
INDIAN

JOURNAL OF

ACCOUNTING

VOL. XXVIII JUNE, 1997



**JOURNAL OF
THE INDIAN ACCOUNTING ASSOCIATION**

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EDITORIAL

The current issue contains five articles in different areas of accounting and taxation in addition to the Presidential Address. K. R. Sharma in his Presidential Address deals with a number of important issues that concern our economy, profession and the Association.

In the first article, Mir Nazmul Karim highlights the impact of revolutionary changes on the accounting profession and stresses the need for development of human resources. C. L. Salvi and G. Soral outline, in their award-winning article, the guidelines and principles laid down in ancient Indian literature for imposing taxes. They recommend further research on the subject to unravel precious knowledge from ancient Indian literature. B. Charumathi then emphasises the need for uniformity in international accounting through international financial statements and accounting standards. While Satish Kumar Soni & Kulwant Pathania write about the conceptual framework of responsibility accounting, in the last article Sujit Sikidar deals with operation and accounting for value added tax.

A new feature of this volume is the addition of *Short Play-Writing Competition* among accounting students and young teachers. The idea and the write-up, *Variance Analysis-A Role Playing Exercise*, came from H. S. Kulshrestha, one of the founding members of Indian Accounting Association. It is expected that the competition will create a good response.

The publication of this issue has been delayed by about two months mainly due to fund constraint. To take care of this chronic problem, the next issue, which is due in December, may have to be published immediately after the XXI National Conference. I, therefore, take this opportunity of expressing my gratefulness to the associate editors, members of the editorial board, office-bearers of the Indian Accounting Association, office-bearers of the local Branches and members of the IAA for their kind co-operation and support during my tenure.

August 18, 1997

B. Banerjee
Chief Editor

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PRESIDENTIAL ADDRESS*

Hon'ble Chief Guest, Vice-Chancellor, Office Bearers and Members of Indian Accounting Association, Distinguished Guests, Ladies and Gentlemen :

I deem it a great honour and privilege to address this assembly of eminent academicians and professionals in the field of accounting. Using this opportunity I extend a warm and cordial welcome to our guests and congratulate the members of INDIAN ACCOUNTING ASSOCIATION on this happy occasion of the XX National Convention of IAA. The Convention and the Seminars on Contemporary Issues in Accounting are being hosted by the Department of Commerce, Goa University. Goa, a beautiful State, is famous for its swaying palms, miles of golden sands, lush greenery, an incredible cultural heritage, magnificent churches, temples and monuments. It represents a unique cultural synthesis of the East and the West with high traditions of hospitality, cordiality and commitment to higher values of life. I express our gratefulness to the Department of Commerce, Goa University and the people of Goa for this nice gesture.

Indian democracy is now 50 years old. We had celebrated the 47th anniversary of the Republic about a week back. If we reflect on the achievements of this half century it brings a mixed picture. During this period, India has emerged as the largest democracy in the world. Subscribing to higher values of democratic functioning, India is among the top ten largest economies in the world, growing at moderate 5% per year. It has emerged as the leader of third world countries. Its population is approaching 100 crore, nearly 60 crore of which are above the poverty line. It has a middle class of about 75 crore, offering a large market potential.

A reasonable industrial infrastructure has been built. From a food deficit country it has become self sufficient through its own efforts. It has a significant proportion of the best educated and intellectually capable people. There is wider acceptance of the concept of equality of gender, religion and ethnicity and the rule of law. It has shown great resilience to adjust to major changes in its economic and social structures. It has a strong entrepreneurial class capable of innovating and taking up challenging opportunities in trade, industry and commerce. Under planning

* Delivered at XX Annual Conference (February 2-3, 1997) hosted by Department of Commerce, Goa University, Goa.

the public sector has made significant contribution to its growth. After decades of centralised economic policies, India has embarked on a reform programme designed to modernise the economy, liberalise trade and realise its economic potential.

Historic changes have taken place in the world within the past few years. It goes to its credit that it is trying to adopt, or adapt to these changes as well as all that goes with it, to benefit the people.

Apart from the positive features as mentioned above there are some disturbing developments. Indian democracy is under assault from the politics of caste and religious fanaticism. Corruption is raising its ugly head. The country had to suffer the agony of putting up with unethical and anti-people activities of persons occupying the positions of power in the government and in public life. The revelations over the last two years are a national shame. The country has suffered a great deal on this account. Over the years a nexus has developed among the politicians, the bureaucrats, the businessmen and the organised criminals. This has been responsible for a large scale loot, eroding the democratic values, threatening the polity and suffocating the development process. This has many dimensions. For instance, the business houses have transferred funds outside the country by under invoicing and over invoicing the exports and imports. Tax payers have been found not declaring their income correctly in their tax-returns by manipulating accounts. Bureaucrats and persons in authority have been found accepting illegal gratifications. Discretionary powers have been misused to favour certain individuals and political groups. Government funds have been misused and misappropriated.

While globalisation and liberalisation may have nothing to do with it, with liberalisation the areas of potential danger have increased. The mechanism for monitoring and compliance of prudential regulations and directives of the government needs to be made more alert and responsible. Public servants have to be trained to exercise due care and caution while dealing with public funds.

I feel accounting and accountants have something to do with it. Accountants are the conscience keepers of business and also the watchdogs for society. They have the direct responsibility for maintaining the books of accounts and prepare the statements of accounts showing true and fair view. As professional persons a high degree of integrity, competence and independence is expected from them. They have to rise to the occasion and put a stop to these unethical practices.

Historically, accounting in India had a strong philosophical basis. The *Niti Sastras* prescribed a comprehensive accounting code. Items of

revenue and expenditure have been enumerated and classified giving minute details. [*Kautiliya Arthasastra*, Chapter VII, Sloka 23(2)]

Sastras also prescribed a strict code of conduct for the persons dealing with public funds, the King and his kins, the Ministers, the Officers of the State, the accountant and the auditors. [*Shukra Niti*, Chapter VII, Sloka 23(3)]

The qualifications, powers, duties and functions of all these authorities have been laid down in detailed form as per the requirement of their function. [*Shukra Niti*, Chapter II, Sloka 86 and Chapter III Sloka 153; *Kautiliya Arthasastra*, Chapter VII Sloka 23(3) and Sloka 23(12)]

Sastras also provided for deterrent punishment to check violation of the Code. [*Kautiliya Arthasastra*, Sloka 23(13)]

I feel ethics should form an essential component in the education and training of the accountants. This is essential to acquaint young persons with our philosophy, culture and hoary traditions which alone can serve as guiding light.

Accounting Education and Research

A number of challenging situations have developed in the wake of globalisation in the field of accounting education and research. The professional demands are changing while the existing courses laid emphasis upon technical knowledge at the expense of broad based general education. Accounting educators have to think whether the existing curriculum provides the professional knowledge as per the need of globalised business and industry. The future of profession, 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.

I am of the view that future accountants must develop the capacity for enquiry, logical thinking and critical analysis. They must understand the business, their work environment and the way their services are going to be used. Avoiding the one right answer syndrome they should reflect on real world problems. To be successful in modern competitive environment they must possess communication skills, intellectual skills and interpersonal skills.

This brings us to the basic issues of curriculum development, arrangement for education, instructional method and continuing education programme. In the context of the future need and expectations from the accountants, the curriculum should provide for all the four main components viz general education, general business education, general accounting education and specialised accounting education. The

instructional methods should be designed to teach students to learn on their own. Students should be taught the skills and strategies that help them learn more effectively and continue learning throughout their life time. They should be made active participants in the learning process. Instructional methods and material need to change as the environment changes. There should be an arrangement for continuous updating and improvement in the course material, the instructional methods and the continuing education programme. This I feel is an important task for the academic accountants so that the new generation of students are prepared for the twenty first century.

I would like to use this forum to mention that while the role of accounting is well recognised, professional accountants have a legal status, Institutes were set up for the professional accountants at the national level decades back, accounting has not been accorded its rightful status as a separate discipline in Indian universities. We as academic accountants must make a concerted effort, at all levels and in all forums, to achieve this objective. Apart from the post-graduate departments of accounting under the university system particularly focusing on research, schools of accounting should be set up on the pattern of management schools for the education and training of professional as well as academic accountants.

Research is essential in every discipline to expand the horizons of knowledge and accounting is no exception to this. While the value of research is well recognised the state of research in accounting in India is not very encouraging. As the coordination between industry and academic institutions is lacking most researches relate to financial accounting and analysis of financial statements. Emphasis on field study is lacking. Many important areas of accounting have remained unexplored. The research output in many cases is not upto the mark. The practical utility aspect of research is not adequately considered by the researchers in most cases. This should be an area of major concern for Indian Accounting Association in the times to come.

Environmental Accounting

Environmental degradation associated with economic development and population growth is visible in many places. The change in the quality of land, air, water as well as in the loss of flora and fauna make one concerned about such costs of development. This degradation of natural resources or the loss in the quality of environment imposes a burden on future generations. In the past, there has been reckless destruction of natural resources primarily due to lack of awareness.

For some years past, one finds a heartening awareness of the need to preserve environment. As we chart our course of development, there

is greater realisation that we need to make it sustainable and environmentally sound.

However, not much has been done in the direction of accounting for the use of natural resources. It has not been considered an essential aspect so far in the process of economic activity as the costs of environmental degradation and resource depletion have remained outside the profit and loss accounts of the firms. However, the effects have not remained outside the accounts of the society or the nation or the mankind.

Environmental accounting, therefore, is necessary to bring before people the reality and the consequences of their economic activities to highlight the environmental consideration in decision making to present before the policy makers the alternatives and shape their perception of desirable development. Accountants have not involved themselves in their area so far. But in the changing context they have to find answers to questions such as identification of economic activities affecting natural resources, measurement of the effect of their activities on national resources, their valuation, aggregation of the costs and development of an integrated economic and environmental accounting model.

Concluding Remarks

Friends, before I close, I would like to say something about Indian Accounting Association. It is now 27 years old and we are meeting here at its XX National Convention and in spite of all our efforts we could set up only 19 Branches and the membership of the Association is about 700. This primarily consists of teachers from universities and colleges. There is a strong need to spread the message of Indian Accounting Association far and wide, to cover all the States and all the universities in the country. We should make professional accountants interested in academic pursuit, enroll them as members, so that a truly representative and national character of our body may emerge. I would request the members of IAA representing different institutions and states to take up this task on priority.

Indian Journal of Accounting, the official organ of the body, has improved over the years in quality of content and invited complementary remarks from the academic fraternity in India and abroad. However, its readership is limited to the members of the Association. Continuing our efforts in the direction of maintaining and enriching the academic content of the Journal we have to take it to the libraries of all the colleges and universities in the country and abroad. We have only eleven institutions as members and subscribing to the Indian Journal of Accounting. I solicit the cooperation of the members to enroll more institutions as members of IAA.

I am confident that the distinguished intellectuals who have assembled here to fashion an agenda of enquiry and action to serve the business, the academics and the humanity at large through accounting will be able to map out a programme that will guide us as to the manner in which our world can be transformed for the better.

I end here with the eternal incantation :

Tamso Ma Jyotir Gamaya.

Asato Ma Sad Gamaya

Amrityorma Amritam Gamaya.

(Lead us from darkness to light

From untruth to truth

From death to immortality.)

Jai Hind.

K. R. Sharma

President

Indian Accounting Association

Professor, Chairman of Faculty and

Dean, College of Commerce &

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THE EFFECT OF INDUSTRIAL REVOLUTION AND INFORMATION AGE ON THE CHANGING ROLE OF PROFESSIONAL ACCOUNTANTS

*Mir Nazmul Karim **

The author discusses the impact of revolutionary changes on the accounting profession. According to him, for a sustained development of society, plans and strategies that emphasise the human resource development should be adopted. In this context, professional accountants of today have an important role to play.

1. Introduction

Modern business organisation depends heavily on financial data for its efficient operation. These data are supplied by the accounting system of the firm. Certain legal and regulatory provisions have made the services and expertise of professional accountants very vital for the accounting system and hence for the success of a business organisation. But the accounting profession has changed a lot under the influence of some revolutionary events in our economic and political life. The purpose of this paper is to examine the impact of these revolutionary changes on the accounting profession and suggest ways for its further development.

2. The Meaning and Significance of Some Revolutionary Events

Among all the revolutionary changes that have transformed our contemporary economic and social life, Industrial Revolution is a pivotal one. It originated and flourished in Great Britain and possessed all the favourable socio-economic and political institutions to support the development. It is known as the British Industrial Revolution. Professor Mathias ranks Britain as "the first industrial nation" as it became the only country on earth to provide the right type of environment to allow the revolution to take its root. Unlike the French Revolution, it was slow and spontaneous. The change never meant a break with the past and the forthcoming revolution drew its inspiration and forward vision from its own history, culture, tradition and economic institution. Notable writers and scientists like Francis Bacon, Boyle, Newton, James Watt, Arkwright and others have also made valuable contribution towards Industrial

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Revolution. Legal concepts like joint stock company with limited liability, mortgage, banking facility also paved the way for further growth of Industrial Revolution.

In the opinion of Finkelstein (1992), a reputed American political scientist, a second revolution took place in the U.S.A. which was quite different in nature than the earlier Industrial Revolution. It originated from the break-through in the field of communication (telephone), lighting and power (electronics and electric motor), entertainment (camera), consumer goods (retail marketing and advertising), transportation (automobile) and new material (aluminium, rubber, industrial chemical). These splendid inventions have further increased the scope for the growth of large-scale industry.

But man's relentless quest for development has not stopped there and has culminated into a very novel type of revolution e.g. Information Age which may be called *Third Revolution* contributed by computer and micro chips. This miracle chip, a key component of computer, represents a quantum leap in the field of technological development and has far surpassed the significance of invention of steam power or hand tools. Just as the Industrial Revolution freed man from physical labour and enhanced his efficiency and productivity, similarly the computer has relieved man from the drudgery of life. It has enabled man to take care of his daily activities in a much more faster and convenient manner (*Time Magazine*, 1978). But computer scientists are very apprehensive about its capability. They argue that in wrong hands, sophisticated computer can start subverting society by tampering with the people's relationship. Professor Weizen Baum observes, "A more greater danger lies in the fact that a computer will do what you tell it to do but they may be much different from what you had in mind."

Some social critics have voiced their concern about the adverse impact of computer and information technology on the overall social and economic life of modern society. They are of the view that if computers are allowed to become a common object like television sets, it may cause human intellectual power to atrophy.

While Industrial Revolution has standardised and stream-lined man's life, the micro computer having huge capacity can help man to design his life style according to his wishes. For example, now they can work at the home terminals instead of office, educate themselves in their chosen area of discipline, shop electronically with a wide margin of choice and so on... Sociologist Liposet thinks that by transferring a large part of work to machines, computers can help in establishing an egalitarian society based on Athenian Democracy. Athenians could become equals as they had slaves to do their work at home.

In view of revolutionary changes in information technology, we are now living in the age of "information super highway" which would enable every individual to acquire necessary data and information provided he or she has the ability and willingness to do so. Through the blessings of this technology, paperless office has emerged which needs the help of very few personnel. The corporate office now uses instead a complete set of telephone, fax machine and a computer which is then linked up with a communication satellite orbiting over the earth. As a result, now things can be taken care of in a much faster, precise and convenient manner. But even though the stakes of modern technology are very high, we cannot allow the same to dominate our social life since it would leave man without any purpose or destiny.

3. The Origin and Growth of Accounting as a Profession

With the growth of factory type of organisation, the need for accountant was keenly felt by the owners of industrial units. Professor Pollard (pp.246-51) traces the growth of accounting profession in three different stages namely *master and servant system*, *the counting house system* and *the mercantile system*. The master and servant system was based on stewardship of the servant towards his master i.e. landlord and it developed during the Tudor period in England. It mainly served the interest of the landed aristocracy. It was based on double entry system of book-keeping which showed all receipts in the debit side and all payments on the credit side. Its advantage was that it prevented embezzlement of fund by the staff. It gained wide popularity and was fully suited to the owners of real estate of that time.

The counting house system originated from the counting house of merchants and was probably the oldest and the most important one. It was also based on the principle of double entry. Through this system, it became possible to table the problems of the large-scale enterprise. This mercantile accounting system was developed to eliminate errors and fraud and establish the value of the business for renaissance, certain amount of accounting was developed but its field of application remained very limited.

The factory system of accounting which evolved in the later 18th century was pioneered by the factory owners, putting-out hosiers, clothiers and others. But until the end of 19th century, various concepts used in this system of accounting could not develop into a body of doctrine. In reality, there was no professional accountant and the entrepreneurs liked to maintain their own books of accounts. A very good idea regarding the status of accounting and the attitude of the management towards it can be obtained from the following observations of Pollard (1965, p. 271) :

----- the shortage of skilled staff even though frequently felt was not felt as a major or oppressive bottleneck and even to the extent of huge shortage of engineers and metal workers. In other words, employers were successful by and large with this quality of office staff as long as costs and others wages were paid, books kept in order and liquidity munitioned to meet the bills due. This in turn points to the fact that the notion of using accountants and other office staff was foreign to the entrepreneurs of the day. Among the many innovations and schemes of the age, the rationalisation of management through accounting was stirring but faintly.

The first real impetus to use management and accounting information in running an industrial enterprise efficiently was pioneered by Henry Fayol and F.W.Taylor who may rightly be called the father of scientific management. By the beginning of the century, the practice of preparing an annual accounting report was introduced by Alexander Wall. During the same period, accounting gained recognition as a profession and many regulatory bodies and professional institutions came up for its proper development. In England, The Institute of Chartered Accountants of England and Wales was set up under a Royal Charter on May 11, 1880. In course of time, similar institutions were set up in various countries of the world as per English model. With a view to ensuring the uniformity and comparability of the financial statements prepared in different countries, it was found necessary to prescribe some internationally acceptable standards.

Professional accountants are mainly responsible for preparing the financial statements according to Generally Accepted Accounting Principle (GAAP) and it must reflect the true and fair view about the financial position of a given business entity. It is also part of their duty to advise the management regarding the suitability of certain accounting principles applied.

Over the past few decades, accounting techniques are being increasingly used for management decision-making and has accordingly assumed the title of management accounting. Cost accounting, for instance, has gained some recognition in the late 1930's but the outbreak of World War II and imposition of price control measures have reestablished the need for full cost data. In the post-war era, the emergence of management accountant has further reaffirmed the usefulness of accounting and financial data in enhancing management quality and efficiency. The increased emphasis on planning and control has resulted in the formation of standard costing, budgeting, responsibility accounting, internal control measures, financial statement analysis and distribution cost analysis etc. Latest development in the field of electronic

data processing (EDP) has considerably facilitated task of preparing accounts and their analysis. As a result, the management accountants are now able to supply required information more quickly and thus solve a wide variety of business problems.

4. Impact of Information Technology on Accounting Profession

The foregoing revolutions have significantly influenced the accounting profession. Accounts can now be prepared in a much better and faster way with the help of personal computer. The need for large number of accounting staff has also been reduced. Thus, while automation and computer has made the task of accounts preparation much easier and faster, it has displaced a large number from their job and has given rise to serious unemployment problem. In this connection, Tomeski et. al (1978, p.73) observes as follows :

High unemployment, skill obsolescence and arbitrary barrier on employment and reward continues to be the major problem facing the industry and it indicates that both government and business are inadequately planning for the effective use of nation's human resources.

He regrets that computerised models that will aid in the analysis, understanding and solution of this large scale human dilemma are virtually non-existent because of a lack of commitment, financing and data. He further adds that both government and business has to make plans for best use of the available human resources. Rapid technological changes have also given rise to some peculiar problems. The employees might develop negative attitude since they view technological advancement as a threat to their social security and status.

Henry (1995, pp. 66-69) observes that under the influence of new technology, the business enterprises are becoming *flat* relationship between the organisation and market becoming *direct*, and the speed of operation is becoming *quick*. The company is also able to develop a *close* relationship with the community member and share their information and experience. Thus, the four pillars of information super highway are flat, direct, quick and close. The video voice and network techniques are substantially increasing the prospect of much closer interaction between them. He further adds as follows:

Put the four pillars together, watch their development for few years and you will find the realisation of Information Super Highway. The infocosm will change the face and pace of business more than anything since the industrial revolution. (Henry 1995, p. 72)

Computer may also be used for criminal purposes. For example, the management of a large insurance company used its computer to distort

financial record which deluded the shareholders for sometimes but ultimately it had to go into liquidation.

Under its evil impact, the society is losing its traditional form. Robert Reich (1994) argues that new ideas like technology and globalisation have created a two-tier society comprising privileged class and a much larger lower class who are poor and backward. The middle class is facing extinction. He cautions that if the loss of middle class continues any longer, this would invite a serious form of demagoguery. It has already given rise to a paradoxical situation in which learned, genius or so-called educated people are becoming paranoia and inflicting harm and destruction to the society.

How do the technological developments influence the changing role of the members of the accounting profession? If the accountant becomes too much intoxicated by the marvels of the modern technological advancement, he/she is bound to use the same for all types of manipulative purpose and thus contribute very little to the welfare and development of the society at large. Thus, the professional accountants have to reassess their position in the society and evolve ways and means of rectifying all types of controversy and conflict brought by modern information technology.

5. Impact of Information Age on Accounting Profession

With the rapid expansion of Information Super Highway, the professional accountants are becoming very vital for the overall welfare of modern society. They are in an advantageous position to help the management in providing the society with the quality goods and services at a competitive price. They can also help management in decision making through the techniques of cost-volume-profit analysis, cost reduction and cost control, standard costing, project planning etc.

The world is increasingly moving into an era where main emphasis is placed on new ideas like World Class Manufacturing (WCM). Under its influence, tomorrow's company will invest money on automation and advanced manufacturing technology (ATM). Under Just in Time (JIT) concept which is a part of WCM, there will be no need for lead time and stock control and thus lead to lower wastage. The future accountants must acquaint themselves with changing cost pattern and behaviour, standard costing, capital investment decision, activity based cost management, business re-engineering, bench marking, strategic management accounting. Professor Birkett carried out research to find out the manner in which the functions of management accountants have changed during the period (1989-94) and the finding was very interesting. A follow-up study was also conducted by The Australian Centre for Management Accountant Development on behalf of Management Accounting Centre of Excellence of Australian Society of Certified Public

Accountants (AICPA). Some of the tasks associated with management accounting as revealed by the study are : (a) Participation in resource related direction setting of an organisation (e.g. strategy formulation, business planning, operational decision making); (b) Support of organisational change plan; (c) Contribution to the design, implementation and review of performance measurement and control; (d) Contribution to the development of performance based financial information system.

While highlighting the vital role of the professional accountants in the context of information age, Professor Talukdar observes that professional accountants have to focus on a number of factors including enterprise, efficiency, quality, objectivity, ethical standards and so on. He goes on to add that they must be able to master quickly the information technology. Within the boundary of legal requirement, they have to collect, interpret and disseminate accounting and financial data so that the society at large is benefited. For example, the disclosure principle in accounting assumes that the professional accountants will portray " the true and fair status of an enterprise" at a given date. To keep themselves above all sorts of controversy, the professional accountants have to identify and adhere strictly to established accounting principles and standards. Pointing towards the need for using some ethical standards while performing the vital functions of a management accountant, Professor Talukdar observes further as follows :

Without raising the issue of ethical standards, the professionals must "call a spade a spade". Let them most accept pilferage as a system loss, inefficiency as a compromise, non-payment of bank loan as a default culture or corruption as a transaction cost (p. 26).

By following stringent professional standards and ethics, the professional accountants would be able to earn the trust and respect of both the entrepreneurs and ordinary investors.

The ensuing 21st century which is only a couple of years ahead is filled with immense opportunities and threat. To derive the best result under such dynamic environment, the professional accountants must acquire necessary skill and expertise to deliver the best advice and services to every member of the society. It must be remembered that the term management accountant with which we are familiar would eventually become obsolete and after dropping the "accounting" tag, it would be known as control and management information. The statistical and numeric skill of today's management accountant will be utilised tomorrow for statistical control and trend analysis, complex modeling and forecasting by taking into account the external factors and information will replace the present form of budget preparation. The traditional system of accounting will disappear and realtime system will be there.

In such a period, the wheels of development may not run in the right path simply with the help of traditional services and functions. The order

of the day will create demand for non-traditional high skill techno-based services and functions which the professional accountants alone would be able to provide effectively and economically. Some of the non-traditional services and functions as may be provided by the management accountants are : (a) system design and implementation; (b) business management and corporate secretarial service; (c) advice on application of information technology and allied services; (d) project management; (e) portfolio management; (f) advice on capital market activity and development; (g) fund management; (h) business valuation; (i) human resource management.

The degree of uncertainty about the future is increasing day by day and, as a result, business is becoming a complex one. In such a case, professionals have to equip themselves with the most modern knowledge and ideas and thus be prepared to face the challenge effectively. For example, we are very much familiar with the cost plus approach of pricing a product. But this has changed and now price is dictated by the prevailing market condition. The profit has to be considered in the terms of the firm's long-term strategy i.e the target cost is equal to selling price minus profit margin. The management's duty is to design the product or process to fit the target cost. The management accountant's task is to assist management in such cases. The ultimate success of a business or industrial organisation now very much hinges on overall competitive power and calibre of management. Economic use of resources as per well-defined strategic planning is a precondition for attaining desired economic progress. To ensure this type of performance, the professional must be given the opportunity in playing their due role in the process of economic activity.

6. Conclusion

The above discussion makes it quite apparent that the industrial revolutions have changed our social and economic life significantly. It has made it possible to enjoy all the amenities and services of modern technology such as automobile, cellular phones, computer, wide-screen T.V. sets etc. At the same time, It has created some serious problems such as environmental pollution, global warming, rising auto accidents and increased incidents of mental and nervous disorder, tension, occupational stress, insomnia etc. These problems have become acute.

It has also brought about a radical change in our attitude, notion, logic, value system etc. The old maxim that plain living and high thinking should be the motto of life are gradually losing its validity. Now every individual including the accountants believe that in order to prosper in life, one has to give up his ethics, traditional values, logic and above all patriotism. The accountants and auditors are now facing serious dilemma as to whether they should adhere to their professional ethics or turn into a pawn in the hands of the business leaders, politicians and bureaucrats.

Now-a-days, it has become customary to divide countries into two groups e.g. information poor and information rich countries. As compared to the information rich countries, the poor ones are suffering due to segregation of the global community on the basis of wealth. The professional accountants of these countries have to strive a lot to prove their utility to the society.

Van Dam (1978, pp.3-6) has identified four areas e.g. employment, technology, advertising and corporate profit in which management has to take a fresh look and change their views on the same. With this change in management philosophy, the accountants in general and CPAs in particular have to reassess their usefulness in a business enterprise. Since accounting discipline was developed to cater to the needs of the management, it should be the aim of the professional accountants to help the management with greater enthusiasm and missionary zeal.

It has also been observed that latest technology like computer has given rise to conflict between man and his environment. In order to reconcile these conflicts and sustain the benefits of the modern technologies, appropriate plans and strategies must be formulated without any further delay. While laying due emphasis on the urgency of taking such an attempt, Tomeski (p.74) quotes noted psychologist Eric Fromm as follows:

Computer should become a functional part of life-oriented social system and not a cancer which begins to play havoc and eventually kills the system. Computers and machines should become means for ends which are determined by man's reasons and will. The values which determine the selection of facts and influences the programming of the computer must be acquired on the basis of knowledge of human nature, its various manifestations, its optimal form of development and its real needs conducive to their development. That is to say man not machines must become the ultimate source of values, optimal human development and not maximal production should become the criteria for all planning.

Thus, for a sustained development of society, all necessary plans and strategies must be adopted with a special emphasis on the human resource development. The only available option before us is the adaptation and timely implementation of such plans which can help in bridging the widening gap between man and his environment. The professional accountants must play their due role in furthering the greater cause of humanity and do everything possible to ensure equity and justice to every member of the society irrespective of caste, creed or colour.

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ANCIENT INDIAN TAXATION SYSTEMS : NEED FOR THOROUGH EXPLORATION

*C. L. Salvi **

G. Soral[†]

The authors briefly discuss the guidelines and principles laid down in the ancient Indian literature for imposing taxes and argue that there is a strong case for thorough research on the subject to unravel precious knowledge from the ancient Indian literature.

Taxation systems were in existence in India since ancient times. In the Rig-veda, King Nahusha is mentioned to have collected taxes from his subjects.¹ The people as mentioned in the Kautiliya Arthashastra themselves made it that King Nahusha would get sixth part of food grains, tenth part of salable goods and cash amount from the people as taxes². An analytical study of the ancient Indian Niti Granthas which besides the Vedas and the Kautiliya Arthashastra includes Shukraniti, the Mahabharata Smritis, Dharmasutras etc reveal several aspects of taxations systems in ancient India. The present paper is a humble attempt to summarise the findings of initial research attempts to explore the ancient Indian taxation systems. Such findings may be classified under the following heads for clarity.

1. Guidelines and Principles for Imposing Taxes

Several guidelines and principles have been laid down in the ancient Indian literature for imposing taxes. It is mentioned that as the Sun collects water through its rays without troubling the inhabitants³ or like honey is collected without disturbing bees⁴, so should the king behave to collect taxes. The king should assess the income position, provide safety and security to the public and then charge taxes.⁵ While imposing taxes on traders, as mentioned further in the Mahabharata, the king ought to consider purchases and sales in the kingdom, expenses on carriage of goods, salaries of servants total value, savings, expenses on welfare and livelihood etc.⁶ To decide taxes on sculptors, the production and consumption of goods and grades of sculptors be taken into account.⁷

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Kautiliya lays down several principles of guidelines for taxation. According to the Kautiliya Arthashastra⁸, tax should be imposed only on the trade of industry attaining maturity. On major industrial and business units, taxes should be imposed to keep them controlled against exploitation. It is further recommended not to charge taxes on import of manufacture of items scarcely available in the kingdom or which are of strategic importance.

2. Tax Administration

In the Kautiliya Arthashastra, the king has been advised to supervise the tax department in fourth part of the day.⁹ Further, it is mentioned that if additional taxes were required to be imposed due to additional revenue requirement, the king had to refer the matter to public representatives (Paura-Janpadas) and could not have imposed the taxes on his own.¹⁰ This indicates a democratic set-up for tax administration in ancient India.

3. Types of Taxes

A large variety of taxes appears to have been existing in ancient India.¹¹ This includes tax on agricultural yield, animal husbandry, money lending, on products like honey, ghee, sandal wood, meat, skin, medicine-plants, fruits, roots (like Turmeric), leaves, vegetable, grass, bamboo, earthen and stone-items etc.¹² While taxes on sales¹³ and profit¹⁴ have been there, different rates of tax¹⁵ on items manufactured within the kingdom and those coming from outside the kingdom have been recommended. The masons, wood-cutters, sailors etc. were required to work for the king for one day in a month free-of-charge.¹⁶ Similarly, traders were required to sell one item at low rates to the king.¹⁷ Further there are instances of toll-tax, tax on minerals etc.¹⁸ Even the saints and the like, who were dependent for their income sources on others, were also taxed (e.g. Unchhav Vritti Kar).¹⁹

4. Tax Exemptions

Instances of various forms of tax exemptions are available in the ancient Indian literature. For example, in the following cases, tax holiday was recommended /available²⁰ :

- (i) On construction of barrage or tank : for five years.
- (ii) On reconstruction of barrage or tank : for four years.
- (iii) On additional construction on already existing barrage or tank : for three years.
- (iv) On cultivation of barren land : till the time earnings double than the expenditure do not result.

Examples of items exempt from tax are as follows :

Articles related with wedding, marriage gifts; articles used in worship, yagna, child-delivery, upnayana and other sanskaras etc.²¹; goods carried on shoulders, property of actors etc.

Certain persons such as learned Brahmins, minor children, ambassadors, patients, students of Gurukuls, ladies of all castes, physically handicapped persons, persons aged above 70 years were exempt from tax.²²

5. Duties of Tax Collector

The tax collector, that is the king, has been considered directly responsible for the public and its deeds. As mentioned, the king charging taxes without protecting goes to hell.²³ Further, one-half results of the deeds (Karmas) of wicked persons and falsifiers (Mithyacharis) in the kingdom are shared by the king. Also, one-fourth of good deeds (Dharmacharana) of public goes to the credit of the king.²⁴

6. Conclusion

Above instances of ancient Indian taxation systems reveal that it was a well-thought-about, developed and comprehensive system. Thus, there is a strong case for thorough research on the subject to unravel precious knowledge which is the heritage of this great country.

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ACCOUNTING AND DISCLOSURE NORMS FOR MULTINATIONAL COMPANIES

*B. Charumathi **

This paper deals with the emergence of MNCs and problems faced by them such as accounting practices, consolidated financial statements, adjustment for changes in price level, foreign exchange transactions, transfer pricing and compliance of audit standards. The uncontrollable and controllable factors affecting foreign financial reporting are also discussed. The paper emphasises the need for uniformity in international accounting through the devices like international financial statements and international accounting standards.

Introduction

Accounting is most pragmatic of business arts. It plays an important role in the economic development of modern world. It received increased attention in the USA with the growth of its economic power and it was recognised as an independent discipline on university campuses.¹ With the growth of international business, accounting has also assumed international dimensions. Accounting system, methods and practices have grown to meet the requirements of expanding international trade and operations of large MNCs.² The accounting information should be reliable and meaningful for users in other countries so that a smooth flow of international trade and investment can be generated.³ Thus, while the true character of accounting is international, due to differences in social, economic, political and legal environment, accounting practices vary from country to country.⁴ With multinational similarity in perception, however, diversity exists in accounting practices the world over.

Emergence of MNCs

An MNC carries on operations in more than one country through a network of branches, divisions, joint ventures and subsidiaries.⁵ These companies get scarce raw materials and capital from countries where they are available in abundance, manufacture their products in countries where wages and other operating costs are lowest and sell their products in countries where they are in great demand. Adaptability to local

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conditions and ability and willingness to shift resources worldwide have contributed to their success.

Business operations of MNCs raise a number of unique management and accounting problems. The MNCs while operating in different countries meet with many unique management problems. For instance, they are required to adjust their operations to local laws and regulations, not allowed free access to local resources and markets, discriminated against vis-a-vis national companies and even not permitted to enter certain areas of trade and industry. Industrial licences are given after a great deal of scrutiny. Then, there is always a sword of nationalisation hanging over them. Governments become suspicious and sceptical about their operations due to political and ideological reasons.^{*6}

The profits of MNCs are subjected to multiple taxation. In some of the countries, these are subjected to differential taxes. Languages also act as barriers at times. It is difficult to find competent people with proficiency in more than one international language, particularly in developing countries. MNCs also experience difficulty in transfer of funds from one country to another. Finances from local sources are difficult to raise. The requirements of international financial institutions are stringent. Restrictions are imposed by governments on repatriation of capital and profits. All these operating constraints raise a number of accounting problems.

Problems Faced

The following are the important challenges that emerge in the accounting by MNCs :

1. Accounting Practices

MNCs while operating in more than one country are subjected to not only multiple legal jurisdiction but also have to observe accounting practices of all these countries. There is no internationally standardised terminology of accounting. The words, phrases and classifications differ from country to country. For instance, even the items given on right and left sides of balance sheets are different in the U.S.A. and the Commonwealth countries. Differences in accounting standards and practices require recasting of financial statements from one set of applied accounting practices and procedures to another set. Further, the MNCs are to adopt multiple reporting practices.^{*7} For instance, every subsidiary company has firstly to report as per the locally accepted accounting practices and laws to the local authorities and then at the same time to report as per the reporting practices and laws of the parent company for consolidated financial report and investment control.

2. Consolidated Financial Statements

Preparation of consolidated financial statements incorporating details of equity, debt, funds and assets of parent company and its foreign subsidiaries and branches require translation of monetary results of all these foreign entities in terms of single currency. Such a translation creates problems similar to those in the valuation of inventory during periods of price fluctuations, i.e., selection of appropriate method, currency exchange rates, etc.⁸ Location, ownership, interest stability of currency, etc., influence the choice. Since the corporate bodies are creatures of law, while for subsidiary currency of the country of incorporation is the obvious choice, for consolidation of statements currency of parent company of some other international currency or stable currency is adopted.

The rates of currency exchange in international money market are seldom stable. These rates change in response to the complex forces of demand and supply. Fluctuations in exchange rates raise two major issues, viz., choice of currency rates for translating foreign currency balances to domestic currency and treatment of translation gains and losses. While making a choice of method of translation and treatment of gains and losses the accountants are guided by the objective of translation and also the circumstances underlying these translations.

3. Adjustment for Changes in Price Level

One of the important objectives of accounting is interperiod comparison of performance. However, as the value of money does not remain stable at all places and during all times, difficulties arise in such a comparison. Price inflation is a worldwide phenomenon, while the rate of change may not be uniform all over. Thus, presentation in comparative form of financial accounting information for MNCs operating in different countries become difficult. There is no internationally accepted and simple method of such presentations. This throws in bolder relief the need for developing suitable price indices and methodology for adjustment of price level changes in the statements of MNCs.

4. Foreign Exchange Transactions

International transactions are related with transfer of goods, services, funds and profits in terms of foreign currency. Naturally, their settlement requires dealings in foreign currencies. In most of the countries currencies of foreign countries are treated as commodity or money market instruments. Foreign currencies are bought and sold by international banking departments of commercial banks on behalf of their multinational clients as well as their own behalf. While recording these transactions,

multinational enterprises are faced with difficulty as there are no standard accounting practices.⁹

5. *Transfer Pricing*

Larger MNCs deal in a variety of items. Sometimes these companies manufacture some of the parts and sub-assemblies for their products through subsidiary and associated companies in different countries for finally assembling it in one country. This is done with a view to achieving the benefit of specialisation and large scale production. This brings in the problem of transfer pricing. Determination of transfer price is essential in decisions regarding make or buy, scale of production, investment in different product lines, etc. In spite of all the adaptive mechanism employed by these companies pricing transfer of resources, service and technology between different affiliates has remained most flexible and also irksome. Tax and tariff rates, competition, inflation rates, currency values, restrictions on fund transfers and political risks further complicate transfer pricing decisions tremendously.

The determination of transfer price can be on the basis of market price, cost price, standard price or negotiated price. Theoretically, market price is considered objective and more satisfactory. However, in the case of MNCs, the price is mostly determined on cost plus basis or negotiated basis. The MNCs are accused of misusing the transfer pricing mechanism for clandestine transfer of funds from one country to another. This is not only illegal but also unethical. The basis of price determination should be fair and reasonable and should not affect the profitability and efficiency of individual entities adversely. Evolving such a mechanism is yet another challenge for accounting.

6. *Compliance with Audit Standards*

Like accounting practices and standards, there are no internationally accepted auditing standards and practices. The standards and requirements of audit, statutory or otherwise, differ from country to country.¹⁰ Under the circumstances, while satisfying the statutory requirements of individual countries, MNCs cannot be sure of satisfying the requirements of all the countries they operate in. In view of the above, definite guidelines should be evolved by the International Federation of Accountants for the auditors of these companies and minimum requirements to be observed in all cases should also be prescribed.

Factors Affecting Foreign Financial Reporting

Executives of MNCs always concentrate on the search for new markets, cheaper natural resources and cheaper sources of materials and labour. Plans are often made to expand outside the country into

areas that offer growth opportunities, investment incentives, less expensive natural resources and more recently protection against the inflating parent country currency.

While evaluating a prospective investment in a foreign country, the executive will be relying on locally prepared financial statements to assess the financial conditions of the foreign operations and judge the continuing performance of the entity. What may or may not be evident is that such financial statements can differ in many respects from what one would normally expect to see in their own countries. In addition, the information can be subject to a variety of requirements, both similar and dissimilar, to those of their country. While many of the differences and requirements are not completely controllable by management, they should at least be understood so that preplanning can be made to minimise their effects. In contrast, there are a number of operational factors under management's control that have a direct effect on the quality, timeliness and reliability of the financial data issued by the foreign entity. When interpreting foreign financial statements and making decisions based thereon, the executive of MNCs should be alert to both the fixed requirements and the controllable factors that enter into the preparation of such financial statements.¹¹

Uncontrollable Factors

1. Generally Accepted Accounting Principles

Accounting principles and the underlying assumptions on which financial statements are prepared are uniform in one country. However, the reader of foreign financial statements should be aware of what is considered "generally accepted" in a particular country since the use of different principles can substantially affect the comparability and overall understanding of financial statements. For example, a common area where principles differ is accounting for income taxes. Germany and Austria are among the countries that do not account for income taxes using comprehensive inter-period allocation principles. These principles require, among other things, the presentation of liabilities for deferred taxes.

2. Ownership Requirements

A wholly-owned subsidiary is a common structural device in multinational corporations; in many foreign countries, however, local ownership participation is required. The form and extent of the limitations on outside control vary. For example, Swiss companies are governed by cantonal (regional) laws that permit free investment by foreigners, yet 51 per cent Swiss ownership is required for mining enterprises. Required third party ownerships may or may not be evident in the financial

information presented and the executive should understand the effect these participations may have.

3. *Filing Requirements*

Many foreign countries have statutes requiring periodic financial reporting. Generally, such reports must be audited locally. The audit requirement can range from a simple signature by a local individual auditor (who may not be required to perform a full scale audit) to requirements for complete audit in accordance with locally accepted auditing standards. Regardless of whether an audit requirement exists, the executive should evaluate the extent and effectiveness of the statutory audit before making a judgment on the overall fairness and reliability of the financial statements.

When reading and interpreting statutory reports, one should be particularly alert to differences in application of accounting principles because the statutory report, unlike financials for company use only, must conform to local accounting conventions and are always represented in the home currency.

4. *Accumulated Earnings, Dividends and Remittance Restrictions*

Many foreign financial statements will disclose in the equity section of the balance sheet that a stipulated amount of the local company's retained earnings has been appropriated. This appropriation is generally based on a predetermined percentage set by local regulations. This restriction may or may not be evident from the presentation, but management should be alert to it because dividends cannot be paid from these amounts.

Another common restriction not evident in reading the financial statements is the requirement for a company to maintain a minimum equity such that operating losses not offset by prior year's earnings must be restored by contributions from the owners. This is often accomplished through a formal agreement by the parent company to subordinate a portion of debts owed by the foreign subsidiary.

The control of offshore dividends and restrictions on funds remittances are common. In countries such as Colombia, Chile and the Philippines, returns on external investments are strictly limited via controls on funds transfers. Management is best advised to carefully preplan the parent-subsidiary pricing, dividends and other structures in countries where dividends and capital repatriation and funds transfers are limited.

The most commonly used device for restructuring the outflow of equity from foreign companies is usually not evident from the financial statements, but exists instead in the prevailing tax laws. Most countries impose a

withholding tax on dividend remittance. Foreign jurisdictions are becoming increasingly sensitive to alleged "hidden" dividends that parent companies build into management or technical service fees. Careful tax and dividend policy planning is paramount in starting or expanding foreign operations to maximise the tax benefits both in the local country and in the foreign country.

5. Tax Requirements

Every country has a unique compilation of tax laws that must be carefully studied by management before operational decisions can be made. Many decisions, such as those relating to bringing money into the country from foreign countries, have the parent country's tax implications that must be evaluated.

Interpreting the financial results of foreign operations can vary from country to country since tax laws are inconsistent. An important aspect of financial statement presentation is the disclosure of tax contingencies material to a local entity. In practice, possible exposures to tax adjustments are rarely disclosed since the field reports would only red-line a course of action for the local examiner. In most countries, an acquirer is compelled to purchase an entire entity rather than assets only. All tax liabilities, actual and contingent, are therefore assumed. Accordingly, a buyer, through inquiry and appropriate fact gathering, should become aware of the issuance of any underlying tax that may surface in the future and evaluate existing or planned activities giving rise to the contingencies.

6. Other Factors

In addition to these accounting differences and local requirements, other aspects about which management should be alert to and plan for include requirements for employee social charges; retired severance pay; requirements under union contracts; wage and price control considerations; warranty and patent law considerations; and requirements for government contracting.

Controllable Factors

A newly acquired foreign operation will have an established system of financial and operational controls that form the basis for the preparation of the local financial statements. Soon after the acquisition the executive must evaluate the relative strengths and weaknesses of these underlying systems as well as those of the people administering the systems. Decisions affecting these systems will have a direct impact on the quality, timeliness and usefulness of the locally prepared financial statements. Some of the factors management can control include the following :

1. Human Resources and Talents

Regardless of top management's ultimate philosophy every organisation works towards the goal of placing the most appropriate people in decision-making positions. The quality of financial data depends to a large extent on the quality of people preparing it. While choosing the personnel to manage and administer the financial areas of a foreign location, the financial executive must make a cost-benefit decision : What must the company pay for its financial personnel to obtain reliable and timely information ?

The strength required of the local financial management will depend on many factors, including size of operation, complexity of the transactions, liquidity of the assets, and language requirements. The local pool of talent will, however, vary substantially from country to country. Many areas of the world, including developing nations, may not have the ready resources for as high a level financial manager as other parts of the world. In addition, the underlying financial psychology of a country must be considered while selecting an individual who will take financial control of an operation. Integrity will vary among individuals and compensations must be made.

Another important factor to consider in selecting and/or evaluating top financial officers is the local language requirement. It must be decided whether the local financial officer should be bilingual, multilingual or strong in the local language with only a working knowledge of English or vice versa.

2. Systems of Internal Control

The reliability of the foreign financial statements depends to a large extent upon the depth and quality of the systems of internal accounting and administrative controls. Management's philosophy as to the extent of controls to be implemented at a foreign location depends for the most part on a cost-benefit consideration. Management's decision will be affected by factors such as size of operations, liquidity of assets and corporate and local reporting requirements.

Uniformity in International Accounts

There are many ways by which uniformity in international accounting can be brought. The most important three devices are : 1. International financial statements; 2. International accounting standards; and 3. International auditing practices.

1. International Financial Statements

The increasing number of MNCs and international investments and competition among banks all over the world have necessitated the urgency

of accounting information to travel internationally in a larger measure. Hence, the need for international financial statements emerged. To meet the above requirements, four types of financial statements are generally prepared in international setting. They are :

- (i) financial statements for ordinary commercial and financial use;
- (ii) statutory financial statements;
- (iii) financial statements prepared in accordance with prevailing laws; and
- (iv) consolidated financial statements (Income Statement and Balance Sheet)

Income statements and balance sheets are very important financial statements in all the countries. However, there are differences in phraseology only. Income statements appear under a host of different titles, such as "Profit and Loss Statement", "Income and Expense Account", "Periodic Earnings Report", "Statement of Operating Result", "Business Income Statement"; etc. Balance sheet basically report the assets of an entity and existing claims against these assets as on a given date.

Differences are not limited to terminologies and accounting standards only. These are also spread to disclosure in financial reports. These differences can be stated in brief as follows :

- (1) In the U.S., Japan and Western countries financial statements disclose all important facts while there is extreme conciseness in the financial statements of some countries, viz., Swiss and British. Their income statements do not exceed six lines in length and they even do not contain information regarding sales and cost of sales. This is certainly not conducive to meaningful financial disclosure.
- (2) Notes to financial statements are quite common in the USA although there is no such legal or administrative requirement. Contrary to this, there are countries where notes to financial statements are rare. Germany provides a fine example in this regard.
- (3) In the U.K. and South America, there are precedents that certain accounting information are reported not in basic financial statements but in other reports such as chairman's speech or board of directors' report, etc. These are then considered financial statement disclosures.
- (4) Financial statements in Germany have a form of "built in" disclosure. There, it is usual practice to show all movements in long-term assets accounts directly in the balance sheet. Purchase of new asset, replacement of old asset and provision for current period's depreciation are all shown in the balance sheet for each major class of long term assets. In the U.S.A. such information would be given as

footnote while in Argentina it would appear in supplementary financial statements.

- (5) Finally, disclosure of certain equity viz., certain purchase commitments, obligations on discounted receivables, number of guarantees and warranties, etc., is made under Scandinavian reporting system while in other countries such disclosure is not made at all.

However, the importance of good disclosure cannot be undermined particularly at global level. Although good accounting system may not need such disclosure at national level but internationally both good accounting as well as good disclosure are indispensable. Hence, it is necessary that a sound and uniform presentation and reporting system of financial statements should be developed at global level.

2. International Accounting Standards

Rapid expansion of international trade has compelled the business firms to make their accounts in such a manner that it can be easily compared with the accounts of other countries. To have a harmony in accounting practices at the international level, international accounting standards have been developed. In 1973 International Accounting Standards Committee (IASC) was formed. The Council of the ICAI recognising the need to harmonise the diverse accounting practices and policies at present in use in India and to integrate them with the international standards, established Accounting Standards Board in 1977. While formulating accounting standards in India, ASB gives due consideration to international accounting standards issued by the IASC and attempts to integrate them to the extent possible in the light of conditions and practices prevailing in India. IASC has framed international accounting standards. So far, it has issued 31 accounting standards. Primarily based on the relevant international standards, ASB of ICAI has issued 15 accounting standards at different stages since 1979. Except valuation of inventories (AS-2) and changes in financial position (AS-3) all other standards have been made mandatory. But among different countries, both developed and developing, the practices with respect to compliance with international standards vary considerably.

There is no denying that the release of international accounting standards in addition to heightening the awareness of the problem has also narrowed the differences in international accounting practices and reporting. While the progress should be duly acknowledged, one could, however, still point out that on certain important issues the standards have given their stamp of approval on more than one practice thus perpetuating the very problem they were destined to solve.

Legal and practical difficulties in the implementation of IASs is an important issue which needs attention of all concerned. In spite of certain loopholes, legal and other hindrances in adoption, the utility of IASs should not be underestimated. It is only these standards which can bring uniformity in international financial statements and thus make them more useful. Further, one should not forget that it is just the beginning in the right direction and not the end. Continuous efforts should be made until the objective of having one approved procedure on every issue is achieved.

Conclusion

The MNCs are international institutions. They optimise their operations by obtaining and utilising resources from different countries as per their availability, convenience and requirement. Their operations are sustained by national governments and also international institutions. The international ownership and investment in these enterprises creates many accounting problems. There is at present a strong international effort towards formulation of accounting standards and secure their widest acceptance through various international bodies like IASC, IAAER, World Bank, etc. Significant progress has been made in this direction. However, much more remains to be done particularly in the context of the accounting problems of multinational corporations. It is high time these problems of multinational corporations are discussed in international forums and suitable solutions are arrived at so that maximum operational efficiency may be ensured in the operation and working of MNCs.

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INDIAN ACCOUNTING REVIEW

(Vol. I No. 1, June 1997)

The Indian Accounting Review (IAR), sponsored by Indian Accounting Association Research Foundation, is a bi-annual Research Journal published in June and December respectively. It is a refereed international journal.

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RESPONSIBILITY ACCOUNTING—A CONCEPTUAL FRAMEWORK

Satish Kumar Soni *

Kulwant Pathania †

The authors sketch the conceptual framework of responsibility accounting (RA). They recommend the adoption of RA because it will arrest the "passing of the buck" tendencies in the organisation in respect of taking responsibility for the incurrence of costs.

Introduction

With the very inception of the idea of philanthropy, businessmen accepted some responsibilities towards the society. But the philanthropic attitude of business people has been markedly observed since two to three decades, although the initial motivation may possibly had come from the scare of communism; a number of socio-political movements have made social responsibility of business a pragmatic and down to earth matter affecting the day-to-day work of most of the people. These socio-political movements may be regarded as consumerism, civil rights, environment protection, and lately conservation. To make this concept more acceptable, Sacchar Committee in August 1978, recognised the need of social responsibility in the following words : "In the environment of modern economic development, corporate sector no longer functions in isolation. If the pleas of companies are that they are performing a social purpose in the development of the country is to be accepted, it can only be judged by the test of social responsiveness shown to the needs of the community by the companies. The company must behave and function as a responsible member of the society just like any other individual. It cannot shun moral values nor can it ignore actual compulsions..... A profit is still a necessary part of the total picture but it is not primary purpose. The company must accept its obligations to be socially responsible and to work for the larger benefits of the community".¹

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The systems of costing, like standard costing and budgetary control, are useful to management for controlling the costs. Responsibility accounting is a technique which establishes relationship between both planning and controlling to assigned responsibilities. As stated by Welsch, planning is a function of historical information mainly produced by the accounting system whereas control involves measurement of actual results against objectives, goals and plans. Responsibility accounting combines the two by designing the accounting system according to the responsibility structure of the organisation. It fixes organisation at responsibilities for profit planning and control. Planning and control of cost and revenue receive greater emphasis in responsibility accounting than mere ascertainment of product cost.²

Along with costs, revenues are also assigned to the individuals in charge of responsibility centres, in another definition which is as follows : "Responsibility Accounting is a system of accounting that recognises various responsibility centres throughout the organisation and that reflects plans and actions of each of these centres by assigning a particular revenues and costs to one having pertinent responsibility".³ Putting this matter in another way all deviations from either standard costs or budgeted costs are identified with the person in charge of responsibility centre. The 'report card' prepared in respect of each responsibility centre will inform the manager in-charge and his superior about the performance in terms of costs and profits. The idea behind the reporting is to find out the activity of a person who requires help or assistance with which he can take part in the effective utilisation of scarce resources in an organisation.⁴ According to David Fanning, responsibility accounting is a system or mechanism for controlling the wider freedom of action that executives - decision centre-managers in other words - are given by senior management and for holding those executives responsible for the consequences of their decision.⁵ In the light of these definitions the concept of responsibility accounting may look familiar as it is not far off from the existing cost control techniques.

The broad classification of accounting envisages two different purposes. The purpose of financial accounting is mainly to satisfy the needs of people who are outside the organisation. The purpose of managerial accounting is mainly to help the managers within the organisation. All items covered by managerial accounting in one way or other serve management generally for increasing the profitability⁶. To realise this objective, responsibility accounting discloses who are the persons responsible for improving or otherwise of profitability as planned in the organisation.

Steps Involved in Responsibility Accounting

Step No.	Nature of Step	Action
1st	Responsibility centres	Classification of managerial responsibilities (through departments) at every level in the organisation
2nd	Establishment of budget	Prepare budget for each responsibility centre
3rd	Classification of cost	Classify costs into controllable and uncontrollable groups
4th	Creation of responsibility and delegation of authority	Variable costs are charged to responsibility centres and controlled by their managers as against the fixed costs which are charged to the responsibility centres and controlled only when such costs are influenced by managers.

A responsibility centre is the extension of the concept of 'cost centre' on personalized responsibility. The responsibility is undertaken by and/or assigned to a person holding a particular office which normally has a number of cost centres in it. A cost centre is a specified area of an activity for which it is desired to accumulate cost data, usually a department of an undertaking, but one department is further divided in a number of separate cost centres.

A responsibility centre, thus, is a combination of cost centres which are created for the purposes of cost control whenever management feels that the usefulness of accumulating costs for an activity justifies the necessary efforts.

The purpose of assigning costs to responsibility centres is to permit cost control which can only be achieved by personalizing responsibility for costs in departmental heads and supervisory staff. In contrast, the purpose of accumulating costs by cost centres is to charge each unit of product passing through that centre with a portion of the centre's costs.

Thus, the approach to the responsibility accounting is not against the established principles of conventional accounting, though there is a difference of emphasis. In the conventional accounting, the product costing accumulates the cost to ascertain cost of production, the responsibility accounting emphasises cost control on the basis of who is responsible for costs.

Principles of Responsibility Accounting

Principles are those fundamental rules which guide the management in formulating the policies :

1. Responsibility centres (decision units) within an organisation are identified.
2. For each responsibility centre, the extent of responsibility is defined.
3. Controllable and non-controllable activities at various levels of responsibility are specified.
4. Accounting system to accumulate information by areas of responsibility is specified.
5. Performance reports are prepared to provide information to those who will use them.

The responsibility accounting system of an enterprise is related to its organisation structure. It integrates accounting, budgeting and reporting techniques. Costs need to accumulate for control purposes as well as for determining costs of goods and services. However, there is a need to emphasise responsibility accounting over product costing. Responsibility accounting is an information system. It reports information on actual and planned performance, with variances, to managers at a time when they need for effective control and improved future performance.

Requirements of Effective Responsibility Accounting

Responsibility accounting can be used by all kinds of businesses — small or large, private or public, manufacturing or non-manufacturing. However, it can succeed only when an enterprise is prepared for it. It needs an attitudinal change and a well-knit organization. If the philosophy underlying responsibility accounting is not acceptable to executive and operating managers, responsibility accounting is bound to be ineffective. Responsibility accounting provides a means of control; it cannot control. Control is a personalized affair; people control, not the reports. A positive attitude, therefore, is necessary for the success of a control system such as responsibility accounting.⁸

The following are some of the important requirements of an effective responsibility accounting system :

1. A sound organization structure with strictly defined authority and responsibility should exist.
2. The organization should be divided into units, i.e., responsibility centres should be created.
3. Accurate and acceptable budgets with full participation of concerned managers should be developed.

4. Responsibility accounting should have top management support.
5. It should be supported and understood by managers.
6. A healthy organizational environment and progressive management attitude should exist.

Controllable Vs. Uncontrollable Costs

Controllable costs are those costs that can be directly regulated by a given individual within a specified time period. The division between controllable and uncontrollable costs is essential in fixing responsibility, thereby measuring efficiency and securing co-operation of manager at all levels.

Hence, responsibility accounting attempts at cost control of inputs and revenue control of outputs through managers to whom such responsibilities have been assigned in the organisation.

It is necessary to lay down the procedure so that personnel responsible at the responsibility centre is assigned those costs over which he has sole control.⁹

For each responsibility centre costs should be classified as controllable and non-controllable. Responsibility accounting is based on the notion that a responsibility centre manager should be held accountable for controllable costs. Since we have already discussed the concepts of controllable and non-controllable costs earlier, we focus on other important points here. A cost is said to be controllable when it may be regulated by a person at a given level of responsibility during a specified time period. Non-controllable costs are those costs over which a person, at a given level of authority and during a specified time period, has no control. Level of responsibility and time are the two factors which demarcate between controllable and non-controllable costs. Costs which are not controllable at one level of responsibility would always be controllable at another level. For example, factory rent may be non-controllable by the plant superintendent but would be controllable by the plant manager or by some higher authority. Time also has an effect on controllability. A non-controllable cost in the short run would be controllable in the long run. For example, if management has committed to a contract for a period, then it is not controllable for the period. However, it can be controlled by management at the time when contract comes up for renewal.

The classification of costs as controllable and non-controllable costs should be seen in the proper perspective. The distinction is relevant for a given responsibility centre whose cost performance is being evaluated. In fact, non-controllable costs do not exist when control is visualised from the point of view of the firm as a single unit. All costs are controllable at some point at the same time by someone.¹⁰

Responsibility Reporting

Responsibility reporting is the crucial phase of responsibility accounting. Responsibility reporting requires grouping and defining responsibility within an organization structure, determining and assigning costs to appropriate levels and activities and placing a strong emphasis on cost controllability. Reports prepared under responsibility accounting may be known as performance reports. These reports are prepared with the purpose of :

1. informing each manager of his achievement in controlling costs of his centre;
2. pointing out each manager's accountability for costs incurred; and
3. presenting cost information in such a way that motivates each manager to take remedial action for improved future performance.

In preparing performance reports, management should focus attention on three aspects : (a) frequency of reporting; (b) details to be presented in reports; (c) format of reports. The amount of details and frequency of reports depend on the management level for which reports are being made. First line supervisors, for instance, would need reports more frequently with considerable details.¹¹

Responsibility accounting is not complete without responsibility reporting. Of course, sometimes, these terms are considered synonymous in the sense that accounting should imply reporting and vice-versa.

Reporting to the various levels of management can be divided into responsibility-performance reporting and information reporting. A clear distinction between the two is important; each serves different goals or objectives. Responsibility performance reports are accountability reports with two purposes :

1. To inform the manager and his superior how he has done in the areas for which he is directly responsible for performance.
2. To motivate the manager and his superior to generate the direct action necessary to improve performance.

Information reports are issued for the purpose of providing the manager with information relevant to his areas of interest, although not necessarily directly associated with his specific responsibility for performance. Information reports serve a broader and different set of goals than performance reports. In brief, responsibility performance reports are relevant for immediate and pressing needs of the organisation whereas information reports are concerned with progress and growth of the business.¹²

Conclusion

It may now be concluded that responsibility accounting does not involve a drastic change in accounting theory or principles. It is for the most part a change in emphasis from the product cost to the cost control aspects of accounting wherein the statement to management emphasizes the control of costs by reporting and summarizing them on the basis of 'who did it' before they are adjusted and blended for product cost purpose to obtain the conventional financial statement.

It is envisaged that such a system would, in a great measure, arrest the "passing of the buck" tendencies in an organisation in respect of taking responsibility for the incurrence of costs. Its importance is emphasised as a suitable infrastructure for accounting business transactions besides producing very useful business control information. In modern accounting practices, it administers not only a score-keeping function but also a healthy score announcing function. By projecting certain important parameters the need for their careful consideration is highlighted. Emphasis is given on satisfying the behavioural aspect of the system because people are involved in the successful operation of the system and everyone recognise now-a-days, that "cost control is people" regardless of whatever control mechanism is adopted in the operation of a business firm. For this, there appears to be no alternative.

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OPERATION AND ACCOUNTING FOR VALUE ADDED TAX (VAT)

*Sujit Sikidar**

In this paper the author explains the nature of value added tax (VAT), the methods of operation of value added tax system and the benefits that can be derived from the introduction of such a system. The paper also focuses on the accounting implications of VAT.

Meaning of VAT

Value added is the difference between the actual/presumed money value of sales and the money value of inputs. The tax base is the incremental value acquired since the last taxable transaction. The inequalities and anomalies of cascading effect and of input taxation arise mainly because of the following reasons : (a) It promotes vertical integration which leads to economic concentration and also raises production cost and prices, thereby reducing international competitiveness and adversely affecting export performance; (b) Small scale and ancillary developments are particularly effected; and (c) encourages tax evasion, as large amounts are involved in various stages.

We feel that VAT may help us in resolving such problems. These problems may be attributed to multi-point, non-refundable, differential rate system to input taxation. This view was endorsed by the Indirect Taxation Enquiry Committee (Jha Committee, 1978).

The VAT system is operated upon the following procedures : (a) Traders first pay tax to their suppliers of materials (inputs) who pay the same to revenue (central excise or state tax) authorities; (b) and thereafter the traders claim deduction from the tax due on their own sales (thus he gets tax credit to be adjusted against his tax liability); (c) Buyers at the earlier stages would not try to undervalue their purchase because they can hardly have any tax credit out of them; (d) If tax is evaded at one stage, it can be detected at a later stage and in case evasion takes place at the last stage, the revenue loss to the exchequer is minimal. It is owing to these procedural benefits that the Richardson Committee in the UK recommended VAT in 1964 and it was finally introduced in this country in April, 1973.

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Pre-requisite for Full-fledged VAT

Before making VAT fully operational several conditions have to be fulfilled. These are as follows : (1) State sales tax may have to be gradually phased out by a Union VAT. But this has been a contentious issue under the Indian federal structure; (2) Multipoint sales tax shall have to be converted into a single point tax system; (3) Cascading effect of tax on input shall have to be removed so as to make the goods available to the ultimate consumers at a reasonably cheaper prices ; (4) All input taxation will have to be rationalised and a single, common assessing authority for all inputs taxation will have to be introduced. VAT as a system will have to be extended to cover the wholesale and retail traders; sufficient time will have to be allowed to cover the gap for replacement of sales tax and excise duty by VAT over a reasonable period of time.

VAT is an indirect tax imposed on each sale beginning at the start of production and distribution cycle and culminating with the sale to the consumer. Each seller in the chain collects the VAT from the purchaser at the time of sale (the VAT is added to the sale price but must be separately stated except on the final sale to the consumer), deducts from this amount any VAT he himself has paid on his purchases, and remits the balance to the government. The net effect of off-setting purchases and sales is to impose the tax at each stage of production on the sum of wages, interest, rent, profit and other factors of production not furnished by suppliers subject to the tax at the previous stage of production, hence a tax on 'value added'.

The seller sustains no economic burden on his purchases since he receives a credit from the government for any VAT paid to his suppliers. In effect, the VAT is pushed forward through the production and distribution chain to the consumer. The consumer absorbs the VAT as part of the sales price but, unlike the seller, he receives no credit. Thus the VAT is essentially a consumption tax borne by the consumer with collection divided throughout the production chain. A general tax on consumption applied at each point of exchange of goods or services from primary production to final consumption. It is levied on the difference between the sale price of the goods and services (output) and the cost of bought-in inputs. At each point of exchange the tax is passed on in the form of higher prices. Thus at the final point in the chain of exchange, the final consumer bears the whole of the tax in the same way as if it were a sales tax levied at the retail level. Total earnings as a percentage of value added are derived by dividing total earnings of employees by value added in current prices, to show labour's share in income generated in the manufacturing sector. 'Value added is defined as the current value of gross output less the costs of (a) materials, fuels and other supplies

consumed, (b) contract and commission work done by others, (c) repair and maintenance work done by others, and (d) goods shipped in the same condition as received.

VAT has been introduced in many countries. These include : France, U.K. Italy, Japan, Canada, Brazil, Argentina and several other Latin American countries.

The Perspective Planning Group observed that indirect taxes constitute a significant component of revenue structure of our economy. Therefore, if the proposal regarding excise audit and audit of sales tax records is introduced, it would bring transparency in tax matters. Some of the state governments (e.g. Kerala) have introduced sales tax audit. Revenue receipts of the central government increased by Rs. 2,200 crores in 1994-95 over the previous year; and 80% of goods now fall under the 'magic duty rate' of 25%. To rationalise excise duty, a majority of items have been brought under the 15 to 20% duty slab in April, 1995. Under full VAT system we cannot have multiple duties.

The Nature of VAT

VAT was introduced for the first time in France in 1954. This tax was introduced to do away with the problem of unmanageable turnover taxes. Over the years it has been accepted all over the world. It is a tax levied on the value of a product. Value is added to the commodities which a firm purchases from another firm such as raw materials, semi-manufactured goods etc. After purchasing the firm applies its own labour and machine to manufacture the final product. VAT is a tax which is imposed at every stage of production i.e. from production level to retail stage.

According to the Indirect Taxation Enquiry Committee set up in 1976, (popularly known as L. K. Jha Committee) 'Value added tax in its comprehensive form, is a tax imposed on the value added to a product, its special characteristic being it is levied on the value added at each stage of production i.e. production stage to retail stage'. There are two varieties of VAT; (a) production variety and (b) consumption variety. Again VAT may be classified as : (a) production type VAT, (b) consumption VAT, (c) wage VAT and (d) distribution VAT. The modified versions of VAT are known as MANVAT and MODVAT.

Commodity tax and indirect tax are regressive in nature. Commodity tax is administered by the central government but it is collected by the central or state governments depending upon the nature of commodity. Export duty of goods is collected by the central government but this is not appropriated to state government. Instead, grant-in-aid is provided by the central government to the state government whose products have

been exported. For instance, jute export duty is collected by the central government but is not appropriated to the state governments. Import duty in most cases is collected by the state but is to be appropriated to the central government at the rates specified by the President on the recommendation of Finance Commission. Similarly excise duty is administered by the state but apportioned to the central government.

Implementation and Administration of VAT

As regards implementation of VAT, restrictions on import of consumer goods shall be lifted by government because the world will not accept India's selective approach on this front. Such an approach will make India a paradise of smugglers. It will be in our interest to face challenges and strengthen our capabilities. The state should also move towards VAT at the earliest. Countries like Bangladesh and Sri Lanka have already moved towards VAT successfully. India, a signatory to the Uruguay Round, should also move towards VAT. If India has to grow economically, socially and democratically among the community of nations for the purposeful interdependence of globalisation, we must project and prepare ourselves as a global player and should provide level playing fields for the participants. In the process we should dovetail our national priorities to introduce fiscal and monetary policies which encourage and promote the capital markets, banking and entrepreneurship.

Central VAT Vs. State VAT

As a matter of fact VAT system should have replaced all types of indirect taxes and integrated it into a single tax system. But under Indian federal structure it has not happened, rather specific areas of taxation have been reserved for the centre and the states. Multiplicity of the state sales taxes, tariff wars among the states for attracting fresh investments, intricate system of providing tax exemptions and concessions, non-elimination of cascading effect of sales tax, all have in aggregate hindered the integration of indirect tax structure in India. VAT should be levied centrally, as it has been done in Germany. In case states do not agree to this proposal, amendment to constitution may become necessary. The government has been experimenting in 1994 on a system where the state sales tax could be converted into a state VAT, which would co-ordinate with the VAT system at the centre.

Stages of VAT

In India question arises as to the stage of production and distribution on which VAT should go. In the European countries, VAT goes upon the retail stage. Since in India we do not have the experience of VAT at retail stage, for the time being we can go up to the manufacturer –

importer stage and in the next phase go to the retail stage. Any inter-governmental tax exercise would naturally create some conflict of interest for revenue collection from VAT. One model as indicated below, as a reconciliatory measure, may comprise : (a) VAT rate : The central government stipulates a minimum rate for states. The rate adopted by each state is single then, through competition, the rates should converge within some years. (b) VAT base : If a common base can be agreed upon then the central government adopts the same base, with the incorporation of only a negative list for the states, that is a list on which VAT will not be levied by the states. (c) Excise : The VAT is complemented by a short list of traditional excise, petroleum products, beverages, tobacco products, automobiles and some luxury electronic products at the central government level. According to Parthasarathi Shome, chief of Tax Policy Division of IME, Brazil and Argentina's state-level tax system is comparable to Indian context. For instance, in Brazil, the states are the ones that operate the main VAT and the centre also has a limited VAT. While the states tax almost everything in terms of goods, the centre and municipalities tax services. Brazil has a system where all three levels of government have some form of VAT-cum-sales taxation for goods and services. In order to resolve the prevalent conflict of interest between the union and the states, on an annual basis the finance ministers of the states and the union finance minister meet at what is called the Confab. Argentina has been moving away from turnover tax to VAT system.

Boothlingam Committee report also emphasised the reduction of cascading effect of central excise and give relief to the ultimate consumers. Per capita tax burden on commodity becomes less. After having accepted the recommendations, manufacturers value added tax (MONVAT), an abridgement or modification of (MODVAT) as operated in Europe, was introduced in 1986. VAT has been efficiently operated in Europe.

Computation of VAT

It entails several issues to be addressed such as the period of probation and the value that is added at a particular stage. Value added would consist of factory cost plus depreciation on machinery.

Sales — purchase = inputs.

Raw materials supplies, power = purchased.

Wages, overheads, electricity, gross profit = added.

Sales — purchase = value added.

(Sales value — purchase value) x tax.

Tax on sale — tax on purchase = value added

$tv_1 = tv_2$ = value added, tv_1 is under the control of the tax authority; tv_2 is evidential that tax has been paid.

Value added tax is a broader parameter and MODVAT is only one narrow aspect of VAT, because MODVAT governs only the central excise on commodities. While VAT covers all other duties, cess etc., Rule 56A of the Central Excise Act has been abolished since 1994 and now Rule 57A of the said Act covers all other items. Only three items have been kept outside the purview of VAT and all other commodities have been brought under its net. On tea although central excise has been abolished but cess is collected on it.

Both manufacturers and wholesalers are subjected to VAT and they pay it at the first point which is subsequently recovered from the customers. The VAT so collected by the central government is shared at 45% with the states. VAT is also charged on counter-vailing duty paid on imports to India. For administration of VAT on the manufacturing as well as wholesale dealer, the Central Excise Department collects original copy of the invoice and on the invoice price which is treated as the cost of the first buyer on which VAT is levied and collected.

In case of VAT on imported goods, the excise duty is levied on counter-vailing duty paid by the importer implying thereby what would have been the cost of such import had it been produced within the country.

Under Rule 57F(i) (ii) of the Central Excise Rules 1944 it has been decided that in cases where the inputs are sold at the same price at which they are received the value of assessments would be the value on which duty has already been assessed. Even in the case of transfers of such inputs, other than by sale, the assessable value on which they were first assessed can be accepted as the value for payment of duty. The question of adopting a different value for assessment of the inputs cleared would arise in the cases where the same are sold by the assessee at a higher price than the purchase price.

VAT in simple form implies tax on sales minus purchases. It is for the person who is paying the VAT to prove that the cost of the goods purchased by producing the relevant invoices and to pay tax based on the value declared in his invoices while clearing the goods. The Chelliah Committee had strongly recommended for switching over to VAT in stages. The first hindrance in introducing VAT is amendment to constitution so as to ensure that state governments are compensated for the sales tax portion of the tax involved in the proposed VAT. In the line of Chelliah Committee recommendation, it is proposed to introduce VAT in stages. But the state governments are not willing to sacrifice their alternative chance of levying taxes on sales.

Advantages of VAT

Introduction of VAT would be a step towards simplification of indirect tax system. The second advantage is its easy administration since the dealers and manufacturers will be issuing invoices which will be available for cross checking which in turn would contain propensity to evade tax. Third advantage is the tax transparency as all particulars will be clear from the transactions which in turn will serve as a basis for economic analysis of tax. When VAT is introduced at the central and state level in India, it would result in price effects, distribution effects, overall efficiency and achievement of neutrality besides effects on growth of economy.

Determination of Value under VAT

As per Central Excise Valuation Rules 1975 and under Central Excise and Salt Act, 1944, the value of the excisable goods shall be based on the value of such goods sold by the assessee for delivery at any other time nearest to the time of the removal of goods under assessment, subject to such adjustment on account of the difference in the dates of delivery of such goods and of the excisable goods under assessment.

The value for the excisable goods may be deemed to be the normal price thereof, that is the price at which such goods are ordinarily sold by the assessee to a buyer in the course of wholesale trade for delivery at the time and place of removal, where the buyer is not a related person and price is the sole consideration for the sale. Further, it has been provided that where the normal price of such goods is not ascertainable for the reason that such goods are not sold or for any other reason, the nearest ascertainable equivalent thereof would be determined in such a manner as may be prescribed.

In determining the value of goods for excisable tax purposes, the declaration of cost structure method made by the assessee will be considered. For instance, for a carbon products company at Gauhati, the transportation cost involved in movement of input to the factory shall be added to the cost of material for determining value for levying excise duty. Again when price for delivery at the place of removal is not known, the cost of transportation from the place of removal to the place of delivery shall be excluded from such price. As a matter of fact, the success of VAT system would depend upon how the price is computed for levy of excise duty under cost-construction basis by the assessee and his compliance with the rules.

For the purpose of levying central excise duty, sale price of the manufacturer will not be the assessable value for imposition of excise duty. Here assessable value is by and large constructed on the basis of

cost of manufacture plus manufacturing profit. Assessable value is ascertained on the basis of cost construction.

Latin American VAT

According to Adam Smith, every tax has to be so devised as to limit squeezability and extrapolation. If Latin America's success story of economic reforms is any indication, deepened tax reform has been indispensable for integrating domestic economy even more closely into the world economy. The number of Latin American countries adopting VAT between 1980 to 1994 doubled from 10 to 20 (Parthasarathi Shome 1995). There was rudimentary VAT upto manufacturing - importing stage, or production - type VAT that disallowed credit for capital goods purchases. Since 1950 these countries have started reform measures in VAT such as reduction in number of rates, expansion of base by reducing exemptions and raising coverage specially of services, conversion to consumption of VAT. Consequent upon these reforms, the countries had achieved large increases in their tax to GDP ratios. Argentina among them is the glaring example of efficient VAT i.e. consumption tax. Many of the countries had indicated rise in tax revenue to GDP ratios by 2 to 5% of GDP at the central government level between 1980 and 1993. In India the tax revenue to GDP ratio is relatively at a low ebb. The long term aim of MODVAT must therefore be to do away with the negative list of items where the benefit of set-off of the tax paid on inputs or MODVAT credit will not be allowed. Additional penalty may be imposed on dealers guilty of misuse and automatic reversal of MODVAT credit where substantive and fraudulent offences do exist. It is generally debated that MODVAT scheme leads to slower growth of excise collection, and perhaps it is partially true, but this shortfall may be attributed to the sharp rise of MODVAT credit:

Presumably owing to ingenuine and exaggerated credit claimed, excise collection during the fiscal year 1995-96 has fallen short of the budget estimate by Rs. 1,780 crore. This shortfall may have arisen owing to two reasons : (a) the credit claimed is not genuine; and (b) credit is bunched up due to the extension of MODVAT benefit to capital goods from 1994-95 onwards. At present MODVAT credit is granted to the extent of taxes paid on inputs used in manufacture. This leaves enough scope for manoeuvring the criteria of "used in manufacture" as it entails lots of subjectivity. Currently MODVAT credit is given to products only but in future services may be embraced under it.

Consequences of Wrong Use of MODVAT Credits

The consequences of irregular or wrong use of MODVAT credits has been embodied under Rule 57(l) of the Central Excise Rules, 1944, which

provides for recovery in case of undue credit enjoyed by an entity. "Where credit of duty paid on inputs has been taken on account of an error, omission, or misconstruction on the part of an officer shall serve a notice on the erring manufacturer or assessee". The excise officer shall have to serve notice on the defaulting manufacturer/assessee within six months, which has been subsequently raised upto five years in certain circumstances. The basic aim is to recover the excess MODVAT credit enjoyed by the assessee from the subsequent sale. MODVAT credit is granted under RT-12 returns and the central excise revenue authority has to ensure that credit is obtained on goods used for manufacturing or value added operation. Rule 57 Q of the Central Excise Rules 1944 stipulates that MODVAT credit is availed on capital goods or on goods used for producing or processing of any final products. Where the MODVAT credit is availed on goods which are neither inputs nor capital goods, any credit entries given to the assessee should be reversed forthwith after verification of the records and declaration given by the assessee.

For recovery of wrong MODVAT credit, a show cause notice has to be served on the assessee before raising any demand under the MODVAT scheme. There has been a number of decided cases and ruling on the procedural aspect of recovery of MODVAT credit. (a) In the case of Ennore Steel Enterprises 1990 (47 ELT 363), the Madras High Court held that : Recovery of MODVAT credit wrongly availed of is not to be adjusted by the excise authorities under rule 57-1, unless and until a show cause notice is issued and an order passed. Similar judgement was passed by Madhya Pradesh High Court in case of Steel Ingots vs. Union of India 1988 (36 RIT – 529). (b) In case of Research Extrusion Technologies, Hosur 1991 (38 ECR 223) Southern Regional Tribunal Bench held that show cause notice must be issued for recovery of the MODVAT credit wrongly availed. Although spot recovery has been recommended by the Central Board of Excise and Customs (CBEC) but we should comply with the tenet of natural justice.

Misuse of MODVAT has assumed alarming proportion ever since 1994-95 union budget permitted central excise registration of dealers who were then allowed to issue invoices which treated duty paying documents as valid. One way to check the malpractice may be to do away with registration of dealers in the new MODVAT scheme. Market intermediaries very often issued invoices which were not recorded in their books and credits were claimed on the basis of these documents.

Another *modus operandi* was making more than one copy of the original invoice and send the second or third duplicate to different parts of the country for claiming credits. Thus it is impossible for revenue agencies to keep track of these across the country. The proportion of

wage-price linkage exists and wage rate is revised with reference to cost of living index, indirect taxes imposed on wage goods may be passed on in higher prices of factors and products. VAT system may help in matching wage-price linkage at a lower scale.

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VARIANCE ANALYSIS — A ROLE PLAYING EXERCISE

H. S. Kulshrestha*

Variance analysis or analysis of deviations is a must for an effective and purposeful use of standard costing and/or budgetary control. Basically, there are two variances. They are quantity or volume variance and rate or price variance. This is because there are two dimensions in every activity. The third dimension is qualitative and so, in a way, falls beyond the scope of accounting. The quantity variance is also called as efficiency variance because it reflects on the economical and effective utilisation of the resource, i.e., material or time used in production or in any activity. In case of earning of revenue, the level of performance in quantitative terms becomes relevant instead of material or time. The quantity or volume or time variance, therefore, is also known as efficiency variance. On the other hand, the price or rate variance is determined by the market and the efficiency of the function concerned, i.e., purchase section is not so much reflected in the price variance. Moreover, if the source of supply of material, or the buyers in case of revenue are regular and permanent, the scope for negotiating the price is significantly reduced.

As is evident, the quantity variance speaks of the efficiency of the foreman supervising the work and the rate or price variance, that of the purchase function. The two variances are computed as under :

$$\text{Quantity Variance} = (\text{Std. Qty.} - \text{Actual Qty.}) \times \text{Std. Rate}$$

$$\text{Rate Variance} = (\text{Std. Rate} - \text{Actual Rate}) \times \text{Actual Qty.}$$

The text books on the subject and the class-room teaching suggest the use of these formulae to figure out the shortfalls or gains of these two responsibility centres. Here, it is proposed to argue out the reason for multiplying rate or price difference by *actual quantity* and quantity difference by the *standard rate*. Consequently, the conditions under which the above formulae lose their acceptability are also identified. It suggests that under such conditions the two multipliers, i.e., *standard rate* and *actual quantity* have to interchange their positions in the above formulae. This has been done by considering the arguments put forward by three functionaries connected with a particular work/production. These three functions are purchase function, production (supervision) function and the control function.

* Founder Member, Indian Accounting Association.

The control function makes the performance evaluation of the other two functions on the basis of respective variances. In doing so the Controller will adopt a point of view which undervalues the performance just for the sake of arguing with the two responsibility centres, one by one. On the other hand, each of the two functions will argue in a way as to understate its shortfalls and overstate its contribution in reducing the cost or increasing the revenue. To illustrate this the following situation can be visualised :

Standards			Actuals			Cost Variance
Qty.	Rate	Cost	Qty.	Rate	Cost	
	Rs.	Rs.		Rs.	Rs.	Rs.
15	3.00	45.00	18	4.00	72.00	-27.00

Now, arguing with the quantity-man, the Controller may hold him responsible for an extra cost of Rs. 12/-. Telling him that because of consuming 3 units in excess of the standard the cost of output has gone up by Rs. 12/-. he will justify blaming the quantity-man. In reply to this, the quantity-man will accept an extra cost of Rs. 9/- only due to over consumption of material, because buying the material at a price higher than the standard is the fault of the purchase function and not of the production function.

Calling the rate-man, the Controller will blame him for an increase in the total cost of Rs. 18/-. although the rate-man may own an extra cost of Rs. 15/- only due to his having bought the material at a rate higher than the standard rate. His stand will be that it is because of the over-consumption by the production function that the cost has gone up by Rs. 18/-. Had they spent the standard quantity the cost should have increased by Rs. 15/- only.

For visualising the further arguments between the three parties, viz., the Controller, the Quantity-man, the Rate-man, various alternative situations which are possible can be thought of as under :

		Qty. Units	Rate Rs.	Cost Rs.	Variance Rs.
Standards		10	5.00	50.00	
Actuals :					
Situation	I	10	5.00	50.00	Nil
	II	14	5.00	70.00	-20.00
	III	10	8.00	80.00	-30.00
	IV	7	5.00	35.00	15.00
	V	10	3.00	30.00	20.00
	VI	12	3.00	36.00	14.00
	VII	12	7.00	84.00	-34.00
	VIII	9	3.00	27.00	23.00
	IX	9	6.00	54.00	-4.00

A close analysis will show that the first 5 situations do not call for significant arguments, but in the remaining four alternatives, the arguments may follow as under :

Situation No. VI

Qty. Variance = $(10-12)5$ or Rs. -10.00

Rate Variance = $(5-3)12$ or Rs. 24.00

The Controller will hold the Foreman responsible for a loss of Rs. 10/- while the Foreman will own his responsibility for Rs. 6/- only. To the purchase function, the Controller will give credit for a saving of Rs. 20/- while it will claim a saving of Rs. 24.00.

Situation No. VII

Qty. Variance = $(10-12)5$ or Rs. -10.00

Rate Variance = $(5-7)12$ or Rs. -24.00

The Controller will hold the Quantity-man responsible for Rs. 14.00 while the latter will own his responsibility only to the extent of Rs. 10/-. In the same way, the Rate-man will be held responsible for Rs. 24/- although he may accept a loss of Rs. 20/- due to his having acquired the material at a price higher than the standard. This claim may stand

rejected by the Controller because the purchase section enjoys all the facilities of finance, storing, etc. to maintain the required material and so it is responsible to provide the quantity needed whether it is more or less than the standard quantity.

In situation VIII and IX also similar dialogue may take place. But, ultimately, reasoning out things they may justify holding the purchase function responsible for the loss/gain on the actual quantity consumed, because it is provided with all facilities like finance, storing, etc. And as such, in case such facilities are not or cannot be provided the responsibility of the purchase function will be limited to the standard quantity. Obviously, the Controller has no reply to the argument put forward by the purchase section in relation to perishable items if no refrigeration facilities are provided and the item is purchased in the daily market. The Rate-man is right if he argues that in such a situation if he is asked to provide more than the standard quantity, he may have to do so at an extra cost.

In conclusion, one should appreciate that in cases where facilities for prior purchase and storing are not or cannot be provided to the Rate-man, the rate variance should be multiplied by standard quantity. Exactly for the same reason, the quantity difference should be multiplied by actual rate. Thus, the suggested change in the approach to variance analysis is quite relevant to confectionery, catering and restaurant business where items like milk, vegetable, eggs, etc. are purchased as needed from local market. Similarly, certain business houses because of limited finance and storing facilities or because of some other reasons may be forced to buy to need. In their case also the price difference has to be multiplied by standard quantity and quantity difference, by actual price.

SHORT-PLAY WRITING COMPETITION

YOU can WIN a CASH PRIZE of Rs. 500.00

Please go through the above write-up "Variance Analysis—A Role Playing Exercise". You are required to write a short-play based on the dialogue between the Controller and the two responsibility centres in the organisation.

More characters like Office Assistant and Office Peon, etc. may be added. You can think of and have more than one scene in the play.

The best written play will be awarded a cash prize of Rs. 500/-.

The last date to receive the short-play is November 30, 1997.

Chief Editor

INTERNATIONAL CONFERENCE NEWS**EIGHTH WORLD CONGRESS OF ACCOUNTING EDUCATORS****October 23-25, 1997, Paris**

- Theme* : The Changing World of Accounting :
Global and Regional Issues
- Registration Fees* : FF 1800 before July 31, 1997
FF 2100 after July 31, 1997
- Accompanying person* : FF 300 (gala dinner)
- For further details contact* : Professor Herv'e Stolowy
HEC
1 rue de la Liberation
78351 JOUY-EN JOSAS CEDEX, FRANCE
Fax : + 33 1 39 67 7086
E-mail : Stolowy@gwsmt.hec.fr

(For further details see December 1996 issue of Indian Journal of Accounting.)

**9TH ASIAN PACIFIC CONFERENCE ON INTERNATIONAL
ACCOUNTING ISSUES****Bangkok, Thailand : November 23-26, 1997**

The 9th Asian Pacific Conference on International Accounting Issues will be held from November 23 to 26, 1997 in Bangkok. The theme of the Conference is "The Role of Advanced Technology on Accounting : A Time for Radical Change".

- Conference venue* : Shangri-La Hotel, Bangkok
89 Soi Wat Suan Plu
New Road, Bangkok
Bangkok 10500
Thailand
Fax : (662) 236-8566
- Co-sponsors* : Chulalongkorn University, Thailand
California State University, Fresno
- Conference Registration Fee* :
Early Registration : Received by October 1, US\$ 250
Late Registration : Received after October 1, US\$ 300
- Registration Fee includes Reception, 2 Breakfasts, 2 Luncheons, 1 dinner, a one-day tour and a copy of the Conference Proceedings.

For Accompanying Persons : Dinner and entertainment
—(November 24) US\$ 40
Subsidised tour
— (November 26) US\$ 40

For registration, particulars of the delegate, namely, name, position, organisation, address, along with registration fee, should be sent to :

Prof. Ali Peyvandi or

Prof. Benjamin Tai

Asian-Pacific Conference on International Accounting Issues

The Sid Craig School of Business

California State University, Fresno

5245 North Backer Avenue

Fresno, California 93740-0007

USA

Fax Number : (209) 278-7336

E-mail : ali_peyvandi @ csufresno. edu

benjamin_tai@csufresno. edu

[For further details see December 1996 issue of Indian Journal of Accounting.]

IAA News

Minutes of the General Body meeting of Indian Accounting Association held on 3rd February, 1997 at 5.00 P.M. at International Centre, Goa with Prof. K. R. Sharma, President, IAA, in Chair.

Members attending the XX Annual conference of IAA at Goa were present at the meeting.

The minutes of the AGM held at Ujjain were read and confirmed.

The meeting started with the President welcoming the members to the AGM. He read out the names of Branches existing at various places and a brief report on the activities of various Branches. The President explained the position with regard to submission of Accounts and preparation of an exhaustive list of members. The Accounts of IAA could not be presented as the treasurer Dr. Sugan Chand Jain was not present at the AGM. However, the President assured the members that all efforts are on for finalising the Accounts and the list of members and these will be finalised and circulated. Prof. D. Prabhakara Rao could not be present due to personal work. The House requested Prof. K. Eresi of Bangalore University, Bangalore, to present the General Secretary's Report, which he did.

Prof. N. M. Khandelwal, former President of IAA, suggested that non-functional Branches should be eliminated. He further stressed that all office bearers of IAA should be made accountable and they should be more responsible. He mentioned about non-receipt of Journal by members. He also suggested the following :

- (1) The Journal should be sent on their residential addresses to the members without fail here after.
- (2) There should be transparency in Accounts of IAA and more disclosures. In this connection, he suggested that draft accounts may be sent to members in advance.
- (3) Minutes of the meetings of AGM should be printed in the Journal of IAA.

Prof. S. B. Singh from Lucknow suggested that there should be no over dependence on the Central Office and there should be networking to exchange informations among Branches. He emphasised upon research in accounting. For this purpose he proposed that UGC & ICSSR should come forward to fund the research. Prof. B. M. L. Nigam of Delhi University welcomed and appreciated the observations of members. He suggested that a task force/working group should be set up to bring changes in commerce education in the country. He suggested that there is a need for change in the nomenclature also and the institutions should be called

Schools of Accounting instead of Department of Commerce or Department of Accounting, as is prevalent in Eaurope, Singapore etc.,

President Prof. K. R. Sharma requested the members to take note of the suggestions. He promised the House that the IAA Journal will be sent to individual members hereafter.

After the above discussions the following resolutions were passed in the House.

- (1) Considered the proposals to hold XXI Annual Conference of IAA from (a) Varanasi Branch of IAA, Varanasi (b) Institute of Management and Technology, Ghaziabad, and (c) Department of Commerce and Management, Bangalore University and Karnataka Branch of IAA Bangalore, and the proposal from Bangalore was accepted, subject to confirmation of the date.

The Conference may be hosted, during December, 1997 to February 1998. Intimation be sent to the President/Gen. Secretary IAA well in advance so that an announcement may be made through the June, 1997 issue of IJA.

- (2) Prof. Bhagwati Prasad, Sr. Vice President, Former Dean, Faculty of Management and Director, Kousali Institute of Management, Karnataka University, Dharwad, was unanimously President of IAA. The name of Prof. Bhagwati Prasad was proposed by Dr. G. Soral and seconded by Dr. G. L. Dave.

- (3) Prof. Nageshwar Rao, Jr. Vice-President and Director, School of Management, Vikram University, Ujjain, was unanimously elected Sr. Vice President of IAA. The name was proposed by Prof. J. N. Shukla and seconded by Prof. Vijaya Bhatasana.

- (4) Prof. S. B. Singh of Lucknow and Dr. V. K. Vasal of Delhi University were nominated to the panel to name the Jr. Vice-President of IAA by General Body. The panel after consultations suggested the name of Dr. B. Remesh, Goa University as Jr. Vice-President. The name was proposed by Dr. V. K. Vasal and seconded by Prof. S. B. Singh. The house unanimously elected Dr. B. Ramesh as Jr. Vice-President of IAA.

- (5) The General body elected Prof. J. N. Shukla, Lucknow University, Lucknow, Prof. K. Aswathappa, Bangalore University, Bangalore and Prof. Vijaya Bhatasana, Saurashtra University, Rajkot in the vacancies arising on completion of three year term by Dr. R. L. Tamboli, Mohan Lal Sukhadia University, Udaipur, Dr. A. M. Agarwal, Bhusawal, and Prof. D. C. Sharma, Jiyaji University, Gwalior, as members of the Executive Committee.

The following members were co-opted to the Executive Committee :

- * Prof. K. Eresi, Bangalore University, Bangalore
- * Dr. M. Modassir, President, Goa Branch
- * Dr. V. K. Vasal, Delhi University, Delhi
- * Dr. R. D. Saini, Rampura (M.P.)
- * Dr. G. L. Dave, JNV University, Jodhpur
- * Dr. H. S. Ozha, Gujarat University, Ahmedabad

- (6) The House decided that no second term shall be given to the office bearers of the Association, except for the ex-officio designations.
- (7) It was resolved that fellowship of Indian Accounting Association be conferred on the following members considering their contribution to accounting subject to confirmation of their membership of the Association and their consent.

Prof. G. D. Roy

Prof. L. S. Porwal

Prof. S. K. R. Bhandari

Prof. P. K. Ghosh

Prof. B. M. L. Nigam

- (8) It was resolved to keep the following subjects for the technical sessions at XXI Conference of IAA (i) "Innovative Financial Instruments – Accounting Implications" with Mr. R. Hariharan, CRB Capital Markets, Bombay as chairman, (ii) Accounting and Information Technology with Prof. N. M. Khandelwal as Chairman and, (iii) Accounting and Societal Concerns with Prof. S. B. Singh as Chairman
- (9) It was resolved that a list of topics of research in accounting should be prepared and widely circulated for the knowledge of researchers. This task was entrusted to Dr. G. Soral of Mohan Lal Sukhadia University, Udaipur, which he readily accepted.
- (10) The General House passed a vote of thanks for the outgoing Executive.

The meeting ended with a vote of thanks for the Chair.

Sd/- Prof. K. R. Sharma

President, IAA

Minutes of Executive Committee of IAA held at International Centre, Goa, on 3.2.1997 at 6.30 P.M.

A meeting of the newly formed Executive Committee of IAA was held at International Centre, Goa, on 3.2.1997 at 6.30 P.M. The following were present :

- | | | | |
|--------------------------|---|---|--------------------|
| 1. Prof. Bhagwati Prasad | — | — | President-in chair |
| 2. Prof. Nageshwar Rao | — | — | Sr. Vice-President |
| 3. Dr. B. Ramesh | — | — | Jr. Vice-President |

4. Prof. K. Aswathappa	—	—	Member
5. Prof. J. N. Shukla	—	—	Member
6. Prof. Vijayabhatasana	—	—	Member
7. Dr. V. K. Vasal	—	—	Member
8. Dr. Pratap Singh Chouhan	—	—	Member
9. Dr. R. D. Saini	—	—	Member
10. Prof. N. M. Khandelwal	—	—	Former President & Special Invitee
11. Prof. S. S. Shanmugasundaram	—	—	Member
12. Prof. H. S. Ojha	—	—	Member
13. Prof. K. R. Sharma	—	—	Past-President and Special Invitee

The Minutes of the Executive Committee held on 2. 2.1997 were read and confirmed.

The following decisions were taken at the meeting :

- (1) Separate registers shall be kept to record the minutes of AGM and Ex-Committee meetings which will help for future references.
- (2) A drive shall be taken-up for Institutional membership and strengthening the financial position of IAA. Each member shall get the membership of at least 2 Institutions like University Library membership, Department library membership, etc.
- (3) The Indian Journal of Accounting shall reach the members on time at their residential address.
- (4) Life membership cards which are under preparation shall be posted to the members concerned at an early date.

Meeting ended with a vote of thanks for the chair.

Sd/- Bhagwati Prasad
President, IAA

Note from the Chief Editor re. despatch of journals

641 copies of December 1996 issue were sent by ordinary mail *directly* to the life members of IAA. Branch-wise, the position was : Bombay 26; Calcutta 445; Jaipur 28; Jodhpur 28; Karnataka 3; Pune 19; Salem 4; Saurashtra 27; Udaipur 24; Varanasi 3; Visakhapatnam 34. 60 copies were also sent to Prof. H. S. Oza, Secretary, Gujarat Branch for distribution to his members (since the list given by the General Secretary did not contain names of life members from Gujarat). Out of the above, about 20 *undelivered* copies were returned to me.

The June 1997 issue will also be mailed directly to each member *under certificate of posting* based on a certified list of life members to be received from Dr. S. C. Jain, Treasurer. A xerox copy of the certificate of posting will be sent to the Treasurer for information and record. As of this writing, since the membership number is not exactly known to me, 750 copies of the current issue are printed due to fund constraint.

August 18, 1997

Chief Editor

XXI Annual Conference of IAA

The XXI Annual Conference of the Indian Accounting Association will be held at Bangalore University from January 31 to February 2, 1998 under the auspices of the Department of Commerce and Management, Bangalore University, and Karnataka Branch of IAA. Members of the IAA are invited to attend the Conference to make it a success. A formal letter containing detailed information regarding the Conference will be sent to each member by the Conference Secretary in due course.

Particulars of topics earmarked for the Conference and Chairman of each session are given below :

Topics	Chairmen
1. Innovative Financial Instruments - Accounting Implications	Dr. R. Hariharan CRB Capital Markets Mumbai
2. Accounting & Information Technology	Prof. N. M. Khandelwal Director, Dept. of Management Studies M. D. S. University, Ajmer
3. Accounting & Societal Concerns	Prof. S. B. Singh Dept. of Commerce Lucknow University, Lucknow

Two copies of paper along with an abstract (not exceeding 200 words) should be sent by December 31, 1997, to :

Prof. K. Eresi

Chairman & Dean, Dept. of Commerce & Management
Bangalore University, Bangalore - 560 001

Fax : 080-3389295

E-mail : bang@sirnetb.ernet.in

For further details about the XXI Conference, interested members may contact either Prof. K. Eresi, or office-bearers of Indian Accounting Association viz.—

- * Dr. Bhagwati Prasad, President, IAA
80 Vaishali, Pitampura, Delhi-110 034
Phones : 713-3629 : 723-3473 ✓
- * Dr. D. Prabhakara Rao, General Secy., IAA
2 Shanmukha Apartments, China Waltair
Visakhapatnam-530 017
Phone : 555-538 ✓
- * Dr. Sukan Chand Jain, Treasurer, IAA
4-Ma-22 Jawahar Nagar
Jaipur-302 004
Phone : 652 107 ✓

Calcutta Branch

Indian Accounting Association - Calcutta Branch held its Annual Conference for the year 1996-97, on 15th March, 1997 under the auspices of the Department of Commerce with Farm Management of Vidyasagar University, Midnapore, West Bengal. In this Conference papers were invited, from the members of the Branch, on three topics, viz., Brand Accounting; Indian Accounting Standard for Construction Contract and Agricultural Taxation in India - Problems and Prospects.

The Vice-Chancellor of the University, being abroad, the Conference was inaugurated by the Dean, Faculty of Science, Vidyasagar University, and the Welcome Address was given by the Dean, Faculty of Arts and Commerce, of the same University.

Professor Sukumar Bhattacharya, the Chairman of the IAA - Calcutta Branch, being unable to attend the Conference in view of the sudden and sad demise of his wife, the first two sessions were chaired by Professor I. K. Chatterjee, the Vice-Chairman of IAA - Calcutta Branch. The session on Agricultural Taxation in India - Problems and Prospects was chaired by Professor D. P. Pande, the seniormost Professor of Commerce, Vidyasagar University.

While Dr. O. N. Dutta, Senior Faculty Member (Retd.), MTI, SAIL, Ranchi, presented the Keynote Paper on Brand Accounting, the Keynote Papers on Indian Accounting Standard for Construction Contract and Agricultural Taxation in India were presented by Mr. Niladri Roy, Price Water House, Calcutta, and Professor P. Das, Department of Economics, Vidyasagar University, Midnapore, respectively. Others who presented

papers on those topics included Dr. Debashis Bagchi, Sri Uttam Kumar Datta, Sri Gautam Mitra and Sri Arindam Gupta. Professor Subrata Ganguly and Professor Saroj Sengupta had been the most distinguished persons who among others participated in the discussion that followed the presentation of papers.

The Conference was attended by more than 100 delegates. While Dr. J. B. Sarker welcomed the delegates on behalf of the Organisation after giving a brief profile of IAA - Calcutta Branch, Dr. K. C. Paul, Head of the Department of Commerce with Farm Management of Vidyasagar University moved the vote of thanks at the end of the Conference.

Udaipur Branch

A Seminar on Internationalisation of Accounting : Challenges and Opportunities was held at HCM, RLA (OTC), Rani Road, Udaipur, on Sunday, the 10th August, 1997, under the joint auspices of M. L. Sukhadia University, Udaipur, Udaipur Branch of CIRC of the Institute of Chartered Accountants of India and the Indian Accounting Association, Udaipur Branch. The seminar provided a timely occasion to deliberate upon issues related with the scenario and the implications of Internationalisation of Accounting.

The inauguration of the seminar took place in a colourful way. Important dignitaries, distinguished academics and professionals graced the occasion by their presence. This was followed by first technical session on 'The Scenario and the Developments.' The second technical session was on 'Opportunities and Challenges'. The valedictory session was preceded by lunch.

The seminar was a grand success. Shri M. M. Chitale, President, ICAI, Prof. R. K. Rai, Vice-Chancellor, MLSU and Shri K. V. K. Sheshavataram, Chairman & MD, HZL, were the patrons. Prof. K. R. Sharma, Dean of the College of Commerce and Management Studies, MLSU, was Secretary of the Organising Committee. Dr. G. Soral was one of the members of the Technical Committee.

THE INDIAN ACCOUNTING ASSOCIATION

The Indian Accounting Association is an organisation of persons willing to assist in the advancement of accounting education and research. The registered office of the Association is at the College of Commerce and Management Studies, M. L. Sukhadia University, Udaipur-310001, India. Membership of the Association is open to academics and professionals who are willing to assist in achieving the objectives of the Association.

The membership fees for individuals are as under :

	India	Abroad
Life	Rs. 750	US \$ 100
Annual	Rs. 100	\$ 25

Members are entitled to participate in the activities of the Association and receive a free copy of the Indian Journal of Accounting and selected research publications.

INDIAN JOURNAL OF ACCOUNTING

Indian Journal of Accounting is an official publication of the Indian Accounting Association. It is published twice a year, in June and December, respectively.

The subscription rates are :

Individual	India (Rs.)	Abroad (US \$)
Annual	100	25
Life	750	100
Institutional		
Annual	500	100
Permanent	1,500	250

Other particulars of the journal are :

TECHNICAL

Periodicity : Bi-annual

Overall size : 24½ cm x 16 cm

Language : English

Printed area : 20 cm x 11½ cm

Manuscripts (in duplicate and neatly typed in double space) for publication in the *Indian Journal of Accounting* should be sent to Prof. Bhabatosh Banerjee, 164/78, Lake Gardens, Flat C-7, Calcutta-700 045. Each submission shall include a separate title page listing full particular(s) of the contributor(s). There shall not be any author(s) identification in the paper in order to facilitate blind review. Reference books and research publications for review (two copies of each title) should also be sent to the Chief Editor.

**STATEMENT OF OWNERSHIP AND OTHER
PARTICULARS OF JOURNAL**

Printer's Name	: Dr. D. Prabhakara Rao
Nationality	: Indian
Address	: Department of Commerce & Management Studies Andhra University Visakhapatnam-530 003
Place of Publication	: Calcutta
Periodicity of Publication	: Half-yearly
Publisher's Name	: Dr. D. Prabhakara Rao
Nationality	: Indian
Address	: Dept. of Commerce & Management Studies Andhra University Visakhapatnam-530 003
Chief Editor's Name	: Dr. Bhabatosh Banerjee
Nationality	: Indian
Address	: College of Business Studies University of Calcutta Calcutta-700 073
Name and address of individuals who own the newspaper and partners or shareholders holding more than one per cent of the total capital.	: Indian Accounting Association Andhra University Visakhapatnam-530-003

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(Sd/- Dr. D. Prabhakara Rao
Signature of Publisher

Printed in India by Dr. D. Prabhakara Rao at Ajanta Printers, 7B, Sitaram Ghosh Street, Calcutta-700 009 (Ph. 241-4249/241-3969) and published by him on behalf of the Indian Accounting Association,