



WIRC BULLETIN

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For Members only

May 2010

From the Desk of Chairman



Dear Professional Colleagues,

Hearty congratulations to the States of Maharashtra and Gujarat on the Eve of their Golden Jubilee celebrations for completing Glorious 50 years.

51st National Convention organised at Kolkata was successfully held from 23rd April to 25th April 2010. Numerous thought provoking deliberations on the subject of CMAs in Nation Building - Today & Tomorrow were discussed.

During this National Convention meeting of "ICWAI Members Benevolent Fund" was held. Friends, the objective of the Fund is to provide Financial Assistance to the Members of the Fund in case of financial distress. You can have the details of the Fund from our website <http://www.icwai.org/icwai/forms/mbf-form.pdf>. I sincerely appeal to each and every Member to join the Fund as its Member and strengthen our Professional Bond within the CMA Fraternity. I am glad to inform you that our President of ICWAI had declared contribution of Rs.13 Lakhs from Head Quarters to the Fund. I would sincerely request the Office Bearers of the Chapters to contribute generously from their respective Chapters on a voluntary basis to this noble cause.

At National Convention at Kolkata, from WIRC, Best Chapter awards were awarded to (a) Pune, (b) Ahmedabad and (c) Kalyan Ambarnath Chapters.

On my representation during the Chapters' Meet on the occasion of National Convention held at Kolkata, the Central Council decided that the Prize Winners of the ICWAI Examination students are entitled for 2nd AC Train fare to and fro and also an amount of Rs.1,500/- towards boarding & lodging expenses.

As a part of providing additional services to our beloved students, a Campus Interview was arranged on 17th April 2010 at K C College, Churchgate, Mumbai. 7 Companies and around 400 students participated. I am happy to learn that 226 students have been shortlisted / selected by the participating Companies. We had also arranged soft skill lectures for the benefit of the students appearing for the Campus Interview. WIRC had also arranged a student's felicitation function at Sydenham College, Churchgate on 11/04/2010, where in prizes were awarded to successful students of Dec. 2009 exam. Applications of Navi Mumbai and Vindhya Nagar Chapters to start oral coaching classes have already been forwarded to the Head Quarters. I had also an opportunity to participate on 1st May 2010 in the prize distribution function and celebration of the receipt of Best Chapter award by Kalyan Ambarnath Chapter.

Satya Narayan Maha Pooja has been organized at WIRC office on 8th May 2010. We have invited Past Office Bearers of WIRC and Past Presidents from our Region to have a get together and have their valuable suggestions for the future of our profession. Faculty and students are also invited.

On the Eve of completing 51 memorable years of the Enactment of Cost and Works Accountants Act, 1959, WIRC is organizing a full day seminar on "Cost and Strategic Management for growth of SME Sector" on

19th May 2010 at Bhaidas Sabhagrih, Vile Parle. I request you to participate in great numbers and make it a grand success.

At the cost of repetition, I would request the Office Bearers of all the Chapters, (a) To finalize the accounts of their respective Chapters immediately, (b) To have an intensive Career Counseling programmes at various Higher Secondary Schools and Colleges and have other suitable intensive marketing campaigns for the same.

With Warm regards,

Manubhai K. Desai

CAMPUS INTERVIEW

WIRC had organized the 4th Campus Interview, for Inter/Final students passed in December 2009 Examination, on 17th April 2010, at K.C. College, Churchgate, Mumbai. More than 400 students from all over Western Region participated in the Campus.

7 companies participated and selected / short listed 226 students.

WIRC has received excellent feedback from the students and the Companies who participated in the Campus, for arranging the Campus Interview.

CMA Manubhai Desai, Chairman WIRC, CMA P.V. Wandrekar, Secretary WIRC, CMA G.R. Paliwal, RCM-WIRC, CMA Aruna Soman and CMA S.G. Narasimhan, Co-coordinator, were present on the occasion.





**WESTERN INDIA REGIONAL COUNCIL
OF
The Institute of Cost and Works Accountants of India**
Set up under act of Parliament
(Founder member of IFAC, CAPA and SAFA)
ORGANISES ONE DAY SEMINAR ON
**COST AND STRATEGIC MANAGEMENT
FOR GROWTH OF SME SECTOR**

Date	:	Wednesday the 19th May, 2010
Venue	:	Bhaidas Sabhagrih, Road No. 1, Near Mithibai College, Juhu Scheme, Vile Parle (West) Mumbai - 400 056
Time	:	9.00 a.m. to 6.00 p.m.
Fees	:	Rs. 1,500/- For Company Delegates / Members of ICWAI/CIMA/ICSI/ICAI Rs.1000/- for self sponsored Practising Cost Accountants Rs.750/- for students of ICWAI, CIMA, ICSI, ICAI & MBA
CEP Hours	:	CEP credit for ICWAI members – 4 (four) hours.

KNOWLEDGE PARTNER :



**CHARTERED INSTITUTE OF
MANAGEMENT ACCOUNTANTS**

IN ASSOCIATION WITH



**SMALL & MEDIUM BUSINESS
DEVELOPMENT CHAMBER OF INDIA**

and



**MAHARASHTRA CHAMBER OF COMMERCE,
INDUSTRY AND AGRICULTURE**

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CARE RATINGS

The Institute, set up in 1944 to develop the profession of cost and management accountancy in India, is a founder member of international accounting bodies like IFAC, CAPA and SAFA. The Parliament passed the Cost and Works Accountants Act in 1959. It got the assent of the President of India on 19th May 1959.

The SME Sector comprises about 98% and 99% of total establishments in USA and Japan. Its share of employment in these countries is 53% and 72%. SME enterprises at present contribute nearly 17% of India's GDP, which is expected to increase to 22% by 2012. This sector accounts for 95% of the industrial units, is contributing around 40% of manufacturing output, is the second largest employer after the agricultural sector and enjoys around 40% of exports in India.

This sector faced many unforeseen challenges during the last few years due to abnormal increases and decreases in prices of petroleum products, impact of sub-prime meltdown in economy all over the world, strain on financial sector universally and high inflation. All these factors have affected their working capital needs and capital requirements for keeping pace with speedy revival of Indian Economy. Besides many regulatory changes are taking place like new Companies Act, IFRS, GST, DTC, LLP, etc.

The Seminar aims to focus on Cost and Strategic Management issues to improve the contribution of SME Sector in the entire GDP. We expect about 1100 delegates to equip them to manage risks to solve complex real life situations either as an entrepreneur, an executive or a self employed professional.

PROGRAMME COMMITTEE

CMA Manubhai Desai	:	<i>Chairman, WIRC-ICWAI</i>
CMA Amit Apte	:	<i>Vice Chairman, WIRC-ICWAI</i>
CMA P.V. Wandrekar	:	<i>Hon. Secretary, WIRC-ICWAI</i>
CMA Dinesh K. Birla	:	<i>Treasurer, WIRC-ICWAI</i>
CMA A.B. Nawal	:	<i>RCM, WIRC-ICWAI</i>
CMA G.R. Paliwal	:	<i>RCM, WIRC-ICWAI</i>
CMA Aruna Soman	:	<i>Co-opted Member-EXCOM WIRC-ICWAI</i>
CMA S.G. Narasimhan	:	<i>Programme Co-ordinator, WIRC-ICWAI</i>
CMA Ashish Thatte	:	<i>Programme Co-ordinator, WIRC-ICWAI</i>

SOUVENIR

The Institute is bringing out a souvenir on this occasion. Kindly send your advertisement for projecting your organisation to diverse participants as per the details contained in the Advertisement Order form enclosed herewith.

Please send your registration in attached form along with fees by Cheques / DD payable at Mumbai in favour of "WIRC OF ICWAI" to:

**Western India Regional Council of
The Institute of Cost and Works Accountants of India,**
4th Floor, Rohit Chambers, Janmabhoomi Marg, Mumbai 400 001
Phone: 2287 2010 / 2204 3416 Fax: 2287 0763 • Email: admin@icwai-wirc.org

PROGRAMME SCHEDULE

09.00 A.M.	09.30 A.M.	Tea / Registration
09.30 A.M.	10.30 A.M.	Inauguration
10.30 A.M.	11.00 A.M.	TEA
11.00 A.M.	12.00 NOON	Growth Opportunities for SME Sector for 2020
12.00 NOON	01.00 P.M.	Cost / Strategic Management for Sustaining Growth
01.00 P.M.	02.00 P.M.	LUNCH
02.00 P.M.	03.00 P.M.	Regulatory Changes for Accelerating Growth
03.00 P.M.	03.30 P.M.	Success Stories in SME Sector
03.30 P.M.	04.00 P.M.	TEA
04.00 P.M.	05.00 P.M.	Special Financial Products for SME Sector
05.00 P.M.	05.30 P.M.	Open Forum for Discussions
05-30 P.M.	06.00 P.M.	Concluding Session



WESTERN INDIA REGIONAL COUNCIL OF The Institute of Cost and Works Accountants of India

REGISTRATION FORM FOR DELEGATES FOR SEMINAR ON COST AND STRATEGIC MANAGEMENT FOR GROWTH OF SME SECTOR

Date : Wednesday, the 19th May, 2010

Venue : Bhaidas Sabhagrih, Road No. 1, Near Mithibai College, Juhu Scheme, Vile Parle (West), Mumbai - 400 056

Time : 9.00 A.M. TO 6.00 P.M.

Fees : Rs. 1,500/- For Company Delegates / Members of ICWAI/CIMA/ICSI/ICAI
Rs. 1,000/- for self sponsored Practising Cost Accountants
Rs. 750/- for students of ICWAI, CIMA, ICSI, ICAI & MBA

To

WESTERN INDIA REGIONAL COUNCIL OF

The Institute of Cost and Works Accountants of India,

4th Floor, Rohit Chambers, Janmabhoomi Marg, Mumbai - 400 001

Fax: 2287 0763 • Email: admin@icwai-wirc.org

Please register the following delegates for the Seminar :

S.No.	Name	Designation	Phone	Email
1)
2)
3)
4)

We enclose herewith Cheque / DD No.dated.....on

Bank Branch for Rs.....

(Rupees) in favour of WIRC OF ICWAI

Name of the Organisation

Communication Address

Phone Nos./ Mobile

E-mail

Signature

Designation/ Seal



WESTERN INDIA REGIONAL COUNCIL OF The Institute of Cost and Works Accountants of India

FORM FOR ADVERTISEMENT IN SOUVENIR FOR SEMINAR ON COST AND STRATEGIC MANAGEMENT FOR GROWTH OF SME SECTOR

Date : Wednesday, the 19th May, 2010
 Venue : Bhaidas Sabhagrih, Road No. 1, Near Mithibai College, Juhu Scheme,
 Vile Parle (West) Mumbai - 400 056
 Time : 9.00 A.M. TO 6.00 P.M.

To

**WESTERN INDIA REGIONAL COUNCIL OF
The Institute of Cost and Works Accountants of India,**
 4th Floor, Rohit Chambers, Janmabhoomi Marg, Mumbai - 400 001
 Fax: 2287 0763 • Email: admin@icwai-wirc.org

Please book the following space in the souvenir to be published by you on the occasion of seminar on Cost and Strategic Management for Growth of SME Sector :

Souvenir Advertisement Tariff

Back Cover page	....	Rs. 50,000/-
Inside Cover Page	....	Rs. 25,000/-
Colour Page on Art Paper	....	Rs. 15,000/-
Colour Page (Ordinary Printing Paper )	....	Rs. 10,000/-
Ordinary full page	....	Rs. 7,500/-

Art material for printing in Souvenir is enclosed.

Our Cheque / demand draft No.datedfor Rs.....
 (Rupees.....) onBank
 Branch, in favour of "WIRC OF ICWAI" payable at Mumbai is enclosed herewith.

Yours truly,

Name of the Organisation

Communication Address

Phone Nos. /Mobile E-mail

Signature

Designation/ Seal

MSMEs – Credit Risk and Rating Dimension

by **Mr. Kunal Shah**, Dy. Manager, Business Development, Credit Analysis and Research (CARE) Ltd.

Background

The Micro, Small & Medium Enterprises (MSMEs) are one of the core constituents of our economy in terms of their contribution to country's industrial production, exports, employment and creation of an entrepreneurial base. Despite contributing significantly in terms of value addition (especially in the manufacturing sector) in India, they are stifled by structural problems, of which adequate credit flow is an important element. With a view to facilitate proper mechanism for banks to provide credit to this sector, Government of India (GoI) had encouraged credit rating for such units. This article looks at the issues pertaining to the MSMEs and the credit risk dimension of it.

Significance

The MSME sector contributes significantly to the manufacturing output, employment and exports of the country. It is estimated that in terms of value, the sector accounts for about 45 per cent of the manufacturing output and 40 percent of the total exports of the country. The sector is estimated to employ about 42 million persons in over 13 million units throughout the country. Further, this sector has consistently registered a higher growth rate than the rest of the industrial sector.

There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSMEs in India. It is well known that the MSMEs provide the maximum opportunities for both self-employment and jobs after agriculture. The total employment from the MSE sector in the country as per the Third All India Census of MSEs with reference Year 2001-02 was 249.33 lakh numbers. The units operating with fixed premises are treated as MSEs. As per the estimates compiled for the year 2007-08, the employment was 322.28 lakh persons in the sector. The share of MSEs in the total employment among units engaged in manufacturing and services is around 34.93%.

Asian perspective

According to an Asian Development Bank (ADB) report on key indicators pertaining to SMEs for Asia & the Pacific, the common factors impacting the MSMEs across the region are quite striking and financing is one of the most important amongst them.

In a crux, MSMEs in most Asian economies are:

- Economically significant segment
- Focus of various Govt. schemes assisting them and varying by target segment, type of benefits & implementing organizations
- Hampered by some common key constraints for development (most common being financing)

Government policies & support

To resolve a number of issues which affect the growth of

this sector, the Prime Minister had constituted a high level task force which held detailed discussions with stakeholders and drew up an agenda for action. As per the task force, although Indian MSMEs are a diverse and heterogeneous group, they face some common problems which were classified into six major thematic areas viz.:

- a) credit;
- b) marketing;
- c) labour;
- d) rehabilitation and exit policy;
- e) infrastructure, technology and skill development; and
- f) taxation.

MSME segment in India is characterised by:

- High product/service diversity
- Existence in clusters
- Either export driven or ancillary to an organized industry
- Huge unorganized segment
- Key operating constraints – *financing, technology upgradation, dearth of managerial/technical personnel & poor marketing function*

In one of the most important developments, GoI had enacted the Micro, Small and Medium Enterprises Development (MSMED) Act 2006. It was promulgated in order to:

1. Remove impediments due to multiple laws;
2. Introduce statutory consultative and recommendatory bodies on MSME policies;
3. Improve registration procedures of MSMEs;
4. Statutory basis for purchase preference and credit policies;
5. Improve realisation of payments of MSMEs.

Salient Features of the Act

1. Industry replaced by enterprise which includes service enterprises also.
2. Ambit of sector enlarged to cover medium enterprises.
3. Constitution of MSME Board
4. Simplification of registration procedure
5. Policy of preferential procurement from MSMEs
6. Progressive credit support
7. Penalty for delayed payments
8. Provision for exit policy

It also provided for a proper definition of MSMEs.

Definition of MSMEs

Type	Mfg. Enterprise	Service Enterprise
Micro	Up to Rs.25 lakh	Up to Rs.10 lakh
Small	Rs.25 lakh to Rs.5.0 cr.	Rs.10 lakh to Rs.2.0 cr.
Medium	Rs.5.0 cr. to Rs.10.0 cr.	Rs.2.0 cr. to Rs.5.0 cr.

(Values indicate investment in plant & machinery)

Steps Taken by Various Agencies after MSMED Act, 2006

- Amendment to Schedule VI of the Companies Act, 1956, it specifies the format of Balance sheet and Profit & Loss Account of the companies providing for incorporation of the amount due to Suppliers (MSEs) and the interest accrued thereon.
- Income-tax Rules, 1962, in Form No. 3CD have been amended providing for inadmissibility of amount of Interest under Section 23 of MSMED Act, 2006
- The Ministry of Heavy Industries and Public Enterprises, Govt. Of India has instructed all central Public Sector Enterprises (CPSEs) to ensure prompt payment of bills of MSMEs.

Thrust Areas for Promotion of MSMEs

- Adequate and Timely Credit (Term loans and Working Capital)
- Modernization & Technological Up gradation
- Integrated Infrastructure
- Quality Improvement
- Market Promotion
- Export Promotion
- Entrepreneurship Development & Management Development
- Capacity Building

Issues in SME Financing

- Unstructured information flow
- Lack of evaluation expertise with limited information and diverse nature of operations
- High risk perception resulting in avoidance by many institutions and banks
- High transaction cost
- High operational risk due to inability to attract capable management & technical personnel
- Lack of collateral
- Historically high default rates
- Diverse clients with diverse needs

Rating dimension & CARE's experience

The advantages of credit rating for MSMEs include:

- Increased funding options as credit ratings are widely recognised by banks, financial institutions and other investors
- Faster processing of loan applications by banks/FIs
- Assists in capability assessment by existing/prospective clients
- Credibility and favourable trade terms with suppliers & customers
- Meet regulatory requirements
- Assists in self-assessment
- Recognition (as ratings are made public)

CARE had taken a leading role by introducing the NSIC-CARE ratings for the SSI sector and SME ratings to cater the requirements of such units. Salient features of the same are as under:

NSIC-CARE Performance & Credit Rating

- All registered SSIs eligible
- 75% subsidy from NSIC for rating fees
- 15-point rating scale indicating both performance capability and financial strength

Rating Matrix	Financial Strength			
		High	Moderate	Low
Performance Capability	Highest	SE 1A	SE 1B	SE 1C
	High	SE 2A	SE 2B	SE 2C
	Moderate	SE 3A	SE 3B	SE 3C
	Weak	SE 4A	SE 4B	SE 4C
	Poor	SE 5A	SE 5B	SE 5C

For example: "NSIC – CARE SE 2B" would indicate High Performance capability and Moderate Financial strength. Prospects of performance are high. However, the entity has moderate capacity to meet its financial obligations.

CARE SME Ratings

- Issuer specific rating reflecting overall debt management capability of an SME unit
- SME defined as an entity having turnover less than Rs.100 crore
- Credit risk assessment in comparison with credit risk of other SMEs
- Cluster approach in analysis

Rating Scale	Definition
CARE SME 1	Highest Credit Quality with Negligible Credit Risk
CARE SME 2	High Credit Quality with Very Low Credit Risk
CARE SME 3	Above Average Credit Quality with Low Credit Risk
CARE SME 4	Average Credit Quality with Average Credit Risk
CARE SME 5	Below Average Credit Quality with Above Average Credit Risk
CARE SME 6	Low Credit Quality with High Credit Risk
CARE SME 7	Very Poor Credit Quality with Very High Credit Risk
CARE SME 8	Lowest Credit Quality with Highest Credit Risk

With the BASEL II guidelines in place and credit rating being one of the requirements for all bank exposures above Rs. 10 crore, large number of the Small and Medium Enterprises (SME) have come under the purview of credit rating. However, because of the fact that the Reserve Bank of India (RBI) guidelines for Basel-II framework for banks recognise the long term (AAA to D) and short term (PR1+ to PR5) instrument rating scales of recognised rating agencies such as CARE, large number of SMEs have been rated on that scale.

Conclusion

The importance of MSMEs for the overall economy cannot be overstated. Besides the growth potential of the sector and its critical role in the manufacturing and value chains, the heterogeneity and the unorganised nature of the Indian MSMEs are important aspects that need to be factored into credit decisions. With focus of growth now being on inclusive growth, the role of MSME sector in India's socio economic development also needs to be ascertained appropriately. With a view to address the impediments for the sector's growth, GoI has initiated various steps and schemes. Adequate credit flow being one of the bottlenecks, credit rating assists in rationalised lending decisions through proper analysis of the credit risk. Gradually, the coverage of MSMEs for credit rating is expected to increase.

Exposure Draft of CAS – Cost Accounting Standard on Cost of Service Cost Centre

REQUEST FOR COMMENTS

The Council of The Institute of Cost and Works Accountants of India has approved the release of Exposure Draft Cost Accounting Standards on Cost of Service Cost Centres as recommended by the Cost Accounting Standards Board (CASB), the standard-setting body of the Institute on March 27, 2010. The CASB's proposed standard may be modified in light of comments received before being issued as a standard in final form.

Please submit your comments on the proposed ED, preferably by email, latest by May 14, 2010.

Comments should be addressed to:

The Secretary,
Cost Accounting Standards Board The Institute of Cost and Works Accountants of India,
ICWAI Bhawan, 3rd Floor 3, Lodi Road, Institutional Area, New Delhi
Email responses should be sent to: casb@icwai.org

The following is the Exposure Draft of COST ACCOUNTING STANDARD (CAS) on "COST OF SERVICE COST CENTRE" for comments. The standard deals with methods of determining the COST OF SERVICE COST CENTRE. In this Standard, the standard portions have been set in *bold italic* type. These are to be read in the context of the background material which has been set in normal type.

1. Introduction

- 1.1 This standard deals with the principles and methods of determining the cost of service cost centres.
- 1.2 This standard covers the service cost centres other than utilities as defined in CAS-8.
- 1.3 *This standard deals with the principles and methods of classification, measurement and assignment of Cost of Service Cost Centres, for determination of the Cost of product or service, and the presentation and disclosure in cost statements.*

2. Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the Cost of Service Cost Centres with reasonable accuracy.

3. Scope

This standard should be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Cost of Service Cost Centres including those requiring attestation.

4. Definitions

The following terms are being used in this standard with the meaning specified.

- 4.1 **Abnormal cost:** *An unusual or atypical cost whose occurrence is usually irregular and unexpected and/ or due to some abnormal situation of the production or operation.¹*
- 4.2 **Administrative overheads:** *Cost of all activities relating to general management and administration of an organisation. Administrative overheads shall exclude any overhead relating to production, operations and marketing.²*
- 4.3 **Cost Object:** *This includes a product, service, cost centre, activity, sub-activity, project, contract, customer or distribution channel or any other unit in relation to which costs are finally ascertained.³*
- 4.4 **Direct Materials:** *Materials the costs of which can be attributed to a cost object.⁴*
- 4.5 **Direct Employee Cost:** *The cost of employees which can be*

attributed to a Cost Object in an economically feasible way.⁵

- 4.6 **Direct Expenses:** *Expenses relating to manufacture of a product or rendering a service, which can be identified or linked with the cost object other than direct material or direct employee cost⁶. Examples of Direct Expenses are royalties charged on production, hire charges for use of specific equipment for a specific job, cost of special designs or drawings for a job, software services specifically required for a job, travelling Expenses for a specific job.*

- 4.7 **Distribution Overheads:** *Distribution overheads, also known as Distribution Cost, are the costs incurred in handling a product from the time it is ready for despatch until it reaches the ultimate consumer.⁷*

The cost of any non manufacturing operations such as packing, repacking, labelling, etc. at an intermediate storage location will be part of distribution cost.

(1) Adapted from CAS 1 paragraph 6.5.19 (2) Adapted from CAS 9 paragraph 4.2 Adapted from CIMA Terminology Adapted from CAS 1-6.2.3 Adapted from CAS 1 Para 6.2.4 (Direct labour cost) Adapted from CAS 1 Para 6.2.6 Adapted from CAS 1 Para 6.3.9

- 4.8 **Finance Costs:** *Costs incurred by an enterprise in connection with the borrowing of funds. This will include interest and commitment charges on bank borrowings, other short term and long term borrowings, amortisation of discounts or premium related to borrowings, amortisation of ancillary cost incurred in connection with the arrangements of borrowings, finance charges in respect of finance leases, other similar arrangements and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs⁸. The terms Finance costs and Borrowing costs are used interchangeably.*

- 4.9 **Imputed Costs:** *Hypothetical or notional costs, not involving cash outlay, computed for any purpose.⁹*

- 4.10 **Marketing overheads:** *Marketing Overheads are also known as Selling and Distribution Overheads.*

- 4.11 **Normal capacity:** *Normal Capacity is the production achieved or achievable on an average over a number of periods or seasons under normal circumstances taking into account the loss of capacity resulting from planned maintenance.¹⁰*

- 4.12 **Production Overheads:** *Indirect costs involved in the production process or in rendering service.¹¹*

The terms Production Overheads, Factory Overheads, Works Overheads and Manufacturing Overheads denote

the same meaning and are used interchangeably.

4.13 Selling Overheads: *Selling Overheads, also known as Selling Costs, are the expenses related to sale of products and include all Indirect Expenses in sales management for the organization.¹²*

4.14 Service Cost Centre: *The cost centre which provides auxiliary services across the organization.*

The cost centre which provides services to Production, Operation or other service cost centres but not directly engaged in manufacturing process or operation is a service cost centre.

Explanation: A service cost centre renders services to other cost centres / other units / related parties of an enterprise and in some cases to outside parties. Examples of service cost centres are laboratory, welfare services, safety, transport, dispensary, school, crèche, township etc.

4.15 Standard Cost: *A predetermined cost of resource inputs for the cost object computed with reference to set of technical specifications and efficient operating conditions.¹³*

Standard costs are used as scale of reference to compare the actual costs with the standard cost with a view to determine the variances, if any, and analyse the causes of variances and take proper measure to control them. Standard costs are also used for estimation.

4.16 Stand-by service: *Any facility created to safeguard against the failure of the main source of services.*

5. Principles of Measurement

5.1 *Each identifiable and quantifiable service cost centre shall be treated as a distinct cost object for measurement of the cost of services rendered by the cost centre.*

5.2.1 *Cost of services for own production shall comprise direct material cost, direct employee cost, direct expenses and factory overheads.*

5.2.2 *Cost of services for the purpose of inter unit transfers shall comprise direct material cost, direct employee cost, direct expenses, factory overheads and distribution overheads.*

5.2.3 *Cost of services for the inter company transfers shall comprise direct material cost, direct employee cost, direct expenses, factory overheads, distribution overheads and share of administrative overheads.*

5.2.4 *Cost of services rendered to outside parties shall comprise direct material cost, direct employee cost, direct expenses, production overheads, distribution overheads, share of administrative overheads and marketing overheads.*

5.3 *Finance costs directly incurred in connection with the service cost centres shall not form part of the service department cost.*

5.4 *The cost of service cost centre shall not include imputed costs.*

5.5 *Where the cost of service cost centres is accounted at standard cost, the price and usage variances related to the services cost centres shall be treated as part of cost of services. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.*

5.6 *Any Subsidy/Grant/Incentive or any such payment received/receivable with respect to any service cost centres shall be reduced for ascertainment of the cost to which such amounts are related.*

5.8 *The cost of production and distribution of the service shall be determined based on the normal capacity or actual capacity utilization whichever is higher and unabsorbed cost, if any, shall be treated as abnormal cost¹⁴. Cost of a Stand-by service shall include the committed costs of maintaining such a facility for the service.*

5.9 *Any abnormal cost where it is material and quantifiable shall not form part of the cost of services cost centres.*

5.10 *Penalties, damages paid to statutory authorities or other third parties shall not form part of the cost of services cost centres.*

5.11 *Credits/recoveries relating to the service cost centre including charges for services rendered to outside parties, if not material, shall be reduced from the total cost of that service cost centre.*

5.12 *Any change in the cost accounting principles applied for the measurement of the cost of service cost centres shall be made only if, it is required by law or for compliance with the requirements of a cost accounting standard, or a change would result in a more appropriate preparation or presentation of cost statements of an enterprise.*

6. Assignment of Cost

6.1 *Where the cost of services rendered by a service cost centre is not directly traceable to a cost object, it shall be assigned on the most appropriate basis.*

6.2 *The most appropriate basis of distribution of cost of a service cost centre to the cost centres consuming services is to be derived from logical parameters which could be related to the usage of the service rendered. The parameter shall be equitable, reasonable and consistent.*

7. Presentation

7.1 *Cost of service cost centre shall be presented as a separate cost head for each type of service in the cost statement, if material.*

8. Disclosures

8.1 *The cost statements shall disclose the following:*

- 1. The basis of distribution of cost of each service cost centre to the consuming centres*
- 2. The cost of purchase, production, distribution, marketing and price of services with reference to sales to outside parties*
- 3. Where the cost of service cost centre is disclosed at standard cost, the price and usage variances*
- 4. The cost of services received from / rendered to related parties¹⁵.*
- 5. Cost of service cost centre incurred in foreign exchange.*
- 6. Any Subsidy/Grant/Incentive and any such payment reduced from cost of service cost centres.*
- 7. Credits/ recoveries relating to the cost of service cost centres*
- 8. Any abnormal cost excluded from cost of service cost centres*
- 9. Penalties and damages paid excluded from cost of service cost centres.*

Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement

8.2 *Any change in the cost accounting principles and methods applied for the measurement and assignment of the cost of service cost centre during the period covered by the cost statement which has a material effect on the cost of service cost centre shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be disclosed.*

8.3 *Disclosures shall be made only where material and significant.*

8.4 *Disclosures shall be made in the body of the Cost Statement or as a foot note or as a separate schedule prominently.*

IFRS CORNER

A monthly column by CMA Rammohan Bhawe and CMA Dr Anjali Bhawe. CMA R N Bhawe, FICWA, ACS, FCA, Six sigma green belt, Dip IFRS (ACCA, UK), Certified IFRS - ICAI - Strategy & IFRS Consultant, & CMA (Dr.) Anjali Bhawe, AICWA, Ph.D., IFRS Consultant

Author runs organization ConsultIFRS.com more as a social responsibility to create awareness among professional to bring in corporate Governance and transparency in corporate world. Contact on ConsultIFRS@gmail.com for any IFRS career guidance - free.

Write queries to mohanbhawe@gmail.com or call on 9004043365

CAREERS IN IFRS

Are there Career Opportunities in IFRS?

Huge. Sky is the limit.

Is IFRS a short term opportunity?

It is long term, for sure. In today's context, with everything changing so fast, anything 3 years plus is long term. Whereas author believes that this is at least 8 years plus opportunity.

Is it a great career?

Yes. Read Forbes magazine - which talks about IFRS as a TOP career for 2010

Where do I find opportunity?

Simple. Give google alerts for IFRS Global jobs and IFRS India jobs and get your inbox full.

What is nature of opportunity in India?

1. Conversions 2. Implementations 3. Proposals and RFPs 4. KPOs 5. Industry jobs 6. BFSI 7. Training 8. Advisory 9. M & A 10. Research 11. Valuations & due diligence

What are opportunities globally?

1. Stock market balance-sheet analysis in global share markets 2. USA adopting in 2014 3. East Europe still many countries adopting 4. Japan and India joint initiative started 5. West Europe - further phases on 6. Dubai, Oman, Gulf opportunities in boom 7. Canada adopting Jan 2011

What are my options?

- Learn the basics of IFRS thru diploma or certificate course. Only diploma available is by ACCA, UK - exams conducted in India in 9 cities. Details available on ConsultIFRS.webs.com
- Wait and watch - while fellow professionals from other institutes MARCH HEAD and encash opportunities.

CHOICE IS OURS

WIRC-ICWAI Students' Felicitation

WIRC had arranged Students Felicitation Programme on Sunday the 11th April 2010 at Sydenham College, Auditorium, Churchgate, Mumbai for all the students from Mumbai who have completed Intermediate & Final Examination held in December 2009.

Mr. Suresh Khare was the Chief Guest and Mr. P.P. Bardeshkar was Guest of Honour for the Programme. Chief Guest, Guest of Honour and Council Members felicitated all students by handing over the prizes.

CMA G.R. Paliwal, Chairman, Students, Members and Chapters Co-ordination Committee-WIRC, CMA Manubhai Desai, Chairman WIRC, CMA P.V. Wandrekar, Secretary WIRC, CMA Dinesh Birla, Treasurer WIRC and CMA V.C. Kothari, CMA Ashwin Dalwadi, CCMs of ICWAI were present on the occasion.

Around 250 students and parents were present for the felicitation programme. The entire programme was compared by CMA Aruna Soman.

CHAPTER NEWS

NAGPUR

As per the guidelines of Ministry of Corporate Affairs, Chapter had arranged "Investor Awareness Programme" on 20th February 2010 at Nagpur. About 200 participants attended the programme. Mr. Rakesh Kumar Tiwari, Official Liquidator, MCA, Nagpur, Dr. V. Gopal, Professor, Institute of Management Technology, Nagpur and CMA Deepak Khanuja, fellow member of the Institute guided the participants. Programme was appreciated by one and all and was covered by the media.

NAVI MUMBAI

CEP on Works Contract and Implication of taxes thereof

A CEP was conducted on Discussion on Works Contract and implication of taxes thereof by Navi Mumbai Chapter on 18th April 2010. CMA Pratyush Chattopadhyay, Chief Manager- Commercial, Reliance Retail Ltd, was the speaker. CMA K.R. Jethani, Chairman of the Chapter welcomed the members. CMA Amit Sarkar, Managing Committee Member of the Chapter- introduced the speaker. While discussing the evolution of works contract tax in India the speaker elucidated the meaning of sale of goods and how it relates to works contract tax and service tax. The speaker elaborately discussed about the "Deemed Sale" and what are essential ingredients of works contract tax. The speaker also discussed the valuation aspect of Works contract tax, and how credit available in the said Act. The full session was very much interactive and the presentation was well accepted by the members. CMA M.K. Narayanaswamy - Sr. Managing Committee Member of the Chapter concluded the session with vote of thanks to the speaker.

STUDY CIRCLE MEETING OF WESTERN SUBURBS

Date : Saturday, 15th May 2010 Time: 5.30 p.m. to 8.30 p.m.

Topic : IFRS

Speaker : CMA R.N. Bhawe, FICWA, FCA, ACS, LLB (G), IFRS-ICAI, Dip IFRS (ACCA, UK) Six sigma Green Belt and enowned international faculty on IFRS

Venue : Chetana's Hazarimal Somani College of Commerce & Economics, Survey # 341, Government Colony, Bandra (E), Mumbai - 400 051

(2 CEP Credit Hours will be provided)

Programme Co-ordinators

CMA Aruna Soman	-	98692 07020
CMA M.S. Chandani	-	98210 77748
CMA V. B. Prabhudesai	-	98201 54768

CONTINUING EDUCATION PROGRAMME

Date : Saturday, 29th May 2010 Time: 3.00 p.m. to 6.00 p.m.

Topic : Corporate Social Responsibility (CSR)

Speaker : Dr. N. M. Vechalekar, FICWA, Past Chairman, WIRC & Associate Dean, Post Graduate Programme, Indsearch, Pune

Fees : Rs. 250/-

Venue : WIRC Hall, Rohit Chambers, 4th Floor, Fort, Mumbai - 400 001

(2 CEP Credit hours will be provided)

Programme Co-ordinators

CMA Aruna Soman	-	98692 07020
CMA S. G. Narasimhan	-	98199 95065
CMA Ashish Thatte	-	98209 73559

For Registration : E-mail: seminar@icwai-wirc.org

BEST CHAPTER AWARD

In the 51st National Convention held at Kolkata, following Chapters under WIRC were given "Best Chapter Award" for the year 2009.

Category	a) PUNE
Category	b) AHMEDABAD
Category	c) KALYAN AMBERNATH



CMA Kashi Vishwanathan, Secretary, Nagpur Chapter; CMA Deepak Khanuja, CMA G.R. Paliwal, RCM-WIRC, Mr. Rakesh Kumar Tiwari, Official Liquidator, MCA, Nagpur; CMA N. Patra, Chairman, Nagpur Chapter and Dr. V. Gopal, Professor, Institute of Mgt. Technology, Nagpur during "Investor Awareness Programme" organised by Nagpur Chapter on 20th February 2010.



View of Participants during Investor Awareness Programme" organised by Nagpur Chapter on 20th February 2010.



Mr. Suresh Khare, Chief Guest lighting the lamp during Felicitation Programme organized by WIRC on Sunday the 11th April 2010 at Sydenham College, Auditorium, Churchgate, Mumbai. Also seen (L to R) Mr. P.P. Bardeshkar; Guest of Honour, CMA P.V. Wandrekar; Secretary WIRC and CMA Manubhai Desai, Chairman WIRC.



CMA P.V. Wandrekar; Secretary WIRC interacting with students during Felicitation Programme. Also seen (L to R) CMA Dinesh Birla, Treasurer WIRC, CMA G.R. Paliwal, Chairman, Students, Members and Chapters Co-ordination Committee, Mr. Suresh Khare, Chief Guest and Mr. P.P. Bardeshkar; Guest of Honour, CMA Manubhai Desai, Chairman WIRC, CMA Ashwin Dalwadi, CCM of ICWAI and CMA V.C.Kothari, CCM-ICWAI



Mr. Suresh Khare, Chief Guest giving away prize to student during Felicitation Programme organized by WIRC on Sunday the 11th April 2010 at Sydenham College, Auditorium, Churchgate, Mumbai.



CMA V.C.Kothari, CCM-ICWAI giving away prize to student during Felicitation Programme.



CMA Sanjay Bhargave CCM, addressing at National Convention of the Institute at Kolkata



CMA Manubhai Desai, Chairman WIRC welcoming Mr. P. Jain ADG Audit - Central Excise during National convention of the Institute at Kolkata.



View of Students & Companies Representatives during Campus Interview organized by WIRC on 17th April 2010 at K.C. College, Mumbai.



Views of students during lectures on "Personality and Communications Skills Development" organized by WIRC on the eve of Campus Interview.

STUDY CIRCLE MEETING REPORT

On 10th April 2010, WIRC had organized a Study Circle Meeting of Eastern Suburbs at Mulund College of Commerce, Mulund on "Roadmap To IFRS". The speaker for the programme was CMA R.N. Bhave, fellow member of the Institute. CMA P.V. Wandrekar, Hon, Secretary WIRC & CMA Shekhar Joshi, Programme Co-ordinator, Eastern Suburbs Study Circle were present at the meeting. The programme was well received by the members.



If undelivered please return to:

THE INSTITUTE OF
COST AND WORKS ACCOUNTANTS OF INDIA
WESTERN INDIA REGIONAL COUNCIL,
Rohit Chambers, Janabhoomi Marg,
Fort, Mumbai 400 001.

Tel.: 2204 3406 / 2204 3416 / 2284 1138

Fax : 2287 0763

E-mail : bulletin@icwai-wirc.org

Website : www.icwai-wirc.org

To