment (r=0.769), contribution to government exchequer (r=0.812) and township and welfare expenditure (r=0.691), but low correlation with employment to weaker sections of society (r=0.474). It had negative correlation with R&D expenditure (r= -0.129). Exports had high correlation with contribution to government exchequer (r=0.747), but moderate correlation with employment (r=0.53) and township and welfare expenditure (r=0.592). There was high-positive correlation between employment and township and welfare expenditure (r=0.902) and between employment to weaker sections and township and welfare expenditure (r=0.887).

This showed that diversification helped PSUs in making contribution to government exchequer, employment, exports, township and social welfare and weaker sections respectively. Similarly the exports helped in welfare of society through greater contribution to government exchequer and employees' welfare.

The observed correlations between different variables of social contribution were classified into four clusters considering their degrees and are presented by Figure S1. Cluster A consisted

of high correlation variables, both positive and negative (r> 0.75), B Cluster, consisted of moderate correlation variables (r. 0.5 < 0.75), both positive and negative, C cluster of variables with low moderate correlation (r> 0.3 < 0.5) and cluster D of low correlation variables (r < 0.3).

A: High Correlation (r> 0.75)	**B: Moderate Correlation** (r> 0.5 < 0.75)
SOCO with VA, EX, EMP, DIVE, CONT, TWE VA with EX, EMP, DIVE., CONT., TWE DIVE, with EX, EMP, CONT., TWE CONT. with EX, EMP, TWE and EMP. with TWE, EWS.	* SOCO with EWS * VA with EWS * EX with EMP * EX with TWE * CONT. with EWS
* DIVE. with EWS	* R&D with EX. EMP, and DIVE. (-) * R&D with SOCO, VA, EWS, TWE and CONT. * EX. with EWS
C: Low Correlation : (r> 0.3 < 0.5)	**D: Very Low Correlation** (r < 0.3)

Figure : S1 : Clusters of Correlation : Social Contribution and Related Variables

Factor Matrix :

Factor analysis revealed some interesting facts about social contribution by public sector undertakings. Table S2 presents factor co-efficients of variables associated (aijs) with social contribution with factors having EIGEN VALUE greater than one, and their Communalities (h^2) for first eight factors in last two columns respectively. The Communality values confirm the most significant variation explained by each of the variables in comparison to variation explained by eight factors having association with all the forty variables. The Communalities varied from 85.53% to 99.38% and the cumulative precentage explained by eight factors was 91.7%.

Table S3 presents significant loadings (aijs > 0.3). It revealed that factors F_4, F_5, F_6 and F_7 were not significant in the study of social contribution by public sector undertakings. The factor F_3 indicated high-positive loading on R&D (aij=0.976) alone. Factor-eight, F_8 also showed negative assocication with exports besides R&D and no other variable of Social contribution. Thus only the results of F_1 and F_2 were analysed.

Table S2 : Rotated Factor Matrix : Social Contribution Related Variables. (Factors wi' ' Eigen Value > 1)

Variables	F_1	F_2	F_3	F_4	F_5	F_6	F_7	F_8	h^2_{1-8}	h^2_{1-40}
06=SOCO	0.541	0.783	0.115	-0.036	-0.092	-0.018	0.076	-0.206	0.9486*	1.0000
11.VA	0.631	0.734	0.062	-0.059	-0.084	-0.030	0.069	-0.126	0.9722	0.9999
21.EX	0.255	0.704	-0.075	-0.068	-0.083	0.006	0.028	-0.633	0.9792	1.0000
22.EMP	0.860	0.410	-0.086	-0.055	0.055	-0.056	0.052	-0.004	0.9270	1.0000
23.R&D	0.091	-0.005	0.976	0.082	-0.139	-0.061	-0.014	0.055	0.9938	1.0000
24.DIVE.	0.431	0.753	-0.178	-0.092	-0.106	-0.187	0.063	-0.110	0.8553	1.0000
25.CONT.	0.534	0.793	0.169	-0.029	-0.082	-0.021	0.087	-0.084	0.9652	1.0000
31.TWE	0.885	0.321	-0.072	-0.007	-0.127	-0.025	0.032	-0.154	0.9328	1.0000
36.EWS	0.958	0.044	-0.091	0.036	0.020	-0.047	0.008	-0.006	0.9320	1.0000
Eigen Values	20.137	6.469	3.029	1.980	1.414	1.257	1.115	1.039		
PCT. of VAR	50.30%	16.20%	7.60%	5.00%	3.50%	3.10%	2.80%	2.60%		
CUM. PCT.	50.30%	66.50%	74.10%	79.10%	82.60%	86.10%	38.90%	91.70%		

* h^2_{1-8} 06 =0.9486= $[(0.541)^2 + (0.783)^2 + (0.115)^2 + (-0.036)^2 + (-0.092)^2 + (-0.018)^2 + (0.076)^2 + (-0.206)^2 +$ and so on]

Table S3 :
Rotated Factor Martrix : Social Contribution Related Variables.
(Factor Coeffecient i.e.aij > 0.3)

Variables	F_1	F_2	F_3	F_4	F_5	F_6	F_7	F_8	h^2_{1-8}
06.SOCO	0.541	0.783							0.2927
11.VA	0.631	0.734							0.3982
21.EX		0.704						-0.633	
22.EMP.	0.860	0.410							0.7396
23.R&D			0.976					0.548	
24.DIVE.	0.431	0.753							0.1858
25.CONT.	0.534	0.793							0.2852
31.TWE	0.885	0.321							0.7832
36.EWS	0.958								0.9178
Eigen Values	20.137	6.469	3.029	1.980	1.414	1.257	1.115	1.039	
PCT. of VAR	50.30%	16.20%	7.60%	5.00%	3.50%	3.10%	2.80%	2.60%	
CUM.PCT.	50.30%	66.50	74.10%	79.10%	82.60%	86.10%	88.90%	91.70%	

Factor I :

Factor I(F_1) explained 50.3% variation. The following variables had significant loading on this factor :

Variables	Factor Loadings
Social Contribution	0.541
Value Addition	0.631
Employment	0.860
Diversification	0.431
Contribution to Government Exchequer	0.534
Township and Welfare Expenditure	0.885
Empoyment to Weaker Sections	0.958

This revealed that F_1 gathered all important variables related with social contribution by public sector undetakings. Factor coeffecients of individual variables within the homogeneous group were, employment to weaker sections. (aij = 0.958) township and welfare expenditure (aij = 0.885), employment (aij = 0.86), value addition (aij = 0.631), contribution to government exchequer (aij = 0.534), and diversification (aij = 0.431).

Factor II :

Factor II (F_2) explained 16.2% variation. The following variables had significant loading on this factor.

Variables	Factor Loadings
Social Contribution	0.783
Value Addition	0.734
Exports	0.704
Employment	0.410
Diversification	0.753
Contribution to Government Exchequer	0.793
Township and Welfare Expenditure	0.321

The underlying loading structure of Factor II (F_2) confirmed the role of the variables embodied by F_1. However, it included exports but excluded employment to weaker sections of society. R&D was neglected in both the Factors.

Table S4 shows classification of the apriori variables into three categories based on factor analysis :

Table S4
Classification of Social Contribution Variables Based on Factor Analysis

Determinants of Social Contribution	Contributors to Social Contribution	Indicators of Social Contribution
Employment I	Value Addition I	Cont. to Govt. Exch. I
Township and Wel. Exp. II	Cont. to Govt. Exch. II	Employment II
Emp. to Weaker Sect. III	Diversification III	Township and Wel. Exp. III
	Exports IV	Emp. to Weaker Sec. IV

Note : Ranks (as shown above) were given on the basis of factor loadings taking F_1, and F_2 together.

Social Contribution Growth Profile :

To examine the growth in different variables identified as making social contribution as shown in Table S4, a growth profile was developed. This contained two types of variables, monetary, and non-monetary. The first group consisted of exports, R&D expenditure, contribution to government exchequer, township and welfare expenditure, social contribution and value added. The second group consisted of employment generated, employment to weaker sections and diversification. Compound growth rates in respect of each of the above variables were calculated and shown in Table S5.

Table S5
Social Contribution Growth Profile of Public Sector Undertakings.

Units	Gr. I : Monetary					Gr. II : Non-Monetary			
	EX.	R&D	CONT.	T&WE	SOCO	EMP.	EWS	DIVE	VA.
GSM	0.00*	0.00*	7.73	17.93	8.50	8.35	15.77	3.51	15.06
RSAICL	0.00	0.00	-0.56	9.14	6.45	-0.99	-10.09	9.45	7.89
RSIC	-31.04	0.00	-2.32	25.35	-12.64	3.59	12.04	2.12	9.37
RSMM	-14.25	34.22	1.38	17.83	11.60	3.70	5.27	7.43	16.84
RST	37.60	14.73	11.55	18.02	47.48	4.97	4.03	1.58	-3.99
HCL	45.13	N.A.**	11.37	15.02	12.60	2.16	3.73	5.63	6.08
HMT	24.24	N.A.	23.84	21.99	22.83	5.49	12.05	5.71	18.26
HZL	0.00	45.76	10.00	22.73	10.55	7.64	6.20	8.41	13.82
IL	33.01	31.80	36.60	17.70	30.16	9.34	14.26	9.03	20.81
SSL	-4.18	6.22	-6.57	8.92	-4.91	17.14	9.52	-1.62	21.89
RGU	3.65	26.31	4.86	17.09	7.64	4.98	9.85	4.78	13.36
CGU	23.53	35.05	18.26	18.38	19.05	4.67	6.19	5.84	14.55
PSUR	23.00	35.00	18.11	18.34	18.88	4.69	6.39	5.45	14.50

* Zero growth (0.00) indicated stability in variable.

** N.A. : Not available.

It was observed that in the growth of these variables there were wide variations from one unit to another. For instance in exports, HCL, IL, and HMT among Central Government Undertakings and RST among State Government Undertakings showed good growth, while it was zero or negative growth in other units. In respect of expenditure on R&D, the growth was very high in HZL, RSMM, IL, and RST, while it was zero or negligible in other units. The growth in contribution to government exchequer was high in IL and HMT, moderate in RST, HCL, while it was low or negative in other units.

Regarding non-monetary variables, it was observed that the difference was not much from one unit to another. For example, the growth in employment was more than ten percent in all units except SSL. In employment to weaker sections the growth was more than ten percent in GSM, IL, HMT and RSIC. Growth in diversification was less than ten percent in all the units. Thus, from the point of view of growth in social contribution IL, and HMT did well, HCL and HZL were also active. Among the State Government Undertakings RST and RSMM showed some growth. But in all other units the growth was low and unsatisfactory.

Conclusions and Suggestions :

In the present study nine variables viz. SOCO, VA, EX, EMP., R&D, DIVE, CONT., TWE, and EWS were considered. The MAXSOCON was analysed applying factor analysis and growth analysis.

In view of MAXSOCON, the overall performance of Public Sector Undertakings in Rajasthan was satisfactory. However, there were wide variations from one enterprise to another. Performance of the Central Government Undertakings was better as compared to the State Government undertakings. A general trend of continuous rise was observed in the indicators of MAXSOCON. The study brought out that MAXSOCON can be an important device to measure managerial performance in public sector enterprises. The management should, therefore, concentrate their efforts on four contributors viz. value added, contribution to government exchequer, diversification and exports. This may be indicated as well as determined through employment, township and social overheads and employment to weaker sections of the society. Contribution to government exchaquer was one powerful indirect variable for MAXSOCON. However R&D remained neutral in MAXSOCON.

The study highlighted the importance of the role of management of public sector undertakings and governments in the context of globalisation through liberalisation. The management of public sector undrtakings should, therefore, incorporate pollution control and protection of environment, township and welfare activities in their regular budget. Greater emphasis should be given to healthy work environment, recreation facilities and training. Jobs suitable for weaker sections of the society, disabled and handicapped persons and women should be identified and they should be considered on priority for new job opportunities. Contribution to government exchequer helped in MAXSOCON positively though indirectly. Exports bring foreign exchange. Indian traders/ exporters must remain in touch with WTO's affairs and get patent-rights for their products. The diversifications; horizontal, vertical and conflomerate type boosted MAXSOCON. An effort towards right employment at right time to the right person also resulted in MAXSOCON. Value added represented wealth created by a public sector undertaking through addition to cost of materials and outside services used till the product reached consumer. This created wealth and contributed to MAXSOCON. Government should consider MAXSOCON by public sector enterprises as an important variable while taking related decisions.

Notes and References :

1. For example, fixing the salary-scale for a particular cadre, considering their minimum requirement and assuming persons' zero productivity in that cadre, the social welfare price of a factor of production is the sum of payments for social welfare, as a bonus and not for productivity. Payment for productivity is in addition to this.
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5. Anthony, Robert N. and Dearden J.; *Management Control System: Text and Cases*, D.B. Taraporevala Sons & Co. Pvt. Ltd., Bombay, 1983, p.677.
6. Mishan, E.J.; *Cost-Benefit Analysis*, Praeger Publishers, New York, 1976, p. Foreword: xiii.
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IAA Branch News

UDAIPUR

1. Executive committee of the branch for the current year was elected in the Annual General meeting as follows :

   Dr. S.L. Menaria *Chairman*, Dr. C.L. Salvi *Sr. Vice Chairman*, Dr. P.R. Somani *Jr. Vice Chairman*, Dr. N.K. Dhing *Secretary*, Dr. P.K. Khicha *Joint Secretary*, Sh. B.L. Heda *Treasurer*, and Dr. Rakesh Dashora, Dr. K.A.Goyal and Dr. (Mrs.) Vijay Laxmi *Executive Members*.

   Past Chairmen of the branch namely Dr. K.R. Sharma, Dr. M.L. Dashora, Dr. R.L. Tamboli, Dr. N.K. Pandya, Dr. G. Soral and Dr. S. Bhanawat were nominated as Patrons.

2. IAA Talent Search 2000-01, an accounting knowledge competition for students organised by the branch annually was organised this year on Feb. 11, 2001 at Govt. Meera Girls College Campus. In the Competition, Mr. Chanchal Maheshwari of College of Com. & Mgt. Studies (at College Level) and Miss Sapna Gakhreja of St. Taresa's School (at School Level) achieved Best Performance Awards. The Talent Search Organising Committee had Dr. G.Soral as Chairman, Dr. S. Bhanawat as Co-ordinator and Dr. Rakesh Dashora as Convener.

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