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# Indian Journal of Accounting

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# EDITORIAL

Creativity and interdisciplinary approach is better way to utilise both implicit and explicit knowledge of human resources. Dr. G.L. Dave in his presidential address has sketched an outline of interdisciplinary approach and creativity in accounting education system. International Financial Reporting Standard (IFRS) is a new concept in this global scenario. Dr. Lalit Gupta has presented an analytical study of India's Preparedness for IFRS. Risk Management is a rapidly growing area in financial sector and credit rating plays a vital role. Kuljeet Kaur and Dr. Rajinder Kaur have presented an empirical analysis of Credit Rating. Non Government Organisations are adopting corporate governance measures. This has been analysed by Dr. Bhaskar Bagchi and Prof. Dhrubaranjan Dandapat. The relationship of price index and macroeconomic variables is presented by Dr. Vishal Vyas and Dr.D.D.Bedia. Governance practices in Indian banking has analysed by Dr. Hemal Pandya and Dr. Chetana Parmar. A comparative study of accounting education system of India and Oman has been empirically tested by Dr. K.V.Achalapathi, Ms. Tamanna Dalwai and Ms. Sweetline. The issues of social accounting, impact of GST, cost management of power sector companies and stock split practices have also been included in this issue of journal and have given useful inferences.

**December 31, 2010**

**Professor Nageshwar Rao**
Chief Editor

# PRESIDENT'S SPEAKS

Dear Members,

Happy New Year 2011.

It is indeed a matter of great pleasure and honour to be the President of Indian Accounting Association for the year 2011. I express my sincere thanks and convey my gratitude to all the members, executive committee and past presidents of the Association for the confidence reposed in me. I personally request you to give your kind support and co-operation in developing our Association to greater heights.

The discipline of accounting is passing through a very challenging phase. Recently as the accountants, we have three major challenges-(i) Implementation of Direct Tax Code (ii) Adoption of International Financial Reporting Standards in India and (iii) Good Corporate Governance. We have to play an important role in creating awareness and understanding for both the challenges amongst teachers and students. It is my earnest request to all the branches of IAA to organize seminar, conference, workshop or panel discussion at earliest on these emerging issues in accounting and taxation. Accordingly, IAA-Gujarat Branch has taken initiative in conducting International Seminar on such issues during February 12-13, 2011.

Now-a-days, we have seen many scandals through out the world. This is very bad sign for the profession. What we required is the acceptance of Ethics in Accounting. According to Robin Matthews, "Once we create mindset where the role of honesty in our social contracts becomes significant, the very threat of "losing honour" within society becomes a preventive measure for greed". It was observed that greediness led to the undue growth in all the sectors of the economy. Therefore, we require more transparency and full disclosure in accounting system to remove greediness from the society.

Further, it is interesting to note that modern society afflicted by "Moral Pollution" which is not confined to the corporate sector alone, but is all pervasive. In such climate, more gimmicks of reforming the corporate sector would not automatically guarantee good accounting. What is required is an evolution of a "Culture of Conscience". Without ethics/ morals/dharma human beings are just like animals. Therefore, it should be our mission to develop culture of conscience in the society and such change will brings fairness, justice and truthfulness in accounting reporting.

We have excellent past records and have contributed a lot in promoting healthy accounting practices, education and research in India. In the era of globalization, let us try for global recognition of our association.

I would like to draw kind attention of the Branch Secretaries to up-date their Life Membership List and sent it to the Chief Editor of IJA for proper posting of journal. Further, I request branch secretaries to submit audited annual branch accounts to the Treasurer of IAA. All the members are requested to send their email addresses to me on iaagujbr@gmail.com. Your suggestions and observations regarding working of our association are solicited for the better performance in the future.

**Prof. (Dr.) Harish S. Oza**
President
Indian Accounting Association
Ahmedabad (Gujarat - India)

# CONTENTS

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# ACCOUNTING EDUCATION AND RESEARCH

**G.L. Dave*

Economic development is essentially a dual process encompassing (i) a transition from economic stagnation to economic progress by increasing GNP per capita over time and (ii) transformation through initiating and sustaining a series of structural, social and economic improvements. The analysis of and planning for such a process calls for extensive quantitative (econometric) model building which in turn pre-requires the existence of accounting information system. This is because accounting is an information measurement, reporting and control system covering both micro and macro economic activities (Enthoven, 1985) that take place in our socio-economic environment. It is imperative, therefore that accounting be fine tuned to the economic fabric and the requirement of the society in which it operates.

In this connection it is interesting to note that present century has witnessed changes in the international social economic arena in terms of (a) Third world economic development, (b) Regionalization and Internationalization (c) emergence and growth of multinational corporation (d) Involvement of the Government sector in economic operations (e) Social responsibility awareness and (f) International communication (g) Liberalization, Privatisation and Globalisation. Each of these changes has greatly enhanced the horizons of accounting discipline, the significance of accounting profession the social role of the accountant and the status and standard of accounting education in most countries.

While economic development is a sine qua non in the life of both developed and developing economies, its urgency is more palpable is developing economies striving for greater economic self-reliance and faster technological innovation and progress. Moreover, since accounting serves to measure economic activities and to design and evaluate development plans and policies, the accountant's role in such economies should be increasingly directed toward the management of national resources by engaging in productivity measurement, social cost-benefit analysis, pricing decisions, tax structure formulation and administration, internal audit, national income accounting, government accounting and budgeting, and designing decision support systems.

Unfortunately, however, in most developing countries, accounting systems suffer from technical, operational, behavioural and socio-economic deficiencies which may be

**Presidential Address at XXXIII Conference by President, Indian Accounting Association, Former Head, Department of Accounting, Former Dean, Faculty of Commerce & Management Studies, Former Syndicate Member, Jai Narain Vyas University, Jodhpur 342001. 17-E-367, CHB, Jodhpur, Rajasthan. 342008*

attributed to historical, cultural and educational factors. While practice tends to be stewardship oriented, with a heavy bias toward accountability, the theory is reduced merely to a set of rules. This 'strong enterprise/financial accounting/stewardship basis' (Enthoven, 1985) has eclipsed the growth of real accounting education. What goes by the name of accounting 'education' has in fact been a 'training' of accountants by a ritual drilling of established rules and procedures in many countries. In other words, 'accounting education is presently at the cross-road demanding the collective thought of academicians and professionals like you for a more pragmatic reorientation and improvement.

The aim of any education, vocational or otherwise, is not to make "your brain a store house of information which runs riot there, undigested all your life" (Swami Vivekanada). The predominant aim of any education is to inculcate qualities of mind necessary for both individual and social progress and to develop the ability of 'expert discernment in all things' (Samuel Johnson), so that the mind can use its own powers rather than be crammed with the accumulation of others. The important part of teaching is the drawing out, not the pumping in. This is equally applicable to accounting education.

The structure and activities of accounting education should support the nation's socio-economic objectives. Mere imitation of educational system, prevalent in Anglo-American countries without assessing their efficacy vis-à-vis the country's requirements can hardly be beneficial. 'By imitation, other's ideas never become yours own (Swami Vivekananda). Accounting education, in order to sub serve the needs of economic development, should focus on the twin objectives of (i) developing human resources in accounting commensurate with societal needs and (ii) problem solving and decision-making at the micro and macro levels of the economy. Accounting education, therefore, needs to be geared to the task of providing (i) 'a conceptual socio-economic foundation of accounting discipline and training; (ii) a greater specialization in the various branches of accounting; (iii) a closer link between the institutional, professional and educational programmes and continuing education; and (iv) a greater focus on forecasting techniques of both an internal and external nature' (Enthoven, 1985).

With this accounting education framework for developing countries in mind, let us now direct our attention to the Indian scenario.

Advance in accounting education in India, either on the professional or on the academic front, were hardly perceptible till the first half of this century. A few of the notable developments are highlighted below:

(a) The first Commerce School was established in Madras in 1886 which incorporated book-keeping in its curriculum.

(b) In 1913, the Sydenham College of Commerce and Economics at Bombay was established.

(c) In 1918, the Government of Bombay initiated Government Diploma in Accountancy (GDA).

(d) In 1932, the Indian Accountancy Board was constituted and the Auditor's certificate Rules were promulgated.

(e) In 1949, Institute of Chartered Accountants of India (ICAI) was established.

(f) In 1959, the Institute of Cost & Work Accountants of India (ICWAI) came into being.

A number of changing situations have developed in the wake of globalization in the field of accounting education & research. The professional demands are changing while the existing courses laid emphasis upon technical knowledge at the expense of broad based general education. Accounting education have to think whether the existing curriculum provides professional knowledge as per the needs of the globalize business & industry. The future of professions both the professional accountants and the academics depends on its ability to attract new persons with high intellectual and creative abilities and prepare them to meet all seen and unforeseen challenges.

No doubt golbalisation has changed the accounting world. Our accounting profession has to become truly global in character. There is pressing need for the reorientation of the prevailing nation based accounting systems in the following manner:

1. From the manual system towards the electronic system;
2. From the local reporting system towards the global reporting system;
3. From record keeping system towards the information processing system;
4. From the legalistic reporting system towards the reporting of corporate governance;
5. From national accounting standards towards global accounting standards; and
6. From tax accounting towards deferred tax accounting and tax planning.

As globalization has brought free pricing, volume trading, listing in international stock exchanges and mutual funds, our accountants have to build up requisite skills to cope up with this complex environment.

## CREATIVITY IN ACCOUNTING

With the wide publicity accorded to the book entitled 'Accounting for Growth' by Terry Smith, the term 'creative accounting' has become somewhat popular. It is usually put into practice to facilitate people connected with business to look at 'things' differently.

For this, creative abilities like associative thinking, sidetracking, brain-storming, ignoring constraints, questioning check lists etc. should be strengthened among the new generation of accountants. So far as management accountants are concerned, creative accounting will strengthen their decision making skills. It can also effectively contribute in the accounting of intangibles. However, creativity in accounting should be encouraged in only such areas where utility requires greater consideration than objectivity.

## PROFESSIONAL ORIENTATION

(1) Accounting should be accorded the status of a separate department under the auspices of the College/School of Business Studies at the post graduate level. In this respect we should follows the pattern of Department of Accounting, J.N.V. University, Jodhpur. The J.N.V. University, Jodhpur separate department of Accounting is working since 1990.

(2) Commerce and especially Accounting programmes at the university level should stop playing second fiddle to those of professional institutes in order to justify their existence. Accordingly, course structure and contents should be redesigned to expose the student to the conceptual foundation of accounting subjects, research methodology and contemporary research findings.

(3) The Universities should start courses MBA (Accounts & Finance or Accounting for Management). Professional institutes like the Institute of Chartered Accountants of India and the Institute of Cost & Work Accountants of India & all institutes involved in accounting education should sit together and reallocate their role and responsibilities in the changed context.

## PRACTICAL ORIENTATION

Accounting education, to be purposeful, must be coordinated at all levels. The curricula up to the graduate level should be able to equip the student to meet the requirements of professional institutes as well as the higher academic education at the post graduate level, the emphasis should be pre-dominantly on theoretical & research aspects.

Efforts have already been initiated to involve professionals like CAs and ICWAs to teach students of accounting as part time or guest faculty members. However, the industry linkage is totally absent in this sphere. Efforts should be made to involve people from business and industry in teaching and curriculum development.

## CHANGE IN PEDAGOGY

Teaching methodologies should be made more effective. Firstly, the mode of instruction should be directed toward the infusion of technical, computational as well as conceptual skills in the student. While the procedural aspects dwelling on the question of 'how' should not be lost sight of, a greater emphasis should be placed on the rational aspect of 'why' and 'what ought to be'. Secondly, with regard to teaching aids, the case study approach should be eccouraged to bring the classroom exercise closer to reality. Group discussions, debates, workshops and seminars should be organized to provoke the student to think independently and to express himself/herself freely. Quizzes may also be conducted to assess one's precision and width of knowledge. Audio-visual aids, e.g., overhead projectors, audio-video tapes and documentary films, may supplement the learning process to make it exciting and interesting rather than an onerous experience.

## PREPARATION OF TEXTBOOKS AND TEACHING MATERIAL

Another important prerequisite for developing accounting education is the preparation of textbooks and teaching material to meet the emerging requirement. Our accounting texts contain old and obsolete examples. They do not have the touch of real-life situations. Accounting standards pronounced by international and national accounting bodies are only incorporated by way of appendices. These standards have become a subject of academic interaction, rather than an issue for application to suit the requirements of business and industry. Now the time is ripe for rewriting the principles and practice of accounting in the light of accounting standards. Practical assignments, real life examples and case studies should be incorporated in the revised texts. While reviewing the fundamental principles of accounting, greater weightage should be given to relevance rather than to objectivity.

## RESEARCH CONTRIBUTION

Ladies and gentlemen, a survey of accounting education would be incomplete without a glimpse of the state of accounting research in academic institutes. So, a few words on this crucial aspect will not be out of context. Research in any discipline, whether fundamental or applied, serves as the gateway to the advancement of the horizons of any education system. With this end in view, the Indian Council of Social Science Research (ICSSR) was established in 1969 by the Central Government, as an autonomous organization, to foster and mobilize research talent in the social sciences and 'Accounting Theory' was designated as one of the important disciplines where research should be directed.

According to survey made by the ICSSR, completed research projects & doctoral thesis awarded by Indian Universities in accounting and allied areas is less in number. Although the position has improved over the years, there is a scope for undertaking more & more research projects in accounting in India.

There are some problems in this area too:

(i) Teachers are given very little incentive and infrastructural support. Shortage of facility, inadequate space, non-availability of adequate funds generally stands in the way. These can be overcome gradually over a long period of time.

(ii) Publication of these are few & far between.

(iii) There is lack of proper coordination between industry and academic institutions, the result being that there is very little effort for application of the theory/knowledge into practice. Industry response for supplying data and for funding research projects is not also worth mentioning Apart from personal/institutional contacts, the 'confidence' of the industry has to be created through better research work in order to bring about an improvement in the field of accounting & research.

The quality and quantity of accounting research is depended on several factors such as attitude of the researchers, active role played by institutions such as UGC, IAA, ICA and other professional bodies. The quality of accounting research can be improved through change in the attitudes of researchers, better pay scale for unaided lecturers, seminars at collegiate level, sanction of FIP fellowship by U.G.C. for self financing colleges, strong theoretical and conceptual base of the researcher change in the curriculum etc. The organizations other than U.G.C. such as IAA, ICA and educational institutions also have an important role to play in promoting accounting research. It is nice to observe that Indian

Accounting Association is conducting a talent test at National level in accounting and related areas, such voluntary initiatives from the concerned would definitely help in accounting education and research in India.

**LINKAGE WITH OTHER DISCIPLINES**

The discipline of accounting should not be seen in isolation. There is a need to establish appropriate linkages with other disciplines. Interdisciplinary studies will make the discipline more purposeful and socially relevant. In addition to the linkage of accounting with taxation, management, finance, economics, ethics, sociology and environment, efforts should be made to promote interdisciplinary studies in accounting with other subjects in social sciences and physical sciences like geology, political science, engineering, marketing and quality control. New dimensions of accounting like export accounting, project accounting etc need to be developed and strengthened.

**INDIAN ACCOUNTING ASSOCIATION**

Indian Accounting Association is now 41 years old, the life membership of Association is 2600 and we have set 34 Branches of IAA. During last ten years, our membership has increased tremendously more & more accounting researchers & learners are becoming members of our association. Still there is a need to enroll more and more institutional life members. There is a strong need to spread the message of Indian Accounting Association far & wide.

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# INDIA'S PREPAREDNESS FOR IFRS: ENVIRONMENT, PROFESSION AND ACADEMIC AGENCIES

**Lalit Gupta*

**ABSTRACT**

***The paper aims at examining the preparedness for IFRS in Indian context and suggesting some action plan or strategy in terms of the professional, legal and academic environment. The examination is against a frame of reference developed around the emergence, motive and the ground-footing environmental features of the IFRS in the perspective of KE, globalization and convergence of the IASs. The frame is supported by a brief account of the initiatives which took place towards preparedness for IFRS in the sphere of counterparts of accounting activity. The first issue examined is that of gaps in our accounting practices and drawbacks in accounting education along with the generation of economic information which need to be updated in order to ensure the input for effective convergence. The paper, therefore, justifies the demand for a different recognition of accounting education in India. A complementary issue to that is that of bringing the professionals and academic bodies closer on the lines of AAA, IAASB and IFAC. India has to attend the down-stream adjustments of standard setting process and professional performance fairly supplemented by sector or scale specific understanding of IFRS/ASs.***

## GLOBALIZATION, IFRS AND INDIA

***(Emergence, Eventuality, Key-features, Dilemma and Ground Footing for Convergence)***

Since 2001, the IASB was expected to create a set of principles, guidelines, financial reporting standards that may be used globally throughout the world's capital markets. Global markets would work better once we have a single set of high quality global accounting standards. The IFRS are an outcome of certain outrages. They are a principle-based framework and not rule based. IFRSs have been proposed by the IASB on topics for which there was no clear cut IAS. Prof. Navin Agrawal in his article '3 Ways in which IFRS is a change for the better' has said "IFRS will integrate domestic businesses with the global investor and financial community so that there is no language gap and barrier." Thus, in a narrow sense IFRS refers to the new numbered series of pronouncements that the IASB has issued, as distinct from the IAS. More broadly, IFRS refers to the entire body of IASB pronouncements. The focus in IFRS is more towards getting the balance sheet right and hence brings significant volatility in the income statement.

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Convergence with IFRSs has gained impetus in India too. The Council of the ICAI suggested the adoption of IFRSs at least for listed and other public entities like banks, insurance companies and other large entities from accounting periods commencing on or after 1st April 2011. How about the ground-footing for convergence? At the outset it appears that Indian accounting standards are well aligned with IFRSs, but actually they are drastically different in the areas of financial instruments, group accounts, share based payments and business combinations. But even then the benefits which Indian companies hope to reap after IFRS adoption are numerous. Indian accounting standards are fairly closely aligned with IFRS. So the switch to IFRS will be fairly easy. The potential benefits for us are immense. Practically foreign investors are more likely to invest in firms whose accounting is similar to accounting of the country of the investors. Thus we can attract more foreign capital, lower the cost of capital for our firms and increase job opportunities for Indian accountants by adopting IFRS.

This is a period of mild economic conditions. The current shaken market confidence globally may present significant challenges to organizations. Adoption of IFRS could result in an added considerable volatility in reported earnings and some performance specific measures like EPS and P/E Ratio. Entities will have to clarify reasons for this IFRS related volatility apart from other macroeconomic factors. Some entities may completely be wiped off of their retained earnings while for some it may add on to their retained earnings. Nations around the world are not free from the dilemma of whether their national accounting standards should be aligned to IFRS or take the big bang approach of adopting IFRS as written by IASB and follow standards that are globally applied irrespective of the economic environment. This creates a problem that IFRS with modifications by various countries would result in multiple and probably inconsistent versions of IFRSs globally. This becomes IFRS as applied by a specific country as opposed to IFRS as issued by IASB. The apprehension is that, this might defeat the very purpose of global convergence, which is to move toward a single set of high-quality accounting standards for use throughout the world.

Present is the age of knowledge economy (KE). The KE is by definition an economy in which knowledge is prime mover. Value added is essence of the KE where knowledge with respect to accounting may be codification, convergence of knowledge, consolidation of concepts and the collection or pooling of experience. Such trends in the practice could help us assess our 'preparedness for IFRS'.

Presumably the above premises and ground-footing will serve as a frame of references to examine our 'preparedness for IFRS'.

The global convergence of ASs should be viewed as a natural manifestation of the spirit of globalization. Globalization includes as an inevitable consequence, the convergence of ASs. It is, therefore, the convergence of ASs must be perceived as the manifestation of the Knowledge Economy in the accounting profession.

Here is a brief account of the efforts made towards the preparedness for IFRS as could be learnt by the author:

1. The IASB and the US FASB have worked together to promote and help in the task of convergence of the GAAP in various countries with the IFRS. It is hoped that the accounting language of the world may ultimately emerge to IFRS.
2. Realizing the hurdles, challenges in the convergence like the availability of trained expertise, the KPMG in India came forward to assist the corporate India. The group also surveyed various aspects of the convergence process affecting our preparedness.
3. So far as the ICAI is concerned, the ASB had constituted a task-force. It has released a 'Concept Paper on Convergence with IFRS in India' which details the strategy and roadmap for convergence with effect from April 1, 2011. The conceptual differences and variances in slightly greater details have been mentioned in this concept paper. The Concept Paper does speak about various steps; the results are yet to see. Planning is there but how much practical and effective it is, not difficult to guess.
4. The ICAI proposed a plan for convergence for certain defined entities grouped as large sized entities and the SMEs. The Institute also developed a simplified version of the IFRS set. The proposed standard represents a simplified set for SMEs. As part of its convergence strategy, the ICAI has classified IFRS into four categories as below:

   ***Category I:*** IFRS which can be adopted immediately.

   ***Category II:*** IFRS which may require some time to reach a level of technical preparedness, say a short period of two years.

   ***Category III:*** IFRS which require dialogues with the IASB due to conceptual difference, hence demand time par with category II.

   ***Category IV:*** IFRS the adoption of which would require changes in law.

   The ICAI examined whether a stage-wise approach to convergence should be followed. It finally concluded that such a step-wise approach may result in several application complexities hence opted for an approach whereby all IFRS should be adopted for the defined entities for accounting period commencing on or after April 1, 2011. The ICAI believed that the period would help in building the environment supporting the adoption of IFRS.
5. The ICAI in the name of imparting training, orientation, exposure and developing expertise in the professionals concerned has come forward with an initiative as a part of its Continuing Education Program under which a series of programs are to be organized at its various branches. The precise results of the plan would depend on the pace and extent of seriousness. Should we hope the plan to reach all members timely? The question of qualitative result has also been posed from various quarters. There is no any such initiative from any of the bodies or agencies in academics in this regard. And the latter world of academics has a significant role to play and rise in response of the challenge of change in this sphere of knowledge. Where is their preparation?

## THE ISSUE OF ACCOUNTING PRACTICES, AIS AND ACCOUNTING EDUCATION

The IFRS standards are significantly centered on fair-value approach for measurement of assets and liabilities. The information input required for this fair-value approach depend upon a variety of complex set of micro (internal) and macro (external) variables and pieces of information. The generation and ready availability of those information calls for advanced accounting practices or AIS coupled with production of economic data from the government or other agencies. Mr. V.G.Narayanan of Harvard Business School noted, "Some of the finest implementations of ABC and BSC have been in India. While there are such pockets of excellence, the average firm in India has management accounting systems that are about 10 or 20 years behind what is now state of art". Hardly any considerable initiatives and efforts have been made in this direction in trade & industrial world or by the professional or academic bodies and the concerned government machinery etc. Any assessment of ours would reveal a desperating situation on the state of knowledge, popularity in the practice and coverage in imparting education or training regarding the modern accounting tools such as Target Costing, Accounting/Financial linkage of Value Chain Management, XBRL, Resource Consumption Accounting, and Environmental Accounting incorporating matters like carbon credit. The list of such tools and aspects of AIS environment in India could be much bigger. Our universities largely lack-behind in tuning up their course contents, teaching aids and production of training material. To our great desperation, our universities have just started talking of introducing the studies on IFRS. There are no much specific programs or packages for accounting professionals. The preparedness of the academic world in India in this regard is highly regrettable and worries-some. This shall be possible only when the Commerce Education and the Accounting Education in particular in India is granted its due status as has been raised nationally by the author in the University News (Dec. 2008).

## STATE OF OPENNESS, CO-OPERATION AMONG PROFESSIONAL AND ACADEMIC BODIES

How difficult is it to achieve co-operation among different agencies and levels of law, tax, authorities, various professional bodies can be understood in our context from the following : (a) The desparating result of the committee set-up as back as in 1966 by the GOI for unification of both the premier institutes of accounting professionals in India. (b) The need felt by the Government to streamline the governance in the ICAI through Naresh Chandra Committee formed after the Asian Crisis of 1997-98.

We know that the chairman of IAASB (International Auditing and Assurance Standards Board) of IFAC is Arnold Schilder who is a Professor and was the guest of honor at the recent international conference (July, 2009) of the ICAI to speak on the strategic steps in regard with convergence. In India, still a complexion or compartementation is maintained by the professional wing with the academic wing of the accounting discipline when such a recognition or liasion with the academic wing would be a matter of remote possibility. The two counterparts of the training and learning in the area of accounting in

India have not come forward to work together under a co-ordinated strategy. Apparently the preparedness for IFRS in India in terms of its nature and extent is inadequate or by halves and half-hearted. The teachers, scholars, advanced students in academic accounting badly need training, learing material, orientation par with professionals. There seems to have been 'no program or strategy' from any corner including academic bodies or agencies like the ICA, IAA and UGC. The AAA is in fact a true example for the two wings, the professional and academic, of accounting working in unison for the cause of the growth of discipline and enrichment of its practice for the accepted wider welfare role of accounting. In India, we need to bring the professionals and academics in accounting activity closer on the models of AAA, IAASB and IFAC.

## PROBLEM OF DOWN-STREAM ADJUSTMENTS, STANDARD-SETTERS AND PERFORMANCE STANDARDS

In order to be effective, convergence of ASs will require several down streams developments like guidance, consultative services, surveillance approach. In India no such adjustments are on the move. Further what about convergence between regulators apart from standard setters in different countries.

As noticed in the introduction that the convergence is a natural manifestation, an inevitable consequence and therefore a break-through for the KE in accounting profession. Convergence is possible by adopting IFRS. Much more is involved in the process- (the convergence process)? standard setting process, interpretation of standards and finally the convergence in the standard of performance by professional accountants. So any enquiry into the preparedness required an examination from all these points of view. It would reveal that we are prepared by halves.

## 'INDUSTRY SCAN' OR SCALE/SECTOR ANALYSIS OVER LOOKED

The KPMG in its survey noted several concerns and challenges along the path of IFRS adoption. Futher as noted, the experience with smaller companies was rather serious and some special effort was felt necessary for SMEs due to the two features of the IFRS. In the first place the IFRS are principle-based standards requiring judgment and secondly their extensive reliance on fair?value measurements.

However with the care and intention of global application the IFRS may have been written, each country will have to evaluate their viability under prevailing economic environment and in the context, India could not be an exception. The experts have come out with meticulous impacts, problems faced by individual industries in the course of adopting the IFRS. It is doubted that sufficient exercise has been done to that much scale in India. Each industry has its peculiarities and environmental constraints. Thus the issue of 'Industry specific scan for IFRS' is not well attended in our preparedness.

## A SCAN OVER LEGAL, POLITICAL, PROFESSIONAL AND USERS' COLLECTIVE ENVIRONMENT

In India we have a multiplicity of standard setting authorities (ASB, NACAS, SEB, Companies Act, Central Government, and the Tax Laws) and all get involved in enforcing standards. Unless such confusion is cleared, it would be virtually pointless to hope for a systematic and harmonious convergence of ASs. Convergence, however will not succeed unless we take steps to ensure that there is convergence of professional standards. What do we feel about it? Certainly hardly any preparedness is there. Do we not know that audits in the public sector are regarded as rewards rather than responsibilities? No steps seem to have been taken to change such attitudes. Is our entire system of appointment of auditors in the public sector going to be par with international practice? World over the joint auditors act together on the ground of same level of compatibility. They honor there the principle of unitary responsibility. We in India, subscribe to the unique system of segregating responsibility for joint auditors. We hardly have any international convergence in various areas of professional involvement. The globalization as imagined would be almost impossible only through the single instance of convergence of ASs. There is an obvious absence of the co-operation of the regulators. Neither the regulators seem to be mentally ready to give up the functions for which they are not qualified, nor to grant the desired freedom to the accounting profession. The political environment in India as it has stood so far would not be ready to lose or reduce its authority, dominance and interference. This is an obvious threat to our preparedness.

Do we think mere adoption of IFRS would ensure or render by itself the credibility to the financial reporting? The preparations of India, in joint efforts with others in this regard have been underscored. The experts feel that we may have to pay the price of credibility for global acceptance and transnational investment. Credibility depends not only on knowledge but also on understanding. One cannot have convergence of knowledge without the convergence of understanding. Could you converge the 'understanding' authoritatively? No, it would be a slow process among all concerned and give results. This convergence of understanding has to be parallel among all parties, users and stakeholders. The joint responsibility therefore, to educate all concerned falls on the profession and the academic wing of accounting in India. Both the counterparts and the latter partner in particular in this process of preparedness do not seem to have prepared themselves for the nation. Alas the captions like the ICAI- a Partner in Nation Building can be noticed in the professional expressions. Accounting standards are believed to be ultimately meant for users and not for the accountants. Astonishing instances of the gap of understanding have come to be noted even at the level of the Supreme Court - yes just in understanding the aim or end achievement of ASs or that ASs do not impact instead profit, they only affect the true measurement of profit. In India, law over rides the standards while the IFRS in spirit are more important than law or management requirements. IFRS once implemented would overrule not only management requirement, but also the law. This requires major changes in the system here in India. Not only company law needs immediate amendment, but also IT Act and other related regulations. Inferentially, definitely the 'environmental preparation' has lacked very much in India as regards the IFRS.

The eventual adoption of IFRS by all countries appears inevitable. Early adoption of IFRS will give an opportunity to shape it. If we are one of the last to join the bandwagon, we will not have any real opportunity to influence and shape the setting of international accounting standards. Since this window of opportunity will pass fairly soon, we need the Indian industry, government, and the accounting profession to move quickly towards adopting IFRS. Our road-map for the adoption process has not been quite comprehensive and effective in action. No doubts, the programs have been launched and softwares released by the apex professional body but as the leading trainers in accounting have expressed their strong doubts on their sufficiency or success. There is still a long way to go. We need all the stakeholders - the industry, ICAI, government, (the ministries of direct concern like company law in particular) RBI, SEBI, tax authorities and other regulators to fit into place in the transition process to IFRS. A joint strategy and movement of all these including academic agencies was badly required which is absent there. The discussion we need to engage is to holistically review the appropriateness of every application for India and address such issues in the transition provisions including those relating to first time adoption and tax implications. The thought behind actions needs to be clearly articulated and debated. We have some time ahead and can meet the deadline of 2011 but clarity of thought and speed of action would be of essence. A quick action plan and roadmap is need of the hour. Still, India's road to IFRS is long & could be rocky.

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# AN ECONOMETRIC RELATIONSHIP BETWEEN FMCG SECTOR PRICE INDEX AND MACROECONOMIC VARIABLES

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**ABSTRACT**

***This study investigates the long-term and short-term relationships between FMCG Sector Price Index and Macroeconomic Variables for the period of 2000:05-2009:12. Using Johansen cointegration approach, we observe that the sector stock prices are negatively related to the long-term interest rate and inflation. The sector stock prices have shown positive relationship with the money supply, industrial production and exchange rate. The VECM tends to indicate that of all the variables FMCGI stands out econometrically exogenous as illustrated through the Granger causality tests. The VECM results imply that this variable was the initial receptors of exogenous shocks to the long-term equilibrium relationship and all the remaining involved variables had to bear the burden of short-run adjustment endogenously. The results of Variance Decomposition also indicate that the FMCGI is relatively the leading variable, being the most exogenous of all variables because almost 93% of its own variance is explained by its own shock even after 24 months.***

## INTRODUCTION

The Fast Moving Consumer Goods (FMCG) industry primarily deals with the production, distribution and marketing of consumer-packaged goods that are consumed at regular intervals. The industry is vast and offers a wide range of job opportunities in functions such as sales, supply chain, finance, marketing, operations, purchasing, human resources, product development and general management. Global leaders in the FMCG segment are Sara Lee, Nestlé, Reckitt Benckiser, Unilever, Procter & Gamble, Coca-Cola, Carlsberg, Kleenex, General Mills, Pepsi and Mars etc. The Rs 86,000-crore FMCG industry is expected to witness a lot of action in 2010. With the economy showing signs of revival, the industry is expected to register a 15% growth in 2010 as compared to the previous year.

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**METHODOLOGY**

To investigate the long-term relationships, it is important first to determine the order of integration of each series. A variety of tests, namely the augmented Dickey-Fuller, ADF, and Phillips and Perron (1988) and Perron (1988), PP, unit root tests are used in this study to test the order of integration in each series.

To investigate the long-run relationships among the variables in model (1), the Johansen (1988, 1991, 1992) and Johansen and Juselius (1990) method is used to test for the number of cointegrating vectors.

Engle and Granger (1987) noted that if the variables are cointegrated, there always exists a corresponding error correction representation in which the short-run dynamics of the variables in the system are influenced by the deviation from long-term equilibrium. Thus, the VECM is useful for detecting the long-term and short-term Granger causality when the variables are cointegrated.

The VDC exhibits the proportion of the forecast error of each variable that is accounted for by each of the other variables. Therefore, the VDC enables us to determine the relative importance of each variable in generating fluctuations in other variables.

The IRF used to depict the adjustment dynamics among variables by indicating the dynamic response of a variable to a one standard deviation shock to another variable. The IRF can be obtained from either the unrestricted VAR form of the model or the VAR systems with cointegrated variables.

**DATA DESCRIPTION**

The sample of the study consists of the Indian sector stock prices which are represented by the index average monthly closing prices of BSE Fast Moving Consumer Goods (FMCGI), for the period of 2000:05-2009:12. The stock prices are based on average monthly closing prices of indices. The monthly data for all macroeconomic variables have been acquired for the period of 2000:05-2009:12.

To reflect the impact of RBI actions and the banking system, the narrow money supply (Ml) represents as the money supply. The first measure of money stock, M1 represents the most liquid or narrow measure of money supply. In the opinion of Mukherjee and Naka (1995), the effect of money supply on stock prices is an empirical question. An increase in money supply would lead to inflation, and may increase discount rate and reduce stock prices (Fama, 1981).

The industrial production (IPI) is used as the measure of the real economic activity because it may explain more return variation than other measures of real economic activities such as real GNP and private investment as observed by Fama (1981,1990). The Index of Industrial Production compares the growth in the general level of industrial activity in the economy with reference to a comparable base year.

The inflation rate is measured by the percent change of the wholesale price index (WPI). It is believed that, when assessing real returns on stocks, market participants are responsive to consumer goods prices (Abdullah and Hayworth, 1993).

The average interest rates (INTR) on 91-day T-bills are used for money market proxies. The Treasury bill rates are risk free rates and these bills are liquid and always market clearing (Siklos and Wohar, 1997).

To explore the influence of foreign countries on the Indian market, market rate of Rupee vis-à-vis US dollar (Rs /US $) is employed to present the foreign exchange rate (EXCR). It is average of buying and selling. These are indicative rates of Foreign Exchange Dealers' Association, published in RBI weekly Statement.

## DESCRIPTIVE STATISTICS

Table 1.1 reveals that the highest mean is reported for M1 and lowest for interest rate. The M1 and FMCG series have reported the highest volatility as described by the coefficient of standard deviation. Higher volatility of sector index is more sensitive to internal as well as external economic and political shocks. The least volatility is associated with exchange rate. Considering Jarque-Bera tests, for all the series, except for interest rate, we reject the hypothesis of normal distribution at the 5% level.

**Table 1.1**
**Descriptive Statistics**

| | L(M1) | L(IPI) | L(WPI) | L(EXCR) | L(INTR) | L(FMCGI) |
|---|---|---|---|---|---|---|
| Mean | 13.39818 | 5.368471 | 5.252624 | 3.817389 | 2.531967 | 7.196428 |
| Median | 13.36569 | 5.355629 | 5.245969 | 3.825037 | 2.519697 | 7.024683 |
| Maximum | 14.09956 | 5.812039 | 5.514638 | 3.936306 | 3.077312 | 7.949910 |
| Minimum | 12.74616 | 5.042780 | 5.022564 | 3.673080 | 1.968510 | 6.589160 |
| Std. Dev. | 0.423315 | 0.210135 | 0.142892 | 0.058193 | 0.252874 | 0.409566 |
| Skewness | 0.088843 | 0.117521 | 0.153005 | -0.783614 | 0.018811 | 0.218998 |
| Kurtosis | 1.661647 | 1.698075 | 1.795335 | 3.187548 | 2.249695 | 1.468904 |
| Jarque-Bera<br>(Probability) | 8.810015<br>(0.012216) | 8.459559<br>(0.014556) | 7.466825<br>(0.023911) | 12.04165<br>(0.002428) | 2.727803<br>(0.255661) | 12.25779<br>(0.002179) |
| Sum | 1554.189 | 622.7426 | 609.3044 | 442.8171 | 293.7081 | 834.7856 |
| Sum Sq. Dev. | 20.60751 | 5.078006 | 2.348075 | 0.389442 | 7.353721 | 19.29062 |
| Observations | 116 | 116 | 116 | 116 | 116 | 116 |

*Source: Computations are based from CMIE Prowess and Business beacon Database*

Based on the table 1.2, it can be concluded that all time series are integrated of order one, [I(1)], except for M1 and IPI, which are of order 2, [I(2)]. According to Hansen and Juselius (2002), to find cointegration between nonstationary variables, at least two variables of all variables included in the cointergration system have to be I(1). Our findings are consistent with this requirement.

**Table 1.2**
**Stationarity Verification of Time Series (ADF & PP Test)**

| Augmented Dickey-Fuller Test (ADF) | | | | | | |
|---|---|---|---|---|---|---|
| | Level | | First Difference | | Second Difference | |
| | Intercept | Trend and Intercept | Intercept | Trend and Intercept | Intercept | Trend and Intercept |
| L(M1) | 0.8844 | -4.0288* | -3.0977 | -3.2717 | | |
| L(IPI) | 0.7202 | -2.2257 | -1.7722 | -1.8566 | -13.1858** | -13.1186** |
| L(WPI) | 0.0602 | -4.4345** | -6.2749** | -6.2734** | | |
| L(EXCR) | -2.0402 | -2.1146 | -7.3487** | -7.3144** | | |
| L(INTR) | -1.8833 | -1.8928 | -8.0816** | -8.0476** | | |
| L(FMCGI) | -0.0129 | -2.5980 | -8.6240** | -8.7721** | | |
| *Significant Level* | | | | | | |
| 1% | -3.4886 | -4.0405 | -3.4886 | -4.0405 | -3.4886 | -4.0405 |
| 5% | -2.8870 | -3.4497 | -2.8870 | -3.4497 | -2.8870 | -3.4497 |
| ** and * indicate significance at 1% and 5% levels | | | | | | |
| Phillips Perron Test (PP) | | | | | | |
| | Level | | First Difference | | Second Difference | |
| | Intercept | Trend and Intercept | Intercept | Trend and Intercept | Intercept | Trend and Intercept |
| L(M1) | 0.7680 | -3.9119* | -13.2132** | -14.3918** | | |
| L(IPI) | 0.2645 | -8.0849** | -35.2598** | -35.9420** | | |
| L(WPI) | 0.1425 | -3.0977 | -6.2186** | -6.2172** | | |
| L(EXCR) | -2.0809 | -2.2122 | -7.3949** | -7.3611** | | |
| L(INTR) | -1.7386 | -1.7744 | -8.0277** | -7.9915** | | |
| L(FMCGI) | 0.0816 | -2.0837 | -8.5802** | -8.7883** | | |
| *Significant Level* | | | | | | |
| 1% | -3.4881 | -4.0398 | -3.4881 | -4.0405 | -3.4881 | -4.0405 |
| 5% | -2.8867 | -3.4494 | -2.8867 | -3.4497 | -2.8867 | -3.4497 |
| ** and * indicate significance at 1% and 5% levels | | | | | | |

***Source: Computations are based from CMIE Prowess and Business beacon Database***

**Table 1.3**
**Long-term Cointegration Relationship between FMCGI and MEVs**

Trend assumption: Linear deterministic trend (restricted)
Series: L(FMCGI) L(M1) L(IPI) L(WPI) L(EXCR) L(INTR)
Lags interval (in first differences): 1 to 4

| Hypothesized No. of CE(s) | Eigenvalue | Trace Statistic | 5 Percent Critical Value | 1 Percent Critical Value |
|---|---|---|---|---|
| None ** | 0.530308 | 163.8941 | 114.90 | 124.75 |
| At most 1 | 0.208720 | 80.01374 | 87.31 | 96.58 |
| At most 2 | 0.201015 | 54.02829 | 62.99 | 70.05 |
| At most 3 | 0.145725 | 29.11846 | 42.44 | 48.45 |
| At most 4 | 0.076892 | 11.63572 | 25.32 | 30.45 |
| At most 5 | 0.024512 | 2.754691 | 12.25 | 16.26 |
| Trace test indicates 1 cointegrating equation(s) at both 5% and 1% levels | | | | |
| *(**) denotes rejection of the hypothesis at the 5%(1%) level | | | | |
| **Hypothesized No. of CE(s)** | **Eigenvalue** | **Max-Eigen Statistic** | **5 Percent Critical Value** | **1 Percent Critical Value** |
| None ** | 0.530308 | 83.88033 | 43.97 | 49.51 |
| At most 1 | 0.208720 | 25.98545 | 37.52 | 42.36 |
| At most 2 | 0.201015 | 24.90983 | 31.46 | 36.65 |
| At most 3 | 0.145725 | 17.48274 | 25.54 | 30.34 |
| At most 4 | 0.076892 | 8.881024 | 18.96 | 23.65 |
| At most 5 | 0.024512 | 2.754691 | 12.25 | 16.26 |
| Max-eigenvalue test indicates 1 cointegrating equation(s) at both 5% and 1% levels | | | | |
| *(**) denotes rejection of the hypothesis at the 5%(1%) level | | | | |

***Source: Computations are based from CMIE Prowess and Business Beacon Database***

Table 1.3 presents the cointegration test for FMCGI. Both X-trace statistics and X-max statistics identifies one cointegrating vectors. According to Cheung and Lai (1993), the X-trace statistics is more robust than the X-max statistics. Hence, the studied model is determined to possess one cointegrating vector, and thus five common stochastic trends among the variables. The first normalized eigenvector is:

$$FMCGI = -0.095034 + 6.011018\ M1 + 11.81780\ IPI - 10.39262\ WPI + 0.110799\ EXCR - 0.886009\ INTR$$

The cointegration model is based on the vector autoregressive model (VAR) with 4 lags using the likelihood ratio (LR) test. The critical values for X-Trace and X-Max statistics are tabulated in Table 1 of Osterwald-Lenum (1992).

The equilibrium relation between the FMCGI and M1 is positive and significant at 1% level. The IPI and EXCR are positively affecting the index prices, while WPI and INTR are negatively reacting with the index prices. The relations for IPI, WPI and INTR are significant at 1% level but insignificant for exchange rate. The results of weak exogeneity tests, conducted within a VECM formulation indicate that the null hypothesis of weak exogeneity cannot be rejected for LFMCGI, LM1, LEXCR and LINTR. Thus, it can be concluded that these variables are weakly exogenous. The exclusions of the adjustment coefficients of the variables LIPI and LWPI from the vector error correction specification are rejected.

## CAPTURING THE SHORT RUN DYNAMICS AND LONG RUN EQUILIBRIUM RELATION FOR FMCGI AND MEVS

If the series are co-integrated, Granger representation theorem states that an error correction model (ECM) describes the dynamic relationship. The VECM is a restricted VAR designed for use with non-stationary series that are known to be co-integrated. The VECM has co-integration relations built into the specification so that it restricts the long-run behavior of the endogenous variables to converge to their co-integrating relationships while allowing for short-run adjustment dynamics. The co-integration term is known as the error correction term since the deviation from long-run equilibrium is corrected gradually through a series of partial short-run adjustments. The advantage of ECM framework lies in its strength of capturing both the short run dynamics and long run equilibrium relation between two series.

Engle and Granger (1987) demonstrated that once a number of variables are found to be co- integrated, there always exists a corresponding error-correction representation which implies that changes in the dependent variable are a function of the level of disequilibrium in the co-integrating relationship (captured by the error-correction term) as well as changes in other explanatory variable(s). The short-term variation can be predicted by using ECM.

Thus, the non-significance of both the t and F or Wald Chi-Square tests in the VECM indicates econometric exogeneity of the dependent variables (Engle and Granger, 1987). In addition to indicating the direction of causality among variables, the VECM approach allows us to distinguish between 'short-run' and 'long-run' Granger causality. When the variables are co-integrated, in the short-term, deviations from this long-run equilibrium will feed back on the changes in the dependent variable in order to force the movement towards the long-run equilibrium.

The VECM is based on a uniform lag length of 4 as in the cointegration model with linear deterministic trend (restricted). All variables are in first differences with an exception to the lagged error-correction terms (ECTt-1) generated from Johansen order of cointegration with the first cointegrating vector that is normalized on dependent variables.

**Table 1.4**
**Estimates for error correction model**

| Vector Error Correction Estimates | | | | | | |
|---|---|---|---|---|---|---|
| **Cointegrating Eq:** | **Coint Eq1** | | | | | |
| L(FMCGI(-1)) | 1.000000 | | | | | |
| L(M1(-1)) | -6.011018<br>(1.66545)<br>[-3.60924] | | | | | |
| L(IPI(-1)) | -11.81780<br>(1.58631)<br>[-7.44988] | | | | | |
| L(WPI(-1)) | 10.39262<br>(2.25278)<br>[ 4.61324] | | | | | |
| L(EXCR(-1)) | -0.110799<br>(0.58852)<br>[-0.18827] | | | | | |
| L(INTR(-1)) | 0.886009<br>(0.22529)<br>[ 3.93270] | | | | | |
| @TREND (00M05) | 0.095034<br>(0.02073)<br>[ 4.58350] | | | | | |
| C | 74.80924 | | | | | |
| Error Correction: | D(L(FMCGI)) | D(L(M1)) | D(L(IPI)) | D(L(WPI)) | D(L(EXCR)) | D(L(INTR)) |
| CointEq1 | 0.023020<br>(0.02723)<br>[ 0.84553] | -0.000117<br>(0.00824)<br>[-0.01425] | 0.106255<br>(0.01744)<br>[ 6.09398] | -0.012640<br>(0.00251)<br>[-5.02668] | 0.007111<br>(0.00640)<br>[ 1.11041] | -0.033015<br>(0.02671)<br>[-1.23596] |

***Source: Computations are based from CMIE Prowess and Business Beacon Database***

Table 1.4 presents vector error correction estimates for FMCGI. It indicates the estimated coefficient of the ECT in the FMCGI equation. The result shows that the ECT is not significant with a t-statistic of 0.8455, suggesting that the error correction cannot be used to help predict changes in FMCGI prices. For IPI equation, the t-test of the ECT in equation is statistical significant at 1%. This result suggests that each variable Granger-cause the IPI. Hence, all variables have an impact on the IPI at least to some extent. The similar results have been observed for the ECT in WPI equation at 1% level of significance. For FMCGI (Table 1.5), the VECM tends to indicate that of all the variables FMCGI stands out econometrically exogenous as illustrated through the Granger causality tests. Intuitively, the mechanics behind the VECM results imply that this variable was the initial receptors of exogenous shocks to the long-term equilibrium relationship, and all the remaining involved variables had to bear the burden of short-run adjustment (to long-term trend) endogenously in different proportions in order to re-establish the long-term equilibrium.

**Table 1.5**
**Direction of causality between FMCGI and MEVs**

| **VEC Granger Causality/Block Exogeneity Wald Tests** | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Dependent variable: D(L(FMCGI))** | | | | **Dependent variable: D(L(M1))** | | | |
| **Excluded** | **Chi-sq** | **Df** | **Prob.** | **Excluded** | **Chi-sq** | **df** | **Prob.** |
| D(L(M1)) | 2.313117 | 4 | 0.6784 | D(L(FMCGI)) | 5.807808 | 4 | 0.2140 |
| D(L(IPI)) | 7.061796 | 4 | 0.1327 | D(L(IPI)) | 39.89668 | 4 | 0.0000 |
| D(L(WPI)) | 5.598811 | 4 | 0.2312 | D(L(WPI)) | 11.69769 | 4 | 0.0197 |
| D(L(EXCR)) | 5.574321 | 4 | 0.2333 | D(L(EXCR)) | 7.072033 | 4 | 0.1321 |
| D(L(INTR)) | 2.388853 | 4 | 0.6646 | D(L(INTR)) | 3.520793 | 4 | 0.4747 |
| All | 22.79002 | 20 | 0.2992 | All | 90.39018 | 20 | 0.0000 |
| **Dependent variable: D(L(FMCGI))** | | | | **Dependent variable: D(L(M1))** | | | |
| **Excluded** | **Chi-sq** | **Df** | **Prob.** | **Excluded** | **Chi-sq** | **df** | **Prob.** |
| D(L(FMCGI)) | 10.29695 | 4 | 0.0357 | D(L(FMCGI)) | 15.82409 | 4 | 0.0033 |
| D(L(M1)) | 11.05442 | 4 | 0.0260 | D(L(M1)) | 12.99171 | 4 | 0.0113 |
| D(L(WPI)) | 5.284000 | 4 | 0.2594 | D(L(IPI)) | 18.70798 | 4 | 0.0009 |
| D(L(EXCR)) | 18.09168 | 4 | 0.0012 | D(L(EXCR)) | 15.59765 | 4 | 0.0036 |
| D(L(INTR)) | 7.368054 | 4 | 0.1177 | D(L(INTR)) | 17.15114 | 4 | 0.0018 |
| All | 39.76758 | 20 | 0.0053 | All | 52.47256 | 20 | 0.0001 |
| **Dependent variable: D(L(FMCGI))** | | | | **Dependent variable: D(L(M1))** | | | |
| **Excluded** | **Chi-sq** | **Df** | **Prob.** | **Excluded** | **Chi-sq** | **df** | **Prob.** |
| D(L(FMCGI)) | 14.72301 | 4 | 0.0053 | D(L(FMCGI)) | 4.190313 | 4 | 0.3809 |
| D(L(M1)) | 2.560442 | 4 | 0.6338 | D(L(M1)) | 1.662590 | 4 | 0.7975 |
| D(L(IPI)) | 3.606487 | 4 | 0.4619 | D(L(IPI)) | 7.334970 | 4 | 0.1192 |
| D(L(WPI)) | 3.576847 | 4 | 0.4663 | D(L(WPI)) | 16.19501 | 4 | 0.0028 |
| D(L(INTR)) | 7.848149 | 4 | 0.0973 | D(L(EXCR)) | 0.709690 | 4 | 0.9501 |
| All | 31.19182 | 20 | 0.0527 | All | 43.89599 | 20 | 0.0016 |

***Source: Computations are based from CMIE Prowess and Business Beacon Database***

In addition, considering M1 equation, there are direct causalities from IPI and WPI at 5% level of significance for the Chi-square-tests. There are direct causalities running from FMCGI, M1 and EXCR to IPI at the 5% level of significance for the Chi-square-tests in the IPI equation. While considering WPI equation, it is clearly evident that all involved variables are causing this variable. In case of EXCR equation, the causality is running from FMCGI to this variable. While considering INTR equation, the causality is running from WPI to this variable. Thus, it can be concluded that there are various bi-directional causality present in the system. The first bi-directional causality is between M1 and IPI, the second causality is between M1 and WPI, and third causality has been observed between WPI and INTR. The null hypothesis of block exogeneity is rejected for all equations (excluding FMCGI and EXCR) indicating that all variables are jointly influenced by each other and cannot be treated as pure exogenous.

## EFFECT OF TRANSITORY AND PERSISTENT DYNAMIC RESPONSE TO VARIOUS SHOCKS

An impulse response function traces the effect of a one-time shock to one of the innovations on current and future values of the endogenous variables. Cholesky uses the inverse of the Cholesky factor of the residual covariance matrix to orthogonalize the impulses. This option imposes an ordering of the variables in the VAR and attributes all of the effect of any common component to the variable that comes first in the VAR system.

The impulse response functions (IRF) indicate the transitory (or persistent) dynamic response of a variable to a one standard deviation shock to another variable. Since cointegration exists in this study, the IRF obtained from the VAR system with cointegrated variables is more useful. Unlike the IRF derived from the unrestricted VAR model, the permanent effect of a shock in one variable will generally not die out in the long run even if no further shocks occur, that is, it shifts the system to a new equilibrium. On the other hand, the transitory effect shows that the variable will return to its previous equilibrium value after a few periods.

Table 1.6 presents the IRF of the FMCGI to one standard deviation innovations in involved variables for a period of 24 months. The shocks observed in the M1 leads to a permanent long-term increase in FMCGI variable. The shocks in WPI and EXCR lead to a permanent long-term decrease in FMCGI variable. On the other hand, impulse responses in the remaining variables are not permanent but transitory. At the beginning, the FMCGI is positively reacting to innovations of IPI. Their response is in the downward direction to hit the previous equilibrium level and staying below its equilibrium in the long-term. In the long-term, the innovations in this variable are negatively affecting FMCGI. The similar behavior has been observed for INTR variable but in the opposite direction. Moreover, the IPI shocks influence FMCGI for 2 months before they return to their previous equilibrium values. This implies that IPI factor bears the shortest time span to interact to the FMCGI.

**Table 1.6**
**Response of FMCGI to Various Shocks**

| | Response of L(FMCGI) | | | | | |
|---|---|---|---|---|---|---|
| **Period** | **L(FMCGI)** | **L(M1)** | **L(IPI)** | **L(WPI)** | **L(EXCR)** | **L(INTR)** |
| 1 | 0.05440 | 0.00000 | 0.00000 | 0.00000 | 0.00000 | 0.00000 |
| 2 | 0.07056 | 0.00011 | 0.00342 | -0.00561 | -0.00511 | -0.00122 |
| 3 | 0.07038 | 0.00469 | -0.00057 | -0.00564 | -0.02006 | 0.00536 |
| 4 | 0.07355 | 0.00591 | -0.00817 | -0.00348 | -0.01887 | 0.00650 |
| 5 | 0.07561 | 0.00158 | -0.00573 | -0.00700 | -0.01236 | 0.00601 |
| 6 | 0.07786 | 0.00087 | -0.00733 | -0.00766 | -0.01398 | 0.00656 |
| 7 | 0.07216 | 0.00168 | -0.00929 | -0.00567 | -0.01763 | 0.00503 |
| 8 | 0.07082 | 0.00012 | -0.00903 | -0.00833 | -0.01536 | 0.00084 |
| 9 | 0.07173 | 0.00241 | -0.01236 | -0.00864 | -0.01377 | 0.00314 |
| 10 | 0.06831 | 0.00177 | -0.01066 | -0.00940 | -0.01357 | 0.00361 |
| 11 | 0.06764 | 0.00150 | -0.00803 | -0.00943 | -0.01470 | 0.00228 |
| 12 | 0.06862 | 0.00134 | -0.00725 | -0.00857 | -0.01515 | 0.00267 |
| 13 | 0.06808 | 0.00012 | -0.00857 | -0.00963 | -0.01523 | 0.00290 |
| 14 | 0.06798 | 0.00095 | -0.00796 | -0.00941 | -0.01606 | 0.00287 |
| 15 | 0.06863 | 0.00150 | -0.00936 | -0.00891 | -0.01634 | 0.00347 |
| 16 | 0.06814 | 0.00084 | -0.01029 | -0.00864 | -0.01624 | 0.00376 |
| 17 | 0.06822 | 0.00051 | -0.00948 | -0.00882 | -0.01565 | 0.00406 |
| 18 | 0.06873 | 0.00053 | -0.00936 | -0.00837 | -0.01513 | 0.00424 |
| 19 | 0.06850 | 0.00041 | -0.00964 | -0.00822 | -0.01476 | 0.00382 |
| 20 | 0.06846 | 0.00090 | -0.00905 | -0.00826 | -0.01462 | 0.00336 |
| 21 | 0.06872 | 0.00138 | -0.00889 | -0.00813 | -0.01472 | 0.00344 |
| 22 | 0.06854 | 0.00129 | -0.00845 | -0.00828 | -0.01489 | 0.00334 |
| 23 | 0.06865 | 0.00126 | -0.00777 | -0.00857 | -0.01513 | 0.00319 |
| 24 | 0.06887 | 0.00122 | -0.00773 | -0.00862 | -0.01547 | 0.00320 |

***Source: Computations are based from CMIE Prowess and Business Beacon Database***

Among involved variables, the EXCR can somewhat explain FMCGI (4%). In other words, the movement of the EXCR seems to have a consistent effect. The result implies that FMCGI is more closely related to the EXCR. On the other hand, the movement in FMCGI does not seem to explain significantly the forecast error variance of other involved variables. More specifically, it explains approximately 0.96% of the forecast error variance in the EXCR variable and 21% in the M1 variable. Tables also shows that the INTR and WPI are the most explained variables in terms of their relative variances being explained by other variables with more than 55% of their own shocks being explained by innovations in the other participating variables.

The study suggests that the stock market is inefficient. Rather stock market is fundamentally linked with key macroeconomic variables across the short run and long run. To this regard, investors are encouraged to thoroughly observe the economic performance of this market to maximize their earning opportunities. As the choice of investment in various sectors for overall portfolio decisions, investors are recommended to adopt different strategies across these economic markets because of the diverse relationship between stock prices and macroeconomic variables.

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# COST STRUCTURE OF POWER DISTRIBUTION COMPANIES IN ANDHRA PRADESH: A STUDY

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**ABSTRACT**

***The state of Andhra Pradesh is situated in the South Eastern part of India spreading over an area of 2, 75,045 sq km, having population of 96 million, of which 73% live in rural areas. Andhra Pradesh was the first state in the country to take up comprehensive structural reform program with an objective of restructuring the power sector. The intellectual principle behind electricity restructuring is that competition should be introduced wherever possible in the sector. The National Human Development Report, 2001 classifies access to electricity as a basic amenity in India, at par with other amenities like shelter, sanitation and drinking water. Moreover electricity is also a critical input for economic activity - industrial, agricultural and commercial, and thus has a vital role to play in economic development and wealth generation. India has achieved significant quantitative expansion of the electricity sector from the time of independence. The Electricity Act 1948 envisaged creation of the State Electricity Boards i.e. SEB's for planning and implementing the power development programs in their respective states. The financial statements have been analyzed to determine the financial position and results of operations as well. A number of methods or devices have been used to study the relationship between different statements pertaining to the companies. Under the study an effort has been made to use those devices which clearly analyze the position of the companies which were selected. Ratio analysis and break even analysis are some of the well known methods or techniques used in analyzing the financial position. They are also used in the present study. To study the relationship between the operating expenses (OE) and Net Sales, Operating Expenses Ratio (OER) has been calculated for four companies for a period of eight years. This technique indicates that the lower the ratio, greater is the profitability; and the greater is the ratio, lower is the profitability.***

## INTRODUCTION

With the financial and policy support of the World Bank, Andhra Pradesh was the first state in the country to take up comprehensive structural reform program with an objective of restructuring the power sector. The intellectual principle behind electricity restructuring is that competition should be introduced wherever possible in the sector. In practice several other components of restructuring - corporatization, privatization, and

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unbundling are essential parts of the package. Thus, the three mantras of reforms - Liberalization, Globalization and Privatization - gained ground even in the electricity sector.

The state of Andhra Pradesh is situated in the South Eastern part of India spreading over an area of 2, 75,045 sq km, having population of 96 million, of which 73% live in rural areas.

APSEB(Andhra Pradesh State Electricity Board) came into existence in 1956 and started functioning with an objective of maintaining power sector efficiently, economically and also, it simultaneously ensures that the demand meets its supply.

The APSEB had been responsible for the power generation, transmission, distribution and the overall development of power sector in the state.

APSEB witnessed stupendous growth during the last four decades. The per capita electricity consumption was about 470kwh per annum in financial year 1999 that reached to 560kwh by 2008. (*Source: www.aperc.com*)[2]

Though APSEB could fulfill its primary objective, the demand for electricity outstripped the capacity and resulted in shortages of power supply. Peak demands have occurred which ultimately resulted in imposition of certain restriction on the power supply to HT/LT consumers. The shortages have resulted in poor voltage profile and low frequencies.

The imbalance of the revenues against the cost of production, no significant reduction in technical losses and energy thefts, high cost purchases from IPPs, other SEBs gradually worsened the financial position of APSEB.

Government of Andhra Pradesh realizing the declining trend in the financial position of APSEB and considering the government of India's liberalized policy for attracting private investments in power sector, set up a high level committee in January 1995, to look into the working of APSEB and suggest remedies for improvement. Quality power at economic rates, acts as a catalyst in transforming the state by fostering growth in agricultural, industrial and commercial areas while meeting the increasing domestic demand.

## METHODOLOGY

The present study attempts to analyses the cost structure of PDCs post reform period and assesses the impact of various cost and revenue parameters on the average revenue and the average cost incurred by PDCs

By taking time series data related to financial information consisting of Operating Income and Operating Expenses, Net Sales, Average Revenue and Average Cost, Total Revenue and Total Cost and Net Profits of the four companies covering a post reform period, that is from 2000-01 to 2007-2008, the data has been analyzed .To study the strength of the relationship between Average Revenue and Average Cost the technique of Simple Regression Analysis has been used. The use of this technique helps in assessing which of the four companies has a very high operational efficiency.

This paper presents results of a comprehensive study undertaken to assess the impact of revenue realized from seven different categories of High Tension (HT) on Average

Revenue, and on Average Cost. For this, Multiple Regression Analysis technique has been used. In this analysis Average Revenue has been taken as the dependent variable and revenue from seven different categories as independent variables. Multiple Regression Analysis helps in assessing which category shows a significant impact on Average Revenue by keeping all other variables as constant. Similarly, revenue realized from nine categories of Low Tension (LT) on AR, keeping AR as the dependent variable and revenue from nine categories as independent variables, the Multiple Regression Analysis technique has been used.

In the present study, ANOVA results support the conclusions drawn with the help of simple Regression Analysis in OLS form for Average Revenue and Average Cost as well as Total Revenue and Total Cost. Even in the case of Multiple Regression Analysis, ANOVA has been used to find the impact of revenue from various categories on Average Revenue in the case of both HT and LT.

Analysis and interpretation of financial statements has been used to determine the financial position and results of operations as well. A number of methods or devices have been used to study the relationship between different statements pertaining to the companies. Under the study, an effort has been made to use those devices which clearly analyze the position of the companies which were selected. Ratio analysis and break even analysis are some of the well known methods or techniques used in analyzing the financial position. They are also used in the present study. To study the relationship between the Operating Expenses and Net Sales, Operating Expenses Ratio has been calculated for four companies for a period of eight years. This ratio indicates that, the lower the ratio, greater is the profitability; and the greater is the ratio, lower is the profitability.

## TRENDS IN REVENUES AND COSTS

To find the stability of the companies with respect to their revenues earned and costs incurred, simple regression analysis technique has been applied. It was found that the regression coefficient for SPDCL was -0.91 which is the most negative regression coefficient compared to all four companies. This shows that as the AR increases by Re 1 for any of the four companies, the maximum decrease in AC was for SPDCL. Subsequently, this implies that SPDCL was the most stable company and it shows a very high operational efficiency.

Similarly taking TC and TR as the parameters to assess the stability of the companies, it was found that the coefficient of TC for SPDCL was 1.19 which was the highest positive regression coefficient compared to all four companies. This shows that as the TC increases by Rs 1 crore for any of the four companies, the maximum increase in TR was for SPDCL, which implies that SPDCL was again the most stable company

## TRENDS IN OPERATING EXPENSES AND OPERATING INCOMES

The results of the Operating Expenses Ratio indicates that over a period of eight years EPDCL was performing better because it was showing a decreasing trend.

**OPERATING INCOMES**

Taking 2000-01 as base year the percentage growth of operating income of CPDCL over the period of eight years was 213.34%., which was the maximum comparing the four companies. Whereas for EPDCL it was the least i.e. 131.32%; similarly the second highest was shown for NPDCL with the percentage growth of 169.92% and the third highest was SPDCL i.e. 139.51%.

**Trends in Operating Income of four companies (2000-01 to 2007-08)**

| OI | NPDCL | SPDCL | EPDCL | CPDCL |
|---|---|---|---|---|
| 00-01 | 995.88 | 1402.93 | 1180.76 | 2363.24 |
| 01-02 | 1526.91 | 2076.40 | 1523.12 | 3553.04 |
| 02-03 | 1589.21 | 2389.26 | 1646.31 | 4060.82 |
| 03-04 | 1539.93 | 2416.40 | 1802.19 | 4490.82 |
| 04-05 | 1610.14 | 2468.37 | 1990.82 | 4904.92 |
| 05-06 | 1920.00 | 2932.41 | 2138.03 | 4975.03 |
| 06-07 | 2296.58 | 3268.29 | 2322.68 | 5698.08 |
| 07-08 | 2688.03 | 3360.09 | 2731.32 | 7405.02 |
| MEAN | 1770.84 | 2539.27 | 1916.90 | 4681.37 |
| SD | 522.64 | 644.53 | 487.80 | 1495.54 |
| CV | 29.51 | 25.38 | 25.45 | 31.95 |

Though the percentage growth for SPDCL was the third highest over the eight years, the coefficient of variation for SPDCL was the least i.e. 25.38, whereas for CPDCL the C.V was the maximum showing a value of 31.95. It is stated that the greater the C.V lesser is the consistency. This indicates that though the percentage growth over eight years for CPDCL was the maximum, the C.V is the least, reflecting inconsistency in its growth as far as operating income is concerned and this is clearly observed in CPDCL percentage growth as there was a random jump from one year to the other.

**TRENDS IN OPERATING EXPENDITURES**

Though the percentage growth for SPDCL was the third highest over the eight years, with respect to trends in operating expenditure, the C.V. for SPDCL was the least having 23.33, whereas for CPDCL the C.V was the maximum showing a value of 31.56. It is concluded that SPDCL is the most consistent.

**Trends in operating expenses of four companies (2000-01 to 2007-08)**

| OE | NPDCL | SPDCL | EPDCL | CPDCL |
|---|---|---|---|---|
| 00-01 | 897.26 | 1291.91 | 1131.64 | 2246.27 |
| 01-02 | 1484.01 | 1945.73 | 1505.18 | 3521.39 |
| 02-03 | 1540.15 | 2225.11 | 1577.92 | 3885.79 |
| 03-04 | 1394.35 | 2245.29 | 1716.61 | 4371.42 |
| 04-05 | 1490.97 | 2317.80 | 1826.35 | 4559.00 |
| 05-06 | 1736.72 | 2552.18 | 1910.80 | 4519.41 |
| 06-07 | 2095.20 | 2878.10 | 2174.82 | 5443.98 |
| 07-08 | 2414.80 | 2991.41 | 2538.39 | 7048.44 |
| MEAN | 1631.68 | 2305.94 | 1797.71 | 4449.46 |
| SD | 460.57 | 538.02 | 429.04 | 1404.07 |
| CV | 28.23 | 23.33 | 23.87 | 31.56 |

## TRENDS IN NET PROFIT RATIOS

Net profit ratio is calculated to assess the profitability of the company by taking two important components; they are net profit and sales.

Initially the companies were having very negligible profits, by the end of eight years the net profit ratio of the companies i.e. CPDCL, EPDCL, NPDCL and SPDCL were 0.19%, 1.35%, 0.44% and 1.61% respectively. Out of all the four companies SPDCL's NPR was highest; indicating that it is performing with efficiency.

**Trends in BEP (Rs. Crores)**

| | Total Sales | | Break Even Sales | |
|---|---|---|---|---|
| Company | 2000-01 | 2007-08 | 2000-01 | 2007-08 |
| CPDCL | 5043.46 | 7493.88 | 2363.24 | 2401.88 |
| EPDCL | 2763.62 | 2998.77 | 1198.11 | 1234.97 |
| NPDCL | 2325.42 | 2704.30 | 994.17 | 1006.20 |
| SPDCL | 3132.29 | 3360.09 | 1422.89 | 1456.43 |

When a firm reaches no profit no loss position it is known as break even stage. Breakeven point of any company represents that position where it is at least earning its revenue which is just equal to its costs. The above analysis indicates that initially except NPDCL no company was having its revenues more than their breakeven sales, but over a period of eight years except EPDCL all other firms were reaching their breakeven point early.

## TRENDS IN INCOME (BREAK-UP)

During the year 2000-01 all the four companies received majority of the revenue from sale of energy only, these companies hardly received any income from government as subsidy or grant. They received negligible amount from other sources. Over a period of eight years these companies received a substantial share of revenue from government in the form of subsidy and grant and also revenue from other sources also contributed to the total revenue.

By the end of 2007-08 the revenue from sale of power of CPDCL decreased from 100% to 79%, the income from other sources increased from 0% to 6% and also the company received 15% of the total revenue from government grants and subsidies. Similarly In case of EPDCL the revenue from sale of energy is reduced from 99% to 96%, but the revenue from other incomes increased from 1% to 4%. where in the government gave a subsidy of Rs 287.87 crores in 2001-02 and by the end of 2005-06 the subsidy amount decreased drastically and in the next 2 years it became nil. Similarly the income from others also increased from 1% to 4%. The revenue from sale of energy is reduced from 95% to 55% in NPDCL, and the revenue from subsidy and government grant increased from 0% to 40%, only this company showed a peculiar situation because of the government's announcement of free power to agriculture and subsidized power supply to some categories of industries Similarly the income from others also increased from 1% to 5%.

Even in case of SPDCL revenue from sale of energy is reduced from 99% to 74%, but the revenue from subsidy and government grant increased from 0% to 19%. Initially the government did not give any subsidy to the company, but later in 2001-02 the company received subsidy of Rs. 542.27 crores, and by the end of 2007-08. It is increased to Rs. 622.24 crores. This is because, this company had highest agricultural sales compared to other three companies. similarly the income from others also increased from 1% to 7%.

## TRENDS IN EXPENDITURE (BREAK-UP)

### *CPDCL*

Majority of the company's expenditure was towards purchase of power. Over a period of 8 years there is a consistency in all other expenditure, and employee cost is reduced which indicates that the company's efficiency in managing its human resource.

### *EPDCL*

During the year 2000-01 Out of the total expenditure 84% is spent for power purchase, 8% is for employee cost, for depreciation and repairs and maintenance 3%, 1% respectively. Interest charges and administrative expenditure is of 2% of the total expenditure. Very negligible amount spent for provision for tax.

By the end of 2007-08 EPDCL spent 81% towards purchase of power, 8% is for employee cost, depreciation and repairs and maintenance 4%, 1% respectively. Interest charges and administrative expenditure is of 5%, 1% of the total expenditure respectively.

Decrease in administrative expenditure and consistency in employee cost and repairs and maintenance re shows that the company is efficiently managing its resources.

***NPDCL***

Out of the total expenditure the power purchases cost fluctuated from 75% to 85% over a period of 8 years. This company shows that there is decrease in the components of the fixed expenses over a period of 8 years.

***SPDCL***

During the year 2000-01 the company spent 77%of the total expenditure towards power purchase, 10% is for employee cost, for depreciation and repairs and maintenance 5%, 2% respectively. Interest charges and administrative expenditure is of 4% and 2% of the total expenditure. Very negligible amount spent for provision for tax.

Over a period of 8 years the employee cost, repairs and maintenance cost is reduced from 10% to 6%, and 2% to 1% respectively. By the end of 2007-08 it spent 81% towards purchase of power and 6% for Depreciation. There is a consistency in Interest charges and administrative expenditure. Remarkable decrease in employee cost reflects the able administration of the company in managing its human capital.

**Multiple Regression-AR-HT**

The multiple regression equation for AR-HT for the four companies are:

***CPDCL***

$$AR = 11.12 + 3.05\ IS + 0.77\ INS - 0.214\ IA - 5.62\ RT + 1.91\ CS - 0.17\ TC + 0.66\ CL$$

***EPDCL***

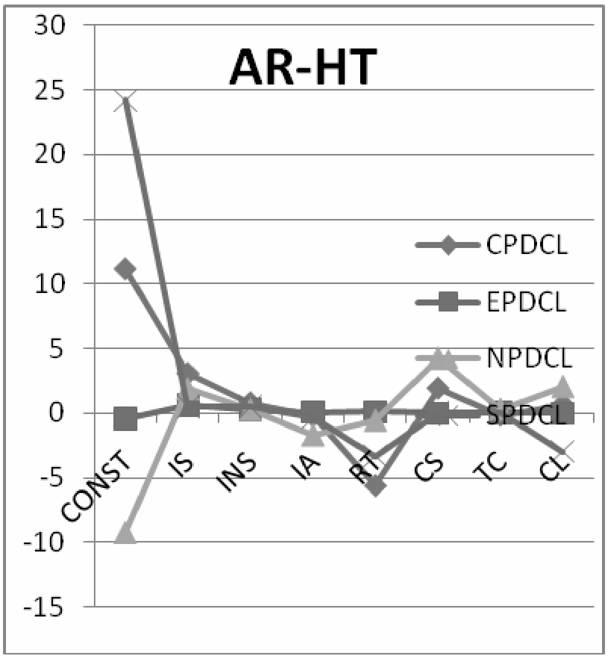
$$AR = -0.456 + 0.604\ IS + 0.252\ INS + 0.072\ IA + 0.1\ RT - 0.006\ CS + 0.011\ TC - 0.002\ CL$$

***NPDCL***

$$AR = -9.202 + 1.887\ IS + 0.290\ INS - 1.66\ IA - 0.534\ RT + 4.264\ CS + 0.317\ TC + 2.073\ CL$$

***SPDCL***

$$AR = 24.199 + 0.520\ IS + 0.529\ INS - 0.319\ IA - 3.295\ RT + 0.025\ CS - 0.00\ TC - 2.957\ CL$$




Observing the effect of the seven IVs on AR for each company, from the multiple regression lines given above, it is observed that for EPDCL, five of the variables (IS, INS, IA, RT and TC) have a strong or moderate positive effect whereas for SPDCL, two of the variables (IS, INS) have a strong positive effect whereas IA, RT, TC and CL have a reverse effect on AR. For CPDCL (IS, INS, CS and CL) and for NPDCL ( IS, INS, CS, TC, and CL), have a positive effect on AR. Note that IS and INS has a direct effect on AR for all the four companies; except for EPDCL, IA has a reverse effect on the other three companies.

**Multiple Regression-AR-LT:**

The multiple regression equation for AR-LT for the four companies is:

***CPDCL***

AR = - 3.417 + 0.518 DS + 1.14 NDS -0.504 IS - 0.58 CL + 0.206 PL - 0.003 GP -0.45 TC

***EPDCL***

AR = - 0.446 + 0.481DS + 0.511 IS + 0.65CL - 0.003IANF - 0.596PL + 0.107GP -0.026TC

***NPDCL***

AR = 0.051+ 0.72DS + 0.402NDS -1.797 IS + 1.478CL + 2.383IANF +1.114PL + 0.001TC

***SPDCL***

AR = 6.074 - 2.259DS + 0.510NDS -0.341 IS - 0.951CL + 0.809 IANF + 0.049 TC

Observing the effect of the nine IVs on AR for each company from the multiple regression lines given above, it is observed that IS has a reverse effect on AR for all companies except for EPDCL for which it has a direct effect. CL has a positive effect on AR for EPDCL and NPDCL and a reverse effect for CPDCL and SPDCL. TC has a direct effect on AR for NPDCL and SPDCL but a reverse effect for CPDCL and EPDCL. IANF has a direct effect on AR for NPDCL and SPDCL but a reverse effect for EPDCL.

**Multiple Regression-AFC**

The multiple regression equation for AFC for the four companies are:

***CPDCL***

$$AFC = -0.004 + 0.965RM + 1.037EC + 1.008AC + 1.074\ DEP + 0.897IFC + 0.191ED$$

***EPDCL***

$$AFC = 0.002 + 0.889RM + 0.974\ EC + 0.907AC + 0.974\ DEP + 1.026IFC + 0.276ED$$

***NPDCL***

$$AFC = 0.233 + 0.199RM + 1.110\ EC - 1.263AC + 0.708DEP + 1.265IFC - 7.484ED$$

***SPDCL***

$$AFC = 0.12 + 1.27RM + 0.871EC + 0.917AC + 0.62DEP + 1.25IFC - 2.533ED$$

Observing the effect of the six IVs on AFC for each company, from the multiple regression lines given above, it is observed that for CPDCL, EPDCL all the variables have a strong or moderate positive effect on AFC, whereas for SPDCL and NPDCL, ED has a reverse effect. For NPDCL, AC also has a reverse effect on AFC.

The financial statements have been analyzed to determine the financial position and results of operations as well. A number of methods or devices have been used to study the relationship between different statements pertaining to the companies. Under the study an effort has been made to use those devices which clearly analyze the position of the companies which were selected. Ratio analysis and break even analysis are some of the well known methods or techniques used in analyzing the financial position. They are also used in the present study. To study the relationship between the operating expenses (OE) and Net Sales, Operating Expenses Ratio (OER) has been calculated for four companies for a period of eight years. This technique indicates that the lower the ratio, greater is the profitability; and the greater is the ratio, lower is the profitability.

**CONCLUSION**

An analysis of AR, AC,TR, and TC of the four PDCs for eight years establishes that SPDCL is the most stable company as it shows a very high operational efficiency. However in terms operating expenses and operating incomes EPDCL stood first.

Observing the trends in operating incomes of all four companies ,though the percentage growth for SPDCL was the third highest over the eight years, the coefficient of variation for SPDCL was the least i.e. 25.38, whereas for CPDCL the C.V was the maximum showing a value of 31.95. It is stated that the greater the C.V lesser is the consistency. This indicates that though the percentage growth over eight years for CPDCL was the maximum, the C.V is the least, indicating inconsistency in its growth as far as operating income is concerned and this is clearly observed in CPDCL as well.

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# EFFECTIVENESS OF CORPORATE GOVERNANCE PRACTICES - A STUDY OF INDIAN BANKING SYSTEM

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**ABSTRACT**

***The impact of banks' organization structure on performance and corporate governance practices has been discussed for a number of years, mainly in developed countries such as UK and US. This paper chooses to address above-mentioned issue in Indian context. It investigates two category of banks namely government banks and private banks. This paper adopts the Tobin's Q, and Return on Capital Employed (ROCE) as bank performance indicators. The following board governance variables are used such as Board Committees, Board Directors, CEO as a chairman, Board meetings, and Women Executive and Executive-Director ratio. Multiple regression analysis results show that board governance variables like board committees, board directors and women director are statistically significant to performance for banks where government has considerable stake. In addition, government banks are older and also have better market valuation than private banks.***

The liberalization reforms initiated by the Indian government during last decade have considerable impact on the Indian financial sector. Prior to 1991, Indian banking sector was under control of Indian government with exception of 22 private sector banks and few foreign banks (source: RBI). Since 1991, the Indian financial system moving from a unilateral administered sector to market driven system. After the economic crisis, there have been a number of initiatives to implement governance and disclosures practices in the Indian banking sector. In the recent past, overall corporate governance in Indian banks has improved steadily. Internationally, the influence of board governance on performance has been discussed for a number of years, but it is relatively new to Indian scenario, where corporate governance norms are implemented in the recent past. Board governance is a subset of corporate governance in determining financial performance of the bank.

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## PRESENT PROFILE

This paper describes bank structure in two ways namely government banks and private banks. The reason for two way classifications of banks, government banks tend to have different approaches to control, board size, board chairman, board meeting, outsider to be board etc, as compared to private banks. This paper investigates whether board governance is positively related to performance in government banks or in private banks. Apart from above mentioned variables, this paper uses Tobin's Q and Return on Capital Employed (ROCE) as bank performance indicators. Most of the corporate governance literatures have used these variables as proxy for the bank performance. This paper chooses to address the effectiveness of one set of corporate governance mechanisms (board governance) influence on bank performance. This paper is organized in the following way. The following section reviews the literature on corporate governance and also presents board governance (Board committees, Board directors, Women executive, CEO as a chairman, Board meetings, and Director ratio), and firm performance indicators (Tobin's Q and Return on Capital Employed). The section thereafter presents data sample and description of variables followed by a section that describes methodology. The section, before last section explains analysis of data. In the last section summarizes the findings of the study.

## RESEARCH METHODOLOGY

### *Hypotheses*

With reference to review of literature of corporate governance, and different types of banks, this paper develops the following hypotheses for study.

H1: Public sector banks are older and have better valuation than private sector banks

H2: Corporate governance practices have significantly influenced the performance in the Indian domestic banks

H3: Public sector banks' corporate governance practices significantly different than private sector banks.

## DATA SAMPLE AND DESCRIPTION OF VARIABLES

The data that have been used in this paper has been obtained from bank websites and annual reports and the website of Reserve Bank of India (RBI). The initial data sample collected as on 31st march 2009. The same sample is divided into two sets namely public sector banks and private sector banks. Hence, The final sample consisted of 16 listed banks, in which public sector has 8 banks, the private sector consists of 8 banks. In India, the implementation of corporate governance practices is directly linked with Security Exchange Board India (SEBI) under clause 49 listing agreement. According to SEBI, the corporate governance practices applicable only to banks that are listed in the Indian stock exchanges.

## BANK PERFORMANCE INDICATORS

A bank performance indicator consists of two variables namely Tobin's Q, and Return on Capital Employed. Most of the past literature on financial institutions has used accounting measure as a proxy for performance. In this paper, both accounting and market valuation measure are used to account corporate governance practices intervention.

*a)* ***Tobin's Q:*** Tobin's Q is a very widely used measure of corporate performance. It is defined as the ratio of market value of the firm to replacement value of the assets. Interestingly, original definition of Q has few practical limitations such as availability of timely and accurate Q date. It is understood that even computational procedure also is difficult to employ. Kee and Prulti (1994) found approximation for original Q value and it is computed as book value of debt plus market value of equity plus book value of preference shares over book value of total asset.

*b)* ***Return on Capital Employed (ROCE):*** The profitability of an organization is measured through ROCE. It indicates the effectiveness and efficiency of an organization in generating earnings. It is calculated by dividing earnings before interest and taxes (EBIT) by capital employed.

## INDEPENDENT VARIABLES

***Board directors:*** It is defined as the number of directors both executive and non-executive directors in the bank, it is denoted by FBd. ***Director Ratio:*** It is defined as the ratio of executive director to non-executive directors on the board, it is denoted by FDr. ***CEO as Chairman of the Board:*** This measure uses the dummy coded variable. If bank has CEO as a chairman of the board then it is coded as (1) and if not, it is coded as (0). It is denoted by FCeo. ***Board Meetings:*** Total number of board meetings held in a year, it is denoted by FBm. ***Board Committees:*** it measure number of committees in the banks, it is denoted by FBc. ***Women executive:*** it is dummy coded variable where bank employs women executive in the board, it is coded as (1) or else, it is coded (0). This measure denotes by FWe. In addition, the ***bank dummy*** is used to account the corporate governance practices differences between public and private sector banks. This bank dummy is coded by (1), if it is public sector bank, or else, it is coded as (0). The bank dummy is denoted by FBank dummy.

## CONTROL VARIABLES

This paper employs the following control variable for the study

***Log Age:*** It is a difference between the current year and the year in which the bank was incorporated. Age is measured by the logarithm of the number of years since the banks were set up. Due to effect of learning curve and survival bias, older banks are largely to be more efficient than the younger banks. It is used in firm value related studies (Ang, Cole, And Lin, 2000). It is denoted by Fage.

## METHODOLOGY

Corporate governance influence on bank performance is measured through multiple regression analysis. Multiple regression analysis is widely used multivariate technique, which uses to predict dependent variables from known independent variables. In this paper, multiple regression analysis is used to find out independent variables influence on dependent variables after controlling firm age. There are two multiple regression analysis model is constructed. The first model is based on all the banks listed in the stock markets. The second model uses a bank dummy to account the public sector banks' corporate governance practices influence on performance over private sector banks. Pearson correlation coefficient is also used to find out Multicolinearity problem among independent variables. The correlation matrices determine whether Multicolinearity problem is present in the independent variables or not. Correlation coefficient value is more than 0.80, where the Multicolinearity problem exists (Ingrid Bonn, 2004). In addition, the descriptive statistics has employed to analyze the relationship between banks age and profitability. In equation form, multiple regression models are expressed as:

**Model - 1**

Tobin's Q = á + â1 × FBd + â2 × FBc + â3 × FCeo + â4 × FBm + â5 × FWd + â6 × FDr + â7 × F Log Age + •

**Model - 2**

ROCE = á +â1 × FBd +â2 × FBc +â3 ×FCeo+â4 ×FBm+â5 ×FWd+â6 ×FDr +â7 ×F Log Age +•

**Model - 3**

Tobin's Q = á + â1 × FBd + â2 × FBc + â3 × FCeo + â4 × FBm + â5 × FWd + â6 × FDr + â7 × F Log Age + â8 × F Bank dummy + • (with bank classification dummy)

**Model - 4**

ROCE = á + â1 × FBd + â2 × FBc + â3 × FCeo + â4 × FBm + â5 × FWd + â6 × FDr + â7 × F Log Age + â8 × F Bank dummy + • (with bank classification dummy)

## ANALYSIS

Analysis is done on financial data collected from Annual Reports of the Banks, Bank Websites and RBI Website. The following section presents descriptive statistics, correlation matrix and multiple regression analysis on sample banks.

**Table-I**
**Descriptive Statistics of Sample Bank**

| Public Sector Banks | Mean | Standard Deviation | Minimum | Maximum |
|---|---|---|---|---|
| Board Directors | 14 | 4.98 | 8 | 24 |
| Board Committees | 8.88 | 2.58 | 3 | 11 |
| Board Meetings | 11 | 3.38 | 6 | 15 |
| Director Ratio | 0.57 | 0.55 | 0.18 | 1.67 |
| Age | 61.5 | 23.25 | 40 | 103 |
| Tobin's Q | 0.0998 | 0.0647 | 0.001 | 0.2194 |
| **Private Sector Banks** | **Mean** | **Standard Deviation** | **Minimum** | **Maximum** |
| Board Directors | 11.25 | 2.71 | 7 | 16 |
| Board Committees | 8.38 | 1.41 | 7 | 11 |
| Board Meetings | 12 | 7.07 | 7 | 27 |
| Director Ratio | 0.33 | 0.19 | 0.17 | 0.67 |
| Age | 53.5 | 34.51 | 15 | 93 |
| Tobin's Q | 0.2904 | 0.1688 | 0.0803 | 0.5809 |

Table - I above explains Descriptive Statistics of Sample Banks. According to above Table the mean value of Tobin's Q for public sector banks is 0.0998 which is less than that of private sector banks which is 0.2904 for the financial year 2008-2009. This result clearly indicated that stock markets in India have valued the private sector banks better than public sector banks in this year. The age of the bank is a vital factor in determining banks earning potential. It is understood that aged bank considerably does better business due to reputation factor. The age is a crucial matter for the firms in financial sector to capture the market share. With reference to Table I, mean age of the public sector banks is 61.5 years and 53.5 years for private sector banks in India. It is beyond doubt that why 74 percent of the total commercial banking assets are with public sector banks (Source: RBI). The relationship has been established from the table that aged banks can significantly to better business and also carries better appreciation in market place. Public sector banks have bigger board (mean board size is 14) than private sector banks (mean board size is11.25). Number of board committees is one of the yardsticks for better functioning of the bank. As per as board committees are concerned, both categories of banks have almost similar mean value of 8.88 for public sector banks and 8.38 for private sector banks. Policy decisions are not only taken in the annual general meeting, but also in regular board meetings. It is general perception that if bank conducts more number of meetings, it is striving to bring transparency in the business dealings and also greatly get benefited from independent directors' expertise in the business. Public sector banks have not done well to outplay its counterpart in conducting number of board meetings. The director ratio is used to judge the executive director dominance in the board. It is illustrated in Table-I that executive director dominance is found to be relatively higher in the public sector banks than in the private sector banks in India.

Next we have tried to establish the relationship between the bank's performance indicators and the Corporate Governance variables in order to measure the effectiveness of Corporate Governance practices on the financial performance of the banks. Table-II shows Correlation Matrix Analysis on Indian Domestic Banks.

**Table- II**
**Correlation Matrix Analysis on Indian Domestic Banks**

**Correlations**

| | | ROCE | Tobin's Q | Board directors | Director ratio | CEO as a Chairman | Board Meetings | Board committees | Women director | Age |
|---|---|---|---|---|---|---|---|---|---|---|
| ROCE | Correlation | 1 | | | | | | | | |
| | Sig. (2-tailed) | | | | | | | | | |
| | N | 16 | | | | | | | | |
| Tobin's Q | Correlation | .364 | 1 | | | | | | | |
| | Sig. (2-tailed) | .165 | | | | | | | | |
| | N | 16 | 16 | | | | | | | |
| Board directors | Correlation | -.040 | .028 | 1 | | | | | | |
| | Sig. (2-tailed) | .882 | .918 | | | | | | | |
| | N | 16 | 16 | 16 | | | | | | |
| Director ratio | Correlation | .180 | -.023 | .154 | 1 | | | | | |
| | Sig. (2-tailed) | .504 | .933 | .569 | | | | | | |
| | N | 16 | 16 | 16 | 16 | | | | | |
| CEO as a Chairman | Correlation | -.795** | -.512* | -.218 | -.095 | 1 | | | | |
| | Sig. (2-tailed) | .000 | .043 | .417 | .725 | | | | | |
| | N | 16 | 16 | 16 | 16 | 16 | | | | |
| Board Meetings | Correlation | -.082 | -.363 | .228 | -.202 | .174 | 1 | | | |
| | Sig. (2-tailed) | .762 | .167 | .395 | .454 | .520 | | | | |
| | N | 16 | 16 | 16 | 16 | 16 | 16 | | | |
| Board committee | Correlation | -.131 | -.146 | .014 | .134 | .082 | .318 | 1 | | |
| | Sig. (2-tailed) | .627 | .590 | .959 | .620 | .762 | .231 | | | |
| | N | 16 | 16 | 16 | 16 | 16 | 16 | 16 | | |
| Women director | Correlation | .038 | .322 | -.105 | .179 | .174 | -.246 | -.214 | 1 | |
| | Sig. (2-tailed) | .889 | .223 | .698 | .507 | .519 | .358 | .425 | | |
| | N | 16 | 16 | 16 | 16 | 16 | 16 | 16 | 16 | |
| Age | Correlation | -.436 | -.531* | -.221 | -.233 | .482 | .434 | .303 | -.090 | 1 |
| | Sig. (2-tailed) | .091 | .034 | .412 | .384 | .059 | .093 | .253 | .740 | |
| | N | 16 | 16 | 16 | 16 | 16 | 16 | 16 | 16 | 16 |

*****Correlation is significant at the 0.01 level (2-tailed). *Correlation is significant at the 0.05 level (2-tailed).***

The correlation matrix results do not present any Multicolinearity problem among the independent variables. Though, few of the variables are having statistically significant relationship, but none of the variables carrying correlation coefficient of more than 0.8.

The significance of this analysis is to fulfill the condition of multiple regression models, where all independent variables should be independent of each other.

The results of Multiple Regression Analysis for the four above mentioned models for Indian Domestic Banks is given in Table-III.

**Table-III**
**Multiple Regression Analysis on Indian Domestic Banks**

*Model-1*
*Dependent Variable: Tobin's Q*
*Coefficients*

| | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|
| **Model 1** | **B** | **Std. Error** | **Beta** | **t** | **Prob.>t** |
| Constant | 1.14 | 0.102 | | | |
| FBd | -0.018 | 0.007 | -0.466 | -2.464 | 0.039 |
| FDr | -0.097 | 0.070 | -0.255 | -1.375 | 0.206 |
| FCeo | -0.085 | 0.126 | -0.135 | -0.680 | 0.516 |
| FBm | 0.010 | 0.006 | 0.352 | 1.665 | 0.134 |
| FBc | 0.019 | 0.015 | 0.248 | 1.304 | 0.229 |
| FWe | 0.070 | 0.061 | 0.212 | 1.153 | 0.282 |
| FAge | -0.535 | 0.125 | -0.961 | -4.267 | 0.003 |

| R | R-Squared | Adjusted R-Squared | F | Prob>F | Df1 | Df2 |
|---|---|---|---|---|---|---|
| 0.881 | 0.775 | 0.579 | 3.648 | 0.036 | 7 | 8 |

*Model-2*
*Dependent Variable: ROCE*
*Coefficientsa*

| | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|
| **Model 1** | **B** | **Std. Error** | **Beta** | **t** | **Prob.>t** |
| Constant | 13.171 | 0.728 | | | |
| FBd | -0.093 | 0.051 | -0.338 | -1.811 | 0.108 |
| FDr | 0.440 | 0.499 | 0.161 | 0.881 | 0.404 |
| FCeo | -3.884 | 0.892 | -0.854 | -4.353 | 0.002 |
| FBm | 0.066 | 0.044 | 0.313 | 1.504 | 0.171 |
| FBc | -0.054 | 0.105 | -0.096 | -0.510 | 0.624 |
| Few | 0.391 | 0.430 | 0.165 | 0.910 | 0.390 |
| FAge | -0.618 | 0.891 | -0.154 | -0.693 | 0.508 |

| R | R-Squared | Adjusted R-Squared | F | Prob>F | Df1 | Df2 |
|---|---|---|---|---|---|---|
| 0.884 | 0.781 | 0.590 | 4.087 | 0.033 | 7 | 8 |

According to above table the multiple regressions models are constructed on diffused ownership pattern, where public and private sector banks are put together to account for corporate governance practices influence on performance in the Indian domestic banks. Here domestic banks consist of both public and private banks in India, which are listed in the stock market. From the Table III, it is understood that the multiple regression of Model I is statistically significant, where F test is 3.65 is significant at 5 percent level and it explains 78% variation in dependent variable. All the independent variables except for the number of woman executives FWe, have statistically significant relationships with dependent variable Tobin's Q. The board of directors has significant relationship with bank performance, but it has negative influence over both Tobin's Q as well as ROCE. The board committees have positive influence over Tobin's Q and age is sharing inverse relationship with both the dependent variables of Models I and II. In Model II, the F test is statistically significant and this model also explains 78% variation in the dependent variable ROCE. Directors Ratio FDr has a negative influence over Tobin's Q whereas positive influence over ROCE. Board committees FBc, has a positive influence over Tobin's Q whereas a negative influence over ROCE. Age factor has the largest contribution to Tobin's Q whereas CEO as the Chairman contributes the largest to ROCE.

**Table-IV**
**Multiple Regression Analysis on Indian Public Sector Banks**

***Model-3***
***Dependent Variable: Tobin's Q (with Bank Dummy)***
***Coefficients***

| | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|
| **Model 1** | **B** | **Std. Error** | **Beta** | **t** | **Prob.>t** |
| (Constant) | 0.756 | 0.085 | | | |
| FBd | -0.006 | 0.008 | -0.161 | -0.759 | 0.473 |
| FDr | -0.064 | 0.060 | -0.170 | -1.067 | 0.321 |
| FCeo | -0.044 | 0.106 | -0.069 | -0.412 | 0.693 |
| FBm | 0.004 | 0.006 | 0.145 | 0.725 | 0.492 |
| FBc | 0.025 | 0.013 | 0.315 | 1.958 | 0.091 |
| FWe | 0.136 | 0.059 | 0.412 | 2.309 | 0.054 |
| FAge | -0.378 | 0.127 | -0.679 | -2.980 | 0.021 |
| FBank | -0.156 | 0.072 | -0.509 | -2.155 | 0.068 |

| R | R-Squared | Adjusted R-Squared | F | Prob>F | Df1 | Df2 |
|---|---|---|---|---|---|---|
| 0.930 | 0.865 | 0.711 | 5.607 | 0.017 | 8 | 7 |

*Model-4*
*Dependent Variable: ROCE (with Bank Dummy)*
*Coefficients*

| Model 1 | Unstandardized Coefficients B | Unstandardized Coefficients Std. Error | Standardized Coefficients Beta | t | Prob.>t |
|---|---|---|---|---|---|
| (Constant) | 14.160 | 0.757 | | | |
| FBd | -0.123 | 0.072 | -0.447 | -1.708 | 0.131 |
| FDr | 0.356 | 0.536 | 0.131 | 0.664 | 0.528 |
| FCeo | -3.991 | 0.944 | -0.878 | -4.226 | 0.004 |
| FBm | 0.082 | 0.052 | 0.387 | 1.567 | 0.161 |
| FBc | -0.067 | 0.112 | -0.120 | -0.600 | 0.567 |
| FWe | 0.222 | 0.525 | 0.093 | 0.422 | 0.686 |
| FAge | -1.022 | 1.132 | -0.255 | -0.903 | 0.397 |
| FBank | 0.401 | 0.644 | 0.182 | 0.622 | 0.554 |

| R | R-Squared | Adjusted R-Squared | F | Prob>F | Df1 | Df2 |
|---|---|---|---|---|---|---|
| 0.890 | 0.793 | 0.556 | 3.351 | 0.064 | 8 | 7 |

Table-IV gives Multiple Regression Analysis on Indian Public Sector Banks. The multiple regression analysis shows that the models, which constructed on Indian public sector banks, are perfectly fit. The F test results for both models are statistically significant and also allow for further interpretations of the results. Few variables are having statistically significant relationship with dependent variables namely Tobin's Q and return on capital employed. The public sector banks corporate governance practices significantly influence performance over private sector banks. Public sector banks board of directors and Board committees has statistically significant relationship with Tobin's Q in the multiple regression Model I. It is interesting to note that women director in the board is contributing significantly towards bank performance and it is evident from multiple regression Model III. Finally, bank dummy used in this models to public sector banks' corporate governance practices influence on performance have emerged as statistically significant variable at 5% levels.

## FINDINGS

This paper examined the influence of bank governance practices on performance. **Hypothesis 1** is constructed under the assumption that aged bank able to build better reputation over the years. Later on, banks tend to do better business due to reputation. This is proved to be correct because public sector banks are relatively aged and also carry better market valuation than private sector banks. The result suggested that corporate governance variables such as board committees and board directors do have impact on the bank performance. Hypothesis relating to Indian domestic banks are accepted because **hypothesis II** is statistically significant. This is really expected result, where board committees and board directors significantly related to bank performance. The result showed that public sector banks are relatively better in implementing the corporate governance practices. It is evident from the analysis that Public sector banks' corporate governance practices are significantly different than private sector banks. **Hypothesis III** seems to be statistically correct, in which three corporate governance variables namely board committees, board director, and women director of public sector banks significantly related to performance. Surprisingly, private sector banks fairing poorly in employing corporate governance practices with respect to public sector banks though financially they show a better performance.

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# STOCK SPLIT PRACTICES IN INDIA

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**ABSTRACT**

***Stock splits remain one of the most popular and least understood phenomena in capital market. Stock split practice gained momentum in India after the approval of Securities and Exchange Board of India (SEBI) in 1999. The study explores the stock split practice of Indian listed companies comprising BSE 500 index. The paper also describes the concept of stock splits and gives a comparison between stock split and bonus issue. The paper concludes that there is scope of fine tuning in the existing stock split regulations in India to minimize the scope of market manipulation and to prevent exploitation of gullible investors by unscrupulous promoters.***

In finance literature stock split is termed as a cosmetic event and such a corporate action is not likely to have any direct valuation implication. Another similar corporate event is bonus issue. Empirical research suggests that there are valuation effects of stock split/bonus announcements. The evidence that announcement of stock split is associated with positive abnormal return is supportive to the semi-strong form of Efficient Market Hypothesis (EMH).In India, stock splits become popular from 2001 following the SEBI abolition of fixed face value concept in 1999. .

Efficient Market Hypothesis (EMH) states that all relevant information is fully and immediately reflected in a security's market price, thereby assuming that an investor will obtain an equilibrium rate of return. In other words, an investor should not expect to earn an abnormal return. Fama (1970) identified three forms of market efficiency namely, the weak, semi-strong and strong form. The weak from of efficiency suggests that current share prices fully reflect any past information contained within past share prices. The semi-strong form extends the notion of efficiency a little further and describes the situation where any published information relating to a company will be reflected in its share price. The strong form describes the situation where all relevant information, whether it is within the public domain or outside the public domain, will be reflected in the price of a share.

The EMH of near perfect capital markets that renders only fleeting and non-systematic gain and loss opportunities to investors has been criticized in recent years by the behavioral finance literature. According to the behavioral finance literature, stock transactions are often

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executed (in relation to known events such as stock issues, stock split, share buy-back) at price levels that imply predictably high or low risk-adjusted return. If these findings are factually correct, they pose a challenge to the EMH, which predicts a lack of capital market profit or loss opportunities due to the ability of investors' rapidly and unbiased interpretation of information according to correct assessments of the underlying economic process.

## STOCK SPLIT PRACTICES IN INDIA

### *Data and Sample*

The sample consists of all stock splits of the firms that form part of BSE (Bombay Stock Exchange) 500 index during the period April 2001 to March 2007. All of the splits in the sample used in our study are taken from CMIE PROWESS. Information about split ratio and event dates (e.g., announcement date, ex-date and record date) is also extracted from the PROWESS. BSE website is referred to cross-check the event dates. The data related to stock prices used in this study are obtained through Bombay Stock Exchange. There are two data sets related to stock prices that are used in this research: the daily stock prices and the daily index (BSE 500) value. The daily stock prices are based on daily closing prices and similarly, index value at the close of the trading day is used. Stock prices after the effective dates of stock splits are adjusted with the split ratio to maintain consistency. In some cases where bonus has also occurred with stock splits, or during the study period, adjustments are made in the share prices.

### *Results & Discussion*

In Table 1 we present the frequency distribution of splits across different split ratio for the entire sample period (Table 1). As seen in our sample of 91 splits, 37 (41%) splits were clustered in the year 2005-2006, and that was a 138% rise than the previous year. Results indicate that in India, the 1:5 split ratio is most popular, as 60% of the sample companies had split their shares in the ratio of 1:5. This was similar to the findings in the Portuguese market (Farinha and Basilio, 2006). The next popular ratios are 1:10 and 1:2. The frequency distribution of the sample is a pointer towards the fact that splits are recent phenomena and was not a common practice before the year 2004. However, in recent years, more and more companies have resorted to that practice.

**Table 1**
**Stock Split Ratios**

| Year | 1:02 | 1:10 | 1:05 | 10:04 | Others | Total |
|---|---|---|---|---|---|---|
| 2000-2001 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2001-2002 | 1 | 0 | 0 | 0 | 0 | 1 |
| 2002-2003 | 1 | 3 | 0 | 1 | 0 | 5 |
| 2003-2004 | 2 | 2 | 2 | 0 | 0 | 6 |
| 2004-2005 | 2 | 6 | 9 | 0 | 0 | 17 |
| 2005-2006 | 1 | 7 | 28 | 1 | 0 | 37 |
| 2006-2007 | 4 | 4 | 16 | 0 | 1 | 25 |
| Total | 11 | 22 | 55 | 2 | 1 | 91 |

*Source: Case Study. Results Computed.*

We classify the splits based upon the pre-split price is less than Rs. 100, between Rs.100 and Rs.500, between Rs.500 and Rs.1000 and more than Rs.1000 in Table 2. The closing market price on the announcement date is considered for such classification.

**Table 2**
**Stock Split Classification Based on Pre-Split Price**

| No. of Companies | Pre-split Price less than Rs. 100 | Pre-split Price Between Rs. 100-Rs. 500 | Pre-split Price Between Rs. 500-Rs. 1000 | Pre-split Price more than Rs. 1000 |
|---|---|---|---|---|
| 12 | - | 3 | 3 | 6 |
| 8 | - | 3 | 4 | 1 |
| 18 | - | 8 | 6 | 4 |
| 4 | - | 1 | 2 | 1 |
| 5 | - | 1 | 4 | - |
| 8 | - | 3 | 3 | 2 |
| 12 | - | 2 | 4 | 6 |
| 1 | 1 | - | - | - |
| 5 | - | - | 3 | 2 |
| 4 | - | 2 | 1 | 1 |
| 14 | - | 4 | 6 | 4 |
| 91 | 1 (1.09) | 27 (26.67) | 36 (39.56) | 27 (26.67) |

*Note: Figures in bracket represent percentage*
*Source: Case Study. Results Computed.*

Table 2 reveals that 36 among the 91 stock splitting companies (39.56%) had their share price between Rs. 500 and Rs. 1000, while companies with market price in the second (Rs. 100-Rs. 500) and fourth (More than Rs. 1000) category was 27 each (29.67%). One among the 91 companies had its market price below Rs. 100. This analysis shows that 30.7% of the stock splitting companies (28 among the 91 companies) had acted against the SMAC recommendation regarding prohibition of stock splits by firms having pre-split price of Rs. 500 per share. It may be mentioned that SMAC recommendations are not mandated by the SEBI and hence, companies in India are free to split their share irrespective of any pre-split share price. The splitting of penny stocks is contradictory to the basic reason of stock splits and hence generates many questions about management's motive.

It is also attempted to find the price behaviour of splitting firms' shares on the ex-date. Our findings presented in Table 3 reveal find that in 47.3% of the split cases, the ex-date price is less than Rs. 100, followed by 34.7% split cases where prices are between the range of Rs. 100 and Rs. 200. In only one case, the ex-date price is more than Rs. 1000. This analysis helps to understand one of the motivations behind stock split. Results of the study presented in Table 3 indicate that in India, trading ranges of less than Rs. 100 and between Rs. 100 and Rs. 200 are more popular, since 81% of the split cases fall into these two categories. This supports the trading range hypothesis.

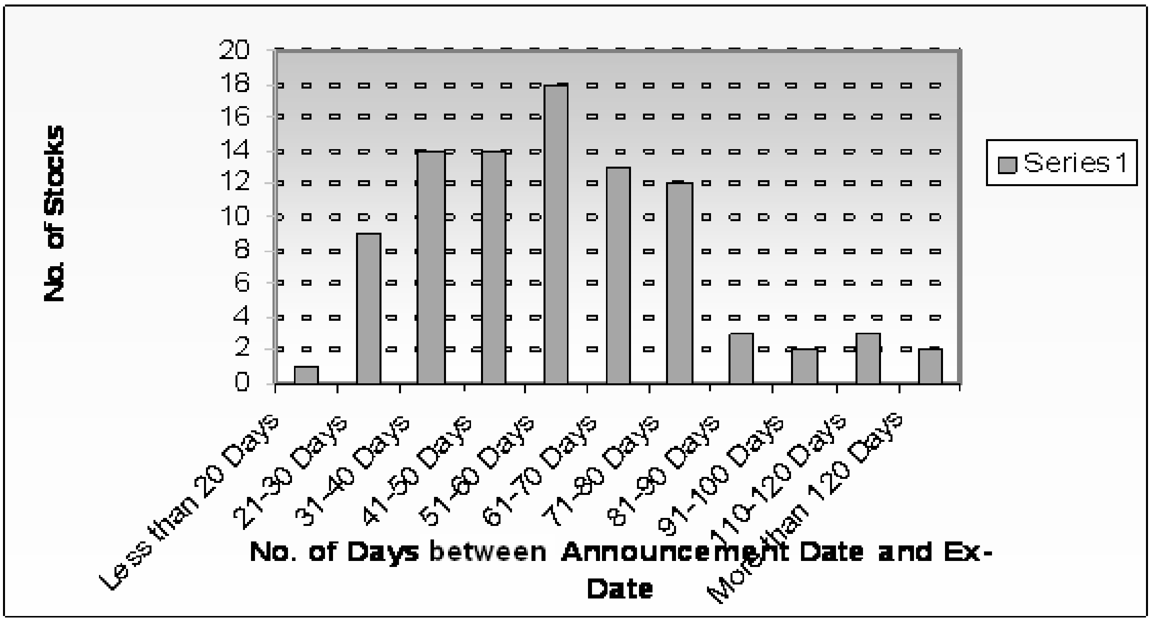
**Table 3**
**Stock Split Classification Based on Post-Split Price**

| Less than Rs. 100 | Rs. 100-Rs. 200 | Rs. 201-Rs. 300 | Rs. 301-Rs. 400 | Rs. 401-Rs. 500 | Rs. 501-Rs. 1000 | More than Rs. 1000 | Total |
|---|---|---|---|---|---|---|---|
| 43 (47.3%) | 31 (34.7%) | 6 (6.6%) | 6 (6.6%) | 2 (2.2%) | 2 (2.2%) | 1 (1.2%) | 91 |

***Note:*** *Figures in bracket represent percentage.*
***Source:*** *Case Study. Results Computed.*

To understand in a more accurate manner how stock splits are executed, it is necessary to study the number of days elapse between announcement date and effective date. Fig. 1 plots the frequency distribution of splits by the number of days elapsed between announcement date and effective date. The number of days between announcement date and effective date ranges from 13 to 236. The mean is 58.01 and median is 56. Median value indicates that there are 56 days gap between announcement date and effective date for the most number of splits. Steps should be taken to reduce the time gap by adopting international best practice.

**Fig. 1**
**Frequency Distribution of Splits by the Number of Days between Announcement and Ex-date**




*Source: Case Study. Results Computed.*

## CONCLUSION

The study reveals that although the stock split practice is new in India, it is becoming more and more popular among the Indian firms. The various split ratios found among the sample are 1:5, 1:10, 1:2, 5:2 etc. although the most popular ratio is 1:5. We also find that 30.7% of the stock splitting companies (28 among the 91 companies), with a market price less than Rs. 500 had split their shares and had acted against the SMAC recommendation. Overall we find that there is scope of fine tuning in the existing stock split regulations in India to minimize the scope of market manipulation and to prevent exploitation of gullible investors by unscrupulous promoters.

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# INDIA VERSUS OMAN ACCOUNTING EDUCATION SYSTEM AT UNDERGRADUATE LEVEL: A COMPARISON

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****Sweetline*

**ABSTRACT**

***The purpose of this study is to gauge the accounting degrees offered to students in their Undergraduate Study in Oman and India. Accounting education should lead to development of skills that can enhance the employability of students. This research has uses of the secondary sources and experiences of the authors to identify the transferable skills in the accounting education of Oman and India. The study has compared the accounting education system on the basis of assessment systems, practical exposure, roles and responsibilities of the institutions. For comparison purpose Muscat College in Oman and Gujarat Technological University, Ahmadabad was selected.***

India has a long history of imparting Accounting Education at Undergraduate level, its graduates are eagerly looking to get employed not only in India but also abroad including the GCC. People in India therefore are eagerly interested to know the skill requirements of Employers in foreign countries. An attempt is made in this paper to present a comparison of Accounting Education system in India and Oman at undergraduate level so that Educational institutions in India will review their curriculum to suit the job requirements at Gulf. Similarly, Government of Oman would be interested in knowing the Accounting Education system in India at undergraduate level to adopt good policies if any to provide more opportunities to the Oman citizens that would lead to Omanization.

The study is based on secondary data collected from the colleges in Oman and India respectively and is supported by the diversified experiences of the authors in both the countries. The first author had first hand experience in establishing equivalence to the course content in B.Com I year of Osmania University (OU) to that of Diploma in Commercial practice course offered in Polytechnic colleges in the capacity of Chairman Board of Studies

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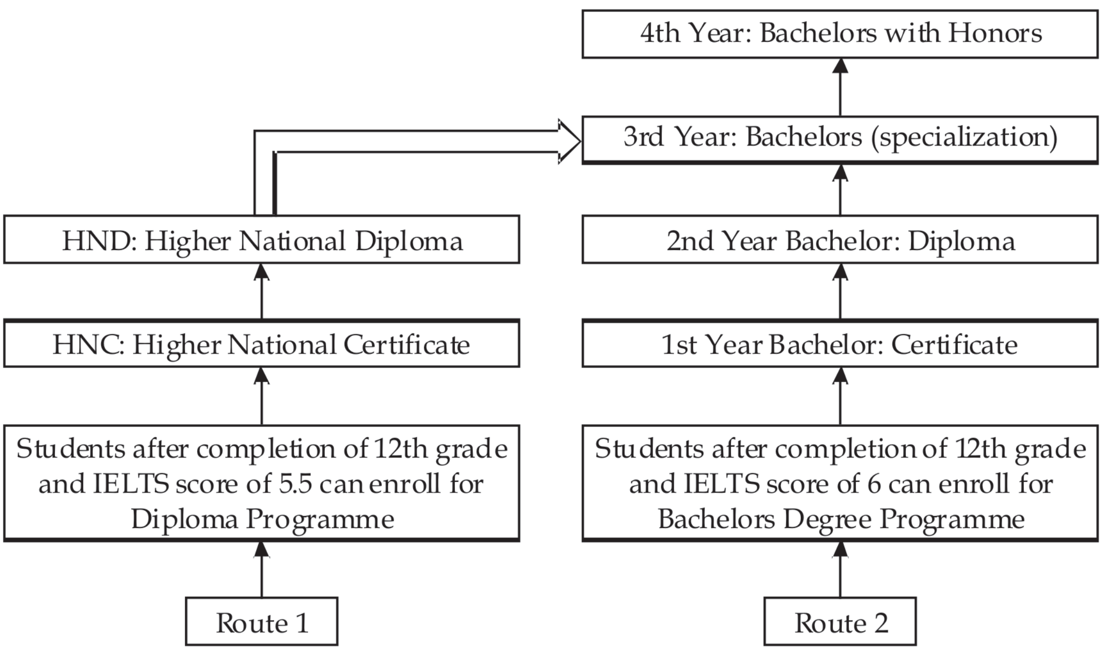
in Commerce, OU and experience in approving such proposals from colleges in the capacity of the Dean Faculty of Commerce, OU for the benefit of students seeking admissions in II year B.Com level. Similarly, the third author is experienced in undertaking mapping work of course contents of different colleges in Oman for the students opting to transfer themselves from one college to the other. The third author has undergone a special training conducted by Scottish Qualification Authority in this regard.

**COMPARISON OF BROAD FRAMEWORK**

Muscat College, Oman offers the Diploma programme from Scottish Qualification Authority in the Accounting, Business, Computing and Built in engineering specializations. The Omanisation process involves hiring suitable qualified Omani Nationals in different organizations. The Omanisation process encourages Diploma holders to obtain jobs in companies and government organization. Thus this qualification is demanded by Omani students. Students who further wish to grow in their organization or for personal achievements pursue the Bachelors Degree Programme from University of Stirling.

A diploma holder can directly enroll into the third year of the Bachelors degree. The bachelor's degree can be obtained at Muscat College in the Accounting and Business, and Accounting and Computing Specialisation. Students can also study a fourth year to receive a certificate of Bachelor with Honors. A graphical representation of the study routes are shown in Chart 1.

**Chart 1: Study possibilities at Muscat College, Oman**



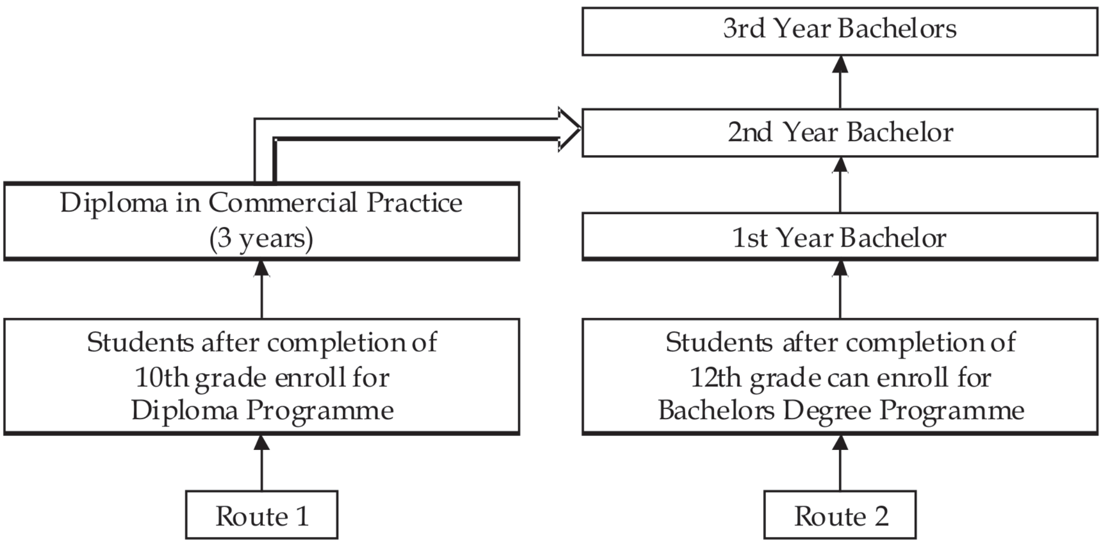

***Source: Prepared on the basis of observation and experience of Authors***

Under route 1, a student can obtain the HNC and HND for a specialization enrolled. Route 2 can also give the students a certificate in the 1st year and Diploma in the 2nd year but not for a specialization. The HNC Accounting certification helps the student get exemptions in the Professional Accounting Bodies of UK. The most common certifications are Certified Accounting Technician (CAT), Association of Chartered Certified Accountants (ACCA), and Chartered Institute of Management Accountants (CIMA). Appendix I reflects that the HNC and or HND student can get complete exemption for the Certified Accounting Technician (CAT) certificate, up to 5 papers can be exempted for the ACCA qualification and CIMA qualification.

Appendix II also reflects the entry into different UK universities after completion of HNC or HND accounting. The students registering into the HND programme are given clear plans on the entry level at different colleges for further education. These help the students in future planning and also realize the worth of the Diploma Programme. The HNC accounting will lead to job opportunities of accounts assistant, trainee accountant, finance level, book-keeper or financial administrator. The HND accounting will lead to job opportunities as accounts technician, assistant accountant, and accounts supervisor.

Under the Indian education framework, students can study for Diploma in Commercial Practice which is related to the accounting specialization. There are many awarding bodies for the Diploma programme. (Refer Chart 2 in next page).

**Chart 2: Study possibilities with Gujarat Technological University, Ahmadabad**




***Source: Prepared on the basis of observation and experience of Authors***

The Diploma in Commercial practice can be pursued after the secondary school certificate. The students can complete the Diploma in 3 years. The next career path will be entry into the 2nd year Bachelor Degree Programme. The Bachelors Degree programme is a total of 3 years. The alternative route for the students is to complete the Higher Secondary Examination and pursue the Bachelor's Degree. The Diploma of Commercial Practice doesn't necessarily open a lot of job opportunities for students due to the increased competition and much highly qualified candidates.

The Bachelors with Honors at Muscat College is a 4 year programme. The students can directly pursue post graduate courses offered at any of the Western Universities. Osmania University offers a 3 year Bachelors programme. They can pursue the post graduate courses at Indian Universities but would have to complete a bridge course in the Western Universities before enrolling.

## COMPARISON OF SKILLS IMPARTED

The SQA Accounting Diploma programme requires completion of 19 core credits and 11 optional credits. Each credit is 44 hours of study, thus the study is an intensive study of 836 hours for the core units and 484 hours for optional units, total of 1,320 hours. The students are tested on the broad framework of skills that mainly involve

a) Communication
b) Numeracy
c) Information and Communication Technology (ICT)
d) Problem Solving and
e) Working with others

The core skills mostly assist in the development of numeracy and problem solving . The problem solving skills will inculcate critical thinking through the various study and assessment approaches (discussed in the following section). The optional units will allow the students to develop the other skills such as communication, ICT and problem solving.

**Table 1: SQA skills developed across 30 credits**

| Skills | | Core | Option |
|---|---|---|---|
| Communication | Reading | 0% | 55% |
| | Writing | 5% | 55% |
| | Oral | 0% | 55% |
| Numeracy | Using Number | 53% | 18% |
| | Using graphical Information | 11% | 9% |
| ICT | Accessing Information | 0% | 18% |
| | Providing/Creating Information | 5% | 18% |
| Problem Solving | Critical Thinking | 37% | 45% |
| | Planning and Organising | 11% | 45% |
| | Reviewing and Evaluating | 11% | 45% |
| Working with others | | 0% | 0% |

***Source: Frame work Document of SQA***

Table 1 reflects the average % of skills developed across the 30 credits in Diploma Accounting. Employers can also review the skills requirement of a job position and match it with those that are obtained for the students for lucrative placement. As the core credits are accounting in nature they allow the students to develop the numeracy and critical thinking skills. The optional credits are strongly testing the communication and problem-solving skills.

The Diploma in Commercial Practice offered by Gujarat Technological University, Ahmadabad doesn't have a very intensive programme for a 3 year study. The students study only six units over the three years and they do not have many units that develop the accounting knowledge. The programme has 490 hours of study which comprises of 322 hours of lecture and 168 hours of practicals.

**Table 2: DCP skills developed across 6 units**

| Skills | | Core |
|---|---|---|
| Communication | Reading | 17% |
| | Writing | 50% |
| | Oral | 17% |
| Numeracy | Using Number | 33% |
| | Using graphical Information | 17% |
| ICT | Accessing Information | 17% |
| | Providing/Creating Information | 33% |
| Problem Solving | Critical Thinking | 33% |
| | Planning and Organising | 50% |
| | Reviewing and Evaluating | 33% |
| Working with others | | 0% |

***Source: Prepared from the information downloaded from Internet***

Table 2 reflects in general the skills development for the students in the DCP programme. As seen the skills spread is across but not very intensive that the SQA Accounting Diploma programme offers. The students can develop the communication and problem solving skills. These do not necessary lead to development skills of the Accounting specialization.

## COMPARISON OF THE ASSESSMENT SYSTEMS

Each unit in the SQA programme has unit specification that details the syllabus and the assessment methods. The Unit Specification would also state the type of evidence to be generated from the students. The programme also requires that the instruments of assessment are prepared in accordance with the unit specification with clear marking schemes that allows a clear and consistent marking of candidate scripts. The instrument of assessment also has to be verified by a second person (known as verifier) having specialization in the field in order to measure the reliability. The verifier will also verify the consistency of the assessor judgement for marking of student scripts. The system ensures that no student is disadvantaged or given undue help.

The units have variety of assessment patterns that can be closed book, open book under controlled conditions or reports. Students are penalized for any plagiarism in the work submitted. The students are given two attempts for each assessment. If the student is unable to pass in the first attempt they are given a second attempt with a different instrument of assessment under the same examination conditions. The achievement requirement (pass %) for most units is 100%. For every assessment attempted they have to meet the evidence requirement expected as per the unit specification. The lecturers have to use their judgement if the student have produced their own work and also been able to generate sufficient evidence.

Every unit of the DCP programme has a split of different topics with different weights. The students will be assessed in the lectures and practicals. They have a total weightage of 100% and require minimum pass criteria of 50%. The students get exposed to the theoretical aspects and then get to practically experience it through the practical sessions.

## COMPARISON OF RESPONSIBILITIES AND ACCOUNTABILITY OF INSTITUTIONS

Muscat College has an agreement with both SQA and University of Stirling. The College owes the responsibility that it abides by the terms and conditions of the agreement. The lecturers have to follow the rules and responsibilities while delivering the units to the students. The SQA programme requires that all units have to be executed as per the unit specification. SQA has a yearly external verification visit from Scotland. They verify the judgement of the internal assessor and verifier. If there is a deviation they have the authority to withhold the results. This increases the responsibility of the internal assessors and verifiers to treat the students of Oman parallel to the students in Scotland. The internal assessors and verifiers have the responsibility to train themselves as per the requirement of the SQA programme. Also, Muscat College has explicit rules for its lecturers that any classes that are missed due to holidays or any unforeseen conditions should be compensated through re-scheduling of lectures. Oman is a politically stable country thus allowing all sectors of the economy to function without any disturbances.

Gujarat Technological University, Ahmadabad has an internally designed programme for DCP. The lecturers have to ensure that a student learning is stimulated through the lectures and practicals for each unit. The educational system in India gets affected by the political violence in the country that can be categorized as mass violence and state sponsored violence. Different forms of violence in India is erupted due to the diverse caste groups, languages, socio-economic disparities, terrorism, grievances of specific groups, communalism, and criminalization of politics (NOS,2010). These types of violence affect the smooth functioning of educational institutions thereby affecting the education offered to the students.

## COMPARISON OF PRACTICAL EXPOSURE

The units are customized to suit the environment conditions of Oman. The accounting units use the currency of Oman and case studies based on Oman's businesses. Few optional units require research to be conducted in actual business setup or researches already established.

The units of the DCP programme are more general and have a more theoretical approach. The unit exposes the students to concepts and knowledge for different topics. Each unit has practical sessions that allow the practical application of what is learnt.

**EPILOGUE**

After reviewing both the programmes it is of the view that the Diploma Programme in India should try to bring about certain changes. The Indian Universities should be synchronized in the syllabus of the Diploma programme. The syllabus should be parallel with the programmes in the West. This will give an advantage to the Indian students for getting recognition of their Indian degree and pursue jobs or education without any additional requirement. The SQA programme can try to have fewer units for a diploma achievement which can reduce the stress on students. In order to provide better employment opportunities to the student across the globe, it is necessary to update the framework of Accounting Education at undergraduate level. While the professional bodies are doing the job, Universities and government institutions are missing the bus.

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## Appendix I

| SQA Award | ACCA |
|---|---|
| HNC Accounting | **Certified Accounting Technician (CAT)**<br>Paper Tl Recording Financial Transactions<br>Paper T2 Information for Management<br>Paper T3 Maintaining Financial Records<br>Paper T4 Accounting for Costs<br>Paper T5 Managmg People and Systems<br>Paper T6 Drafting Financial Statements<br>Paper T7 Planning, Control and Performance Management |
| | **ACCA qualification**<br>Paper Fl Accountant in Business<br>Paper F2 Management Accounting<br>Paper F3 Financial Accounting |
| HND Accounting | **Certified Accounting Technician (CAT)**<br>Exemption for all papers |
| | **ACCA qualification**<br>Paper Fl Accountant in Business<br>Paper F2 Management Accounting<br>Paper F3 Financial Accounting<br>Paper F4 Corporate and Business Law<br>Paper F5 Performance Management (on achievement of Units ***Management Accounting for Planning and Control*** and ***Management Accounting for Decision Making***) |

***Source: Arrangement Document: HNC Accounting (G9M5 15) and HND Accounting (G9M6 16) April 2010***

## Appendix II

| Higher education institution/degree | Articulation from HNC Accounting | Articulation from HND Accounting |
|---|---|---|
| University of the West of Scotland/BAcc | Year 2 entry | Year 3 entry |
| Glasgow Caledonian University/BA Accountancy | Year 1 entry | Year 2 entry with AAA in Graded Units |
| Heriot-Watt University/ MA in Accountancy and Finance | Year 1 entry with B in Graded Unit<br>Year 2 entry considered for exceptional candidates on an individual basis | Year 2 entry with BBC in Graded Units<br>Year 3 entry considered for exceptional candidates on an individual basis |
| The University of Dundee/ BAcc Accountancy | Year 1 entry | Year 2 entry |
| Abertay University/BA (Hons) Accounting with Finance | N/A<br>(HMD top up degree only) | Year 3 entry |
| University of Stirling/ BAcc Accountancy | Year 1 entry with B in Graded Unit | Year 2 entry with BB in Graded Units |
| The Robert Gordon University/ BA Accounting and Finance | Year 1 entry | Year 2 entry<br>Year 3 entry available to candidates who completed an HND Accounting their partner colleges |

***Source: Arrangement Document: HNC Accounting (G9M5 15) and HND Accounting (G9M6 16) April 2010.***

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# INVESTORS' SATISFACTION AND CREDIT RATING

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**ABSTRACT**

***The resent paper aimed to access the level of satisfaction regarding credit rating among the investors, to highlight the level of importance given to various rating attributes by the respondents and to access the factors affecting the level of satisfaction of investors regarding credit rating. Primary data in the form of pre-designed questionnaire has been collected from various districts of Punjab. Various suitable statistical tools have been used for the achievement of objectives. The study results show that maximum respondents are satisfied with the guidance of credit rating agencies and various rating attributes including the rating accuracy, quality of analysts, timeliness of upgrades and downgrades and transparency of methodology are very important for the investors.***

Credit rating inspired encouragement to investors to inflow their savings into the capital market activities, which resulted in the productive use of funds and thus enhancing production. Azhagaiah, R. (2004) studied the perceptions of Indian investors regarding credit rating and revealed that 35% of respondents depend on credit rating for their investment decision. The analyses also revealed that majority of respondents (50%) depend on CRISIL ratings followed by those of ICRA (30.43%). Further the author suggested that proper steps should be taken to make the working of credit rating agencies more accountable. Vepa, S. (2006) revealed the presence of multiple credit rating agencies instigated issuers to approach more than one credit rating agency with a hope to secure better ratings. The author highlighted that when credit rating became mandatory in 1992-1993 in India, private placements of debentures gained importance as a preferred route of financing as credit rating was not mandatory for private placements but in spite of that, the debentures or issues which were rated were more safe and reliable than the unrated ones by the investors. Bheemanagauda and J. Madegowda (2010) made an attempt to evaluate the performance of credit rating agencies in India. The analysis of the study brings to the fore that during the given period the maximum percentage of instruments rated are assigned the investment grade rating. As far as rating revisions are concerned, the study depicts that the downgrades are more than double the upgrades both in terms of number of instruments and the volume

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of debt. This depicts that the ratings are issuer biased which is not a good signal for the investors.

## OBJECTIVES OF THE PAPER

1. To assess the satisfaction level among investors regarding credit rating activities.
2. To assess the factors which affect the investor's level of satisfaction regarding credit rating.

## DATA COLLECTION AND RESEARCH METHODOLOGY

The primary data in the form of a predesigned structured questionnaire has been collected from sample of 300 investors selected from various districts in Punjab state. Various statistical tools including percentage, rating index, mean level, ANOVA( F-Test), Critical Difference (C.D.), regression analysis have been applied for the purpose of achievement of objectives.

## RESULTS AND DISCUSSION

Individual investors have a panorama of alternatives before them to invest their surplus funds including shares, bonds, debentures, mutual funds, real estate etc. So the selection of a particular instrument to invest in can be made on the basis of various alternatives. Credit rating is one of them. Many investors take into consideration the symbols assigned by rating agencies, to a particular debt instrument, before investing in that instrument. It is one of the inputs that are used by investors to make an investment decision. To the investors, it communicates the relative ranking of the default loss probability for a given fixed income investment in comparison to other instruments. So in order to know the level of satisfaction of respondent investors about credit rating, they were asked to compare the rated instrument with the unrated one. Table 1 highlights that 64% of the respondents feel that rated instrument is better than the unrated one whereas 16% think that the rated instrument is far better, while 18% respondents rate both type of instruments as same, only 2% respondents rank the rated instrument as poor. The rate index also comes out to be 1, which also indicates that the rated instrument is better than others.

**Table 1**
**Comparison of Rated and Unrated Instruments**

| Comparison | Number of respondents | %age of respondents |
|---|---|---|
| Far Better | 48 | 16.00 |
| Better | 192 | 64.00 |
| Same | 54 | 18.00 |
| Poor | 6 | 2.00 |
| Total | 300 | 100.00 |
| | Rate Index | 1.00 |

When asked about their level of satisfaction regarding the overall guidance/ recommendations of rating agencies 65% of total the respondents feel satisfied with the guidance, but only 14.33% are highly satisfied with it. 18.67% of the respondents remain nuclear i.e. neither they are satisfied nor dissatisfied with the guidance of rating agencies. Only 2% of the respondents are dissatisfied with the guidance of rating agencies but none of them are highly dissatisfied. The mean level of 0.9167 also proves that the number of respondents who are satisfied with the overall guidance/recommendations of rating agencies dominate the group as shown in table 2.

**Table 2**
**Level of Satisfaction**

| Level | Number of respondents | | %age of respondents |
|---|---|---|---|
| Highly Satisfied | 43 | | 14.33 |
| Satisfied | 195 | | 65.00 |
| Neutral | 56 | | 18.67 |
| Dissatisfied | 6 | | 2.00 |
| Highly Dissatisfied | 0 | | 0.00 |
| Total | 300 | | 100.00 |
| | Mean Level | 0.9167 | |

Credit Rating gives superior information about the rated product and that too at low cost, which the investor otherwise would not be able to get so easily. Thus the investor can easily recognize the risk involved and the expected advantage in the instrument by looking at the symbols. This helps the investors to take calculated risk. Thus credit rating helps the investors in numerous ways by safeguarding their interest, so in order to know about the investor's level of agreement regarding the same, various statements regarding credit rating were given to the respondents to know their opinion on these statements. These statements include:

1. Credit rating is the expression of safety of investment.
2. It saves time and energy of investors.
3. It is very important for decision making.
4. Symbols assigned gives clue of creditability.
5. Agencies rate the instrument according to actual worth.
6. Existence of many agencies creates confusion.
7. There are chances of malpractices.
8. Agencies should revise ratings periodically.
9. All ratings should be made public.

Respondents were asked to rate the above given statements on strongly agree, agree, neutral, disagree and strongly disagree scale. Each of the given statements has different mean score placing the statement that Agencies should revise ratings periodically at the top level. According to the mean score, the statement that there are chances of malpractices among rating agencies is placed at the least level. All other statements come in between as shown in table 3. The table also shows the percentage agreement and disagreement level of each statement. F-ratio using ANOVA has been calculated following which the Critical difference (C.D.) has been worked out. So the overall ranking has been given according to the value of C.D. which comes out to be 0.15. Accordingly there comes out to be only five broad categories of agreement class as depicted in the table. The statements whose difference in mean score is less than the value of C.D are ranked in similar categories. So the highest number of the respondents believe that rating agencies should revise their ratings periodically as this statement is ranked on top position , further the next level of agreement among the respondents is that all the ratings should be made public by the credit rating agencies and credit rating is the expression of safety of investment as both these statements are placed at second position as difference in their mean values is less than the value of C.D. Credit rating saves time and energy of investors and it is very important for decision making comes next at the third level of agreement. Symbols assigned gives clue of creditability, existence of many agencies creates confusion and the agencies rate the instrument according to actual worth hold the fourth position. The statement that there are chances of malpractices in credit rating agencies comes under the least agreement class as the minimum number of respondents believes so.

**Table 3**
**Extent of Agreement Among Investors**

| Statement No. | Mean | SD | %age Agreement | %age Disagreement | Agreement class |
|---|---|---|---|---|---|
| 8 | 4.22 | 0.97 | 84.40 | 15.60 | 1 |
| 9 | 4.05 | 1.08 | 80.93 | 19.07 | 2 |
| 1 | 3.98 | 0.91 | 79.67 | 20.33 | 2 |
| 2 | 3.80 | 1.02 | 76.07 | 23.93 | 3 |
| 3 | 3.80 | 1.07 | 76.07 | 23.93 | 3 |
| 4 | 3.21 | 1.06 | 64.13 | 35.87 | 4 |
| 6 | 3.13 | 1.15 | 62.60 | 37.40 | 4 |
| 5 | 3.10 | 1.08 | 62.00 | 38.00 | 4 |
| 7 | 2.38 | 1.02 | 47.53 | 52.47 | 5 |
| Total Score | 31.67 | 3.46 | 70.38 | 29.62 | |
| F.ratio | 8.54*** | C.D. | 0.15 | | |

****** : Significant at 1% level***

With the help of credit rating, investors need not to see into the fundamentals of the companies, as they can compare many instruments of various companies at a time and can make their investment decision accordingly. As investors rely on credit rating for their investment decision, they might be familiar with the various rating attributes. Ratings can be accurate and effective only if the personnel involved in the rating process are properly qualified and are having a good experience in the rating activities. The analysts should hold high degree of professionalism and relevant expertise across the industry in order to make the ratings more credible. The rating agencies downgrade or upgrade the instruments after considering the subsequent financial strength of the company whose instrument is rated by it and this should be done in a timely manner. Moreover the methodology used by the rating agencies to rate various instruments and the rating process should be transparent. After rating the instruments, the rating agencies are involved in the ongoing surveillance of the instrument being rated. This ongoing surveillance gives a great benefit to the investors as they can change their investment decision accordingly. The investing community is also benefited from the allied services provided by credit rating agencies such as research in form of industry reports, corporate reports, seminars and open access to the analysis of agencies. Further there is more attribute of rating agencies which might be important for the investors i.e. coverage of new issues by the rating agencies. Thus an attempt was made to assess the extent of importance given to all these rating attributes, by the respondents. The respondents were asked to rank all these attributes from 1 to 5 scales. Rank 1 to be given to very important attribute and 5 to unimportant one. Each of the rating attribute has different mean score which rank all the attributes accordingly as shown in table 4. The percentage level of importance and dis-importance for each attribute is also shown in the table. F-ratio and C.D. has also been calculated which highlights five levels of importance.

Table 4 shows that the most important rating attribute for investors is rating accuracy because it is ranked at first place both according to the mean score as well as the value of C.D. Quality of analysts is the second most important attribute for the investors. Timeliness of upgrades and downgrades and transparency of methodology both comes under the third level of importance. These both attributes come under one class as the difference in their mean score is less than the value of C.D. Under the next level equal importance is given by the investors to surveillance and coverage of new issue by the rating agencies. The usefulness of research by the rating agencies is given the least importance by the respondents.

**Table 4**
**Level of Importance given to Rating Attributes**

| Attribute | Mean | SD | %age Importance | %age Dis-importance | Importance level |
|---|---|---|---|---|---|
| Rating Accuracy | 4.28 | 0.98 | 85.60 | 14.40 | 1 |
| Quality of Analyst | 4.10 | 1.01 | 81.93 | 18.07 | 2 |
| Timeliness of upgrade/downgrade | 3.83 | 1.08 | 76.67 | 23.33 | 3 |
| Transparency of methodology | 3.78 | 1.17 | 75.53 | 24.47 | 3 |
| Surveillance | 2.74 | 1.17 | 54.87 | 45.13 | 4 |
| Coverage of new issues | 2.65 | 1.34 | 53.07 | 46.93 | 4 |
| Usefulness of research | 2.51 | 1.26 | 50.13 | 49.87 | 5 |
| Total Score | 23.89 | 2.89 | 68.26 | 31.74 | |
| F-ratio | 6.89*** | C.D. | 0.17 | | |

Rating helps investor to compare the issues by providing them a short and clear guide but the investor's level of satisfaction regarding credit rating may depend upon various factors. Their level of satisfaction may depend upon their personal profile including their age, qualification, their annual investments and their experience in the investment activities. Other factors which might affect the level of satisfaction of investors regarding credit rating include their faith in various rating attributes. A few among them include credit rating is the expression of safety, it saves time and energy of investors, it helps the investors in decision making, the rating symbols are the clue of credibility of the instrument, the rating agencies rate the instruments according to their actual worth, existence of many rating agencies creates confusion, there are chances of malpractices, rating agencies should revise ratings periodically and all ratings should be made public. The other important rating attributes include overall quality of the analysts, rating accuracy, timeliness of upgrades/ downgrades, transparency of methodology, surveillance, usefulness of research, coverage of new issues which might affect the investors' level of satisfaction regarding credit rating. Linear step regression model has been employed to identify the factors (independent variables) affecting level of satisfaction of investor respondents regarding overall guidance/ recommendations (dependent variable) of the rating agency. The model used is as under in its algebraic form:

$$Y = \acute{a} + \hat{a}_1 X_1 + \hat{a}_2 X_2 + \hat{a}_3 X_3 + \ldots\ldots\ldots\ldots \hat{a}_n X_n + \grave{\imath}$$

Where Y = Level of satisfaction

á = a constant term

$X_1$ to Xn are the independent variables

$\hat{a}_1$ to $\hat{a}_n$ are the regression coefficients of $X_1$ to $X_n$

Under this step regression model, different variables have been used to access their values or impact on the model. Various variables which contribute to the model or leaves significant impact are taken in the final run equation, all other variables which have not contributed significantly got removed in the process. It means that the variables which have been selected have been found significant to explain the variation in the satisfaction level of investors regarding credit rating, while the factors which are not selected do not explain this variation.

The beta values or coefficients indicate the strength of relationship between independent variable and dependent variable. The positive regression coefficients of independent variable indicate a positive relationship with the dependent variable and negative regression coefficients show a negative association between the dependent and independent variables.

The analysis given in table 5 indicates that various rating attributes including credit rating is the expression of safety, it saves time and energy of investors, it helps the investors in decision making, the rating agencies rate the instruments according to their actual worth and the revision of rating by the rating agencies has positive impact on the satisfaction level of the investors. Whereas the attributes which negatively affect the satisfaction level of investors include: selection of long term portfolio by the investors and involvement of rating agencies in research. All other variables have turned out to be insignificant.

**Table 5**
**Factors affecting level of satisfaction regarding credit rating**

| | First Run Equation | | 2nd Run Equation | | Final Run Equation | |
|---|---|---|---|---|---|---|
| **Factors** | **â** | **t-value** | **â** | **t-value** | **â** | **t-value** |
| Age | 0.005 | 0.116 | 0.005 | 0.115 | | |
| Qualification | -0.049 | 1.235 | -0.049 | 1.248 | | |
| Annual investment | -0.064 | 1.450 | -0.064 | 1.455 | | |
| Frequency of investment | 0.055 | 1.869* | 0.055 | 1.872* | | |
| Investment Experience | -0.054 | 1.340 | -0.053 | 1.353 | | |
| Long term portfolio | -0.099 | 1.312 | -0.099 | 1.317 | -0.151 | 2.178** |
| Type of investment | 0.058 | 0.998 | 0.058 | 1.005 | | |
| Expression of safety | 0.167 | 4.182*** | 0.168 | 4.217*** | 0.158 | 4.148*** |
| Save Time | 0.066 | 1.862* | 0.066 | 1.869* | 0.075 | 2.196** |
| Help in decision making | 0.095 | 2.782*** | 0.094 | 2.787*** | 0.084 | 2.643*** |
| Clue of credibility | -0.013 | 0.400 | -0.013 | 0.400 | | |
| Rate according to actual worth | 0.083 | 2.554** | 0.083 | 2.559*** | 0.076 | 2.463** |
| Creates confusion | -0.009 | 0.290 | -0.009 | 0.292 | | |
| Malpractices | 0.053 | 1.520 | 0.053 | 1.522 | | |
| Revision of rating | 0.082 | 1.145** | 0.082 | 2.154** | 0.076 | 2.176** |
| Public ratings | -0.009 | 0.258 | -0.009 | 0.257 | | |
| Quality of analysts | -0.007 | 0.176 | -0.007 | 0.177 | | |
| Rating Accuracy | -0.045 | 1.130 | -0.045 | 1.133 | | |
| Timeliness | 0.022 | 0.560 | 0.022 | 0.562 | | |
| Transparency | -0.026 | 0.781 | -0.027 | 0.789 | | |
| Surveillance | 0.039 | 1.044 | 0.039 | 1.048 | | |
| Research Activities | -0.085 | 2.511** | -0.085 | 2.517** | -0.047 | 1.732* |
| Coverage of new issues | 0.018 | 0.534 | 0.018 | 0.539 | | |
| R-square | 0.251 | | 0.251 | | 0.209 | |

******Significant at 1% level, **Significant at 5% level***

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# IMPACT OF GST ON CONSUMERS

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**ABSTRACT**

***This paper highlights the impact of the proposed major change in the indirect taxation in India i.e. introduction of Goods and Service Tax. A dual tax system (Central GST and State GST) will be established in India which aims to be economically efficient, simple to administer and neutral in its application. An attempt is made in this paper to bring out consumption patterns of consumers, their awareness levels on consumption tax payments and impact of proposed GST on prices and budgets.***

Since the introduction of GST involves restructuring of Central as well as State taxes, the process calls for an extensive process of consultation between the Centre and the States. A well designed destination-based GST is the most elegant method of eliminating distortions and taxing consumption as all different stages of production and distribution can be interpreted as a mere tax pass through; and the tax essentially 'sticks' on final consumption within the taxing jurisdiction. (The Economic Times, 26 February 2009). Successful implementation of the GST can give a trillion-dollar boost to the economy, taking the total output to $2 trillion in a short span of time. The gain from GST will propel the country from one-trillion dollar economy to two trillion-dollar economy in a short span of time. The strength of the GST lies in avoiding the continuous levying of taxes from producer to consumer. If the producers and distributors are refunded the taxes paid on inputs, service providers, they will see a significant dip in costs. Also, the supply chain structures will become more efficient. Consumers stand to gain if these cost benefits for producers translate into lower prices (The Economic Times, 22 July 2010). Historically, economies which embraced the GST have seen a rise in tax revenues- this incremental tax revenue is coughed up essentially by the consumer.

This study is empirical in nature and is attempted with an aim to explain the major change in the indirect taxation in India i.e. introduction of GST. It also studies the awareness levels of consumers on taxes with reference to goods, services and others. It brings out the consumption patterns and impact of GST on prices.

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## METHODOLOGY

The study adopts a survey method. The required information is collected from primary and secondary sources. Consumption patterns, awareness of consumers on tax payments on goods and services are found out from consumers by administering a questionnaire to them. Impact of GST on prices and consumers is calculated on the basis of the consumption patterns and budgets of the consumers on account of pre identified 15 goods, 10 services and 5 others. Following null hypotheses are set up for testing:

1. Mean consumption patterns do not differ for different heads of expenditure
2. Mean consumption patterns do not differ among four income levels of the persons
3. There is no change in the prices of goods and services even after the introduction of GST.

The hypotheses are tested with the help of analysis of variance and t test. Consumer price index is also calculated to reflect the changes occurring in the cost of living of the people.

## RESULTS AND DISCUSSION

### Sample description

A random sample of 100 households was given the questionnaire and ninety two have responded to it. The households belonged to the people of various strata of income, occupation and type of family.

**Table 1**
**Sample details**

| Sample description | Number of households | Percentage |
|---|---|---|
| **Gender** | | |
| Male | 52 | 57 |
| Female | 40 | 43 |
| **Income Groups** | | |
| Lower income | 24 | 26 |
| Middle income | 39 | 42 |
| Upper middle income | 17 | 19 |
| Higher income | 12 | 13 |
| **Occupation** | | |
| Service | 48 | 52 |
| Business | 28 | 30 |
| Others | 16 | 18 |

*Source: Primary data*

Fifty two percent of the sample was from the occupation of services followed by thirty percent from business and eighteen percent from others such as labour, retired, self employed and so on. To understand the expenditure pattern around 30 items are chosen and are segregated into eight different baskets. They are i) Food (Grocery, Chocolates, Oil, Milk, Coffee, Tea etc.) ii) Education iii) Services (Hotel, Newspaper, Service Tax on Credit card transactions, Hospital Bills, LIC, Telephone and Entertainment etc.) iv) Electricity, water and gas, v) Clothes vi) Transport (Petrol and Diesel) vii) Medicines and viii) Personal care (Soaps and Cosmetics).

**Consumption patterns**

At present, goods are taxed by the State in the form of VAT which varies between zero rates to 12.5% rate given under different schedules. The services are taxed by the Centre at 10.3%. The introduction of the GST at the proposed rates appears to be inflationary and raise the prices. An attempt is made in this study to assess the consumption patterns in relation to the income levels of consumers.

**Table 2**
**Trends in Consumption patterns**

| Income Groups | Aggregate expenditure per month (in RS) i | ii | iii | iv | v | vi | vii | viii | Total (in RS) |
|---|---|---|---|---|---|---|---|---|---|
| I LIG | 83640 (35) | 25000 (11) | 43190 (18) | 24000 (10) | 9400 (4) | 25200 (11) | 15800 (7) | 13400 (6) | 239630 (100) |
| II MIG | 117700 (21) | 83540 (15) | 119568 (22) | 44229 (8) | 32450 (6) | 58150 (10) | 69250 (12.4) | 32470 (6) | 557357 (100) |
| III UMIG | 145092 (31) | 36960 (8) | 127920 (28) | 21924 (5) | 16440 (4) | 26520 (6) | 42000 (9) | 46980 (10) | 463836 (100) |
| IV HIG | 58850 (33) | 12600 (7) | 33364 (19) | 14000 (8) | 14200 (8) | 10200 (6) | 29600 (17) | 6000 (3) | 178814 (100) |

*Source:* *Primary data*

*Note:*
1. *i) Food ii) Education iii) Services iv) Electricity, water and gas, v) Cloths vi) Transport vii) Medicines and viii) Personal Care.*
2. *I) Lower income II) Middle income III) Upper middle income IV) Higher income*
3. *The numbers in the bracket indicate percentage of the amount spent in under that head in the aggregate expenditure.*

Aggregate expenditure of the respondents on the identified groups is shown in Table 2. It is observed that 35% of the consumption in case of lower income group is on food followed by services (18%). The consumption pattern remained same more or less in the same way in case of upper middle and higher income groups. But the gap between food and services remained less whereas in case of lower middle income group services dominated the food consumption. It is clear that lower income groups spend more amounts on the group food rather than on the other groups. The expenditure on other groups remained as a spread. The amount spent on petrol and diesel is less in case of lower income group. They spend more on cloths compared to others.

Mean consumption patterns of consumers are analyzed with reference to different heads of expenditure and also income groups.

Null hypotheses; Mean consumption patterns do not differ for different heads of expenditure and mean consumption patterns do not differ among four income levels of the persons are tested with the help of ANOVA. The calculated values for F1 and F2 at v1, v2 7, 21 and 3, 21 degrees of freedom are 2.92, 5.25 than the 2.49 and 3.09 values respectively. Hence both the hypotheses are rejected.

Mean consumption patterns differ for different heads of expenditure and mean consumption patterns differ among four income levels of the persons. The Government therefore is advised to decide the goods and service tax rates after considering the expenditure patterns of different groups of people and their earning capacity.

## IMPACT OF GST ON PRICES

The Government puts forth its argument that introduction of GST is beneficial to the consumer as the manufacturers tend to invest more into the activities as their profits will be very high. The resulting benefits if passed on to the consumers, manufactures tend to be benefited. GST increases the tax base as many items exempt under some taxes such as sales tax, excise duty and service tax may now attract tax. For example, Government would like to bring housing transactions under GST. Petrol, diesel and alcohol continue to be in a higher tax bracket. Electricity would be under GST. With so many changes and three tier rate structure, dual rates of CGST and SGST, uncertainty in passing on the benefits of GST to consumers and the current rates of taxes are causing concern in the consumers. Other things remaining the same, an analysis of average prices per person paid by the consumers for certain goods and services before GST and after GST is given in Table 3.

**Table 3**
**Average Prices per person before and after GST**

| Item | Prices before GST | Prices after GST | Change in % |
|---|---|---|---|
| Grocery | 834 | 896 | 7 |
| Electricity | 129 | 139 | 8 |
| Gas | 393 | 423 | 8 |
| Telephone | 196 | 205 | 5 |
| Medicines | 193 | 208 | 8 |
| Petrol and transport | 580 | 607 | 5 |
| Entertainment | 135 | 146 | 8 |
| LIC and others | 229 | 241 | 5 |
| Cosmetics | 64 | 69 | 8 |
| Personal care | 68 | 73 | 7 |
| Soaps | 89 | 96 | 8 |
| Oil | 76 | 82 | 8 |
| Chocolates | 46 | 49 | 7 |
| Coffee, Tea | 37 | 40 | 8 |
| Hotel | 105 | 113 | 8 |
| Hospital | 105 | 110 | 5 |

***Source: Primary data.*** ***Note: Average prices are calculated per person per month.***

A null hypothesis is set to test that there is no difference in prices before and after GST. The calculated value of t is 3.7 and the table value of t 0.05 for v 15 is 2.13. Since the calculated value is higher than the table value, the null hypothesis is rejected. The prices have increased after the GST. However the conclusion holds well only on the assumption that the cascading effect has been taken care while adjusting for VAT. The Government can realize its dream only when the benefits accruing to the manufacturers are strictly passed on to the consumers. The administrative mechanism should work properly to implement the dispensation of GST in supply chain. It should borrow the experiences of other countries in implementation of GST.

## INTERNATIONAL EXPERIENCE IN IMPLEMENTATION OF GST

The rates of GST adopted in various countries are differing. These rates are normally fixed up taking in to account the existing sales tax, excise duty, VAT etc. Singapore and Thailand have adopted 7%, Indonesia, Australia and USA taxing on their consumers at 10% and New Zealand at 12.5%.

## EXPERIENCE OF NEW ZEALAND

New Zealand experience is a good lesson in consumer fear of the GST creating bad spending decisions. When the GST was first introduced in that country, a lot of people were under the impression that all prices were going to go up by 10%. As a result, many consumers made large purchases, particularly on items such as fridges, washing machines and other electronic items. However the introduction of the GST actually led to a reduction in the prices of these goods leaving some consumers up to a few hundred dollars out of pocket.

## AUSTRALIAN INITIATIVE

The Australian Government has taken some initiatives while introducing GST. Penalty was prescribed for price exploitation or misleading and deceptive conduct. The Government also conducted nationwide consumer awareness campaign on how GST would affect prices. Another school of thought proposed that the Government should not seek to dictate or regulate price and that entities should be allowed to make pricing decisions based on market demand and supply equilibrium.

## INDIAN EXPERIENCE

While introducing VAT the governments have faced severe criticism from the public and industry. The prices of some commodities came down but in case of a few they increased. The Government should remember that the prices of items that are currently sales tax exempt could increase; the price of goods that are currently subject to sales tax may drop depending on the extent of reduction in retail mark up and passing of the benefits to consumers. The price of services may increase by some percentage as the proposed GST rates are higher than the current rates of service taxes.

## CONCLUSION

The GST is no doubt a major structural reform from the point of view of all the stake holders. However the Government could not include the consumers in the consultation process. Its failure to notify the exact time of the commencement of GST and non release of the list of goods and services and their applicable rates caused confusion in the minds of the consumers. There is no initiative from the Government on educating the consumers in this regard. The Government and the industries are very silent about the passing of benefits of this reform in the supply chain to the consumers. The impact of GST always depends upon the actual out come of the market forces and the extent to which selling can influence the prices.

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# AN EVALUATION OF SOCIAL ACCOUNTING DISCLOSURE IN CORPORATE ANNUAL REPORTS IN INDIA

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**ABSTRACT**

***This paper aims to examine the extent of social accounting disclosure in corporate annual reports in India and to ascertain the differences, if any, between social accounting disclosure practices by public sector and private sector companies. A sample of ten listed companies of NIFTY index of National Stock Exchange was chosen and they were stratified into public and private. An Index of Social Accounting Disclosure was constructed for data collection through content analysis from the annual reports. The results of the study revealed that social accounting information were disclosed in company's annual reports, web sites, chairman's speech, notes to accounts, schedule to accounts and auditors report. The extent of corporate social accounting disclosure in annual reports of public sector companies was better than private sector companies in India. The National Association of Accountants (NAA) committee on 'Accounting for Corporate Social Performance' (1974) has designed a four-pronged social reporting system. The four areas identified are: Community development; Physical Resources and Environmental contribution; Human resource development and Product or Service contribution.***

## OBJECTIVES OF THE STUDY

This study aims to:

(i) examine the extent of social accounting disclosure in corporate annual reports in India, and

(ii) ascertain the differences, if any, between social accounting disclosures practices by public sector and private sector companies.

## HYPOTHESIS OF THE STUDY

The following hypothesis was formulated and tested in this study:

$H_0$ : The extent of social accounting disclosure in public sector companies is same as that of private sector companies in India.

$H_1$ : The extent of social accounting disclosure in public sector companies is better than private sector companies in India.

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## RESEARCH METHODOLOGY

The research methodology used in this study consists of the sample, construction of the index of disclosure, scoring pattern, data collection and analysis.

## THE SAMPLE

One of the objectives of the present study was to compare social reporting pattern of public sector companies with private sector companies. There was therefore the need to take a sample covering both the sectors. The population had to be stratified into (a) Public sector companies (b) Private sector companies.

The sample of five listed public sector companies and five listed private sector companies was selected randomly from NIFTY index of National Stock Exchange, India as on 29-12-2009. The details of selected companies are given in Table 1.

**Table 1**
**Demography of Sample Companies**

| Company name | Market Capitalization (Rupees in Crores) | Weight in NSC Index |
|---|---|---|
| **Public Sector Companies** | | |
| 1. BHEL | 99,874 | 3.61 |
| 2. SAIL | 83,042 | 3.01 |
| 3. ONGC | 2,08,059 | 7.50 |
| 4. NTPC | 1,59,921 | 5.79 |
| 5. MARUTHI SUZUKI Ltd. | 28,318 | 1.02 |
| **Private Sector Companies** | | |
| 1. INFOSYS | 1,09,435 | 3.96 |
| 2. RELIANCE INDUSTRIES LTD | 3,23,057 | 11.71 |
| 3. HDFC | 67,878 | 2.46 |
| 4. L&T LTD | 81,216 | 2.94 |
| 5. MAHINDRA & MAHINDRA LTD | 18,463 | 0.67 |

## CONSTRUCTION OF THE INDEX OF DISCLOSURE

An Index of Social Accounting Disclosure has been constructed after review of foreign and Indian journals, web sites and annual reports of public and private sector companies and conducting extensive literature review of research studies. This index consists of 20 items. This index of disclosure is used for data collection through content analysis from sampled company's annual reports.

## SCORING OF ITEMS OF INFORMATION

After construction of the index, annual reports of the sample companies were examined. Items of disclosures were then fitted into the Disclosure index. If an item was disclosed, anywhere in the annual report, the item was assigned score 1 and in the case of non-disclosure, score 0 was given. The score for each annual report was then summed up, representing the score of the company.

## DATA COLLECTION AND ANALYSIS

The secondary data on social accounting disclosure has been collected through annual reports. Descriptive and inferential studies were used to analyse the data. The results of the study include enumerated information about disclosure of items of social accounting and comparison between public sector and private sector organizations.

## RESULTS AND DISCUSSION

Results of disclosure of Social Accounting Information by type of item stratified into Public Sector and Private Sector are presented in Table 2 and 3. Public Sector companies have disclosed more social accounting information items in their annual reports than private sector companies. 85 items were disclosed by Pubic Sector companies while only 53 items were disclosed by Private Sector companies. Overall, 138 items were disclosed by both Public Sector and Private Sector companies. Social Accounting Information Disclosure level among all Public Sector companies is equal to and more than 75 per cent while that of Private Sector companies is equal to and less than 70 per cent as shown in Table 3.

Social Accounting Disclosure Gap is presented in Table 4. Gap is the difference between Expected Disclosure Score and Actual Disclosure Score. Gap is less in case of Public Sector (15 per cent) while it is more in case of Private Sector (47 per cent). Overall, the Gap is 69 per cent.

The results of the t-test reveals that there is a statistically significant difference in the extent of Social Accounting Disclosure in Public Sector Companies and Private Sector Companies. As the p-value associated with the t-value is statistically significant at $< 0.05$, so that research hypothesis is accepted and null hypothesis is rejected. The study concludes that the extent of social accounting disclosure in public sector companies is better than private sector companies in India.

**Table 2**
**Disclosure of Social Accounting Information by Item and Sector**

| Items of Social Accounting Disclosure | Public Sector | | Private Sector | | Total | |
|---|---|---|---|---|---|---|
| | No. of Companies disclosed (N=5) | % | No. of Companies disclosed (N=5) | % | No. of Companies disclosed (N=5) | % |
| 1. Housing Facilities | 3 | 60 | 1 | 20 | 4 | 80 |
| 2. Health Facilities | 5 | 100 | 5 | 100 | 10 | 100 |
| 3. Educational Facilities | 5 | 100 | 5 | 100 | 10 | 100 |
| 4. Environmental Protection | 5 | 100 | 3 | 60 | 8 | 80 |
| 5. Community Development | 5 | 100 | 4 | 80 | 9 | 90 |
| 6. Career and Training | 5 | 100 | 2 | 40 | 7 | 70 |
| 7. Energy conservation | 5 | 100 | 2 | 40 | 7 | 70 |
| 8. Familiy welfare & Planning | 1 | 20 | 0 | 00 | 1 | 20 |
| 9. Sports and Games | 5 | 100 | 2 | 40 | 7 | 70 |
| 10. Canteen Facilities | 5 | 100 | 2 | 40 | 7 | 70 |
| 11. Water and Electricity | 5 | 100 | 1 | 20 | 6 | 60 |
| 12. Research &Development | 5 | 100 | 4 | 80 | 9 | 90 |
| 13. Staff welfare | 5 | 100 | 2 | 40 | 7 | 70 |
| 14. Child Welfare | 2 | 40 | 2 | 40 | 4 | 40 |
| 15. Transportation | 5 | 100 | 4 | 80 | 9 | 90 |
| 16. Rural Development | 5 | 100 | 3 | 60 | 8 | 80 |
| 17. Heritage and Culture | 3 | 60 | 3 | 60 | 6 | 60 |
| 18. Social & Cultural Facilities | 5 | 100 | 5 | 100 | 10 | 100 |
| 19. Employment of SC/ST and other underprivileged minorities | 1 | 20 | 0 | 00 | 1 | 20 |
| 20. Human Resource Development | 5 | 100 | 3 | 60 | 8 | 80 |
| Actual Disclosure Score | 85 | 85 | 53 | 53 | 138 | 69 |

**Table 3**
**Disclosure of Social Accounting Information by type of company**

| Public Sector Companies | | | Private Sector Companies | | |
|---|---|---|---|---|---|
| **Name of the Company** | **No. of Items Disclosed (N=20)** | **%** | **Name of the Companies** | **No. of Items Disclosed (N=20)** | **%** |
| 1. BHEL | 18 | 90 | 1. Infosis | 14 | 70 |
| 2. SAIL | 19 | 95 | 2. Reliance Industries Ltd. | 12 | 60 |
| 3. ONGC | 17 | 85 | 3. HDFC | 10 | 50 |
| 4. NTPC | 16 | 80 | 4. L&T Ltd. | 7 | 35 |
| 5. Maruthi Suzuki | 15 | 75 | 5. Mahindra & Mahindra | 10 | 50 |
| Actual Disclosure Score | 85 | | Total | 53 | |

*Source: Annual Reports of respective company.*

**Table 4**
**Social Accounting Disclosure Gap Analysis**

| Type | Expected Disclosure | Actual Disclosure | Disclosure Gap | |
|---|---|---|---|---|
| | | | No. of Items | Per Cent |
| Public Sector | 100 | 85 | 15 | 15 |
| Private Sector | 100 | 53 | 47 | 47 |
| Overall | 200 | 138 | 62 | 31 |

**Table 5**
**Results of t-test**

| Sector | Mean | SD | Mean Difference | SD | SE | t-value | df | *p*-value |
|---|---|---|---|---|---|---|---|---|
| Public | 17.0 | 1.64 | 6.4 | 1.05 | 0.87 | 7.34 | 4 | 0.002* |
| Private | 10.6 | 2.61 | | | | | | |

**Significant at < 0.005 level.*

## FINDINGS OF THE STUDY

The major findings of the study are:

- Public Sector companies have disclosed more social accounting information in their annual reports than private sector companies.
- Social Accounting Disclosure Gap is less in case of Public Sector companies while it is more in case of Private Sector companies. Overall, there exists Social Accounting Disclosure Gap between expected disclosure and actual disclosure.
- Lower Gap in case of public sector companies is due to their focus on economic dimension as well as social dimension. But the Gap is more in case of Private Sector, as they are giving more emphasis on economic dimension rather than social dimension.

- Public sector companies are complying with full disclosure in eighteen items while in only two items the study found partial disclosure.
- Private sector companies are complying with full disclosure in only three items while in the remaining seventeen items they are disclosing partially.
- The results of t-test supports the hypothesis formulated in this study that the extent of social accounting disclosure in public sector companies is better than private sector companies in India.

## RECOMMENDATIONS OF THE STUDY

- Private sector companies are required to discharge more of their corporate social responsibilities by undertaking activities listed in this study.
- Private sector companies are required to disclose social accounting information in their annual reports.
- Public sector companies can also improve their social accounting disclosure level by reducing their disclosure gap.

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**Vol. XLI (1) December 2010, pp. 78-83**

# CORPORATE GOVERNANCE PRACTICES OF NON GOVERNMENTAL ORGANIZATIONS IN WEST BENGAL: AN EVALUATION

**Bhaskar Bagchi*
***Dhrubaranjan Dandapat*

**ABSTRACT**

***The trustworthiness of an organization can be improved by adherence to the principles and practices of good corporate governance. The Non Governmental Organization (NGO) sector is now being viewed as a candidate for the same type of governance standards as the private profit-seeking sector. In a highly competitive, globalized and digitized operating environment characterized by reduced donor flight and a myriad of questions by government and other stakeholders on accountability, transparency, value addition, legitimacy and overall credibility of NGOs, good corporate governance has emerged not only as a tool to enhance professionalism, but more importantly, to ensure that NGO interventions are effective, sustainable, efficient and positively perceived by all stakeholders including governments, target communities and donors. For NGOs to deliver services effectively, the importance of good governance needs to be emphasized. In expanding on these themes, this paper scrutinizes how good governance practices are being followed by the NGOs operating in the selected districts of West Bengal and offer some ideas for improvement of NGO governance.***

## INTRODUCTION

Indian NGOs vary enormously in their approach and orientation, in their size and location of operation, in their physical, financial, and technical resources, in the scale of their interventions and in the degree of support they receive from government, and, last but by no means the least, in the socio-political context in which their interventions are located (Green and Matthias, 1997). They range from small localized NGOs working in a handful of villages in a single locality, to large NGOs working at a regional or national level, for the most part with funds from external sources. In addition to these local NGOs, there are also large international NGOs (often working with local representation) providing funding and support to indigenous NGOs (ibid).

The main objective of this paper is to:

- examine empirically how far the NGOs have adopted good governance principles in the selected districts of West Bengal; and

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- put forward some suggestions for improvement of the prevailing scenario.

In order to achieve the above stated objectives, this paper is designed as follows. Section 2 discusses the principles of good NGO governance. Section 3 lay down the methodology comprising sample size, questionnaire designed for the study, period of study and statistical tools used for analysis. Section 4 defines the hypotheses that have been framed for this study and section 5 deals with analysis and findings of the study. Conclusions and suggestions are offered in section 6.

## METHODOLOGY

Keeping in view the nature and scope of the study, we have selected 2 least developed (Malda and Purulia) and 2 highly developed (Kolkata and Howrah) districts of the State of West Bengal. In order to get first-hand information on the good governance practices of NGOs in these districts of West Bengal, field survey have been conducted with the help of a structured questionnaire to extract the necessary data for analysis. 10 NGOs from each of these 4 districts have been selected on stratified random sampling basis out of the listed 329 NGOs (DAINET, 2000) operating in these districts. The survey has been conducted in two phases.

The first draft of questionnaire was sent to NGO leaders of selected 40 NGOs via e-mail and speed post out of which 8 questionnaires had to be cancelled due to incomplete responses. The process was repeated after a span of 6 months amongst 32 NGOs to see whether there are any variances in their answers with that of their earlier responses. It has been found that responses of 5 NGOs differ with that of their previous responses while the answers of 27 NGOs remain unaltered. Thus the final sample stood at 27.

**Table 1**
**Districtwise Representation of the Sample NGOs**

| Districts | HDI Rank# | Number of Sample NGOs | Total Number of NGOs | Percentage of Sample NGOs |
|---|---|---|---|---|
| | | **Inderdeveloped** | | |
| Malda | 17 | 7 | 87 | 08.05 |
| Purulia | 16 | 6 | 86 | 06.98 |
| | | **Developed** | | |
| Kolkata | 1 | 6 | 48 | 12.50 |
| Howrah | 2 | 8 | 108 | 07.41 |

***Source: Field Survey. # obtained from West Bengal Human Development Report, 2004.***

## DESIGN OF QUESTIONNAIRE

The questionnaire was framed to know whether the NGOs

Question 1: operate with well-organized, proficient and transparent administration to meet well defined objectives;

Question 2: are governed with integrity, probity and transparency;

Question 3: are managed by responsible leaders who are capable; responsible, representative and conscious of their obligations;
Question 4: are effective and efficient in the use of resources and in getting results;
Question 5: are ready to account for the use of resources and their actions;
Question 6: recognize and protect stakeholders' interests;
Question 7: comply with legal and regulatory requirements;
Question 8: adopt policy based on the principles of democracy;
Question 9: make timely disclosure of information relating to activities of an organization;
Question 10: make timely financial disclosure to cover sources and uses of funds, assets and liabilities;
Question 11: reveal proper and relevant Accounting Standards that are being followed by the NGOs;
Question 12: ensures that internal financial control are in place and working;
Question 13: ensures that the organization's accounts are regularly audited;
Question 14: ensures that the audit report is produced and distributed;
Question 15: board keeps minutes of all its meetings;
Question 16: make clear description of duties and responsibilities of NGO staff;
Question 17: are accountable to funding agencies, stakeholders, legal authority, employees and beneficiaries.

**PERIOD OF STUDY**

Field study was conducted during the year 2009 - 2010.

**STATISTICAL TOOLS USED FOR ANALYSIS**

The objective of our study as stated earlier is to examine the governance practices of NGOs that are operating in the selected districts of West Bengal. For this purpose, data collected through questionnaire have been duly processed, tabulated and analyzed using Test of Proportion (Z Test). This statistical test reveals how far the hypotheses are tenable in the light of the information provided by the respondents.

**HYPOTHESES**

We have framed null hypotheses ($H_0$) and alternative hypotheses ($H_1$) as follows:

$H_0$ : Around 50% (fifty percent) of the selected NGOs are carrying out good governance practices.

$H_1$ : (a) More than 50% (fifty percent) of the selected NGOs are carrying out good governance practices. [+ve result indicates (a) is true], and

(b) Less than 50% (fifty percent) of the selected NGOs are carrying out good governance practices. [-ve result indicates (b) is true].

The test statistic: $$Z = \frac{P - \pi}{\sqrt{\frac{\pi(1-\pi)}{n}}}$$

Where P = observed value

And $H_0$: $\pi = 0.50$ against $H_1(a) : \pi > 0.50$ and $H_1(b) : \pi < 0.50$

For testing significance at 5% level, the null hypotheses $H_0$ is rejected when the value of z is either greater than +1.645 or less than - 1.645. If $z > 1.645$ then $H_1$(a) is accepted and if $z < -1.645$ then $H_1$(b) is accepted. 'z values' have been calculated against each of the 17 questions for selected 4 districts of West Bengal and the results with its implications are briefly stated in table 2 where the term 'Accepted' indicates that about 50% of the selected NGOs are carrying out good governance practices and 'Rejected' implies that either more than 50% of the selected NGOs are carrying out good governance practices (for positive results) or less than 50% of the selected NGOs are carrying out good governance practices (for negative results).

**Table 2**
**Acceptance/Rejection of Null Hypothesis using Z values (Standard Normal)**

| Sr. No. of Questions | Malda | Purulia | Kolkata | Howrah |
|---|---|---|---|---|
| 1 | (2.6456) Rejected (+) | (2.4498) Rejected (+) | (2.4498) Rejected (+) | (2.8281) Rejected (+) |
| 2 | (2.6456) Rejected (+) | (2.4498) Rejected (+) | (2.4498) Rejected (+) | (2.8281) Rejected (+) |
| 3 | (2.6456) Rejected (+) | (2.4498) Rejected (+) | (2.4498) Rejected (+) | (2.8281) Rejected (+) |
| 4 | (2.6456) Rejected (+) | (2.4498) Rejected (+) | (2.4498) Rejected (+) | (2.8281) Rejected (+) |
| 5 | (2.6456) Rejected (+) | (2.4498) Rejected (+) | (2.4498) Rejected (+) | (2.8281) Rejected (+) |
| 6 | (2.6456) Rejected (+) | (2.4498) Rejected (+) | (2.4498) Rejected (+) | (2.8281) Rejected (+) |
| 7 | (2.6456) Rejected (+) | (2.4498) Rejected (+) | (2.4498) Rejected (+) | (2.8281) Rejected (+) |
| 8 | (-0.378) Accepted | (-0.8166) Accepted | (0.8166) Accepted | (0.7070) Accepted |
| 9 | (-2.6456) Rejected (–) | (-2.4498) Rejected (–) | (-1.6332) Accepted | (-2.1210) Rejected (–) |
| 10 | (-2.6456) Rejected (–) | (-2.4498) Rejected (–) | (-1.6332) Accepted | (-2.1210) Rejected (–) |
| 11 | (-2.6456) Rejected (–) | (-2.4498) Rejected (–) | (-2.4498) Rejected (–) | (-2.8281) Rejected (–) |
| 12 | (1.1338) Accepted | (2.4498) Rejected (+) | (2.4498) Rejected (+) | (2.8281) Accepted |
| 13 | (2.6456) Rejected (+) | (2.4498) Rejected (+) | (2.4498) Rejected (+) | (2.8281) Rejected (+) |
| 14 | (-2.6456) Rejected (–) | (-2.4498) Rejected (–) | (-2.4498) Rejected (–) | (-2.8281) Rejected (–) |
| 15 | (2.6456) Rejected (+) | (2.4498) Rejected (+) | (2.4498) Rejected (+) | (2.8281) Rejected (+) |
| 16 | (-2.6456) Rejected (–) | (-2.4498) Rejected (–) | (-1.6332) Accepted | (-2.8281) Rejected (–) |
| 17 | (2.6456) Rejected (+) | (2.4498) Rejected (+) | (2.4498) Rejected (+) | (2.8281) Rejected (+) |

*Source: Field Survey, Results computed.*
*Note: $H_0$ is rejected when the value of z is either greater than +1.645 or less than -1.645.*
*(+ Positive, – Negative)*

## ANALYSIS AND FINDINGS OF THE STUDY

Based on the analysis of questionnaires collected from the NGOs and results shown in table 2, we summarize below the findings of the study.

I. The leaders of all 27 NGOs under the study (Table 2), feel that their organizations operate with well-organized, capable and transparent administration to meet well-defined objectives; govern organization with integrity, honesty and transparency;

are managed by competent, responsible and conscious leaders; use organization's resources effectively and efficiently; are ready to account for the use of resources and their actions; recognize and protect stakeholders' interests; conforms to the legal and regulatory requirements; ensure that the organizations accounts are regularly audited; are accountable to funding agencies, stakeholders, legal authority, employees and beneficiaries; and maintain minutes of all its meetings. It has been observed that not even a single NGO prepared and distributed audit report.

II. From the study it has been found that in the district of Purulia (Table 2), the null hypotheses is accepted in 1 case which is the lowest ever acceptance in the State. On the other hand, in the district of Kolkata, alternative hypotheses H1(b) [i.e. less than 50% of the selected NGOs are carrying out good governance practices] is true for only 2 cases which is the lowest among the selected districts and null hypotheses Ho is found to be tenable for 4 cases which is highest amongst the selected districts. So it may be concluded that the NGOs operating in Kolkata are the best performer as far as 'carrying out good governance practices' is concerned.

III. It has been observed (Table 2) that the board of 14 (51.86%) NGOs adopt policy based on the principles of democracy; 2 (7.41%) NGOs make timely disclosure of information relating to activities of an organization; 2 (7.41%) NGOs make timely financial disclosure to cover sources and uses of funds, assets and liabilities; and not even a single NGO reveal proper and relevant Accounting Standards that are being followed by them. The study also reveals that only 1 (3.70%) NGO make clear description of duties and responsibilities of NGO staff.

## CONCLUSION AND SUGGESTIONS

It has been observed that while most of the NGOs are expected to be community friendly and have in place reliable arrangements for receiving and redressing people's grievances, in reality access to such means tend to be available to a very small section of people. The large number of illiterate and downtrodden people living at the margins of the society still suffer in silence. Ideologically the NGOs are expected to have foolproof arrangements for not only redressing people's grievances but also for directly involving people in specific policy making, including developmental planning. But in practice very few NGOs work through mechanisms that enable ordinary people to participate in decision-making process of the organizations and for most of the NGOs policy-making continues to be looked upon as bureaucratic task with no or little transparency.

Considering the results of the findings of the study, we venture to offer some suggestions for improvement of the current scenario.

- There should be instruction-manual/handbook for governing bodies of NGOs. The handbook would address roles and functions of board versus management, values, philosophy, vision and mission, procedures for board operations, criteria for board appointments, principles of good governance and evaluation mechanisms;
- Good governance begins with empowering the top management - the board of

directors/ governors/ trustees, whatever be the nomenclature. In most of the NGOs, governing bodies including executive and advisory boards exist with varied effectiveness and some function without clear and distinct roles and responsibilities and do not have complete independence from management processes. Thus, there is need to focus on understanding the roles of boards, dealing with potential conflicts between founder members and younger professionals, code of conduct for boards, leadership development, sustainability and appropriate management models;

- The governance of NGOs should cover both conformance dimension as well as performance dimension, i.e., it should consider the whole picture of the organization to ensure that strategic goals are aligned and good management is achieved. While the conformance dimension takes an historic view, the performance dimension is forward looking. Strategic plans, financial plans, performance measurement, control systems and stakeholders satisfaction are under the coverage of performance dimensions;
- It is important to strengthen the accounting and reporting practices as well as audit standards and regulations. Audit quality control process must ensure that the audit effectiveness is raised;
- The performance of projects, activities or operations of the NGOs should conform to the parameters of the purpose of the grant, manner in which it should be utilized and the time frame, etc. It is recommended that the donors and funding agencies should critically examine the effectiveness of the NGOs in utilization of resources and in achieving results through Performance Audit;
- For better transparency and accountability to the target groups as well as to the society at large, the NGOs may publish their accounts in a newspaper or they may put their financial statements on their websites.

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# BOOK REVIEW

## International Business

Author: **Dr. P.C. Jain, Third Edition,** year: **2010-11,** Price: **Rs. 285,** Pages: **18.34**
Publisher: **RBD Professional Publications, Jaipur**

At the time when Globalisation has changed the entire world into global village and creating a concept of global market, academicians and management practioners are anxiously looking for the adoption of new changes in the arena of international horizon. The thoroughly revised 3rd edition of International Business by Dr. P.C. Jain will update the skills and knowledge of the teachers, professionals, students and the readers. The book examines both theoretical and strategical areas of International Business in lucid style.

The scanning of environment, collection of variety of data, impact of global recession, indicators of world development, and current status of India's foreign trade have made the book reader friendly. The book is divided into 18 chapters. The evaluation of various EXIM policies of last few years has also been made. The book is presented in simple language and contents are cohesive. Hence the book is useful to policy makers, research scholars and society at large.

**Devesh Ranjan Tripathi**
Assistant Professor
School of Management Studies
U.P. Rajarshi Tandon Open University, Allahabad

## Media Management (Newspaper)

Author: **Ram Pravesh Rai,** year: **2011,** Price: **Rs. 750,** Pages: **239**
Publisher: **Gaur Publishers and Distributers, New Delhi**

Now a days, the field of media has expanded and playing significant role in the society. This is on account of management principles and techniques. The management of electronic and print media is quite different and it has to be studied separately. The author has covered various aspects of news paper management. The book is divided into eight chapters. The book focuses on history of print media management, its mission, profession and business, traditional forms of newspaper management, new techniques of newspaper management etc. The book has also included marketing policies of newspapers and the factors affecting them. To have wider coverage to Hindi speaking readers the author has presented contents in simple Hindi language. The incorporation of new ideas like cross media ownership, mobile newspaper, internet edition and website management have made this book valuable for general readers. The book will be useful to academicians, scholars, media professionals, policy makers, general students and society at large.

**Sugan Chandra Jain**
Past President, Indian Accounting Association
and Retd. Professor and Head, Deptt. of Accounting,
University of Rajasthan, Jaipur

# IAA NEWS

## Report on the XXXIII All India Accounting Conference and International Seminar of the Indian Accounting Association Kerala University, Trivandrum(India)

**Nov 13-14, 2010**

The XXXIII All India Accounting Conference and International Seminar on Accounting Education and Research was held at Kerala University, Trivandrum, during Nov 13-14, 2010, under the auspices of IAA Kerala Branch and Kerala University's Faculty of Commerce & Management. Prof. K.Sasi Kumar, the Conference Secretary and Prof. D. Prabhakara Rao, the General Secretary cordially invited all the members and delegates to the Conference. Prof. D. Prabhakara Rao explained the comfortable position of IAA in terms of Finances and Human Resources, while profoundly thanking all the people responsible for the mileage covered so far, specially the Past Presidents, EC Members and Office Bearers. He announced that new branches will be formed shortly in Pandichery and Jammu & Kashmir, while referring to the phenomenal growth of IAA from Kashmir to Kanyakumari. The Conference was inaugurated by Prof.Prabhat Patnaick, Vice Chairman of the Kerala Government Planning Board on 13th Nov.2010. Honorable Finance Minister Prof. Thomas Isaac greeted the delegates from all over India, while sharing his experiences on the Goods and Services tax and fiscal administration. Prof. Prof. GL Dave, the President of IAA addressed the members on a variety of issues relating to Accounting Standards and Corporate Governance. The International Seminar on Accounting Education and Research was chaired by Prof. MB Shukla of the Kasi Vidya Peet University, Varanasi. A number of thought provoking research papers were presented followed by deep discussion on some of the interesting research areas in Accounting Education and Research. The three technical sessions took place concurrently with rich deliberations under the chairmanship of Prof. Sugan Chand Jain of Jaipur, Prof. Ranjan K Bal of Bhubaneswar and Sri KChAVSN Murthy of Hyderabad respectively.

A good number of delegates came from Muscat under the leadership of Prof.KV Achalapathy, who is presently in Muscat. Mr. Bharat Moyal of Kolkata got the Best Performance Award in the IAA Talent Search 2009-10. The Papers of (i) Dr.KV Ramana Murthy & Dr.Vanishree of Hyderabad; (ii) Prof. Promod Kumar of Agra; (iii) Dr.Usha Kiran & Dr.Karuna shri and (iv) Dr.ST Gadade & DR.SS Yadav of New Panvel are adjudged to be best among the presented papers in the International Seminar and three Technical Sessions. Dr. (Ms) Tarika Sikarwar of Gwalior got the IAA Young Researcher Aware-2010. Prof. D.Obul Reddy of Hyderabad and Prof Shirin Rathore of Delhi were conferred with IAA Fellowship Award-2010 for their life time dedication to the Accounting Education and Research. Prof. M. Sulochana of Hyderabad has announced to donate a sum of Rupees One Lakh as an endowment for YRA Award. The Interest on this amount will be used to give the YRA Award Prize every year.

Prof. Harish S Oza of Gujarat University has become the President of IAA while Prof. Umesh Holani of Jiwaji University and Prof. K. Sasi Kumar of Kerala University have become the Sr.Vice President and Jr. Vice President respectively. Prof. D. Prabhakara Rao of Andhra University Prof.Pratap S Chouhan of Sourashtra University and Prof. Nageshwar Rao of Allahabad Open University are unanimously elected as General Secretary, Treasurer and Chief Editor for a period of three years. Sri AS Durga Prasad of the Institute of Cost & Works Accountants of India and Prof G Soral of ML Sukhadia University are nominated as Ex-Officia members to the Executive in their capacity as IAA Website Coordinator and IAA Talent Search Coordinator respectively. Prof. Ramachandra Gouda of Bangalore University, Prof. J.L. Gupta of Delhi University, Prof. Sailesh Parmar of Sourashtra University, Dr. ML Vadera of Jai Narayan Vyas University and Prof. C. Ganesh of Kerala University are elected to the Executive for a period of three years. Dr.Muniraj of Bangalore University was elected to the executive for the remaining one year period of Prof.SS Mody. Dr. Lalit Gupta of Jai Narayan Vyas University; Dr.KChAVSN Murthy of the Institute of Cost & Works Accountants of India; Dr. Anil Kumar of Sri Ram College of Commerce, Dr. PK Bhandgar of Mumbai, Prof. M. Sulochana of Osmania University, Dr.Sanjay Bhayani of Sourashtra University , Prof. Arindam Gupta of Vidya Sagar University, Dr. LK Karangade of Akola and Prof. SS Mody of the University of Rajasthan (the 34th Conference Secretary) are coopted to the EC for a period of one year. Dr. Bhavesh A Lakhani of Gujarat University and Dr. Apparao of Osmania University, Prof. JK Jain of Harish Gaur Central University and Prof MR Sahu of Jiwaji University are also coopted to the EC as special invitees.

Members expressed full satisfaction at the arrangements made by the Conference Secretariat while profoundly thanking the Conference Secretary Prof. K Sasi Kumar and his dedicated team of faculty and administration supported by the scholars and students. Prof. Mody heartily invited all the members to the Pink City on this pleasant occasion to celebrate the 34th All India Accounting Conference.

**Dr. D. Prabhakar Rao**
General Secretary - IAA

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## 34th All India Accounting Conference

***Prof. S.S. Mody as the Conference Secretary***

The topics and Chairpersons for the 34th IAA conference to be held at Jaipur are given below:

### Conference Dates 17th and 18th Dec 2010

***International Seminar on Accounting Education and Research***
with Prof. GL Dave of Jodhpur as Chairman

**Technical Session I**
***E-Accounting: Problems and Prospects,*** Chairman: Prof. B. Banerjee of Calcutta

**Technical Session II**
***Carbon Credit Accoiunting,*** Chairman: Prof. K. Eresi of Bangalore

**Technical Session III**
***Impact of Direct Tax Code,*** Chairman: Prof. Daxa Chauhan of Rajkot

**Dr. D. Prabhakar Rao**
General Secretary - IAA

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## One-Day State Level Seminar and Annual General Meeting of The IAA Midnapore Branch

A one day state-level seminar was hosted by the Department of Commerce, University of Burdwan, W.B. in association with the I.A.A., Midnapore Branch on 4th December, 2010 on the eve of the latter's Annual General Meeting at the Directorate of Distance Education building of the university at Golapbag, Barddhaman (Burdwan). The seminar was inaugurated by Prof. Amit Kr. Mallik, former Vice Chancellor of the university and hon'ble President of the Branch. The key-note address was delivered by Prof. Ratan Khasnabis, Retired Professor of Business Management, University of Calcutta, Kolkata and an eminent Economist on "Global Economic Crisis and Problem of Foreign Exchange Management". The seminar was attended by nearly one hundred delegates from all parts of the state.

Later, in the afternoon session, the 3rd Annual General Meeting of the Branch was held. ***Prof. Jaydeb Sarkhel,*** a very senior Professor of Economics in the Department of Commerce of the University of Burdwan was elected President of the Branch after Prof. Amit Kr. Mallik had cited his personal difficulties to continue Presidentship for another year. All the members highly appreciated the role of the outgoing President in guiding the Branch from the time of its starting till recent times to achieve a significant position like this.

***Prof. Arindam Gupta,*** Professor of Commerce, Vidyasagar University, Midnapore and ***Dr. Anupam Parua,*** Assistant Professor in Commerce, K. D. College of Commerce and General Studies, Midnapore were reelected respectively as the Secretary and Treasurer of the Branch. ***Prof. Sudipti Banerjea,*** Professor, Department of Commerce, University of Calcutta, Kolkata, ***Dr. Abhash Kr. Basu,*** Assistant Professor, Dept. of Commerce, Raghunathpur College, Purulia, ***Ms. Arundhati Basu,*** Proprietress, A. Basu & Co., Cost Accountants, FE - 130, Sector - III, Salt Lake, Kolkata, ***Dr. Debabrata Mitra,*** Reader, Department of Commerce, University of North Bengal, North Bengal, Darjeeling, ***Dr. Kajal Baran Jana,*** Assistant Professor, Dept. of Commerce, Tamralipta Mahavidyalaya, Tamluk, Purba Medinipur, ***Mr. Koushik Kr. Dutta,*** Assistant Professor, Dept. of Commerce, Suri Vidyasagar College, Birbhum, ***Dr. Manas Kr. Hazra,*** Talit Goureshwar Institution, Talit, Burdwan, ***Dr. Partha Sarkar,*** Senior Lecturer & Teacher-in-Charge, MBA (HR), Centre for Management Studies, The University of Burdwan, ***Prof. Prithul Chakraborty,*** Centre for Management Studies, JIS College of Engineering, Kalyani, Nadia, ***Dr. Prabodh Kr. Mishra,*** Reader, Department of Commerce, Kidderpore College, Kidderpore, Kolkata, ***Dr. Siddhartha Sankar Saha,*** Reader, Dept. of Accounting and Finance, St. Xaviers' College (Autonomous), Kolkata, and ***Dr. Swarup Kr. Jana,*** Assistant Professor, Dept. of Commerce, Ramananda College, Bishnupur, Bankura, were elected as the twelve other members of the Executive Committee of the Branch for the next year.

The members in general appreciated the present strength of the Branch with 138 life members thus becoming the fourth largest branch of the association. They also appreciated the Branch's initiatives in organizing a 10-day Workshop on Research Methodology in association with the Department of Commerce with Farm Management of Vidyasagar University to start on and from 4th January, 2011, and publication of an E-journal. On this occasion, the Branch's website, *www.iaamidnaporebranch.in* was also inaugurated by Prof. Amit Kr. Mallik.

**Prof. Arindam Gupta,** Hony. Secretary, I.A.A., Midnapore Branch

# INDIAN ACCOUNTING ASSOCIATION

## *PAST SECRETARIES*

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

**Late Prof. Mukund Lal** (1978-1993)

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

## *BRANCH SECRETARIES*

*AHMEDABAD BRANCH*
**Prof. Ajay Soni**
Faculty, M.M. Gandhi
Arts & Commerce College
Kalol

*AJMER BRANCH*
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# EDITORIAL

Creativity and interdisciplinary approach is better way to utilise both implicit and explicit knowledge of human resources. Dr. G.L. Dave in his presidential address has sketched an outline of interdisciplinary approach and creativity in accounting education system. International Financial Reporting Standard (IFRS) is a new concept in this global scenario. Dr. Lalit Gupta has presented an analytical study of India's Preparedness for IFRS. Risk Management is a rapidly growing area in financial sector and credit rating plays a vital role. Kuljeet Kaur and Dr. Rajinder Kaur have presented an empirical analysis of Credit Rating. Non Government Organisations are adopting corporate governance measures. This has been analysed by Dr. Bhaskar Bagchi and Prof. Dhrubaranjan Dandapat. The relationship of price index and macroeconomic variables is presented by Dr. Vishal Vyas and Dr.D.D.Bedia. Governance practices in Indian banking has analysed by Dr. Hemal Pandya and Dr. Chetana Parmar. A comparative study of accounting education system of India and Oman has been empirically tested by Dr. K.V.Achalapathi, Ms. Tamanna Dalwai and Ms. Sweetline. The issues of social accounting, impact of GST, cost management of power sector companies and stock split practices have also been included in this issue of journal and have given useful inferences.

**December 31, 2010** | **Professor Nageshwar Rao**
Chief Editor

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# PRESIDENT'S SPEAKS

Dear Members,

Happy New Year 2011.

It is indeed a matter of great pleasure and honour to be the President of Indian Accounting Association for the year 2011. I express my sincere thanks and convey my gratitude to all the members, executive committee and past presidents of the Association for the confidence reposed in me. I personally request you to give your kind support and co-operation in developing our Association to greater heights.

The discipline of accounting is passing through a very challenging phase. Recently as the accountants, we have three major challenges-(i) Implementation of Direct Tax Code (ii) Adoption of International Financial Reporting Standards in India and (iii) Good Corporate Governance. We have to play an important role in creating awareness and understanding for both the challenges amongst teachers and students. It is my earnest request to all the branches of IAA to organize seminar, conference, workshop or panel discussion at earliest on these emerging issues in accounting and taxation. Accordingly, IAA-Gujarat Branch has taken initiative in conducting International Seminar on such issues during February 12-13, 2011.

Now-a-days, we have seen many scandals through out the world. This is very bad sign for the profession. What we required is the acceptance of Ethics in Accounting. According to Robin Matthews, "Once we create mindset where the role of honesty in our social contracts becomes significant, the very threat of "losing honour" within society becomes a preventive measure for greed". It was observed that greediness led to the undue growth in all the sectors of the economy. Therefore, we require more transparency and full disclosure in accounting system to remove greediness from the society.

Further, it is interesting to note that modern society afflicted by "Moral Pollution" which is not confined to the corporate sector alone, but is all pervasive. In such climate, more gimmicks of reforming the corporate sector would not automatically guarantee good accounting. What is required is an evolution of a "Culture of Conscience". Without ethics/ morals/dharma human beings are just like animals. Therefore, it should be our mission to develop culture of conscience in the society and such change will brings fairness, justice and truthfulness in accounting reporting.

We have excellent past records and have contributed a lot in promoting healthy accounting practices, education and research in India. In the era of globalization, let us try for global recognition of our association.

I would like to draw kind attention of the Branch Secretaries to up-date their Life Membership List and sent it to the Chief Editor of IJA for proper posting of journal. Further, I request branch secretaries to submit audited annual branch accounts to the Treasurer of IAA. All the members are requested to send their email addresses to me on iaagujbr@gmail.com. Your suggestions and observations regarding working of our association are solicited for the better performance in the future.

**Prof. (Dr.) Harish S. Oza**
President
Indian Accounting Association
Ahmedabad (Gujarat - India)

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