ISSN-0972-1479

INDIAN JOURNAL OF ACCOUNTING

VOL. XXXV(1) DECEMBER 2004

JOURNAL OF
THE INDIAN ACCOUNTING ASSOCIATION

EDITORIAL

Business combinations have played an important role in the exponential growth and operational magnitude companies all over the globe. Mergers and Acquisitions have started giving synergy to our business houses to maintain their competitive strength at international level. Mr. Hetal K. Machhi and Preeti Menon alongwith Dr. Vijay Shrimali and Dr. Saxena have talked about brighter aspects of M&A. Joydeep Biswas has also given a vivid account of M&As in India. Dr. G. Laxman studied the impact of M&A on financial performances of private sector banks. The application of ROI concept in marketing is being analysed by Dr. Pramod Pathak and others. Research Areas in accounting were identified by Dr. B.V. Pathak and M.A. Khan. Dr. G. Soral has given a blueprint of new structure of accounting education with his survey findings. This issue has also touched the issues like social accounting, prediction of corporate failures, non-performing assets and capital adequacy etc. Dr. Sarawat and Agrawal have analysed the working capital trends of cement industry of Nepal. The issue of corporate social reporting was specifically being probed by Dr. Arun Kumar and others.

Date: 31.12.2004

Professor Nageshwar Rao
Chief Editor

INDIAN ACCOUNTING ASSOCIATION

PAST PRESIDENTS

- Shri Raghunath Rai, Chartered Accountant, Varanasi
- Dr. S.N. Sen (Late), Former Vice Chancellor, Calcutta University, Kolkata
- Dr. S.K.R. Bhandari, Former Vice Chancellor, A.P.S. University, and Former Dean Faculty of Management Studies, Banaras Hindu University, Varanasi
- Dr. G.D. Roy (Late), Former Professor, Calcutta University, Kolkata
- Shri M.C. Bhandari (Late), Chartered Accountant, Kolkata
- Dr. K.S. Mathur, Former Professor, University of Rajasthan, Jaipur
- Dr. R. Rajagopalan, Former Addl. Secretary, Gonvernment of India, New Delhi
- Dr. L.S. Porwal, Former Pofessor in Commerce, Delhi University, Delhi
- Dr. H.C. Mehrotra, Ex Dean, Faculty of Commerce, Agra University, Agra
- Shri S.M. Dugar, Ex Member, Company Law Board, Government of India, New Delhi
- Dr. S.P. Gupta, Ex Dean, Faculty of Commerce, Rohikhand University, Barelly
- Shri Sukumar Bhattacharya, Chartered Accountant, Kolkata
- Dr. Dool Singh, Retd. Professor, Dean Management, Kurukshetra University, Kurukshetra
- Dr. M.C. Khandelwal, Retd. Professor, Dean Faculty of Commerce, University of Rajasthan, Jaipur
- Dr. B. Banerjee, Professor of Commerce, Calcutta University, Kolkata
- Dr. Chhote Lal, Ex Dean and Professor of Management, B.H.U., Varanasi
- Dr. N.M. Khandelwal, Retd. Professor, Faculty of Management Studies, M.D.S. University, Ajmer
- Dr. U.L. Gupta, Retd. Professor & Dean, Faculty of Commerce, J.N.V, University, Jodhpur
- Dr. K.R. Sharma, Retd. Professor, Chairman Faculty & Dean, P.G. Studies, M.L.S. University, Udaipur
- Dr. Bhagwati Prasad, Retd. Professor & Director, Kausali Institute of Mgmt., Karnataka University, Dharwar
- Dr. Nageshwar Rao, Professor and Dean, Faculty of Management Studies, Ex Dean, Faculty of Information Technology & Former Director, J.L. Nehru Institute of Business Management, Vikram University, Ujjain
- Dr. B. Ramesh, Professor, Deptt. of Commerce, Goa University, Goa
- Prof. K. Eresi, Professor & Chairman, Faculty of Commerce, Bangalore University, Bangalore
- Dr. S.C. Jain, Retd. Professor & Head, Deptt. of Accounting, University of Rajasthan, Jaipur
- Dr. N.M. Singhvi, Government College, Ajmer

Dec-2004

CONTENTS

Indian Journal of Accounting
Vol. XXXV(1) December 2004

PREDICTING CORPORATE FAILURES: A STUDY OF SELECTED SUGAR MILLS IN TAMIL NADU

**U. Surya Rao*
***C. Samuel Joseph*
****T. Vanniarajan*

ABSTRACT

The financial health of sugar mills is severely affected by a number of problems such as high interest burden, transport cost, accumulation of stock, godown rent, obsolete technology, low recovery, high state advised prices, and high cost of production. These factors ultimately have an adverse impact on profitability. In this paper, an attempt has been made to use Edward Altman's score to predict corporate failures.

Tamil Nadu is one of the major sugar producing states in India and it contributes on an average of 13 lakh tones of sugar annually which is about 10 % of the total annual production of sugar in the country. Tamil Nadu comes under the low recovery zone with recovery hovering around 9%. There are 36 sugar mills in the state with a crushing capacity of 1.05 lakh metric tons per day. Regrettably, a majority of the sugar mills in the state are battling for their survival. The main reason for their poor performance is high cost of production. Hence the present study has been undertaken. The final conclusion drawn and inferences arrived at would provide effective guidelines to the management of sugar mills and their stakeholders.

METHODOLOGY

The study confines itself to issues relating to the Financial Performance only. It mainly concerned with the understanding of sugar mills which are financially good, those which are likely to be sick and those which are sick. It excludes non-financial areas such as marketing,

**Professor and Head, Department of Management Studies, Madurai Kamaraj University, Madurai -625 021.*
**Lecturer, Department of Management Studies, The American College (Autonomous), Madurai - 625 002.*
****Reader in Business Administration, MMSSVN College, Madurai - 625 019.*

personnel, research and development from its purview. The prime objective of the study is to identify the sugar mill which is financially good, likely to be sick and sick. A moderately lengthy period was deemed necessary to arrive at meaningful and purposeful inferences. A ten-year period beginning at 1993-94 and ending with 2002-03 was adopted. Sugar mills numbering 36 were in operation at the end of 2002-03in Tamil Nadu of which 17 are in private sector, 16 in cooperative sector and 3 in public sector. Selection of units for the purpose of the study has been restricted to one each in each sector based on the availability of data. The Sample size therefore constitutes 3 sugar companies one in each category. The sample sugar mills selected for the study has an installed capacity of 2500 TCD and considered to be medium sized. Published data were compiled from company records, annual reports, reports prepared by department of sugar, Govt of Tamil Nadu, Centre for monitoring Indian economy (CMIE) publications, Performance budget prepared by the department of sugar Govt of Tamil Nadu. The Data from various sources have been examined by Altman's Z-Score where as

$$Z = 1.2\,x_1 + 1.4\,x_2 + 3.3\,x_3 + 0.6\,x_4 + 0.99\,x_5$$

Where

x_1 = Working Capital to Total Assets,

x_2 = Net profit to Net sales,

x_3 = EBDIT to Total Assets,

x_4 = Reciprocal of Debt/Equity ratio i.e., Equity to Debt,

x_5 = Sales to Total Assets.

When Z is greater than 2.66, the sugar mills is said to be financially good, When Z is between 1.86 and 2.66 the sugar mill is likely to become sick and When Z is below 1.86 the sugar mill is confirmed to be sick.

INTERPRETATION

The Financial health of sugar mills under private, public and cooperative sector's has been determined through Multiple Discriminant Analysis of Edward Altman's Z scoring.

Private Sector: The financial health of the sugar mill selected for study under private sector may be predicted through computed Z scores, which highlights the value of 'Z' between 0.44 and 2.77. As per yardstick to measure the financial health, sugar mill under private sector's financial health was good during 1993-94, (Z=2.77) while in the rest of the period it is not satisfactory. Since 1994-95, Z scoring has been declining. In 2001-02, it has slightly improved, when Z scoring stood at 2.13. Therefore the Management must take effective steps to change this scenario before embarking on future plans.

Table 1
Value of X in Z Scoring for Sugar Mill in Private Sector

Year	*Working Capital to Total Assets x_1*	*Net Profit to Net Sales x_2*	*EBDIT to Total Assets x_3*	*Equity to Debt x_4*	*Sales to Total Assets x_5*
1993-94	.549	.872	.151	.659	.787
1994-95	.342	.558	.068	.594	.418
1995-96	.354	-.074	.015	.571	.487
1996-97	.364	-.063	.059	.415	.435
1997-98	.440	-.029	.112	.339	.649
1998-99	.476	-.195	-.012	.396	.719
1999-00	.445	-.458	-.062	.175	.655
2000-01	.414	.023	.137	.149	.966
2001-02	.411	.029	.142	.189	1.022

Source: Computed

Table 2
Z- Scoring in Private Sector

Year	*Working Capital to Total Assets $1.2x_1$*	*Net Profit to Net Sales $1.4x_2$*	*EBDIT to Total Assets $3.3x_3$*	*Equity to Debt $0.6x_4$*	*Sales to Total Assets $0.99x_5$*	*Z-Score*
1993-94	0.658	1.221	0.498	0.395	0.779	2.772
1994-95	0.410	0.781	0.224	0.356	0.414	2.185
1995-96	0.425	-0.103	0.049	0.343	0.482	1.196
1996-97	0.437	-0.088	0.195	0.249	0.431	1.224
1997-98	0.528	-0.041	0.369	0.203	0.641	1.700
1998-99	0.571	-0.273	-0.039	0.238	0.712	1.209
1999-00	0.534	-0.641	-0.205	0.105	0.648	0.441
2000-01	0.497	0.032	0.452	0.089	0.956	2.030
2001-02	0.493	0.041	0.469	0.113	1.012	2.130

Source: Computed

Public Sector: The Computed 'Z' scores for sugar mill under public sector highlights that the value of 'Z' ranges from 1.63 to 3.22. Thus, the financial health was good during the period 1993-94, 1996-97 and 1997-98 (Z = 3.22, 2.90, 3.09) while in the rest of the period it is not satisfactory. In 2001-02, it has slightly improved when Z scoring stood at 2.08. Thus the administrators must be cautious about further expansion.

Table 3
Value of X in Z Scoring for Sugar Mill in Cooperative Sector From 1993-94 to 2002-03

Year	*Working Capital to Total Assets x_1*	*Net Profit to Net Sales x_2*	*EBDIT to Total Assets x_3*	*Equity to Debt x_4*	*Sales to Total Assets x_5*
1993-94	.049	-.003	.032	8.791	.836
1994-95	.133	-.198	-.076	16.807	.453
1995-96	-.180	-.103	-.005	41.877	1.050
1996-97	-.528	-.306	-.172	68.217	.859
1997-98	-2.020	-.165	.046	1.197	.862
1998-99	-.332	-.326	-.018	1.297	.503
1999-00	-.566	-.311	.002	2.447	.494
2000-01	-.504	-.272	-.014	3.336	.990
2001-02	-1.237	-.290	.003	1.536	.805
2002-03	-2.685	-.906	-	5.593	.704

Source: Computed

Table 4
Z- Scoring in Cooperative Sector

Year	*Working Capital to Total Assets $1.2x_1$*	*Net Profit to Net Sales $1.4x_2$*	*EBDIT to Total Assets $3.3x_3$*	*Equity to Debt $0.6x_4$*	*Sales to Total Assets $0.99x_5$*	*Z-Score*
1993-94	0.058	-0.004	0.106	50.274	0.828	6.260
1994-95	0.159	-0.276	-0.251	10.080	0.450	10.170
1995-96	-0.216	-0.144	-0.012	25.120	1.039	25.780
1996-97	-0.636	-0.434	-0.561	40.920	0.850	40.140
1997-98	-2.424	-0.231	1.530	0.714	0.850	0.439
1998-99	-0.396	-0.462	-0.059	0.774	0.497	0.354
1999-00	-0.679	-0.434	0.006	1.640	0.489	1.022
2000-01	-0.604	-0.382	-0.045	1.998	0.981	1.948
2001-02	-1.484	-0.406	0.009	0.918	0.797	-0.166
2002-03	-3.210	-1.260	-	3.350	0.697	-0.423

Source: Computed

Cooperative Sector: For sugar mill under cooperative sector the value of 'Z' ranges from -0.42 to 40.14. Hence it is predicted that the mills financial health was good during the periods from 1993-94 to 1996-97 (Z = 6.26, 10.17, 25.78, 40.14). From 1997-98 onwards the mill has been in deep financial crisis in 2001-02 it has slightly improved. But then on it went sick in 2001-02 and 2002-03 as evidenced by Z score in negative value. Hence the mill is predicted for a

rehabilitation package or to opt for privatization or wind up completely.

Table 5

Value of X in Z Scoring for Sugar Mill in Public Sector From 1993-94 to 2002-03

Year	*Working Capital to Total Assets x_1*	*Net Profit to Net Sales x_2*	*EBDIT to Total Assets x_3*	*Equity to Debt x_4*	*Sales to Total Assets x_5*
1993-94	.342	.056	.165	1.015	1.592
1994-95	.505	-.059	-.011	.376	1.259
1995-96	.387	-.071	-.024	.229	1.706
1996-97	.497	.019	.175	.186	1.611
1997-98	.374	.032	.188	.306	1.813
1998-99	.347	-.086	.007	.224	1.284
1999-00	.498	-.121	-.027	.070	1.418
2000-01	.323	-.051	.054	.066	1.111
2001-02	.423	-.093	-.008	.053	1.722
2002-03	.349	-.128	.019	.048	1.276

Source: Computed

Table 6

Z- Scoring in Public Sector

Year	*Working Capital to Total Assets $1.2x_1$*	*Net Profit to Net Sales $1.4x_2$*	*EBDIT to Total Assets $3.3x_3$*	*Equity to Debt $0.6x_4$*	*Sales to Total Assets $0.99x_5$*	*Z-Score*
1993-94	0.410	0.078	0.544	0.609	1.576	3.22
1994-95	0.606	-0.083	-0.036	0.226	1.250	1.96
1995-96	0.464	-0.099	-0.079	0.137	1.690	2.11
1996-97	0.596	0.027	0.578	0.112	1.590	2.90
1997-98	0.449	0.045	0.620	0.184	1.790	3.09
1998-99	0.416	-0.120	0.023	0.164	1.270	1.72
1999-00	0.598	-0.169	-0.089	0.042	1.400	1.87
2000-01	0.388	-0.071	0.178	0.039	1.100	1.63
2001-02	0.508	-0.130	-0.026	0.032	1.700	2.08
2002-03	0.419	-0.179	0.063	0.029	1.260	1.95

Source: Computed

CONSISTENCY IN FINANCIAL HEALTH

To Study the Consistency of Sugar mills Mean, Standard deviation, and Coefficient of variation has been calculated. The same has been tabulated in table 7.

Table 7
Consistency in Financial Health of the Sugar Mills

Mills	*Mean*	*Standard Deviation*	*Coefficient of Variation*
Mill I (Public Sector)	2.25	0.5568	24.75
Mill II (Private Sector)	1.65	0.6512	39.47
Mill III (Coop Sector)	8.55	13.0194	152.15

Regarding the consistency in the financial health of the sugar mill, the Public Sector firm shows a consistent result on financial health since its coefficient of variation is 24.75 per cent whereas sugar mill under cooperative sector is very weak in this aspect even though the mean of Z score in cooperative sector is 8.55, the coefficient of variation 152.15 percent indicates that the financial health of the firms are subjected to a very huge fluctuations. The private sector sugar mill shows a consistent lesser financial health compared to other two sectors since its coefficient of variation is 39.47 percent.

FINDINGS AND OBSERVATIONS

1. Sugar mill under Private Sector's financial health was good during 1993-94, (Z=2.77) while in the rest of the period it is not satisfactory. Since 1994-95, Z scoring has been declining. In 2001-02, it has slightly improved, when Z scoring stood at 2.13.
2. The financial health for Public Sector was good during the period 1993-94, 1996- 97 and 1997-98 (Z = 3.22, 2.90, 3.09) while in the rest of the period it is not satisfactory. In 2001-02, it has slightly improved when Z scoring stood at 2.08.
3. For sugar mill under cooperative sector the value of 'Z' ranges from -0.42 to 40.14. Hence it is predicted that the mills financial health was good during the periods from 1993-94 to 1996-97 (Z = 6.26, 10.17, 25.78, 40.14). From 1997-98 onwards the mill has been in deep financial crisis, in 2001-02 it has slightly improved. But then on it went sick in 2001-02 and 2002-03 as evidenced by Z score in negative value.
4. The Public sector firm shows a consistent result on financial health since its coefficient of variation is 24.75 per cent.
5. Sugar mill under Cooperative sector is very weak in this aspect even though the mean of Z score in cooperative sector is 8.55, the coefficient of variation 152.15 percent indicates that the financial health of the firm is subjected to very huge fluctuations.
6. The Private sector sugar mill shows a consistent lesser financial health compared to other two sectors since its coefficient of variation is 39.47 percent.

Indian Journal of Accounting
Vol. XXXV(1) December 2004

CORPORATE MERGER & ACQUISITION

**Hetal K. Machhi*
**Preeti V. Menon*

ABSTRACT

In this competitive business world, M & A has become one of the requirements for a company to survive with a profit. There are many reasons for going for M & A like for acquiring market, technology, maximizing profit etc. The wave of merger and acquisition has even spread in India. The actual M & A wave in Indian context has started after 1994. Many good and reputed Indian companies have gone for merger and acquisition in domestic as well as in international market. M & A pose a very big question "will company do well after merger and acquisition activity?"

The actual M & A wave in Indian context has started after 1994. Merger activities have created lot of hype and expectation about the new or modified business entity. But whether they serve the purpose or not is a million dollar question. The Indian domestic market has become highly competitive. In this competitive economic environment, size and focus matter even for mere survival. Small companies find it far more difficult to survive an economic slowdown. M &A have become a necessity in the changing business environment to ensure that business attain the appropriate size.

M & A in US

M & A activity has increased substantially since the mid 1960's. In 1967, the total dollar value of the corporate merger & acquisition was under $20 billion, by 1984 this grew to a total dollar volume of $ 100 billion and by 1998 the dollar volume exceeded on trillion.

Exhibit 1 lists the largest mergers before the year 2000. The "mega-merger" is all very recent. The second thing to note is that there are all horizontal mergers, involving firm in the same industry. In particular, these large mergers crested some of the largest oil and telecommunications companies in the world as well as the largest financial services companies in the United States.

**Faculty, SGM English Medium College of Commerce and Management, Vallabh Vidyanagar (Gujarat).*

Largest mergers in the Last Millennium [1997-99]

Exhibit 1

Buyer	*Seller*	*Price offered (Millions)*	*Announce Year*
PFIZER	Warner -Lambert	$82,399.6	1999
EXXON	Mobil	$81,429.8	1998
SBC Communication	Ameritech	$75,233.5	1998
VODAFONE Group	AirTouch Communication	$62,768.0	1999
British Petroleum co.	Amoco	$56,482.0	1998
AT &T	Media One Group	$55.795.4	1999
BELL ATLANTIC	GTE	$52,845.8	1998
AT &T	Tele-Communication	$52,525.6	1998
NATIONAL BANK	Bank America	$43,158.3	1998
WORLDCOM	MCI Communications	$42,459.2	1997
TRAVELERS Group	Citicorp	$36,031.6	1998
QWEST Communication Intl	US West	$34,748.0	1999
VIACOM	CBS	$34,454.0	1999
NORWEST	Wells Forgo & Co	$31,660.2	1998
DAIMLER-BENZ	Chrysler	$31,156.0	1998

In the past few years there have been a large number of blockbuster mergers and acquisition that made the past M&A look small by comparison. For example, the merger between Citigroup and Traveler's group estimated at $ 77 billion in value and EXXON's acquisition of Mobil for $ 81,429.8 Millions. The size and number of merger and acquisition transactions continue to grow worldwide.

The role of mergers and acquisitions had evolved as a strategy tool for fast- track technology-led companies. In current rapidly changing environment and in the era of systemic innovation, where technology is embedded in people and processes, well-planned M & A are recognized as critical to fast track technology company success and even survival.

The size and number of merger and acquisition transactions continue to grow worldwide like:

SONY, BMG MERGE: Sony and German media firm Bertelsmann AG announced on 6thNov'01 that they had singes a non-binding letter of intent to form a 50: 50 music joint venture to be called " Sony-BNG" . By merging they would grab a 25.2 % share of a global music market in 2002, where as their competitors firm-" Universal Music" has a 25.9 % share. This deal helps Sony in minimizing risk of losing market share

ESSAR, DEUTSCHE BUY US CALL CENTER FIRM: Essar group in partnership with Deutsche Bank has acquires 80 % equity share in US based Aegis communications Group Inc for $ 28.23

Million. Its major clients include AT & T, American Express Qwest Communications.

ITC SIGNED PACT TO ACQUIRE BILT PAPERBOARDS UNIT: On 7th November, an agreement was signed by ITC Ltd to acquire Bilt Industrial paper company's located near Coimbator for Rs 233 Crores. By this acquisition ITC, may be the largest paperboard company in India, an additional 65,000 MT per annum capacity to service markets in India and Overseas.

TCL, THOMSON ALLIANCE TO USURP SONY'S POSITION: TCL, Chinese electronics major has agreed with French company Thomson to form the world's largest television production joint venture that would replace Japanese giant, Sony as the leading global television manufacturer. It was estimated that TCl, Thomson Company would be producing 18 million television set per annum, which will automatically replacing Sony as the market leader. The product will be under the brand of TCL in Asia.

TATA COFFEE TO BUY HIGHHILL: Tata Coffee has acquired Highhill Coffee India having a capacity of 3,600 metric tonne. Highhill is a 100 % export Oriented unit.

Tata Coffee is the second largest exporter of instant coffee from India after Nestle.

Hewlett Packard's Buyout of Digital global soft for $ 378.

SUCCESFUL MERGERS

ISPAT Steel a corporate acquirer that conducts its mergers and acquisition activities after elaborate due diligence. ISPAT was a relatively less known Indian Steel company with one steel mill in Indonesia. Today, thanks to the successful acquisition, it is now one of the worlds leading steel company.

Citicorp and Travelers: created a mega bank with over $ 700 bn in assets. The ability to effectively combine the resources that were owned by the formerly independent firms is though to be critical to Citigroups ability to gain the competition benefits.

Tyco international increase its market capitalization from $ 1.6 bn to $ 49 bn at the end of 1998.

Reliance India Ltd and Reliance Petroleum Ltd after merge become a fully diversified single entity and also the first private sector fortune global 500 Indian Company.

GE Caps with 27 separate business, more than 50,000 employees worldwide and business that range from private label credit card services to commercial real estate financing.

ICICI Ltd and ICICI Bank a one-stop shop for financial services with total assets of Rs 950 Billion are second only to the state owned SBI, which has assets of Rs 3.16 trillion.

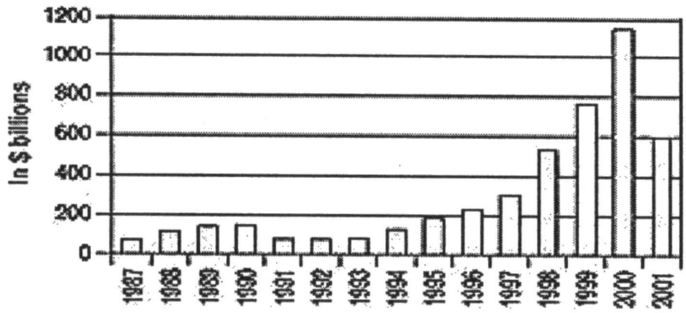
Nicholas Piramal has concluded 9 successful acquisition that include the Indian subsidiaries of MNC's like Roche, Boehringer, Mannheim,Rhone Poulene, Hoechst Marion, Roussel (Research division) and the pharmacutical division of ICI India Limited.

MERGER AND ACQUISITION IN INDIA

The total number of M & A, which India witnessed during the entire decade of 1980, was only 84 (32 mergers and 52 takeovers) but in 1993 alone there were 114 M & A. Merger and Acquisition activities in India have slowed down by 8 % with only log deals completed during the first half of 2004, according to global consultants KPMG. The analysis based on data supplied by Dealogic, shows a leveling out to the slide in global M & A activity witnessed since 2000, while Asia Pacific region marked an upward trend.

Cross-border Mergers and Acquisitions (1987-2001)

Exhibit 2



Source: Unctad 2002: 337.

The study shows that in the 1st half of 2003, M & A activities concentrated mainly in chemicals with 36 % followed by telecom at 17 %, logistic at 14 % and oil and gas at 13 % on the outlook for the rest of 2004. KPMG said a turnover would makes hinge on market, Geo-Political and economical factors, may of which currently threaten to hold back M & A.

AJAY PIRAMAL, one of the most successful mergers of recent time, has a successful track record of managing mergers, alliances and joint ventures. By mastering the art of acquisitions, he has managed to grow his pharmaceutical business at a CAGR of 31 % over the last 16 years. Each acquisition has a strategic reason-to get access to new products, or get entry into a fast-growing therapeutic segment. Soon after the first acquisition, the company outlined its broad strategy driven by mergers and acquisitions. According to Vijay Sathya, GM-investor relations, Nicholas Piramal, some of the important lessons/ insights one draw from the experience of managing mergers by the company is

1. Strategic fit is important above everything else.
2. 'Never do a deal for ego'. Be patient, and look for a compelling value proposition.
3. Extremely quick decision-making.
4. Quick speed integration.

THE FIVE RULES OF SUCCESSFUL ACQUISITIONS: BY PETER F. DRUCKER

- Think what you can contribute to the business it is buying, not what the acquirer company will contribute to the acquirer.
- Common core of unity: The two businesses must have a common either markets or technology.
- Temperamental fit: No acquisition work unless people in the acquiring company respect the product, the markets and the customers of the company they acquire.
- Within a year or so, the acquiring company must be able to provide top management for the company it acquires.
- Within the first year of a merger, it is important that a large number of people in management groups of both companies receive substantial promotion across the lines that is, from one of the former companies to the other.

HUMAN ASPECT: THE FORGOTTON FACTOR IN MERGER

Often perceived as a " soft", organizational culture is a critical aspect that must be addressed in any corporate mergers. Most of the company when merge. They normally ignore the human aspects. It has been seen that most of the company fail to show the expected result after merger is because of human factors. Merger and acquisition has an impact on people, their work and performance. Difference in culture is not at all the reason for failure, but unable to understand the difference in culture is responsible. It is experience that many a time in merger, one culture try to dominate other. When one culture is seen dominating, it has physiological and psychological effects on employees. Often merger is considered as one party winner and other as loose, rather than win-win situation. Even friendly merger face the problem. There are also some hidden individual factors like increase in executive turnover, breakdown of lines of communication, control and resistance among people.

When the company merge executive of the company fear of loosing power, status . As culture change structure also change and so the identity of the people in the company also change. When individual are affected by change it directly affect corporation and society at large. To avoid this the human resource department should try to foresee and should take remedial action. Pre-merger meeting should be plan out. In the plan the merger of human environment should be carried out. HRD should always try to keep key employees in the company for that a satisfactorily compensation (if it is going to change) should be conveyed in advance.

No doubt there is a need for savvy leadership. People need a visible and strong leaser for change in culture. People are not resistance to change provided, a leader is able to explain the merger activities, its need, and benefits to employees and for that a proper channel of communication has to be design. If this soft factor is considered in pre-merger stage, they will give expected result.

END POINT

The past couple of years have seen a spate of M & A activity. Merger and acquisition from high tech companies to small traditional company have captured headlines for a decade. Many of the company go for it for increasing scale of operation, reduction in tax, improving financial performance and for competition. Last decades is a witness for most of the big M & A failure. Rather, when M & A's fail its frequently because of people or related issues. Acquirers has to do lot of homework in formulating strategy. A issue like cultural also play an important role in deciding success or failure. M & A activity demands lot of wisdom, insight, sensitivity, perseverance and planning to succeed. Merger and acquisition is rightly compared with a marriage. Before marriage everything seem to be rosy and perfect, but as we go for it we face many difficulties. But even in difficult time and change in structure, environment and culture we manage it very successfully. No doubt in initially time we face difficultly but slowly we will come out.

REFERENCES & NOTES

Mark Grinblatt & Sheridan, Financial Markets and Corporate Strategy, New Delhi: TATA Mc Graw Hill .

Prasanna Chandra, Fundamentals of Financial Management, New Delhi, TATA Mc Graw Hill .

James C.Van Horne, Fundamentals of Financial Management, New Delhi, Prentice Hall of India Pvt Ltd.

www.responservice.com

www.technology4sme.com

www.indianinfoline.com

www.gisdevelopment.net

www.exxceed.com

www.alsuccess.com

www.expresscomputeronline.com/20030407/indtrend1/shtml)

www.goverance.wri.org/pubs_content-text.cfm-" Growing Corporate influence.

www.bas.sagepub.com/cgi/content/refs/42/1/115-" Non market strategy for merger review.

Global CEO, August'2004.

The ICFAI Journal of Organisation behaviour, Vol III, No.3, July'04

Business Line, March, 23'01-" The pros and Cons of Mergers".

Franchis Cherunilam-" Business Policy and Strategic Management, Case and text", Himalaya Publication House.

Business & Society, Vol .42, No.1, March, 2003-115-143-" M & A activities in India have slowed down, says KPMG.

Indian Journal of Accounting
Vol. XXXV(1) December 2004

EMBEDDING PRACTICALS IN ACCOUNTING EDUCATION

**G. Soral*

ABSTRACT

Accounting is essentially an applied subject and a professional discipline. One may safely compare accounting with subjects like engineering and medicine and would find many similarities. However, unlike other application-oriented subjects, accounting is still devoid of a system of practical education and examination, specially at university level. A humble attempt has been made in this paper to do some exploration in this direction. At the dawn on twenty first centry, accounting education needs to be looked into differently. The paper is divided into two sections. In the first section, findings of a survey are summarized which attempts to identify some empirical evidence related with the point in focus. The second section then, touches upon 'how' part of the discussion and outlines possible modus operandi for the purpose.

I

A survey has been conducted to look at some empirical aspects of the problem. The details are as follows:

A. OBJECTIVES

1. To identify the extent to which accounting related jobs are occupied by Commerce pass-outs.
2. To ascertain the opinion of potential employers in business and govt. about the utility of giving practical exposure to students.
3. To explore feasible ways and means of implementing such practical exposure.

B. SCOPE AND METHODOLOGY

The survey covered within its scope business establishments, both in private and public sector, and departments of state govt. situated in Aizawl city, which is capital of state of Mizoram. A convenient sample of forty business establishments and govt. departments was selected. In all, fifteen filled-in questionnaires could be finally collected.

**Professor & Head, Department of Commerce, Mizoram University, Aizawl (Mizoram)*

C. FINDINGS

Based on the response to the questionnaire, findings of the survey are presented below:

1. ***Profile of Respondents:*** The profile of respondents is summarized in Table 1.

Table 1

Profile of Respondents

I. Organizations			II. Respondent's Qualification		
	No	(% of Total)		No	(% of Total)
Pvt. Sector	7	47%	BA /B.Com	7	47%
Public Sector	3	20%	BE	2	13%
Govt. deptt.	5	33%	MBA / CA	5	33%
			MA	1	7%
Total	***15***	***100%***	***Total***	***15***	***100%***

As depicted by Table 1, respondent group of organizations has representation from Pvt sector (47%), Public Sector (20%) and govt. deptts. (33%). The officials / entrepreneurs filling-in the questionnaire had academic degrees such as BA / B.Com (47%) and MA (7%) constituting about half of the respondent group. Remaining respondents had qualification from professional steams such as MBA / CA (33%) and BE (13%).

2. ***Profile of Employees:*** Profile of employees as reported by the respondents in reply to Q No. 4 is summarized in Table 2

Table 2

Profile of Employees

Functional Area	Rank	Average Per cent Employes with Commerce Background
a) Finance and Accounts	i) Managerial	25%
	ii) Clerical	6%
b) Purchases and Stores	i) Managerial	0%
	ii) Clerical	0%
c) Internal Audit	i) Managerial	100%
	ii) Clerical	Nil

As depicted by Table 2, only 25% managerial and 6% clerical level employees, at an average, in finance and accounts functional area were halving commerce background. In purchases and Stores area, this percentage is just nil. However, in Internal control area at managerial level, cent percent employees have commerce background. This indicates that commerce graduates who received accounting education in quite a comprehensive manner could hardly occupy accounting related positions. Of course, 'Internal Audit' was an exception.

3. ***Preference for Commerce Pass-outs:*** In reply to question regarding preference for Commerce graduates / post graduates for related jobs (vide Q No. 5), the responses are summarized in Table 3.

Table 3

Preference for Commerce Pass-outs:

	Functional Area	Percentage of Total Respondents agreeing for job preference to Commerce pass-outs
i)	Finance and Accounts	100%
ii)	Purchases and Stores	88%
iii)	Taxation	100%
iv)	Internal Audit	100%

Table 3 indicates that potential employers fully agree that for jobs in functional areas of finance and accounts, taxation and internal audit, commerce pass-outs should be preferred. However, such an agreement in case of that of purchases and stores is high but partial (88%).

On comparison of these results with those in Table, 2 it is transpired that despite of consensus regarding preference for commerce graduates, they could not remain even at par with others in actually entering into such jobs. This is perhaps because the commerce graduates could not make a mark in the employment market even in case of jobs related with accounting, which is principal part of their education.

4. ***Ways of Industry-Academy Interface:*** In order to provide practical exposure to students, an interface of academy with the world of work i.e. industry, trade and govt. has to be established. Such an interface may be established in various ways. Respondents were asked whether they accept different such ways. The responses are summarized in Table 4.

Table 4

Ways for Industry-Academy Interface

		No. of Respondents agreed	(% to Total respondents)
i)	Students in sections e.g accounts, taxation, stores etc. to work at clerical level as trainees.	8	53%
ii)	Faculty members to collect information from organizations to write case studies	11	73%
iii)	Professionals in practice coming to University to deliver Guest Lectures on practice-related issues	4	27%
iv)	Providing assistance for creating accounting laboratory in University	9	60%

There appears to exist not a very high agreement among the industry fraternity to have interface with the academy for practical exposure to students. Table 5 shows that the maximum agreement as per the survey for ways for such an interface was found to be for permitting faculty members to collect information (73%) and for providing assistance for creating accounting laboratory (60%). The degrees of agreement in both the cases are not very high. Agreement for letting students work inside the organization as trainees (53%) is, however, not low. Still, only 27% respondents agree that professionals should deliver guest lectures about business practices to students. This indicates that they are not commonly available for such lectures. In nut-shall, the industry is prepared, though not very enthusiastically, yet to support in the endeavour to provide practical exposure to students.

5. *Difficulties in Providing Practical Exposure:* Respondents pointed out mainly the following difficulties, which may occur in providing practical exposure to university students:

i) Entry of students often burdens the personnel and the time of the latter is wasted in training the former.

ii) Confidentiality of the business enterprises is certain matters is vital and in this way, it is hampered.

D. CONCLUSION

Main findings of this survey may be summarized as follows:

i. Commerce graduates (with accounting as a core subject) could find little place in accounting-related jobs.

ii. There is, however, a strong preference in favour of such graduates for the said jobs among potential employers.

iii. There is a high degree of agreement that practical exposure would make them more suitable for the jobs.

iv. Practitioners prefer providing information to faculty members for case studies and assistance for creating accounting laboratory, though degree of such preference is not very high.

v. Main difficulties faced by practitioners in giving practical exposure to students are reported to be 'threat to confidentiality' and 'wastage of employees time'.

II

There may be various ways and means of giving exposure of practices of accounting to students along with their traditional studies of the subject. However, an effective exposure would be possible if practical studies are embedded in accounting education, and become part of formal teaching-examination process. The proposed modus operandi classified in two stages is being described below:

UNDER-GRADUATE LEVEL

If an environment of learning practices may be created inside the campus of educational institutions, objections of business enterprises regarding threat to confidentiality and disturbance caused due to students' exposure can be taken care of. Hence, setting-up of an accounting laboratory within the campus itself for initial exposure to practices of accounting to the students would be quite worthwhile. This would be an economic option and large number of U.G. students' needs can be satisfied with the help of such laboratory.

Due to the very nature of the subject, an accounting laboratory would mainly need documents. Practical excersizes may, then, be prepared based on such documents. Examples of the documents required and of practical excersizes are covered in Table 5.

Table 5
Featuring Accounting Laboratory

Subject Area	Examples of Documents required	Examples of Practical excersizes
A. Financial Accounting	• Bills of expenses, cheque counter-foils, carbon copies of receipt book, invoice from suppliers • Different types of vouchers including rectification vouchers • Bank statement • Stock Register • Formats of Primary books • Ledgers • Trial Balance • Final Accounts • Accounting manuals • Notes to accounts etc	• Preparation of vouchers based on basic documents • Preparation of Cash Book, Purchases Book, Sales Book etc. • Preparation of Ledgers, Trial Balance, Trading and P&L Account, Balance Sheet • Bank Reconciliation statement • Entries in stock Register • Making rectification based on vouchers • Preparing accounting manuals • Writing notes to accounts etc.
B. Cost Accounting	• Layout of Mtg. Organization, Mtg. Process, list of materials used type of labour required overhead items • Documents related with receipt, Stores, issue and transfer of materials • Documents for labour time keeping and time booking • Wages analysis sheet • Overheads related documents • Cost sheets and statements • Cost Ledgers	• Preparation and format drafting of material movement and storage related documents • Preparation of stores Ledger • Determination of re-order level, optimum order quantity etc. • Preparing wage-related documents e.g. Job card • Preparing wages analysis sheet • Distributing overheads • Identifying Activities and Cost drivers for Activity-based costing. • Preparation of cost sheets and cost statements • Preparation of cost Ledgers and Costing P.&L. Account. • Reconciliation of Financial and costing P.&L. Accounts etc.
C. Management Accounting	• Annual Reports with detailed annexures • Management Information Reports • Budgets manual • Budget Committee background material for budget preparation, Budgets.	• Applying tools of financial analysis like comparative, common-size statements, ratio analysis, flow statement analysis etc. • Making overtime and inter-firm comparisons

	• Back ground material for standard setting and costing & Sales standards	• Drafting budget manual • Making role play in a budget committee • Excersize on setting standards
D. Taxation	• Return forms for different assesses • Different important forms as per Income Tax Rules • Challan Form • Examples of departmental notices and queries • Form C and Form D for CST	• Computation of taxable income and Income-Tax and filling up returns for different assesses • Filling different forms e.g. Form 16, Form 24, Form 10 E etc. • Filling Challan forms • Making replies to departmental orders, notices • For central sales Tax, applying for registration, filling Form C and D, returns etc.
E. Auditing	• Dummy sets of account books (with deliberate flaws here and there) • Model internal control practices documented • Model Audit Reports • Documents supporting verification of various assets and liabilities	• Checking validity of different vouchers • Vouching Cash Book and other primary books of accounts • Design internal control for certain business activities, make a demonstration by role-play • Design documents required for verification of Debtors, Investments, Prepaid Expenses, Advances, Outstanding Expenses, Shares, Debentures, Creditors etc. • Checking correctness of accounting cycle. • Writing audit report, with qualifications also.

Besides such documents in hard form, a computer section in the laboratory may have essential software packages and all the documents in soft form also. Multiple sets of such documents are needed for proper organization of practical classes and examination. In order to collect the required documents, the academy has to depend on the industry and Govt. departments. Professional institutes such as ICAI and ICWAI may be of great assistance in this direction. Liaison with these institutes at local chapter level, territorial level with their regional councils and at national level within UGC and their national councils may be worthwhile. Similar liaison with chambers of commerce at different levels may be fruitful.

Teachers of accounting may well appreciate that laboratory work of this type would also be successful in making students giving importance to those topics which in the traditional

system often remain poorly attempted by them. This further indicates towards making accounting education complete in true sense. As a good supplement to their practical studies, students of under graduate level may also be provided exposure of practices in the following ways: (1) Inviting Practitioners for Guest Lectures, (2) Visits to Related Departments in Business and Govt.

Some more issues in embedding practicals in accounting education through accounting laboratories are also pertinent to be discussed here

(I) Involvement of Funds

There is not much involvement of funds in establishing and maintaining an accounting laboratory. The resource requirement is generally confined to items such as space, stationery, reprography and assistant staff. Hence, some charge of nominal fees from students, based on existing fee structure for practicals in other departments of the universities, would suffice to make such an effort financially self-sufficient.

(II) Faculty Development

At the initial stage, existing faculty shall have to venture into developing themselves and becoming well-versed with the practical aspects of those subject contents which they might have taught for years together. For this purpose, workshops may be organized at different levels and resource persons may be drawn from professionals both in employment and practice. This would be self-rewarding for the teaching fraternity also because this would make them more professionally demanded.

(III) Development of practical curriculum

Practical curriculum related with every subject-area is to be developed. This again may be done as a part of workshop exercises or individually by teachers. Any such move at a higher level such as by UGC may also be taken up.

POST GRADUATE LEVEL

At the level of Post graduation, students would have already got practical exposure at under graduate level, shall be more mature in age and knowledge, and should be less in number. Thus, this would be the right situation to send them to real world of work as trainee/ apprentice. At this level, enterprises are expected to accept them more willingly and would foresee their own benefit in keeping students as trainees with them. Such a practice may be adopted in any of the following ways: (i) Internship at course end, (ii) Summer placement, (iii) Concurrent field work along with studies. Of the three alternatives above, concurrent field work along with studies is recommended to be most purposeful. One or two full working days every week may be allotted for such work. Such practical work should be done in regular supervision of faculty who may visit the workplace of the student off-and-on. Students should also be making weekly presentations of their learning and experiences which should be subjected to some internal assessment.

Indian Journal of Accounting
Vol. XXXV(1) December 2004

EMERGING RESEARCH AREAS IN ACCOUNTING

**Bharati V. Pathak*

ABSTRACT

This paper discusses Contemporary Research in Accounting. It identifies several major areas of research but covers five major research areas : Capital market research, Managerial Accounting research, Accounting choice research, Tax research, and Disclosure research in accounting. The paper also suggests potential areas of research which could serve as a guideline to future doctoral students and researchers.

Understanding accounting within the framework provided by related areas is necessary for the development of accounting theory. A quality research can be conducted provided the researcher remains abreast of fields beyond accounting. Contemporary accounting research can be categorized into five broad areas : Capital market research, managerial accounting research, research on accounting choice, tax research and disclosure research.

CAPITAL MARKET RESEARCH IN ACCOUNTING

Capital Market Research concerns the role of financial accounting information in facilitating the decisions of investors as reflected in the behaviour of stock prices and returns, trading volume, or other capital market characteristics. The development of efficient market hypothesis, capital-asset pricing model and the event study methodology, triggered an interest in capital market research. Fama defines an efficient market as one in which "security prices fully reflect all available information". Various market participants such as investors, managers, and analysts, are interested to know the information efficiency of security markets. Security prices are relevant as they not only determine the allocation of wealth among firms and individuals, but they themselves are influenced by financial information. The efficient market hypothesis (EMH) has important implications for accounting research as it allows investor-oriented accounting principles to be developed. The Capital Asset Pricing Model (CAPM) which deals with both risk and return has been used by accounting researchers to test hypothesis that rely on EMH.

**Reader, S.D. School of Commerce, Gujarat University, Ahmedabad*

The accounting literature draws inferences about market efficiency from two types of tests; short and long-horizon event studies, and cross-sectional tests of return predictability. In an event study, one infers whether an event, such as an earnings announcement conveys new information to market participants as reflected in changes in the level or variability of security prices or trading volume over a short time period around the event. If the level or variability of prices changes around the event date, then the conclusion is that the accounting event conveys new information which revised the market's previous expectations. An association study tests for a positive correlation between an accounting performance measure (e.g. earnings from operations) and stock returns, both measured over relatively long time period.

Besides testing market efficiency, the other areas of capital market research are :

(i) Does an economic value added performance measure correlate more highly with stock returns and prices than historical cost accounting earnings?

(ii) How do we test for the capital market effects of accounting method changes?

(iii) Do current cost earnings have incremental information content over historical cost earnings?

MANAGERIAL ACCOUNTING RESEARCH

It concerns the use of accounting information for facilitating firms' decision-making and control. It focuses on internally reported accounting information. Empirical studies of budgeting and financial control practices are giving way to research on a variety of "new techniques such as activity-based costing, the balanced score card, strategic accounting and control systems, and economic value performance measures. For instance, activity based costing has gained lot of popularity as it captures the economics of the production process more closely than traditional unit-based cost systems thereby providing more accurate cost data. Activity - based costing provides the sophisticated cost data needed to make appropriate product mix, pricing, process improvement and other key decisions. These claims have prompted a growing number of firms to implement activity - based costing systems. Whether these firms have higher performance than their competitors is a potential area of research in accounting.

Another potential area of research in managerial accounting is whether non-financial measures are indicators of performance. Non-financial indicators of investment in 'intangible assets' such as product quality, innovation, customer satisfaction and employee satisfaction may be better predictors of future financial performance (i.e., stock price) than historical accounting measures and should supplement financial measures in internal accounting systems. This has opened a new area of discussion as to how to measure non-financial measures, disclose non-financial measures and whether they are indicators of performance.

RESEARCH ON ACCOUNTING CHOICE

Fields, Lyz and Vincent define accounting choice as "any decision whose primary purpose is to influence (either in form or substance) the output of the accounting system in, particular way, including not only financial statements published in accordance with generally accepted accounting principles, but also tax returns and regulatory filings". The study of accounting choice is interesting due to presence of mixed motives in decision makers. For instance, a manager may be motivated to choose an accounting method to increase the stock price prior to the expiration of stock options he holds. On the other hand, the same accounting choice may be chosen by his objective assessment that the current stock price is under-valued relative to his private information. Three types of market imperfections drive accounting choice : agency costs, information asymmetries and externalities affecting non-contracting parties. Based on these, accounting choice literature can be classified into three groups.

(i) Accounting plays a significant role in the contractual relations that form the modern corporation, presumably to mitigate agency costs.

(ii) Accounting provides an avenue through which managers disseminate privately held information and the specific accounting method choice can play a key role in the communication process. Accounting choice driven by information asymmetry attempt to influence stock price through accounting numbers in order to avoid negative stock price reactions and meet analyst's earnings forecast.

(iii) Regulation of accounting affects the quality and quantity of financial disclosures which, in turn, have welfare and policy implications in the presence of externalities. Externalities are external parties other than actual and potential owner of the firm and include tax regulators, government regulators, suppliers, competitors and union negotiator. Managers hope to influence the decision of these external parties by influencing the accounting numbers.

The areas of research on accounting choice are : research on factors explaining choices of accounting techniques, the impact of discretionary accounting choices on stock prices, association between accounting numbers and stock prices, and examining whether accounting method choice affects equity valuation or the cost of capital.

TAX-RESEARCH IN ACCOUNTING

Most of the accounting professionals are familiar with the complexities of tax law and many of them have specialized in tax planning. Tax research is obvious as firms are concerned with cash flows, taxes affect cash flows and hence, firms respond to tax incentives. Tax accounting research addresses three questions : (I) Do taxes matter? (ii) If not, why? (iii) If so, how much? Current tax research in accounting addresses these questions using a framework developed by Scholes and Wolfson. Their book, "Taxes and Business strategy : A Planning Approach", is an introduction for doctoral students and a guide for identifying important unresolved issues in tax-research. They adopt a macro-economic perspective to explain the

role of taxes in organisations. Tax research merges two distinct bodies of knowledge : micro-economics and tax law. Its conceptual framework is developed around three central themes known as all parties, all taxes and all costs.

(i) Effective tax planning requires the tax planner to consider the tax implications of a proposed transaction for all of the parties to the transaction. For example, when structuring compensation, both employer and employee taxes have to be taken into consideration.

(ii) Effective tax planning requires the planner, in making investment and financing decisions, to consider not only explicit taxes (taxes paid directly to tax authorities) but also implicit taxes (taxes that are paid indirectly in the form of lower before-tax rates of return on tax-favoured investments).

(iii) Effective tax planning requires the planner to recognize that taxes represent only one among many business costs, and all costs must be considered in the planning process : to be implemented, some proposed tax plans may require costly restructuring of the business. All costs requires a trade-off between corporate financial accounting and tax objectives.

The other major areas of tax research are tax and non-tax trade-offs, taxes and asset prices, tax-effects, of domestic mergers and acquisitions, impact of international operations on tax planning ability and influence of taxes on the pricing of debt and equity instruments.

DISCLOSURE RESEARCH IN ACCOUNTING

Over the past two decades there has been a burgeoning literature on disclosure research. Corporate disclosures are critical for efficient markets. Firms provide disclosures through regulated financial reports, including the financial statements, footnotes, management discussions, and analysis, and other regulating filings. In addition, some firms engage in voluntary communication such as management forecasts, analyst presentations and conference calls, press releases, internet sites and other corporate reports. Finally, there are disclosures about firms by information intermediaries such as financial analysts, including experts and the financial press. Verecchia has suggested three broad categories of disclosure research in accounting.

(i) **Association - based disclosure:** where primary concern is how exogenous disclosure is associated with, or related to, the change or disruption in the activities of the investors who compete in capital market settings as individual, welfare-maximizing agents. It attempts to examine this problem by characterising the effects of disclosure on the cumulative actions of individuals and investors at the time of a disclosure event. Two characterizations of aggregate or cumulative behaviour that are of particular interested in association - based disclosure studies concern the relations between disclosure and price change, and disclosure and trading volume.

(ii) **Discretionary - based disclosure:** examines how managers and/or firms exercise discretion with regard to the disclosure of information about which they may have knowledge. While a considerable amount of financial reporting is mandatory (e.g. quarterly statements, annual reports, etc.), managers may still possess additional information whose disclosure is not required - information that is, nonetheless useful in valuing the firm's future prospects. Consequently, under what circumstances will a manager disclose or withhold this information is a potential area of research.

(iii) **Efficiency - based disclosure:** discloses which disclosure arrangements are preferred in the absence of prior knowledge of the information,. that is ex ante. It examines unconditional disclosure choices. A firm may have to disclose more proprietary information to lower its cost of capital and this additional disclosure may be at the possible expense of generating losses through higher disclosures. What should be the optimal disclosure policy that trades-off these cost of capital gains against proprietary losses is a matter of research.

The other potential areas of disclosure research in accounting are :

(i) The role of disclosure and financial reporting regulations in mitigating information and agency problems.

(ii) How effective are accounting standards in facilitating credible communications between managers and outside investors? What factors determine their effectiveness?

(iii) How effective are auditors in enhancing the credibility of financial statements.

(iv) What factors affect management's disclosure choices?

(v) What is the relationship between disclosure, corporate governance and management incentives - Roles played by boards and audit committees in the disclosure process.

REFERENCES

Kothari, S.P., (2001) "Capital Markets Research in Accounting", 'Journal of Accounting and Economics 31 (2001), pg. 105-31.

Fields D. Thomas, Thomas Z. Lynz, Linder Vincent (2001) "Empirical research on accounting choice ; Journal of Accounting and Economics 31 (2001), pg. 255-307.

Verecchia, Robert E., (2001); "Essays on Disclosure,"Journal of Accounting and Economics; 32 (2001), pg. 97-180.

Ittner, Christopher D., (2001), "Assessing empirical research in managerial accounting, a value-based management perspective; Journal of Accounting and Economics, 32 (2001), pg. 349-410.

Shackle Ford, Douglas. A.; Terry Shevlive, (2001), 'Empirical tax research in accounting" Journal' of Accounting and Economics 31, (2001), pg. 321-387.

Indian Journal of Accounting
Vol. XXXV(1) December 2004

WORKING CAPITAL TRENDS OF CEMENT INDUSTRY IN NEPAL

**B.P. Sarawat*
***R.S. Agarwal*

ABSTRACT

Working capital management is the major area of concern. In this paper, an attempt has been made to evaluate working capital position of Nepal Cement Industry. Various statistical tools were used to analyse working capital trends.

In the first plan seven public enterprises were established which has great importance & during interim period (1961-62) 3 public enterprises were established. The process of establishing public enterprise took speed and 462 PEs have been established yet. But the public enterprises have their own limitations, so the government moved to privatization since Eight-five year plan (1992-93) onwards. The several reasons of privatization of sick public units viz. running in losses, over staffing, lack of transparency & professional ethics. The wave of privatization had great impact on policy makers and policies of Nepal.

OBJECTIVES OF STUDY

The basic objective of this study is to compare and analysis working capital management of cement industries of Nepal. Cement industries in Nepal are incurring heavy losses; it is due to increase in the cost of production, coal shortage, inventory shortage, operation break down, over staffing, government control in respect of price fixation and distribution and finally financial management. A study of working capital management may throw some light on above problems. The major objectives of the study are:

1. To find trend and tendency of working capital.
2. To analysis and evaluate working capital management
3. To suggest an effective way for management of working capital.

**Dean & Head, Deptt. of Commerce Maharshi Dayanand Saraswati University, Ajmer*
***Lecturer (Selection Scale) S.D. Govt. College, Beawer (Raj.).*

RESEARCH METHODOLOGY

There are two major players in the public sector dominate cement industry in Nepal. This study is an attempt to analysis the working capital management of these industries. Therefore it is proposed that the present study will be made through a case study analysis. The study will include an in depth analysis of the cases of (1) Hetauda Cement Industry Ltd. (HCIL) (2) Udaypur Cement Industry Ltd. (UCIL). A questionnaire was given to the selected industry under study to supply data regarding the procedure and techniques adopted by them for the management and control of working capital and its various components. In addition, the chief executives of these industries were met to get more information and their personal views. The statistical tools such as mean, standard deviation, coefficient of variation, simple correlation, regression, multiple correlations, multiple regression etc. are used. Also for the comparison of variables adequate statistical test will be used as per requirement of the analysis.

UNITS OF STUDY

Hetauda Cement Industries Ltd (HCIL) was established in 1976 under the Companies Act, 1964. The project had a total cost of 1389 million rupees which was financed by ADB, Government of Nepal, Nepal bank and international commercial banks. It is dependent on locally available raw material - lime stone. It has an installed cement producing capacity of 800 metric tons per day. The average capacity utilization during the period from 1985-86 to 2000-01 has been 46.50%. This industry is helping Nepal to save 380 million rupees worth of foreign exchange by way of import substitution. 1100 persons are engaged in direct employment. It has established electro static precipitator for checking environmental dust pollution.

Udaypur Cement Industry was established in 1987 and commercial production started from 1992 with the investment of 6204 million rupees and has a production capacity of 277,200 metric tons per annum. It is also based on local raw material. The capacity utilization during the period from 1993-94 to 2001-02 has been 44.56%

ANALYSES AND INTERPRETATION

This section attempts to analyze and compare the working capital in between the selected cement industries of Nepal. Various reasons may make it essential to analyze the working capital position of a business enterprise. The reasons for analyzing are: (i) working capital position of company is to see what other will find when they examine its financial statement, (ii) to enable the management to detect trends and corrective steps when the analyze indicates need for them, (iii) to see what changes have taken place in the company over a period of time so that this knowledge may be used in setting guide post for future conduct of business.

Size of Working Capital

The amount of working capital held by the industries in terms of absolute figure is shown in table 1 indicates that the size of working capital in HCIL varied between lowest of Rs. 2344 lakh in 1993-94 to highest of Rs. 4510 lakh in 2000-01 showing an increasing trend. Origin of x is 1996-97; Growth rate computed with progressive base.

Table 1

Size of Working Capital and growth of Working Capital with Progressive Base

Year	Size of Working Capital		Growth rate of Working Capital	
	HCIL	UCIL	HCIL	UCIL
1993-94	2344	3424	100.0	100.0
1994-95	2635	3669	112.4	107.2
1995-96	2894	3944	109.8	107.5
1996-97	3372	4710	116.5	119.4
1997-98	3195	4648	94.8	98.7
1998-99	3635	4338	113.8	93.3
1999-00	3918	NA	107.8	NA
2000-01	4510	NA	115.1	NA
$\overline{X}$	3312.9	4122.2	Growth Rate 9.80	Growth Rate 4.85
CV	19.9	11.7		
Trend Equation (Y)	=3172.3 + 281.2x	= 4240.4 + 236.4x		

The average size of working capital was Rs. 3312.9 lakh and coefficient of variation was 19.9%. According to equation of trend line, the rate of increase in working capital was Rs. 281.2 lakh per year. The average compound growth rate of working capital with progressive base was 9.8%.

In UCIL as table no. 1 depicts that the size of working capital varied from lowest Rs. 3424 lakh in 1993-94 to highest Rs. 4710 lakh in year 1996-97 showing a fluctuating trend. The average working capital registered as Rs. 4122.2 lakh and CV was 11.7%. According to equation of trend line, the rate of increases in working capital per year was 236.4 during the period of study. The average compound growth rate of working capital with progressive base was 4.85%.

While comparing the two industries, the size of working capital of UCIL was higher than size of working capital of HCIL, however the variation was more in HCIL (19.9%) than in UCIL (11.7%). Also the rate of increase of working capital per year in HCIL (Rs. 281.2 lakh) was higher than UCIL (Rs. 236.4 lakh). The average compound progressive growth rate of HCIL (9.8) was higher than UCIL (4.85), which indicate HCIL increasing its rate of working capital very much higher than UCIL. This also indicates that HCIL operating efficiency is better than UCIL.

Testing of Hypothesis

To test the null hypothesis; H_0: There is no significant difference in mean values of the size of working capital in HCIL and UCIL.

Table 2

Mean values, standard deviation, and their student't' - values of Working Capital of HCIL and UCIL during the study period

	HCIL		UCIL		t - value	d.f.	Result
	$\bar{X}$	σ	$\bar{X}$	σ			
Size of Working Capital	3312.9	660.9	4122.2	418.9	2.348	12	Significant at 5%

From the table no. 2 the calculated value of 't' (2.348) is greater than value of 't' (2.179) at 5% and 12 d.f. Hence it implies that there was significant difference in mean value of size of working capital in HCIL and UCIL.

Working Capital to Total Assets

The ratio of working capital to the assets in HCIL during the period of study showed an upward trend registering lowest value 23.29% in 1993-94 and increased to maximum 48.78% in 2000-01. The average of these figures was 35.62% and CV was 22.4%. During the period under study the percentage of ratio of working capital to total assets in UCIL showed a fluctuating trend registering the lowest value 5.75% in 1993-94 and highest value 7.58% in 1996-97. The average of these figures was 6.76% and its CV was 10.95% during the period. While comparing HCIL and UCIL, the percentage of working capital to total assets was very much higher in HCIL than UCIL. But average working capital of UCIL was greater than average working capital of HCIL. The low ratio in UCIL was due to the huge investment in the industry. This was the main drawback of UCIL, which is generally seen in public enterprises.

Test of Hypothesis

To test the null hypothesis; Ho: There is no significant difference in mean values of the ratio measuring the percentage of working capital to total assets of HCIL and UCIL.

Table 3

Mean values, standard deviation, and their student't' - values of the measuring the percentage of working capital to total assets of HCIL and UCIL during study period

	HCIL		UCIL		t - value	d.f.	Result
	$\bar{X}$	σ	$\bar{X}$	σ			
Current Assets to Total Assets	35.62	7.99	6.76	7.40	8.17	12	Significant at 5%

From the table no. 3 it is clear that the calculated value oft' (8.17) is greater than table value oft' (2.179) at 5% and 12 d.f. So Ho is rejected. Hence it implies that average percentage of working capital to total assets differ significantly. The average value (35.62) of HCIL was greater than UCIL (6.76). This indicates that the percentage of working capital to total assets was higher in HCIL than UCIL. This was due to heavy investment, large amount of long term loan and loss incurred in UCIL.

The relationship between working capital and sales has been observed even minutely by studying their linear regression and correlation coefficients, which have been presented in the table no. 4

Table 4

Regression equations, coefficients of correlation with their t-values and coefficients of determination of Working Capital (y) and sales (x) of HCIL and UCIL during the study period

Industries	Regression equation	r	r^2	't'-values	Results
HCIL	$\hat{Y} = 2124.5 + 0.264\ x$	0.27	0.073	0.713	Not significant at 5% and 1%
UCIL	$\hat{Y} = 5288.5 - 0.240\ x$	0.33	0.109	0.741	Not significant at 5% and 1%

It is evident from the table no. 4 that statistically there was no significant correlation between working capital and sales in HCIL and UCIL under the study period. This indicates that working capital was not functionally related with sales in both industries.

The main reason for such a situation may be that both industries make sales on advance payment and maintaining excessive amount of working capital. But according to regression equation from table no. 5 in HCIL, it indicates that if sales increases by Rs. 1 lakh then working capital would go up by Rs. 0.264 lakh. On the contrary the increase in sales by Rs. 1 lakh would result in decrease of working capital by Rs. 0.24 lakh in UCIL. This indicates that UCIL was operating business in loss.

Trend line and Standard Errors

Linear logarithmic, expontial, inverse quadratic and power trend of working capital of both the units under study are shown in this section.

Table 5

Fitting the trend line and standard error of estimated by Linear Logarithmic, Exponential, Inverse, Quadratic and Power trend of working capital of HCIL during study period

Year (X)	Working Capital (Y)	Linear Trend $(Y-\hat{Y})^2$	Logarithmic Trend $(Y-\hat{Y})^2$	Exponential $(Y-\hat{Y})^2$	Inverse Trend $(Y-\hat{Y})^2$	Quadratic Trend $(Y-\hat{Y})^2$	Power Trend $(Y-\hat{Y})^2$
1993-94	2344	237.78	66713.7	3883.78	93684.97	5250.45	17763.6
1994-95	2635	634.54	8537.76	182.25	135718.6	159.77	4637.61
1995-96	2894	8.76	43580.7	1449.33	185959.3	1649.98	21468.1
1996-97	3372	39896.07	8.47	67954.1	13030.3	68911.5	4467.59
1997-98	3195	66817.08	144902	37845.8	15303.5	38306.32	109693
1998-99	3635	9942.08	11979.3	3323.52	145.44	3850.20	6844.25
1999-00	3918	9592.24	951.11	10995.6	50611.5	12208.04	915.06
2000-01	4510	45296.61	249221	16230.8	612275	15615	219670
Total	26503	172425.2	198908	141865	1241728	145951.3	385460
Trend Equation		$\hat{Y}=2047357+281226x$	$\hat{Y}=2085.7+925.764\ LNx$	$\hat{Y}=2208.797(1.08941)^x$	$\hat{Y}=3968.88+(-1930.97)^{1-x}$	$\hat{Y}=2235.66+168.2441x+12.5536x^2$	$\hat{Y}=210.72+x^{0.2901}$
Standard Error of estimate		169.5	182.1	153.8	454.9	156	253.5

Table 6

Fitting the trend line and standard error of estimated by Linear Logarithmic, Exponential, Inverse, Quadratic and Power trend of working capital ofUCILduring study period

Year (X)	Working Capital (Y)	Linear Trend $(Y-\hat{Y})^2$	Logarithmic Trend $(Y-\hat{Y})^2$	Exponential $(Y-\hat{Y})^2$	Inverse Trend $(Y-\hat{Y})^2$	Quadratic Trend $(Y-\hat{Y})^2$	Power Trend $(Y-\hat{Y})^2$
1993-94	3424	11500.4	4904.20	11425.47	19776.8	19093.71	1335.79
1994-95	3669	9723.93	29090.71	5932.08	104464.7	21812.34	20802.29
1995-96	3944	3597.6	32263.34	915.67	80934.56	65694.82	22810.06
1996-97	4710	220517	148101.8	243641	132037.8	74698.36	161998.2
1997-98	4648	29336.8	27728.91	30520.09	53121.03	14930.4	28260.97
1998-99	4338	140700	73554.86	166349.8	16070.63	16816.9	82851.87
Total	24733	415439	315643.9	458784	406405.5	213046.5	319059.2
Trend Equation		$\hat{Y}$=3294.9 +236.37x	$\hat{Y}$=3353.97+ 700.57 LNx	$\hat{Y}$=3328.11 $(1.061)^x$	$\hat{Y}$=4701.05 $+(-1417.68)^{1-x}$	$\hat{Y}$=2607.7 +751.746x -73.625x^2	$\hat{Y}$=3375.7 $+x^{0.17584}$
Standard Error of estimate		322.3	280.9	338.7	318.8	230.8	282.4

The following conclusions emerge from the trend equation analysis -

1. The standard error of estimate of working capital in different trend line of HCIL shows lowest in exponential trend line. This implies that the best trend line fit to the cash of HCIL was exponential trend, which was $\hat{Y}$ = 2208.797 (1.08941)x.
2. The standard error of estimate of working capital in different trend line of HCIL shows lowest in quadratic trend line. This implies that the best trend line fit to the cash of HCIL is quadratic trend, which was $\hat{Y}$ = 2607.7+751.746x8-73.625x2.

Multiple Correlation, Multiple Regression Equation, F-Testand T-Test Approach

Table 7

Multiple correlation. Multiple Regression Equation, F-Test and T-Test of Profit (y), Sales (x_1) and Current assets (x_2) of HCIL and UCIL during study period

Figures in Lakh rupees

	HCIL			UCIL		
Year	**Profit**	**Sales**	**Current Assets**	**Profit**	**Sales**	**CurrentAssets**
1993-94	-243	4152	2344	-119	4440	3424
1994-95	-524	3864	2635	84	5979	3669
1995-96	144	5155	2894	-479	4964	3944
1996-97	125	5399	3372	-1411	3879	4710
1997-98	2	6001	3195	-1211	5292	4648
1998-99	199	5860	3635	-1040	4607	4338
1999-00	-279	5422	3918	Period not covered under study		
2000-01	-1169	4276	4510			

Result (HCIL)

Multiple Regression Equation Yon X_1 and X_2

The required multiple regression equation: $\hat{Y} = -1254.29 + 0.491\ X_1 - 0.431X_2$

Where, Y = profit, X_1 = sales, X_2 = current assets

Multiple correlation coefficient 'R' = 0.94

Coefficient of Multiple Determination 'R^2' = 0.88

ANOVA TABLE

Source of Variation	df	Sum of square	Mean square	F - ratio	Result
Regression	2	1302581.243	651290.621	19.0677	Significant at 5%
Residual	5	170783.6319	34156.7264		

Variables in Equation

Variables	B	SEB	|t| - values	Results
X_1	0.491	0.08923	5.500	Significant at 5%
X_2	-0.431	0.10277	4.194	Significant at 5%

Result (UCIL)

Multiple Regression Equation Y on X_1 and X_2

The required multiple regression equation: $\hat{Y} = 2475.4 + 02143\ X_1 - 1.022X_2$

Where, Y = profit, X_1 = sales, X_2 = current assets

Multiple correlation coefficient 'R' = 0.9927

Coefficient of Multiple Determination 'R^2' = 0.986

ANOVA TABLE

Source of Variation	df	Sum of square	Mean square	F - ratio	Result
Regression	2	1856013.697	928006.848	102.39	Significant at 5%
Residual	3	27190.30297	9063.43432		

Variables in Equation

Variables	B	SEB	|t| - values	Results
Xi	0.2143	0.06195	3.459	Significant at 5%
X,	-1.022	0.08548	11.956	Significant at 5%

EVALUATIONS

The following evaluations emerge from multiple correlations, multiple regression, t - test and F - test and its results in respect to HCIL and UCIL.

1. The coefficients of multiple correlations 'R' of HCIL and UCIL were 0.94 and 0.99 respectively indicating very high correlation among the variables. Multiple correlation coefficient of UCIL was very near to 1, which indicates there was nearly perfect correlation among the variables.

2. The partial regression coefficient for exogenous variable sales indicates positive relationship with dependent variable (profit). It implies that with the raising of sales by one lakh and current assets was held constant then there would be an increase in profit by Rs. 0.491 lakh in HCIL and Rs. 0.2143 lakh in UCIL. But increase in profit was double in HCIL than in UCIL as per unit increase in sales. This result follows the general rule of business that more sales more profit and less sales less profit.

3. The partial regression coefficient for exogenous variable current assets indicates negative relation with dependent variable profit in both industries during the period of study. It was due to the partial regression coefficient of profit and current asset was negative, it implies that with the raising of current assets by Rs. one lakh and sales was held constant, then there would be decrease in profit by Rs. 0.431 lakh in HCIL and decrease in profit by Rs. 1.022 lakh in UCIL. This relationship follows: High liquidity low profit. So the

management must keep the current assets in such a way that profitability and liquidity should be maintained.

4. The coefficient of multiple determination ofHCIL was 0.88. This implies that 88% variation in profit was due to the variation of sales and variation of current assets and rest 12% was due to other reason. Similarly, the coefficient of multiple determination in UCIL was 0.98 which implies that 98% variation in profit was due to the variation sales and variation of current assets and the rest 2% was due to other reason.

5. In UCIL, the calculated value ofF (19.0677) was greater than the table value F ($v_1 = 2$, $v_2 = 5$) at 5% level of significance. This result implies that at least one of the independent variable was related with dependent variable profit (y).

   In UCIL, the calculated value ofF (102.39) was highly greater than the table value ofF ($v_1 = 2$, $v_2 = 3$) at 5%. This result implies that at least one independent variable related with dependent variable profit (y).

The present study points out that a very important reason for the losses or low level of profits of the public enterprises in Nepal was ineffective and inefficient utilization of working capital. It seems to be the failure of an enterprise in due to the shortage of working capital. Main objective of working capital management is to arrange the needed funds at right time from the right sources and for the right period so that trade off between liquidity and profitability may be realized.

REFERENCES

1. Annual reports of the selected industries for the selected period.

2. Bhattacharya, H. "Working Capital Management Strategies & Techniques", Prentice Hall of India Pvt. Ltd., New Delhi, 2001

3. Bhalla, V.K., "Working Capital management (Text and Cases)", Anmol Publications Pvt. Ltd., New Delhi, 4th ed. 2001

4. Rao, K.V., "Management of Working Capital in Public Enterprises", Deep & Deep Publication, New Delhi, 1990

Indian Journal of Accounting
Vol. XXXV(1) December 2004

SOCIAL ACCOUNTING

**Somnath Ghosh*

ABSTRACT

Financial stakeholders require financial information and non-financial stakeholders require information about the impact of the corporate operations on them. Corporations cater to this information requirement of non-financial stakeholders through Social Accounting (SA). This SA may be configured in the Annual Reports of the corporations in the following ways: (A) Value Added Statements, (B) Employee Related Information, (C) Environmental Accounting, (D) Community Development Accounting. In order to find out the present status of SA in India a survey of Annual Reports of 134 corporations is carried out for the Accounting Year 1998-99.

Corporations should also in their self interest strive to be up to date in providing socially needed information. Because by providing such information regarding employees, environmental measures undertaken, community development programmes performed and contributions to the society through generation of values they will be in a position to prove themselves socially enlightened and friendly to the society. Through these information disclosures they will present themselves responsible to the non-financial stakeholders and to the society at large. Maintenance of this attitude will also enable the corporations to reap economic benefits in future in the form of cordial relationships with the employees, governments and the local community.

All the above argues in favour of social accounting by the corporations and its disclosure. This is an essential part of the good corporate governance also. Because good corporate governance demands that the corporations should not only be concerned about the financial stakeholders but also about the non-financial stakeholders. This onerous duty of the corporations can be discharged through performing activities needed by the non-financial stakeholders and by disclosing information regarding those activities. This Social Accounting (SA) may be configured in the Annual Reports of the corporations in the followings ways:

A. Value Added Statements

B. Employee Related Information

**Reader, Sree Chaitanya College of Commerce, P.O. Habra-Prafullanagar, Dist. North 24 Parganas (WB)*

C. Environmental Accounting

D. Community Development Accounting

In our country there is no prescribed guideline for SA by any authority yet.

However, accounting and disclosure of employee related information are recommended under the Companies Act, 1956 in the following ways:

1. Information with regard to certain category of employees is required under section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975.
2. Part II of the Schedule VI to the Companies Act, 1956 requires separate disclosure for each of the following items of expenditure:
   (a) Salaries, wages and bonus
   (b) Contribution to provident and other funds
   (c) Workmen and staff welfare expenses (to the extent not adjusted from any previous provision or reserve)

SURVEY FINDINGS

Now to find out the present status of SA in India a survey of Annual Reports of 134 companies is carried out for the Accounting Year 1998 - 99. The profile of the companies surveyed is provided in the Table 1.

The survey findings are arranged under the following four elements as discussed earlier:

A. Value Added Statements

B. Employee Related Information

C. Environmental Accounting

D. Community Development Accounting

Survey findings in respect of each of the above categories are summarized below:

A. Value Added Statements

Out of 134 companies only 2 manufacturing companies have accounted for information relating to value addition. 1 company has published value added statement and another has disclosed only the amount of value added. So, the performance in this respect is very much poor.

B. Employee Related Information

Highest no. of disclosure, i. e. 119 out of 134 companies is observed in the case of statutory reporting of employee remuneration as per Part II of the Schedule VI to the Companies Act, 1956. Hence the percentage of accounting of this item comes to 88. 81.

In the case of the following items, performance is noteworthy:

Sl. No.	*Item of Accounting*	*% of Companies Accounting*
1.	Appreciation of valuable services of employees	52.24
2.	Particulars of employees as per section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975	44.78
3.	Relations with the employees during the year	37.31

In respect of the following items, no. of disclosing companies are to a limited extent discernible:

Sl. No.	*Item of Accounting*	*% of Companies Accounting*
1.	Training programme of employees	19.40
2.	Number of employees	16.42
3.	Health and safety measures undertaken	14.93
4.	Number / % of weaker section employees, i.e., scheduled tribes, scheduled castes and other backward castes	8.21
5.	Cost of voluntary retirement scheme	8.21

So it may be inferred that the companies are accounting for at least some information regarding their employees though there is no recommendation by any authority in this respect except the aforementioned two cases under the Companies Act, 1956.

C. *Environmental Accounting*

Performance to a very much limited extent is observed in respect of the following two items:

Sl. No.	*Item of Accounting*	*% of Companies Accounting*
1.	Achievement of governmental/other norms regarding environmental protection measures	9.70
2.	Afforestation	9.70

Hence the overall performance is very much poor.

A discernible feature in the case of environmental accounting is that the companies accounting are all manufacturers except a hotel which has used environment friendly wind energy for its operation and has also reported the same.

D. Community Development Accounting

Very much limited performance is observed in the following cases.

Sl. No.	*Item of Accounting*	*% of Companies Accounting*
1.	Medical	8.96
2.	Education	8.96
3.	Efforts for promoting Hindi Language	8.96
4.	Potable water in villages	7.46

Another notable feature is that most of the companies performing and reporting community development activities are manufacturers.

So the overall performance of the companies in the field of SA as revealed through this survey is not at all encouraging.

CONCLUSION

Now this sorry state of affairs of the Indian companies regarding SA should not be continued in their self interest. Because this portrays the indifferent attitude of the Indian corporations toward the social responsibilities of business.

This attitude is not also sound for good corporate governance. Because it also reveals that the Indian corporations are not concerned about the non - financial stakeholders of business.

As the corporations are not volunteering on their own in this respect, the appropriate remedy will be the stepping in of authorities through suitable enactment.

TABLE- 1

PROFILE OF THE COMPANIES SURVEYED

(IN RUPEES CRORES)

Nature of Companies	TOTAL ASSETS						TURNOVER					
	Up to 30	31 to 300	301 to 3000	3001 to 30000	30001 & above	Total	Up to 30	31 to 300	301 to 3000	3001 to 30000	30001 & above	Total
	No.	No.	No.	No.	No.	No.	No.	No.	No.	No.	No.	No.
Manufacturing	22	22	26	9	2	81	24	26	25	6	-	81
Banking & Non-Banking Finance	12	9	4	1	2	28	22	2	2	2	-	28
Hotel	2	2	1	-	-	5	3	1	1	-	-	5
Others	14	4	1	1	-	20	16	2	2	-	-	20
Total	50	37	32	11	4	134	65	31	30	8	-	134

Note:

1. No. of companies surveyed : 134
2. Companies were surveyed for the Accounting Year 1998-99
3. Others includes shipping, Electricity, Financial Services, Information Technology, Construction, Consultancy, Travel Agency, Trading and Real Estate.
4. Source: Annual Report of the companies sueveyed.

Indian Journal of Accounting
Vol. XXXV(1) December 2004

ROI MARKETING

**Pramod Pathak*
**Saumya Singh*
***Mitali Sen*

ABSTRACT

Post liberalization, marketing has suddenly become the sine qua non of business. If you are not marketing you are out of market. Naturally, marketing has become a major budget head in the company's book of accounts. The question, and a vital one, is measuring the cost benefit of marketing efforts. Simply put, what is the worth of your marketing effort. Ad spending can no longer be mad spending. Cutthroat competition entails cutting costs to size. The twenty first century marketing manager needs to tell the mandarins in the board room how much money to spend and what will be the returns. Every rupee has to be earned and every rupee needs to earn. Against this backdrop Return on Investment (ROI) in marketing has emerged as the critical tool in the hands of the marketing manager. The present theoretical paper deals with the various aspects of ROI.

With cost and competition determining which companies will survive and which will not functional distinctions like marketing, finance etc. are thinning and corporates are becoming closely knit teams of cross functional specialists. Maximising ROI, holds the key to effective management of an enterprise. The past decade has seen, perhaps, CEOs tumble like nine pins. And the single most important reason for this was the dissatisfaction of the board room with the ROI. ROI then is no longer a mere tool. Rather it is the strategy. Marketing being a vital function performed in any organization, strategies linked to it have far greater role to play. Customers being erratic and unpredictable as they are most marketing strategies attempt to fathom customer satisfaction and work out satisfaction indices to live up to customer expectations. Companies spend huge sums on marketing without caring to know, how much that investment contributes to the value of the firm. It is common knowledge that every business

**Faculty, Department of Management Studies, ISM, Dhanbad.*
***JRF, Department of Management Studies, ISM, Dhanbad.*

wants greater profitability, sales volume and customer loyalty. The job of the marketers has, therefore, become more complex as they seek to achieve the most effective way of utilizing their time and resources. The important task is to optimize expenditures for greater returns. Though most marketers know ways of accomplishing effective marketing, they are not conversant with appropriate ways that generate the maximum returns. Companies need to develop a new technique to measure marketing effectiveness accurately. One such technique is "Return On Investment Marketing", or ROI marketing. ROI marketing is a technique that shall help the companies to identify and locate where the money shall deliver its maximum return. It is considered as a tool to streamline and focus strategy that may lead to breakthrough performance. ROI was commonly used as a measure of profitability of the firms. It was more of a financial tool to assess the feasibility of firm's investments. But in today's business scenario the application of ROI as a marketing tool has gained paramount importance. The paper aims to suggest effective guidelines for implementing ROI marketing technique in an organization.

RETURN ON INVESTMENT

Return on Investment is a key analytical factor for all companies from all markets and industries. The term means that decision makers evaluate the investment potential by comparing the magnitude and timing of expected gains to the investment costs. In the last few decades, this approach has been applied to asset purchase decisions, programs of all kinds (including marketing programs, recruiting programs, and training programs) and to more traditional investment decisions (such as the management of stock portfolios or the use in venture capital).

Return on investment is frequently derived as the return (incremental gain) from an action divided by the cost of that action. The standard formula is dividing your annual income by the investment amount.

ROI = Profit/Investment

$$ROI = \frac{Profit}{Sales} \times \frac{Sales}{Investment}$$

= Profit Margin x Investment Turnover

It is important for companies to calculate their return on investment to measure their success. It allows them to keep track of gain compared to loss. This can help them determine what investments are worth continuing, and which ones they should consider ending if loss is substantial. A perceived return on investment is different than a potential ROI. Perception can often be based on a guess that is not backed by reliable gathered evidence and research. Potential can be determined by actual calculations, which are decided by facts and actual numbers. Still, there are many factors that can change and effect the potential outcome. Other financial ratios are also treated as ROI figures at times. "Return on Invested Capital", 'Return

on Capital Employed', 'Return on Total Assets', 'Return on Equity' and 'Return on Net Worth' are sometimes called "return on investment." In still other cases, the term refers simply to the cumulative cash flow results of an investment over time. Thus several different returns on investment metrics are in common use and the term itself does not have a single, universally understood definition. Therefore, when reviewing ROI figures, or when asked to produce one, it is a good idea to be sure that everyone involved defines return on investment the same way and understands the limits of the concept when used to support business decisions.

ROI MARKETING

ROI marketing is the assessment of the firm's marketing activities by comparing the sales revenue generated with respect to the marketing expenditures made. It involves not only more sophisticated analytics and systems, but also aligning marketing and promotion processes (e.g., planning and executing promotions, post-promotion analysis, target setting and funding, etc.) around the idea of ROI marketing. Hence the organization's tasks and incentives need to be aligned around the idea of creating value for shareholders.

However ROI marketing is a major change program, and the firm needs some time to implement it. It is important that this program is driven by senior management, and must be implemented at every level of the hierarchy. Within the marketing discipline ROI marketing can be applied across the entire spectrum of marketing, trade and consumer promotions, advertising, pricing and product placements.

FACTORS INFLUENCING ROI MARKETING

Outside factors will effect and interact with the outcome and performance of the marketing actions throughout the duration of any business The changing conditions of economy will play a key part in influencing ROI marketing execution. . The fluctuating prices of items and supplies that are needed in business can have an effect on ROI. A diminishing trend in the purchasing power of the consumers can also be a factor affecting ROI. The invention and use of new technology is a major facet of change and effectiveness. Other aspects that can affect the ROI may arise from within the company. High employee turnover for example can be very costly for a company, as it will require training new employees constantly. It may also slow down the processing of applications, as employees need time to learn in order to become efficient in their jobs. These are the factors that may affect ROI on various marketing processes.

Return on Advertising Investment

Success of a brand can be measured by different factors. One of the most crucial factors is the advertising. Effective advertising develops a positive attitude and makes persuasion to make the product successful in the market. It supports return on advertising investment, and determines the value of a brand's advertising efforts on some parameters of brand performance such as sales, revenues or profit.

Advertising effectiveness can be well measured by the kind of support given by media and the increased amount of sales generated by that support. Consumers respond by purchasing more of a product than they would have had there been no advertising. This increased volume must be noted quantitatively along with the investment made in that advertising and then on the basis of these short term variations in sales figure one can easily assume the effectiveness of advertising related with that product.

Whether advertising plays the major role in increasing the sales of a company, can be seen due to some other factors which can occur simultaneously. Some of them are communication, post purchase behaviour of the satisfied or unsatisfied customers, duration of the advertising, presence of that ad in the market, seasonal opportunity, metrics of opportunity for seasonal purchase, timing of advertising to capture seasonal purchase, price of the product, price of the substitute etc.

When advertising is proved effective, the brand can increase its pace in the market. When it is not, valuable opportunities are invisible; the brand becomes more sensitive to price and the competitors are well benefited in these situations.

CHALLENGES

Though ROI marketing is a useful technique for any organization, effective utilization of this technique is a challenging job for marketers, managers and strategists. Most marketing practices require this quantitative evaluation but its execution is not that easy. All actions that support the growth of any organization can be well justified by their action but their assessment in numeric is not easy. It is very difficult for the companies to chalk out the return on anything like HR practices, training of personnel, sales promotion activity, motivation of personnel and marketing of products. If any marketing programme is designed for the company, the person who is in-charge of implementation of that activity in the organization would like to concentrate on the portion of the cash flow generated by that investment. When we come to this figure everyone shows his interest in this kind of studies but as it come into practice few are willing to implement it.

Determining ROI on a new machine is quite easy, as one requires analysing the incremental cost and revenues associated with that machine. The return can be easily judged on the basis of production efficiency of that machinery that can be analysed easily with their respective incurred costs. It can be easily said that in finance matter it is relatively easy to compartmentalize events than that of marketing. As marketing is complicated and can be said as disorganized. It is a challenge for the companies to assess it correctly as it is difficult in implementation but its outcome can increase the efficiency of the organization. To increase ROI, one needs to look at a few possible areas that need improvement in marketing plans.

Marketing expenditures have risen considerably over the past decade as companies have engaged in ever-tougher battles for customer loyalty and market share. Yet few companies can determine, with any certainty, which marketing programs consistently return genuine

business benefits to the company and which simply siphon away profits. This inability to determine the return on investment of each marketing activity undermines the entire marketing effort precisely at a time when companies need a highly effective marketing function the most.

However, newer marketing techniques, such as econometrics and allocation software, are now making it possible to truly measure and improve the return on marketing investment. Given these measurement innovations, it is the right time for executives to expect a level of accountability from marketing similar to what they expect from purchasing, manufacturing and logistics. The companies could potentially accelerate growth and cut costs by adopting a new approach to marketing. An attempt has been made in this paper to suggest important guidelines that may be used by the management for a systematic implementation of ROI marketing, which are discussed as follows:

(i) Quantification of the consequence of past marketing actions: Companies should conduct an annual marketing analysis, which relates marketing investments to top-line sales and market share. Decisions for the next year's campaign should then be made after having adequately quantified the effects of each individual marketing element's impact on growth and profitability.

The marketing activities must be recorded with increasing specificity. For instance, whether a campaign reaches its audience by way of television, radio, cinema, print etc. Once the data is collected and organized, marketers can use statistical analysis to determine which elements of the marketing program have delivered results and which elements have under-performed. The marketing mix can then be reallocated to accelerate growth or cut costs.

(ii) Developing insights into competitive performance: The techniques of return on marketing investment should be used to examine competitive performance and assess its effectiveness. It is now possible to track competitors' results and activities in terms of advertising and price promotion and perform a statistical analysis to piece together a fairly detailed and insightful image of key competitors' strengths and weaknesses. Such an analysis can create deep insight about the nature of competition and provide the concerned company a competitive advantage.

(iii) Identification of under-performing activities: A Marketing mix analysis needs to be conducted to emphasize those activities with the highest return on investment and point out the ones that are likely to show negative or mediocre returns. Time-series analysis reveals important insights into how different parts of the marketing mix are performing. It can track, for example, the base sales of a product or a brand as an indicator of how loyal customers are, regardless of special promotions or marketing bombardments. In addition, it can show how effectively various elements of the marketing mix are contributing to the overall effort. If one

media is having the greater impact and reach than other media but cost incurred in the first media is very high than the second one then it is a matter when managers will think that what should be the combination of the media mix to generate maximum output with minimum investment.

(iv) Establishing accountability for each element of marketing activity: Some marketing activities are designed to increase awareness of a brand; others, to introduce a new product and still others to encourage repeat buying and build brand loyalty. Despite this division of labor, many companies evaluate their marketing campaigns by looking solely at sales, as if the marketing effort were a single-faceted activity. Therefore the performance of individual elements of a marketing campaign must be measured. For instance, an investment in television advertising can be linked to shifts in brand awareness. If the brand currently has 60 percent awareness, the key performance indicator could be that TV advertising must increase that awareness to 70 percent. Once that goal is reached, continued incremental increases could be set, accompanied by appropriate rewards. The important matter is to establish reasonable and reachable goals for each marketing activity, specifying clearly what those goals are, and reward each element appropriately if it achieves the desired outcome.

(v) Determining products and markets that offer significant growth opportunities: Many executives direct their companies by focusing primarily at past sales and revenues, where they have been, not where they want to go. However in the present scenario managers should focus into the company's future growth potential. There are various quantifiable methods now available which can show managers where they should place their company's future efforts. For example, improved forecasting changes in markets, market share and profit margins can point a company toward competitive advantage and market dominance.

Data on demographic make-up and market profiling can help marketers forecast a brand's future household penetration, frequency of purchase and consumption, replacement rate, changes in weight and packaging and so forth. Such measures can guide executives in planning a brand's future category size and setting its market share.

(vi) Reallocating marketing resources to capitalize on new growth potential: This step the most difficult to implement, in part because the firm rely on ineffective ways of allocating resources. When managers want to quantify and compare investment opportunities of the same category they need to reallocate the resources. But it is hard to implement as it result into loss of jobs, products, manufacturing plants or even an entire brand. But a system and process that is based on investing proportionally against future growth potential could result in radical improvement.

The marketing process is not 'intuition', nor it is purely a creative or imaginative pursuit. Rather, it can and must be quantified and get the optimum solution in ways that most

companies have yet to do. The ultimate goal should be to make a return on investment mindset, system and process into the overall marketing infrastructure.

CONCLUSION

After a company has created a sound ROI model for their potential development it is important to know how to monitor it, one of the key factors of being able to successfully monitor return on investment is the ability to pin point the necessary steps for calculating improvements. This paper makes an effort to draw up a series of important suggestions that shall help the management of a firm to implement ROI marketing. It is also important to be able to see negatives before they get out of hand and hurt the potential benefits. Companies invest in technologies for their employees such as cell phones, email, internet facilities etc. These technologies can facilitate the work teams to effectively monitor ROI. They can contribute to better organization, frequent collaboration, knowledge growth, execution of management skills and a happier employee. The satisfaction of employee is crucial to the success of any business. In ROI marketing the employees are empowered to understand the internal outputs of their work, such as identification of the various activities and processes undertaken by them, knowing what is the work effort and cost to perform these activities. Here the employees feel empowered and hence their active participation is confirmed. When the staff can feel confident about their work like successful ROI trapping, their productivity will enhance. ROI Marketing is a major change program, and companies take time to implement it and thus overhaul its performance. It is important that senior management drives this program, and there is a commitment to make it happen at every level in the organization. It is also important to keep in mind that ROI marketing does not attempt to wring the art out of marketing; that would be both unfair and counterproductive, since creativity is essential to effective marketing. Rather, its goal is to bring measurable data to bear on areas that in the past were rarely measured. To conclude it can be said that companies should always view metrics as a way to generate business insights and to strengthen and rejuvenate their overall customer-focused strategies.

REFERENCES

1. Kumar V. and Peterson A. J. (2004) Maximising ROI or profitability, Marketing Research, Vol. 16, No. 3.

2. Merrihue, J., (2003)- Accelerate Growth, Cut costs by optimizing marketing return on investment. Accenture, Outlook point of view, July, Accessed

3. Bernard, J., (2000), Marketing Metrics: Tracking Return on your Investment

4. Door and Hardware, (1998), ROI Marketing: Methods for measuring your market success.

5. The Art and Science of ROI marketing: Indian Management, Vol. 43, Issue 4, April (2004), pp. 25-34.

Indian Journal of Accounting
Vol. XXXV(1) December 2004

MERGERS & ACQUISITIONS: SUN IS SHINING BRIGHTLY

**Vijay Shrimali*
***Karunesh Saxena*

ABSTRACT

Due to the imminent implementation of WTO Guidelines with effect from July 2005, it was become mandatory for business organisation to strengthen their Research and Development (R & D) base. Consequently the size of the business organisation matters most, merger and acquisition have, therefore, become order of the day, an attempt has been made in the paper to provide a theoretical framework of merger and acquisition, various examples of merger and acquisition in the world market and finally, the economic advantage of merger and acquisition have been outlined.

Due to WTO's inclination towards companies Research and Development (R&D) aspect, this has become mandatory for the industries to be rich and affluent regarding R&D network, the best strategy to be millionaire in this area is merger of the companies, through merger companies not only challenges the global competition but also challenges the mathematical equation, that 1+1 is always equals to 2, now the calculation has changed, after merger, now it can be valued like 1+1is more then 2. Thus this equation gets support with the following reasons, which shows why companies participate in merger activity.

- Increase market area to tap unserviced markets.
- Increase market area to diversify geographic coverage.
- Reduce market competition and/or increase market share in local market area.
- Streamline operations (reduce cost) by eliminating duplicated personnel between firms.
- Financial constraints force the activity in order to maintain the financial viability.
- Increase the scale (size) of the organisation to cover the increasing fixed costs of operation.

**Associate Professor and Head, Department of Business Administration, College of Commerce and Management Studies, Mohanlal Sukhadia University, Udaipur, Rajasthan.*
*** Director, Pacific Institute of Management, Udaipur, Rajasthan.*

- Increase the scale (size) of the organisation to remain competitive with other business firms.
- Tax shields are utilised better.

(I) RECENT M & A ACTIVITIES

In recent past there was an increase in merger and acquisition activities, below is the table which shows the percentile distribution of the various types of mergers indicated above.

Table 1

Description of most recent Merger, Acquisition, Joint Venture, or strategic Alliance

	Description	Percent
Horizontal	"A combination of companies with similar products, services, and/or member patrons to reduce cost and increase the scale (size) of both companies."	66.10
Vertical	"A combination of companies with different products, services, and/or member patron to increase the scope of the operation (for example, the combination of marketing and processing cooperative to provide a more integrated, efficient operation for both)."	6.78
	"A combination of companies to gain access to market channels or to assure supply (for example, a farm supply cooperative purchasing a fertilizer manufacturer to insure a stable supply of fertilizer)."	13.56
Conglomerate	"A combination of unrelated companies to stabilize the income for both firms."	6.78
	"Other."	5.08

Source: The Icfain Journal of Management Research, September 2004

Above table reveals that maximum companies prefer 'Horizontal' merger as it provides better growth prospects being in similar products and services, success rate of such companies is high. Take the example like Coromandel Fertilisers with Godaveri Fertilisers, HSBC with UTI Bank, J&P Coats with Madura Coats, Tata Motors with Daewoo Commercial Vehicles etc.

(II) M & A: THE NEED OF HOUR

Business combinations have played an important role in the external growth of a number of leading companies the world over. According to Arthur, Waya, (1963) in the United States, the first merger wave occurred between 1890 and 1904 - 1 the second began at the end of the

World War I and continued through the 1920s. The third merger wave commenced in the latter part of World War II and continues to the present day.

About two-thirds of the large public corporations in the USA have merger or amalgamation in their history. Bhattacharayya, (1988) focuses that in India; about 1180 proposals for amalgamation of corporate bodies involving about 2,400 companies were filed with the High Courts during 1976 - 1986. These formed 6 per cent of the 40,600 companies at work at the beginning of 1976.

The first ever merger that took place in India was between Sandoz and Ciba Geigy, giving rise to a new company called Novartis. This consolidation took place in the latter half of the eighties, Singh (2004).

In previous years Indian companies have shown their competency and proved their global aspiration, the number as well as the size of foreign targets showed a steep rise. Byotra (2004) analysed that close to 50 overseas acquisitions amounting to $1.8 billion took place last year -a more than four - fold increase in the average deal size from $7.5 million in 2002 to $36.5 million in 2003. Below is the list of Indian acquirers of foreign Companies.

Table 2
SHOPPING OVERSEAS

Indian acquirer	Country	Target Company	Value ($ million)
ONGC Videsh	Sudan	Greater Nile	750
Reliance Infocomm	Bermuda	Flag Telecom	221
Infosys	Australia	Expert Information Services	22.90
United Phosphorus	USA	Oryzalin Herbicide business of Dow Agro science	21
Amtek Auto	USA	Smith Jones	20
Wipro	USA	Nerve Wire	19
Tata Motors	S Korea	Daewoo Commercial Vehicles	NA

Source: Business India, December 22, 2003 - January 4, 2004

The graph of M & A activity in the domestic market has pointed southward, gone are the days when a few large transactions overwhelmed the market. The top five deals accounted for just a fourth of M & A market in the last six months of 2003, the lowest proportion in any half - yearly figure in the past five years. Byotra (2004) have compiled data on M & A deals of 2003 which stood at 674, second only to 2002 figures in the past five years, signalling a rise in participation deal market.

Along with rise in M & A activity if we look towards the sector wise domination then in reference to number of deals, maximum number of deals have taken place in Information Technology sector (Reliance Infocom with Flag Telecom, Infosys with Expert Information Service, Wipro with Nerve Wire etc.) then comes the Banking and Finance sector (HDFC

Asset Management with Zurich Asset Management, HSBC with UTI Bank, Dewan Housing with Vysya Housing Finance etc.) next in the list is Pharmaceuticals and healthcare (Tetragon Chemie with Animal Healthcare division of Unichem Laboratories, BASF with Cynamid etc.)

Table 3
THE MARKET MOVERS

Sectors	Value ($ mn)	No. of deals	Average deal size ($ mn)
Information Technology	762	90	8.47
Banking and finance	489	63	7.76
Cement and building materials	469	9	52.11
Telecom	432	14	30.86
Pharmaceuticals and healthcare	362	38	9.53

Source: INDATA India advisory partners

Merger and Acquisition have been the preferred route of the corporate growth, but the key feature of deals that were initiated last calendar year was that the activity on M & A front was low. It had hit a speed beaker both in terms of number and value. Joseph, Pinto (2004) were of the opinion that the reason for the number of deals to shrink was two - fold: firstly, overseas companies were beset with their own challenges back home in terms of slowdown, and secondly, domestic giants were busy focusing on the potential acquisition culminating from the government disinvestment programme.

Joseph, Pinto (2004) have analysed other reasons for a slowdown in M & A activity. For one, Tatas and the Ambanis were busy digesting their big acquisition done in the previous years. (Tata with VSNL and Reliance with IPCL). Now the deal cycle is taking a longer time than before; besides many of them are large and complexities are more. More attention is being paid on the due diligence exercise. The decline in numbers and value of deals too is mainly attributable to drop in PSU disinvestments, which came to a grinding halt in 2003. As a result of this, the average size of deals have fallen by 39 per cent to Rs21 crore.

There is slow down in M & A activity in beginning of year 2003 but in second half there was some activity which has given rise to the activity of merger and acquisition, say, acquisition of the Government of Andhra Pradesh's equity stake in Godavari Fertilisers & Chemicals(GF&CL), Balco, which was divested in favour of Sterlite group, HSBC announcing the acquisition of a plus 14 per cent stake in UTI bank, also the IdusInd Bank acquiring Ashok Leeyland Finance, and many more in the row, below is the list which shows the domestic deals in the past few years.

Table 4

DOMESTIC DEALS

Acquirer	Target Company
• ABP group	• Star News
• Blackstone group, Apollo group and Goldman Sachs Partners	• Onedo Nalco
• Caterpillar	• Hindustan Power Plus
• Consortium	• Otis Elivator
• Coromandel Fertilisers	• Godavari Fertilisers
• Dewan Housing	• Vysya Housing Finance
• Grasim	• Cement division of L & T
• HDFC Asset Management	• Zurich Asset Management
• Hindalco	• Indal
• HSBC	• UTI Bank
• Hutchison Telecom	• ADIL's cellular licenses for UP, Rajasthan, Haryana & Escotel's cellular license for Punjab
• ICICI Venture	• Tata Info media
• J & P Coats	• Madura Coats
• L & T Employee Trust	• Grasim Holding in L & T
• Principal Asset Management	• Sun F & C Management
• Raymond	• Colour Plus Fashions
• Sabre Capital Worldwide	• Centurion Bank
• SSI	• Aptech
• Tetragon Chemie	• Animal Healthcare division of Unichem Laboratories
• The News Corporation	• Hughes Software System

An analysis of domestic deals and overseas deals proves that, in spite of slowdown in early 2003 in the activity of M & A, now it started gaining its momentum and become the need of hour.

(III) M & A: ADVANTAGES

There are host of economic advantage which motivates companies to merge, the major among them were analysed below:

- It gives the advantage of synergy, which refers to greater combined value of merged firms than the sum of values of individual units. It is something like one plus one more than two. *Asea Ltd. With Asea Brown Bovery (ABB) was intended to avail of the benefits of synergy effects.* (Pandey, 1999). *Ford Motors merged as one of the leading giant corporation with a wide range of products as aresult of acquisition of companies like Lincoln Motors Ltd. Philco Corporation Ltd. And certain assets of Electic Autolight Company.*
- Alliances of Jenson and Nicholson India Ltd. With Carl Scheneek AG, and JK Corporation with Mitel of Canada are examples of acquisitions based on *diversification motive.*
- It eliminates competition among the companies. The companies will able to save their advertising expenses thus enabling them to reduce their prices. *The fear of increasing competition resulting from the tie - ups between Procter and Gamble and Godrej Soaps forced Hindustan Lever to seek the merger of TOMCO with it.*
- Tata Telecom tie up with AT & T, German tie up for power plant with Tamil Nadu Industrial Development Corporation, have been made essentially for *securing latest product technology.*
- Large numbers of M & A are being struck with the specific purpose of globalising the firm's products. *For instance tie ups between HCL and Hewlett Packard Ltd., Ranbax Laboratories and Eli Lilly and company, Parle and Coco-Cola etc.*

CONCLUSION

The above economic advantages should not lead to the conclusion that merger and acquisitions were always advantageous to the organisations seeking expansion and consolidation and strengthening competitive position because unplanned mergers may land the companies in grave crises. Take the story of the most high profile corporate marriage in between HDFC and HDFC Bank, where on balance sheet size of Rs 24,000 crore, the merged entity will have to borrow Rs 7,000 crore or so to meet its cash reserve ratio (CRR) and statutory liquidity ratio (SLR). Such huge borrowings would affect credit rating. As result, HDFC's borrowing cost could go up by any thing between 100 and 150 basis points. Worse still, the money will have to be invested in low-yielding government securities. So, they were borrowing money at a higher rate and lending it at a lower rate. The profits of the merged entity will be lower than the two stand-alone companies. Then, there is an entire regulatory tangle that comes in the way of merger. The bank is regulated by the Reserve Bank of India while HDFC is regulated by the National Housing Bank. In both cases, the liquidity requirements are different - HDFC does not have to maintain any CRR and its effective SLR is just 4.5%. The tax rates are different. The norms for foreign investment are different - HDFC can be owned 100% by foreigners while the bank has a 49% limit (Sarkar, Celestine 2002).

Srivastava (1997) added that, The American Management Association examined 54 big mergers in the late 1980's and found that roughly one half of them led to fall in productivity or

profits or both. Right from the inception to this stage of M & A market, it is flourishing and expanding day by day except few black deals which are tiny black dots meagre enough to eclipse the shining sun of merger and acquisition.

REFERENCES

Arthur, R., Waya, H., 1963. "A Critical Study of Accounting for Business Combinations, Accounting Research Study", New York, American Institute of Certified Public Accounts, pp.7

Bhattacharyya, H.K., 1988. "Amalgamation and Takeovers, Company News and Notes", pp.1-11.

Byotra Anuja, 2004. "Mergers & Acquisitions Global Dreams", Business World, January 19, pp. 22.

Chandra Prasanna, 2004. "Financial Management, Theory and Practice", New Delhi, Tata McGraw Hill Publishing Company Limited, Vol. 9, pp. 917 & 934.

Hudson Darren and Herndon Cary W "Bill", 2004, "Merger, Acquisitions, Joint Ventures and Strategic Alliances in Agricultural Cooperatives", The Icfain Journal of Management Research. September, pp. 78,79.

Joseph Lancelot and Pinto Roy, 2004. "Deals of the year", Business India, January 4, pp. 62,65,&68.

Khan, M. Y.and Jain, P. K., 1999. "Financial Management Text and Problems", New Delhi, Tata McGraw Hill Publishing Company Limited, Vol. 3, pp. 8.2.

Pandey, I. M., 1999. "Financial Management", New Delhi, Vikas Publishing House Pvt Limited, Vol. 8, pp. 1101.

Sarkar Ranju and Celestine Avinash, 2002. "Sailing Against", Business World, December 16, pp. 15.

Singh Rakesh, 2004. "Putting people at the centre of M & A", Indian Management, June, pp. 61.

Srivastava R. M., 1997. "Financial Management and Policy", Mumbai, Himalaya Publishing House, Vol. 1, pp. 415.

Indian Journal of Accounting
Vol. XXXV(1) December 2004

IMPACT OF MERGERS AND ACQUISITIONS ON FINANCIAL PERFORMANCE OF PRIVATE SECTOR BANKS

*G. Laxman

ABSTRACT

The paper makes an attempt to analyse the impact of M&A on financial performance of private sector banks by comparing pre merger and post merger scenario.

Consolidation in the banking industry worldwide is an ongoing process. Banks, in their quest for lower costs and higher margin, are always on the look out for synergy with their own kind. India is not an exception to this. Ever since its elaboration in the Narasimham committee report in 1991, this topic has been discussed and debated. Consequently, two public sector banks - Punjab national bank and new bank of India merged way back in 1993. It is reported that the experiment was not successful. Subsequently, amalgamation between Times bank and HDFC bank is the first merger of its kind, wherein the two profitable private sector banks merged on a negotiated basis in 1999.

The scheme of bank of Madhura Merger with ICICI Bank includes the following:

1. The Reserve Bank of India has sanctioned the scheme of merger of Bank of Madura with ICICI Bank. The scheme will come into force with effect from March 10, 2001 (day of announcement of merger 09-12-00).
2. Shareholders of Bank of Madhura would receive Two share of ICICI bank for every one share.
3. The scheme of merger will increase the equity base of ICICI Bank to Rs. 220.36 cr. ICICI Bank will issue 235.4 lakh shares of Rs.10 each to the share- holders of BOM.

In this paper, an attempt is made to assess the impact of merger on financial performance, in terms of CAR, NPAs, Interest income, Interest expenditure, Operating expenses, Provisions

Associate Professor of Commerce, University College for Women, Koti, Osmania University, Hyderabad

and contingencies, Spread, GP, NP as percentage of total assets before and after the merger. For the purpose the necessary data is taken from financial reports of both the banks from the period from 1997-98 to 2002-2003, which includes three years period before the merger and three years period after the merger.

INTEREST

The financial impact of Bank of Madhura merger with ICICI bank is analyzed in terms of trends in Interest Income. Interest Expended in Table 1.

Table 1

Interest Income and Interest Expended as a percentage of Total Assets - before and after the merger

		Interest income as % of Total Assets			Interest expended as % of Total Assets		
		ICICI	BOM	PRVT-SBs	ICICI	BOM	PRVT-SBs
Before the Merger	1997-98	7.88	8.73	9.77	5.66	6.22	7.31
	1998-99	7.79	8.91	9.66	6.09	7.03	7.57
	1999-2000	7.06	9.30	8.74	5.52	6.96	6.58
	Average	**7.58**	**8.98**	**9.39**	**5.76**	**6.74**	**7.15**
After the Merger	2000-01	6.29		8.87	4.24		6.54
	2001-02	2.07		6.18	1.50		4.60
	2002-03	8.77		8.26	7.44		6.29
	Average	**5.71**		**7.77**	**4.39**		**5.81**

The following observations can be made from Table-1:

1. The interest incomes, before the merger, as a percentage of total assets of ICICI bank for the year ending 1999-2000 has come down to 7, which is lower than the average interest income (7.58 percent) of the bank. It is interesting to note that the interest income of Bank of Madhura during the same period has gone up to 9.30, which is higher than the average interest income (8.98 percent) of the bank. The interest incomes, after the merger, as a percentage of total assets of ICICI bank for the years ending 2000-01 and 2002-03 were 6.29 and 8.77 respectively, which were higher than the average interest income (5.71) during the same period of the bank. It indicates that the interest income as percentage of total assets after the merger has gone up when compared with the performance before the merger.

2. The average interest expended by both the banks, before the merger, was lower than the average of all the private sector banks. The interests expended, after the merger, as a percentage of total assets of ICICI bank for the years ending 2000-01 was 4.24 where as during 2002-03 it has gone up to 7.44 which is higher than the average interest expended (4.39) by the bank as well as the average interest expended (5.81) by the private sector banks. It indicates that the interests expended as percentage of total assets after the merger has gone up when compared with the performance before the merger.

SPREAD

It is interesting to note that the net interest income of ICICI bank, before the merger, was lower than the average spread of Private Sector Banks where as the net interest income of Bank of Madhura was higher than average spread of the Private Sector Banks during the same period as shown in Table 2.

Table 2

Spread (Net Interest Income) as a percentage of Total Assets

		Net Interest Income as % of Total Assets		
		ICICI	**BOM**	**PRVT-SBs**
Before the Merger	1997-98	2.23	2.51	2.46
	1998-99	1.7	1.84	2.09
	1999-2000	1.54	2.34	2.16
	Average	**1.82**	**2.23**	**2.24**
After the Merger	2000-01	2.05		2.33
	2001-02	0.57		1.58
	2002-03	1.33		1.97
	Average	**1.32**		**1.96**

The net interest incomes as a percentage of total assets of ICICI Bank, after the merger, for the years ending 2000-01 and 2002-03 were 2.05 percent and 1.33 percent respectively, which were higher than the average net interest income (1.32) of the bank. On the other hand the net interest income after the merger of the bank has declined. Thus, there has been decline in the spreads of the ICICI bank after the merger.

GROSS PROFIT/NET PROFIT

The gross profits of both the Banks were lesser then the average gross profits for the periods 1998-99 and 1999-00. It is interesting to note that the average Gross profit as a percentage of total assets of both the banks were higher than the average gross profit of Private Sector Banks as shown in Table 3

Table3
Gross Profit/Loss and Net Profit/Loss as a percentage of Total Assets

		Gross Profit/Loss as % of Total Assets			Net Profit/Loss as % of Total Assets		
		ICICI	BOM	PRVT-SBs	ICICI	BOM	PRVT-SBs
Before the Merger	1997-98	3.06	2.29	2.25	1.53	1.06	1.04
	1998-99	1.78	1.65	1.42	0.91	0.82	0.68
	1999-2000	1.88	2.15	1.95	0.87	1.03	0.88
	Average	**2.24**	**2.03**	**1.87**	**1.10**	**0.97**	**0.87**
After the Merger	2000-01	1.47		1.74	0.82		0.70
	2001-02	0.52		1.74	0.25		0.66
	2002-03	2.41		2.43	1.13		0.99
	Average	**1.47**		**1.97**	**0.73**		**0.78**

The Gross profits as a percentage of totals assets of ICICI bank, after the merger, during the year 2000-01 was 1.47 percent. Where as during 2002-03 it went up to 2.41 percent, which was higher than the average GP of the bank as well as average of the private sector banks. However, the average GP of the ICICI bank, after merger, when compared with the average GP of before merger has declined. The Net Profit (NP) as a percentage of total assets of ICICI bank and BOM, before the merger, for the year ending 1997-98 was 1.53 percent and 1.06 percent and by the year ending 1999-2000 it has come down to 0.87 percent and 1.03 percent respectively. The Net Profit as a percentage of totals assets of ICICI bank, after the merger, for the years ending 2000-01 and 2002-03 was 0.82 percent and 1.13 percent respectively, which were higher than the NP's of private sector banks during the same period. It can be concluded that the net profit as a percentage of total assets has gone up after the merger.

CAPITAL ADEQUACY RATIO

The Capital Adequacy Ratio (CAR) of ICICI bank and BOM, before the merger, in the year 1997-98 was 13.48 percent and 13.72 percent and has gone up to 19.64 percent and 15.83 percent in the year 1999-00 respectively. The CAR of both the banks before merger were lower than the average CAR of the banks, except in the year 1999-2000, during the period of study.

Table 4
Capital Adequacy Ratio (CAR) as a percentage of Total Assets

		ICICI	BOS
Before the Merger	1997-98	13.48	13.72
	1998-99	11.06	14.25
	1999-2000	19.64	15.83
	Average	**14.73**	**14.6**
After the Merger	2000-01	11.57	
	2001-02	11.44	
	2002-03	11.10	
	Average	**11.37**	

The Capital Adequacy Ratio (CAR) of ICICI bank, after the merger, in the year 2000-01 was 11.57 percent and came down to 11.10 percent in the year 2002-2003. Thus, there was declining tendency in the CAR of ICICI bank, after the merger. Thus the merger has caused negative impact on CAR.

NON PERFORMING ASSETS AS A PERCENTAGE OF TOTAL ASSETS

The Gross Non Performing Assets (GNPAs) of ICICI bank and Bank of Madhura as a percentage of totals assets, before the merger, as on the year ending 1997-98 was 0.67 percent and 4.55 percent respectively. As against to this, it has gone up to 0.78 percent in case of ICICI bank and it has come down to 3.78 percent in case of BOM in 1998-99.

Table 5
Gross NPAs (Non Performing Assets) and Net NPAs as a percentage of Total Assets - before and after the merger

		Gross NPAs/ Total Assets			Net NPAs Total Assets		
		ICICI	BOM	PRVT-SBs	ICICI	BOM	PRVT-SBs
Before The Merger	1997-98	0.67	4.55	3.93	0.39	2.25	2.29
	1998-99	1.45	4.40	4.48	0.87	2.35	2.83
	1999-2000	0.78	3.78	3.61	0.46	2.09	2.3
	Average	**0.97**	**4.24**	**4.01**	**0.57**	**2.23**	**2.47**
After the Merger	2000-01	2.07		3.65	0.78		2.27
	2001-02	4.82		4.36	2.48		2.49
	2002-03	4.71		3.97	2.6		2.32
	Average	**3.87**		**3.99**	**1.95**		**2.36**

The GNPAs of ICICI bank as a percentage of totals assets, after the merger, for the year ending 2000-01 was 2.07 percent. As against to this it has gone up to 4.71 percent in 2002-03, which was higher than the average GNPAs of the bank as well as private sector banks. It is interesting to note that the GNPAs, after the merger, of the ICICI bank have gone up. Thus, there is an increasing tendency in the Gross Non Performing Assets as a percentage of total assets of ICICI bank after the merger.

NPAS AS A PERCENTAGE OF GROSS ADVANCES

The Gross Non Performing Assets (GNPAs) of ICICI bank and Bank of Madhura as a percentage of Gross Advances, before the merger, at the end of the year 1997-98 was 1.93 percent. Where as at the end of 1998-99 it has gone up to 2.54 percent. On the other hand the GNPAs of BOM has went up to 8.13 percent in 1999-00 from 10.9 percent in 1997-98.

Table 6

Gross NPAs as a percentage of Gross Advances and Net NPAs as a percentage of net Advances - before and after the merger

		Gross NPAs/ Gross Advances			Net NPAs/ Net Advances		
		ICICI	BOM	PRVT-SBs	ICICI	BOM	PRVT-SBs
Before the Merger	1997-98	1.93	10.9	8.67	1.14	5.70	5.26
	1998-99	4.72	11.09	10.81	2.88	6.23	7.41
	1999-2000	2.54	8.13	8.17	1.53	4.66	5.41
	Average	**3.06**	**10.04**	**9.22**	**1.85**	**5.53**	**6.03**
After the Merger	2000-01	5.42		8.37	2.19		5.44
	2001-02	10.23		9.64	5.48		5.73
	2002-03	8.72		8.08	5.21		4.95
	Average	**8.12**		**8.70**	**4.29**		**5.37**

The GNPAs of ICICI bank as a percentage of Gross Advances, after the merger, at the end of the years 2000-01 and 2002-03 were 5.42 percent and 8.72 percent respectively. It indicates that the GNPAs of the ICICI bank, after the merger, have gone up. In spite of this, the average GNPAs of the bank (8.12 percent) were lower than the average GNPAs (8.70 percent). The Net Non Performing Assets (NNPAs) of ICICI bank as a percentage of Net Advances, before the merger, has gone up to 1.53 percent from 1.14 percent. The NNPAs of Bank of Madhura during the same periods has come down to 4.66 from 5.70. Thus there was increasing tendency in

case of ICICI while it was decreasing tendency in case of BOM. In spite of this the average NNPAs as a percentage of Net Advances, before the merger, of both the banks were lower than average NNPAs of the Private Sector Banks. The NNPAs as a percentage of net Advances of ICICI bank, after the merger, shows increasing tendency after the merger. As against to this the average NNPAs of the bank (4.29 percent) were lower than the average NNPAs of the Private sector banks (5.37 percent).

Thus the study concludes that the Bank of Madhura merger with ICICI Bank resulted into decreasing tendency in spreads and CAR and increasing tendency in NPAs. However these indicators more are less remained same when compared to average indicators of the Private sector Banks during the period under study.

REFERENCES

Business Standard Banking Bureau in Mumbai, "Foreign banks will be allowed to buy private banks", July, 2004.

Rabobank 2003 disclaimer, 07 April 2003, Bloomberg M&A league table for 2003 q1 ranks Rabo India amongst the leading corporate & investment banks in india.

NS Sisodia, "No plan to merge Union Bank with BoI: govt", the Economics times, Wednesday 13 October 2004.

Emerging Banks in India- published by the "Treasury Management", the monthly magazine for Treasury and Risk Management professionals (Source: http://www.actmindia.org/pages/cases.asp)

Suresh Krishnamurthy, "Consolidation can pep up market", Business Line-Financial Daily from THE HINDU group of publications, Sunday, Aug 15, 2004

wwww.Banknetindia.com, Indian banking has entered M&A era with merger of Times Bank with HDFC Bank.

Akhavein, J.D., A.N. Berger, & D.B. Humphrey (1997), The Effects of Megamergers on Efficiency and Prices: Evidence from a Bank Profit Function, Review of Industrial Organization, 12, 95-139.

Berger, A.N., R.S. Demsetz, & P.E. Strahan (1999), The consolidation of the financial services industry: Causes, consequences, and implications for the future, Journal of Banking & Finance, 23, 135-194.

Berger, A.N., & G.F. Udell (1998), The economics of small business finance: The roles of private equity and debt markets in the financial growth cycle, Journal of Banking & Finance, 22, 613-673.

Bikhchandani, S., D. Hirshleifer, and I. Welch (1992), A Theory of Fads, Fashions, Custom, and Cultural Change as Informational Cascades, Journal of Political Economy, 100 (5), 992-1026.

Bygrave, W.D., & J. Timmons (1992), Venture Capital at the Crossroads, Boston: Harvard Business School Press.

Indian Journal of Accounting
Vol. XXXV(1) December 2004

RESEARCHES IN MULTINATIONAL ACCOUNTING

*Mohd. Akbar Ali Khan

ABSTRACT

The field of multinational (or international or transnational) accounting is very young in terms of the history of human thought and knowledge. It has begun to build an increasingly respectable academic research base. Is research.-.a prerequisite for the development of a field of thought? The academic research in international accounting lags behind the real world facts and issues with which it deals. With the result, there is a wide research gap between the accounting practices and ever-changing environmental complexities of business.

Accounting concepts and practices differ from country to country. This fact is demonstrated amply in comparative international accounting literature, a descriptive study entitled "Professional Accounting in 25 countries" is published by American Institute of Certified Public Accountants of USA. Yet, many aspects of accounting have a common international root. The difference is due to the national and regional patterns of accounting development. Various individual social, economic, business, and legal influences have affected accounting evolution. Thus, different environments have produced different results in accounting structures. Many environmental factors (such as: differing legal-social-economic-political-geographical factors; level of technical skill, level of labor cost, level of literacy, level of income, level of interest rate, climatic differences, material availability, power availability, availability of products, etc) have affected on the accounting discipline.

The growth of international accounting as a discipline for the researchers has opened up new areas of interest. Publications have devoted, increasing attention to the international aspects of current issues and, in some cases; publications have been created for the expressed objective of presenting the results of research into international accounting topics. Two bodies carry out research in the area of International Accounting: 1. Academicians 2. Professional Accountants. The first category research is undertaken to analyze the underlying nature of a large number of current aspects. The second category of research is carried out

Professor of Commerce, Nizam College, Qsmania University, Hyderabad (A.P.)

by the accountancy bodies to study and analyze the setting of accounting (and auditing) standards.

ACADEMIC RESEARCH IN MULTINATIONAL ACCOUNTING

Academic accounting research areas that arc separate at one level of specialization may belong to a single research area at a lower level of specialization, one whose common attributes are less distinctive. The building blocks of particular research areas are individual research studies with common attributes whose distinctiveness corresponds to the level of specialization of the research area. Accounting is conjectured to consist of a number of small, specialized research areas. Among the research areas, fragmentation and integration represent two extreme approaches of accounting research. While integrated research consists of shared attributes, such as: models, theories, methods, findings and implications, whereas, those of a fragmented discipline are not. Thus, in such integrated research where shared attributes are applied, appropriate statistical tools are used. Otherwise, it becomes a narrow and fragmented approach. Research areas that are separate at one level of specialization may belong to a single research area at a lower level of specialization; one whose common attributes are less distinctive may be portrayed as a hierarchical arrangement of research areas. As, the level of specialization is reduced; the distinctions among the research areas too will disappear.

Most of the academic accounting research is individualistic when it comes to hypothesis formulation, selection of research methods and analysis, and interpretation of results achieved. Academic research means different things to different people. If we ask a question, "What is academic accounting research?" to 10 different academics, we will receive 10 different answers. For this purpose, a reference of the proceedings of the twenty third International Conference on Accounting Education conducted during October 21-23, 1992 in Sydney, Australia, jointly at Macquarie University, the university of New South Wales and the University of Sydney. This conference which was sponsored by the Australian Association of University Teachers of Accounting, focused on the theme of academic research. As given in the proceedings of this Conference, Professor William J. Vatter (the then Professor of Accounting, University of California at Berkeley) has defined the academic research as: "In a classic sense, research or inquiry is supposedly concerned with original, new, creative work which adds to the existing body of knowledge in a field. However, the connotations of originality, newness, or addition to existing knowledge must be taken as relative, especially in the social sciences. Often the newness consists in perceiving relationships in a different light, or realigning ideas in other contexts, applying an established discipline or methodology to new problems, as seen in the recent emphasis on quantitative models and computer applications in business management". Every accounting research should have at least a rough vision of the overall framework into which his specific research will have to fit. Professor Vatter then went on to distinguish four types of research: (i) Descriptive research, (ii) Vicarious experience-research, (iii) Model Building, and (iv) Empirical analysis.

With regard to the empirical research in accounting, Professor George J. Staubus (the then, Director of research for the US Financial Accounting Standards Board, on leave from the University of California at Berkeley), defined the term "empirical" as "originating in or based on observation or experience." He then referred to the Williams and Griffin scheme to classify empirical research in accounting under the following five headings:

1. Effect of accounting measurements on users;
2. Relationship between accounting measurements and selected dependent variables;
3. Behavioral patterns of accounting measurements;
4. Effect of users (of financial reports) on accounting measurements;
5. Other empirically based projects.

Further, he has categorized the research in accounting into the following subdivisions:

1. **DESCRIPTIVE RESEARCH:** International dimensions of financial accounting; Accounting policies and practices - Comparative study; contemporary multinational academic accounting issues; financial statement disclosure; Comparison of accounting standard setting in the international environment and in India; Performance evaluation of the multinational enterprise subsidiary and the multinational enterprise subsidiary manager: An empirical investigation; Accounting Principles Generally Accepted in India Versus Those Generally Accepted Elsewhere; Environmental factors influencing the development of accounting objectives, Standards and Practices in India; International accounting and financial reporting procedures; Status of social reporting in selected countries; Financial control-and-.reporting in multinational enterprises; Financial accounting policy formulation processes in India;

2. **COMPARATIVE RESEARCH:** Financial reporting practices-Comparative study of disclosures and comprehensiveness in an International setting; Public sector compared to Private sector regulation of corporate financial disclosure; A comparative study of-legal "requirements existing in nine EEC Countries with respect to financial accounting and reporting; An analytical framework for International Usable Financial Statements of Multinational Enterprises; A study of concepts and practices underlying value based accounting measures in Western Europe; A comparative study of national financial accounting standards and their relationships to proposals for international standardization; A comparative study of Accounting measurement methods; International comparability of accounts;

3. **EMPIRICAL RESEARCH:** Effects of financial disclosure on corporate bond risk premiums: A comparative empirical analysis; Financial reporting and disclosures in relation to broadly based capital markets; Effects of multinationals on the cost of equity capital. An evaluation of the economic consequences produced by applications of FASB Statement No. 8; An empirical investigation of the effects of statement of financial accounting standards No. 8 on Security Return Behavior; The impact of statement of financial accounting standards No. 8

on the Foreign exchange Risk Management Practices of American Multinationals: An economic impact study; Measuring the impact of floating and FASB 8 on Cost of Capital for multinationals; Information value and investor wealth etc. are the areas.

4. **TRADITIONAL NORMATIVE RESEARCH:** Postulates for localized I uniformity in accounting; Accounting and economic development policy; Financial accounting for multinational enterprises - The problems of appropriate reporting units; Private enterprise accounting in developing nations;

5. **BIBLIOGRAPHICAL RESEARCH:** A bibliography of International accounting; Some international aspects of accounting; International accounting: Varying definitions; Financial reporting in the EEC and the international economy: A selected Bibliography;

6. **BEHAVIORAL RESEARCH:** Some parameters of financial analysis behavior: Intercultural evaluation under experimental conditions; the impact of the cultural environment on financial disclosures; Investor perceptions of equity investment risk in relation to U.S. based multinational firms.

ACCOUNTING RESEARCH BY PROFESSIONAL ACCOUNTING BODIES

The first International Accounting Standard" (IAS) "issued by the International Accounting Standards Committee (IASC), "Disclosure of Accounting Policies," set out three "fundamental accounting assumptions" going concern, consistency and accrual. In addition, IAS_I listed three "considerations" that should govern the selection and application by management of appropriate accounting policies: Prudence, substance over form and materiality.

While the adoption of these six fundamentals looks straightforward, their application in particular circumstances frequently lead to one being followed to the detriment of another. For example, should development costs be deferred and allocated to accounting periods as determined by their relationship to the expected future benefits to be derived from these activities (the matching principle on which the accrual assumption is based) or, because of the uncertainty of their ultimate realization, should they be written off as incurred (the prudence consideration)? And again: under both the going concern assumption and the substance-over-form consideration, the value of capital assets acquired through long-term leases should, one would think, be shown on the balance sheet of the lessee. How is it, then, that this has virtually never been done until an accounting standard-setting body required this treatment?

Since the main activity of professional accounting bodies is usually seen to be the setting of accounting (and auditing) standards, it is important to differentiate between "research" and "standard setting". In IAS-9, "Accounting for Research and Development Costs," the IASC defined research as: "Original and planned investigation undertaken with the hope of, but without clear indication of, gaining new scientific or technical knowledge and understanding. "Standard setting in accounting can be likened to "development" in a manufacturing or scientific

sense and, to borrow again from IAS-9, the setting of accounting standards can be defined as: "The translation of research findings or other knowledge into standards for the production of new or substantially improved procedures or services".

There are different points of view as to the best solution to some accounting problems, opinions are also divided on how accounting research and standard setting should be carried out - and by whom. Take for example, how the International Accounting Research Committee (IARC) of the Canadian Institute of Chartered Accountants (CICA) goes about its work of producing accounting standards and then compares with those used by the International Accounting Standards Committee (IASC). It is believed that this type of a comparison is appropriate as the quality and acceptability of IAS will rest mainly on the quality and acceptability of standards issued by IASC member bodies.

Research studies on the IAS by the accounting bodies and its members are common phenomena in all the countries of the world. Accounting bodies in countries, which have established professional research programs frequently, produce studies, although the names may vary (e.g. "Occasional paper," "Study", "monograph" or similar such descriptions). These studies are in depth analyses of a particular accounting or auditing problem, with thorough discussions of the cause(s) of a problem and a discussion of the alternative solutions available, with the conclusion as to the best solution. The faculty ofIIMs and IITs also generally follows this before they send any paper for its publication in a standard journal. Thus, a thorough study of a problem and a complete analysis of alternatives available is usually not possible in a standard, so research studies are undoubtedly a very useful precursor for any standard-setting group to have available when it tackles a new subject or considers revisions to existing standards.

REFERENCES

American Accounting Association: Report of the Committee on Theory Construction and Verification, Accounting Review Supplement, 1987

Dychman, T and S. Zeff: Two decades of Journal of Accounting Research; Journal of Accounting Research (Spring 1995).

Federick D.S. Choi and Gerhard G. Mueller, An Introduction to Multinational Accounting (Englewood cliffs, N.J.: Prentice Hall, 1989).

Financial Accounting Standards Board, Statement of Accounting Standards No. 13, "Accounting for Leases", FASB, 1986. Ross M. Skinner, Accounting Principles, Toronto: The Canadian Institute of Chartered Accountants, 1992.

Lakatos, I: Methodology of scientific research programs; New York: Cambridge University Press, 1980.

Thomas S. Kuhn, The structure of Scientific Revolutions, 2nd, ed. (Chicago: University of Chicago Press, 1980).

Indian Journal of Accounting
Vol. XXXV(1) December 2004

CORPORATE MERGERS & ACQUISITIONS IN INDIA

**Joydeep Biswas*

ABSTRACT

The basic objective of this paper is to study the recent mergers and acquisitions (Ms and As) activities in the Indian private Corporate sector. Corporate restructuring in the form Ms and As has become a natural and perhaps a desirable phenomenon in the current economic environment. In the tune with the worldwide trend, Ms and As have become an important conduit for FDI inflows in India in recent years. In this paper it is argued that the greenfield FDI and cross-border Ms and As are not alternatives in developing countries like India.

After the introduction of financial liberalisation during 1991-92 the Ms & As activity got culminated in India. The increasing trend of Ms & As activity in the Indian market are actually taking place for a series of reasons (SEE BOX). The present economic reform programme may be said to have been targeted towards greater efficiency in resources use and therefore corporate restructuring is a natural and perhaps a desirable phenomenon in the current economic environment. In the post reform era, Ms and As have become increasingly important modes of cross-border industrial restructuring and foreign direct investments (FDI) all over the world (Kumar, 2000). In the developing country, though greenfield FDI is still dominant, but FDI flows associated with Ms and As have been on the rise- their value increasing from one-tenth of FDI inflows at the end of the 1980s to one-third at the end of the 1990s. Most of the growth in international production over the past decade has been via cross-border mergers and acquisitions rather than greenfield investment. The global environment has made it possible for firms to enhance their competitiveness through Ms and As. Under this backdrop this paper makes an exploratory attempt to examine the recent Ms and As activity in the Indian Corporate sector.

**Lecturer in Commerce, St. Joseph's College (University Section), P.O. North Point, Darjeeling, West Bengal*

Ms AND As ACTIVITY IN INDIA

Cross-border Ms and As may be classified functionally as horizontal (between firms in the same industry), vertical (client-supplier or buyer-seller) and conglomerate (between companies in unrelated industries). About 70 per cent of cross-border Ms and As, in terms of value, have been horizontal in the world. From Table 1 it is quite evident that Latin America and the Caribbean have been the principal sites of cross-border Ms and As among developing regions with Brazil and Argentina as the two predominant countries (World Investment Report 2000). Automobiles, pharmaceuticals and chemicals, food, beverages and tobacco are the leading industries in the manufacturing sector in terms of world wide cross-border Ms and As whereas telecommunications, energy and financial services are leading industries in the service sector. Among developed countries there are notable regional variations in the sectorial pattern of cross-border Ms and As activity. In the European Union, for instance, chemicals, food, beverages are the most targeted industries. In the US by contrast companies in the electrical and electronic equipment and chemicals industries have been targeted most.

With the economic liberalisation of the Indian economy, the multinational foreign companies found interests in starting operations in the country. In particular, multinational enterprises in business services such as accounting and management, consulting, advertising, market research and development, travel agencies have started to establish a place of business through Ms and As. For example, in the travel agencies, Carlson Wagonlit has acquired Ind Travels, Kuoni of Switerland has acquired SOTC and Sita travels. In the field of advertising world's largest advertising agency WPP group plc which already controls Hindustan Thompson Associates (HTA) through its subsidiaries J Walter Thompson and Ogilvy and Mother India has acquired Equus a domestic advertising agency besides increasing its stake HTA. Multinational foreign enterprises related to Ms and As are highly concentrated in consumer goods industries, food and beverages, household appliances, pharmaceuticals and personal care products. These products are highly sensitive to marketing networks and brand loyal. Hence, multinational foreign enterprises hope to acquire the established marketing and distribution networks and sometimes the brand loyalists of acquired enterprises. For instance, In 1993, Coke acquired Parle, the largest player in the market with several well-established brands and a nationwide marketing network. In another instance, Hindustan Lever, the Indian subsidiary of Unilever has acquired Dollops, Kwality and Milk food to get into the ice cream market with the help of their marketing networks, production facilities in different parts of the country and brands. Even in other industries, for example in Cement industry, Lafarge has acquired a cement plant of Tata Steel and also have been bidding for several others in different corners of India to augment its capacity and market share.

In India, the Ms and As by multinational enterprises started getting importance aftermath of the financial liberalisation. It is interesting to note that the number of acquisitions have surpassed the number of mergers in all years showed in Table 2. It is clear from the Table 2 that more acquisitions in services area have been undertaken by the existing foreign multinational foreign enterprises affiliates in India which have resorted to horizontal Ms and

As to augment their market share and presence. Moreover, three sectors namely petrochemicals, telecommunications and banking and finance grabbed the limelight. While oil, gas and petrochemicals contributed around 20.5 per cent to overall Ms and As deals in 2002-03, telecom and banking and finance contributed 18.1 per cent and 10.9 per cent respectively (Economic Times 5th Dec. 2003). During 2002-03, the Ms and As activity in India was fueled by PSU disinvestments (TABLE-3). Kumar (2000) in his study explained that horizontal Ms and As have been classified further by the major motives under the deals. About 35 per cent of the deals of acquisitions involved buying out local joint venture partners by the parent body of multinational foreign enterprises. In 5 per cent cases acquisitions involved increasing stakes in their affiliates or subsidiaries. It is interesting to note that the pattern of entry followed by multinational foreign enterprises in India has been to set up a joint venture with established local counterparts and acquiring assets, existing facilities and networks of the local partners. The cases include most of the automobiles multinational foreign enterprises, for example, Daewoo which had formed a joint ventures with DCM group, Ford with Mahindra and Mahindra, FIAT with Premier Automobiles, General Motors with Hindustan Motors etc. In all cases local joint venture partners have been eased out almost completely by multinational foreign enterprises.

IMPACT OF MS AND AS ON THE INDIAN ECONOMY

The 1990s witnessed a dramatic surge in foreign direct investments (henceforth FDI) to developing countries. Net FDI flows to less developing countries (LDCs) rose from 0.5 percent of their overall GDP in the late 1980s to over 2.5 percent in 2000-2001. Following the policy liberalisation, India has sought to increase inflows of FDI with a much liberal policy since 1991 after four decades of cautious, if not always restrictive attitude to it (Kumar, 1998). FDI have grown from a rather small figure of US $ 129 million in 1991-92 to US $ 4675 million during 2003-04 (SEE TABLE-4). But, FDIs flows in India is relatively small than that of other emerging markets (SEE TABLE-5). In tune with the worldwide trend Ms and As have become an important conduit for FDI inflows in India in recent years (Kumar 2000). During 1997-99 about 40% of FDI inflows have taken in the form of Ms and As by foreign enterprises of existing Indian enterprises rather than greenfield investments (Economic Times, 2000).

FDI inflows are in the form of Ms and As are of poorer quality than greenfield FDI inflows. A greenfield investments by the way of new entry increases competition. On the other hand Ms and As through FDI often lead to increase in concentration by reducing number of active enterprises in the market. The greenfield FDI do add to the stock of domestic capital investments but FDI in the form of Ms and As may or may not add to change in domestic capital stock. Furthermore, greenfield FDI also brings new production, organisation and management know-how. FDI in the form of Ms and As also brings some inflow of knowledge of managerial know-how but the extent of knowledge inflow per unit of investment is expected to be much higher in case of greenfield investments than that of FDI in the form of Ms and As.

In Indian context though number of acquisitions are quite high than mergers but there is doubts whether acquisitions by multinational enterprises helps in additional capital formation. Moreover, payments made by the acquirer to the domestic companies may be invested in some other projects even the payments may circulate in speculative activity especially in case of acquisitions through stock markets. There is also possibility that the acquirer may follow a more aggressive expansion path for the acquired enterprise with funds raised abroad than would have been possible with domestic or joint venture ownership. In India nearly 27 per cent of the deals, acquisitions have been made by Indian affiliates of multinational enterprises with their internal funds accruals and borrowings.

In addition to this, sometimes foreign multinationals have resorted to leveraged buyouts in India by raising funds from domestic financial institutions. For example, Lafarge has funded its Rs.5500 million TISCO Steel in November 1999 with Rs.2150 million borrowing from a consortium of domestic financial institutions viz. ICICI that provided Rs. 1250 million and the rest afforded by the State Bank of India. Similarly, Electrolux AB's acquisitions of a 74 per cent stake in its venture to take over Voltus white goods business in October 1998 for Rs. 1600 million funded by ICICI with a Rs. 1000 million loan (Economic Times,1999).

Foreign multinational enterprises related acquisitions are likely to affect employment adversely because with acquisitions labour saving managerial techniques maybe introduced (Kumar, 2000). On the other extreme greenfield FDI would create new jobs. It is reported that corporate restructuring processes undertaken by Coke by taking over its bottlers resulted in a loss of 100 jobs (Economic Times, 2000). So, developmental implications of Ms and As through FDI is still questionable in India.

CONCLUSION

In India, what is more important is that there should be the anti-trust regulation and comprehensive competition policy. The need for competition policy becomes particularly critical in a liberal FDI and industrial investment policy regime (UNCTAD, 1997). The absence of such policies in the early 1990, triggered rampant acquisitions of domestic rivals by foreign multinational enterprises or their Indian affiliates. Moreover, the greenfield FDI and cross-border Ms and As are not alternatives in developing countries like India. There is a need to separate out these alternative modes of entry for FDI. Side by side it is also important to coordinate with competition policy so that Ms and As do not pose threats to competition through entry barriers and mobility barriers, employment generation, additions to the productive capital stocks and above all the economic development of India.

Table 1
Global Ms and As Volumes for 2003

Country	US $ (M)	Bids
North America	528184	7078
Western Europe	469158	6122
Asia	160002	2888
Australia	53058	893
Eastern Europe	52571	1557
Latin America	24663	417
Africa	17279	229
Middle East	4664	115
India and Sub-continent	4633	333
Carribean	4149	44
Others	9393	64
Total	**13,27,753**	**19240**

Source: The Economic Times, 5th December, 2003.

Table 2
Number of Mergers & Acquisitions in India

Year	Mergers	Acquisitions
1993-94	4	9
1994-95	-	7
1995-96	-	12
1996-97	2	46
1997-98	4	61
1998-99	2	30
1999-2000	5	74
2001-02	345	978
2002-03	276	856

Source: Kumar, Nagesh, EPW, Aug,5, 2000. The Economic Times,5th Dec.2003.

Table 3

Number of Ms and As Industry-wise (Oct.2002-Oct.2003)

Year	Mergers	Acquisitions
Chemicals	27	138
Other Services	76	180
Financial Services	74	87
Food and Beverages	19	72
Electronics	25	98
Diversified	NA	11
Auto and Auto Ancillary	8	37
Non-Electrical Machinery	5	41
Electricity	4	12
Mining	1	8
Non-Metalic Mineral Products	3	23
Misc. Manufacturing	5	18
Textiles	7	55
Ferrous Metals	11	39
Electrical Machinery	5	24
Non-Ferrous Metals	4	5

Source: The Economic Times, 5th Dec.2003.

BOX- 1: Rationale for Ms and As

• Instantaneous growth, Snuffing out competition, Increased market share	* HLL-Lakme, Glaxo-Smithkline, Daimler- Chrysler
• Acquisition of a competence or a capability	* ICICI-ITC Classic (retailer net work and depositor's base), IBM-Daksh
• Entry into new markets/product segments	* Vodafone-Mennesman, Mennesman-Orange, Tata-Tetly
• Access to funds	* TDPL-Sun Pharma, since TDPL did not have funds to lunch new products
• Tax Benefits	* Ashok Leyland Information Technologies with Hinduja Finance

Source: Harish H.V and C.G. Srividya, The Chartered Accountant, May 2004.

Indian Journal of Accounting
Vol. XXXV(1) December 2004

CORPORATE SOCIAL REPORTING

**Arun Kumar*
***Satvinder Kaur*
***Ankita Srivastava*

ABSTRACT

Social Accounting has not been widely used in India, as there is no statutory requirement under Indian Companies Act 1956. The need for disclosing the social information in the annual report was felt by Sachar Committee. In this paper, a case study of NTPC was made with respect to corporate social reporting.

The National Association of Accountants Committee on Accounting for corporate social reporting has identified the following four major areas of corporate social performances.

1. Community Development.
2. Human Resource Development.
3. Physical resources and Environmental Contributions.
4. Product or Service Contribution.

Corporate social reporting, as a concept, is still in its nascent stage. Many organisations still do not consider it is an integral part of their annual statements, as this aspect has not been made mandatory. Moreover, authoritative format could not be developed as yet for reporting the social accounts or preparing the social balance sheet of an organisation.

MEASUREMENT OF SOCIAL BENEFITS AND SOCIAL COSTS

There are no reliable and valid techniques of measurement of social costs and benefits. There are certain techniques of measurement of social costs and benefits, such as surrogate valuation, survey techniques, restoration of avoidance cost, appraisals, analysis. They have been described below:

**Reader, Dept. of Commerce, Feroze Gandhi College, Raebareli.*
***Research Scholar, Dept. of Commerce, Feroze Gandhi College, Raebareli*

Surrogate Valuation: When a desired value cannot be directly determined a surrogate value needs to be estimated, for example a company has given free accommodation to its employees, now in order to value the rent of these quarters, we will use the surrogate techniques i.e., how much rent is to be paid if those quarters are hired in the market?

Survey Techniques: In this technique we ask to those affected parties or groups as to how much benefits they have received or how much sacrificed they have made.

Restoration or Avoidance Cost: Certain social cost may be valued by estimating how to undo or prevent the damages.

Appraisals: Independent appraisals may be useful for valuing certain goods, buildings and land etc.

Analysis: It has been seen that many a times an economic and statistical analysis of available data produces a valid and reliable measure of value.[2]

CORPORATE SOCIAL RESPONSIBILITY

Social responsibility of business and reporting thereon is one amongst various dimensions added. The purpose of social reporting is to provide information to permit an evaluation of the effect of firm's activities on society. With the social pressure of corporate social responsibility in the 1960's, the different professional bodies of leading countries has advocated in favour of social reporting as a new perspective of financial report. Today social scientists and thinkers regard a company as a living, vital and dynamic social organism with firm and deep rooted affiliation with the rest of the community in which it functions. Now a days thinking comprises of the duties and obligations of the company not only to the shareholders but also to the rest of the community affected by its operators such as workers consumers and the government representing the society. Broadly speaking a company owes social responsibilities to the following:-

- Responsibility towards the consumers.
- Responsibility towards the employees.
- Responsibility towards the shareholders.
- Responsibility towards the local community.
- Responsibility towards the environment.
- Responsibility towards the creditors and suppliers
- Responsibility towards R & D (Research and Development).

NTPC AND CORPORATE SOCIAL RESPONSIBILITY

NTPC believes in growth with a human face and pursuing people- centered development. NTPC is a socially committed organisation and socially responsible citizen. It

attaches great importance to discharging its over all social responsibilities to the community and the society at large where its projects and stations are located. There is a sharp focus on all-round development of the community, which is why the efforts do not stop at the individual or family level redressal but take a holistic approach. Improving the roads, health care, educational, vocational framing, infrastructure development and sports are major activities. The education programme is at priority. Each resettlement colony is provided with a primary school. The format of social responsibility disclosure statement is shown in Table I.

Table I

FORMAT OF SOCIAL RESPONSIBILITY DISCLOSURE STATEMENT

Particulars		Amount	Number of Beneficiaries
A.	**Towards Employees** occupations and safety Hazards Rehabilitation Programme Canteen	-	
	Job Enrichment Programme Training Programme	-	
	Transportation.	-	
B.	**Towards community** Donation and charities Recreation clubs	-	
	Medical Establishments	-	
	Sports Stadium / Parks and Garden.	-	
	Public Halls/Auditoriums.	-	
	Projects for using waste product Purchase	-	
	of Dust absorption Machine. Installation of Effluent Treatment.	-	
	Waste products Recycling	-	
	Total		

Table II gives the average Employee cost summary of NTPC during 2000-01 and 2001-02. The number of Employees was 21289 during 2000-01 which increased in 2001-02 to 21383. The average No. of Employees was 21277 during 2000-01 and 21336 during 2001-02 it shows an increase by 59. The average salary, wages, benefits per employee per annum shows increase during 2001-02. The average salary was Rs. 332843 in 2000-01 which increased to Rs 351251. The average cost of other benefits per employee per annum also shows an increasing trend during 2001-02.

Table II

AVERAGE EMPLOYEE COST SUMMARY OF NTPC
(2000-01 & 2001-02)

Description	*Rs. Lakhs*	
	2000-01	*2001-02*
Year end No. of Employees*	21289	21383
Average No. of Employees	21277	21336
Average Salary, wages per employee per annum (Rs)	332843	351251
Average cost of other benefits per employee per annum.	108338	119043
Average cost of employees remuneration benefits per annum.	441181	470294

* Excluding Badarpur TPS and BCPP.

The average cost of employees remuneration benefits per annum too shows an increasing trend. The average cost of employees remuneration recorded during 2000-01 was Rs. 441181 and during 2001-02 was Rs. 470294. It shows a direct increase of Rs. 29113.

A preview of Appendix I expresses the revenue expenditure on social overheads during the year 2001-02. A payment of Rs 1582.74 and Rs 2677.60 lakhs was made to the employees of NTPC for township and Medical facilities respectively. Total payment to the employees touched Rs. 5092.04 lakhs during 2001-02. The materials consumed under various heads amounted to Rs. 1287.76 lakhs during 2001-02 as compared to Rs 1891.69 lakhs during 2000-01. The welfare expenses shows here decreasing trend. In 2000-01 it was 6466.32 which in 2001-02 became 6186.22 lakhs. A decreasing trend under social and cultural activities was indicated during 2001-02 as compared to the previous year, where as the subsidized transport recorded a increase from 393.52 lakhs to 480.54 lakhs during the period 2001-02. The total net expenditure amounted to Rs 16897.56 lakhs during 2001-02 as against Rs. 16791.61 lakhs during 2000-01

CONCLUSION

Several companies in public as well as private sector have started recognising their responsibilities to the society. NTPC also presents such statement in their reports.

From a humble beginning in 1975, NTPC has become one of the largest power utilities in Asia accounting for one-fourth of the power requirement of India. It has 13 coal based and 7 gas based power stations. The generation of electricity for NTPC has increased steeply from 97609 MV during 1996-97 to 130154 MV during 2000-01. It is suggested that more and more research should be undertaken to develop measurement techniques of environmental costs and benefits so that companies may account and report them more suitably. There is need for developing expertise in this area. A multidisciplinary team of experts should be formed to carry out environment audit thoroughly and properly.

Appendix I

REVENUE EXPENDITURE ON SOCIAL OVERHEADS FOR THE YEAR ENDED 31ST MARCH 2002

Particulars	Township	Educational & School Facilities	Medical & Facilities	Subsidised Transport	Social & Cultural Activities	Coop. Fair Price Shop	Subsidised Canteen	Total	Land Scaping & wasteland Development	Previous Year
Payment to employees	1582.74	204.45	2677.60	93.78	223.04	-	310.43	5092.04	-	4181.12
Material consumed	582.25	7.81	688.82	4.71	4.17	-	-	1287.76	-	1891.69
Rates and Taxes	115.18	-	-	1.85	-	-	-	117.03	-	117.99
Welfare Expenses	347.86	1019.26	2689.87	369.12	628.27	-	1131.84	6186.22	66.64	6466.32
Other including repairs and Maintenance	2608.16	121.52	206.43	26.41	131.21	-	1.93	3175.66	313.60	2278.71
Depreciation	2000.51	57.45	105.20	2.29	24.66	0.66	10.85	2201.62	-	2910.69
Sub Total	7236.70	1410.49	6447.92	498.16	1011.35	0.66	1455.05	18060.33	380.24	17846.52
Less : Recoveries	960.03	-	185.12	17.62	-	-	-	1162.77	-	1054.91
Net Expenditure	6276.67	1410.49	6262.80	480.54	1011.35	0.66	1455.05	16897.56	380.24	16791.61
Previous year	6624.24	1464.71	5421.31	393.52	1446.33	6.72	1434.78	16791.61	248.48	-

Indian Journal of Accounting
Vol. XXXV(1) December 2004

NON-PERFORMING ASSETS AND CAPITAL ADEQUACY

**Sanjai Singh Rathore*
***Alka Singh*

ABSTRACT

The relationship between Non-performing assets and capital adequacy are analysed by considering the case study of Avadh Gramin Bank, Lucknow. The study has found that the bank has very poor receiving ratio. It has a higher percentage of NPAs in its total advances.

A bank is a commercial institution and not a charity house. Without bring social responsibilities, a bank is expected to recover its loans and advances on time. It helps the bank in two ways. Firstly, it facilitates extension of more credit to newer customers and, secondly, it minimises losses that may arise due to bad debts. With this objective in new, the efforts have been made to examine important aspects like position of NPAs and capital adequacy of Avadh Gramin Bank, Lucknow.

NON-PERFORMING ASSETS (NPAS)

Under statutory obligations, Avadh Gramin Bank, Lucknow has to make efforts to minimise its Non-Performing Assets (NPAs). For this purpose, the bank regularly analyses, case by case, its sticky advances and makes efforts to recover loans. The bank has power to issue recovery certificates also and to realise its debts from farmers as arrears of land revenue. In Table 1 data relating to NPAs of Avadh Gramin Bank, Lucknow have been analysed for 1996-97 to 2002-03.

Table 1 shows that amount of NPAs outstanding in the beginning of the year 1996-97 was Rs. 3,200.29 lacs which increased to Rs. 3,623.11 lacs in the year beginning 2000-01. It further decreased and reached to level of Rs. 3067.11 lacs in the end of 2001-02. Thus, during the period of 1996-97 to 2002-03, the problem of NPAs remained more or less the same and there was hardly any relief. The main reason was that there has been corresponding increase

**Lecturer, Faculty of Management, Unity Degree College, Lucknow.*
***Lecturer, Faculty of Management, VBS Poorvanchal University, Jaunpur.*

in new NPAs alongwith recovery of tune of Rs. 557 lacs, simultaneously in the same year there was addition of Rs. 848 lacs in NPAs, the net result being that the total outstanding NPAs which were Rs. 3,200.29 lacs in the beginning of 1996-97, increased to Rs. 3,491.29 lacs in the end of year 1996-97.

Table 1

Position Relating to NPAs of Avadh Gramin Bank

(Amount in lacs of Rs.)

Year	NPAs at Beginning of the year Amt.	Recovery of NPAs during the year		Additions to NPAs during the year		NPAs at the end of the year	
		Amt	%of Opening Balance	Amt	%of Opening Balance	Amt	%of Opening Balance
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1996-97	3,200.29	557.00	17.40%	848.00	26.50%	3,491.29	109.09%
1997-98	3,491.29	517.62	14.83%	490.34	14.04%	3,464.01	99.22%
1998-99	3,464.01	506.21	14.61%	550.36	15.88%	3,508.16	101.27%
1999-2000	3,508.16	644.95	18.38%	759.90	21.66%	3,623.11	103.28%
2000-01	3,623.11	1,278.08	32.28%	1,216.85	33.59%	3,561.88	98.31%
2001-02	3,561.88	1,253.90	35.20%	759.13	21.31%	3,067.11	86.11%
2002-03	3,067.11	642.68	20.95%	899.51	29.33%	3,323.94	108.37%

(Source: Avadh Gramin Bank, Lucknow: Annual Reports)

In most of the years the addition to NPAs exceeded to recovery thereof. In 2002-03 also addition to NPAs was 29.33% and recovery was only 20.95% and the net result was that NPA's increased by 8.38% during the year 2002-03.

It is worthwhile to mention here that under RBI's prudential norms, Avadh Gramin Bank, Lucknow adopted the system of computerised monitoring of loans and to report the position of recovery, quality of debts and position of NPAs every year. Under this system follow up and monitoring of advances is done at three levels, i.e., branch, regional/area and head office level. The bank had also adopted the system of getting its deposits and advances insured with Deposit Insurance and Credit Guarantee Corporation (DICGC), w.e.f. April 1, 1992 to March 31, 1995. But w.e.f. April 1,1995 the bank opted out from this scheme.

The bank has the system of issue of Recovery Certificates under U.P. Agricultural Credit Act, 1973 and U.P. Public Money Recovery Act. 1972. It feels that inspite of system of issue of recovery certificates, the bank's problem of sticky advances has not been solved fully.

CAPITAL ADEQUACY RATIO

In order to improve financial health of RRBs, NABARD issued guidelines vide its circular No. NB: DOS:HO:HYD/ 4283/ P:63/98-99 dated 12.9.1998 under which it was made mandatory to report every year in the Annual Report capital Adequacy Ratio. This is the ratio of the banks net-worth or Equity and its risk weighted assets. The ratio during the past has been as shown in Table 2.

Table 2 shows that capital adequacy Ratio was 14.11% in the year 1998-99 which increased to 18.25% in 2000-01. Then, there was sharp increase and in the year 2002-2003 Capital Adequacy Ratio of Avadh Gramin Bank, Lucknow was 30.09%. It is well above the prescribed norms of 8%

Table 2

Capital Adequacy Ratio of Avadh Gramin Bank, Lucknow

During 1998-99 to 2002-03

Year	Capital Adequacy Ratio
(1)	(2)
1998-99	14.11%
1999-2000	15.50%
2000-01	18.25%
2001-02	29.58%
2002-03	30.09%

(Source: Avadh Gramin Bank, Lucknow: Annual Reports)

Thus, it can be concluded that the bank is continuously making efforts to improve its Capital Adequacy Ratio and its networth is sufficiently adequate.

It is evident from Table 3 that recovery of loans in Avadh Gramin Bank, Lucknow is much lower than in peer group banks. Its percentage of recovery was, as on March 31, 2002 only 61.25% as against its peer group average of 76.29% and all India average of 70.59%. Its NPAs as percentage to total loans and advances were 25.59% as against average of its group (86 banks) of 13.71% and average of all 196 RRBs of 16.46%. Thus, it can be concluded that as compared to other RRBs, Avadh Gramin Bank's position is poor as per parameters of recovery and percentage of NPAs.

Table 3
Inter- firm Comparison of Avadh Gramin Bank, Lucknow as on March 31, 2002

Performance Indicators	Avadh Gramin Bank, Lucknow	Average of Top 86 RRBs	Average of All RRBs i.e. 196
(1)	(2)	(3)	(4)
1) Recovery %	61.25%	76.29%	70.59%
2) NPAs			
i) Amount in lacs of Rs.	3,067.11	1,522.66	1,564.78
ii) %	25.59%	13.71%	16.46%

(Source: NABARD: Review of Performance of Regional Rural Banks, as on March 31, 2002)

Thus, it can be concluded that Avadh Gramin Bank, Lucknow's Capital Adequacy Ratio is satisfactory. However, its major weaknesses are two:

i) Poor Recovery Ratio

ii) Higher percentage of NPAs in its total advances.

Hence, Avadh Gramin Bank, Lucknow should make efforts to improve its position to overcome these problems.

SUGGESTIONS

1. The bank should give first priority for direct lending. But in order to avert the loss, due to NPAs and non-recovery of loans, strongest measures should be taken to make credit appraisal, documentation, disbursement, monitoring and recovery more effective.
2. Some innovative credit schemes like self-help group finance scheme, village farmers' clubs scheme, village cluster development scheme and peoples/NGOs' participation approach, etc., may also be tried.
3. More effective measures should be taken for recovery of sticky advances and lowering down of NPAs. The bank should remember that prevention of this problem would be more effective than its cure. The need is to make the loans productive and self liquidating.

Indian Journal of Accounting
Vol. XXXV(1) December 2004

RESPONSIBILITY REPORTING

*N. M. Singhvi
**Angira Singhvi

ABSTRACT

The paper outlines the issues relating to responsibility reporting, need for model integration and proposal integrated model.

Major businesses usually require some sort of divisional structures for the smooth functioning of the system, and, these structures further need to have their own performance criteria to ensure reliability. In this article we discuss Responsibility Accounting as a system of accounting that segregates revenues and costs in the areas of personal responsibility in order to assess the performance of people to whom the authority has been delegated. It is generally used to describe the decentralization of authority, with performance of the decentralized units measured in terms of accounting results. It aims to provide accounting reports so that every manager is made aware of all the items and responsibilities which are within his domain of authority and he is in a position to explain them. To the accountant, therefore, is bequeathed the problem of measuring how well or badly each division has been at meeting these criteria. The basis of responsibility accounting is the creation/ recognition of various responsibility/decision centres in an organisation. Individual managers of these centres are made responsible for the incurrence and control of costs rather than their determination. A number of bases can be used, including profit margin comparisons, return on capital and economic value added. Whichever base is chosen, it is essential that costs, revenue and asset valuations are adjusted so that 'like with like' comparisons are made.

RESPONSIBILITY REPORTING

Responsibility reporting encompasses the reporting phase of responsibility accounting.

Responsibility of the managers consists of two parts:

**Former President, Indian Accounting Association.*
***National Law University, Jodhpur*

- The obligation to secure results, and
- Reporting back to the higher authorities about the results achieved.

Reporting the results reflects accountability, as the former is the process through which accountability of the manager can be adjudged.

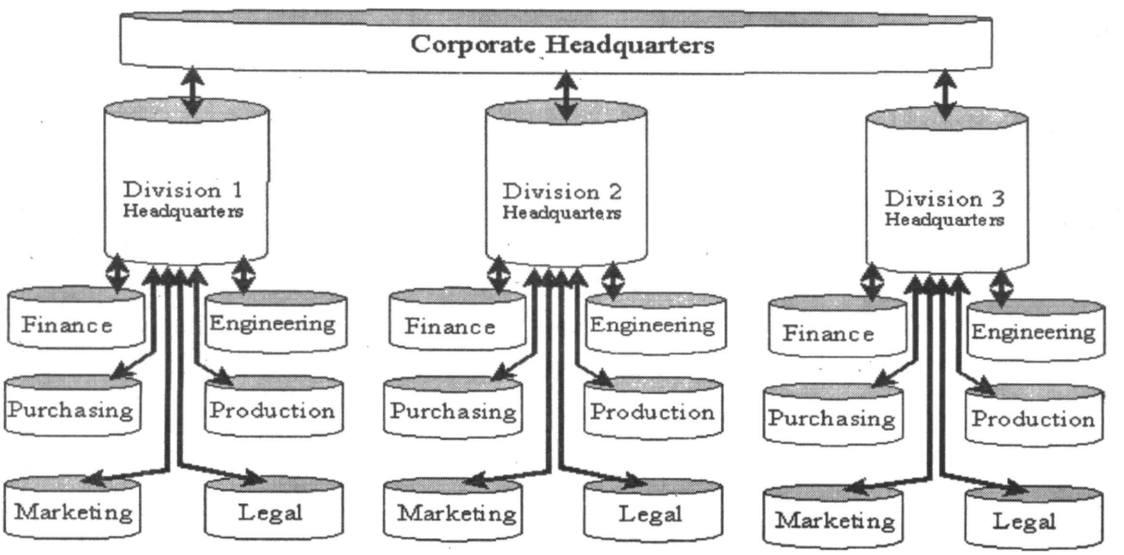
Responsibility Reporting is of great significance to cost accounting. By Responsibility Reporting, it is possible to control costs effectively. An item of cost is controllable if the amount of cost incurred in a responsibility center is significantly influenced by the manager of the responsibility center. In Responsibility Reporting, only such costs are reported to the manager which is under his responsibility center. For e.g., direct material and labour costs are usually controllable unlike the items of overhead costs.

In this manner, responsibility accounting fixes the accountability of the subordinate only in respect of the work assigned to him. Also, it helps in control by exception since the managers are acquainted with only the important areas in the process of reporting and are not burdened with the responsibility to take meager decision.

IMPLEMENTING RESPONSIBILITY REPORTING IN AN ORGANISATION.

It is said that every innovation has both positive as well as negative points. In a similar way, introduction of the concept of responsibility accounting that is prevalent in the organisations has both positive as well as negative effects on the working of the organisation.

The Individualistic Stovepipe Organization*



* Information Flows Vertically as Indicated by the Arrows, Not Horizontally

In the present market situation of die-hard competition, it is essential for any organisation to co-ordinate all its activities very well so that the group effort can beat the competitors. Hence, the strategies and activities of all the departments should work together in order to compete.

An implicit assumption of responsibility accounting is separating a company into responsibility centres that are controlled in a top down manner is the way to optimize the system. However, this separation inevitably fail to consider many of the interdependencies within the organization. Ignoring the interdependencies prevent teamwork and create the need for buffers such as additional inventory, workers, managers and capacity.

Of course, a system that prevents teamwork and creates excess is inconsistent with the concepts that are required in the modern day markets and would prove to be a failure if coordinated efforts are not generated. For this reason, critics of this traditional accounting control system advocate managing the system as a whole to eliminate the need for buffers and excess.

Co-ordination among the various departments with a degree of interdependence is required so that tasks, decisions, activities and functions of all of its employees and their groups contribute their optimum toward the achievement of its predetermined goals.

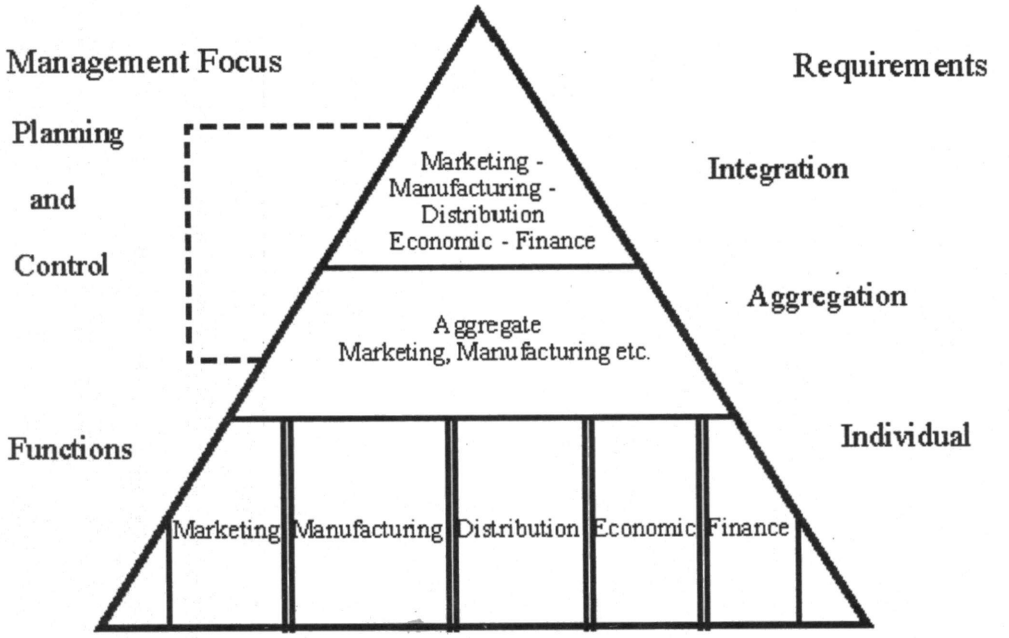
For this purpose, it is essential that the organisation introduces such working patterns that would integrate and bind together the various sub-systems of the organisation. In such cases, Process Model integration would be a right approach to achieve the desired level of co-ordination.

Process Model integration, an organization-wide view, which integrates existing models within different functions, has become the focal point of many organizations. Model integration is consistent with activity-based management and not the function-specific approach that currently prevails in the organisations.

NEE FOR MODEL INTEGRATION

Traditional functional models i.e. Responsibility Accounting, tend to achieve functional subsystem optimization at the expense of the overall system. Additionally, compensation systems in organizations have rewarded functional optimization and thus, reinforced a functional focus. However, in an environment characterized by competitive markets, integrated processes seem to be of more relevance rather than the very limited functional models. A graphical illustration of the move towards model integration is presented below:

Organizational View of Modeling by Management Focus



A cross-functional process orientation implies a move up the pyramid and a change in the managerial focus. The cross-functional focus emphasizes model integration and thus, is able to provide managers with coherent information for strategic planning and control.

This information to the managers would be helpful in building strategies for market growth through cost reduction (by knowing the cumulative condition of production, marketing and purchase departments, the finance department can help cutting costs which would not be possible if each department tries to do this independently).

An example could be taken to understant the above mentioned statement.

A company has the following departments developed independently of each other (thus, having a functional focus).

- Marketing - forecasts demand in terms of sales volume for a product for the next fiscal year,
- Event simulation manufacturing - estimates the required expense to produce enough of the product to meet the specified demand,
- Transportation - determines the minimal cost of distribution the product to customers,
- Pricing - calculates a price for a produce given a demand volume, and manufacturing and distribution expenses, and

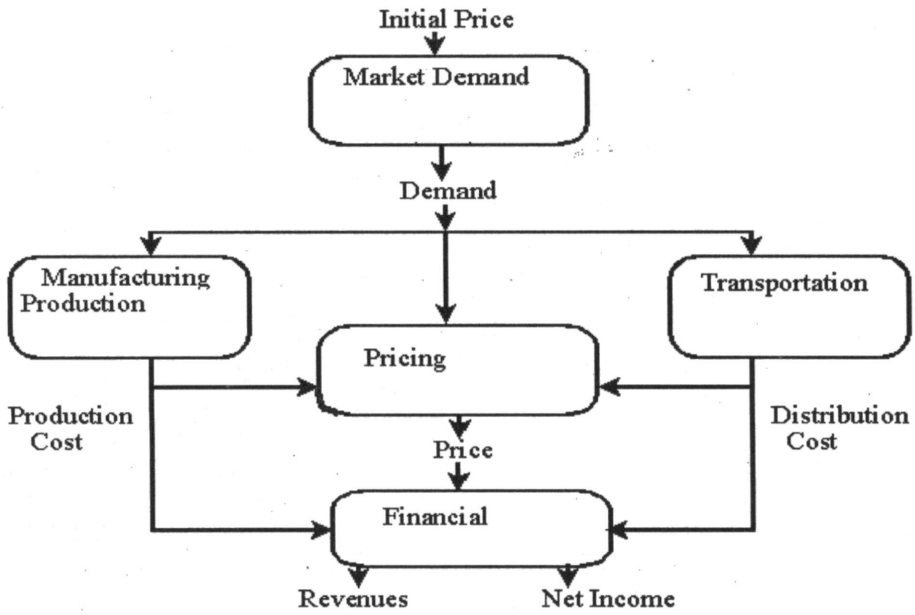
Finance - determines the revenues and net income from sales of the product given demand volume, manufacturing and distribution expenses, and product price.

However, these departments, working in isolation of each other, are unable to provide management with useful answers to questions such as what would be the effect of decreasing market demand on costs of transportation, if taken individually.

Nowadays, it is increasingly recognised that the ineffectiveness of the coordination function is the main limiting factor in the growth of productivity.

Thus, by integrating these models where the outputs of one serve as the inputs of another, the company is able to achieve global optimization instead of local optimization. Such a model is presented below:

An Integrated Model



This integration has acquired importance in the present market situations as compared to earlier days because then, markets were monopolistic/ duopolistic. Access to material, manpower, money and distribution channels were controlled by a few. Theories and classroom education both reflected the age of differences- advertising factor thrived on the 'er' factor: better, brighter and stronger. Suddenly, with the 21st century, we seem to have entered the era of plenty. The 'er' has disappeared and the organisations have to learn to survive and grow again.

This integration amongst various departments can be brought about only by changing the entire attitude of the workforce by shifting their thinking from 'me' to 'we'.

The traditional system of responsibility accounting would not help the organisation to achieve its goals through coordinated efforts by beating competitors since an individualistic approach can never be as successful as a group approach.

Over the last century, manufacturing and office functions have been organised as a series of specialised departments. As products and activities have become more complex, the need has been felt to add an increasing number of communication links to coordinate the activity of these centres. Hence, in order to bring about this group integration, a new way, i.e. Activity-based Responsibility Accounting which redefines accountability from costs to activities should be adopted instead of Traditional responsibility Accounting.

This is because the basic assumption in the former is interdependence and in the latter is independence. It is a well established fact that in order to make an organisation work smoothly, the organs must be interdependent and not independent on each other. In order to achieve organizational growth, the employees should target the organisation as their chief interest and not themselves. While in Traditional Responsibility Accounting, individual is self centred towards his and his department's performance, he is more concerned about the organisation in the suggested approach in the latter.

CONCLUSION

In today's business environment, growth is possible only if the organisation looks at a holistic approach and not merely remaining confined to finances. Activity Based Responsibility Accounting includes not only finances within its scope but also operations thereby balancing the entire organizational activities and also helping it grow.

This is important to keep alive a business when the markets have been liberalized which has led to high degree of competition and making it necessary for the organisations to achieve maximum efficiency. This maximum efficiency, as stated above can be brought about only through inter-departmental co-ordination as input of one, when multiplied by many becomes much more effective.

As more of globalisation occurs, the organisations would widen in the scope of their working; this would increase the value and need of delegation of authority. As more of delegation will take place, the importance of responsibility accounting will increase as the various managers will be accountable for their respective centers. But, it should be ensued by the senior level managers that responsibility enshrined to these managers is not so specialized and pertaining to their own center only that they cannot be held responsible for any other activity.

REFERENCES

1. B.K. Bhar, *Cost Accounting- Methods and Problems*, (Academic Publishers, Calcutta, 14th edn., 2001), 14.37.

2. *Advanced Cost Accounting and Cost Systems* (C.R.T. Varma, Director of Studies, ICAI, Delhi, 2001), 317

3. *Ibid.*

4. *Supra* note 2 at 319

5. Runn Dunn, *ResponsibilityAccounting*, http://www.accaglobal.com/ visited on 20th July 2004.

6. Decentralization means that various facilities are located at different places or have been put function wise with full authority and responsibility for the actions and results.

7. R.D. Agarwal, *Organisation and Management*, (Tata McGraw Hill Publishing Co. Ltd., New Delhi, 1998), 169.

IAA NEWS

News on the XXVII All India Accounting Conference and International Seminar on Accounting Education and Research

The XXVII All India Accounting Conference and International Seminar on Accounting Education and Research was held during 18-19, Dec. 2004 in the Faculty of Commerce, Utkal University, Bhubaneswar. Shri G. Upadhyaya, CMD of NALCO, Bhubaneswar, graced the Inaugural Session as the Chief Guest. Shri A.K. Samantaray, IAS, the Vice-Chancellor of Utkal University and Dr. H.R. Subramanya, President of ICWAI shared the dias as guests of honour, while Prof. B. Mohan delivered the Presidential Address. The Chief Guest released the Souvenir of the Conference, while the copies of the Souvenir were distributed to all the delegates. The Chief Guest also gave IAA Fellowship Award-2003 to Prof. Y. Ranga Rao of Andhra University. The Association conferred IAA Fellowship-2004 Awards on Prof. K.R. Sharma, Prof. Mukund Lall and Prof. C.M. Muniramappa. The IAA Young Research Award-2004 was shared by Dr. Gourav Vallab and Dr. Hitesh Shukla.

The International Seminar on Accounting Education and Research was chaired by Prof. B.M. Lal Nigam. The First Technical Session on Mergers and Acquisitions was chaired by Prof. K.V.Achalapathy of Osmania University. The Second Technical Session on Environmental Accounting was chaired by Prof. T.C. Saha of Burdwan University. Both the sessions witnessed keen participation by the delegates and contributed several new ideas. The President, Vice Presidents, General Secretary, Treasurer, Chief Editor, Past Presidents of IAA, several Executive Members and a number of members of IAA actively participated in the deliberations.

Some of the important decisions taken at the Special AGM, AGM and EC meetings of IAA at Bhubaneswar during 18-19, Dec.2004, include (I) Sending 25% of the Branch Subscription amount to the Chief Editor, IAA; 50% to the Treasurer, IAA while retaining the balance 25% in the branch;(ii) Conduct of three concurrent technical sessions besides International Seminar (Hi) Hyderabad Branch to host the 28th AH India Accounting Conference during Nov/ Dec.2005 with Prof. KV Achalapathy as the Conference Secretary; (International Seminar: Accounting Education and Research in the Universities of India and Abraod; With Prof. D. Obul Reddy as Chairman; Technical Session-1: Accounting for Knowledge Capital with Prof. B. Banerjee as Chairman; Technical Session - II: Strategic Cost Management with Prof. B.C. Sanjeevaiah as Chairman; Technical Session - III: Convergence of Accounting Standards with Prof. D. Himachalam as Chairman); (iv) Election of Prof. B.S. Rajpurohit as the President; Prof. M.B. Shukla as the Sr. Vice President; Prof. Ranjan K. Bal as the Jr. Vice President; (v) Election of Prof, D. Prabhakara Rao, Prof. PS Chauhan and Prof. Nageswar Rao to the posts of General Secretary, Treasurer and Chief Editor respectively for a period of three years, (vii) Election of Prof. K.C. Paul, Prof. J.L. Gupta, Prof. Sailesh Parmar, Prof. Umesh Holani and

Prof. Ramachandra Gowda to the Executive for a period of three years. The house also recommended the names of Prof. Samsung Maharana, Prof. Sulochana, Prof. Arvind Kumar, Prof. S.K. Mangal, and Prof. M.S. Poonia as special invitees to the executive meeting for a period of one year; (viii) Coption of Dr. Uttam Dutta; Dr. G. Soral; Dr. Lalit Gupta; Dr. A.V.S.N. Murthy; Dr. Vijay Batasana, Prof. B.C. Sanjeevaiah, Dr. P.K. Bhandgar, Dr. O.P. Rai, Prof. D.V. Ramana to the Executive for a period of one year, besides Prof. K.V. Achalapathy the 28th Conference Secretary.

Members expressed full satisfaction at the arrangements made by the Conference Secretariat while thanking the Conference Secretary Prof. Ranjan Kumar Bal of Utkal University. The delegates expressed high degree of delight with the rich academic contributions and comfortable stay arrangements of the good host Prof. Ranjan Kumar Bal of Utkal University.

Prof. D. Prabhakara Rao
General Secretary, IAA

Proposal for IAA Yound Researcher Award - 2005

Indian Accounting Association invites research proposals on research work done during the last five years in the area of accounting by scholars/faculty members of not more than 35 years of age as on 31.12.2004 for the consideration of IAA Young Researcher Award - 2005. The proposal must include the resume of the researcher on or before 15.10.2005 to Professor D. Prabhakar Rao, General Secretary.

28th All India Accounting Conference: Preliminary Announcement

The 28th All India Accounting Conference will be held at Hyderabad under the joint auspices of the Hyderabad branch of the Indian Accounting Association and ICWAI, Hyderabad (the dates of the conference will be in the region of Nov./Dec. 2005 and shall be notified in due course), with the following topics:

International Seminar: Accounting Education and Research in the Universities of India and Abroad with Prof D. Obul Reddy as Chairman

Technical Session-I : Accounting for Knowledge Capital with Prof. B. Banerjee as Chairman

Technical Session-II : Strategic Cost Management with Prof. B.C. Sanjeevaiah as Chairman

Technical Session-III: Convergence of Accounting Standards with Prof. D. Himachalam as Chairman.

Prof K. V. Achalapathy, Head, Dept. of Commerce, Osmania University, Hyderabad will be the Conference Secretary.

For further details please contact:

Prof. D. Prabhakara Rao
General Secretary, Indian Accounting Association
Faculty of Commerce & Management Studies, Andhra University, Visakhapatnam - 530 003
Ph: 091-0891-2755538 (R) & 0891-2844251 (O), Email: dprabhakararao@eth.net

INDIAN ACCOUNTING ASSOCIATION

PAST SECRETARIES

Prof. H.S. Kulshreshtha
(1969-78)

Prof. Mukund Lal
(1978-1993)

Dr. S.K. Singh
(1993-94)

BRANCH SECRETARIES

AHMEDABAD BRANCH
Dr. H.S. Oza
10, New Readers Qtrs.
Gujarat University,
Ahmedabad - 380 009

AJMER BRANCH
Dr. N.M. Singhvi
IAA Ajmer Branch
B-3, Mayur Colony
Ajmer - 305 001

BANGALORE BRANCH
Prof. B.C. Sanjeevaiah
Commerce Department
Central College Campus
Bangalore University, Bangalore

BARREILY BRANCH
Dr. N.L. Sharma
Dept. of Commerce
Barreily College, Barreily (U.P.)

BHUSAWAL BRANCH
Dr. A.M. Agrawal
North Mahl Branch
Bhusawal (Maharashtra)

BHUVANESHWAR BRANCH
Prof. R.K. Bal
Dept. of Commerce, Utkal University
Bhuvaneshwar (Orissa)

DELHI BRANCH
Dr. J.L. Gupta
Dept. of Commerce
Delhi University, Delhi

DIBRUGARH BRANCH
Dr. A.B. Saha
Dept. of Commerce
Dibrugarh University, Dibrugarh

GOA BRANCH
Dr. B. Ramesh
B-10, Staff Quarters
Goa University, Goa

GUWAHATI BRANCH
Dr. Sujit Sidkhar
Commerce Department
Guwahati University
Guwahati - 781 014

HYDERABAD BRANCH
Prof. Achalapati
Dept. of Commerce
Osmania University
Hyderabad

JAIPUR BRANCH
Prof. S.C. Jain
4, Ma-22, Jawahar Nagar
Jaipur

JODHPUR BRANCH
Dr. G.L. Dave
Bhadrajoon House
Barlown Ka Chowk
Jodhpur - 342 002

ASSAM BRANCH
Dr. B.C. Saikia
C.K.B. College
Jorhat - 785 001
(Assam)

KOLKATA BRANCH
Dr. V.K. dutta
Rishi Arobindo Road, Madhyamgram
P.O. Madhyamgram Bazar
Kolkata - 700 130

LUCKNOW BRANCH
Prof. J.N. Shukla
75, Sundar Bagh
Lucknow - 302 004

MUMBAI BRANCH
Dr. P.G. Gopalakrishnan
110, 'Sai Deep'
N.G. Acharya Marg
Chembur, Mumbai - 400 074

PUNE BRANCH
Dr. Anil. Pandit
Commerce Department
SNDT University for Women
Karve Road, Pune - 411 038

PATIALA BRANCH
Dr. G.S. Batra
828, Tripuri Town
Patiala - 147 001 (Punjab)

RAJKOT BRANCH
Dr. Pratap Sinh Chauhan
Dept. of Bus. Management
Saurashtra University Rajkot-360 005

SALEM BRANCH
Prof. S.S. Sundaram
Commerce Dept., Madras University
P.G. Center, Salem - 636 011 (TN)

TIRUPATI BRANCH
Dr. Suresh Babu
Dept. of Commerce
S.V. University
Tirupathi

UDAIPUR BRANCH
Dr. S.L. Maharia
BNPG College
Udaipur - 313 002
(Rajasthan)

UJJAIN BRANCH
Dr. Nageshwar Rao
Dean, Faculty of mgmt. Studies
Pt. J.L.Nehru Institute of Busi. Mgmt.
Vikram University Ujjain - 456 010

VARANASI BRANCH
Dr. M.B. Shukla
B-44, New Teachers Colony
Kashi Vidyapeeth
Varanasi - 221 002

VISHAKHAPATNAM BRANCH
Prof. D. Prabhakar Rao
2, Shanmukha Apts.
Andhra University Road
Vishakhapatnam - 530 017

IAA EXECUTIVE COMMITTEE - 2004

PRESIDENT

Prof. B. Mohan
Dept. of Commerce
S.V. University, Tirupathi - 517 502

VICE PRESIDENT (Sr.)

Dr. B.S. Rajpurohit
Head, Dept. of Accounting
J.N.V. University, Jodhpur

VICE PRESIDENT (Jr.)

Prof. M.B. Shukla
Director & Dean, Inst. of Management
MGKVP University, Varanasi - 221 002

GENERAL SECRETARY

Prof. D. Prabhakar Rao
Dept. of Com. & Mgmt. Studies
Andhra University, Vishakhapatnam

TREASURER

Dr. Pratap Sinh Chauhan
Prof. & Director, Dept. of Mgmt. Studies
Saurashtra University, Rajkot

Member (Ex-Officio)

Prof. S.K. Bhattacharya
President, IAA Res. Found.
64/1/25A, Belgachia Road
Kolkata - 700 037

Chief Editor

Prof. Nageshwar Rao
Dean, Faculty of Mgmt. Studies
Ex Dean, Faculty of Info. Tech.
Pt. J.N.I.B. Management
Vikram University, Ujjain

Immediate Past President

Prof. N.M. Singhvi
Government College
Ajmer

MEMBERS ELECTED

Prof.M.Srinivas
Dept of Commerce
Osmania University, Hyderabad

Dr. Vijaya Bhatasana
Bhalodia College
Kotecha Building, Rajkot-360001

Dr. M.L. Vadera
Dept of Accountancy
JNV University, Jodhpur

Dr. A.K. Sarkar
Dean, Faculty of Management Studies
Rohilkhand University, Bareilly-243122

Dr. S.K. Kanodia
Dept of Com & Mgt Studies
MGKVP University, Varanasi-221002

Dr. M. Sureesh Babu
Dept of Commerce
S.V.University, Tirupathi

Dr. N.P. Agarwal
Head, Dept of ABST
University of Rajasthan, Jaipur

Prof. D. Obul Reddy
Dean of Commerce
Osmania University, Hyderabad

Dr.Sailaja Ravinadranath
Dept of Commerce, SIWS, NRSC
of Com & Eco, Wadala, Mumbai

Dr. P.K. Nath
Dept of Commerce
Guwahathi University, Guwahathi

MEMBERS CO-OPTED

Prof. Ranjan K Bal
Conference Secretary, Dept of Comm.
Utkal University, Bhubaneswar

Dr. Lalit Gupta
14, Ahrya Colony,
Civil Airport Road, Jodhpur

Dr O.P. Rai
Dept of Commerce
Banaras Hindu University, Varanasi

Prof.B.C.Sanjeevaiah
Dept of Commerce
Bangalore University, Bangalore

G.Soral
Dept of Accountancy & Statistics
MLS University, Udaipur-313002

Dr. R.V. Keswala
K.H. Mahavani College of Commerce
Porbandar (Gujarat)

Dr. P.K Bhandgar
Dept of Commerce, SIWS NR Swamy
Collge, Wadala, Mumbai

Dr. K.L. Jain
SP-5,Bhuba Marg
Tilak Nagar, Jaipur-302004

Sanjay J. Bhayani
Dept. of Management
Sourashtra University, Rajkot-360005

Prof. S.S. Modi
Detp of ABST
University of Rajasthan, Jaipur

B

INDIAN JOURNAL OF ACCOUNTING

Indian Journal of Accounting is an official publication of Indian Accounting Association. It is published twice a year, in June and December respectively. The scope of journal encompasses all areas of Accounting including Auditing, Taxation, Management Accounting, Cost Accounting and Information System. Two copies of the manuscript for publication should be submitted by the author(s) along with summary has to be typed in double space. The article should not normally exceed 1500 words. Authors are requested to submit articles on disc (using any well known word-processing packages-Word Perfect, MS-Word etc.). Papers submitted for consideration in Indian Journal of Accounting should be accompanied by a declaration by the authors that they have not been published or submitted for publication elsewhere. Editorial decision regarding publication of articles will be communicated in 90 days' time. The name of the author(s) should not appear on the manuscript to facilitate blind review. Indian Journal of Accounting owns no responsibility for the views expressed by the author(s). For the book review to be included in the Journal, text books, reference books and research publications are considered. Two copies of each such publication should be submitted. All submissions and editorial enquiries should be addressed to The Chief Editor, Dr. Nageshwar Rao, Professor and Dean, Faculty of Management Studies, Pt. Jawaharlal Nehru Institute of Business Management, Vikram, University. Ujjain - 456010. Membership of the Indian Accounting Association (set up in 1970 vide reg. no. 429/68-69) is open to academics and professionals. Members are entitled to participate in the activities of the Association and receive a free copy of Indian Journal of Accounting and selected research publications. The membership subscription and rates of subscription of Journal are as under:

			INDIA	ABROAD
Individual	:	Annual	Rs. 300	US $ 50
		Life	Rs. 2000	US $ 200
Institutional	:	Annual	Rs. 1000	US$150
		Permanent	Rs. 5000	US £ 500

The subscription of the Journal may be sent through Draft either to "IAA - Chief Editor, Indian Journal of Accounting", addressed to ***Dr. Nageshwar Rao, Professor and Dean, Faculty of Management Studies, Pandit Jawaharlal Nehru Institute of Business Management, Vikram University, Ujjain-456010*** or "Treasurer, Indian Accounting Association Rajkot" addressed to Dr. Pratap Sinh Chauhan, Director, Smt. R.D. Gardi Dept. of Business Management, Saurashtra University, Rajkot - 360 005.

This Journal is sent free of charge to all the members of Indian Accounting Association.

Printed in India by Dr. D. Prabhakar Rao at *Neha Graphics, Ujjain, Tel. 0734-2512591* and published by him on behalf of the Indian Accounting Association, Udaipur - 313 001