

The Institute of Chartered Accountants of India

(Set up by an Act of parliament)



TUTICORIN BRANCH OF SIRC

NEWS LETTER

FEBRUARY 2010

Thoughts of the Chairman...

Dear Colleagues,

Season's Greetings and Best Wishes for a Prosperous New Financial year 2010-11.

At the outset let me thank each one of you for elevating me to this position. Through these columns, I also express my sincere thanks to my colleagues in the Managing Committee for reposing confidence in me to steer the Branch for 2010-11. By this, I am consciously aware of my increased responsibility and assure you that I will discharge my duties to the best of my abilities. In this direction, I look forward for your valuable guidance, help and feed back which will enable me to serve the profession better.

I would like to place on record my sincere appreciation to the meticulous, untiring, and dynamic outgoing Chairman CA.F.Amal George and the past Chairmen, Seniors and Members in profession and Industry for taking the Branch to newer heights. I would certainly benefit from the wisdom, rich experience and valuable guidance of the past Chairmen of Branch, and other senior members of the profession. As Chairman of Branch for the year 2010-11, I now stand in shoes of the great men who had led us in the past in education, professional practice, ethical behavior and above all, humanness. It is indeed very gratifying that Shri. T.N.Manoharan has been awarded the Padma Shri by the Government of India, who is not only a great academician par excellence but also a great leader admired by members and students at large.

The rapid development and progress in information, science and computer technology has produced radical and fundamental changes and has revolutionalised not only the way we live but also our professional practice. The profession of accountancy and finance can not be an exception.

Software applications and other systems used in the business have opened up new trends, challenges and opportunities.

During next twelve months, I would be in touch with you and would need your support, guidance and needless to say your contribution of expertise and time for the benefit and glory of our profession.

Isay it is a Team Work

The Branch will focus on the following areas during the current year:

- Identifying new professional opportunities for members.
- Infrastructure development at the Branch.
- Popularising the Post Qualification Course on ISA, Insurance and Risk Management and WTO.
- Popularising IFRS Convergence Standards, Forensic Accounting, XBRL to Financial Reporting, Direct Taxes Code etc.,
- Conducting CPE Seminars.
- Popularising the CA profession and the CA Course.
- Providing Hands on Training in ERP, Audit tools for DISA qualified members.
- Conducting Public Awareness Programmes thus reaching out to the society.
- Professionally train our Faculty through Residential Programmes
- Involve Industry members as Resource Person & facilitators.
- To conduct Continuous Knowledge Enhancement programmes for the benefit of members and students on topics of varied interests.
- Encouraging members to contribute liberally to the CABENEVOLENT FUND.

I plan to work closely with all of you and I am exited to think of what we will be able to accomplish and achieve together and I conclude with an Mantra which reads as under:

"Live to Give and Serve"

Yours ever loving,
CA.H.Raman, Chairman



Why is it important for managers to know about motivation theories?

Introduction : The key function of managers is 'getting things done' through employees. The following assignment looks at the role of motivation and why it is essential for managers to be aware of the various motivational theories and how the motivational theories could be implemented in a professional context to achieve organisation's goals and objectives.

Motivation has been defined as: the psychological process that gives behaviour purpose and direction (Kreitner, 1995); a predisposition to behave in a purposive manner to achieve specific, unmet needs (Buford, Bedeian, & Lindner, 1995); an internal drive to satisfy an unsatisfied need (Higgins, 1994); and the will to achieve (Bedeian, 1993).

Organisations exist to achieve corporate objectives and employees working in those organisations aide in achieving those objectives by working towards their individual goals and targets. In an ideal world, if every individual was providing his best performance then organisational goals would be met sooner too; however in the real world it is often not the case. Organisations lag behind and more often than not the reason is a demotivated staff. An understanding of the basic human nature is important for effective employee motivation in the workplace and also for effective management and leadership.

In today's business world with rapid changes happening all around, it has become even more important for managers to motivate their staff and help their staff in optimising their performance. Besides, research and observation proves that motivated employees are more creative and productive in the work place.

Several theories of motivation have been presented amongst which Maslow's theory states the purpose of human existence is 'Self-actualisation' and the only way that state can be attained is when the basic human needs are met. Thus according to Maslow, human needs can be represented in the form of a pyramid.

According to Maslow, the basic human needs are: Physiological needs, Safety needs, Love needs, Esteem needs, Self-actualisation.

Whilst Herzberg theory states that in a work environment context there are mainly two factors which determine the motivation levels of employees. The first set of factors which he termed as the hygiene factors do not lead to positive motivation, however a lack of those hygiene factors could lead to de-motivation. Herzberg's theory is particularly useful as it discussed the importance of providing a good working environment and to a certain degree highlighted the importance of a good working environment in achieving a better performance from employees. Herzberg's work categorized motivation into two factors: motivators and hygienes (Herzberg, Mausner, & Snyderman, 1959).

Motivator or intrinsic factors, such as achievement and recognition, produce job satisfaction. Hygiene or extrinsic factors, such as pay and job security, produce job dissatisfaction. McGregor's theory stated that staff would contribute more to the organisation if they were treated as responsible and valued employees. Likert (1967) suggested

that for an organisation to perform better, managers must adopt a participative-group system, whereby, leadership is by the superiors who have complete confidence in their employees and motivation takes the form of economic rewards which is further based on goals set by participation.

Various other theories presented by Vroom, equity theory etc all discuss how employees can be motivated and should be motivated to enhance performance. As stated above individual performance taken collectively determines organisational performance and when organisational performance is not up to the required level, the organisation would not be able to sustain itself and might loose out in competition.

Motivation theories provide an insight into what makes an employee perform better. It provides managers with a tool to motivate employees and helps them in understanding how the staff can be managed better. It is therefore no surprise that the area of human resource management and organisational behaviour is looking into how important it has become for organisations to focus on retaining 'employees'. Recent literature has emphasised the importance of knowledge management. It is a known fact that high labour turnover, costs the company which results in lowering the level of profits. Profit maximisation is the ultimate corporate objective, it would be fair to say that is the sole reason why companies exist to maximise profit, generate revenue and anything that can result in increasing profit levels will be looked upon favourably.

Lack of knowledge about motivation theories might lead the managers to believe that monetary incentives are the only way of motivating staff, however, the theories has helped the managers in understanding that individuals have different needs. It might be that employee A prefers to have more responsibility as compared to employee B. Hence increasing A's responsibility and appreciating A motivates him more than B who would be satisfied with getting a monetary incentive. Similarly, employee C might be a single mother who would prefer to have more flexibility in the job and would be able to perform better if the work that she is doing enables her to look after her child and work. The above examples prove that in a professional environment for a manager it has become even more important to understand the needs of his 'internal' customers.

A concept which can be borrowed from marketing is if the customers' needs are met the organisation's objectives can be achieved. The argument can be extended in this context as well where it can be said that when internal customers are kept happy, external customers will automatically be happy. The above is an example to explain Vroom's theory, according to which rewards and incentives should be based on what the employee perceives to be important rather than what the managers perceives to be important. Thus he aimed to explain employee motivation by explaining the link between how individual goals influence individual performance. Thus the knowledge of motivational theories provides a deeper insight into the psychology of employees and staff.

The importance of organisational performance cannot be highlighted enough. Research and surveys are being conducted to understand what can improve the organisational performance and the obvious link is individual performance. Performance more generally is defined as a function of ability and motivation. However, in order to motivate staff it is important to have an effective performance management system. In order to provide rewards to the staff it is imperative to have appropriate benchmarks to measure the performance. Literature in this area has highlighted the importance of having formal appraisal systems which can either be in the form of self-evaluation or 360 degree appraisal, top-down, bottom up etc. The above mechanism enables managers to scientifically assess and then provide appropriate rewards and incentives to the staff, whether monetary or non-monetary in nature. In addition to the performance levels, retaining staff by continuously striving to motivate them helps managers to retain knowledge which the employees have acquired over the period, it helps the employees to complete tasks faster as they are already aware of how 'things are done around here' and more importantly it helps the systems to be developed so that work can be done quickly. It helps in achieving specialisation and employees acquiring key skills.

Thus the main tools a manager must have to motivate his/her staff are :

Approval, praise and recognition
Trust, respect and high expectations
Loyalty
Removing organisational barriers which might stand in the way of individual performance
Job enrichment
Providing Financial incentives
Good communication. Even though there is not a perfect formula for motivation in the workplace however, an understanding of how the human nature works can help managers to perform better and keeping the end goal (corporate objective) in mind the challenge for every leader and manager to reach a balance where organisational and individual performance can be maximised to reach the same goal.

Conclusion : From the preceding paragraphs it can be concluded that it is imperative for managers' to have a thorough understanding of the motivation theories. However, it is easier said than done. There is no simple answer of how to motivate people, though an understanding of the theories does help. It enables the managers in enhancing not only the individual but also the organisational performance. The primary objective of organisations' is to survive, sustain and grow and the objective can be met when the employees and staff are happy.

This can be achieved by understanding the motivation theories and implementing them effectively to achieve optimal results for the organisation. Thus it can be said that effective implementation of the motivation theories can help the organisations' to have a competitive edge and it can serve to be a source of sustainable competitive advantage which would ensure its growth, survival and maximised revenue generation in the long run. Thus, it can be concluded for managers' to perform efficiently it is imperative for them to have knowledge of the motivation theories.

Compiled by
- CA.G. Manoj Rodrigo

Comparison of

IFRS & U.S GAAP in relation to intangible assets.

Introduction

Businesses have never been as globalised as they are today. Numerous corporations from developed, newly industrialised and developing countries operate on a global basis and need to create financial statements using the accounting practices of their home country, as well as those existing in their areas of operations. The divergence in accounting practices of different countries creates the need for the preparation of separate financial and accounting statements and subsequent reconciliation of differences. The international accounting fraternity is now steadily moving towards global commonality in accounting practices and procedural reporting. The International Accounting Standards Board (IASB) has been working towards convergence of global accounting standards. Its mission is to develop and enforce a single set of global accounting standards, based on preparation of high quality, transparent and comparable financial statements for local and global users.

The IASB has been working on compiling a stable set of International Financial Reporting Standards (IFRS) for first time users. The IFRS was mandated for all publicly listed companies in the European Union in 2005 and has also been adopted by other countries like Australia. The IASB has also been working very closely with the US Financial Accounting Standards Board (FASB), since 2002, to bring about convergence between US GAAP and the IFRS. However, while significant work has been done on harmonising IFRS with US GAAP and many pending issues are being currently addressed, a number of accounting topics are still treated differently by these two systems.

A number of differences continue to remain in the accounting treatment of intangible assets. Intangibles have been defined in various ways. Essentially they comprise of assets that do not have physical presence and are represented by items like goodwill, brands and patents. These assets do not have shape but do have values; which again are sometimes indeterminate but often capable of estimation. They need to be under the direct control of the organization and capable of yielding future financial gain to be termed as intangible assets belonging to the company. A strong legal right that can lead to future financial gain is a good example of an intangible asset whose valuation is quite indeterminate but nevertheless provides security and the potential for financial gain to an organisation.

The treatment of intangible assets has always been contentious and open to different interpretations. Even today, while IFRS and US GAAP have moved towards convergence in a number of accounting areas, significant differences still remain in their

treatment of intangibles. These differences are specific in the treatment of goodwill and research and development costs, and lead to specific differences in the final preparation of financial statements.

It is the purpose of this assignment to examine the differences and similarities between US GAAP and IFRS for the treatment of Goodwill, Research and Development costs, Brands, Patents and Trademarks. A number of texts have been referred for this assignment, especially International Accounting and Multinational Enterprises 6th edition by Radebaugh, Gray and Black, International Financial Reporting: A Comparative Approach by Roberts, Weetman and Gordon, the US GAAP and IFRS websites, a number of specialised publications by PWC and the published accounts of many multinational corporations. Accounting statements and established practices are often subject to individual interpretation and the perusal of a number of texts has enabled the researcher to prepare a holistic and critical assessment of the selected topics. Inputs from all these texts and publications have been used in the preparation of this paper.

2. Goodwill

Goodwill arises as an intangible asset and comprises of the difference between the cost of an acquisition and the fair value of its identifiable assets, liabilities and contingent liabilities. A recent analysis by PricewaterhouseCoopers (PWC) estimates that intangible assets accounted for approximately 75 % of the purchased price of acquired companies in recent years. Increasing attention is now being paid on the management of intangible assets and the IFRS3 has responded to this need by detailing accounting procedures for intangible assets. Goodwill makes up approximately two thirds of the value of intangible assets of US companies and the figure for companies registered in the EU would presumably be similar.

Accounting of Goodwill arises in the case of acquisitions where the purchase price exceeds the net cost of purchased tangible assets, the monetary difference being attributed to goodwill and other intangible assets. IFRS procedures, unlike US GAAP, previously required the amortisation of goodwill over a specific number of years, thus establishing an artificial life for this asset. This procedure has since been changed and with the IFRS position converging with that of GAAP, goodwill is not considered to be a wasting asset anymore. It however needs to be emphasised that this refers only to goodwill obtained from acquisitions. Internally generated goodwill is not reflected as an asset either under IFRS or under US GAAP.

The IFRS enjoins companies to distinguish between goodwill and other identifiable intangible assets. As such the value of other intangible assets like Research and

Development, Patents, Trademarks, Brands and others need to be removed from the goodwill basket to arrive at the residual goodwill value. The treatment of goodwill is different from other intangibles as, subject to periodic assessments for impairment, it is expected to maintain its value indefinitely. While both IFRS and US GAAP require goodwill to be valued, reconciled, detailed by way of factors and reflected in financial statements, they have dissimilar modes for its accounting treatment. In most acquisitions the amount of goodwill is significant because of the considerable difference between the purchase price and cost of net assets of the acquired company. The difference in accounting treatment between IFRS and US GAAP thus causes the results of the financial statements prepared under the two methods to vary considerably and calls for a detailed reconciliation. There is no immediate plan to bring about a convergence between these two modes of treatment, which is a matter of regret.

a) Goodwill under IFRS

Goodwill is not amortised any longer under IFRS procedures and is considered to be an asset with indefinite life. It however has to be subjected to a stringent impairment test, either annually, or at shorter notice if the need arises, to assess for erosion in value. In the event of impairment, the Profit and Loss Account is charged with the computed impairment amount to ensure the immediate highlighting of poorly performing acquisitions. Goodwill is thus not seen as a steadily wasting asset but one with indefinite life; and with a value linked to the performance of the unit.

Another significant change in the treatment of goodwill has arisen out of the requirement for treating all business combinations as purchases. This will eliminate the possibility of companies' not recording goodwill by pooling the assets and liabilities of various companies together for preparation of financial statements.

The test for impairment of goodwill under the IFRS is carried out at the level of the Cash Generating Unit or a group of CGUs representing the lowest level at which internal managements monitor goodwill. The IFRS also stipulates that the level for assessing impairment must never be more than a business or a geographical segment.

The test is a one stage process wherein the recoverable amount of the CGU is calculated on the basis of the higher of (a) the fair value less costs to sell or (b) the value in use, and then compared to the carrying amount. In case the assessed value is lesser than the carrying cost, an appropriate charge is made to the profit and loss account. The goodwill appropriated to the CGU is reduced pro rata. The IFRS requires detailed disclosures to be published regarding the annual impairment tests. These include the

assumptions made for these tests, and the sensitivity of the results of the impairment tests to changes in these assumptions. M/s Radebaugh, Gray and Black, in their book *International Accounting and Multinational Enterprises* stress that these disclosures are intended to give shareholders and financial analysts more information about acquisitions, their benefits to the acquiring company and the efficacy and reasonableness of impairment reviews.

Negative goodwill arises when the cost of acquisition is less than the fair value of the identifiable assets, liabilities and contingent liabilities of the company. While its occurrence is rare, negative goodwill can well arise when loss making units are acquired or a distress sale gives a company the opportunity to acquire a bargain. In such cases IFRS procedures stipulate that the acquirer should reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination. The excess of net assets over the cost should be recognized and taken to the profit and loss account.

Goodwill under US GAAP

Goodwill was treated as an asset with indefinite life by US GAAP even when IFRS procedures allowed for its amortisation. The change in IFRS procedures is a thus a desirable step towards convergence.

In US GAAP, goodwill is reviewed for impairment at the operating level, which specifically indicates a business segment, or at a lower organisational level. In no case can an impairment assessment be made for a level higher than a business segment. Impairment must be carried out annually or even at shorter intervals, if events indicate that the recoverability of the carrying amount needs to be reassessed. While these requirements are similar to those stipulated by IFRS, the procedure for assessment of impairment is significantly different and comprises of two steps.

In the first step the fair value is computed and compared with the carrying amount of the concerned unit including goodwill. If the book value is higher than the fair value, no further exercise is suggested and goodwill carried forward at the same value. If however the fair value of the reporting unit is lesser than its carrying amount, goodwill is considered to be impaired and the second step is applied. Goodwill impairment, under US GAAP, is measured by computing the excess of the carrying amount of goodwill over its fair value. The computation for this is fairly simple and constitutes of determining the fair value of goodwill by allocating fair value to the various assets and liabilities of the reporting

unit, similar to the procedure used for the determination of goodwill in a business combination. The calculated erosion in goodwill needs to be shown specifically as an impairment charge in the computation of income.

The assessment and treatment of negative goodwill is also somewhat different in US GAAP, even though the basic accounting principles are similar to that followed by IFRS. In this case the excess of fair value over the purchase price is allocated on a pro rata basis to all assets other than current assets, financial assets, assets that have been chosen for sale, prepaid pension investments and deferred taxes. Any negative goodwill remaining after this exercise is recognised as an extraordinary gain.

3. Intangible Assets other than Goodwill

Intangible assets other than goodwill are identifiable non-monetary assets without physical substance. M/s Radebaugh, Gray and Black state that intangible assets need to be identifiable, under the control of the company and capable of providing future economic benefits.

While formulation of appropriate modes of accounting for these assets pose challenges to accounting theory and concepts, their importance in business is significant enough to warrant the application of detailed accounting thought. All the texts consulted have devoted significant attention to the treatment of intangible assets. A July 2006 paper on Accounting Standards regarding Intellectual and other Intangible Assets by Halsey Bullen and Regenia Cafini of the United Nations Department of Economic and Social Affairs is also very explanatory and deals with the subject both in depth and with comprehensiveness.

This section deals with the similarities and dissimilarities under US GAAP and IFRS for specific intangible assets e.g. Research and Development Costs, Brands, Trademarks and Patents. While the growing importance of intangible assets call for their inclusion in financial statements, their intrinsic nature makes it difficult to do so. First, there is little connection between the costs incurred for creation of intangibles and their value. Second, it is also difficult to predict the extent of benefits that intangibles will be able to deliver. Both the IFRS and US GAAP have certain commonalities in the accounting treatment of intangible assets. In case of acquisitions, managements are enjoined to isolate specific intangible assets and value them separately from goodwill. All these assets have to be identified, valued and indicated separately in the balance sheet. The list of intangible assets that need to be recognised separately, as a result of IFRS 3 is extensive and includes a host of things like patents, brands, trademarks and computer software. IFRS 3 demands that the identification and valuation of intangible assets should be a rigorous process. Experts however feel that while valuing intangibles is essentially associated with subjectivity, logical mental application and the use of working sheets should be able to satisfy the demands of regulators.

IFRS and US GAAP classify intangible assets, other than goodwill, into assets with limited useful life and assets with

indefinite useful life. Assets with finite life are amortised over their useful life. While arbitrary ceilings are not specified on the useful life of those assets, they still need to be tested for impairment every year. An asset is classified as an asset with indefinite useful life if there is no probable limit to the period over which it will benefit the firm. It is however rare for intangible assets other than goodwill to have indefinite useful lives and most intangibles are amortised over their expected useful lives. Assets with indefinite lives have to be subjected to rigorous annual impairment tests. The fact that most intangible assets (other than goodwill) are amortised over their expected useful lives requires the determination of the expected useful life of each of the assets acquired.

The general principles detailed above are common to both IFRS and US GAAP and are useful in determining the broad procedures for accounting and disclosure of intangible assets. As previously elaborated, accounting treatment primarily depends upon the determination of the life of an intangible asset, more specifically whether it has an indefinite or finite measurable life.

All intangibles are governed by the same sets of disclosure requirements. Accordingly, financial statements should indicate the useful life or amortisation rate, amortisation method, gross carrying amount, accumulated amortisation and impairment losses, reconciliation of the carrying amount at the beginning and the end of the period, and the basis for determining that an intangible has an indefinite life. Apart from these requirements, the differences, detailed below, between US GAAP and IFRS in the treatment of Research and Development costs, Brands, Trade Marks and Patents, also need consideration.

Treatment of Research and Development Costs and Brands

Development costs are however assessed for valuation of long term benefits and, amortised over their determined benefit period. Capitalisation of development costs is allowed only when development efforts result in the creation of an identifiable asset, e.g. software or processes, whose beneficial life and costs can be measured reliably. If however a Research and Development project is purchased, IFRS provides for the treatment of the whole amount as an asset, even though part of the cost reflects research expenses. In the case of further costs being incurred on the project after its purchase, research costs will need to be expensed out while development costs will be eligible for capitalisation, subject to their meeting the required criteria.

US GAAP however stipulates that all Research and Development costs be immediately charged to expenses. Certain development costs pertaining to website and software development are however allowed to be capitalised. Research and Development assets, if acquired are valued at fair value under the purchase method. However if the assets do not have any alternate use they are immediately charged to expense. Both PWC and publications opine that US GAAP will most probably move towards the IFRS position on Research and Development as part of the short term convergence exercise.

Brands

The treatment of Brands is similar under both US GAAP and IFRS norms. It has been specifically clarified that the value of brands generated internally should not be reflected in financial statements. In case of brands obtained through purchase or acquisition the value of the brand will have to be computed at cost or fair value and it will need to be determined whether the life of the brand is indefinite or finite.

Brands with indefinite lives will need to be subjected to rigorous impairment tests every year, and treated like goodwill. Brands with finite lives, while subject to yearly impairment tests, will need to be amortised like other intangible assets. It needs to be noted that the mode of assessment of impairment in US GAAP is different from IFRS and this factor will accordingly come into play for assessment of impairment.

Trademarks and Patents

The costs of Patents and Trademarks, when developed and obtained internally comprise, mostly of legal and administrative costs incurred with their filing and registration and are expensed out as regular legal or administrative costs. The IFRS specifies that no revaluation is possible for Trademarks and Patents in accordance with IAS 38. This is because an active market cannot exist for brands, newspaper mastheads, music and film publishing rights, patents, or trademarks, as each such asset is unique.

In the case of patents and trademarks obtained through acquisition, the treatment is similar to the broad category of intangible assets, for identification, valuation, measurement and recognition for purposes of separate disclosure. Acquired patents and trademarks are measured initially at purchase cost and are amortized on a straight-line basis over their estimated useful lives.

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Published on behalf Tuticorin Branch of SIRC of ICAI, ICAI Bhawan, 4/26G/2, Aathiparasakthi Nagar, Ertayapuram Road, Tuticorin - 2.

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Printed at : Thoiva Printers, 74/4, Selvanayagampuram, Tuticorin - 2. Ph : 2333963