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## **EDITORIAL**

For the first time, this issue incorporates interview of President American Accounting Association. This interview was conducted by President Indian Accounting Association. The issue is also having a presidents's page. An overview of corporate governance in Asian nations was described by Miss Neetu Prakash. Customer centric analysis of mutual funds investment was made by Mr. T. Vannirajan and others. Dr. B.B. Pradhan discussed in detail financial reporting in emerging capital market. An empirical study was made by Sofia Jasmeen on spending behaviour of credit card holders. Statistical evaluation of corporate earnings and stock returns was made by Dr. Y.V. Reddy and Rebello. A. Ghosh discussed the emerging area of forensic accounting briefly. The issue has also touched the issues like futures and options, impact on international listings on liquidity, leasing and stock market volatility. The accounting issue on revenue recognition was critically reviewed by Dr. H.J. Shukla.

**Date: 30.06.2007**

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## FROM THE PRESIDENT'S DESK

It is my honour and pleasure to serve as the President of Indian Accounting Association (IAA) for the year 2007. I convey my sincere thanks for your support and cooperation. Serving as your president is not only an honour, but also a challenge. The Executive Committee of the Association is working as a team and is determined to work hard to keep IAA operating for the benefit of its members in particular and the society in general. I have enjoyed working with the members as the Vice President and offer hearty thanks to all the members of IAA.

The need of the hour is innovation and creativity in accounting education and research. We have to develop imagination, passion and commitment to do what is new and more meaningful. India is going to become a knowledge based society. Our young students provide the nation a great opportunity so that our country can become an economic super power.

I feel proud to associate myself with the accounting branch of knowledge, which is considered as the language of business. The changing nature of accounting has posed many challenges before the Association. The Association has to increase its membership. Your participation, ideas and suggestions would make IAA work smoothly towards a bright future.

I wrote letters to all the branch secretaries of IAA. I have received suggestions to increase the networking among the members of IAA, to improve the quality of the technical sessions in our annual conferences and to include research articles in the area of Accounting in our Journal. We will make sincere efforts to do all these things. I request all the Branch Secretaries to collect the present address of all the members of their respective branches along with their e-mails and phone/mobile numbers so that it can be printed in the form of a book-let for distribution among members.

I would appreciate hearing from you. You can reach me at [ranjan\\_bal@yahoo.com](mailto:ranjan_bal@yahoo.com).

**Date: 30.06.2007**

**Prof. Ranjan K. Bal**  
Utkal University



## CONTENTS

Page

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CORPORATE EARNINGS AND STOCK RETURNS <i>Y.V. Reddy and R.W. Rebello</i>	1
INVESTMENT IN MUTUAL FUNDS: A CUSTOMER CENTRIC ANALYSIS <i>T. Vanniarajan and P. Gurunathan</i>	9
FINANCIAL REPORTING IN EMERGING CAPITAL MARKET <i>Bibhuti B. Pradhan</i>	18
CORPORATE GOVERNANCE IN ASIAN NATIONS <i>Neetu Parkash</i>	27
FORENSIC ACCOUNTING <i>Arindam Ghosh and Shantanu Chakraborty</i>	35
SERVICE INDUSTRY AND REVENUE RECOGNITION <i>Hitesh J. Shukla</i>	41
SPENDING BEHAVIOUR OF CREDIT CARD HOLDERS <i>Sofia Jasmeen</i>	50
LEASING INDUSTRY: FROM BOOM TO BANE <i>Rajinder Kaur</i>	57
IMPACT OF INTERNATIONAL LISTINGS ON LIQUIDITY <i>Navita Nathani, Simranjeet Sandhar, Silky Vigg and Umesh Holani</i>	63
LIMITED LIABILITY PARTNERSHIP (LLPS) & TAXATION ISSUES <i>Pradeep Singh</i>	70
STOCK MARKET VOLATILITY IN INDIA DURING SECOND GENERATION REFORMS <i>G.S. Rathore</i>	75
FUTURES AND OPTIONS <i>G.L. Malodia and Rashmi Rathi</i>	80
INTERVIEW WITH PRESIDENT AAA <i>Ranjan K. Bal</i>	83
BOOK REVIEWS	86

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## CORPORATE EARNINGS AND STOCK RETURNS

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\*Y.V. Reddy

\*\*R.W. Rebello

### ABSTRACT

*[This paper attempts to identify and appreciate the relationship between corporate earnings, interest rate and market price. This study carried out on selected stocks which are actively traded on National Stock Exchange, Mumbai for the period from 2001 to 2006. Multivariate Regression Analysis technique is used to verify the relationship between explanatory (independent) variables and explained (dependent) variable. Results from the analysis reveal that the market price of securities is highly correlated with the corporate earnings (cash basis) as well as risk free rate of interest.]*

Once in USA, Secretary of the Treasury, Alexander Hamilton proposed that securities issued by the states and federal government be redeemed at its face value. At that time, these securities were selling at a price much lower than face value because people were uncertain whether such securities would ever be redeemed. After Hamilton's proposal was made public but before it was adopted, congressmen and others who knew about the redemption plan made large prosending their agents into the countryside to buy the securities at depressed prices before most security holders heard of the plan. However, today, with the advent of electronic media and sophisticated quantitative techniques, it is not possible to make such abnormal profits by a few, as information reaches the holders of securities quickly and the prices change to new information without delay. In fact, the market often anticipates and reacts to news before it is officially made public.

At global platform, several financial economists have tried to evolve models and applied sophisticated techniques, to predict prices of securities that would prevail in the next trading day, week, month or year. However, it continues to remain as a jigsaw puzzle for most of the participants of the market. We, the authors of this article, believe that there are some

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fundamentals, which drive the market price of stocks. Therefore, we ventured out to identify the factors which influence the market price significantly. In pursuit of identification of factors primarily responsible for movement of prices, we undertook a study which is empirical in nature. Our study is aimed at identification and to appreciate the relationship between corporate earnings, interest rate and market price and then makes an attempt to establish a relationship between corporate earnings (cash profits), risk free rate of return and stock returns (market returns). In this study, we have considered cash earnings in the place of accounting earnings (book profits) in order to avoid accounting bias. Our basic aim is to convey the participants of market that value of stocks largely rests with fundamentals (earnings) rather than on extraneous factors such as rumours, grapevine, manipulators, speculators, arbitrageurs, high net worth investors, institutional investors, political events or events happenings in the society etc. Therefore, this study is an attempt to unearth the significant factors that influence the market price of stocks.

## **LITERATURE REVIEW**

Ajay Pandey (2003)<sup>1</sup> suggests that modeling and forecasting volatility of capital markets were an important area of inquiry and research in financial economics with the recognition of time-varying volatility, volatility clustering and asymmetric response of volatility to market movements. This stream of research has been aided by various conditional volatility (ARCH/GARCH type) models proposed to handle these empirical regularities. Andrew Ang and Jun Liu (2003)<sup>2</sup> have developed a model to value consistently cash flows with changing risk-free rates, predictable risk premiums and conditional betas in the context of a conditional CAPM. Practical valuation is accomplished with an analytic term structure of discount rates, with different discount rates applied to expected cash flows at different horizon. Burton G. Malkiel (2003)<sup>3</sup> in this paper presents a defense of passive financial investment (indexing) strategies in all types of investment market both nationally and internationally. Author justifies the case of such strategies by relying on the theory of efficient markets. Author suggests when information is generally arises about individual stock or about the market as a whole, that information is generally reflected in market prices without delay. John Y. Campbell and Motohiro Yogo (2003)<sup>4</sup> in their paper, suggest that tests of the predictability of stock returns may be invalid when the predictor variable is persistent and its innovations are highly correlated with returns. They also suggested two methods to deal with the problem. Firstly, they developed a pretest that determines when the conventional t-test is misleading. Secondly, they developed a new test of predictability that always leads to correct inference and is efficient compared to existing methods. Eugene Fama (1999)<sup>5</sup> states that stock prices fully reflect the most complete and best information available, has been a stubborn obstacle for active investors determined to find ways to beat the market. Eugene F. Fama and Kenneth R. French (2004)<sup>6</sup> suggest that the capital asset pricing model is still widely used in applications, such as estimating the cost of capital for firms and evaluating the performance of managed portfolios. The attraction of the CAPM is that it offers powerful and intuitively pleasing predictions about how to measure risk and the relation



between expected return and risk. Francis A. Longstaff and Monika Piazzesi (2003)<sup>7</sup> have made an attempt to quantify the risk premium attached to the standard asset-pricing theory. They have emphasized that equilibrium asset values can be expressed as the expected product of a pricing kernel and the cash flows from those assets. Hossein Asgharian and Björn Hansson (2002)<sup>8</sup> have, in this paper, investigated the ability of factor mimicking portfolios to explain expected returns in multifactor asset pricing models. In particular, the usual manner of constructing factor mimicking portfolios as zero-investment portfolios may result in estimated asset betas that are quite different from the asset betas against the underlying factors, which may seriously affect the test of asset pricing models. Jacob K. Thomas and Huai Zhang (2004)<sup>9</sup> suggest that this study is motivated by the apparent gap between predictions regarding the determinants of P/E ratios and empirical evidence. While P/E ratio should be positively related to anticipated growth and negatively related to risk and the level of interest rates, prior evidence suggests weak relations that are only observed at the portfolio level. Jeremy J. Siegel (2003)<sup>10</sup> defines a bubble as "a sharp rise in the price of an asset or a range of assets in a continuous process, with the initial rise generating expectations of further rises and attracting new buyers - generally speculators interested in profits from trading in the asset rather than its use or earnings capacity". John Y. Campbell and Samuel B. Thompson (2005)<sup>11</sup> suggest that towards the end of the last century, financial economists came to take seriously the view that aggregate stock returns are predictable. During the 1980s a number of papers studied valuation ratios, such as the dividend-price ratio, earnings price ratio or smoothed earnings-price ratio. Around the same time, several papers pointed out that yields on short-and long-term Treasury and corporate bonds are correlated with subsequent stock returns. Lakshmi Narasimhan S. and H. K. Pradhan (2003)<sup>12</sup> suggest that Indian stock market has witnessed drastic changes during the past decade under the broad stock market liberalization measures. In their study, authors have tested the validity of conditional CAPM for Indian stock market. Lewellen Jonathan, Stefan Nagel and Jay Shanken (2006)<sup>13</sup> argue that asset pricing tests are often highly misleading in the sense that apparently strong explanatory power, in fact provides exceptionally weak support for a model. They offer a number of suggestions for improving empirical tests and evidence that several proposed models don't work as satisfactory as originally claimed. Pitabas Mohanty (2001)<sup>14</sup> suggests that there is now considerable evidence in the US that firm specific characteristics like size, price-to-book value, market risk premium can capture the common variation in stock returns. However, there is no consensus among researchers on whether an investor can earn risk-adjusted excess returns by investing in the small stocks. Naiping Liu and Lu Zhang (2005)<sup>15</sup> state that recent studies have used the value spread to predict aggregate stock returns to construct cash-flow betas that appear to explain the size and value anomalies. Authors work shows that two related variables, the book-to-market spread (the book-to-market of value stocks minus that of growth stocks) and the market-to-book spread (the market-to-book of growth stocks minus that of value stocks) predict returns in different directions and exhibit opposite cyclical variations. Most important, the value spread mixes information on the book-to-market and market-to-book spreads and appears much less useful in predicting returns. Narasimhan Jegadeesh and Joshua Livnat (2006)<sup>16</sup> state that this literature documents significant

positive associations between earnings surprises and abnormal returns around the preliminary earnings announcements, as well as in the post-earnings announcement period. Since earnings is a summary measure of material economic events that affect a firm in a given period, the intense focus on earnings surprises by investors and academics is not surprising. Pandey I.M. (2005)<sup>17</sup> explores the significance of profitability and growth as drivers of shareholders value, measured by the market-to-book value (M/B). The author has studied relationship between profitability (economic profitability) on one hand and M/B ratio. Author has used panel data and employed GMM estimator and found that there is strong positive relationship between profitability and M/B ratio. Growth on the other hand, is negatively related to M/B ratio. Pastor Lubos and Pietro Veronesi (2002)<sup>18</sup> show that uncertainty about a firm's average profitability increases the firm's M/B ratio as well as its idiosyncratic return volatility. They suggest that this uncertainty is especially large for the newly listed firms, but it declines over time due to learning. Their model therefore predicts that both M/B and the return volatility of a typical young firm should decline as the firm ages. Moreover, this effect is stronger for firms that pay no dividends, confirming another prediction of the model. The model is also endorsed by the observation that M/B declines faster for younger firms. Finally, authors show that return volatility tends to be higher for younger firms, for firms with more volatile profitability, and for firms that pay no dividends, consistent with the model. G.P. Samanta and Kaushik Bhattacharya (2002)<sup>19</sup> in this paper have discussed the issue of whether the spread between Earning/Price (E/P) ratio and interest rate contains useful information about the movement of stock market. Torben G. Andersen, Tim Bollerslev, Francis X. Diebold and Clara Vega (2005)<sup>20</sup> have discussed as to how do markets arrive at prices? There is perhaps no question more central to economics. This paper focuses on price formation in financial markets, where the question looms especially large: How, if at all, is news about macroeconomic fundamentals incorporated into stock prices, bond prices and foreign exchange rates? Unfortunately, the process of price discovery in financial markets remains poorly understood. Tuomo Vuolteenaho (2001)<sup>21</sup> have used a vector autoregressive model (VAR) to decompose an individual firm's stock return into two components: changes in cash-flow (expected cash flow news) and changes in discount rates (expected returns news). By definition, a firm's stock returns are driven by shocks to expected cash flows (cash-flow news) and/or shocks to discount rates (expected-return news). He says that there is a substantial body of research measuring the relative importance of cash-flow and expected-return news for aggregate portfolio returns, but virtually no evidence on the relative importance of these components at the firm level.

## **SCOPE OF THE STUDY**

This study will focus on Indian Stock Market only. We have carried out a pilot study on few stocks which are actively traded on National Stock Exchange, Mumbai or Bombay Stock Exchange, Mumbai, with reference to post liberalization period especially during the last six years from 2001 to 2006. We have identified and selected companies which are growing continuously, growing at a constant rate and stable companies.

## OBJECTIVES

To establish relationship between corporate earnings (cash basis) and risk free rate of return - taken as independent variables - on market returns - taken as dependent variable.

## SOURCES OF DATA

A sample of 10 (ten) companies based on different investor's perception such as growth pattern, long standing, actively traded stocks and normally remained in A Group of BSE classification are chosen for the study. Market prices were picked up from published data of BSE - Mumbai, Cash Flows taken from Prowess Data Base of CMIE and Risk Free Interest Rate was taken from Reserve Bank of India's publications. We have used monthly closing price of BSE assuming that closing price fairly represents the average price which is adjusted for bonus shares, share splits, right shares, ESOPs etc. Operating Cash Flow is used from Cash Flow statement of the companies which is adjusted for effect of working capital. Average Interest rate published by the RBI is used for the purpose of analysis.

## TECHNIQUES

Multivariate Regression Analysis technique<sup>22</sup> with the help of SPSS software to verify the relationship between explanatory (independent) variables and explained (dependent) variable is used.

### LINEAR MODEL

$$Y_i = \beta_{0i} + \beta_1 (X_1)_i + \beta_2 (X_2)_i + u_i$$

### LOG LINEAR MODEL

$$\log Y_i = \beta_{0i} + \beta_1 \log (X_1)_i + \beta_2 \log (X_2)_i + u_i$$

### EXPONENTIAL MODEL

$$\ln Y_i = \beta_{0i} + \beta_1 \ln (X_1)_i + \beta_2 \ln (X_2)_i + u_i$$

Where,

i	=	1, 2, 3, .....n.
Y	=	Dependent variable (Market Price),
X <sub>1</sub>	=	Independent Variable (Cash flow),
X <sub>2</sub>	=	Independent variable (Risk Free Rate of Interest),
Log	=	Ordinary Log,
Ln	=	Natural Log,
β <sub>0</sub>	=	Intercept,
β <sub>1</sub>	=	Partial Slope Co-efficient of first independent variable,
β <sub>2</sub>	=	Partial Slope Co-efficient of second independent variable,
u	=	Stochastic Disturbances.



## ANALYSIS OF DATA

### SUMMARY OF RESULTS

No.	Company	$\beta_0$	$\beta_1$	$\beta_2$	$R_2$	F-Value	P-Value
1	HDFC	-863.5216	1.3609	16.399	0.99991	5720.4280	0.0093
2	Infosys Technologies	-718.7350	0.5487	67.438	0.97892	69.6648	0.0031
3	Wipro Limited	52.7671	0.1565	-0.696	0.99778	225.1004	0.0471
4	Gujarat Ambuja Ltd	-127.3636	0.2518	3.986	0.94213	24.4201	0.0139
5	Colgate Palmolive	-443.9494	3.6787	-	0.98587	139.5732	0.0071
6	Hero Honda	-622.0799	0.9877	-	0.96838	61.2535	0.0159
7	Ranbaxy Laboratories	0.61855	0.7419	-	0.99523	208.4690	0.0440
8	Ashok Leyland	-2.41858	1.6929	1.701	0.96651	28.8645	0.0334
9	HLL	439.97503	0.0836	-18.336	0.99778	149.8436	0.0599
10	State Bank of India	4.89829	-1.573	-1.775	0.84834	5.5941	0.1516

## RESULTS AND FINDINGS

The analysis carried out by us on selected companies revealed that there is high degree of correlation between market price of securities and the corporate earnings (cash basis) as well as risk free rate of return which is evident from the high  $R^2$  (98% to 99%) and low p-value (1% to 2%) in some cases.

For the purpose of analysis we have used absolute data in the case of the first six companies (No. 1 to No. 6) and used exponential growth rate for the last four companies (No. 7 to No. 10).

During the course of analysis we have observed that the first four companies' (No. 1 to No. 4) market prices are highly correlated both with the cash flows and risk free rate of return while next two companies' (No. 5 and No. 6) market prices are correlated with cash flows only.

Correlation of Companies indicated against No. 4 and No. 6 is slightly lower as compared to remaining four (No. 1 to No. 4) out of first six (No. 1 to No. 6) companies.

We have also observed that out of last four companies (No. 6 to No.10) the last three companies' (No.8 to No.10) market prices are highly correlated with the cash flows as well as risk free rate of return while first company's (No. 7) market prices are correlated with cash flows only.

Correlation of Companies indicated against No. 10 is slightly lower as compared to remaining three (No. 7 to No. 9) out of last four (No. 7 to No. 10) companies.

## CONCLUSION

During the analysis we have observed that whenever there is a change in the corporate earnings there follows a change in the market price of stocks. We have also observed that market prices do change due to change in the risk free rate of interest. However, in the case of a few companies, risk free interest rate is relatively less influential, as market prices of these companies remain stable; inspite of change in the risk free rate of return. This may also indicate that investors of these companies hold on to their securities irrespective of the change in interest rate. While carrying out the analysis we observed that in the case of first six companies (No. 1 to No. 6), absolute data reveals higher degree of correlation, and while in the case of other companies' (No. 7 to No. 10) exponential growth rate reveals higher correlation. This phenomenon occurs mainly because of the fact that the companies growing at a constant rate are highly correlated between growth rates of market price and growth rate of cash flow and interest rates. If market prices and earnings rate of the companies are subject to erratic growth rate then absolute data establishes close correlation. We have also observed that some companies' (No. 5, 6 and 7) market value is having highly correlated only with cash earnings while degree of correlation decreases as the risk free rate of return is included in the analysis. This indicates that the change in the interest rate does change the market price of these securities. Since the market value changes with change in cash flow and interest rate, it is incorrect to say that market price don't reflect the fundamentals of the company. If proper data base is made available in the public domain then it is possible for investors to analyse the fundamentals and take an appropriate investment decision. Since our study could establish that there is a definite relationship between corporate returns (cash basis) and stock returns and such relationship could be used to establish future relationship, then it would be worthwhile to convey the finding to regulatory authorities, so as to bring about the changes in disclosure norms.

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## INVESTMENT IN MUTUAL FUNDS: A CUSTOMER CENTRIC ANALYSIS

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### ABSTRACT

*The mutual fund companies are in the phase of hectic competition especially after globalisation. Since it is more costly to acquire a new customer than to retain an existing one, the mutual fund companies are focussing on customized product. The present study focuses on the identification of important factors leading to investment on mutual funds, impact of such factors on the investment of mutual funds and the discriminant factors among the risk takers and risk averters. The study was conducted among the investors at major cities in Tamilnadu. The findings of the study conclude that the important factors leading to invest in mutual funds are monetary, core product, fund strength, promotional measures, customer expectation and service quality factors. The significantly influencing factors on the investment on mutual funds among the investors are monetary, core product, customer expectation and service quality factors. The important discriminant factors among the risk takers and risk averters are core product and fund strength.*

In the early 1990s, investors used to have fewer funds to choose from. The Unit Trust of India, some state-owned insurance firms and banks, used to be the one-eyed being in the lands of blinds. These agencies used to manage funds of Rs. 470 billion. Presently there are around 30 different mutual funds operating in India, offering about 400 different schemes ranging from plain debt or equity funds to special schemes tailor-made to investors growth, safety and income requirements. The total assets under management, have now almost tripled with an even distribution between stocks and bonds due to a few strict regulations implemented by SEBI; and a new found interest among investors in the Indian capital market. The value of the assets under management is about 6 percent of India's Gross Domestic Product. However, they are very low, compared to the assets under management by individual mutual funds operating overseas.

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The present study aims the following:

- i) to identify the important factors influencing the investment on mutual funds;
- ii) to evaluate the impact of the factors on the amount of investment made on mutual funds; and
- iii) to reveal the important discriminating factors among the risk takers and risk averters in the mutual fund industry.

## **METHODOLOGY**

Tamilnadu was chosen for the current study as a data base on customers in mutual fund industry. Only five important cities in Tamilnadu have been included for the study namely Chennai, Coimbatore, Madurai, Trichy and Tirunelveli. The population sampled in the present study were 500 customers, 100 each belonging to each city. The pre-structured questionnaire was mailed to the investors. The initial response rate was only 18.00 percent. After the reminder was sent along with same questionnaire, the response rate enhanced to 32.00 percent. Hence, the total sample size of the present study came to 221 (90+131). Hence the research is based on non-probability, of convenient sampling collected during the period from September 2006 to December 2006.

Measures for the variables influencing the investment decision in mutual funds industry were drawn from the previous literature (Rao and Saikia, 2006; Jayadev et.al. 1998; Thomas, 2003; and Faisal and Maneesh, 2006). The investors were asked to rate given 30 variables for preferring mutual funds at five point scale from highly important to not at all important. Apart from this, the investors were classified into risk-takers and risk averters on the basis of their score on statements related to their risk taking ability.

The investors view on the variables influencing their investment decision in mutual funds had been measured at five point Likert scale. The assigned scores on these scales range from 5 to 1 marks. These scores had been analysed by factor analysis in order to identify the important factors leading to their investment decision. Before applying the factor analysis, the Kaiser-Meyer-Ohlin measure of sampling adequacy and Barttlets test of sphericity had been conducted to test the validity of data for factor analysis. The multiple regression analysis had been administered to evaluate the impact of the derived factors on the investment on mutual funds among the investors. In order to identify the important discriminating factors among the risk takers and risk averters, the two group discriminate analysis was carried out.

## **FINDINGS OF THE STUDY**

The 30 identified variables have been coded against a five point likert scale. The Rotated Component Matrix (RCM) for the 30 variables measuring the preference level in fund market. This has been obtained in seven iterations using SPSS (version 10). Initially, the KMO measures and Bartlett's test had been conducted. The result of KMO measures (0.7894) is greater than the

minimum of 0.50. At the same time, Bartlett's test of sphericity reveals the zero percent level of significance of the chi-square value which is lesser than the required level of significance of 0.05 percent. Both these measures indicate the validity of data for factor analysis. The factor analysis results in six important factors leading to investment on mutual funds. The factor loading of the variables in each factor, its reliability coefficient, its eigen value and the percent of variation explained are given in table-1.

The narrated six factors explain the variables leading to investment in mutual funds to the extent of 83.96 percent. The first two important factors narrated by the factor analysis are monetary and core product factors since the respective eigen values are 4.1159 and 3.6086. The monetary factor consists of seven variables with the reliability coefficient of 0.7149. It informs that the included seven variables in the monetary factor explain it to the extent of 71.49 percent. The second factor namely core product consists of seven variables with the reliability coefficient of 0.7326.

The next two important factors identified by the factor analysis are fund strength and promotional measures since their eigen values are 2.5868 and 2.1141 respectively. The fund strength factor consists of four variables with the reliability coefficient of 0.8188. The percent of variation explained by this factor is 15.84 percent. It infers that this factor alone explains all variables leading to investment on mutual funds to the extent of 15.84 percent. The promotional measures consist of four variables with the reliability coefficient of 0.8093.

The last two factors narrated by the factor analysis are customer expectation and service quality with the eigen values of 1.3632 and 1.2145 respectively. Each factor consists of four variables with the reliability coefficient of 0.7883 and 0.7117 respectively.

## **FACTORS LEADING TO INVESTMENT ON MUTUAL FUNDS**

The factors leading to investment on mutual funds are narrated by the factor analysis. The importance of each factor is examined with the help of the mean score of the various variables in each factor. The factor score on each factor has been computed among the risk-takers and risk-averters separately, in order to analyse the significant difference among the two group of investors regarding their importance given on factor leading to their investment decision, the 't' test had been administered. The resulted mean score of all six factors and its respective 't' statistics are shown in table-2.

The highly perceived factors among the risk takers are core product and monetary factors since their respective mean scores are 3.9199 and 3.2646. Among the risk averters, these factors are customer expectation and fund strength since their mean scores are 3.9949 and 3.9304 respectively. Regarding the importance given on the factors, the significant differences among the two groups of investors are noticed in the case of core product, customer expectation and service quality since their respective 't' statistics are significant at five percent level.

Table 1

Factor loading of the variables influencing the investment decision on mutual funds

Factor	Variables	Factor Loading	Reliability Coefficient	Eigen value	Percent of variation explained
Monetary	Range of schemes	0.9234	0.7149	4.1159	21.33
	Load conditions	0.8119			
	Minimum amount required	0.7968			
	Entry and exit loads	0.7336			
	Past performance	0.6894			
	Expenses charged	0.6237			
	Collaboration with reputed banks	0.5494			
Core product	Background of the promoters	0.8997	0.7326	3.6086	20.26
	Reputation of fund managers	0.8236			
	Type of portfolio and schemes	0.7494			
	Fund size	0.7211			
	Liquidity factors	0.6804			
	Corpus of the fund	0.6246			
	Performance	0.5917			
Fund strength	Brand image	0.9296	0.8188	2.5868	15.84
	Utilities offered	0.8334			
	Previous interaction	0.8071			
	Research team strength	0.7493			
Promotional measures	Advertisements	0.8596	0.8093	2.1141	11.17
	Timing of the scheme launching	0.8091			
	Redemption duration	0.7569			
	Distribution net works	0.7224			
Customer expectation	Safety	0.9083	0.7883	1.3632	8.22
	Convenience of investing	0.8334			
	Regular income	0.7696			
	Consistency in income	0.6969			
Service quality	Transparency	0.8508	0.7117	1.2145	7.14
	Reliability	0.7669			
	Responsiveness	0.7123			
	Level of technology application	0.6039			
KMO measures of sampling adequacy: 0.7894		Bartlett's test of sphericity : Chi-square value : 183.34*			

\* Significant at five percent level.

**Table 2**  
**Factors influencing investment decision on mutual funds**

S.No	Factors	Mean Score among the respondents		T. Statistics
		Risk Takers	Risk Averters	
1.	Monetary	3.2646	3.8189	-1.5459
2.	Core product	3.9199	2.8085	2.7831*
3.	Fund strength	3.0643	3.9304	-2.2096*
4.	Promotional Measures	3.2161	3.0114	0.3494
5.	Customer Expectation	3.0841	3.9949	-2.1776*
6.	Service Quality	2.9193	3.8486	-2.2085*

\* Significant at five percent level.

### IMPACT OF FACTORS ON THE INVESTMENT IN MUTUAL FUNDS

The perception on the factors leading to investment decision on mutual funds may have its own impact on the total investment made on mutual funds so far among the investors. The investments made on mutual funds so far among the investors are collected from the investors and it is treated as dependent variable (y). The score on the perception on various factors leading to investment decision are treated as independent variables. The multiple regression analysis has been administered to find out the impact among the risk takers, risk averters and also for pooled data separately. The fitted regression model is

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + b_5x_5 + b_6x_6 + C$$

Where as,

- Y = Investment made on mutual funds so far  
 $X_1$  = score on monetary factor among the investors  
 $X_2$  = score on Core factor among the investors  
 $X_3$  = score on fund strength factor among the investors  
 $X_4$  = score on promotional measures factor among the investors  
 $X_5$  = score on customer exploitation factor among the investors  
 $X_6$  = score on service quality factor among the investors  
 $b_1, b_2 \dots b_6$  = regression co efficient of independent variables.  
a = constant and  
e = error term

The significantly influencing factors on the investment made on mutual funds among the risk takers are monetary and core product factors. A unit increase in the above said two factors result in an increase in investment on mutual funds by 0.2446 and 0.3817 units respectively. Among the risk averters, the significantly influencing factors are monetary, promotional measures, customer expectation and service quality. A unit increase in the above said two factors results in an increase in the investment on mutual funds by 0.2511, 0.1886,

0.1731 and 0.2108 units respectively. The analysis of pooled data reveals that a unit increase in the perception on monetary, core product, customer expectation and service quality factors result in an increase in investment on mutual funds by 0.2171, 0.1478 and 0.1565 units respectively. The change in the perception on the included 7 factors explains the changes in investment on mutual funds to the extent of 83.96 percent.

The resulted regression coefficients are presented in table-3

**Table 3**  
**Impact of factors on investment on mutual funds**

S.No	Factors	Regression Coefficient among		
		Risk takers	Risk Averters	Pooled data
1.	Monetary	0.2446*	0.2511*	0.2171*
2.	Core product	0.3817*	0.1092	0.1478*
3.	Fund strength	0.1331	0.0884	0.1011
4.	Promotional Measures	0.0968	0.1886*	0.1122
5.	Customer Expectation	0.1142	0.1731*	0.1486*
6.	Service Quality	0.1081	0.2108*	0.1565*
	Constant	0.8968	1.3142	0.9939
	R <sup>2</sup>	0.7339	0.7404	0.8396
	F. Statistics	9.8186*	10.2607*	12.1718*

\* Significant at five percent level.

#### **Discriminant factors leading to investment on mutual funds among the risk takers and risk averters**

For the policy makers it is highly essential to understand the expectation of various investors in the capital market. Since the expectations of customers vary from segment to segment, the mutual funds unit should have an idea on the discriminant factors among the various segments. Then only they can formulate customized product and place it at right market at right time. Hence, the present study has made an attempt on identifying the important discriminant factors leading to investment decision on mutual funds among the risk-takers and risk averters. In the present study, the number of risk-takers and risk averters are 85 and 136 respectively. The scores on the perception on the six factors leading to investment on mutual funds among two groups of investors have been included for the two group discriminant analysis.

Initially, the mean difference among the two group of investors has been found regarding the perception on all six factors leading to investment decision. The 't' test has been used to test the significance of such mean difference. Wilks' Lambda is used. It is a multi-variant measure of group differences over discriminating variables. Values of Lambda near zero indicate high discrimination and when it equals its maximum value of one, the group centroids are equal and there is no discrimination. The computed mean difference, its 't' statistics and Wilks lambda are shown in table-4.



Table 4

Mean score and discriminant power of the factors among the risk-takers and risk averters

S.No	Factors	Mean Score among		Mean Difference	T. Statistics	Wilks Lambda
		Risk takers	Risk Averters			
1.	Monetary ( $X_1$ )	3.2646	3.8189	-0.5543	-1.5459	0.4217
2.	Core product ( $X_2$ )	3.9199	2.8085	1.1114	2.7831*	0.1098
3.	Fund strength ( $X_3$ )	3.0643	3.9304	-0.8661	-2.2096	0.1341
4.	Promotional Measures ( $X_4$ )	3.2161	3.0114	0.2047	0.3494	0.5963
5.	Customer Expectation ( $X_5$ )	3.0841	3.9949	-0.9108	-2.1176*	0.3163
6.	Service Quality ( $X_6$ )	2.9193	3.8486	-0.9293	-2.2085*	0.2646

\* Significant at five percent level.

The significant mean differences are identified in the case of four factors namely core product, fund strength, customer expectation and service quality since their 't' statistics are significant at five percent level. It infers that the significant difference among the two groups of investors is identified regarding the perception on above said four factors. The higher mean difference is identified in the case of core product which is followed by the core product and fund strength since their Wilk lambda are 0.1098 and 0.1341 respectively.

The significant factors are taken for the further analysis of fitting the two group discriminant function. The unstandardised procedure has been followed to fit the function. The fitted discriminant function is,

$$Z = a + b_1x_1 + b_2x_2 + \dots + b_nx_n$$

Where as

Z = Discriminant criterion

 $x_1, x_2 \dots x_n$  = Discriminant variables $b_1, b_2, \dots b$  = unstandardised canonical discriminant coefficient and

a = intercept

The relative power of the discriminant factor is calculated as

$$I_j = K_j (\bar{X}_{j1} - \bar{X}_{j2})$$

Where as

 $I_j$  = the important value of the jth factor $K_j$  = unstandardised discriminant coefficient for the jth factor. $\bar{X}_{jk}$  = mean of the jth factor for the kth group

The relative important weights may be interpreted as the portion of the discriminant scope separation between the groups that is attributable to the  $j$ th factor. Since a relative important value shows the value of a particular factor in relation to the sum of the important values of all factors, the relative importance of a factor ( $R_j$ ) is given by

$$R_j = \frac{I_j}{\sum_{i=1}^n I_i}$$

The end result using this procedure is discussed in the formula section. The unstandardised canonical discriminant function is

$$Z = -0.4011 + 0.2317 x_2 - 0.3841 x_3 - 0.1171 x_5 - 0.1086 x_6$$

The risk takers are characterised by higher perception on core product where as the risk averters are characterized by higher perception fund strength, customer expectation and service quality. The relative importance of each discriminant factor in discriminating two groups is given in table 5.

**Table 5**  
**Relative contribution of factors in total discriminant score**

Sl.No	Factors	Unstandardised canonical discriminant coefficient	Mean Difference	Product	Relative contribution in total discriminant score
1.	Core Product (x2)	0.2317	1.1114	0.2575	32.28
2.	Fuel Strength (x3)	-0.3841	-0.8661	0.3327	41.71
3.	Customer Expectation (x5)	-0.1171	-0.9108	0.1066	13.66
4.	Service quality (x6)	-0.1086	-0.9293	0.1009	12.65
	Total			0.7977	100.00
	Percentage of cases correctly classified		79.68		

\* Significant at five percent level.

It is the fund strength that the investors perceived, which discriminated the two groups, with the highest discriminating contribution of 41.71 percent. With an increase in the perception on fund strength the investors are able to be as risk averters. Next to it 'core product' has the second highest relative contribution in the total discriminant score, with a scope of 32.28 percent, followed by customer expectation and service. Quality with a scope of 13.36 and 12.65 percent. Similarly, on the basis of unstandardised discriminant weightment, the fuel strength and core product have more influenced the discriminant function since their discriminant co efficient are -0.3841 and 0.2317 respectively. The estimated discriminant function correctly classifies the cases of risk takers and risk averters to the extent of 79.68 percent. The analysis infers that

the two important factors discriminating the above said two group of investors are fund strength and core product.

## CONCLUSION

The important factors leading to the investment on mutual funds are monetary, core product, fund strength, promotional measures, customer expectation and service quality. Regarding the perception on above said factors, the significant differences among the risk takers and risk averters are identified in the case of core product, fund strength, customer expectation and service quality. The significantly influencing factors on the investment in mutual funds among the investors are perception monetary, core product, customer expectation and service quality factors. The important discriminant factors among the risk takers and risk averters are fund strength and core product. Hence, the players in the mutual fund industry have to prepare a suitable product strategy to meet the customer needs. Since majority of the investors are risk averters, they should concentrate more on fund strength, customer expectation and service quality apart from monetary factors. If the units in the mutual funds industry are highly customized, the growth of the industry will be high in near future.

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## FINANCIAL REPORTING IN EMERGING CAPITAL MARKET

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\*Bibhuti B. Pradhan

### ABSTRACT

*Financial reporting or disclosure connotes communication of published financial statements and related information from an enterprise to third parties including shareholders, creditors, customers, government agencies and the public. Over a period of past three decades, the financial reporting environment has been in a state of rapid evolution and it is a matter of concern to provide more financial reporting innovation beyond their legal exposure to meet the challenges of a free market economy. The mere reporting of financial statement has supplemented with digital reporting practices to gain the competitive advantages of the financial and non-financial information dissemination in the emerging capital market. The paper discusses financial reporting in emerging capital market. Now, the users of financial information look forward for an efficient capital market to access all publicly available or unpublished or confidential information set for better information content to take economic decision in lesser time interval. The issue of financial reporting in an emerging capital market needs for closer analysis, as the capital market in less developed and transitional economies are passing through a change scenario structurally a politically through an economic change in the country itself to meet the challenges in globalization, liberalization and privatization era, as some countries are small in size and some are free from the colonial eras in the middle of the 20th century. The purpose of this paper is to analyse (a) status of Emerging Capital Market (ECM), (b) Role of Financial Reporting in ECM and (c) Future of Financial Reporting in ECM.*

### STATUS OF EMERGING CAPITAL MARKET (ECM)

Emerging Capital Market (ECM) refers to the capital markets of countries, which are less developed, and transitional economies having exotic and remote financial markets. These are characterized by small capitalization, low liquidity, high volatility of returns, limited number of premium-grade and investment-grade securities, inflation or hyper inflation, high budget/

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trade deficits as percentage of GDP and large number of well developed domestic institutional investor base. International Finance Corporation (IFC) considers 80 countries as emerging capital market according to geographical locations:

Africa	Asia	Europe	Latin America	Middle East
Botswana	Bangladesh	Armenia	Argentina	Iran
Cote d'Ivoire	Bhutan	Bulgaria	Barbados	Israel
Cyprus	China	Croatia	Bermuda	Jordan
Egypt	Fiji	Czech	Bolivia	Kuwait
Ghana	India	Estonia	Brazil	Lebanon
Kenya	Indonesia	Greece	Cayman Island	Morocco
Mauritius	Korea	Hungary	Chile	Oman
Namibia	Kyrgyz	Latria	Colombia	Palestine
Nigeria	Malaysia	Lithuania	Costa Rica	South Arabia
South Africa	Mongolia	Poland	Dominion Rep.	
Swaziland	Nepal	Portugal	Ecuador	
Tunisia	Pakistan	Romania	El Salvador	
Zambia	Philippines	Russia	Guatemala	
Zimbabwe	Sri Lanka	Slovakia	Honduras	
	Taiwan	Slovenia	Jamaica	
	Thailand	Turkey	Mexico	
	Uzbekistan	Ukraine	Panama	
		Yugoslavia	Paraguay	
			Peru	
			Trinidad & Tobago	
			Uruguay	
			Venezuela	

The emerging capital market can be described as all those countries not considered developed, means the major European countries plus the US, Canada, Japan, Australia and New Zealand. Another approach would be simply for the Third World, Lesser Developed Countries (LDC) or under-developed countries. In general the emerging markets are to be identified by considering the key attributes like, level of income, growth rate, stages of development characterized by physical, social, economic and political characteristics as described under:

Indicators	Characteristics
Level of income	Gross Domestic Product (GDP)
Growth rate	Gross Domestic Product (GDP)
Stage of Development	Degree of openness Size of market in terms of use of cars, telephones, electronic goods, etc. State of financial markets including existence, size and degree of concentration of the stock market, and the size and depth of local bond markets
Stability	Significant potential for economic or political instability
Physical	Geography-large or small size, inaccessible regions or barriers to travel, distance from developed markets, Dependency on or vulnerability to weather patterns-monsoon, rains. El Nino effects Vulnerability to natural disaster-floods, earthquakes Poor infrastructure-transport, utilities, etc. Reliance on a few agriculture and/or primary commodities
Social	Language-impact of foreign language for international trade Tribal divisions Religion Population growth Skewed population distribution Poor health or poverty Concept of the extended family Low educational level
Economic	Skewed income distribution Managed economy-subsidized prices Dependence on primary exports and/or tourism and/or aid flows for foreign exchange Net oil importers Protected home markets IMF/World Bank support required Large black economy High unemployment or underemployment Lack of transparency State control of large part of economy Small or no stock exchange while those that existed are heavily influenced by trading in a few stocks Limited amount of stock in public hands Few large conglomerates operates in many sectors including banks Limited tax base-common tax avoidance Common use of US Dollars in lieu of local currency or the establishment of a more formal link between the two Two tier exchange markets



Borrowing by the state and private sectors often done in foreign currency  
High percentage of export proceeds committed to financing debts

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Political	<p>Stable but despotic/one party rule or regular change in government</p> <p>Domestic but not free election</p> <p>Multiparty governments with changing factions</p> <p>Historical legacy-colonial past or former communist state</p> <p>Potential for violent overthrow</p> <p>Patronage/cronyism</p> <p>Corruption</p> <p>Control of the press through this is being undermined by the Internet and satellite television</p> <p>Strong influence of the military</p> <p>Lack of legal framework or laws in place but not enforced</p> <p>Contracts not always honoured</p> <p>Internal conflict/repression</p> <p>War or threat of war</p> <p>Many regulations, together with a propensity to bring out new ones without consultation or thinking them through</p>
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In general, the emerging markets are identified on the basis of one or few dimension. The common single dimensional measures are on the basis of location, income levels, political status, economic performance, and level of indebtedness and market potentials. The composite classifications are undertaken by various groups for their analysis on the basis of micro decision variables of their usability. For example, Country Rating for local and foreign currency exposure of Standard & Poor, Corruption Perception Index (CPI) of Transparency International, Economic Freedom Index (EFI) of Heritage Foundation and Gray Area Dynamics (GAD) of Merchant International Group.

Over the past ten years the emerging capital market has potentially changed to a great extent due to improvement in the technology, communication and transportation in one side and due to market maturity of developed countries, high cost of manufacturing and changing attitude to outside investors in spite of lack of transparency, protectionism, inadequate laws, lack of independence of the central bank, nationalization, political interferences and lack of international standards of accounting.

## ROLE OF FINANCIAL REPORTING IN ECM

International Federation of Accountants (IFAC) consist of 157 member organizations spinning 118 countries representing more than 2.5 million accountants employed in public practice, government, academic institution, industries and commerce commissioned a Task force on Rebuilding Confidence in Financial Reporting in October 2002 submitted their report in July 2003 with a number of recommendations with the aim of working towards a resolution of this issue with weaknesses identified, assumptions and recommendations:

## **IDENTIFIED WEAKNESSES**

1. Management incentives tied to share prices can produce unacceptable self-satisfying behaviour,
2. Internal discipline and controls neglected due to entities concentrating sly on the 'bottom line',
3. The failure by boards to engender a strong governance culture,
4. Auditor independence is continually called into question, particularly in relation to the provision of non-audit services,
5. Difference in accounting standards among countries can cause confusion and impedes internationally comparability,
6. Convergence with international standards is the intent of most countries but few have in place an adequate implementation plan,
7. Regulation of both companies and professions may vary In effective ness particularly where Independent monitoring is weak, and
8. An alarming trend has emerged where some participants in the financial reporting process have failed to act ethically.

## **BASIC ASSUMPTIONS**

1. Credibility of financial reporting in both a national and international issue, with action required at both levels;
2. To improve credibility, action is necessary at all points along the financial reporting information supply chain, and
3. Individual and institutional integrity is paramount to the successful implementation of IFAC recommendations.

## **RECOMMENDATIONS**

1. Corporate ethics codes to be implemented and widely distributed to all stakeholders, supported by effective monitoring and training.
2. Greater emphasis on effective financial management and controls by corporate management. Chief Financial Officers (CFOs) to possess adequate knowledge of reporting and internal controls assessed by the Chief Executive Officer (CEO) and audit committee.
3. Incentives to misstate financial information should be minimized. IFAC supports the introduction of a new standard requiring the expensing of costs associated with, and clear disclosure of the terms surrounding, the granting of share options. In addition, an independent body separate from management, should determine the employment and associated remuneration conditions of those in senior management positions.

4. Company boards to adopt a greater oversight role over management. The board should also evaluate their own performance. In addition, audit committees should consist of members that are financially literate and appropriately trained for the role. The committee should also be in a position to hold private meetings so that matters regarding management can be discussed openly and without fear of recrimination.
5. Threats to auditor independence need to be minimized. The auditor's primary relationship should be with a governance body (i.e. board, audit committee) and not with management. Audit firms should reassess their profit distribution policies and other internal processes. Mechanisms should also be established to provide greater control over the provision of non-audit services by audit firms.
6. Greater focus on maintaining the quality of the audit process, including acceptance and retention policies and independent partner and post-audit reviews.
7. Codes of conduct to be developed for other participants in the financial reporting process such as financial analysis, legal advisors, credit-rating agencies and investment banks.
8. Support the strengthening of auditing standards and encourages the International Auditing and Assurance Standards Board (IAASB) to finalize the updating of its standards in a timely manner, particularly in relation to the assessment of risk and fraud. The adequacy of IAASB resources should also be evaluated.
9. Support International Financial Reporting Standards (IFRSs) becoming the worldwide accounting standards and agrees with the principles-based approach of the International Accounting Standards Board (IASB), as 'a rules-based approach encourages a legalistic approach and the finding of loopholes, rather than attention being given to the objectives and principles of the standard.' The convergence process should be given top priority and the IASB and national standards setters are encouraged to cooperate in order to achieve the convergence objective.
10. Note the need for improved regulation of share issuers. This can be achieved through the performance of regular and timely post-issue financial statement reviews and the speedy 'implementation of national regulations consistent with International Organization of Securities Commissions (IOSCO) Principles of Securities Regulation'.

This gave for moving towards global reporting standards for greater comparability of financial information for investors; greater willingness on the part of investors to invest across borders; lower cost of capital; more efficient allocation of resources; and higher economic growth. The initiation of International Accounting Standards Board (IASB) to form a stable platform of generally high quality International Financial Reporting Standards (IFRS) has been accepted by many countries around the world from 2005 on the two principal reasons: first, the general and increasingly complexity of IFRS-led, to a large extent, by a move towards convergence with US GAAP; and second, the fact that the IASB's new and improved standards are based, to a greater extent than any national accounting standards, on an accounting model that focuses clearly on the primacy of assets/liabilities recognition and measurements.

The US Financial Accounting Standard Board (FASB), the International Accounting Standard Board (IASB) and the UK Accounting Standard Board (ASB) have formulated three major conceptual frameworks. Of these, FASB Statement of Financial Accounting Concept, the first of which was issued in 1978, constituted the oldest and most extensive framework, and both the IASB's Framework for Preparation and Presentation of Financial Statement (1989) and the ASB's equivalent statement are derived from it in Important respects. The FASB framework is, in turn, based on general information theory, which concentrates on the role of information in decision-making. Both the FASB framework and its more recent relatives, therefore, give priority to the usefulness of information for decision making and the characteristics of information that are supposed to follow from that. The conceptual framework of accounting is a coherent system of interrelated objectives and fundamentals that can lead to consistent standards and that prescribe the nature, function, and limits of financial accounting and financial statements. There are more similarities than differences characteristics extent conceptual frameworks in countries with micro-user oriented accounting systems. Most conceptual frameworks contain:

- A statement of aims or objectives of financial accounting,
- Targeted users f financial statements,
- Financial accounting statements that ought to be issued,
- Qualities and characteristics of good financial accounting,
- Limitations of financial statements,
- Scope of applicability of conceptual framework,
- Definition of reporting entity,
- Definition and basis of recognizing financial statement elements,
- Measurement of financial statement elements and concept of capital maintenance.

Above all, the qualitative characteristics of financial information for evaluating financial reporting needs special attentions for an emerging capital market scenario, as identified by the FASB, viz: materiality, relevance, reliability, comparability and understandability.

## **FUTURE OF FINANCIAL REPORTING IN ECM**

The future of financial reporting of a country depends upon the government policies and the understanding the need for accounting harmonization. In ECM the willingness and capabilities are the two important factors after government regulation to this effect. The recent joint study of PWC and the EIU on International Trends in Financial Reporting revels the following in context to insurance industry, which has emerged the biggest emerging industry in the current century:

1. 34% in primary and 19% in secondary group will be using IFRS by 2005 against, 33% in primary and 21% in secondary with US GAAP, 32% in primary and 21% in secondary with national GAAP, where as 15% in primary and 9% in secondary has not decided upon.

2. 63% has agreed that IFRS will be more transparent in their reporting and 47% has foresee the competitive advantage of using IFRS over institutions that do not have.
3. The disclosure challenges with regard to IFRS has been visualize in respect of metrics in place at all, internal metrics in place but not reported and internal metrics in place and reported in respect of customer retention, customer penetration, market share, market growth, product innovation, quality of management, brand equity, risk management practices, compliance policies, compensation policies, market risk exposure, competitive land space and economic capital. Market share, market growth, product innovation, risk management practices, compliance policies, market exposure and economic capital are reported more than 30%.
4. With regards to main barriers to the creation of such global accounting standards, it has been shown that the major barriers are lack of consensus among regulators about desirable scope of global standards, conceptual difference regarding rule-based and principle based approaches to standards, and facilitating consistent interpretation of standards across different jurisdictions.

The successful implementation of international accounting standards depends on the following (Peter Wong):

- understanding the meaning of international convergence;
- translation of international standards;
- complexity and structure of international standards;
- frequency, volume and complexity of changes to the international standards;
- challenges for (small and medium-sized entities and) accounting firms;
- potential knowledge shortfall; and
- implication of endorsements of IFRSs.

## CONCLUSION

The emergence of IFRS has smoothened the harmonization of accounting standards not only for developed country but also emerging countries. The adoptability of IFRS in developing and underdeveloped countries will attract the foreign investment and help the economy to grow faster than before. ICAEW initiates newer reporting models for business for facilitating international moves to call for change in a revolutionary spirit in business reporting practices for better transparency, improved long-term business performance, better relation with investors and other stakeholders, consequential reduction in share price volatility and cost of capital, enhance value creation and more efficient resources allocation in one hand and strengthen the emerging market better with the introduction of Kaplan and Norton's the Balanced Scorecard, AICPA's Comprehensive Model of Business Reporting, Royal Society for Encouragement of Arts, manufacturers & Commerce's Tomorrow's Company, ICAEW's 21st

century Annual Report on web-technology and Reporting to Shareholders Value, ICAS's Inside Out, Arthur Andersen's value Dynamics, Global Reporting Initiative's Sustainability Reporting, Brooking Institution's Unseen Wealth, PWC's value Reporting and Hermes Pensions management Ltd's Hermes principles.

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## CORPORATE GOVERNANCE IN ASIAN NATIONS

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\*Neetu Parkash

### ABSTRACT

*Although the attempts made by the corporate sector of the Asian Nations regarding accounting and auditing practices are highly appreciable, and on line with the international norms. Yet, more efforts are required to make corporate governance practices more meaningful and effective because there are lot of discrepancies regarding the framework and enforcement of rules and regulations of corporate governance. The investors of Singapore, Korea and India, and to lesser extent Hong Kong and Malaysia, have stated playing a crucial role for promoting the corporate governance practices in their nations.*

The responsibility, for ensuring the success of corporate governance lies on the board, the Shareholders and the employees. Corporate governance is therefore basically, a system of making directors accountable to shareholders for the effective management of the companies, in the best interest of the company and also with adequate concern for ethics and values. Corporate governance has also responsibility towards consumer and environment. In fact, the concept of corporate governance is to some extent similar to quality practices adapted under the ISO standard.

### OBJECTIVES AND METHODOLOGY

Present research work is conducted to provide evidence on corporate governance practices and policies of ten Asian nations by considering the relevant parameters. Specifically, the objectives of the study are as follows

- (i) to study the rules and regulations governing all the companies under the Companies Act and other relevant Acts
- (ii) to study are the rules and regulations properly enforced on the corporate sector, followed by the impact of political and regulatory environment on the corporate sector?

- (iii) to study accounting and auditing practices prevailing in these nations and is there any re-conciliation with international standards.
- (iv) to study the institutional mechanism and corporate culture of the corporate sector of Asian economies

For the said purpose, the annual reports for the year end 2005 of CLSA Asia-Pacific Market (Collaborative study of Asian markets undertaken by independent stock broker) and Asian Governance Associates (ACGA) is identified. The parameters, on the basis of ranking is done by CLSA/ACGA are given below.

- $P_1$  = Reporting of annual results by the companies within two months
- $P_2$  = Have reporting deadlines been shortened in the past three years
- $P_3$  = Is quarterly reporting mandatory
- $P_4$  = Are class action law suits permitted
- $P_5$  = Is voting by poll mandatory for resolutions at AGM.
- $P_6$  = Do securities laws require disclosure of ownership stakes above 5%
- $P_7$  = Do securities laws require prompt disclosure of transactions by directors and controlling shareholders
- $P_8$  = Can shareholder easily remove a director who has been convicted of fraud or other serious corporate crimes.
- $P_9$  = Will share option expensing become mandatory over the next ten months.
- $P_{10}$  = Is there an independent commission against corruption that is seen to be effective in taking action against public and private sector companies
- $P_{11}$  = Is the statutory regulator i.e. Securities Commission (and not part of the Finance Ministry)
- $P_{12}$  = Is disclosure of consolidated accounts mandatory.
- $P_{13}$  = Is disclosure of segment reporting mandatory.
- $P_{14}$  = Is disclosure of connected transactions mandatory.
- $P_{15}$  = Is disclosure of audit and non-audit fee paid to the external auditor mandatory.
- $P_{16}$  = Does the government or the accounting regulator have a policy of following international standards of auditing
- $P_{17}$  = Are the institutional investors involved in promoting better corporate governance practices.
- $P_{18}$  = Are retail investors involved in promoting better corporate governance practices
- $P_{19}$  = Have retail investors formed their own shareholder activist organisation.

The key determinates behind accessing corporate governance standards are rules and regulations 15% (covering parameters  $P_1$  to  $P_9$ ), enforcement 25% (covering parameters  $P_{10}$ ),

the political and regulatory environment 20% (covering parameters  $P_{11}$ ), accounting and auditing 20% (covering parameters  $P_{12} - P_{16}$ ) and institutional mechanism and corporate culture 20% (covering parameters  $P_{17} - P_{19}$ )

The basic assumption of the study is that all the corporate working in Asian nations has same corporate governance practices. The statement of null hypothesis is that "There is no significant difference in the corporate governance practices operating in Asian nations". The alternative hypothesis is that "There is a insignificant difference in the corporate governance practices the corporate units working in Asia."

This text presents the analysis and interpretation of research findings based on the corporate governance practices of ten nations.

## RULES AND REGULATIONS IN ASIAN COUNTRIES

It is apparent from the below table that in Singapore, Malaysia, Indonesia and Thailand regulators require companies to report their annual results with in a two months of financial period end. Similarly, quarterly reporting is mandatory in most of the Asian market with the notable exception being Hong Kong, where a strong resistance to change appears the persist among of the territory large companies. There is continued reluctance among Asian markets not to shorten their annual reporting deadlines especially in China, Hong Kong, Korea, Philippines and Taiwan

As far as the disclosures made under Securities Laws are concerned, most of the Asian markets (except Philippines and Taiwan) are required to disclose owner stakes above 5% and almost all the Asian market except Indonesia are required the disclose details of shareholder transactions and controlling shareholders It is very important to mention here that only Korea has introduced comprehensive class action litigation (w. e. f. January 2005) to assist investors to fight against securities violations. The CLSA/ ACGA has also observed that unfortunately, no market has yet introduced mandatory "Voting by Poll" rather than a simple "Show of Hands" for all resolutions at shareholders meeting. Only Hong Kong and Taiwan are rare examples of markets that require "voting by poll" for major resolutions. A serious matter is also observed that only Singapore and Taiwan and, to a lesser degree, Korea has regularized that make it easy to remove directors who convict fraud and other serious corporate crimes.

Overall, regarding rules and regulations Singapore is rated on No I (7.9%), followed by Malaysia (7.1%), and Honk Kong and India (6.6%) by CLSA±ACGA ranking.

**Table 1**  
**Rules and Regulations of Corporate Governance in Asian Nations**

Name of the country	P <sub>1</sub> Reporting of annual results within two month)	P <sub>2</sub> Reporting deadlines shortened	P <sub>3</sub> Quarterly report mandatory	P <sub>4</sub> Class action law suits permitted	P <sub>5</sub> Voting by poll mandatory	P <sub>6</sub> disclosure of owner ship state above 5%	P <sub>7</sub> disclosure by directors and controlling share holders)	P <sub>8</sub> Removal of directors by share holders	P <sub>9</sub> (Share option expen sing manda tory)
China	X	X	S	S	X	√	√	S	X
Hong Kong	X	X	X	X	S	√	√	S	√
India	X	√	√	X	X	√	√	X	S
Indonesia	√	√	√	X	X	S	X	S	S
Korea	X	X	√	√	X	√	√	X	X
Malaysia	√	X	√	X	X	√	√	S	X
Philippines	X	X	√	X	X	X	√	S	√
Singapore	√	√	√	X	X	√	√	√	√
Taiwan	X	X	S	S	S	X	S	√	S
Thailand	√	S	√	X	X	√	√	X	X

Indicators: √ = yes, X = No, S = Somewhat

Source: CLSA Asian - Pacific Markets Asian Corporate Governance Association Report 2005.

Calculated value of 't' = 4.82

Table value of critical region at 5% ('t' 0. 05) = 2.306

Significant difference between rules and regulations (with regard to CG) in Asian markets.

## ENFORCEMENT OF RULES AND REGULATIONS

As we know from table I that no doubt, Singapore, Malaysia Hong Kong and India have declared as Rank I, II and III respectively in framing rules and regulations on corporate governance, but only Hong Kong and Singapore have independent commission to overseas the enforcement of all these rules and regulations on corporate sector, as shown below.

**Table 2**  
**Enforcement of Rules and Regulations of Corporate Governance in Asian Economies**

Name of the country	P <sub>10</sub> (Independent commission against corruption)
China	x
Hong Kong	√
India	s
Indonesia	x
Korea	s
Malaysia	s
Philippines	x
Singapore	√
Taiwan	x
Thailand	x

Source: Compiled from CLSA Asia - Pacific Market, Asia Corporate Governance Association 2005.

## POLITICAL AND REGULATORY ENVIRONMENT IN ASIA ECONOMIES.

As far as political and regulatory environment is concerned for promoting the corporate governance in Asian economies, only Hong Kong has statutory regulator i.e. Securities Commission which is autonomous of government not the part of finance ministry, while the other nations have no doubt Securities Commission but it is a autonomous of government up to some extent.

**Table 3**

### Political and Regulatory Environment of Asian countries

Name of the country	P11 (Is securities commission autonomous of government or not)
China	S
Hong Kong	√
India	S
Indonesia	X
Korea	S
Malaysia	S
Philippines	S
Singapore	S
Taiwan	S
Thailand	S

Source: CLSA Asia Pacific Market: Asian Corporate Governance Association Report 2005.

## ACCOUNTING AND AUDITING PRACTICES

Table 4 presents the accounting and auditing practices adopted by the corporate sector of the Asian economies.

It is observed from table 4 that almost all the Asian nations have accounting standard regarding disclosure of consolidated accounts segment reporting, connected transactions and audit and non-audit fee paid to the external auditor (except Indonesia). Most of the Asian markets have improved their accounting standards into line with international norms but there are still significant discrepancies in India, Indonesia, Korea and Taiwan For e.g. in India, the accounting standards for software companies, mergers and acquisitions ESOP, disinvestment, environment accounting, etc are not in line with International GAAP. More over, ICAI has issued 29 accounting standards till date where as US GAAP and International GAAP has issued 41 and 41 accounting standards respectively till date. Same is the case of Indonesia where the adoption of accounting standards is half hearted?

## INSTITUTIONAL MECHANISM AND CORPORATE CULTURE

The table 5 presents the role of institutional as well as retail investors for promoting the corporate governance in Asian markets.

**Table 4**  
**Accounting and Auditing Practices in Asian countries**

Name of the country	P <sub>12</sub> (Disclosure of consolidated accounts)	P <sub>13</sub> (Disclosure of segment reporting)	P <sub>14</sub> (Disclosure of connected & transactions)	P <sub>15</sub> (Disclosure of audit & non audit fees)	P <sub>16</sub> (Policy of reconciliation with international standards)
China	√	√	√	√	√
Hong Kong	√	√	√	√	√
India	√	√	√	√	S
Indonesia	√	S	√	X	S
Korea	√	√	√	√	S
Malaysia	√	√	√	√	√
Philippines	√	√	S	S	√
Singapore	√	√	√	S	√
Taiwan	S	S	√	√	S
Thailand	√	√	√	√	√

Source: Compiled from CLSA Asia- Pacific Market, Asian Corporate Governance Association Report 2005.

Calculated value of  $t=1.013$ , Table value of critical region at 5% ( $t_{0.05}$ )=2.776

No significant difference between accounting and auditing practices adopted by the corporate sector of Asian nations

**Table 5**  
**Institutional Mechanism and Corporate Culture in Asian Countries**

Name of the country	P <sub>17</sub> (Role of institutional investors)	P <sub>18</sub> (Role of retail investors)	P <sub>19</sub> (Role of retail investor's Associations)
China	X	x	x
Hong Kong	S		x
India	S	s	
Indonesia	X	x	s
Korea	S		
Malaysia	S	s	s
Philippines	X	x	x
Singapore	S		
Taiwan	S	x	x
Thailand	S	x	x

Source: Compiled from CLSA Asia Pacific Market: Asian Corporate Governance Association Report 2005.

Calculated value of  $t'=6.491$ , Table value of critical region at 5% ( $t_{0.05}$ )= 4.303

Significant difference with regard to institutional mechanism and corporate culture of corporate sector of Asian nations



So far as the role of institutional investors are concerned for the promotion of corporate governance practices, it is surprised to see that it is almost negligible in case of China, Indonesia and Philippines and in lesser extent prevailing in case of the rest of the Asian markets for e.g. in Thailand, the institutional investors such as asset management firms, LIC, trusts etc have collectively managed 23 Bn \$ to form the Institutional Investors for promoting the better corporate governance in a country.

The retail investors of Hong Kong, Korea and Singapore are fully engaged in promoting better corporate governance practices in their nations, and in lesser extent in case of Malaysia and India. It is cause of worry that only Singapore, Korea and India have shareholders activist organization for the promotion of corporate governance practices and to a lesser degree Indonesia and Malaysia. For e.g. in Singapore the "Securities investor's Association" works with companies to nominate independent directors and also have plan to collaborate with fund managers to improve corporate governance in their companies in which they invest.

Is there any significant difference between overall corporate governance practices prevailing in Asian countries or not, it is tested through "t" test. The calculated value of 't' is 5.508. Where as the tabulated value of 't' is 2.101 at 5% level of significance. So broadly rejecting the null hypothesis and accepting the alternative hypothesis that there is a significant difference between corporate governance practices in the corporate sector of Asian countries

## CONCLUSION

Although the accounting and auditing practices adopted by the corporate sector of Asian economies are almost similar, and they have also policy to follow accounting standards in line with international norms, but framework and enforcement of rules and regulations are concerned, there are discrepancies in Asian nations. It is very surprised to know that only one country i.e. Singapore has statutory regulatory body. So far as the role of retail investors as well as institutional investors are concerned, only Singapore, Korea, India and to lesser extent Hong Kong and Malaysia, the investor have taken the lead and have started playing a crucial role for promoting corporate governance practices in these nations. Though, the attempts made are highly appreciable, yet more efforts are required to make corporate governance practices more effective as given below

- (i) There should be adequate law relating to the functioning of business enterprises, covering the entire spectrum from registration of companies, their structure and settlement of disputes, law relating to capital market and punishment for bad practices like insider trading and so on.
- (ii) There should be increased reliance on self-regulatory mechanism, since legislation can only ensure compliance with the letter of law and not the spirit
- (iii) The regulator should see that the recommendations of various committees are not just on paper, but the companies should implement them.

- (iv) There must be complete co-operation between Department of Company Affairs (DCA) and different industry associations, institutions such as ICAI, ICWA, etc for framing policies and guidelines regarding corporate disclosure.
- (v) The corporate sector should adhere to international practices.
- (vi) Industrial associations and regulators like as FICCI, etc should continuously study the best corporate governance practice of other nations since there is orientation of listing of companies at stock exchanges of other nations.
- (vii) The role of media should be increased so that better corporate governance practices of the other nations may be incorporated in their own corporate culture.

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## FORENSIC ACCOUNTING

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### ABSTRACT

*Forensic Accounting utilizes accounting, auditing, and investigative skills to conduct an examination into a company's financial statements. Thus, it is a subject for providing an accounting analysis that is suitable for court. Forensic accounting involves looking beyond the obvious. Forensic accountants employ their investigative techniques as an effort to find fraud or to focus locations where fraud is believed to be. They have no permanent clients and therefore are potentially more independent than auditors. Their existence thrives upon detecting and preventing white-collar crime. Forensic accountants are also increasingly playing more proactive risk reduction roles by designing and performing extended procedures as part of the statutory audit, acting as advisors to audit committees, and assisting in investment analyst research.*

Forensic Accounting is a science (i.e., a department of systematized knowledge) dealing with the application of accounting facts gathered through auditing methods and procedures to resolve legal problems. Forensic accounting is much different from traditional auditing. Forensic Accounting is the integration of investigative, accounting, and auditing skills. Forensic accounting, sometimes called investigative accounting, involves the application of accounting concepts and techniques to legal problems. Forensic accounting is the special practice area of accounting that describes engagements that result from actual or anticipated disputes or litigation. 'Forensic' means suitable for use in Court, and it is to that standard and potential outcome that forensic accountants generally have to work.

In general, Forensic Accounting in the application of a specialized body of knowledge to the evidence of economic transactions and reporting, suitable to the purpose of establishing accountability and/or valuation, often in a court of law or administrative proceeding.

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## CONCEPT

Forensic accounting is different from the old debit or credit accounting as it provides an accounting analysis that is suitable to the organization, which will help in resolving the disputes that arise in the organization. Forensic accountants, utilize accounting, auditing and investigation skills while conducting an investigation. Forensic Accounting is a profession, which specifically uses investigative methodologies combined with financial experience to a legal end. The field itself overlaps into various professions from divorce litigation to various forms of white collar crime. Every day more and more accountants are becoming aware of this growing field. Large accounting firms like KMDG, Price Waterhouse Coopers, and BDO Seidman have caught onto the trend, creating departments which specifically handle fraud,

In general, forensic accounting is the application of a specialized body of knowledge to the evidence of economic transactions and reporting, suitable to the purpose of establishing accountability and/or valuation, often in a court of law or administrative proceeding. Forensic Accounting is the practice of utilizing accounting, auditing and investigative skills to assist in legal matters and the application of specialized body of knowledge to the evidence of economic transactions and reporting, suitable to the purpose of establishing accountability or valuation of the administrative proceeding. In wide sense, it can be said as the integration of accounting, auditing and investigative skills to obtain a particular result.

Forensic accountants often retain to analyse, interpret, summarise and present a complex problems or business issue in a manner, which is understandable and probably supported. Also they are often involved in various activities such as investing and analyzing financial evidences, developing computerized applications, communication, exhibiting documents and presenting the evidence obtained. The new and ground-breaking accounting has two main areas:

1. Litigation, Support and Investigation and
2. Dispute Resolution.

## NEED

The need for Forensic accounting aroused because of the failure of audit systems in the organisations as the organisational internal audit and other audits failed to figure certain errors in the managerial systems. A nation wide study conducted by Kessler International showed that 39% of organisations have considered the need for a forensic accountant within the past. 28% said they already sought help from a forensic accountant, 18 percent said they required no assistance, and 15 percent were unsure of whom or where they should turn to for help.

A study conducted by the Price Waterhouse Coopers titled Global Economic Crime Survey 2003 suggested a need, a promote, a greater transparency as well as to improve crime detection. This survey included India too and data was collected from one thousand companies across manufacturing, services and financial services industries. The respondents perceive that corruption and bribery are the most prevalent economic crime in India. The other types of

economic crimes perceived to have high prevalence include financial misrepresentations, asset misappropriation and product piracy and counter-fitting. Further in India, one out of four respondents reported experiencing significant economic crime over the past two years. (During 2001-2003). A study conducted by KPMG in India also found that economic frauds are increasing year by year. This is the relevance and requirement of Forensic Accounting.

The following are some of the important reasons for the growth of forensic accounting:

1. Internal audit and audit committees as a part of the management function could not throw light on different facts and other hidden aspects.
2. Rotation of the statutory auditors touches a part of the problem while it requires emphasis but it adversely needs longer duration. The method of appointing the statutory auditors itself not fool proof as it may cause collusion and lobbying.
3. The certificates of the auditors are hardly scrutinized carefully, especially when the reports are unclear and qualified.
4. The internal auditors can surely detect what was happening but they are hardly in a position to initiate proper action in proper line.

## **ROLE OF FORENSIC ACCOUNTANTS**

Forensic accountants often have to give expert evidence at the eventual trial. All of the larger accounting firms, as well as many medium-sized and boutique firms have specialist forensic accounting departments. There may be further sub-specialisations: some forensic accountants may, for example, just specialise in insurance claims, personal injury claims, fraud, construction or royalty audits. Forensic accounting is focused, therefore, upon both the evidence of economic transactions and reporting as contained within an accounting system, and the legal framework which allows such evidence to be suitable to the purpose(s) of establishing accountability and/or valuation. Forensic accountants are typically CPA/CAs that specialise in those types of engagements where there is a need for such evidence. Engagements are wide-ranging, and include transaction reconstruction and measurement; bankruptcy, matrimonial divorce, and probate asset identification and valuation; falsifications and manipulations of accounts or inventories or in the presentation thereof; and accountability within the statutory audit and other environments; among many others. Increasingly, as various parties perceive the value of such evidence, grounded as it is in "accounting facts," forensic accountants are called upon to play important preemptive roles (as of right, without cause), offering independent assurance in such diverse areas as audit committee advisory services, merger and underwriting due diligence, investment analyst research, and enterprise risk management.

How does one become a forensic accountant, there is no exact answer. Usually, in addition to being a C.P.A. a forensic accountant has at least a few years of auditing experience. However, forensic accountants are in every field because, the potential for fraud is everywhere. Internal auditors, internal revenue agents, and public accounting firms are just the beginning from where forensic accountants come from.

Forensic accountants investigate and document financial fraud and white-collar crimes such as embezzlement. They also provide litigation support to attorneys and law enforcement agencies investigating financial wrongdoing.

A Forensic Accountant is often retained to analyze, interpret, summarize and present complex financial and business related issues in a manner, which is both understandable and properly supported. A Forensic Accountant is time and again involved in the investigating and analyzing financial evidence, developing computerized applications to assist in the analysis and presentation of financial evidence, communicating their findings in the form of reports, exhibits and collections of document and assisting in legal proceedings, including testifying in court as an expert witness and preparing visual aids to support trial evidence. Thus a Forensic Accountant can be of assistance in various ways that includes:

1. Investigative Accounting.
2. Review of the factual situation and provision of suggestions regarding possible courses of action.
3. Assistance with the protection and recovery of assets and
4. Co-ordination of other experts, viz. private investigators, Forensic document examinee, consulting engineers etc.

The Forensic Accountants may offer his comments regarding the truthfulness of the replies, statements and other responses of the company. He acts for the protection of the interest of the company, bolstering its image and enhancing its reputation as a social institution. The other plane of the forensic accountant can initiate measures for introduction of environment accounting to highlight the damage done to the environment by the company and the possible recoupment of such damages or replenishment of lost properties through environment management continually.

The occupational fraud committed by employees usually involves the theft of assets and embezzlement and the involvement of employees in kickback schemes, or conversion of corporate assets for personal use, the forensic accountant can intervene and observe the suspected employees with physical examination of assets, invigilation, inspection of documents, and interviews of those involved to control such practices. Experience on these types of engagement enables the forensic accountant to offer suggestions as to internal control that owners could implement to reduce the likelihood of fraud.

Besides, the forensic accountant will also engage himself in criminal investigations on behalf of police force. Where his report is prepared with the objective of presenting evidence in a professional and concise manner. These assignments often involve a detailed analysis of numerous year accounting records to quantify the issues in dispute. For example, a common issue that often arises is the compensation and benefits received by each of the disputing shareholders or partners. In this regard as he may be often asked to quantify the economic losses resulting from different aspects of a particular case the Forensic Accountant needs to be familiar with the legislation in place that pertains to such activities.



Cases of medical malpractice and wrongful dismissal often involve similar issues in calculating the resulting economic damages. Business interruption or other types of Insurance claims and insurance policies differ significantly as to their terms and conditions. Accordingly these assignments involve a detailed review of the policy to investigate coverage issues and the appropriate method of calculating the loss. A Forensic Accountant is asked to assist from either an insured or insurer's perspective in the settlement of a case. Examples of these types of assignment include business interruptions, property losses and employee dishonesty claims. However the forensic accounting renders a variety of services in the following issues of corporate field:

1. Business / Employee Fraud investigations.
2. Business investigations can involve funds tracing, asset identification and recovery, forensic intelligence gathering and due diligence revision.
3. Matrimonial Disputes. Matrimonial disputes from a Forensic Accounting point of view often involve the tracing, locating an evaluation of assets. The assets to be evaluated and valued may be businesses, property or other assets.
4. Business Economic Losses.
5. Professional negligence.
6. Mediation and Arbitration.
7. Loss quantification.

However to uncover financial statement fraud, the forensic accountant often analyse the financial statements by using ratio analysis and certain determining techniques such as Benford's Law, a procedure used to determine the likelihood that data have been altered. Other procedures performed include inspection of documents and records and the conduct of interviews with persons who work have knowledge about any fraud that's occurred. In order to properly perform these services a Forensic Accountant must be familiar with legal concepts and procedures and is desired to have complete knowledge of regulations, guidelines and directive of the regulatory bodies like SEBI, DCA, ICAI and RBI. In addition, a Forensic Accountant must be able to identify substance over form when dealing with an issue.

## **APPLICATION OF FORENSIC ACCOUNTING IN INDIA**

In India Forensic Accounting is in infant stage. This area is limited to internal auditing and statutory external auditing. Whenever a need arises usually the internal auditor or an outside auditor is compelled to step into the shop. There are few accounting professionals and auditing firms do the similar type of services but not under any professional agency or system. The increasing number of cases of frauds occurring in India necessitates the incorporation of practice of Forensic Accounting in our country. A simple statistics of number of bank fraud cases is given in the table.



**Bank Frauds Statistics in India**

Year	Amount	Number of cases
2002	399.53 Cr.	1744
2003	653.5 Cr.	2207
2004	600.16 Cr.	2663

Source: <http://www.indiaforensic.com/index.html>

The Lain Parekh Committee, which probed the stock market scam had recommended for setting up a separate body to investigate incidents of financial frauds. The Dr. N.L. Mitra Committee, appointed by RBI to investigate bank and financial frauds also commented the same. The PWC, KPMG are some of the firms in India which are in the process of equipping themselves in this professional field.

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## SERVICE INDUSTRY AND REVENUE RECOGNITION

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### ABSTRACT

*Revenue recognition is a critical accounting issue of the corporate world. It is the key factor in the revenue statements of the business unit that effects its operation. Companies may try to boost earnings by manipulating the recognition of revenue, recognizing it either before a sale is complete or before the product is delivered to the customer. The business world has evidence for the same in past as some companies had managed their revenue in a manner that was not permitted by the law. In service sector, it is observed that IT industry contributes significantly to the GDP of India. In recent past it is found that there is a continuous growth in the revenue of this service sector industry in India. This growth of revenue has motivated the researcher to study the revenue reorganization practices and disclosures for the same in their annual reports.*

Revenue recognition is a critical accounting issue for any business unit as it has big impact on profitability of business unit. It is the only important item in the revenue statement that creates a center of attention for all the stake holders of business as having linked with cash flow and more importantly considered by the investors for their investment decisions. It is considered as a barometer of company's performance. It has direct impact on share prices of the company. Managers may be tempted to manage their revenue considering its significance. Companies may try to boost earnings by manipulating the recognition of revenue, recognizing it either before a sale is complete or before the product is delivered to the customer. (Arther Levitt) The business world has evidence for the same in past as some companies had managed their revenue in a manner that was not permitted by the law. (cof.com) Enron had admitted improper inflated revenue and hid debt through business partnerships, Global Crossing has an allegation that it sold its telecom capacity in a way that artificially boosted its 2001 cash revenue, AOL Time Warner, subject of Securities and Exchange Commission inquiry into how the media conglomerate booked advertising revenue in 2000 and 2001, Bristol-Mayers has not clear yet if the company improperly inflated revenues by as much as \$1 billion through use of sales incentives. The entire scheme had bad image of the revenue management in the mind of the investors' world over. The Committee of Sponsoring Organizations (COSO), reported that

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a significant portion (over 50%) of fraudulent financial reporting involved improper revenue recognition and that improper revenue recognition has been the #1 category of financial statement restatement, reemphasized the importance of revenue recognition. (kpmg) Revenue recognition is mainly concerned with the timing of recognition of revenue in the statement of profit and loss of an enterprise. The amount of revenue arising on a transaction is usually determined by agreement between the parties involved in the transaction. When uncertainties exist regarding the determination of the amount, or its associated costs, these uncertainties may influence the timing of revenue recognition.

## REVIEW OF LITERATURE

S. Roychowdhry, Sloan School of Management, Massachusetts Institute of Technology (2004) in his article, "Why do we care bout revenue recognition?" has explained various examples of revenue recognition events globally (uncommon cases). Stanford university press has published a work of their academicians (2002) on the policy defines of revenue recognition for sponsored research projects which was revised again in the year 2005 as a guide for recognition of revenue for auxiliary services that was considered as a prime documents. Lynn E. Turner, Chief Accountant, US, Security Exchange Commission (2001) during his address in an international conference focused more on SAB-101, implementation, audit issues related to revenue recognition, cross payments and other complex customer arrangements, as well on high quality of financial reporting and disclosure for protection of stakeholders. Joshua Kennon in his book 'Five methods management can use to smooth earnings', focus on matching revenue, revenue depending upon methods adopted for recognition. (2000) "Revenue Recognition - An Introduction" written by *V R P Kashyap* and *E Mrudula* briefly discusses the concept and importance of revenue recognition and also the rules and regulations governing the revenue recognition process under different accounting standards like Generally Accepted Accounting Principles, International Financial Reporting Standards and Indian Accounting Standards. "Revenue and Expense Recognition" by *Robert Hodgkinson* discusses how the revenue and expense should be recognized for different obligations. It explores some key questions about the procedure followed by UK GAAP in recognizing expense and revenue. It also discusses the revenue recognition challenges faced by different industries like departmental stores and new economy companies. "Improper Revenue Recognition - Role of Internal Auditors" (2005) by *H Lynn Stallworth* and *Dean Digregorio* discusses the most common offences like improper sales cut-off committed by the companies. To prevent improper revenue recognition, internal auditors should be aware of conditions that prompt earnings management. Here, the authors conclude by saying that internal auditors have an important role to play in avoiding improper revenue recognition practices. "Sarbanes-Oxley Effects on Internal Controls for Revenue" by *Gerald D Bloch* and *Robert H Colson* says that GAAP revenue recognition rules generally vary by industry. It said that a company should have revenue recognition committee that can act as the company's primary internal control. According to the article, pricing issues are the most important of all the revenue recognition issues. The article concludes by saying that a well-

functioning internal control system will result in the compliance with the Sarbanes-Oxley Act. The case delves into the accounting policies in specific relation to recognition of revenue by the software manufacturer "Microsoft" by *Pallavi Aluru*. It deals with the revenue recognition policies that are followed by the software giant for various transactions such as revenue from retail packaged products, products licensed to original equipment manufacturers, revenues from multi-year licensing arrangements, stock options and perpetual licenses for existing products under the company's open and select volume licensing programs.

## DISCLOSURE REQUIREMENT

This statement deals with the bases for recognition of revenue in the statement of profit and loss of an enterprise. The statement is concerned with the recognition of revenue arising in the course of the ordinary activities of the enterprise from, the sale of goods, the rendering of services, and the use by others of enterprise resources yielding interest, royalties and dividends. It is mainly concerned with the timing of recognition of revenue in the statement of profit and loss of a business unit. AS-9 on Revenue Recognition has been issued in November 1985 and is mandatory. According to this standard; revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends. (icai.org) Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration. (T.P. Ghosh) In addition to the disclosures required by Accounting Standard - 1 on 'Disclosure of Accounting Policies' (AS-1), an enterprise should also disclose the circumstances in which revenue recognition has been postponed pending the resolution of significant uncertainties. (Jawahar Lal)

## RECOGNITION CRITERIA FOR SERVICES

A service industry has its own peculiarity as regards incidence of income and its recognition. AS-9 suggests two alternative methods of revenue recognition for sale of services- (i) Proportionate Completion Method, and (ii) Completed Service Contract Method. Proportionate Completion Method is a method of accounting, which recognizes revenue in the statement of profit and loss proportionately with the degree of completion of services under a contract. Revenue arising out of service is recognized in proportion to the stage of completion of the service without waiting for its completion. Following criteria are to be considered for calculation, total value of the service contract, associated cost and total number of activities involved / hours required to complete the contract. Completed Service Contract Method is a method of accounting, which recognizes revenue in the statement of profit and loss only when the rendering of services under a contract is completed or substantially completed. It is suitable for such services that consist of single activity or services that is in final stages. IAS-18 (revised)

scrapped the completed services contract method of revenue recognition. Para 20 of IAS-18 (Revised) states that- *"When the outcome of a transaction involving the rendering of services can be established reliably, revenue associated with the transaction should be recognized by reference to the stage of completion of the transaction at the balance sheet date."*

IAS-18 (Revised) also clarified the conditions that should be satisfied for revenue recognition by stage of completion; the amount of revenue can be measured reliably, it is probable that the economic benefit will flow to the enterprise, stage of completion at the balance sheet date can be reliably measured; cost incurred up to the stage of completion and cost to be incurred for completion of the service can be reliably measured. US-GAAP covers revenue recognition more comprehensively with a specific statement on software revenue recognition. The following are the various requirements under US-GAAP; (Vishal Agrawal) SAB - 101 - General principals on revenue recognition, SFAC - 5 - Recognition and measurement in financial statements, SFAS - 48 - Right of return of goods, SOP - 97-2 - Software revenue recognition, EITF - 0021 - Revenue recognition for multiple deliverables, the broad requirements for revenue recognition under US GAAP are (Vishal Agrawal) persuasive evidence of an arrangement should exist, delivery should have occurred, vendor's fee must have been fixed or determinable, There is no uncertainty in the realization of debt (or in other words, the amount billed should be realizable without doubt).

## **RESEARCH METHODOLOGY**

This research seeks to provide evidence on revenue recognition practices and policies of selected IT companies in the service sector of India. The broader objective of this study is to understand the revenue recognition practices of the IT units. To fulfill the objectives 8 units working in service sector industry (IT) were selected on convenience sampling basis. The data for the purpose were taken from the annual reports for the year ended 31st March 2006 of the sample units. The findings of the study may not be representative of all the corporate units working in India, as this study is limited to 8 units only. The study is based on secondary data and information collected from the published annual reports of the company, the result of the study depends on the purity of the data.

## **REVENUE RECOGNITION POLICY OF SELECTED IT COMPANY**

Following is the revenue recognition policy of eight selected companies for the year ended 2005-06.

### **SATYAM**

Revenue from professional services consist primarily of revenue earned from services performed on a "time and material" basis. The related revenue is recognized as and when the services are performed. The company also performs time bound fixed-price engagements, under which revenue is recognized using the percentage of completion method of accounting. The

cumulative impact of any revision in estimates of the percentage of work completed is reflected in the year in which the change becomes known. Provisions for estimated losses on such engagements are made during the year in which a loss becomes probable and can be reasonably estimated. Amounts received or billed in advance of services performed are recorded as advance from customers / unearned revenue. Unbilled revenue, included in debtors, represents amounts recognized based on services performed in advance of billing in accordance with contract terms.

#### **CALSOFT**

Revenue from software development is recognized, based on software developed and billed to clients as per the terms of specific contracts. Revenue from the sale of software products is recognized when the sale is completed with the passing of title. Interest on deployment of surplus is recognized using the time-proportion method, based on interest acquisition date rates implicit in the transaction.

#### **POLARIS**

Revenue from software development and support services comprises income from time-and-material and fixed price contracts. Revenue with respect to time- and-material contracts is recognized as related services are performed. Revenue from fixed-price contracts is recognized in accordance with the percentage of completion method. Provision for estimated losses on incomplete contract is recorded in the period in which such losses become probable based on the current contract estimates.

Revenue in excess of billings represents earnings on ongoing fixed price and time and material contracts over amounts invoiced to customers. Billings in excess of revenue represent amounts received in advance in case of ongoing fixed price and time and material contracts wherein amounts have been billed in accordance with the billing cycle and efforts would be incurred subsequent to the period end. Product licenses and related revenues, revenues from product licenses and related services comprise income under multiple element arrangements recognized as follows: License fees and fees for customization / implementation services are recognized under percentage of completion method. Provision for estimated losses, if any, on incomplete contracts are recorded in the period in which such losses become probable based on current contract estimates. Product maintenance revenues are recognized over the period of the maintenance contract. Business Process Outsourcing revenue is recognized in accordance with the terms of the contract with the customer. Revenue is recognized as related services are performed. Other Income is recognized using the time-proportion method. Dividend income is recognized when the company's right to receive dividend is established.

#### **GTL**

The Company follows the mercantile system of accounting and recognizes income and expenditure on accrual basis except in case of significant uncertainties. The principles of revenue recognition are; revenue from services rendered is recognized as the service is performed,



income from turnkey projects is recognized as a percentage and in proportion to work completion. However in cases of contracts where consideration is separately defined / identified for supply of goods / materials whose distinct identity remains even after project completion, revenue is recognized based on delivery at site to the customers. Revenue from the sale of software products is recognized on passing of title to the customers. In case of fixed-price contracts, revenue is recognized based on the milestones achieved as specified in the contracts. Income from annual maintenance contracts and annual subscriptions is accounted for in the ratio of the period expired to the total period of contract and amount received from customers towards unexpired portion of annual maintenance contracts and annual subscriptions is shown as advances received from customers which is accounted as income in the following financial year(s). Income from registration, set up and configuration charges are recognized on activation of customer account. Revenue from sales (net of taxes) is recognized upon shipment / installation of the products. Dividend income is recognized when the right to receive dividend is established. Lease rentals are accounted over the initial lease period in equal installments.

## **ZENSAR**

Revenue from software development and allied services consist of revenues earned from time and material and fixed price contracts. Revenue from time and material contracts are recognized the related services are performed. Revenue from fixed price engagements is recognized using the percentage of completion method of accounting. The company recognizes revenue based on the completed contract method where the work to complete cannot be reasonably estimated. The cumulative impact of any revision in estimates of the percent complete is reflected in the period in which the change becomes known. Provisions for estimated losses on such engagements are made during the period in which a loss becomes probable and can be reasonably estimated. Amounts included in the financial statements, which relate to recoverable costs and accrued profits not yet billed on contracts, are classified in current assets as "Accrued Income" (Unbilled services). Billings on uncompleted contracts in excess of accrued costs and accrued profits are classified in current liabilities. Revenue from the sale of user licenses from software applications is recognized on transfer of the title in the user license, except in multiple element contracts, where revenue is recognized as per the percentage of completion method.

Profit on sale of investments is recorded on transfer of title from the company and is determined as the difference between the sale price and the then carrying amount of the investment. Interest on deposits is recognized using the time proportion method based on underlying interest rates. Dividend income is recognized when the company's right to receive dividend is established.

## **INFOSYS**

Revenue from software development on fixed-price, fixed-time frame contracts, where there is no uncertainty as to measurement or collectibles of consideration is recognized as per the percentage of completion method. On time-and-materials contracts, revenue is recognized



as the related services are rendered. Cost and earnings in excess of billings are classified as unbilled revenue while billing in excess of cost and earnings is classified as unearned revenue. Provision for estimated losses, if any, on uncompleted contracts are recorded in the period in which such losses become probable based on the current estimates. Annual Technical Services (ATS) revenue and revenue from fixed price maintenance contracts are recognized proportionately over the period in which services are rendered. Revenue from the sale of user licenses for software applications is recognized on transfer of the title in the user license, except in multiple element contracts, where revenue is recognized as per the percentage of completion method.

Profit on sale of investments is recorded on transfer of title from the company and is determined as the difference between the sales price and the then carrying value of the investment. Lease rentals are recognized ratably on a straight-line basis over the lease term. Interest is recognized using the time-proportion method, based on rates implicit in the transaction. Dividend income is recognized when the company's right to receive dividend is established.

## TCS

Revenues from contracts priced on a time and materials basis are recognized when services are rendered and related costs are incurred. Revenues from turnkey contracts, which are generally time bound fixed price contracts, are recognized over the life of the contract using the proportionate completion method, with contract costs determining the degree of completion. Foreseeable losses on such contracts are recognized when probable.

Revenues from the sale of equipment are recognized upon delivery, which is when title passes to the customer. Revenues from maintenance contracts are recognized pro-rata over the period of the contract. Dividends are recorded when the right to receive payment is established. Interest income is recognized on time proportion basis.

## ONWARD

Sales are stated at net selling price exclusive of sales tax. The sales tax collected is treated as a liability. A sale of services affected through transfer via tele-communication network is recognized on receiving conformation of receipt from customer. In respect of income received from contracts dependent on time and material bases, it is accounted on the basis of monthly bills raised on customers' bases on agreed man-hour rate.

## COMMENTS

Transfer to contingency reserve in case of application of percentages of completion method is not specified by the sample units. Policy of variances in man-hour required and actual used is not disclosed. In time and material contracts, estimation of required hours to

complete the work and both the parties agree per hour rate. Billing is done typically at the end of the month for the worked hours during the month. Actually this is an incomplete system, as revenue to be recognized is nothing but the hours worked multiplied by the hour rate, and carries less risk as the supplier company is assured of revenue even in case of project overrun or incorrect estimation of the man hours required. (Vishal Agrawal) Revenue from fixed price engagements is recognized using the percentage of completion method of accounting is not proper. As per the FPP, both the parties agreed contract price in advance that is payable at the end of the contract or over the period of the contract on the basis of the agreed terms. In such contracts the services provider carries the risk of project overrun. It should be noted that in FPP, the billing is different from revenue to be recognized. Billing is done on the agreed terms while the revenue is recognized on the bases of the percentage of completed work. Both the Indian and the US GAAP provide that the revenue for such models should be recognized based on the 'Percentage of Completion' method. Despite the importance of the total hours projection under the FPP, neither Indian GAAP nor the US GAAP required any disclosure on the errors in projection. Incorrect projection of the total hour required on a project will affect the revenue directly. Absence of standard norms for estimating required man hours, variation in practice in calculating offshore - onsite cost ratios and the lack of disclosure requirements. (Offshore work involves working from India and onsite involves working at client site overseas.) There is no standard practice within the industry on the cost ratios to be used. There are differences in the cost structures of the companies is evident from the wide variance in the operating margin ratio. Unbilled revenues comprise revenue recognized in relation to efforts incurred on fixed price fixed time contracts and time and material contracts not billed as of the year-end. (TCS) in the software industry, unbilled revenue is equivalent to the closing inventory that directly affects the profit for the year. Unbilled revenue stood at Rs.353.91 crores as on 31st March, 2006 representing 3.16% of the annual revenues. There is no standard method prescribed to record this fluctuation in the foreign currency.

## CONCLUSION

In India, Revenue Recognition AS-9 is a mandatory disclosure for all the corporate units along with AS-1, how ever the question to be asked is whether all these requirements protect the interest of investors and conveys the true and fair information of the business operations. The comments made in this paper convey the message that these disclosures may not be sufficient to protect the interest of investors. With a view to bringing out more transparency and better governance, it is the sole responsibility of the corporate units to disclose in detail about the contracts and its terms to the shareholders in their annual reports to strengthen the relationship among all the stakeholders.

**Table I**  
**Revenue Growth of Selected IT Units.**

(Rs. in Crore)

Name of Company	Revenue - 2005-06 (Rs)	Growth (%)	Cost of services (%)
INFOSYS	9028	31.60	66.90
GTL	5578.91	11.83	70.15
ZENSAR	232.76	28.99	88.08
TCS	11282.81	38.90	72.75
ONWARD	9.64	10.89	81.19
SATYAM	5012.22	41.31	87.65
CALSOFT	2585.37	47.93	87.88
POLARIS	683.94	02.23	90.16

(Source: Annual Reports of Selected Units for the year 2005-06)

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## SPENDING BEHAVIOUR OF CREDIT CARD HOLDERS

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\*Sofia Jasmeen

### ABSTRACT

*Behavior is caused. Even spending behavior too. Various factors influence the behavioral aspects of raising finance, investment pattern, and even personal finance. A person's value system, beliefs, upbringing, family pattern, education, occupation and others influence his personal finance. The present study is an attempt to examine whether there is any association between a person's background and use of credit cards. Our study indicates that there is an association between credit card spending behavior and educational qualifications, occupation. On the contrary, this sort of association was not found between the spending behavior and credit card issue bank, religion and number of dependents.*

With the advent of globalization and privatization, there has been a sea change in the lifestyles of people and the concept of credit card gained popularity. Customers no longer need to carry huge sums in their wallet. Further, credit cards are perceived to be status symbols. Along with the other modern instruments credit cards have flooded the Indian markets and have become an essential accessory for individuals. It is prophesied that India will be the largest card market outside US by the year 2020. This figure seems to be palpable owing to the increasing size of the middle class and its growing purchasing power. With the growing popularity of credit cards the buy now pay later mantra is firmly entrenched. Therefore it is imperative for all the cardholders to understand the mechanism and techniques of handling the little plastic thing.

Steve Worthington (1992) discussed changes in credit card terms and feels societal attitudes may further reduce the borrowing. He also suggests debit cards will become increasingly important as a means of payment in the UK. Plastic cards in general will be used more as paper transactions decline. In Europe there may be convergence of plastic card usage with eventual reduction in the number of credit card issuers observed. Hye-Jung Park, Leslie Davis Burns's study (2005) indicated that fashion interest significantly influenced compulsive buying directly and indirectly by influencing credit card use. Further, James F. Devlin, Steve Worthington and P. Gerrard (2007) examined why most multiple credit cardholders have a "main" card (i.e. a card

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used more often than others) and "subsidiary" cards (i.e. cards used less often or only in an emergency) and the spending patterns associated with main and subsidiary cards.

## **OBJECTIVE**

The present study examines the credit card holders spending behavior juxtaposed to their educational background, occupation, credit card issuing bank, and religion.

## **METHODOLOGY**

This study is based on the survey method. Primary data were collected with the help of a questionnaire administered to 151 respondents. In order to measure the credit card spending behavior, the scale developed by the Institute of Consumer Financial Education (ICFE) was used. The questionnaire consists of a ten questions, with a five-point responsive pattern, pertaining to the spending behavior. These questions are related to their budgeting, saving, spending, utilizing discount coupons, quality, value, price consciousness, over-spending on accounts, revolving debit and contribution to retirement plans. For the purpose of analysis the mean scores have been taken into consideration. Based on the scores the respondents are categorized as Excellent (10-15 Scores), Very Good (16-20 Scores), Good (21-35 Scores) and Poor (36-50). These scores were suggested by the Institute of Consumer Financial Education (ICFE).

## **PROFILE OF THE RESPONDENTS**

An attempt has been made to cover respondents who fulfill various criteria. Majority of the respondents belong to the age group of 35-55 years. Classification based on the income has shown that the respondents fall in all the categories, but majority of them have spread between Rs.75, 000 to Rs.5, 00,000 per annum. Respondents qualifications vary, no single group dominates. Occupation wise classification indicates that teachers, software professionals and managers together constitute the majority. Thus the study reflects the opinions and attitudes of different categories of respondents.

## **RELATIONSHIP BETWEEN THE PROFILE OF THE RESPONDENTS AND SPENDING BEHAVIOR**

This part of the study presents the relationship between the profile of the respondents and the spending behavior of the respondents using credit cards.

## **EDUCATION AND SPENDING BEHAVIOR**

Education brings awareness regarding various aspects of sources of personal finance and spending too. The present study gauged linkages between usage of credit cards and

educational background of cardholders (Table 1). It is observed that a large majority of graduates (NT) constituting around 62 per cent have just good spending behavior. Around 29 per cent rated themselves to be very good in spending and 10 per cent have excellent spending behavior. Among Graduates with technical qualifications it is found that around 57 per cent have good spending, 19 per cent have very good and 25 per cent rated themselves to be excellent in spending behavior.

Surprisingly it is observed that Postgraduates both technical and non-technical are found among the category of Poor Spending Behavior. It is also observed that none were found in the category of excellent spending. A considerable percentage of the respondents comes under the categories of good and very good. Further it is also observed that majority of the professionals in the sample are very good spending behavior. A large majority of the respondents constituting 60 per cent of the sample come in the other qualifications category have good spending behavior. An examination of the relationship between educational qualification and spending behavior revealed that the chi-square value of 34.780 has significant association. There seems to be a relationship between educational qualifications and spending behavior.

Table 1  
Education and Spending Behaviour

Education	Spending Behavior				Total
	Excellent	Very Good	Good	Poor	
Graduation NT	2 9.5%	6 28.6%	13 61.9%		21 100.0%
Graduation Tech	4 25.0%	3 18.8%	9 56.3%		16 100.0%
PG-NT	6 15.4%	11 28.2%	20 51.3%	2 5.1%	39 100.0%
PG-Tech	0 0.0	21 46.7%	22 48.9%	2 4.4%	45 100.0%
Professionals		8 53.3%	7 46.7%		15 100.0%
Others	6 40.0%		9 60.0%		15 100.0%
Total	18 11.9%	49 32.5%	80 53.0%	4 2.6%	151 100.0%
Pearson Chi-Square Value 34.780		Df= 15	P = 0.003		

Source: Primary Data

## OCCUPATION AND SPENDING BEHAVIOR

One's occupation gives insights into the different aspects of personal finance. Therefore the present study endeavored to see the relationship between the occupation and the credit card spending behavior (table: 2). It is observed that an insignificant percentage of teachers and managers have come under the category of poor spending behavior. At the same time it is also observed that considerable number of government employees in the sample have excellent spending behavior. Further it may be observed that majority of the teachers (57.6 per cent), and a large majority of the respondents from the profession of Software Engineers (73.3 per cent) and Chartered Accountants (66.7 per cent) are found to have good credit card spending behavior. An examination of the relationship between the occupation and credit card spending behavior revealed the chi-square value of 37.194 has significance. Thus it may be stated that the occupation does have a significant association with the spending behavior.

**Table 2**  
**Relationship Between Occupation and Spending Behaviour**

Occupation	Spending Behavior				Total
	Excellent	Very Good	Good	Poor	
Teacher		12 36.4%	19 57.6%	2 6.1%	33 100.0%
Doctor		1 50.0%	1 50.0%		2 100.0%
Lawyer		3 60.0%	2 40.0%		5 100.0%
Chartered Accountants		2 33.3%	4 66.7%		6 100.0%
Managers		8 42.1%	9 47.4%	2 10.5%	19 100.0%
Government employees	10 27.0%	13 35.1%	14 37.8%		37 100.0%
Software engineers		4 26.7%	11 73.3%		15 100.0%
Others	8 23.5%	6 17.6%	20 58.8%		34 100.0%
Total	18 11.9%	49 32.5%	80 53.0%	4 2.6%	151 100.0%
Pearson Chi-square	Value 37.194	Df.21	P .016		

Source: Primary Data



## EMPLOYMENT OF SPOUSE AND SPENDING BEHAVIOR

Normally speaking if the spouse is also employed, the couple would possess a leverage regarding spending. Therefore, the spending behavior is examined in relation to the spouse being employed or not. It may be found the credit card holders whose spouses are employed have very good and excellent usage of cards compared to others. The chi-square value of 24.126 also has significant relationship at 5 per cent level. This indicates that there is a significant associate between spouse being employed and the credit card spending behavior.

## NUMBER OF DEPENDENTS AND SPENDING BEHAVIOR

The present study also examined whether the number of dependents had any relation to the spending behavior. It was observed in all the categories majority of them have good or poor spending behavior. Surprisingly, the excellent category revealed that more respondents were from the category of dependents with 7 and more. But, the chi-square value of 14.372 is not supporting the relationship between spending and number of dependents at 5 per cent level.

**Table 3**  
**Relationship Between Number of Dependents and Spending Behaviour**

Dependents	Spending Behavior				Total
	Excellent	Very Good	Good	Poor	
<2	10 15.4%	17 26.2%	34 52.3%	4 6.2%	65 100.0%
<4	5 9.4%	20 37.7%	28 52.8%		53 100.0%
<6		10 43.5%	13 56.5%		23 100.0%
7 and above	3 30.0%	2 20.0%	5 50.0%		10 100.0%
Total	18 11.9%	49 32.5%	80 53.0%	4 2.6%	151 100.0%
Pearson Chi-Square = 14.372		Df = 9			P 0.110

Source: Primary Data

## CARD ISSUING BANK AND SPENDING BEHAVIOR

Investigations were also made to examine whether the issuing bank influences the spending behavior. The data reveals that except the respondents from the State Bank group in all the other groups majority of the respondents have either good or poor spending behavior. Further, the excellent spending behavior is found more among the respondents from the State Bank group compared to the other groups. Insignificant number of respondents is found in the State Bank group and Indian private sector banks with poor spending behavior. Further, the chi-square value of 13.695 was found to be insignificant between the issue bank of credit cards and the spending behavior. Therefore, it may be deduced that there is no relationship between issue bank of credit cards and the spending behavior.

**Table 4**  
**Relation Between Card Issuing Bank and Spending Behaviour**

Issuing Bank	Spending Behavior				Total
	Excellent	Very Good	Good	Poor	
State Bank Group	8 22.9%	11 31.4%	14 40.0%	2 5.7%	35 100.0%
Nationalized Bank	6 13.0%	12 26.1%	28 60.9%		46 100.0%
Indian Private Sector Banks	3 5.6%	21 38.9%	28 51.9%	2 3.7%	54 100.0%
Multinational Bank		4 40.0%	6 60.0%		10 100.0%
Others	1 16.7%	1 16.7%	4 66.7%		6 100.0%
Total	18 11.9%	49 32.5%	80 53.0%	4 2.6%	151 100.0%
Chi-Square Tests	Value = 13.695		Df = 12		P = 0.321

Source : Primary data

## RELIGION OF RESPONDENTS AND SPENDING BEHAVIOR

Religious beliefs mould the attitudes. The religious attitudes influence the spending behavior. A close look at the usage pattern of credit cards shows that majority of the respondents from all the religions except the category of others (Sikhs, Parsis and others) have good or poor spending behavior. This is more prevalent among Muslims and Christians. Compared to other religious groups, the sample reveals, that Hindus have Excellent and Very good spending behavior. The chi-square value of 6.729 has no significance at 5 per cent value. Therefore, it may be inferred that there is no relationship between religion and the credit card spending behavior.

**Table 5**  
**Relationship Between Religion of Respondents and Spending Behaviour**

Religion	Spending Behavior				Total
	Excellent	Very Good	Good	Poor	
Hindu	13 13.0%	33 33.0%	50 50.0%	4 4.0%	100 100.0%
Muslim		2 28.6%	5 71.4%		7 100.0%
Christian	4 10.8%	10 27.0%	23 62.2%		37 100.0%
Others	1 14.3%	4 57.1%	2 28.6%		7 100.0%
Total	18 11.9%	49 32.5%	80 53.0%	4 2.6%	151 100.0%
Chi-Square	Value = 6.729		Df= 9		P = 0.665

## IMPLICATIONS AND CONCLUSIONS

Future studies should focus on various aspects of life style variables and their impact on the money attitudes. The income and expenditure pattern and their influence on the money attitudes, besides, the savings and investment patterns of the people in relation to their money attitudes also need scrupulous investigation by researchers. Such results may be of great importance to bankers, investment agencies and academicians involved in shaping the attitude of students of commerce and business management.

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## LEASING INDUSTRY: FROM BOOM TO BANE

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\*Rajinder Kaur

### ABSTRACT

*The present paper analyses the recent trends in leasing industry. It also tries to look at future. Leasing has been an important source of financing during the post world war era and since then it has rapidly become a popular alternative to purchase assets. Leasing finance is activities of non-banking type. leasing companies are, therefore, non-banking financial institutions that act as financial intermediaries in the economy. These non banking financial institutions derive importance for providing convenience for the savers and the borrowers in their capacity as repositories of savings and as lending institutions. The present paper aims at to study the various phases and present scenario of leasing industry in India.*

The growth of the industry was encouraged with the removal of many controls relating to capital market during mid 1980s, which led to several companies entering the leasing industry. The leasing industry underwent a sea change from 1973 onwards. Prior to 1982, it was a period when leasing was almost unknown but after that industry experienced a mushroom growth. As per RBI's record, there were 339 equipment-leasing companies in India by 31st march, 1986 whose leased assets totaled Rs. 2395.5 million. One can notice the surge in number as well, which increased from merely 2 in 1980 to 339 in 1986 and to 1000 in 1995. In the mean time a few leasing companies came forward to form an association named as "Equipment leasing association" in February 1984 in chennai. After this some more associations came up.

Another peculiar feature of leasing industry was that leasing companies adopted a variety of accounting practices. Companies adopted their own methodology and in the process of reporting through accounts, the companies, to cretin extent, did not reflect the true status and profits were dressed up to some extent. In the use of Varity of accounting practices, they became questionable, as they did not reflect true and fair view of state of affairs of companies. In the mean time Institute of chartered Accountants of India (ICAI) came up with a proposed guidance note on "Accounting for leases" for public comments in February 1987 which was criticized by various bodies on the ground that exposure draft was complicated, lengthy, impracticable, irrational and too harsh for infant and growing leasing industry. So leasing

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industry did not adopt ICAI's exposure draft and got stay order from madras high court in 1989. Later on a revised Guidance note on "Accounting for leasing" was issued by ICAI. Finally, in a move to bring Indian accounting practices as per global standards, Accounting standard Board of ICAI issued an accounting standard (AS-19) on leasing entitled "Leases".

With the passage of time new entrants began to pile up huge amount of public deposits. They started selling deposits at a rate higher than banks. They also believed that the company, which handed out the highest amount of money in a year, would be considered successful. In addition, these companies hired some street smarter brokers whose only job was to introduce an account and were not accountable in case of payment defaults.

The outcome of this situation proved to be downfall of the industry in coming years when lessor were agonizingly remained that to repay the depositors they had and to collect rents. The lessors incurred the biggest losses when the lessees started defaulting in their lease rental payments. Not only were they incapable of collecting these rentals, due to the manipulation of industry and rackets run by ingenious brokers, they had no assets to repossess and a very irate income tax department breathing down their necks. In addition, several scams collected millions of rupees in deposits at an exorbitant interest rate and disappeared overnight. Besides this, other factors responsible for consolidation are (a) bifurcation of leasing and non-leasing activities, which led to the companies focusing on investment banking rather than dabbling into leasing, (b) larger companies have eaten up the share of smaller one because of mass distribution and more or less homogenous customers, (c) global leasing companies have also occupied their positions in India. The impact of foreign investments is towards consolidation at home, (d) emergence of vendor leasing is also very crucial as many lessors are forced to leave general equipment leasing market and line up with suppliers of equipment. So declining trend continued and number of leasing companies keep on declining. Presently, The Association of Leasing and Hire Purchase Companies has around 500 members, however not more than 50 companies are seriously operating in leasing business.

## **PRESENT SCENARIO**

The present situation of Indian Leasing companies is analyzed through four broad parameters i.e. 1. Deposits accepted; 2. Sources of borrowing; 3. Asset quality; & 4. Capital adequacy ratio.

## **PUBLIC DEPOSITS**

Leasing companies, registered with RBI are allowed to raise funds by way of fixed deposits from public. They can accept the deposits ranging from less than one year to more than five years. As per various issues on trend and progress of banking in India the number of reporting companies (accepting deposits) were only 56 in year 2002 which accepted deposits to the tune of rupees 668 crores. The companies further reduced to 35 in year 2006 and they accepted only 153 crores in terms of public deposits.

**Table 1**  
**Public Deposits held by Leasing Companies.**

(Amount in Rs. Crore)

Year	Number of companies	Public deposits.	% Variation in public deposit
2002	56	668	—
2003	48	511	-23.50
2004	46	344	-32.68
2005	38	343	-0.3
2006	35	153	-55.4

Source: Report on Trend and progress of banking in India, RBI. (Various issues)

The picture shows a negative trend both in terms of companies as well as public deposit. The deposits accepted by leasing companies in year 2006 constitute only 5.7 percent of the total deposits accepted by non-banking finance companies. The number of reporting companies keep on declining mainly due to exit of many leasing companies from deposit accepting activities.

**Table 2**  
**Net owned fund vis-à-vis public deposits of leasing companies**

(Amount in Rs. Crore)

Year	Net owned funds	Public deposits	Public deposits to net owned funds
2003	154	511	3.3
2004	96	344	3.6
2005	427	343	0.8
2006	553	153	0.3

Source: Report on Trend and progress of banking in India, RBI. (Various issues)

Net owned fund constitute the aggregate of paid up capital and free reserves. Table 2 shows that over the period net owned funds of leasing companies have increased where as they have reduced their dependence on public deposits as the ratio of public deposits to net owned funds has reduced in the given period.

## SOURCES OF BORROWINGS

Borrowings represent the major source of fund for leasing companies followed by owned funds and public deposits. The sources of borrowed funds for leasing companies could be one or multiple depending upon the scale of operation, requirement of funds and practice followed in financing the lease transactions. The major source of borrowing for leasing companies has been the banks and financial institutions followed by issue of debentures throughout the period.

**Table 3**  
**Sources of Borrowings of Equipment Leasing Companies.**

(Amount in Rs. Crore)

	2003	2004	2005	2006
Government	61 (0.94)	21 (0.74)	—	—
Banks and financial Institutions.	3080 (47.38)	1141 (40.40)	1252 (40.08)	1402 (60.80)
Debentures.	1639 (25.32)	893 (31.65)	1219 (39.03)	338 (14.65)
External Borrowings.	571 (8.82)	291 (10.31)	190 (06.08)	284 (12.32)
Others.	1121 (17.32)	465 (16.48)	452 (14.47)	282 (12.23)
Total.	6472	2821	3132	2306

Source: Report on Trend and progress of banking in India, RBI. (Various issues)  
(Figures in brackets are percentage to total.)

Picture shows that in year 2003 and 2004 the leasing companies also met a portion of their borrowing from government but in year 2005 and 2006, they did not get any amount from government. They have also fulfilled their borrowing requirements through external borrowings and other sources.

## ASSET QUALITY

Table 4 shows standard assets, sub-standard assets, doubtful assets and loss assets of leasing companies. From total assets of companies, standard assets constitute substantial portion and the portion of these assets to total assets has increased over the period of time. On March 2006 Standard assets stood at 97.8 percent of total assets. On the other hand the proportion of sub-standard assets, doubtful assets and loss assets has reduced to total assets over the period. On March 2006 sub-standard assets of leasing companies constitute 0.4 percent, doubtful assets constitute 0.7 percent of total assets of leasing companies.

**Table 4**  
**Group wise classification of assets of leasing companies**

(Amount in Rs. Crore)

Time period	Standard Assets	Sub-standard Assets	Doubtful Assets	Loss Assets	Total
March 2003	5037(84.4)	520(8.7)	205(3.4)	207(3.5)	5969
September 2003	2986(77.9)	502(13.1)	194(5.1)	154(4.00)	3836
March 2004	2724(82.4)	396(12.00)	84(2.5)	102(3.1)	3306
September 2004	3389(87.2)	365(9.4)	19(0.5)	114(2.9)	3887
March 2005	4893(87.2)	395(7.00)	98(1.7)	227(4.1)	5611
March 2006	2782(97.8)	10(0.40)	20(0.7)	33(1.2)	2845

Source: Report on Trend and Progress of Banking in India, RBI (various issues)  
(Figures in brackets are percentage to total.)

The table highlights an important issue, i.e. on March 2006 there is a sharp decline in total assets of companies over previous years.



**Table 5**  
**NPAs of Leasing Companies.**

(Amount in Rs.crore)

Year	Gross Advances	Gross NPAs	NPAs as Percent to gross advances	NPAs as Percent to risk weighted assets	Net Advances	Net NPAs	NPAs as Percent to net advances	NPAs as Percent to risk weighted assets.
2001	4118	304	7.4	6.1	3826	12	0.3	0.2
2002	1625	646	39.7	28.0	1330	351	26.3	15.2
2003	5969	932	15.6	11.1	5506	469	8.5	5.6
2004	3306	582	17.6	13.3	3067	344	11.2	7.8
2005	5611	718	12.8	12.3	5310	418	7.9	7.1
2006	2846	64	2.2	2.1	2767	-16	-0.6	-0.5

Source: Report on Trend and progress of banking in India.RBI. (Various issues.)

In year 2002, gross and net NPAs of leasing companies were as high as 39 percent and 26.3 percent respectively. In the same way gross and net NPAs as a percent to risk weighted assets stood at 28 percent and 15.20 percent respectively. From year 2003 to 2005 NPAs showed a mixed trend but in year 2006, leasing companies, in terms of NPAs, attained a better position as their gross NPAs reduced to 2.2 percent and net NPAs to the level of -0.6 percent. Similarly in the given year gross and net NPAs were only 2.1 percent and -0.5 percent of total risk weighted assets.

### CAPITAL ADEQUACY

Capital to risk weighted asset ratio (CRAR) norms were applicable to non-banking finance companies in 1998, in terms of which every deposit taking NBFC is required to maintain a minimum capital consisting of Tier-I and Tier-II capital of not less than 12 percent of its aggregate risk weighted assets and of risk adjusted value of off balance sheet items. The number of leasing companies with CRAR less than 12 percent, which constitute 17.8 percent all leasing companies in year 2003 reduced to 11.11 percent in year 2005 and increased to 18.18 percent in year 2006.

**Table 6**  
**Capital Adequacy Ratio of Equipment Leasing Companies.**

	2003	2004	2005	2006
Less than 12 percent	10(17.85)	5(11.90)	4(11.11)	6(18.18)
More than 12 percent and up to 15 percent	1(1.85)	1(2.38)	—	—
More than 15 percent and up to 20 percent	4(7.14)	2(4.76)	2(5.56)	—
More than 20 percent and up to 30 percent	9(16.0)	6(14.29)	5(13.88)	5(15.15)
Above 30 percent	32(57.14)	28(66.67)	25(69.45)	22(66.67)
Total	56	42	36	33

Source: Report on Trend and progress of banking in India.RBI. (Various issues.)  
(Figures in brackets are percentage to total.)

The numbers of leasing companies with CRAR more than 30 percent are highest throughout the period and they stood at 66.67 percent of the total companies in year 2006. In a way it shows that now weak companies may have left the market and the companies with strong capital base are in the market.

## CONCLUSION

More than three decades have passed since the leasing industry came at scene of Indian financial system. From 1973 to 1980 the concept of leasing remained restricted between a few companies only. 1980s bring boom in leasing industry when almost every finance company started with leasing business. During this period due to absence of any standardized guidelines, the companies adopted their own accounting practices. During this, they started declaring dividend out of capital, which made so many companies into losses. Ultimately companies started quitting market. In the mean time, with an aim to bring Indian accounting practices as per global standards ICAI came up with a guidance note in 1995 and an accounting standard AS-19 in year 2002. So in its long journey leasing has passed through various ups and downs. Finally it can be concluded that despite of a sharp decline in industry the existing leasing companies have strong base in terms of its assets and capital adequacy.

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## IMPACT OF INTERNATIONAL LISTINGS ON LIQUIDITY

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### ABSTRACT

Recent developments in the capital market have totally changed the perception of investors towards capital market. India has emerged as one of the dominant country in the international investment market. As the study included the rising sectors of India, which can be a better effort to analyze the effect of internationally listed companies on their liquidity position. Liquidity of trading in shares improves overall, but depends on the increase in total trading volume, the listing location and the scope of foreign ownership restrictions in the home market. The focus of the study is on the valuation and liquidity effect of the listing decision and the impact of listing on liquidity of selected companies. This article examines the impact of international listings on liquidity of companies of IT and Banking sector by analyzing the data of 2004 & 2005. Firstly the financial statements were analyzed through liquidity ratios and secondly the comparison was made among internationally listed and non-listed companies. The findings depicted that there was insignificant difference on the liquidity of internationally listed and non-listed companies. It was observed that the current ratio and quick ratio are more dominant ratio while calculating the liquidity of internationally listed companies and cash ratio is more dominant ratio while calculating the liquidity of non listed companies.

Financial liberalization and growth of offshore market have brought a profound change in perception of investors. India has emerged as one of the most attractive investment markets of world over. The GDR issues of Indian companies received an overwhelming response abroad.

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The relationship between movement of GDA price and domestic price encourages Indian companies to integrate with global market. A GDR is a dollar denominated instrument traded on a stock exchange in Europe or the US or both. It represents a certain number of underlying equity share. GDRs are issued through the under-writers & after the final issue, a depository is chosen and the company registers the equivalent equity shares of GDR issue in the name of the depository.

Liquidity should neither be in excess nor should be inadequate. There should be a proper tradeoff between liquidity & profitability. A weak liquidity position poses a threat to solvency of the company and makes it unsafe and unsound. A negative working capital means a negative liquidity, and may prove to be harmful for the company. Excessive liquidity may impair the profitability. It is due to mismanagement of current assets.

## LITERATURE REVIEW

*Harris (1997) and Hamilton (1979)* base their argument on the notion that the needs and the wants of the traders are different and thus a single market cannot optimally serve the best interest of different market participants. *Chowdhary and Nanda (1998)* elaborated the conceptual framework of *Admati and Pfleiderer (1988)* which informed investors who trade strategically to maximize the profits from their private information prefer to time their trades when the markets are thick with liquidity traders, uniformed traders and risk averse market makers. *DGM (1998)* asserted that transparency in the multi market-trading environment is a key success factor for improvement in liquidity in each component market. Cross listing reduces the volatility due to lower spreads from greater overall volumes and from more intense competition to order flow among market makers. *R. Foerster, G. Andrew Karolyi (1993)* has seen firms actually listing their stocks on foreign exchanges to get higher return. Study also revealed that this phenomenon is common in case of Canada and US. *Pulatkonak and Sofianos (1999)* found that there is a large variability in the US share of global trading of non-US stocks listed on NYSE, ranging from less than 1 percent in some stocks to more than 90 percent in others. *Model (2000)* analyzed the effect of ADR listings from emerging markets on three aspects of development of local stock markets, openness, liquidity, and growth. *Amihud and Mendelson (1986), Brennan and Subrahmanyam (1996), Chalmers and Kadlec (1998), and Datar, Naik and Radcl (1998)* have linked asset prices to various liquidity measures, such as bid-ask spreads and turnover rate, and have found that less liquid assets have higher average returns. *Domowitz et al. (1998)* investigated the effect of order flow migration using data on Mexican shares. They showed that the effect of cross listing depends on the quality of inter-market information linkages. *Lieberman, Ben-Zion and Hauser (1999)* examine the price behavior of stocks dually listed in Israel and the U.S. and the study examined that domestic market mostly emerges as dominant, while the foreign market behaves like a satellite. *Amihud and Mendelson (1995)* argued that the effect of multi market trading is uncertain. They suggested that competition between markets should foster innovation and reduce trading costs. *Karolyi (1996)* documents liquidity improvement, increased total post listing trading volume on average, as well as higher home trading volume for many issues.

Hargis (1997) and Sofianos (1997) find that cross listing boosts volume and improve liquidity, even where the foreign market dominates trading. Jayaraman, Shastri and Tandon (1993) examine the case of ADR listings in the US. They use the sample of 95 firms registered abroad that had an ADR initially listed on US exchange. The authors find that the listing of ADRs is associated with a positive significant daily excess return of 0.47% on the underlying stock, which is primarily driven by Japanese firms. Podpiera (2001) extends the earlier model of Domowitz, Glen and Madhavan (1998) and estimates it using data on stocks from Central Europe (Czech Republic, Hungary and Poland) that are cross-listed on the London Stock Exchange. First, the paper uses the Granger causality framework and a co integration/error correction to determine whether and to what extent the information flows between local and foreign markets are important. Granger causality is found to run in both directions, although the London market appears slightly more important. Geert Bikaert Campbell R. Harvey (1997) investigated cross section of volatility and used foreign exchange variability, national credit rating to characterize why volatility is different across emerging markets. Low en grub and Melvin (2000) examine volume and volatility before and after International cross-listing using intra day data for the 23 German firms that issued ADRs between 1991 and 1997. The intra day volatility pattern flattens after cross listing. Podpiera (2001) extends the earlier model of Domowitz et al. (1998) and estimates it using data on stocks from Central Europe (Czech Republic, Hungary, and Poland) that are cross listed on the London Stock Exchange. He finds that for seven out of ten stocks volatility increased after the GDR listing.

## RESEARCH DESIGN

The Study aims to find out the impact of international listing of GDR's and ADR's on the liquidity of underlying global shares. The study was descriptive in nature. The study population was the companies having access in international capital market. The total sample size was 8 out of which 4 companies were having access in international capital market and 4 companies were having access in non-international capital market. Out of which two companies were from Service sector (HDFC Bank and ICICI Bank) and two companies were from IT sector (Satyam and Infosys) in both international listed companies and non-international listed companies. Judgmental sampling technique was used to select a number of companies. Data was analyzed on the basis of various liquidity ratios like Current Ratio, Quick Ratio and Cash Ratio. The following hypothesis are formulated.

- Ho<sub>1</sub>: There is no significant difference between the current ratio of listed and non listed Companies.
- Ho<sub>2</sub>: There is no significant difference between the quick ratio of listed and non listed Companies.
- Ho<sub>3</sub>: There is no significant difference between the cash ratio of listed and non listed Companies.

## RESULTS & DISCUSSIONS

### Ratio Analysis

**Table 1**  
**Current ratio of listed and non listed companies**

2005				2004			
Co. Name	Listed Co.	Co. Name	Non Listed Co.	Co. Name	Listed Co.	Co. Name	Non Listed Co.
HDFC Bank	1.1	Punjab National Bank	1.15	HDFC Bank	.67	Punjab National Bank	1.4
ICICI Bank	1.01	Oriental Bank	4.5	ICICI Bank	.9	Oriental Bank	2.2
Satyam	7.7	HCL	2.7	Satyam	7.1	HCL	3.3
INFOSYS	3.9	Patni Computers	4.2	INFOSYS	3.9	Patni Computers	4.8

As a conventional rule, a current ratio of 2:1 or more is considered satisfactory. The current ratio measures only to total rupees worth of current assets and total rupees worth of current liabilities. If current ratio is less than 2:1 it means it may be interpreted to be insufficiently liquid. In the study it was found that in the year 2005 & 2004 only two companies value, which are internationally listed, was more than the ideal ratio of 2:1. And in case of internationally non-listed companies three companies value was found more than the ideal ratio.

**Table 2**  
**Quick ratio of listed and non listed companies**

2005				2004			
Co. Name	Listed Co.	Co. Name	Non Listed Co.	Co. Name	Listed Co.	Co. Name	Non Listed Co.
HDFC Bank	1.1	Punjab National Bank	1.15	HDFC Bank	.67	Punjab National Bank	1.4
ICICI Bank	1.01	Oriental Bank	4.5	ICICI Bank	.9	Oriental Bank	2.2
Satyam	7.5	HCL	2.6	Satyam	7.0	HCL	3.1
INFOSYS	3.6	Patni Computers	4.01	INFOSYS	3.6	Patni Computers	4.8

As a conventional rule, a quick ratio of 1:1 or more is considered satisfactory. Although quick ratio is more penetrating test of liquidity than the current ratio. A quick ratio of more than 1:1 does not necessary imply sound liquidity position. In the study it was found year 2005 only three companies value and in the year 2004 only two companies value, which are internationally listed, was more than the ideal ratio of 1:1. But in case of internationally non-listed companies all the companies ratio was found more than the ideal ratio both in the year 2004 & 2005.

**Table 3**  
**Cash ratio of listed and non listed companies**

2005				2004			
Co. Name	Listed Co.	Co. Name	Non Listed Co.	Co. Name	Listed Co.	Co. Name	Non Listed Co.
HDFC Bank	.84	Punjab National Bank	.9	HDFC Bank	.53	Punjab National Bank	1.08
ICICI Bank	0.6	Oriental Bank	3.4	ICICI Bank	.47	Oriental Bank	1.8
Satyam	0.0	HCL	0.0	Satyam	0.0	HCL	0.0
INFOSYS	0.0	Patni Computers	0.0	INFOSYS	0.0	Patni Computers	0.0

As a conventional rule a cash ratio of .5 is considered satisfactory. In my studies we found year 2005 in international listed companies only two companies value having more than the ideal ratio (.5). And in non-international listed companies only two companies value having more than the ideal ratio.

**Table 4**  
**Mean value of listed and non listed companies**

Ratio Name	2005		2004	
	Mean Value of International Listed Companies	Mean Value of Non International Listed Companies	Mean Value of International Listed Companies	Mean Value of Non International Listed Companies
Current Ratio	3.4275	3.1375	3.1425	2.925
Quick Ratio	3.3025	3.065	3.0425	2.875
Cash Ratio	.36	1.075	.25	.72



On the basis of above table current ratio and quick ratio seems to be more dominant while calculating the liquidity of internationally listed companies and cash ratio seems to be more dominant while calculating the liquidity of non listed companies during the year 2005 and 2004.

### **T-Test**

T-Test was applied to compare & check the significance level of listed & non- listed companies.

**Table 5**  
**T-Test value of the ratio's**

<b>Ratio Name</b>	<b>T-Test Value (2005)</b>	<b>T-Test Value (2004)</b>
Current Ratio	.879221785	.867739239
Quick Ratio	.8998069	.901914548
Cash Ratio	.379358942	.232051101

At the 5% significance level the value of current ratio, quick ratio and cash ratio, in both the years, was not significant. It means that there is no significant difference between internationally listed and internationally non- listed companies.

### **IMPLICATIONS OF THE STUDY**

The study will help the managers to understand the utility of international listing and their impact on liquidity. International listing can indirectly give firms a chance to improve their cost and availability of funds by tapping foreign money and capital markets. International listing can provide other financial benefits as compared to the companies not internationally listed. First, a firm can expand its potential investor base and increase the demand for its stock. Foreign investors can trade the stock in their currency and thus save transactions costs. Second, foreign listing can improve a firm's ability to make foreign mergers and acquisitions because some countries permit only firms listed on the local exchange to make tender offers. Finally, an active foreign market in a firm's stock can make it easier to arrange stock swaps and tender offers.

International listing can improve the relationship between the firm, the foreign government and the foreign financial community, which in turn may reduce political risk

## CONCLUSION

Listing on a foreign stock exchange should not affect a firm's liquidity. That is, international listing should result in higher proportion of current assets, which in turn balances the liquidity position of the company. The underlying intuition is that such listings result in structural changes in the capital structure of the firms. On the basis of various liquidity ratio, there is insignificant difference between internationally listed and non listed companies in 2004 & 2005. On the basis of mean value we found that the current and quick ratios are more dominant ratio, while calculating the liquidity of internationally listed companies and cash ratio is more dominant ratio which calculating the liquidity of non listed companies.

The value of current ratio, quick ratio & cash ratio of few companies is more than the ideal ratio in internationally listed and non -listed companies.

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## LIMITED LIABILITY PARTNERSHIP (LLPS) & TAXATION ISSUES

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\*Pradeep Singh

### ABSTRACT

*Limited liability partnership (here after LLP) concept was introduced in order to adopt a corporate form, which combines the organizational flexibility and tax status of partnership with advantage of limited liability for its partners. LLP is a body corporate formed and incorporated under the LLP Act, which is a distinct legal entity separate from that of its partners. It has perpetual succession. The word "Body Corporate" is defined in the Bill to include LLPs registered under the LLP Act, LLPs incorporated outside India, and Companies incorporated outside India. Any change in the partners will not affect the existence, rights or liabilities of the LLP. The Bill provides for entry of new partners in accordance with LLP agreement and exit of existing partners both with due notice to the Registrar. The provisions of the Indian partnership Act, 1932 has no application to LLPs. The paper attempts to discuss taxation issues.*

The LLPs are very popular form of business in United States and United Kingdom. In the UNITED STATES<sup>1</sup>, Limited partnerships emerged in the early 1990s; while only two states allowed LLPs in 1992, over forty had adopted LLP statutes by the time LLPs were added to the Uniform Partnership Act (UPA) in 1996. In the United States, each individual state has its own law governing their formation. Although found in many business fields, the LLP is an especially popular form of organization among professionals, particularly lawyers, accountants and architects. UNITED KINGDOM<sup>2</sup>: The Limited Liability Partnership is a recent innovation of UK law, has been introduced by the Limited Liability Partnerships Act 2000. The Act became law on 1/4/2001. In an LLP, all partners have a form of limited liability, similar to that of the shareholders of a corporation. However, the partners have the right to manage the business directly, and (in many areas) a different level of tax liability than in a corporation. Under UK law, the LLP is a "fiscal transparency". In other words, it is not subject to taxation. Only the members are liable to taxation.

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## **LLPs IN INDIA**

Limited Liability Partnership Bill was tabled<sup>3</sup> in Rajya Sabha on 15th December 2006. The Bill defines "limited liability partnership" as a partnership formed and registered under this Act. This stipulates two requirements: (a) a partnership; and (b) registration. Thus, the LLP would be a partnership and its registration under the LLP Act would be compulsory.

The LLP Bill, 2006 is broadly based on the UK and Singapore LLP Acts. The Central Government has retained the power to make rules for carrying out the provisions of the Act. The LLP Bill does not have provisions related to taxation of LLP, which are expected to be addressed in the Income-Tax Act like all other business entities. The Bill is divided into XIV Chapters having 73 Sections and Four Schedules. The following are the main provisions of the Bill are as follows:

1. The LLP shall be a body corporate and a legal entity separate from its partners. Any two or more persons, associated for carrying on a lawful business with a view to profit, may by subscribing their names to an incorporation document and filing the same with the Registrar, form a LLP. The LLP will have perpetual succession.
2. The mutual rights and duties of partners of an LLP inter se and those of the LLP and its partners shall be governed by an agreement between partners or between the LLP and the partners subject to the provisions of the proposed legislation. The Bill provides flexibility to devise the agreement as per their choice. In the absence of any such agreement, the provisions of law shall govern the mutual rights and duties.
3. The LLP will be a separate legal entity, liable to the full extent of its assets, with the liability of the partners being limited to their agreed contribution in the LLP, which may be of tangible or intangible nature or both tangible and intangible in nature. No partner would be liable on account of the independent or un-authorized actions of other partners or their misconduct.
4. Every LLP shall have at least two partners and shall have at least two individuals as Designated Partners, of whom at least one shall be resident in India. The duties and obligations of Designated Partners shall be as provided in the law.
5. The LLP shall be under an obligation to maintain annual accounts reflecting true and fair view of its state of affairs. A statement of accounts and solvency shall be filed by every LLP with the Registrar every year. The accounts of LLPs shall also be audited, subject to any class of LLPs being exempted from this requirement by the Central Government.
6. The Central Government shall have powers to investigate the affairs of an LLP, if required, by appointment of competent inspector for the purpose.
7. The law would confer powers on the Central Government to apply such provisions of the Companies Act, 1956 to provide, inter-alia, for mergers, amalgamations, winding up and dissolutions of LLPs, as appropriate, by notification with such changes or

modifications as deemed necessary. However, such notifications shall be laid in draft before each House of Parliament for a total period of 30 days and shall be subject to any modification as may be approved by both Houses.

## **TAXATION & ACCOUNTING ISSUES**

The aspect of tax treatment of LLPs remains an area of uncertainty, since the Bill states that an LLP will be treated as a firm as defined under the Income Tax Act 1961 for the purpose of taxation. This shows the way one to the following two implications:

1. That on the same basis as an ordinary partnership firm, the LLP will pay tax on its profits after deduction of business expenditure, salaries and interest paid to the partners. Partners will be liable to pay tax on salary and interest receipts, whereas the share in profits is exempt; same as the current provisions of the income tax Act 1961 related with Firm.
2. Another way that only the profits in the hands of the LLP partners will be taxed. A L.L.P. will have Pass through Status (proposed by the Naresh Chandra Committee), the partners will be liable to pay tax on share of LLP's profits received in their hands. This also known as tax transparency.

Of the above two options the second option appears to be logical and acceptable on account of the following two reasons: The Naresh Chandra Committee Report as well as the Concept Paper on LLPs which was released by the Ministry of Company Affairs in November 2005 had very clearly recommended tax transparency for LLPs viz only the LLP partners should be subject to tax and not the LLP itself; The Bill has vide its First Schedule (CLAUSE No. 5) prohibited partners of LLPs from accepting any remuneration. This implies that they will be subject to Income Tax in respect of their share of profits received by them.

Naresh Chandra Committee has, said in its report that "the LLPs should be governed by a taxation regime that taxes the partners as individuals, rather than taxing the LLP itself, i.e., the LLPs should be treated in the same manner as the firm under the tax laws". This is, however, contrary to the system of taxation of firms under the I.T. Act. Presently, under the I.T. law, a partnership firm pays tax on its profits after deduction of business expenditure, salaries and interest to partners. Partners are then taxed on their salary and interest, whereas, their shares in the profits in the firm are exempt. Firms are not exempt from tax. As per the First Schedule, no partner of an LLP shall be entitled to remuneration for acting in the business or management. This, of course will apply only if there is no requirement regarding remuneration in the agreement constituting LLP. Hence, if no remuneration is to be paid, its allowance in the hands of LLP and taxation in the hands of the partners shall not arise. However, practically it is difficult that a partner working as working partners and he will not get any salary or commission for their works. Since the LLP is, visualize of as a company as it is under the Companies Act, it would be just and logical to tax an LLP like a company and ignore the existence of partners for tax purposes like shareholders. If the partners receive any income like interest from the LLP, the income so received would be taxable in the hands of the partners.

Even in under UK law, the LLP is a fiscal transparency. In other words, it is not subject to taxation despite being a body corporate with separate legal personality and providing limited liability to all its members. Only the members are liable to taxation. As the members (statutory minimum of two) may be non-UK resident persons-including offshore companies-then it follows that an LLP can trade in its own right free of UK corporation tax liability outside the United Kingdom. Similarly, in USA as in a partnership or limited liability company (LLC), the profits of an LLP are distributed among the partners for tax Purposes, avoiding the problem of "double taxation" often found in corporations.

Concept paper on LLP also provides the following provisions regarding taxation and accounting treatment of transactions. (1) Income Tax and Capital Gains, for the purposes of taxation, any activity carried on by a limited liability partnership with a view to profit shall be treated as carried on in partnership by its partners not by the LLP and, accordingly, the property of the limited liability partnership shall be treated for those purposes as property of the partners. (2) Where a limited liability partnership carries on a trade or business with a view to profit-assets held by the limited liability partnership shall be treated for the purposes of tax in respect of capital gains as held by its partners; and any dealings by the limited liability partnership shall be treated for those purposes as dealings by its partners in partnership (and not by the limited liability partnership as such), in respect of capital gains accruing to the partners of the limited liability partnership on the disposal of any of its assets shall be assessed and charged on them separately.

With the above discussion, it is clear, that the provisions are not clear in the proposed LLP bill. In one way they are proposing application of current provisions of income tax act related with the taxation of the Firm, on the other hand they said that LLP will not be liable for tax, their partners are liable for taxation, with the advantage of pass through status of LLP, which will create controversy at the time of practical application of law. Some of the other accounting issues related with LLPs are as follows:

1. Another major issue is related with Capital gains tax Liability. It is not clear-whether the partners contributing assets towards the Capital at the time of formation of LLP or receiving their share of capital and accumulated profits on transfer of their share. What is the mode of valuation of assets for income tax purpose and who will pay the capital gains tax on transfer of the assets of a partnership or a private limited company or an unlisted company, upon their conversion into a L.L.P. under the provisions of the Clauses 54 or 55 or 56, will tax as Capital Gains.
2. Another major issue related with Stamp Duty Liability on transfer of the Assets. Whether the assets transferred by a partnership or private limited company or an unlisted company at the time of their conversion into L.L.P or in the event of their merger or amalgamation will suffer the Stamp Duty on the book value of assets. What are the rates of stamp duty if there are any concessional rates provided by the government and what is mode for the valuation of assets.



3. In the bill it is provided that, contributions made by the partners are in form of money or intangible assets. How it should be disclosed in the books of account and what is the methodology for the valuation of assets, are not clear in this bill this will create problems at the time of practical application of

## CONCLUSION

LLPs have been in trend in various other countries such as UK, USA, Australia, Singapore etc. It is a form of business entity, which allows individual partners to be restricted from joint liability of partners in a partnership firm. At present, this LLP bill is in form of mini companies act. The Liability of the partners incurred in the normal course of business is that of LLP and it does not extend to the personal assets of the partners. This is a great relief to the partners, particularly professionals like Company Secretaries, Chartered Accountants, Cost Accountants, Advocates and other professionals. These professionals may also form multi-disciplinary LLPs to meet the changing economic environment. The Government of India should create a facilitating environment for entrepreneurs, service providers and professionals to meet the global competition. Along with that, it is necessary to make suitable changes in the provisions of income tax related with the taxations issues, because taxation is one the major motivational factor other then limited liability for the partners of LLPs. The introduction of LLPs in India is a good beginning towards a long journey. The hybrid structure of LLP will facilitate entrepreneurs, service providers and professionals to organize and operate in an innovative and efficient manner for effectively competing in the global market.

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## STOCK MARKET VOLATILITY IN INDIA DURING SECOND GENERATION REFORMS

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### ABSTRACT

*A stable stock market is essential for building up investor's confidence in stock market securities. This is because stability ensures fair and orderly price movements governed by the law of demand and supply. However a static market is different from that of stable market. The present study is an endeavour to describe the extent and pattern of stock return volatility in India during the last half of the last decade of previous millennium and first half of current decade of 21st century i.e. from 1995-96 to 2005-06. The market is presented by the two most prominent spot prices viz. BSE Sensex and S&P CNX Nifty. It is found that the stock market volatility was highest during 2004 general election, followed by 1999-2000 and 2000-2001 led by 1998 nuclear test and Sept. 11 event. In recent past months, May has been regarded as most volatile and risky month from investor point of view. Overall this paper examines the stock market volatility in India during the second generation reforms.*

Volatility in stock markets is natural however it does not contradict a stable market concept as stability is different to static market in which prices move in a narrow groove for want of speculative interaction. It is said that stock market needs controlled speculation, which is a driving force for building up activity and ensuring continued interest of investors. It is commonly perceived that the Indian Stock market are even now highly speculative in nature and are given to sharp and volatile fluctuations in security prices in short periods. Excessive volatility caused by irrational behaviour of the traders and investors, trading mechanism imperfections and lack of information transparency is not desirable. If stock volatility increases, it may have important consequences for investors, market regulators and policy makers. Investor may alter their investment decision because of great risk on one hand and policy maker may take harsh decisions on the other hand, as the increased stock volatility threatens the viability of financial institutions and harm the growth of economy. Therefore it is necessary to analyse the current position of stock market volatility in terms of price as well as return.

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## MEASUREMENT OF VOLATILITY

Volatility of share prices on a stock exchange during a given year is calculated by using the formula :

$$V = I_r \times 100 / I_a$$

Where  $v$  is the volatility of price fluctuations,  $I_r$  is the range of index movement during the year which is the same as the difference between the highest and lowest index values for the year,  $I_a$  is the average index for the year. Thus lower volatility denotes narrow price fluctuations and hence relatively greater price stability. While higher volatility values indicate wider price fluctuations and relative instability of the market.

## RESEARCH METHODOLOGY

The sample population of study consists of two most prominent market indices viz. BSE Sensex and S&P CNX Nifty. Both the indices represent all the major industrial groups and both are generally taken as benchmarks to reflect the movement of stock market and investors sentiment in whole towards the state of perception of future economic activities. Stock Price Index has been taken from CMIE publications. The data contains daily opening closing, high and low values of various indices. For the purpose of study, daily closing of BSE Sensex and S&P CNX Nifty have been used for calculating the Returns and their volatility. The period selected for the study contains 11 years starting from 1995-96 to 2005-06. This period is also known as period of second generation reform. During this period Indian economy has witnessed several remarkable changes.

## EXTENT AND PATTERN OF VOLATILITY

The volatilities of market indices have been calculated over different observation period. Following two types of volatility has been calculated:

- (a) Volatility of monthly returns in a year.
- (b) Volatility of daily returns in a month end.

### A. Volatility of Monthly Returns in a Year

Table 1 shows the average monthly returns, volatility of monthly returns and their annualized values for each year for Sensex and S&P CNX Nifty. The Year wise analysis presented in Table 1 shows that violent changes in stock prices occurred in 2000-01 which put barrier on the process of economic reforms in country. After 2000-01 there has been sharp decline in volatility of stock prices in both the stock exchanges. The overall monthly volatility of Sensex was 1.53 compared to 1.52 percent of CNX Nifty during same period. Corresponding annualized figure for both the market stood up as 18.36 for Sensex and 18.24 percent for CNX Nifty. These result indicate relatively high volatility of return for BSE Sensex compared to that of Nifty.

**Table 1**  
**Volatility of Monthly Return in a Year**

Year	BSE Sensex				CNX Nifty			
	(%) Average Monthly Return	Monthly Volatility (%)	Annual- ised Return (%)	Ann. Volatility (%)	Av. Monthly Return	Av. Monthly Volatility (%)	Ann. Return (%)	Ann. Volatility (%)
1995-96	0.27	1.32	3.24	16.01	-0.14	1.31	-1.71	15.72
96-97	0.02	1.75	0.27	21.00	-0.12	1.66	-1.45	19.92
97-98	1.31	1.41	15.83	16.92	1.28	1.52	15.35	18.24
98-99	-0.33	1.93	-3.92	23.16	-0.29	1.85	-3.48	22.20
99-00	2.81	1.95	33.73	23.40	3.48	1.93	41.78	23.16
00-01	-2.33	2.14	-27.93	25.68	-2.07	1.98	-24.88	23.76
01-02	-0.31	1.50	-3.75	18.00	-0.14	1.40	-1.62	16.80
02-03	-1.01	1.01	-12.12	12.12	-1.12	0.99	-13.40	11.88
03-04	6.92	1.35	83.38	16.20	6.76	1.43	81.14	17.16
04-05	1.35	1.48	16.14	17.76	1.24	1.61	14.89	19.32
05-06	6.15	1.03	73.73	12.36	5.60	1.04	67.15	12.48
Overall		1.53		18.36		1.52		18.24

Source : Computed from CMIE publication, 2003, 2004, 2005 and 2006.

## B. Volatility of Daily Returns in a month

**Table 2**  
**Volatility of daily return in a month - BSE Sensex**

Month	Volatility (%)										
	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06
April	1.33	1.40	1.46	1.67	3.07	3.83	2.41	0.99	1.21	1.30	1.29
May	1.61	1.39	0.72	1.85	2.14	3.12	0.94	1.55	0.72	3.81	0.63
June	0.88	1.23	0.89	3.09	1.44	1.62	1.28	1.17	1.02	1.36	0.76
July	1.32	1.67	1.09	2.07	1.58	2.14	1.18	1.07	1.04	1.06	0.91
August	0.89	1.28	1.91	1.61	1.34	1.16	0.71	0.91	1.37	0.92	0.95
September	0.67	1.14	1.10	1.46	1.18	2.26	2.73	0.82	1.69	0.73	1.10
October	0.86	1.87	1.34	2.59	2.07	1.61	1.44	0.97	1.44	0.90	1.42
November	1.58	1.30	1.61	1.32	1.79	1.55	1.29	0.68	1.31	0.69	0.98
December	1.15	1.92	1.32	1.52	1.43	1.49	1.33	0.84	0.91	0.77	1.09
January	0.93	2.44	1.52	1.88	2.50	1.32	0.92	0.71	2.05	1.54	1.02
February	2.27	1.91	1.46	1.59	2.43	1.65	1.51	0.79	1.50	0.80	0.91
March	1.29	2.62	1.75	1.88	1.91	2.83	1.32	1.12	1.45	1.02	0.88

Source : CMIE Publications

Table 2 shows the volatility of daily returns in each month for the period of study. It can be visualized that volatility has varied across the months in a year and across years. Table shows that overall, for Sensex most volatile months belong to the years 1998-99, 1999-2000, 2000-01 and 2001-02, while Sensex was comparatively less volatile during 2002-03 to 2004-05. In May 2004 there was 3.81 percent volatility which shows the transfer of power from NDA to UPA Government had influenced the prices of security at BSE Sensex.

**Table 3**  
**Volatility of daily returns in a month for S&P CNX Nifty**

Month	Volatility (%)										
	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06
April	1.23	1.63	1.61	1.67	3.26	3.51	2.23	1.10	1.36	1.40	1.23
May	1.50	1.54	0.85	1.49	2.17	2.64	0.90	1.35	0.75	4.21	0.67
June	0.82	1.10	0.86	3.06	1.35	1.48	1.27	1.13	0.94	1.46	0.73
July	1.23	1.37	1.38	1.84	1.59	1.76	1.01	1.01	1.05	1.29	0.94
August	0.71	1.05	1.54	1.62	1.39	1.07	0.57	0.84	1.51	0.99	0.98
September	0.65	1.09	0.93	1.40	1.30	2.04	2.52	0.72	1.81	0.83	1.19
October	0.79	1.70	2.99	2.46	2.05	1.59	1.21	0.84	1.53	0.97	1.51
November	1.51	1.26	1.66	1.19	1.68	1.44	1.25	0.69	1.30	0.68	0.95
December	1.05	1.81	1.37	1.46	1.43	1.42	1.22	0.96	0.97	0.74	1.09
January	0.97	2.22	1.49	2.02	2.55	1.21	0.99	0.80	2.18	1.67	0.93
February	2.59	1.88	1.00	1.82	1.84	1.58	1.48	0.89	1.69	0.78	0.81
March	1.27	2.64	1.61	1.53	1.98	2.90	1.18	1.09	1.48	1.08	0.93

Source : CMIE publications

Table 3 shows that April to May 2004 was most volatile month due to general election in India and transfer of power from NDA to UPA Government. The year 1999-00 and 2000-01 were most volatile years and out of 24 months, 8 months saw the volatility higher to 2 percent. Like BSE 30 share Sensex, CNX Nifty too has shown less volatility in 2005-06. Several factors contribute in the stock market volatility like economic, legal and political environment of the country, among these major being transfer of power at centre, trade deficit (difference between export and import), Prime Lending Rate (PLR) of commercial bank, inflation, monetary and credit policy of RBI, GDP growth rate and International Economic Scenario. If BSE 30 share Sensex is regarded as, six stock game (Business Today, April 8, 2007) it is because of its volatility. If today BSE Sensex is close to 14600 levels and Nifty close to 4500 levels, all because of natural movement in the price of share and increasing role of FIIs. The role of FIIs in the volatility of Sensex and Nifty can be understood with the fact that in the past four years, FIIs has invested through these two prominent market indices was \$34 billion or Rs. 1,49,600 crore.

During second generation reforms, few selected month has been repeatedly showing high volatility while in rest of month volatility position remain almost constant. All these are shown in the table:

**Table 4**  
**Top 15 volatile months : Sensex & Nifty**

Rank	Sensex		Nifty	
	Month	Monthly Volatility (%)	Month	Monthly Volatility (%)
1	April, 2000	3.83	May, 2004	4.21
2	May, 2004	3.81	April, 2000	3.51
3	May, 2000	3.12	April, 1999	3.26
4	June, 1998	3.09	June, 1998	3.06
5	April, 1999	3.07	Oct., 1997	2.99
6	March, 2001	2.83	March, 2001	2.90
7	Sept., 2001	2.73	March, 1997	2.64
8	March, 1997	2.62	May, 2000	2.64
9	Oct., 1998	2.59	Feb., 1996	2.59
10	Jan., 2000	2.50	Jan., 2000	2.55
11	Jan., 1997	2.44	Sept., 2001	2.52
12	Feb., 2000	2.43	Oct., 1998	2.46
13	April, 2001	2.41	Jan., 1997	2.22
14	Feb., 1996	2.27	May, 1989	2.17
15	Sept., 2000	2.26	Oct., 1999	2.05

Table 4 shows top 15 most volatile months during study period. All above month encompasses some important even like Sept. 11, 2001, World Trade Centre Attack influenced the volatility and in Sept. 2001, volatility of Sensex was measured 2.73 percent while Nifty showed 2.51 percent volatility. In the same way June 1998 (succeeding month of May 1998 in which India conducted Nuclear Test) showed 3.09 and 3.06 percent volatility in both market index. The result of analysis confirms that the volatility in 2005-06 was at low level while this partly reflected the end of uncertainty associated with general election of 2004.

## CONCLUSION

The period of second generation reforms is assumed to be started since year 1995-96. Since then Indian economy has witnessed several financial reforms and great boon in her capital market. On the basis of the return volatility exhibited by the two major market indices viz. BSE Sensex and S&P CNX Nifty during the period 1995-96 to 2005-05, it is found that the stock market volatility was highest during 1998-99, 2000-01 and 2001-02 in that order. It fell sharply after March 2002 until 2004 General Election, in which there was ever highest volatility in both market indices viz. Sensex and S&P CNX Nifty. The year 2005-06 saw comparatively less volatility. This result is based on detailed analysis of daily as well as monthly returns.

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## FUTURES AND OPTIONS

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\*G.L. Malodia

\*\*Rashmi Rathi

### ABSTRACT

*During the last two decades, there has been phenomenal growth in trade and industry through the world over. There have been a number of new developments, which have changed the face of market place. With the growing maturity and sophistication of the markets, the SEBI has introduced derivatives in India to satisfy the needs of the participants on June 2000. The present paper shows the empirical results relating to futures and options.*

Derivatives are financial instruments whose values are derived from the prices of other underlying financial assets. The underlying asset may be an equity share, stock, bonds, treasury bills or even another derivative asset. For example, a stock option's value depends upon the value of a stock on which the option is written. The objective of the study is to evaluate and assess the financial market in respect of derivatives. The empirical study is based on primary data. The primary data were collected through questionnaire. The questionnaire contains qualitative data.

A questionnaire containing 20 questions was prepared and personally handed over to 60 persons working in BSE, Anand Rathi security limited, Mumbai, Suresh Rathi securities Private Limited, Mumbai and Jodhpur, Navratan Capital & Securities Private limited and Mehta Equities Limited. Out of the 60 persons to whom the questionnaires was handed over only 30 respondents filled it and responded. The responses of the respondents were classified and tabulated to test the hypothesis.

The following are the main findings of the study:

- (i) Out of the total respondents 66 percent of the respondents agreed that they have been provided the facilities of stock trading and derivatives. 17 percent of the respondents are obtaining the investors counselling and trading facilities. 17 percent of them gave consent in favour of Mutual funds and all other facilities.
- (ii) Out of the 30 respondents, 14 respondents opined mostly derivatives are traded in the market. 7 are indifferent and equally ranked the stock trading and derivatives and 4

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\*Associate Professor, Department of Accounting, Jai Naraiyan Vyas University, Jodhpur

\*\*Research Scholar, Department of Accounting, Jai Naraiyan Vyas University

opined that mostly stocks are trading in the market. Thus more than 50 percent respondents opined in favour of derivatives.

- (iii) 27 percent respondents feel that derivatives are used as speculation, whereas 18 percent and 9 percent respondents prefer the derivatives as risk hedging tools and for arbitrage purposes respectively. In the opinion of 40 percent respondents derivatives instruments are used for multifarious purpose not for single purpose.
- (iv) In this regard it is felt that above 50 percent of respondents understand the concept very well, whereas 37 percent of them understand up to some extent and 10 percent of the clients were unable to understand the concept.
- (v) According to 56 percent respondent's derivative products are suitable for risk hedging and diversification. 10 percent clients are expressed their view against it. 17 percent clients are not sure and 17 percent persons could not reply.
- (vi) About 20 participants preferred Stock futures as derivative instrument, 12 participants preferred Stock options. 10 preferred Index futures, 5 preferred Index Options. Amongst these, 4 out of them use almost all the four instruments.
- (vii) 37% percent are fully satisfied in this regard whereas 30 percent and 17 percent are largely and partially satisfied.
- (viii) Approximately 53 percent of the respondents faith in both stock and derivatives. 30 percent prefers derivatives only for their risk-hedging strategies. Near about 17 percent of the respondents faith on the stocks only.
- (ix) The empirical study proved that awareness amongst the clients was increased fully or up to some extent since 74 percent respondents responded favourably.
- (x) 80 percent of the respondents opined positively and remarked that, after introducing of derivatives, market is more transparent and efficient, 13 percent of the respondents did not expressed their views about this and 7 percent of the respondents were indifferent in this regard.
- (xi) 50 percent of the respondents felt that derivatives are helpful in reducing ill practices. 40 percent of the respondents were indifferent in this regard 10 percent of the respondents are worried that ill practices are not be stopped and reduced.
- (xii) Near about 47 percent of the respondents viewed that the frequencies of the equity stock quarries reduced up to some extent after introducing the derivatives. 17 percent think that the quarries are reduced very much. 13 percent respondents think that the quarries are reduced very less. In the view of 13 percent of the respondents quarries are not at all reduced.
- (xiii) In the opinion of 43 percent respondents, participants who have suffered from the scams have turned back towards the derivative market again, whereas 27 percent have opposed the above view and 30 percent could not answer the question.
- (xiv) Regarding the existence of commodity, forward transaction in the early age 77 percent of the respondents opined positively, whereas 10 percent are disagreed in this regard and 13 percent couldn't answer the question.
- (xv) 60 percent of the respondents are agreed that the present system of futures and options is not new concept but simply the extension of forward transaction made by farmers



and traders in medieval period. 20 percent disagreed with this opinion. 17 percent of the respondents were indifferent in this regard and could not say anything about this and 3% had not answered this question.

- (xvi) Approximately 67 percent of the respondents agreed that the futures and options are responsible for artificially increasing or decreasing the prices in the market. 27 percent of them believe that this is not true and rest of the participants could not answer the question.
- (xvii) The larger chunk of the participants comprising 61% of the respondents was against the banning of these instruments. Whereas 13 percent respondents advocated for banning these in the interest of the society. Rest of the respondents could not answer the question.
- (xviii) The 57 percent of the respondents agreed that rules in India relating the derivatives are at par with international rules regarding derivatives, whereas 20 percent respondents feels that the rules in India don't comply with international rules and 20 percent of the respondents have no view about the question. Rest of the respondents could not answer the question.
- (xix) So far as the perfection of margining system is concerned one-half of the respondents were satisfied and conveyed their views in favour of its perfection to cover the risk. 27 percent are worried about the risk and non abeyance of the contract. 17 percent of the respondents have no view about the question and Rest of the participants could not reply.
- (xx) 80 percent of the respondents feel that these financial derivatives are in the interest of big financial institution and big sound individuals. 7 percent respondents feel that they are in the interest of the society and only 13 percent think that derivative instruments are in the interest of the country.

It is suggested in the interest of the society and participants-

1. More awareness should be made about this market segment before making entry in it.
2. The rules should be made more strengthen in the market so that no one can influence the entire market.
3. Initial margin should be increase to avoid any kind of non-abeyance.
4. In our opinion brokerage should be charged on Strike price + premium
5. The delivery in case of options should be stopped.
6. Last but not the least it is suggested that the SEBI must reduce the quantity of lot size of Futures stock to minimize the risk for traders as well as investors in the interest of the society.

Trading volume in Indian stock market has risen like a galloping horse after the introduction of future and options, so large number of investors have shown overwhelming interest in this market. Thus, the growth will be multiple in coming few years in financial derivative segment. A major need for accomplishing Futures and options at this stage is to increase investor's awareness and education.

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## **INTERVIEW WITH PRESIDENT AAA**

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*Questions from*

**Prof. Ranjan Kumar Bal, Utkal University,  
President, Indian Accounting Association**

*Reply by*

**Prof. Shyam Sunder\*, Yale University,  
President, American Accounting Association**

**R.K.B.:** Please share with the members of IAA about the mission, vision and goals of the IAA.

**S.S.:** The American Accounting Association promotes worldwide excellence in accounting education, research and practice. For more details, see AAA's website (<http://aaahq.org/about/mission.htm>).

**R.K.B.:** Would you like to appraise the achievements of the AAA so far and the challenges faced by/before it.

**S.S.:** Since its inception in 1916, AAA has been major force in organizing and promoting accounting scholarship and instruction and has helped develop better accounting practices through research, debate, discussion, and collaboration with various government and non-government organizations. The Accounting Review is recognized as the oldest and a premier journal of scholarly discourse in accounting. In addition, it publishes 11 other journals, 16 newsletters, organizes over a dozen meetings each year attended by more than 5,000 members. Its monograph series includes classic contributions to accounting scholarship. Two thousand of its 8,000 members reside outside the United States in 75 countries around the globe. It recognizes exceptional contributions through its numerous awards, and disseminates instructional materials to be shared among its members. Perhaps it is not an exaggeration to say that AAA plays a central role in harnessing the creativity and ideas of its diverse membership to serve the discipline as well as the society. The challenges before the AAA are many. The changing environment, in which knowledge is increasingly disseminated through Internet, instead of print media, is forcing AAA and other publishers to reconfigure their activities as well as the economic model of their sustainability. An increasing proportion of collegiate accounting instruction is moving to 2-year colleges and delivered through adjunct faculty, which demands rethinking about the scope and services AAA

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*\*With the exception of Answer 1, these are personal views of Shyam Sunder and not of the American Accounting Association.*

should provide to its membership. Driven by their own dynamics, federal and state governmental bodies, as well as state, national and international professional organizations continually attempt to define, standardize, and delimit accounting instruction in ways that do not necessarily serve the broader interests of society and the discipline. As the premier body of accounting scholars and instructors, AAA faces the challenge of determining how to participate in, deal with, and even fend off, myriad such events and initiatives. Given the premium on individual thought and creativity in our domain, definition of collective positions on such matters, much less collective action, is a major challenge for the Association.

**R.K.B.:** Recent accounting scandals have eroded the public confidence on the accounting profession. What steps have been taken by the AAA for improving the public image?

**S.S.:** AAA's main contribution to the public image and confidence in accounting is through education of young people to help them develop not only as skilled professionals but also as independent thinking citizens with broader understanding of society in which we live. This work is carried out by thousands of instructors who use their own ideas and creativity to design curricula, and teach and advice students. AAA helps through dissemination of such materials; convening forums to discuss better ways of doing this work, and by recognizing outstanding achievements of educators.

**R.K.B.:** US standards, for its rule based, have been criticized. Being the head of AAA, kindly express your views on the rule based and principle based standards.

**S.S.:** It has been suggested that standards should be based on principles, not rules. However, "rules versus principles" is a misleading debate. No standards setter sets out with a preference for rules over principles. The standards setters' monopoly existence with their sole duty to develop standards forces them to endlessly "clarify" their principles, and that ultimately degenerates into progressively detailed rulemaking. The problem is one of structure, not intent. Financial accounting standards are more detailed only because FASB has had more time and a larger budget. Twenty years from now, the IASB's rule book will probably be just as voluminous. Its processes are similar and so will be the outcomes. Please see my article at: <http://www.som.yale.edu/faculty/Sunder/WhyReconsiderTopDownPushEAAUniform%20Financial%20Reporting%20Standards.pdf>.

**R.K.B.:** You initiated serious discussions on the competing accounting standards setting bodies. However, very little progress has been made in that direction. What is your comment on this?

**S.S.:** People who make these policy decisions are mostly working for government organizations. The idea of regulatory competition and the benefits of such competition do not come naturally to them; instead it is anathema to them. As much as they may be convinced about their duty to promote competition in industry and trade, they rarely welcome the idea that if alternative regulators were allowed to compete with them, the ultimate result can be the discovery of a better regulatory system. However, this debate has barely started. If the idea is good, it will draw its coverts over time. In my judgment, it is beginning to do so.

**R.K.B.:** IFRS lays stress on the fair value accounting. Will the transition from historical accounting to fair value accounting be smooth?

- S.S.:** "Fair" is an unfortunate re-labeling of current values. Theories of valuation can be integrated into a unified framework to facilitate direct comparison of their properties in specified environments. When current prices change, and are prone to measurement errors, neither the current nor the general price level valuation is necessarily the most accurate (minimum mean squared error estimator) of the unobserved economic value of resources. Generally, min (MSE) estimator is likely to be a specific price index rule whose actual identity depends on the parameters of the economy. If the measurement errors are sufficiently large relative to movement errors, even historical valuation can be the min (MSE) estimator. Which valuation rule has minimum mean squared error is a matter of econometrics, not of theory or principle; it all depends on the relative magnitudes of the parameters of the economy. One size shoe does not fit all; neither does valuation. See <http://www.som.yale.edu/faculty/Sunder/EconometricsofFairValues/Econometrics%20of%20Fair%20ValuesMar18.pdf> and other references in this article. I do not believe that the transition from historical to "fair" values will go very far before its weaknesses as a basis of financial reporting are better recognized.
- R.K.B.:** What is your observation on Accounting Education, Research and Practice in India? In this context what message would you like to give to the members of IAA?
- S.S.:** In the recent years, there has been wider recognition of the important of infrastructure for the modernization of the Indian economy. Service infrastructure is just as important as the physical, and accounting is a critical part of the service infrastructure. Indian economy will benefit greatly from development, modernization and innovation in financial reporting, management accounting, internal controls, government and not-for-profit accounting, governance, financial analysis, forensic and investigative accounting, internal and external auditing, government financial management, and program evaluation. In accounting academia, special and immediate attention is needed towards curriculum, research, and doctoral education. India has made advances in providing services in the software industry. There is no reason why, with sustained effort, accounting cannot be added to India's portfolio of service capabilities. See <http://www.som.yale.edu/faculty/Sunder/IAADelhiDec06.ppt>.
- R.K.B.:** How do you find the future of Accounting Profession in the 21st century? Would it be able to provide ample opportunities to accounting educators and students?
- S.S.:** The developed economies of US, Europe and East Asia suggest that the relative importance of the service sector (of which accounting is an important component) increases with growth. Economic development will place rapidly growing demands on the accounting industry and educators to prepare students in the many fields I mentioned in the preceding paragraph. My impression is that the accounting instruction and curricula in most institutions of higher education in India is too rigid, often outdated, and the current academic structures lack the flexibility and incentives to update them rapidly. Unless India's academic structures and processes are changed soon, the present opportunity to develop the accounting sector of the economy may be lost. Accounting education can and should be a facilitator of economic growth, and not become a drag on economic growth through its inability to adapt and grow.

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## **BOOK REVIEWS**

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### **Advanced Accountancy:**

#### **Theory, Method and Application (Vol. I and Vol. II)**

**Publisher: Sultatn Chand & Sons, New Delhi**

**Author: R.L. Gupta and M. Radhaswamy (Vol. I - 12th Edition 2006, Price: Rs. 365)  
(Vol. II - 5th Edition 2006, Price: Rs. 335)**

Volume I has got three sections covering a total of 45 chapters with 732 illustrations. All chapters have learning objectives new types of problems and recent question papers with focus on advanced accountancy's conceptual and practical framework. Volume II incorporates changes necessitated by recent SEBI guidelines, Accounting Standards and in the Companies Act. A total of 24 chapters have been provided in section IV, V, VI and VII. 536 illustrations have been given. Chapters like - Insurance Company Accounts, Segment Reporting, Valuation of Business make it very useful. Problems have been selected from questions paper of bodies like ICAI, ICSI, ICWAI and IIB. The language is simple and clear.

**Dr. Umesh Holani, Jiwajee University, Gwalior**

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### **Management Accounting: Decision Making**

**Publisher: Sultan Chand and Sons, New Delhi**

**Author: V.K. Saxena and C.D. Vashist, 1st Edition, 2007, Price: Rs. 525**

It is a comprehensive textbook as it covers the syllabus of ICWA final exam stage-V paper Management Accounting-Decision Making. This book has been divided into 3 parts - A, B and C. Part 'A' has 12 chapters while Part 'B' has 10 chapters. Part 'C' deals with selected problems and solutions in respect of CVP analysis budgetary control and variances, analysis. The book has over 750 handpicked typical examples. Revised CIMA terminology 2002 have been reproduced. The book builds on author's rich corporate experience of the subject and in-depth understanding of concepts.

**Dr. Daxa S. Gohil, Saurashtra University, Rajkot**

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### **Aadhya's Service Tax (A Composite Analysis) (Hindi Edition)**

**Publisher: Aadhya Prakashan Pvt. Ltd., Allahabad-Jaipur**

**Author: Yogendra Bangar & Vandana Bangar, 1st Edition, 2006-07, Price: Rs. 400, Pages: 460**

'Service Tax' is another emerging area of Taxation. As of now 96 services have been brought under the purview of service tax. There are 5 sections namely A, B, C, D, and E. 'A' part is introductory while latter parts are comprehensive and detailed in nature. Section 'E' provides an Appendix where different forms/formats have been provided. The present book has been written in Hindi in response to a long standing need keeping in mind the requirements of tax practitioners, practicing accountants, businessmen, academicians and researchers. The strength of the book is the author's capacity to deal with this complex emerging issue of taxation.

**Dr. D. Mehta, Senior Lecturer, Pt. JNIBM, Vikram University, Ujjain**

## **Management Accounting**

**Publisher:** Sultan Chand and Sons, New Delhi

**Author:** S.P. Iyengar, 10th Enlarged Edition, 2006, Price: Rs. 150, Pages: 340

The book has got 4 parts - Introductory, Information for Profit Planning and Decision Making, Information for Planning and Control and Exercises. This book covers topics like - divisional Performance Measurement, Cost Management, Programme and Performance Budgets, Determination of Cost Indifference Points etc. A total of 160 solved illustrations have been provided. This book pays equal attention to theory and practice. It has been written in simple language. This book is useful for B.Com. (Hon.), M.Com. students and other scholars dealing with the subject.

**Dr. Arvind Kumar**, Professor, Lucknow University, Lucknow

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## **Management Accounting: Concept and Applications**

**Publisher:** McMillan India Ltd., New Delhi, 1st Edition, 2007

**Authors:** Rajesh Kothari and Abhishek Godha, Price: Rs. 295/-, Pages: 352

The book focuses on inferences and conclusions to be drawn from published financial information. This book contains 15 chapters. Chapterwise numericals, illustrations, problems, charts and diagrams are the strengths of this book. Concepts like Budgetary control, standard costing, cost reduction systems, human resource accounting, inflation accounting/price level change accounting have been lucidly explained. This book provides comprehensive relevant coverage for students offering MBA, CA, CS, CFA and other professional courses. This book has got a clear, concise and reader friendly presentation.

**Dr. D. Mehta**, Senior Lecturer, Pt. JNIBM, Vikram University, Ujjain

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## **Advanced Accountancy: Theory, Method & Application (For PE-II)**

**Publisher:** Sultan Chand and Sons, New Delhi

**Authors:** R.L. Gupta and M. Radhaswamy, Price: Rs. 550/-, Pages: 2100

This book lucidly and comprehensively covers 34 chapters in seven sections with a total of 79 illustrations. The chapter on amalgamation, absorption and external reconstruction has been simplified. The chapter on insurance company accounts has been provided as per the guidelines of Insurance Regulatory Authority. The theoretical discussions practical problems are polished, sharpened, restructured and updated to help the B.Com., M.Com. and CA Programme students. A total of about 2100 knowledge packed pages provide rich contents to readers.

**Dr. D. Mehta**, Senior Lecturer, Pt. JNIBM, Vikram University, Ujjain

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## **Cost and Management Accounting**

**Publisher:** Sultan Chand and Sons, New Delhi, 13th Edition, 2006

**Author:** Dr. S.N. Maheshwari, Price: Rs. 365/-, Pages: 701

This book contains 33 chapters in five sections. Author has given special emphasis on those segments of syllabus from which questions are frequently asked. Topics like accounting for price level changes, AS-10, fixed assets and depreciation accounting, service costing have been dealt in a very comprehensive manner. The language has been kept simple. This book is not only useful for ICSI programme students but also for C.A., M.Com. and MBA students, practitioners and cost accountants.

**Dr. D. Gupta**, Reader, Pt. JNIBM, Vikram University, Ujjain



## **International Accounting**

**Publisher:** Prentice Hall of India Pvt. Ltd., New Delhi, 1st Edition, 2007

**Author:** A.K. Das Mohapatra, **Price:** Rs. 250/-, **Pages:** 325

International Accounting has emerged as an indispensable tool and a specialised branch of study in the era of globalisation. Keeping in the mind the UGC model curriculum for MBA and related finance specialisation, this book has been divided into 10 chapters and also contains an annexure and a glossary. Topics like IAS7 Vs. AS3, IAS27, transfer pricing methods, Indian GAAP, interim financial reporting, international taxation and financial reporting practices in USA, UK, Canada and Germany have been discussed at length. Chapterwise review questions, worked out examples, tabular representations are the features of this book. This book has been written in a very lucid language.

**Dr. Nageshwar Rao**, Director, Pt. JNIBM, Vikram University, Ujjain

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## **Business Taxation (Indirect Taxes)**

**Publisher:** Sultan Chand and Sons, New Delhi, 8th Editions, 2007

**Author:** Dinkar Pagare and Dr. V. Balachandran, **Price:** Rs. 120/-, **Pages:** 272

Business taxation is regarded as difficult subject but students/readers will find that it is not the case with this text book. This book contains five unitwise sections with model question papers in appendix form. Unit I deals with financial federalism and canons of taxation, while II and IV sections deal with central excise and customs duty provisions. Unit III and IV discuss Tamilnadu General Sales Tax/VAT 2006 and related rules. Finally Unit V provides a scanner of Central Sales Tax. This book is useful to business taxation students, teachers and practising tax professionals.

**Dr. K. Sultan**, Senior Lecturer, Pt. JNIBM, Vikram University, Ujjain

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## **Essential of Cost Accounting**

**Publisher:** Sultan Chand and Sons, New Delhi, 1st Edition, 2007

**Authors:** V.K. Saxena and C.D. Vashist, **Price:** Rs. 275/-, **Pages:** 832

This book is a 'Two in One' book covering both theory and problems. Topics like marginal costing, standard costing and budgetary control have been discussed at length. The book also contains objective type questions, short questions and other practical problems. This book is highly useful for students preparing for professional competence examination of ICAI. Extracts from CIMA official terminology have also been provided in appendix A.

**Miss Namita Soni**, Lecturer, Mahakal Institute of Management, Ujjain

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## **Fundamental of Cost Accounting (Problems and Solutions)**

**Publisher:** Sultan Chand and Sons, New Delhi, 5th Edition, 2007

**Author:** Dr. S.N. Maheshwari, **Price:** Rs. 180/-, **Pages:** 523

This book with 13 chapters and an appendix covers comprehensively the requirements of students preparing for PE-II examination of ICAI. Topics like contract costing, integral accounts, reconciliation of cost and financial accounts and other concepts of cost accounting have been duly supported by chapterwise solutions. Grading of problems has been done according to level of difficulty. There is also an appendix containing recent examination problems. Summary of basic formulae and alternative solutions make the book very useful for students, practicing cost accountants and other cost accounting professionals.

**Dr. K. Sultan**, Senior Lecturer, Pt. JNIBM, Vikram University, Ujjain

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## **Disinvestment in Indian Public Enterprises (Problems and Prospects): Its Accounting and Financial Implications**

**Publisher:** Renuka Publishers, Jodhpur, 1st Edition, 2007

**Author:** Dr. G.L. Dave, **Price:** Rs. 550/-, **Pages:** 260 + Appendices

This book contains seven chapters. The first chapter is on public sector in India, second chapter deals with conceptual framework of privatisation. Third chapter is on disinvestment in public enterprises in India, fourth chapter attempts to cover progress of disinvestment. Fifth chapter deals with valuation of shares. Sixth chapter is based on performance of public enterprises. Seventh chapter is in summary form with conclusions and recommendations. This book is an ideal reference for public enterprise researchers, academicians, practising managers and professionals and also useful to policy makers with simple language and updated data on disinvestment and performance of 14 public enterprises.

**Dr. D. Mehta**, Senior Lecturer, Pt. JNIBM, Vikram University, Ujjain

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## **Financial Taxman's Accounting for Managers**

**Publisher:** Taxmann Allied Services (P) Ltd., New Delhi, 3rd Edition, 2006

**Author:** T.P. Ghosh, **Price:** Rs. 340/-, **Pages:** 491 (with free CD)

This book makes an attempt to provide conceptual clarity to first year MBA students in the area of financial accounting. This book contains knowledge packed 18 chapters and 153 assignments. Case studies of Tata Steel Ltd. and lucid explanation of financial ratios along with brief discussion of all accounting standards are the key features of this book. An interactive CD containing solutions to chapter problems/assignments and financial statements of ten companies have also been attached in XLS format to facilitate analysis using computer. The book is structured in such a way that it achieves the author's prime objective of helping MBA (finance) MFA, MFC, ICWAI, CA and financial accounting students. The language is very clear. It is also equally useful for teachers and professionals.

**Dr. Atul Pandey**, Senior Lecturer, APS University, Rewa

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## **Wealth Tax and Other Indirect Taxes**

**Publisher:** New Royal Book Company, Lucknow, Revised Edition, 2007

**Authors:** Prof. Somesh Kumar Shukla & Dr. Sudhir Kumar Shukla, **Price:** Rs. 150/-, **Pages:** 289

This book contains seven chapters relating to wealth tax and other indirect taxes. First chapter deals with the provisions of Central Sales Tax Act 1956, while second chapter discusses the provisions of U.P. State Trade Tax Act 1948. The third chapter attempts to describe various concepts of wealth tax with several practical examples/solutions. Chapter four examines various dimensions of value added tax concept and its procedural implications. Chapter fifth related to Central Excise Duty Act 1994. Various sections and subsections have also been provided in this chapter. Chapter six discusses constitutional setup relating to tax structure of central government and state governments. Finally seventh chapter is based on provisions of Customs Duty Act 1962. Pedagogical features of this book include - review questions, useful solutions. This book is very useful for taxation students, tax practitioners, legal experts and academicians.

**Dr. D. Mehta**, Senior Lecturer, Pt. JNIBM, Vikram University, Ujjain

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## IAA NEWS

### XXX ALL INDIA ACCOUNTING CONFERENCE

XXX All India Accounting Conference will be held at **Jodhpur** during **December 15-16, 2007**. The topics are as follows:

**International Seminar:** Accounting Education & Research in Competitive Environment with Prof. K. Eresi as Chairman

**Technical Session I:** Transfer Pricing with Dr. Amarjeet Chopra as the Chairman

**Technical Session II:** Accounting for Small and Medium Enterprises with Prof. Gulab Jaiswal as the Chairman

**Technical Session III:** Shareholder Value Creation with Prof. R.K. Mittal as the Chairman

The soft copy and the hard copy of papers should reach the Conference Secretary on or before November 10, 2006.

**Delegation fee:** Rs. 500 for Members of IAA, RDA, IAARF, Rs. 700 for non-members, Rs. 400 for accompanying persons, \$ 100 for Foreign Delegates (However, non-Member Delegates from neighboring countries of India need to pay Rs, 1,500 only).

Last date for Registration without late fee: **November 10, 2007**.

Conference Secretary : **Prof. G.L. Dave**, Head, Department of Accounting,  
Jai Narain Vyas University, Jodhpur - 342 001  
Phone: (R) 0291-2708677, (O) 0291-2513676  
Mobile: 98296-87168

### Annual General Meeting Notice

The annual meeting of the IAA General House is tentatively scheduled to be held at 12.30 p.m. at the Venue of 30th IAA Annual Conference, Jodhpur, on 16th Dec., 2007, to transact the following agenda:

1. Consideration of the minutes of last AGM meeting, 2. Consideration of the Accounts of the Association, 3. Topics for the next IAA Annual Conference, 4. Election as per the Constitution, 5. And any other item with the permission of the Chair.

All the members are requested to attend the meeting

- **Dr. D. Prabhakara Rao**  
General Secretary, IAA

## **Executive Meeting Notice**

A meeting of the IAA Executive Committee is tentatively scheduled to be held at the Venue of 30th IAA Annual Conference, Jodhpur, on 15th Dec., 2007, at 8.30 p.m., to transact the following agenda.

1. Consideration of the minutes of EC meeting held earlier, 2. Nomination EC members to constitute panel nominating the Jr. Vice President, 3. Consideration of the election of the members on vacancies as per rules, 4. Co-option of members to EC, 5. And any other item with the permission of the Chair. All the Executive Members are requested to attend the meeting.

**- Dr. D. Prabhakara Rao**  
General Secretary, IAA

## **National Seminar on Contemporary Issues in Accounting, Commerce and Business Management (October 27-28, 2007)**

Organised by: **Indian Accounting Association (Gwalior Branch), Gwalior (MP), INDIA**

Gwalior Branch of Indian Accounting Association is one of fastest growing offshoot of Indian Accounting Association of India. Since its establishment in the year 2006 its membership has seen a health increase. Since its inception it has organised a lot of local & regional seminars and workshops. It has been doing its share to increase the presence of the profession in the region. The present endeavour is its first but conscious attempt to integrate its efforts with national mainstream.

**CALL FOR PAPERS:** Papers related to any emerging areas of Accounting, Commerce and Business Management are invited. Interested individuals wishing to present a paper at the Conference are invited to submit an abstract which should not be more than 500 words. Final papers should be approximately 3,500 - 5,000 words in length. Successful papers will be published in full as refereed papers in the conference proceedings. Papers will be accepted in Hindi as well as in English language.

**KEY DATES:** Submission of abstracts - Oct 01, 2007, Submission of paper - Oct 15, 2007

**FEES:** Residential : Rs. 500/-, Non-Residential : Rs. 400/-

All the submissions are allowed in electronic form which should be emailed to [yogesh400@gmail.com](mailto:yogesh400@gmail.com)

Address for Correspondence: **Dr. Yogesh Upadhyay**, Organising Secretary  
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