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  - Nabiha Shahnawaz

- **Towards Predicting Future:**
  - Things that may disappear – may be in a decade or so
  - Mujahid Abbas and S.K. Ahmed

## Students Section

- **In Conversation with the Gold Medalists and Merit Certificate Holders**

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The views expressed are those of the author and do not reflect the Institute.
Commodities markets, both historically and in modern times, have had tremendous economic impact on nations and people. The role of a commodity futures market is to provide a venue for producers and consumers to hedge their risks and at the same time offer a transparent price discovery mechanism.

Pakistan’s commodity market is striving to provide investors with products designed to address market requirements. During fiscal year 2012-13, the traded volumes at the exchanges increased to Rs. 1,153 billion from Rs. 802 billion in the previous year, a growth of 44 percent. This increase in growth is a result of newer products, low transaction costs and tight spreads that make it easy for brokers and their clients to transact and manage their trades. Investor interest has also risen in commodities in recent years along with the surge in commodity prices.

The Shariah position on futures market is quite clear. Muslim scholars have proscribed futures trading and declared it totally forbidden on the premise that futures trading do not fulfill the requirements of the conventional law of sale. The potential of these untapped markets is hidden as businesses are reluctant to experiment due to lack of market knowledge and expertise to benefit from trading in commodity futures. The Government should revitalize the futures market, initiated an ambitious country-wide program for investor education which aims at bringing various categories of potential investors into the system, induction of Shariah Compliant products and create and expand the legal infrastructure.

Given the increased volatility seen across markets lately, only prudent policies can steer the country out of current crisis and diversification is the correct prescription for managing investors’ overall portfolio risk. In Pakistan commodity exchanges provide commodities leverages, strong and well diversified platform, commodity futures are ideal for investors seeking liquidity, portfolio diversification and protection against inflation. As commodities provide investors a simple, safe and transparent platform for trading or investing with a state-of-the-art risk management capability. Traders can now have direct electronic access to exchange traded commodity futures. Financial experts and investors consider the commodity futures to be having a great potential in Pakistani environment due to the double-digit inflation which is expected to be continuing given political, economic and social conditions. Recent expectations by financial experts urges the use of commodity futures to be traded in large volume on the exchanges and over the counter (OTC) market in Pakistan, which opens up a large opportunity for investors. The local commodity market is expected to contribute more positively to broadening the investor base and the overall economic growth of the country.

Government future plans include successful introduction of exchange-traded commodities for the capital markets, removing imperfections from farm to market channels including storage, a well-designed, transparent set of rules governing private economic activities and adding more agricultural products, metals, currency futures and interest rate futures to its trading platform to name a few. With growing interest in commodities and different initiatives taken by government soon Pakistan’s commodity trading arena will be at par with the global commodity exchanges.

M. Sharif Tabani, FCA
Sharp fluctuations in commodity prices are creating significant business challenges that can affect virtually everything from production costs and product pricing to earnings and credit availability. This extreme price volatility makes it hard to plan and run a business. It can also undermine a company’s profitability, competitiveness and sustainability.

During the 21st century, online commodity trading has become increasingly popular, and commodity brokers offer front-end interfaces to trade the electronic-based markets. In countries such as Malaysia, Thailand and India setting up of electronic derivatives exchanges has had a positive impact on a number of areas of the economy including transitioning investors into a transparent environment, development of intellectual capital and increased foreign investment.

Currently Pakistan Mercantile Exchange is the only centralized and regulated place for commodity futures to be traded in Pakistan. It is licensed and regulated by the Securities and Exchange Commission of Pakistan with a 100 % institutional shareholding. The exchange is providing futures trading platform for market participants to trade in a wide spectrum of commodity derivatives and also benefitted the country’s economy in two distinct ways. Number one, the availability of hedging market enables the manufacturer to buy the commodity according to their own requirement. Secondly, the price discovery mechanism has resulted in efficient prices to keep the production costs in check to better compete in the international markets.

In Pakistan, only big investors and brokerage houses have attracted towards commodity trading, while small and medium investors have shown little interest due to lack of knowledge of the immense potential of the derivative market.

Government has various plans to offer more products in order to increase the business volumes. This has enabled the commodity exchange to design the tools that allow settlement against physical delivery of smaller commodities. Similarly, the government wants to increase the number of brokers as it would pave the way for more transparency, more real price discovery, innovation in products and increased awareness amongst masses.

The establishment of commodity exchanges has been considered to be a potential market-based mechanism for commodity trading. It is the time to implement a broad, overall, effective strategy to manage these rough waters and I am of the firm view that the country will expect handsome performance of the exchanges in the years to come if the economic issues being the major focus and development of the commodity markets to be kept on the frontline.

Naeem Akhtar Sheikh, FCA
This issue’s topic is:
“Avoiding the Shoebox: Managing Expenses in Small and Mid-Sized Businesses” Small businesses need to efficiently control costs and optimize cash flow, but how, and what role does automation play in this process?


What is your point?

Munawarali Cassoobhai, FCA
Karachi (R-1460)

Improving profitability and better financial management does not always equate to controlling cost. The latter is one of the tools. Not always the only one. The impact of efficiencies should ultimately result in better profitability but not necessarily reduction in cost. For example, efficiencies in the way a bank’s teller (and computer system) processes transactions across the counter will help quicken turnaround time, which in turn will improve customer service and satisfaction, thus in the long run leading to improvement in profitability. Yes, use of automation (not automating for the sake of it) to make the processes more efficient will certainly help. This again does not translate into reduction in cost. In management or cost accounting context, accountants may conclude that reduction in turnaround time translates into reduction in cost per customer per transaction. But there is no absolute reduction in cost. Efficiency improvement should thus be viewed in a much broader context. Efficiency is not always about cost reduction. Another commonly applied means to improve profitability is to reduce head count. Unfortunately, some companies could sometimes be quick to jettison what they view as the most valuable asset i.e. people, to improve profitability. So when the “push comes to shove”, a key value is set aside to improve the bottom line. So one needs to question, which “p” really comes first – profit or people. These decisions are sometimes driven by the desire to show performance in short term. In contrast, many companies (especially family enterprises) usually take a long term view. To them the real performance indicators are measured against the long term goals and vision. In summary, for small and medium sized businesses, many of which might be family owned, it’s not always about controlling costs. Although it is important, but the real focus should be on achieving longer term performance goals.
Plenty has been written on the topic but it all boils down to one thing; the cost benefit analysis. The benefit need not always be in financial form but can be found in intangible form such as synergies or time/effort saving. Automation of business processes can save a significant amount of time and convert to a much better outlook in front of the stakeholders and customers. An example of such automation can be the implementation of an enterprise resource planning, customer relationship management and/or accounting software. Each of these applications can improve the quality and speed of work in an organization. For a large organization, the implementation of such system is a definitive need; but for small and mid-sized businesses, the benefits might not be proportional to the cost involved and some features might not be even deemed necessary. So, the small and mid-sized businesses can look at alternatives such as Microsoft Access database applications which are cheaper and can run in a multiuser secured environment. There are plenty of small firms and freelance developers that can develop a customized application to the needs of the organization. The obvious benefits can be made are low cost application system, smaller learning curve with automated systems, reduced processing time, and easier compilation of data for reporting. Majorly cost effective applications developed for inventory management linked with sale and purchases for a trading organization, employee vacation tracking, customer and order tracking, accounting systems etc. Others could be developed the same as per the businesses requirement. The extract is that small and mid-sized need to automate the most common business process and link it to their overall business as part of expansion in the future.

Mustafa Ahmad, FCA
Hyderabad (R-700)

Budgetary control integrated with chart of accounts in computerised systems where every expenditure is properly authenticated before payment is an important tool for SMEs for monitoring cost control.

Aamer, ACA
Karachi (R-6481)

Knowing your limitation is half the job done. In small and mid sized businesses, where the sources of revenues and cash flows are limited, every little outflow of resources goes through tight scrutiny of the owners who many times also holds key management positions in such organizations. How to be managing your spending? One need to use variety of steps/solutions on offer which includes, technological solution (off the shelf accounting software can do the trick), having right people with right experience, managing overheads by encouraging mobile computing and understanding what is required/essential. By following some simple rules you can make every penny count.

Muhammad Ahmed Memon, ACA
Hyderabad (R-6775)

Cost controlling and cash flow optimization is crucial for each and every kind of business (SIZE DOESN’T MATTER), but it becomes vital for;

(a) Small sized entities with low profit margins but average sales volume, because a minor increase in variable costs will have a major impact on the profitability of the business

(b) Small sized entities with average profit margins
but low sales volume, because a minor increase in fixed costs will have a significant impact on the profitability of the business.

So how to control costs and optimize cash flow in order to remain competitive in the given market specially in the economy which fluctuates on regular basis and where the competition commission does not regulates the businesses effectively and efficiently? There are some points to ponder like Bifurcation of costs (between variable, semi variable and fixed costs), Preparation of budgets for each and every kind of cost. (Purchase cost, material consumption, Labor cost), Minimize the waste levels by improving production process (IN CASE OF MANUFACTURING ENTITIES), Costs variance analysis should be prepared and looked into, Skilled and professional staff should be employed in every department in order to avoid wastage of time and resources, Avoid hiring excess staff, Preparation of cash budgets, Search for avenues of bulk purchase discounts, Maximize purchase credit period, Minimize the sales credit period and Reducing inventory levels. Automation improves proactive approach to cost controlling and cash flow management. In automation process real time information can be extracted unlike the manual system. Alert systems can be integrated in an automated system to identify any deviation from budgets (Cash flow, purchase cost, material consumption and labor cost).

**Shahzad Ahmed Chandio, ACA**  
Oman (R-6983)

Financial mismanagement is the assurance given by Shoebox accounting system, an effort to avoid spending on a small size accounting system may result in business expenses going sky rocket. Gone are the days when written documents were considered more secure and efficient than data saved on electronic devices. With a system offering precision, accuracy and paperless environment, an SME may control its expenses in a very cost effective manner. Few rules of thumb may help to ditch the shoebox accounting system like:

**Automation:** A small to medium sized accounting system would do it all ranging from financial statements to maintaining ledger accounts with various reporting capabilities. Various systems are easily available off the shelf with regular vendor maintenance options and training facilities.

**Centralization:** Have two enemies one is papers and the other is spreadsheets used in isolation. Controlling the decentralized expense data may not be less than a nightmare that also over company budget. In a centralized system, companywide expenses would be available for analysis on clicks.

**Paperless environment:** The more to depend on papers, higher is the risk of financial mismanagement and accounting errors. Life would be much easier if a system generates report within minutes. Budgeting: Expense budgets linked with the actual expenses being booked has always been a significant control in avoiding budget over runs. Flexible budgeting system integrated in the system will help to consume less stress.

**Department level accountability:** A centralized system with a decentralized budget and accountability mechanism provides accuracy, efficient management and sense of independence among department managers.

**Adnan Haroon, FCA**  
Oman (R-2589)

Credit Risk for SME sector will be high as predominantly transaction will be cash driven, this may also lead to risk of money laundering.

**Salman Muhammad Arif, ACA**  
Karachi (R-7444)

Small and Medium Sized Organizations tend to have diverse expense management needs compared to larger organization. Expense management system – no matter how well it is managed – will remain a cost; the key is to curtail the cost to the business as much as possible. Running manual system is bound to be cheap; isn’t it? Everyone has spreadsheet capabilities. Paying for expense management solution can means acquiring software, a server to put it on and skills to run the system and so on. Spreadsheets still rules, however it is a lavish way of managing expense and most importantly flawed. Common errors/flaws are transcription errors, slow process, and time consuming plus extra efforts to drive necessary reports. If expense management system could be made automatic, the amount of time spent on them could be compressed considerably. Full Reporting carried out against the data, type of expense can be analyzed and anomalies can be easily identified, which could save money. With manual system such possible savings are difficult.

**Sumair Ali Khan, ACA**  
Karachi (R-7498)

In today’s competitive and economically challenging times, managing expenses has increasingly become a priority for many small and mid-sized businesses owners. a small or mid-sized business owner looking for ways to manage expenses can begin by reviewing the financial data to determine the incurring losses; Breaking even; or Just barely making a profit. If businesses losing money, it trim enough costs to counter balance those losses. In this effort examine each expense, and determine which items can be deleted. Create reports every week to examine both expenses and revenue. Make adjustments as needed, especially when spending are more than budget allocations. always remember that although expense management is crucial, but cost-cutting for its own sake doesn't work, and investment is required to generate a return. Successful businessmen look forward – but behind them sit the systems, processes and culture to manage costs.
Muhammad Ali, ACA  
Faisalabad (R-6930)

Small or mid-sized businesses need to efficiently control costs and optimise cash flow. Business management can be an expensive minefield for a small or mid-sized business to navigate. Managing business receipts and expenses manually can appear to be the cheapest means of managing business. If the business receipts and expense processes could be made more immediate and automated, the amount of time spent on them could be compressed dramatically. Moving away from manual to automated systems means that a small or mid-sized business can see where expenses are being accrued, can look at how these are trending and can gain far greater insights and control over what is happening and anomalies can be easily identified.

Fawad Hassan, ACA  
Islamabad (R-7108)

In the world of accountants, “Small sized business” and “Economies of scale” are antonyms. Managing fixed costs with lower contribution margins happens to be the knock out point. But since every dark cloud has a silver lining, a prudent financial management is the cure. Nature of business, narrates the pattern of cash flows. For an FMCG industry, span of cash life cycle is short as compared to a manufacturing business. However, in every scenario, an indispensable skill set is to make a clear distinction between fixed and variable costs, sensibly exploiting opportunities for bulk purchase discounts, maintaining appropriate stock levels, installing effective recovery mechanism from debtors and timely paying off creditors. Stringent budgetary controls and variance analysis are certainly not the least to quote. Finance managers have to walk a tightrope all the times. It goes without saying that automation will reduce personnel cost, enhance management’s decision making and expedite processes, but for a small business, there are many slips between cup and lip. Automation will require business process re-engineering, as e-business software are assumed to be the code of best business practices. On the contrary, a small business will find authorities concentrated in few hands. Customization could be recipe for disaster. IT security will be the major concern of customers and vendors and an unreliable system could be its Achilles’ heel. Whatever the segment of industry is, the starting point is customer satisfaction. One satisfied customer today can bring many new customers tomorrow and soon the business will earn a name in market. Growth in market share shall be automatic. A steadily growing customer base will be the point where a small business can envisage an expansion plan which, may be, either exploring new market with same product i.e., market development or targeting the same customer with a new product i.e., product development or even Diversification.

Junaid Amanullah, ACA  
Kingdom of Saudi Arabia (R-6736)

The cost of automation to a small business can be high, but the cost of remaining on manual methods of recording is rather horrendous. Despite high gross profits margins in small businesses, the net profit margin is eroded due to rising business expense management cost. Transcription errors, frauds, delays, lack of unified data and therefore the ability to report on expense trends, along with the huge effort required to check and consolidate spreadsheet based expense claims should encourage small and mid-sized business to look for more efficient methods. Automation is the way to streamline business agility. However, there should be flexibility to allow for new changes within the businesses and in the external environment. Proper planning and timely decision-making are key drivers of success for every business and it won’t be possible without organized, integrated and up-to-date information of the business fulfilling both internal and external needs, which can only be achieved by automated means. This information will help in the analysis of costs trends and cash inflows and outflows, and hence aid in controlling them.

M. Asad Mirza, ACA  
Karachi (R-6900)

Costs optimization and reduction is one of the biggest challenges businesses are facing these days as most of the costs are fixed and difficult to reduce. Margins on the other hand are shrinking incessantly. In order to reduce costs, one of the popular austerity measure adopted by the companies is to reduce personnel costs (as it represents major portion of costs) by way of restructuring but the consequences for doing this is horrendous as the organization loses good human capital in this process. Competition is also very stiff, competitive rivalry is sky-scrapering and severe price war is going on between conglomerates. The problem of costs control is indistinguishable for all companies but the magnitude is much more significant for small and medium sized companies as they have lesser resources and working capital to work with. They employ lesser people and each one is responsible for many tasks, thereby compromising segregation of duties. The administration and other costs of doing business are low and they prefer to deal in cash rather than credit in order to manage their cash cycle. In these days of technological advancement businesses are investing heavily in technology in order to gain competitive advantage in the form of availability of good quality information for decision making. But it carries a high cost and is not affordable for small businesses. Therefore, small business entrepreneurs need to maintain balance in such a situation by implementing and using technology at reasonable cost so they do not leave behind, neither from the competition, nor from the development in technology.
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Are controlled marketplaces a safe investment strategy for commodities?

Muhammad Zeeshan

Safe investment strategy for the financial markets has always been linked with the controlled marketplaces. However, if we take a closer look at the Pakistani market which is currently under concerns and issues, we will analyze the whole scenario even better, and if we take a comparative analysis of both the controlled and free marketplace, we will be in a better position to recognize how risk can be evaded.

The country has struggled a long way in the commodities space, turning into a stable and structured marketplace. Through a firm commodity futures platform and exchange, the probability of damages due to quality or physical deliveries is annulled. The perils related with quality, stocks at warehouse, and physical deliveries are checked on this controlled platform, with checks and balances by the exchanges concerning the quality and quantity of the commodities.

Another issue that has affected the market sentiment towards commodity trading is guaranteed returns. No high-to-medium risk financial product gives an assured return, while a fixed income product also has a risk associated with it in case of default by the company providing the return. However, the return in commodity futures is totally dependent on the market conditions and price movements, and the commodity futures product helps provide a transparent pricing mechanism, along with a well-structured physical delivery option.

Free markets have faced counter-party and settlement hazards and over the counter products, it has also directed to fallacies about other financial marketplaces. An investor must identify the right market for trading and investment as the choice at the beginning of a trade can save one from investment hazards in unregulated exchanges. Firm guidelines and monitoring is a must in case of any financial product or market. A settlement guarantee fund in a controlled exchange reduces risk compared with that in non-regulated, opaque markets. Owing to these aids, people are moving from free markets to a structured and controlled market platform.
Knowledge of the Commodity/ Product

Although commodities are raw materials that have commercial worth and can be produced, bought, sold, and consumed. The dynamics of global commodities trade have evolved with time and have become more organized and formalized. Likewise, the commodities’ role has now extended and is viewed as valuable investment assets for both, investors and traders who have shown a keen interest in agricultural and non-agricultural commodities.

There are various options to invest in commodities, ranging from its purchase upfront in the physical form to trading on the futures platform or investing in commodity-related exchange-traded funds (ETFs) like gold. However, there are some indirect options also available in form of investment that would mean taking positions in the equities market through companies with commodity-related exposure.

The most direct way of investing in commodities by retail investors is to buy them physically. In the non-agricultural space, metals like gold, silver and platinum can be bought physically, keeping the choice open for trading in the physical commodity market in the precious metals space. Furthermore, investors can choose to trade in gold and silver on the futures platform.

The same thing applies to other non-agricultural commodities, such as industrial metals and energy, retail investors may not be in a situation to purchase these in the physical form as storage and warehousing would result in higher costs. Hence, to make this investment option open to retail investors, the futures market provides the option of trading in base metals and energy products, generating additional investment avenue for them.

Investors can also go for exchange traded products in the non-agricultural space which is presently available in case of gold in the markets. However, there is possibility for newer products in the exchange-traded funds (ETFs) category are also available, thereby opening the door for future prospects in the country.

Unfortunately, if we talk about agricultural products, it is entirely infeasible for retail investors to trade in the physical market due to various aspects like stocking and warehousing of commodities. Again, in this case as well, the commodity futures platform offers almost all major commodities, ranging from grains and pulses, to oilseeds, sweetener and fiber, which can be traded on an exchange platform without the hassle of storage.

Strict regulation and guidelines for the member brokers help the end-investors trade in a safe environment. The following aspects help create this safety: real-time margin system and mark-to-market margin, high compliance structures, standard audits of members, proper surveillance, and a transparent and purely market-driven price mechanism.

An aspect that was affecting the financial markets worldwide as well was distress over the free over the counter (OTC) goods and their influence on market conditions. After the passing of the Dodd-Frank Act in 2010, such have been shortened and with over the counter (OTC) segment in the US now coming under the Commodity Futures Trading Regulation, the perils related with the impact of movement in the over the counter (OTC) market on the overall financial world have been diminished. The main reason was the recession in late-2000 that took forward a newer and well-regulated setup for the over the counter (OTC) segment.
What Is Commodity?
Wikipedia defines commodity as “In economics, a commodity is a saleable item produced to satisfy wants or needs. The more specific meaning of the term commodity is applied to goods only. It is used to describe a class of goods for which there is demand.”

The prices of commodities are determined by the function of demand and supply. In the current World, the concept of trading Commodities electronically has emerged tremendously.

Commodities include iron ore, crude oil, coal, salt, sugar, tea, coffee beans, soybeans, aluminum, copper, rice, wheat, gold, silver, palladium, and platinum.

In this article I am focusing on commodities which are supplied without qualitative differentiation across any market. Petroleum, Gold, Silver and copper are few examples of such commodities; their supply and demand being a part of one universal market.

Why Invest In Commodities?
So why should one invest in Commodities?

Reasons are:
- They are not based on the strategy of any one company or nation.
- They can make portfolio diversified. Thus, investor reduces the risk of being financially wiped off.
- They have worldwide acceptability.
- They have a very long life. For example, Gold will not disappear any time soon, whereas stock in a large car company may or may not exist in another hundred years.
- Same price available all over the world.
- 24x5 trading round the globe.

In the 2008 financial collapse, investors went bankrupt and lost their assets. However, the commodities market on a whole seemed immune to that collapse. Rather, we saw many commodities taking the BULL trend from the
last quarter of 2008. By its very nature, a commodity is not owned by any one entity. Commodities can therefore provide a reliable source of income for an investor who has spent time carefully considering what commodity he is buying, when he is buying it, and at what price he plans to sell it. Those investors who don’t have the knowledge of trading the commodities might find information in this article as a basic introduction to the trading of commodities.

### Top Traded Commodities (Exports)

Below we can see data provided by International Trade Center (ITC) for the year 2012. ITC is a subsidiary organization of the World Trade Organization (WTO) and the United Nations.

<table>
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<th>Rank</th>
<th>Commodity</th>
<th>Value in US$ ('000)</th>
<th>Year</th>
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<tbody>
<tr>
<td>1</td>
<td>Mineral fuels, oils, distillation products, etc.</td>
<td>$2,183,079,941</td>
<td>2012</td>
</tr>
<tr>
<td>2</td>
<td>Electrical, electronic equipment</td>
<td>$1,833,534,414</td>
<td>2012</td>
</tr>
<tr>
<td>3</td>
<td>Machinery, nuclear reactors, boilers, etc.</td>
<td>$1,763,371,813</td>
<td>2012</td>
</tr>
<tr>
<td>4</td>
<td>Vehicles other than railway, tramway</td>
<td>$1,076,830,856</td>
<td>2012</td>
</tr>
<tr>
<td>5</td>
<td>Plastics and articles thereof</td>
<td>$470,226,676</td>
<td>2012</td>
</tr>
<tr>
<td>6</td>
<td>Optical, photo, technical, medical, etc. apparatus</td>
<td>$465,101,524</td>
<td>2012</td>
</tr>
<tr>
<td>7</td>
<td>Pharmaceutical products</td>
<td>$443,596,577</td>
<td>2012</td>
</tr>
<tr>
<td>8</td>
<td>Iron and steel</td>
<td>$379,113,147</td>
<td>2012</td>
</tr>
<tr>
<td>9</td>
<td>Organic chemicals</td>
<td>$377,462,088</td>
<td>2012</td>
</tr>
<tr>
<td>10</td>
<td>Pearls, precious stones, metals, coins, etc.</td>
<td>$348,155,369</td>
<td>2012</td>
</tr>
</tbody>
</table>

### Are Commodities Risky?

Although commodities carry an inherent durability but still there are different risks involved with investing in commodities, especially when one considers the different aspects of the initial investment, the type of loan or margin at which the commodity is purchased, and in some cases, the nature of the commodity itself.

Market forces do not impact commodities in the same way they impact stocks, but they do play a role. This brings in the concept of keeping the portfolio diversified and risk mitigated. One should not focus on a single commodity and keep all eggs in one basket.

### How To Trade Electronically?

In order to trade electronically one should have an account with a broker who is registered with a commodity exchange. A commodities exchange is an exchange where various commodities and derivative products are traded. The contracts offered by the exchange can include spot prices, forwards, futures and options on futures. Other sophisticated products may include interest rates, environmental instruments, swaps, or ocean freight contracts.

Few of the largest commodities exchanges in the world are:

- Chicago Mercantile Exchange (USA)
- Tokyo Commodity Exchange (JAPAN)
- NYSE Euronext (USA)
- Dalian Commodity Exchange (CHINA)
- Multi Commodity Exchange (INDIA)
- Intercontinental Exchange (USA, Canada, China, UK)
In Pakistan, Pakistan Mercantile Exchange (PMEX) is offering many commodities which can be bought / sold electronically. It is licensed and regulated by the Securities and Exchange Commission of Pakistan. PMEX posted a daily traded volume of approx. Rs. 2 billion on August 12, 2013. (Source: http://www.pmex.com.pk/)

GOLD:

Gold has been widely used throughout the world as the most acceptable commodity against any currency. Asia is the biggest consumer of gold mainly due to the use as jewellery.

Aforementioned chart clearly shows the increase in price of gold against dollar. In 2006, gold prices were approx. US$550 per ounce which bounced to US$1,800 within a period of 5 years and currently residing at US$1,350 per ounce. The demand was created mainly in the financial meltdown of 2008. The current bearishness is seen due to world economies taking measures to stabilize and grow.

SILVER:

Silver is somewhat similar to gold as far as ornament usage is concerned. Used in many other industries around the world including dentistry, photography, mirror and optics.

OIL:

USA has been the largest oil consumer followed by China, Japan and India. Biggest consumption as fuel, oil has an increasing demand all over the world.

In 2000, Oil price was at US$15 per barrel, which rose to US$145 per barrel in 2008. Unlike other commodities, Oil took the brunt of crisis of 2008 and reached US$34 within 6 months. Oil is currently traded at US$107 USD per barrel.
Introduction

The last few decades have seen many public financial management reforms in various countries in the world. Most of these reforms have been directed towards establishing sound public financial management practices to measure the performance of the government and ensure fiscal transparency & accountability. The budget reforms have always been at the pinnacle of public sector reforms. These reforms have been focused towards transforming the government systems from inputs to a focus on outputs and outcomes (Hassan A.G. Ouda, 2011). Through these reforms, governments have tried and in some cases succeeded in shifting the government budgeting practices from Line Item Budgeting to Performance Budgeting. Performance budgeting improves decisions on the allocation of the government resources to national policies and priorities, along with improving accountability for the delivery of results. The shift to performance budgeting creates the need for accrual based accounting. The successful and effective implementation of performance based budgeting is dependent on a comprehensive financial accounting and reporting systems, which can only be achieved through accrual based accounting systems. In order to understand that role of performance budgeting and accrual accounting in enabling the government achieve to efficient performance and accountability, we need to examine few important concepts in detail.

Line Item Budgeting: The Predominant Method of Government Budgeting

Budgets have historically been formulated based on line-item budgeting practices that reflect the accounting background of civil servants, and the relationship of the budget to the audited statements required to be submitted after the fiscal year. However, in some cases the actual spending may be controlled and managed on less detailed levels which allows some degree of flexibility in spending while exercising control over overall expenditure overruns. The primary purpose of input-based budgeting is that of expenditure control and administrative accountability. Inputs pertain to expenditure incurred on line items. A certain type of performance measurement can also reflect the progress of the government for spending in accordance with the line item budget allocated. Although line-item budgeting is the simplest form of budgeting, it however, does not provide any information regarding activities, functions and achievements of a program, department, organization, budgetary unit and overall government. It does indicate the extent to which the budgetary unit is spending on supplies, salaries, maintenance etc, but does not indicate how much is spent on the actual delivery of services to the citizens of the country.

Line item budgeting provides no mechanism for rationalizing the benefits obtained from the expenditures incurred and therefore does not possess any rationale to adopt it (Kitchen, 2005). Therefore, for control purposes, controlled budgeting is important but it often creates ambiguity. Knowledge about spending levels does not reveal much about service delivery or achievements of government policy objectives. Further, line item budgeting does not answer the questions like; How many citizens are being provided with social services; How many kilometers of roads are maintained; What is the cost per kilometer of maintained roads; How many children are in school; What is the quality of education? The input-based budgeting reveals nothing about the cost, efficiency and effectiveness of services delivered and provides limited information to decision makers on how expenditures are prioritized.
Performance Budgeting

Performance budgeting has been a focus of public financial management reforms since many years. It is seen as a tool to allocate the available resources in accordance with the strategic priorities and measuring the performance of the government in terms of outputs achieved against the money spent. Budgetary systems, which are usually identified as performance budgeting often, vary in their structure and content, based on the different individual conditions of different governments. The general features of performance budgeting are defining the objectives and programs, appropriations by programs and subprograms, use of performance benchmarks or indicators for measuring performances and in some cases use of cost-effectiveness tests or other forms of financial and economical analysis (Bellamy, 1995). A government budgeting process built on the foundations of performance budgeting differs widely from a traditional line-item approach in terms of the preparation, revision and presentation of budgets. In performance budgeting, the revenues earned by the government are clearly linked to multi-year goals and objectives.

The main purpose of performance budgeting is to allow all stakeholders and the decision makers to make better decisions and to create better accountability to counter corruption and misuse of public funds. A performance budget identifies the anticipated results and outcomes of spending items and helps to address the government’s proper role and responsibility in addressing the needs of the country.

Efforts to introduce performance budgeting systems are found in most of the countries, so as to achieve better-estimated costs and to connect expenditures with outcomes expected to be achieved. However, developing and transitional economies face considerable problems in implementing such reforms. This is due to low capacity, human resource constraints and absence of strong public financial management systems. Haphazard accounting systems and control systems may also disallow proper implementation of performance budgeting in many countries.

Nonetheless, even in such countries where government budgeting practices are more fundamental, an orientation to performance budgeting and steps toward managing for performance should be introduced, even if in a simpler form.

It has been argued by Allen Shick (Schick, 2007) that performance budgeting is not just a planning system for compiling and presenting information about actual and expected results but it is also a tool to achieve results through carefully planning public expenditure. This leads to the belief that performance budgeting needs a comprehensive accounting and financial reporting systems. In the absence of such system, the government would not be able to assess the effectiveness of the public money spent for the needs of the citizens. Hence, we may assume that performance budgeting will not be implemented with traditional government accounting systems, where revenues and expenditures are reported on the basis of cash only and all costs are not accounted for.

Accrual Accounting

Accrual Accounting is defined as “a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid)” (IFAC).

Usually the governments operate using cash based accounting system, a system which records information on the basis cash paid or received. The cash based accounting system fails to capture the true cost of programs and the government cannot measure whether resources deployed have been efficiently used or not. The relationship between desired results and expenditure incurred is always vague and the performance of the government and its line agencies cannot be measured. Consequently, it is difficult to achieve transparency, accountability and efficient performance in the government.

Various governments have started to move towards accrual based accounting. This would mean compiling financial statements including profit & loss account, balance sheet and a cash flow statement. This also involves capitalization of long-term assets and revaluation of fixed assets wherever required. The accrual accounting is a new concept for governments. Some countries like
New Zealand, USA, Canada, UK and few OECD countries have adopted accrual accounting.

There are many arguments in favour of accrual accounting. Some of these are enumerated below:

a) It provides a comprehensive picture of the financial affairs of a government with complete cost of public services
b) It provides better information for decision making while taking into account all relevant costs
c) The capital expenditure incurred for fixed assets is spread over the useful life of the assets with taking into account of their economic benefits
d) It provide better comparability of results

The accrual accounting has also many arguments against it. The accrual accounting system implementation requires expensive accounting systems with staff having high levels of accounting skills. The development and adoption of accounting policies is a cumbersome and complex procedure for a government as compared to a commercial entity. The valuation of fixed assets including their identification can be a daunting task.

Fiscal Accountability

Fiscal accountability is defined as the pattern of relationship between the governments and the legislature as well as the public (Premchand, 2001). Fiscal accountability as a derivative of fiscal transparency permits the availability of information on the fiscal activities of government to a specified group (legislation) or to several groups and is a means to accountability. Accountability implies the existence of an oversight body in charged by the law with the responsibility of reviewing the content provided, the actions taken, and reporting to an authority above them or to the public.

Conclusion

Performance budgeting can be a useful tool to measure the performance of a government. However, can we measure the true performance of the government in absence of accrual accounting? Can we hold elected officials and government managers accountable for the results achieved on the basis of cash based accounting?

It has been observed that performance budgeting contribute to better budget decisions when appropriations are made on the basis of desired outputs and outcomes. It justifies the allocation of resources, changes the focus from ad-hoc allocation of funds to lines items and provides benchmarks for the decision makers. The budget is classified in terms of performance indicators, thereby giving a complete picture to the citizens and other stake holders about the performance of the government. It creates a sense of results based accountability (Shah, 2007).

It is worth noting that in the absence of accrual accounting, performance based budgeting may remain ineffective. It does not give a “real” picture of the financial results of the country. The non recognition of assets and liabilities does not show the net worth of the government. Accrual accounting facilitates accountability by providing information for creating meaningful budgets. For instance the annual pension cost is recognized as a liability and charged to expenditure which helps the budget managers to allocate the funds accordingly in each budget cycle. This would prevent the government from getting in unnecessary financial burden at the time of retirement of civil servants. Similarly, capital assets in development projects are planned through accumulated depreciated allowances in the financial statements (Shah, 2007).

Allen Schick (Schick, 2007) observed that accrual accounting coupled with performance budgeting creates a very strong environment for increasing efficiency and accountability in the government. The government may not manipulate its budget figures or financial reports. For instance, it cannot increase its net worth by selling assets or getting loans. It cannot paint a better picture of fiscal health by increasing tax burden on citizens or delaying payments to the contractors.

We may conclude that performance budgeting and accrual accounting can help the government to achieve accountability and efficiency because all costs are accounted for and civil servants and elected officials are held accountable for the results achieved by executing such budget.

Bibliography


Understanding difference between value and price

The value and the price seem similar but in reality are quite different from each other and hence it is important to understand the difference between the two.

"In mergers and acquisitions, failing to make the distinction between price and value is like turning your back on reality" - J.P. Morgan.

The price is what is paid whereas the value is what is received.

The difference between price and value is either discount or premium depending upon which one is greater, later or former. It is important to understand that the value is also not similar for all the buyers and hence saying whether a price is low or high will be in relation to the value to the buyer. It is quite possible that similar price for one buyer will be high while it is low for the other buyer. Therefore it is difficult to determine whether a price is good or bad in context of different buyers.

A good price is like a beauty, as it is in the eyes of the beholder.

A good price is one that is considered to be equal to the value, whereas a high price is above value and a low price is below value.

Understanding purpose of the valuation

Companies are valued on different basis for different purposes. A company’s valuation may be needed for one of several reasons: to sell or buy a company, to raise finance or equity, to assist with bank negotiation, tax planning, to determine price or fair value of shares not publicly traded etc. Similarly, there is no precise answer to what the worth of a company is. The worth of a company could be its fair market value, strategic value or intrinsic value depending upon the purpose for which it is valued and the relative position of both the buyer and the seller.

Therefore, the foremost step in valuation of a company is to identify and understand the purpose of valuation because as soon the purpose is changed the value will also change.

Determining Standards and premises of value

Once the purpose of valuation is identified and understood then the next step is to determine the standard of value and the premises on which the value will be based.

A standard of value is a type of value applicable to a given valuation. The standards of value are:

a) Fair Market Value (Stand-Alone Value) – The price at which property would change hands between knowledgeable and willing buyer and seller in an arm’s length transaction.

b) Strategic Value (Investment Value) – This is the value to a specific buyer or group of buyers based on their investment requirements, perceived synergies or other strategic advantages or risk aversions.

c) Intrinsic Value (Fundamental Value) – The opinion
of an analyst (or other party) of what the market value should be as distinguished from its actual market value.

More than one standard of value could be adopted while performing the valuation to provide different perspectives and a range of valuation.

There are basically two main premises on which a valuation is based:

a) **Going Concern** – This assumes that the company will continue as going concern in perpetuity.

b) **Liquidation** – This assumes that the company will be liquidated in near future or after the acquisition.

These are mutually exclusive premises as either a company is expected to continue as going concern or cease operations. However, in certain situations it is also appropriate that the company will continue as going concern for a certain period and then will be liquidated at a selected future time.

**Adjusting Target’s Financial Statements**

The accounting information contained in financial statements can be manipulated by the management of the company for a variety of reasons. Even when a company follows closely the accounting standards, there may be some discretion afforded in the presentation of the accounts due to the different options available within the standards. Generally, the need for adjustment is greater when valuing a private company than a public company. Primarily, this is because in private companies the focus is more on minimizing taxes, not on maximizing earnings as is the case with publicly traded companies.

The financial statements requiring adjustments are Statement of Financial Position, Statement of Comprehensive Income and Cash flows Statement.

a) **Statement of Financial Position (Balance Sheet)**

– The distortion happens normally in assets and liabilities. Distortion in assets takes form of overstating assets which is resulted in inflated reported earnings (increased revenue or decreased expenses) or understating assets which is resulted in deflated earnings (Decreased revenue or increased expenses). The situation is reversed in case of liabilities. The appropriate adjustments can be made by:

1. Re-measuring assets and liabilities at fair market value;
2. Recognizing off-balance sheet liabilities and assets with commercial value;
3. De-recognize assets and liabilities not represented or having no market value; and
4. Adding back assets that have been previously written off having significant market value (goodwill, impairment reviews etc.)

Another way of determining value of assets and liabilities is by calculating the sum of the market value of the debt and the equity invested in the business. This is called valuation of invested capital and in this case, a separate valuation of individual operational assets and liabilities rarely takes place.

b) **Statement of Comprehensive Income (Profit and Loss account)** – Adjustments to the income statements are more frequent and more diverse than those in Balance Sheet. Generally, these are the results of accounting elections designed to minimize closely held companies’ taxable income or maximize earnings of traded companies. The objective of adjustments in income statement is to produce a normalized earnings figure. The main adjustments needed are:

1. Removal of non-operating items from reported income;
2. The removal of non-recurring items from reported earnings; and
3. The adjustment of costs and revenues to a fair values basis

c) **Cash Flow Statement** – In case of cash flows the figures may be distorted by the timing of the receipts and / or payments or unusual items. From valuation perspective, there is need to calculate normalized cash flows using the normalized earnings figures and adjusting timings of receipts and payment.

The adjustment to a particular statement will depend on the valuation method used. For example if appraiser decides the assets approach is not appropriate, there may not be a need to adjust the Statement of Financial Position.

The significance of adjustment will vary depending upon the size of the company and it is common for the number of adjustments needed to increase as companies get smaller.

In case of valuing non-controlling interest it is better to make only those adjustments that are under control or authority of the interest being valued instead of calculating the prorated value of the company on control-basis and then reducing it by a lack of control discount.

One important thing to note while adjusting the financial statements is that, there is a potential for unlimited number of adjustments and therefore the extent to which adjustments are made should be on cost and benefit consideration.

**Selecting appropriate method and calculating value range**

There are different valuation methods that can be used in determining the value of a company. These methods can be classified in following three approaches:
a) **Income Approach** – These should be the primary methods in valuing operating companies. The main premise of this approach is that the earnings are preeminent in a going concern and it is a company’s earning potential rather than any other aspect that attracts the acquirer to acquire and operate it. The most common valuation methods under this approach are:

1. **Present value of future cash flows** – In this method the value of a company is the value of its future cash flows discounted at a required rate of return. The required rate of return is often the rate that reflects the systematic risk of these cash flows. This method is normally used to value the controlling interest as the majority shareholders are in a position to control the earnings of the company.

2. **Dividend valuation** – In this method the valuation of a company is the present value of all future cash flows to the investors (dividends) discounted at investors’ required rate of return for that company. This method is normally used to value minority interest in a going concern as the minority shareholders do not have control on the assets of the company and hence have to rely only on its dividend potential. There are two models of this method – the constant dividend model and constant growth model.

3. **Price Earnings Ratio** – In this method the price of share of a company is a product of its earning per share (EPS) and Price Earning (P/E) ratio. The value of the P/E reflects the market appraisal of the share’s future prospects. It is an important ratio as it considers both market price of a share and its earning capacity. The method is generally used to value a controlling interest. This method is basically a combination of both income and market approaches. Here it is important to mention that while using this method for valuation of company as whole the earning figures must be adjusted to reflect the suitable earnings of the company instead of simply using the reported EPS.

b) **Assets Approach** – These methods are not commonly used in the valuation of operating companies under merger and acquisition. However, these methods are generally considered appropriate for controlling interest because such interest gives the acquirer right to control the acquisition and disposal of the underlying assets. Therefore, if assets are not needed for generation of income the controlling shareholder may cause them to be realized to generate cash. The assets based valuation methods are conducted under either a going concern premise or a liquidation premise. The most common method used in this approach are:

1. **Book Value** – This is based on the historical costs of the assets and will normally be a meaningless figure.

2. **Replacement cost and deprival value** – This represents the total cost of forming business from scratch.

3. **Break-up value** – This represent the realizable value of assets of the company in case of liquidation and therefore, normally represents the minimum price for a business as going concern.

c) **Market Approach** – In this approach, the other similar acquisition transactions are examined to indicate the value of acquire. The main challenges are to find both sufficient similarity of the acquired companies with acquire and Similarity of synergies that the acquisition will create. Another method in this approach is to use the market prices at which interests in specific company are bought and sold. These are normally minority interests in actively traded public companies. In case of majority interest a premium is added to the calculated value to determine the value of controlling interest.

The important thing to note is that, the value should not be calculated using a single method. It should be rather calculated using a combination of methods to get a range of valuations to determine the lowest and the highest valuation. The value calculated is normally the value of whole of the company and hence is subject to adjustments for discounts and premiums, and impact of synergies to arrive at stand-alone and investment values respectively.

**Identifying the discounts and premiums**

The valuation must reflect the extent to which the acquirer can or cannot control or influence the company to be acquired. There are many degrees of control ranging from full control to a small or non-existence influence over the company’s affairs and its decision making. In addition of control another important aspect to be considered is the availability of exit option i.e. the marketability of the investment acquired. Both the control and marketability factors will affect the valuation and therefore, it is important to identify the discounts and premiums that may arise due to these factors and assign them appropriate value, normally, as a percentage to the value. The primary discounts and premiums to be considered are:

1. **Control Premium** – It is important to determine the premium for control when the valuation method used produces a value on lack of control basis and the interest being acquired enjoys the benefits of control.

2. **Lack of Control Discount** – This is to reflect the absence of control. The absence of control could exist in both minority interest and majority interest
due to variety of reasons. Therefore this discount is used when valuation method used produces a value on control basis and the interest being acquired lack the same.

3. **Lack of Marketability Discount** – This is to cater for the absence of right to promptly realize the investment back to cash. Normally, the lack of marketability exist in unquoted companies but sometimes due to covenants in the acquisition agreement it is difficult to sell shares in a quoted company as well, at least for some time.

The size of the premiums and discounts are judgment of degree and not simply “on” or “off”: E.g. A 30% interest with other party holding 70% has less control and influence than a 30% interest with 14 other parties holding 5% each. Therefore, the lack of control discount would be substantially different in both the cases.

**Identification and quantification of Synergies**

Synergy is the increase in performance achieved by two or more companies working together instead of on their own. There are three main types of synergies:

- **Revenue Synergy** – This exists when the acquisition results in higher revenues, higher return on equity or a longer period of growth and may arise from increased market power, marketing synergies and strategic synergies.
- **Cost Synergy** – This exist when acquisition results in substantial cost reduction and greater operating margin. This primarily arises from economies of scale.
- **Financial Synergy** – This exists when acquisition results in reduction of risk or providing good investment opportunities. This primarily arises from additional diversification opportunities as a result of acquisition.

The identification and quantification of synergies are essential especially in mergers and acquisitions as shareholders of the companies involved in the acquisition may need persuasion to support the deal. It is also important to identify who owns the synergy i.e. buyer or the seller. Generally speaking, it is the buyer who owns the synergy and hence should not pay for it. However, some of the benefits obtained by the buyer bounce back to also add some synergies to the buyer’s core business. In this case that portion of the synergy is owned by the seller.

The identification and measurement of synergies is also important because the stand-alone market value of a company will be same regardless of intended acquirer, but each acquirer will have its own investment value due to the different synergies associated with the acquisition.

The maximum worth of a perceived synergy is the calculated value of the future benefit derived from the union of acquire and acquirer. This is worth mentioning here that in order to maximize the shareholders’ value the price to be paid must be less than the present value of the future benefits of the synergies actually achieved. Another important factor in the calculation is to consider time needed to activate and probability of achieving each perceived synergy.

**Making and closing the deal**

When a value or a range of values have been determined the next step is to make an offer, negotiate and close a deal.

The price to be offered can be different from value depending upon the manner of acquisition (Share vs. assets), mode of settlement (cash vs. stock or other considerations), covenants or conditions attached with the deal (e.g. not to compete, guarantees) etc.

When the buyer and seller disagree about the price then it is important to bridge the gap. It is important that after tax gap should be looked as it is usually smaller than the full price. Different structures that are tax efficient to both buyer and seller should be considered to minimize the gap, wherever possible.

When the deal structure is not sufficient to make the deal, an earn-out agreement can help in bridging the gap. In an earn-out agreement the buyer agrees to pay additional price as percentage of an important measure of value to the buyer e.g. a percentage of revenue or profit in excess of a base etc. The most important to any earn-out agreement is the definition of key terms i.e. what does revenue or profit means and how it will be calculated.

Generally deal prices are determined on invested capital basis and settled in two alternatives ways:

1. The buyer assumes the debt and pays the seller the residual equity amount; or
2. The buyer pays the seller full invested capital and the seller pays the debt or retains it without any impact on buyer.

There are chances that the deal will never reach to an agreement specially when there is more than one player in the race to buy a company. It is important to understand that in such a case often the price offered will not be as attractive for the seller as that of other prospective buyer(s) as they may have different synergies associated with the deal and a different valuation and hence may have offered a more attractive price.

*The most important in making a deal is not to be hubris and be ready to walkout of the deal when it does not make a sense.*

Therefore, often when face such a situation the smart players fold their hands and wait for the next opportunity instead of being stubborn to win the deal and make sure that those who were involved in making and negotiating the deal are not seen as having failed.
Introduction:
Take up any issue of a magazine, periodicals or contemporary trend of blogs closed to year end or start of yet another year. One would find insight to interesting stories of how the year was passed, what were the major events, what good, bad or ugly happened during the elapsed year. But, as an accounting fraternity, our inclination is often towards keeping ourselves abreast of the latest happenings and trends in accounting standards and their practical implementation. The year “2013” was a busy year for International Accounting Standards Board (IASB) who issued following amendments, interpretations and related guidance during the year in question:

- **IFRIC 21 Levies:**
  issued in May 2013
- **Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36):**
  issued in May 2013
- **Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39):**
  issued in June 2013
- **IFRS 9 Financial Instruments: Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39:**
  issued in November 2013
- **Defined Benefit Plans: Employee Contributions (Amendments to IAS 19):**
  issued in November 2013
- **Annual Improvements to IFRSs 2011–2013 Cycle:**
  issued in December 2013
- **Annual Improvements to IFRSs 2010–2012 Cycle:**
  issued in December 2013

This article tries to summarize major changes brought through these amendments and interpretations and their implications.

**IFRIC 21 Levies:**
The Interpretation provides related guidance on the accounting for levies in the financial statements of the entity that is paying the levy which is defined as “an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (i.e. laws and/or regulations), other than Income Taxes and fines or other penalties that are imposed for breaches of the legislation”. It addresses fundamental question “when to recognise a liability to pay a levy that is accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.”

Waqas Latif, ACA
The interpretation addresses following fundamental questions:

<table>
<thead>
<tr>
<th>Questions</th>
<th>Explanation</th>
</tr>
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<tbody>
<tr>
<td>What is the obligating event that gives rise to the recognition of a liability to pay a levy?</td>
<td>The obligating event is the activity that triggers the payment of the levy, as identified by the legislation. For example, if payment of the levy is triggered on generation of revenue in the current period, the generation of revenue in current period is that event even if the calculation of that levy is based on the revenue that was generated in a previous period.</td>
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</table>
| Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period? | An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future reason being:  
  a) no provision is recognised for costs that need to be incurred to operate in the future; and  
  b) it is only those obligations arising from past events existing independently of an entity’s future conduct of its business that are recognised as provisions.  
Here a question arises about going concern assumption being used in preparation of financial statements that underlines that entity will operate in future period. In this respect, consider argument, IAS 1 Presentation of Financial Statements requires compliance with all the recognition and measurement requirements of IFRS and if recognition criteria of a liability is not met as set out in IAS 37, liability cannot be recognized and going concern assumption cannot lead to the recognition of a liability that does not meet the definitions and recognition criteria set out in IAS 37. |
| Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time? | The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (i.e. if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time). For e.g. an entity operates an offshore oilfield and is required to restore the seabed because of damage caused by the extraction of oil. In this example, the damage is directly caused by the extraction of oil, and that more damage occurs when more oil is extracted. Thus, the outcome is that the liability for damage caused over time is recognised progressively over time as the entity extracts oil and causes damage to the environment. |
| What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached? | If an obligation to pay a levy is triggered when a minimum threshold is reached. The corresponding liability is recognised when that minimum activity threshold is reached. |
| Are the principles for recognising in the annual financial statements and in the interim financial report a liability to pay a levy the same? | An entity shall apply the same recognition principles in the interim financial report that it applies in the annual financial statements. |
Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36):

The amendment mainly relates to disclosure requirements in paras 130 and 134 and an additional transitional provision i.e. para 140 J which states retrospectively applicability of this amendment for annual periods beginning on or after 1 January 2014.

The major disclosure requirements added through this amendment can be summarized as follows:

- An entity shall disclose the requirements as stated in para 130 for an individual asset (including goodwill) or a cash-generating unit rather than for each material impairment loss as required previously.
- Para 130 (e) require additional disclosers in case the recoverable amount is fair value less costs of disposal which are as follows:
  (i) the level of the fair value hierarchy (see IFRS 13)
  (ii) for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) used to measure fair value less costs of disposal. If there has been a change in valuation technique, the entity shall disclose that change and the reason(s) for making it; and
  (iii) for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, each key assumption on which management has based its determination of fair value less costs of disposal. Key assumptions are those to which the asset’s (cash-generating units) recoverable amount is most sensitive. The entity shall also disclose the discount rate(s) used in the current measurement and previous measurement if fair value less costs of disposal is measured using a present value technique.

Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)

The amendment clarifies the requirement for entities who having a derivative instruments designated as a hedging instrument in accordance with IAS 39, novate it to a Central Counterparty (CCP, i.e. Settling body) due to the introduction of a new law or regulation.

In order to understand the amendment, let us first consider the concept of novation and previous requirements of IAS 39 in case of such novation.

Derivative contracts are leveraged positions whose value is volatile. They possess high credit risks as they are usually more volatile than their underlying asset and may result in one party to a trade loses a big sum of money and is unable to honor its settlement obligation. In a safe trading environment, the parties to a trade need to be assured that their counterparty will honor the trade, no matter how the market has moved. This requirement can lead to cumbersome arrangements like credit assessment, setting of trading limits and so on for each counterparty, and take away most of the advantages of a centralised trading facility. To prevent this, a clearing house interposes themselves as counterparties to every trade and extend guarantee that the trade will be settled as originally intended. This action is called novation. As a result, trading firms take no risk on the actual counterparty to the trade, but on the clearing corporation. The clearing corporation is able to take on this risk by adopting an efficient margining process.

As per previous requirements of IAS 39, financial reporting effects of such novation was derecognition of previous derivative and recognition of new derivative as the hedging instrument in a new hedging relationship, however, this could result in more hedge ineffectiveness, especially for cash flow hedges, compared to a continuing hedging relationship. This is because, the derivative that would be newly designated as the hedging instrument would be on terms that would be different from a new derivative, i.e. it was unlikely to be ‘at-market’ (for example, a non-option derivative such as a swap or forward might have a significant fair value) at the time of the novation. It was also noted that there would be an increased risk that the hedging relationship would fail to fall within the 80–125 per cent hedge effectiveness range required by IAS 39. Therefore, taking note of these financial reporting effects, it was realized that accounting for the hedging relationship that existed before the novation would provide more useful information to users of financial statement as a continuing hedging relationship, in this specific situation.

This amendment in IAS 39 Financial Instruments: Recognition and Measurement provides an exception to the requirement to discontinue hedge accounting in situations where over-the-counter (OTC) derivatives designated in hedging relationships are directly or indirectly, novated to a central counterparty (CCP) as a consequence of laws or regulations, or the introduction of laws or regulations.

IFRS 9 Financial Instruments: Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39

Following increased use and sophistication of hedging activities around the globe and many investors believe that the IAS 39 hedge accounting disclosure requirements fall short in providing requisite information for decision making, IASB decided to undertake a fundamental overhaul of all aspects of hedge accounting. This amendment makes three important changes to IFRS 9.

- A whole new chapter 6 on hedge accounting has been added to IFRS 9 which represents a major overhaul of hedge accounting and its alignment to risk management and improvements to the disclosures about hedge accounting and risk management.
As the requirements are detailed and comprise on several pages therefore can only be summarized in following graphical form which mentions various aspects on which this amendment provides related guidance:

**Fundamental review of hedge accounting**  
**Aspects reconsidered**

- Alternatives to hedge accounting
- Presentation and Disclosure
- Groups and net positions
- Discontinuation and rebalancing
- Objective
- Hedged Items
- Hedge accounting
- Hedging instruments
- Effectiveness assessment

*Source: Project Summary: IFRS 9 Financial Instruments (Issued by IASB in November 2013)*

- The second amendment makes changes to Chapter 4 (sections 4.2 which provide option to designate a financial liability at fair value through profit or loss at initial recognition and 4.4 which provides exceptions for reclassification of financial instruments as contained in para 4.4.1–4.4.2) and Chapter 5 which provide for guidance on subsequent measurement of financial assets and liabilities and gain or loss on fair value measurements.
- The third change is the removal of the mandatory effective date of IFRS 9 previously was 1 January 2015.

**Defined Benefit Plans: Employee Contributions**  
**(Amendments to IAS 19)**

The amendment mainly relates to Actuarial assumptions in paras 93 and 94 and an additional transitional provision i.e. para 175 which states retrospectively applicability of this amendment for annual periods beginning on or after 1 January 2014.

- The major changes added through this amendment in actuarial assumptions can be summarized as follows:
  - It explains how contributions from employees or third parties in plans reduce service cost if they are linked to service condition.
  - It also explains effects on current, past service costs and actuarial gains or losses of contribution from employees or third parties specifically if contributions relates to periods of service.

**Annual Improvements to IFRSs 2011–2013 Cycle**

These amendments result from proposals that were contained in the Exposure Draft of proposed amendments to IFRSs, Annual Improvements to IFRSs 2011–2013 Cycle, published in November 2012.

The following table shows the topics addressed by these amendments.

<table>
<thead>
<tr>
<th>Standard</th>
<th>Subject of amendment</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS 1 First-time Adoption of International Financial Reporting Standards</td>
<td>Meaning of ‘effective IFRSs’.</td>
<td>The amendment explains that an entity using guidance of IFRS 1 may use either the IFRS version that is currently mandatory or the new IFRS that is not yet mandatory, if that new IFRS permits early application.</td>
</tr>
<tr>
<td>Standard</td>
<td>Paragraph</td>
<td>Description</td>
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<tr>
<td>IFRS 3 Business Combinations</td>
<td>Scope exceptions for joint ventures.</td>
<td>The amendment changes the exception of applicability of IFRS 3 from joint ventures to joint arrangement in the financial statements of the joint arrangement itself.</td>
</tr>
<tr>
<td>IFRS 13 Fair Value Measurement</td>
<td>Scope of paragraph 52 (portfolio exception)</td>
<td>Para 52 provides exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the ‘portfolio exception’) includes all contracts that are within the scope of IAS 39 or IFRS 9. The amendment clarifies that portfolio exception included contracts that are accounted for as if they were financial instruments, but that do not meet the definitions of financial assets or financial liabilities in IAS 32. Examples of such a situation would be some contracts to buy or sell a non-financial item that can be settled net in cash by another financial instrument.</td>
</tr>
<tr>
<td>IAS 40 Investment Property</td>
<td>Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or Owner-occupied property.</td>
<td>The amendment clarifies that IFRS 3 and IAS 40 are not mutually exclusive by adding paragraph 14A and a heading before paragraph 6 to IAS 40, which states that a judgment is also needed to determine whether the transaction is the acquisition of an asset or a group of assets or is a business combination within the scope of IFRS 3. That judgment should not be based on paragraphs 7–14 of IAS 40 but instead based on the guidance in IFRS 3. Only the judgment needed to distinguish investment property from owner occupied property is based on above mentioned paragraphs of IAS 40.</td>
</tr>
</tbody>
</table>

**Annual Improvements to IFRSs 2010–2012 Cycle**

These amendments result from proposals that were contained in the Exposure Draft of proposed amendments to IFRSs, Annual Improvements to IFRSs 2010–2012 Cycle, published in May 2012.
<table>
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<th>Standard</th>
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</tr>
</thead>
<tbody>
<tr>
<td>IFRS 2 Share-based Payment</td>
<td>Definition of vesting condition</td>
<td>Previously, this standard did not separately define ‘performance condition’ or ‘service condition’, but instead described both concepts within the definition of vesting conditions. This amendment separates the definitions of performance condition and service condition from the definition of vesting condition to make the description of each condition clearer. The amendment addresses various concerns about the definitions of performance condition, service condition and market condition.</td>
</tr>
<tr>
<td>IFRS 3 Business Combinations</td>
<td>Accounting for contingent consideration in a business combination</td>
<td>The amendment laid down requirements for subsequent measurement of contingent consideration in a business combination that is classified as an asset or a liability which now shall be subsequently measured at fair value with changes in fair value recognised in profit or loss.</td>
</tr>
<tr>
<td>IFRS 8 Operating Segments</td>
<td>Aggregation of operating segments</td>
<td>The amendment mainly relates to changes in disclosure requirements which are as follows:</td>
</tr>
<tr>
<td></td>
<td>Reconciliation of the total of the reportable segments' assets to the entity's assets</td>
<td>- the judgments made by management in applying the aggregation criteria for operating segments is now required to be disclosed.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- reconciliation of the total of the reportable segments’ assets to the entity’s assets is now only be disclosed if that amount is regularly provided to the chief operating decision maker.</td>
</tr>
<tr>
<td>IFRS 13 Fair Value Measurement</td>
<td>Short-term receivables and payables</td>
<td>The amendment clarifies that short-term receivables and payables may be measured with no stated interest rate at invoice amounts without discounting, when the effect of not discounting is immaterial.</td>
</tr>
</tbody>
</table>
IAS 16 Property, Plant and Equipment | Revaluation method—proportionate restatement of accumulated depreciation | As per previous requirements, in instances in which the gross carrying amount of asset is revalued, the revalued accumulated depreciation is restated proportionately with the change in the gross carrying amount. However, considering the fact that the restatement of the accumulated depreciation is not always proportionate to the change in the gross carrying amount. Therefore, amendments are made to state that the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount and that the accumulated depreciation is calculated as the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment.

IAS 24 Related Party Disclosures | Key management personnel | The amendment clarified that a management entity that provides key management services to a reporting entity is deemed to be a related party of the reporting entity and also provides guidance on disclosure requirements of such related party.

IAS 38 Intangible Assets | Revaluation method—proportionate restatement of accumulated amortisation | As a consequence of changes in requirements of IAS 16 of revaluation method i.e. proportionate restatement of accumulated depreciation as described above.

The same requirements have been extended to IAS 38 for Revaluation method—proportionate restatement of accumulated amortization.

The following table shows the topics addressed by these amendments.

**Conclusion:**
The Global economic environment is changing rapidly with more sophistication in ways of doing businesses and with complexity in business events and transactions. With that Accountants have more and more responsibility for providing more relevant and accurate information about business to help investors or for that matter all stakeholders making their decisions. Let's hope that year 2014 will bring more clarity and convergence in ways financial information is presented to the Users.
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*Theme of The Pakistan Accountant*

*January / March 2014*

*From Conformance to Leadership - Evolving Role of CFos*

**Possible Categories**

- Auditing
- Accounting
- IAS’s, IFRS - Recent Development, Impact, Adoption, Expected Changes etc.
- Value Addition to SMP, SME
- ISRS - 4410
- Corporate Law and Governance
- Islamic Finance
- Sustainability and Social Accounting
- Banking
- Tax
- Risk Management
- Information Technology
- Economy
- Student Related - Like Study Tips or Standards Explained
- Business Management and HR Related
- General

The articles may be from anyone of the above categories or any other that you deem suitable, kindly send us your articles by March 15, 2014, so that they can become a part of the current issue. Ideal article length would be between 2000 and 2500 words.

Members are requested to send in their articles at the earliest at any of the emails below:
asad.shahzad@icap.org.pk & afshan.aleem@icap.org.pk
Corporate Governance

Lessons Not Learned

Talha bin Hamid, FCA

Corporate Governance has become a foremost compliance issue for most listed companies since a decade or so. It all started with the Sarbanes-Oxley Act enacted in the USA following disasters like Enron and WorldCom. There were some key takeaways from these disasters, which were hard to swallow for accountants and auditors alike, and which fundamentally shifted the focus of internal and external corporate assurance activities. Here is what was realized at that time:

1) If an executive is sufficiently highly placed within a company, he can wreak virtually any havoc; by the time his less than transparent dealings come to light, he has usually fled the company
2) External and internal auditors lack sufficient skills and mandate to effectively identify and stop corporate fraud
3) Some lax regulations can allow the interests of management and auditors to become mutually dependent
4) A sufficiently complex transaction can slip through the cracks easily, with neither the auditors nor the regulators able to untangle it and identify potential risks (this was proven yet again in the financial meltdown of 2008)
5) There is very little recourse when the interests of the Board, its committees, and those of the higher management of a company, become aligned and mutually dependent

We are at the twilight of the year 2013. As Accountants working within companies, a community of financial gatekeepers (no matter that the organizational role), we need to ask ourselves: have the loopholes/findings listed above been guarded against adequately? Do mechanisms exist to safeguard corporate fraud? Do we have anything, other than sheer luck, in the name of a reliable mechanism to identify and arrest corporate fraud?

These days, 'reasonable assurance' doesn’t cut it anymore. We can no longer afford to stand aside while lasting blows are dealt to an organization through incompetence, dishonesty, or both. Our Code of Ethics lays it down very plainly: no process is beyond our review (especially for Internal Auditors), and it is our duty to ensure the safety of our organization and not hide behind limitations and materiality.

During the recent years tremendous legislation has been made in Pakistan towards the ideals of Corporate Governance. It is all very good in theory. The Board is the ultimate safety net of a company, and it is supposed to rule with an iron fist through its committees. Those committees have taken the mantle of various functions within an organization. Whereas in past a department head was free to take decisions of any magnitude as long as he obtained the necessary approvals, now he has to get them screened through a committee that is overseeing his function. Even the CEO is not allowed to interfere too much in any of these committees and much of the responsibility is being shifted to non-executive directors.

At this point, please refer to the 5 loopholes I have mentioned again. See anything? Let me be blunt: there is absolutely no accountability of the Board of Directors. Non-executive directors are just that: non-executive; there is no binding upon them to invest too much time and effort towards a company they have a minimal role in.

Oh, we have a multitude of penal clauses in Companies Ordinance, 1984. We have the SECP. Trouble is, to make those at the highest echelon suffer for fraud or incompetence, one has to resort to a long and complicated judicial process. A cashier can instantly be dismissed from a company for pilferage, or a hapless worker can be let go if his health starts failing him, since these individuals don’t have the means to challenge their removal. The harsh reality is that most HR departments in our large organizations are not fulfilling their duties towards employees, which include but are not limited to: provision of safe and sound working environment, adequate medical cover, whistleblowing mechanism, and legally mandated facilities as per Labor Law. Much of this is skimped upon simply because no one realizes their rights and even if they do, they don’t have the means to have them enforced.

Even a cursory reading of our corporate law is enough to establish that the Directors are ultimately responsible...
for a company's performance. Yet, with due respect, in practice, most Board and Board Committee meetings are mere formal exercises meant to place ticks on the compliance registers and maybe win an award or two. A functional head can get virtually anything accepted and the Board usually isn’t in a position to question or review such recommendations.

This is where our role comes in. We, as accountants and internal auditors, can put our feet down when something is not making financial sense. In practice, operations accuse us of being ‘bookish’ or ‘rigid’ or, worse, ‘non-technical’. To that there is a simple response: nothing makes sense until it makes financial sense. There is a reason a CFO is usually next in line to the CEO. There is a difference between being risk averse and being unwilling to make risky decisions. Accountants do not (and should not) run companies, yet they have to ensure they are run well.

An increasing aspect of our role is educating the BOD, BAC and other Board Committees, about the implications of various operational decisions. The best language to convey this is financial: budgets, projections and feasibility studies. And here comes the saddest part of this discussions: many decisions are taken despite them making no financial sense.

The 2008 financial meltdown resulted from executives indulging in complex transactions that were highly risky. Those same executives, incidentally, owned large stakes in their respective brokerage firms and sat on their Board. Rogue traders, flush with money gathered from the general public, used their positions of authority to indulge themselves. In other instances not related to scandals or meltdowns, unwise, rash or non-transparent actions by Boards have resulted in losses to the stakeholders worldwide. This all stems from the fact that no real-time mechanism exists to arrest failure as a result of incompetent or dishonest decisions taken by a Board. Internal Audit, while being an effective safeguard, ultimately lacks the authority to make or reverse business decisions. By the time the smoke is seen by the accountants and the regulators, the building has already burned down.

Yes, we have elaborate filters as far as appointment of directors, CEOs, CFOs, Auditors are concerned. Most of them are fixated upon technical skill, experience and competence. So what happens when these attributes are utilized in transactions which lack transparency? Precisely nothing, since our emphasis is on signatures and approvals rather than responsibility.

It will take much more than non-Executive Directors to monitor and evaluate the ethical and operational performance of a company’s Directors and top executives. The 2008 financial meltdown was a road to hell that was paved with reams and reams of documentary proof that all technical requirements of those dubious, complex, and ultimately onerous transactions were met.

In other words, we still do not have an adequate mechanism to safeguard lapses in integrity. Not only the appointment of these key posts needs to be monitored for transparency, but their continued service of interests of the stakeholder in a transparent manner needs to be ensured by a truly neutral authority. I leave it to our corporate regulators, accountants, auditors and of course, the esteemed body of accountants that forms the bulk of readership to this magazine, to address this gap. I believe it is time once again for ICAP to assert its role in the ethics of this profession and the corporate world in general.
Corporate Reporting

Moving from compliance to communication

“Good Disclosures are the ones that tell a story”
(Richard Mathieson, Managing Director of Asset Managers BlackRock)

Corporate Reporting has never been easy or simple. Users are becoming increasingly vocal in their demand of information and about reporting that passes regulatory muster but fails to provide information about health and prospect of the Company. Current problem with excessive disclosure and information is behavioral as companies too often erring on the side of caution to avoid lengthy discussions with the regulator or spending time with analyst to meet their specific needs. Hence, the financial reporting results in too much information and disclosures that moves from entity specific to too generic information which hardly enables users to glean any meaningful message out of it. Expert believes that companies should make its annual report more informative by providing less information. However, it is easier said than done. In practice many find it difficult to communicate as precisely or succinctly as possible owing to wide array of information needs of users. Striking right balance is currently appearing as elusive goal/objective. Some companies have tried to move heavy text (the standard disclosures) that does not change from year to year to the back of their annual report with stating upfront information which has changed or is having current value in terms of information contents it have. Structuring the contents of annual report along with information provided there in is good idea; however, it does not necessarily results in a shorter report. Most corporate reports are compliance driven where a checklist or tick-the-box approach is deployed which does not make good corporate reporting.

“In most cases, ticking the compliance box is something that financial reports do extremely well, but they are not conveying information in a clear and concise way; this view of financial reporting is held by institutional investors as well as among individual investors”
(Russell Picot, HSBC).

The real success for any good corporate reporting is not determined solely by regulations. It is about successful communication and has been realized by those who believe that financial statements are tool of communication with stakeholders and users rather generation of any compliance document. Effective reporting is about more than just compliance with reporting regulations. The sheer quantity of financial disclosures has become so excessive that we have diminished the overall value of these disclosures. Disclosures and information contained in financial reports have grown in volume and complexity too that poses difficulties for users to absorb the volume and complexity of literature. Some observer assert that more public disclosure enables more informed investor decision making and thus putting all information without having assessment of its relevance to the users.

“If the law of diminishing returns applies to financial reporting, then there is a risk that growth in the volume...
of disclosures has not produced a proportionate increase in the value of the information disclosed. This inevitably prompts questions about how worthwhile it is to have financial statements of 50 or 100 pages or more. It is also said—though not in most cases by users—that users are either confused or distracted by the volume of disclosures. So large parts of financial statements, it is claimed, may be either positively unhelpful or at best useless."

(Financial Reporting Disclosures: Market and Regulatory Failures ICAEW’s Financial Reporting Faculty)

Contributing to the expansion of disclosure requirements is the understandable risk aversion on the part of preparer, auditors and regulators leads to a ticking-the-box mentality and consequently the communicative value of the financial statements suffers. The preparer err on the side of caution and kitchen sinks their disclosures. Many corporate reports lack cohesiveness among disclosure because of fragmentation and lack of clarity of purpose and information value it have to users. Excessive and fragmented disclosure is hampering good corporate reporting communication. The focus should be on quality rather than quantity.

Corporate reporting must be viewed as tool of communication rather than compliance exercise. Companies instead of providing more information should focus on providing more relevant, more specific and more material information rather than cluttering the financial information with so much information that lead users spending more time in deconstructing data to gain more meaningful information. The focus should not be on reducing the quantity of disclosures rather to increase its quality which ultimately achieve the informative value of the corporate report which communicate the story. Companies have to think hard and more carefully about how they communicate with the users. Users trust in corporation is at an all time low and rebuilding the trust require clarity of purpose and communication. Current corporate reporting is hampering that goal.

"Clutter in annual report is a problem, obscuring relevant information and making it harder for users to find the salient points about the performance of the business and its prospects for long term success”

(UK’s Financial Reporting Council (FRC) observed)

Disclosures should be clear, balanced and understandable and be written as simply and straightforward without losing useful information and unnecessarily increasing the length of the report. Cross referencing the disclosures would make the narrative reporting more useful and provide context as well. Investors are increasingly feeling overloaded by the volume and complexity of financial disclosure information in annual reports. However, the length of the annual report is not the main problem nor the volume but its quality and the way it is organized.

“Reporting has at least two functions: to provide information and to contribute to the stewardship role of the Board”

(Stephen Haddrill, FRC)

For many organizations, the preparation of a set of financial statements is inevitably has become a compliance exercise (ticking the boxes in disclosure checklist) to make sure all the requirements are met. These voluminous disclosure requirements have not only increased compliance costs but also have raised concerns about the usefulness of the information provided. Many are put off from even reading the financial statements and others struggle to find important information amongst the sea of details (‘they can't see the wood for the trees’)

Preparer complain about disclosure overload pushing up the cost of financial reporting. Users argue that there is too much irrelevant disclosures ‘clutter’ such that important disclosure gets lost amongst the trivial. Some believe that amount of disclosure is not the problem; it is the way it is organized and explained. Trying to fulfill the regulatory and other standards requirement is not right approach when it comes to have effective corporate reporting which is more than just compliance with reporting regulations.

Companies already provide plethora of information in their annual report and support it with varying degree of narrative and contextual information. However, by having a tick-box mentality, companies simply bolting on additional content without considering the usefulness or its relevance including its materiality in the overall context of information provided to the users. Companies have to reflect critically on the depth and breadth of information that have to be included in annual report to
provide structure and content by keeping relevance and cohesiveness principle in mind and have to move away from compliance based approach to communication mindset.

Standard setters are keen to address disclosure overload. Everybody seems to agree that financial reporting disclosures need to be reformed, but there is no agreement on what exactly the problem is. It is evident that there is problem with disclosure but there are different views on what the problem is and how to resolve it. Without agreement on what the problem is, it is no surprise that there is no obvious solution on the table. International Accounting Standard Board have decided to tackle disclosure problems in its standards by providing disclosure objective and will explore possibilities of reducing the compliance driven disclosures to more objective driven disclosures thus providing a room for management to exercise judgment as to materiality and relevance of disclosures to their users. It would be mistake to focus on whether there is too much disclosure or too little, the real problem, though argued, is that companies are not making the right disclosure and more often badly organized or unclear as to its purpose and relevance. Structuring the information or disclosure would make it easier to pick the important information.

Disclosure overload can make it difficult to see the wood for the trees. Financial reports have become a disjointed collection of information and disclosures driven by different requirements. The objective of financial reporting seems to have been forgotten as information and disclosures have become more about compliance than communication.

A change in corporate reporting landscape is in motion and it is widely held view that compliance mindset will leave companies with bulkier financial statements with information that has no communicative value. Preparing corporate report is just writing a story and a good story stick to the message it has to convey and if it astray by putting irrelevant and immaterial facts the audience won't grasp the message and will put off the audience. Many believe that setting disclosure framework would significantly lessen the problem of compliance driven approach and also break the boiler plate disclosures. There is need to re-focused on the purpose of financial report i.e. to provide investors with the information that is useful for making their resource allocation decisions and assessing management’s stewardship. By understanding the needs of users the boundary of financial report is then established. A period of significant change and innovation in corporate reporting is imminent and inevitable. The process of change is being driven by various interested parties including forward-thinking companies, investors, standard setters and regulators. In current reporting the key message can be lost in lengthy reports that are hard to navigate and contain immaterial or repetitive disclosures. The intention of those seeking change is to improve reporting so that it gives an insightful picture of corporate performance, sufficient to assess the quality and sustainability of performance.
Are Women ready for boards now?

Gender diversity is need of the hour. Women are now encouraged to attain professional education, and work in the fields which were previously thought to be domain of only the men. The percentage of women working in the fields of Marketing, Finance and Information Technology is increasing day by day.

With the specialized education and skills, women have managed to reach management level positions, but attaining a seat in the company’s board is still of a novelty, especially in the developing countries like Pakistan.

Research has shown that diversity is not only good for the business and productivity, but it also makes a difference in the environment and working of the boardroom. Women, being compassionate by nature, bring a collaborative style of leadership that benefits boardroom dynamics. Decision making is made easy because of deeper insight into the problems, with an ability to get positive responses. Social and consumer trends of the forgotten half of the population can now be analyzed and debated upon. According to the findings of the Critical Mass study, having three or more women on a board can cause a fundamental change in the boardroom and enhance corporate governance.

It is felt that the current women talent-pool is under utilised and women do not have enough opportunities to develop their skills and experience required for Board room participation.

International Perspective

Gender diversity on European Boards

In European prospective, gender diversity is approached as a value driver in organizational strategy and corporate governance. Compared with other European countries, the UK has been a pioneer of monitoring gender diversity on Boards and has had a sustained public debate around this issue for over a decade.

However, in recent years, other European countries have taken steps to increase the number of women on Boards. The approaches to increase gender diversity broadly fall within two categories: corporate self-regulation instruments such as Corporate Governance Codes (UK, Austria, Denmark, Germany, Sweden and Poland) and national mandatory legislation or targets (Norway, Spain, Iceland, Finland, Italy, Belgium and Netherlands).

In United Kingdom, the percentage of directorships held by women is 10.5% while in the USA it is 14.7%. However in Norway, the proportion of female board members had increased from 7% in 2003 to 39% in July 2008. Interestingly enough women are much more likely to be on boards in New Zealand (55%), New South Wales (47%), while South Australia comes in at 37%.

Gender Diverse Boards Are Integral To Better Financial Performance and Improved Governance

In 2004, the US-based non-profit research organisation ‘Catalyst’ created the link between female board directors and corporate performance in its report ‘The Bottom Line:...
Corporate Performance and Women’s Representation of Boards: The report found higher financial performance for companies with higher representation of women board directors in terms of Return on Equity, Return on Sales and Return on Invested Capital.

In October 2011, according to the Research conducted by the non-profit Australia research organisation, Reibey Institute, following interesting facts came across, about women directors on ASX500 (Australia Stock Exchange) companies:

- Women hold 9.5% of ASX500 board position compared to 7.1% from last year.
- Companies delivered significantly higher return on equity (ROE) than those companies without any women on their boards.
- Women leaders include 307 director positions and 10 chairman roles.
- 20% of female directors are serving on more than one board compared to 12% of their male counterparts on multiple boards.
- Over 250 companies have no women on board.

Research shows that companies having women board of directors delivered significantly higher return on equity (ROE) than those companies without any women on their boards

In 2010, Insync Surveys ‘Gender Agenda: Unlocking the power of diversity in the boardroom’ found that board members on gender diverse boards believe that they:

- are most likely to have better financial results.
- add more organisation value through the quality of their decision making;
- are more likely to be best practice in terms of board evaluations, codes of conduct, governance issues, conflict of interest guidelines and looking more closely at executive remuneration arrangements compared to performance;
- have directors who are more disciplined, more effective and act with greater integrity;
- require better documentation of roles and responsibilities.

What changes are being made for balanced Board?

In 2011, only 12.5% of directors of FTSE100 Boards and 7.8% of directors of FTSE 250 Boards were women. In February 2011, Lord Davies produced his report on Women on Boards, in which he made recommendations on how to increase the number of women on the Boards, some of them are:

- All Chairmen of FTSE 350 companies should set out the percentage of women they aim to have on their Boards in 2013 and 2015. FTSE 100 Boards should aim for a minimum of 25% female representation by 2015.
- Quoted companies should be required to disclose each year the proportion of women on the Board, women in Senior Executive positions and female employees in the whole organisation.
- UK Corporate Governance Code should require listed companies to establish a policy concerning boardroom diversity.

According to the Professional Boards Forum’s BoardWatch initiative, up to November 2012, 6.7% of FTSE 100 executive directors and 21.5% of non-executive directors were women. Among FTSE 250 companies, women comprised 5.2% of executive directorships and 14.9% of non-executive role. 84 more board seats held by women needed to reach Lord Davies 25% target by 2015.

Other than UK, Norway passed a compulsory quota law requiring a minimum 40% of Board members to be of either sex; the law imposed in 2008. The 40% requirement has already been met.

In January 2011, the French parliament passed legislation imposing 40% female quota on the Boards of CAC40 companies by 2017, with an intermediary target of 20% within three years.

In 2007, Spain required that each gender must account for at least 40% Board members by 2015.

Italy required in 2011 that for listed and state-owned companies, at least 33% of their Board members should be women by 2015.

Pakistan Perspective

Are we ready for the change?

A report prepared by ACCA Pakistan in partnership with the IFC in 2010 on ‘Gender diversity on Boards in Pakistan’, shows that there is tremendous room for improvement. The report shows that out of the KSE-100 companies, 78% do not have a single woman on their boards, and the majority that do have women representation in the boardroom (as non-executive director) are family-owned enterprises with family relations a key criterion for appointing a female.

According to the study conducted by PICG on ‘Survey on Board Practices in Pakistan 2011’, only 22% of the respondent companies were of the view that presence of women on the Board of Directors adds value to the Board.
A review of publicly available data reveals that women serve on the boards of 26 out of 97 companies and only 5% of the total 838 members of the boards of directors at the KSE-100 Index companies are women. The percentage of companies with at least one female director is 25% in 2008, 27% in 2009 and 23% in 2010 with an average of 25%1.5.

Unsurprisingly, even amongst those who have women representation on their boards, still hardly see any benefit of gender diversity on the board. Reason being, they believe that women lack business expertise, emotional, risk-averse or not as confident as men are and hence do not make it to the board. So what criteria govern the appointment of women on the boards of Pakistani companies?

According to the study conducted by the Pakistan Institute of Corporate Governance (PICG) on ‘Survey on Board Practices in Pakistan 2011’, only 22% of the respondent companies were of the view that presence of women on the Board of Directors adds value to the Board6. The survey shows the following result of acceptance of women representation on Board:

<table>
<thead>
<tr>
<th>COMPANY STATUS</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>MNC</td>
<td>3</td>
<td>13</td>
</tr>
<tr>
<td>State Owned Enterprises</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Private Companies</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Public Limited Companies</td>
<td>5</td>
<td>31</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>13</td>
<td>46</td>
</tr>
</tbody>
</table>

The above statistics are not encouraging especially in case of Public Limited Companies where more change is required. Surprisingly, multinational companies (MNCs) give too much emphasis to gender equality but many of them don’t have women on their boards and the same can also be seen from above table.

**Pakistan Law requirement**

The SECP Code of Corporate Governance 2012 (revised), applicable on all Listed Companies is silent about gender diversity on corporate boards.

**Conclusion**

The global business case for more women on boards and in leadership roles is overwhelming. It no longer needs to be proven and debated, but believed and acted upon. This will require a significant shift in corporate culture and in the attitudes and behaviours of many who occupy positions of power. Change is occurring, but it is slow.

Evidently, Pakistani board representatives and the law makers yet have a lot to learn from the more developed countries to bring change in the country.

**Way Forward**

I strongly suggest that following actions are required to be made for women representation on Board in Pakistan: Ensure gender is part of diversity policy.

- In order to promote gender diversity on the Board, it is imperative that change should be brought through law. Quota for female representation on board should be introduced in the Code, requiring establishing a policy concerning boardroom diversity, including measurable objectives for implementing the policy.
- Corporate culture needs to be changed. Management should ensure that gender is part of diversity policy in a company especially at the time of appointments for boards.
- Set internal targets for gender diversity in senior ranks and make it a key performance indicator for the CEO and executive team.
- Excellent flexible work options should be given to the working mothers and establishing day care centers at workplace.
- Gender equality needs to be promoted by way of equal responsibilities and equal pay.

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5. Research paper by Faculty of Economics and Business, University Malaysia Sarawak, Malaysia www.scirp.org/journal/PaperDownload.aspx?paperID=25091
India’s trade with Pakistan has been much lower than the exiting potential and opportunities. At the end of 2013, Indo-Pakistan Trade stood at only US $ 2.0 billion. This has been due to a number of impediments in terms of trade tariff and non-trade tariff. This could testify from the fact that both the countries have demand for each other goods which is being met by illegal trade. All members of World Trade Organization (WTO) are bound to grant Most Favoured Nation status to all countries of the world in regard to trade in goods. India had granted MFN status to Pakistan as back as 1996. But Pakistan did not do this because of the political compulsions facing at home. Accordingly, despite granting MFN status India continued to impose high tariffs regime on the goods namely-textiles and leather good that are of interest of Pakistan. Hence, merely according MFN status does not imply easier trade. Therefore, does Pakistan’s offer matter? Yes, it does matter because it could create the needed enthusiasm, good will and keenness to build up peaceful and productive bilateral relations in terms of trade, investment and ODA. Better economic relations between India and Pakistan would not only bring economic prosperity, as is usually the objective of trade liberalization, but it would also build up greater stakes fro peace and lobbies which are interested in keeping business moving. According to ICRIER, Indo-Pak trade could growth several times once trade and non-trade barriers are removed.

What could the Benefits?

The following could be the possible benefits to both countries, if Pakistan grants MFN status to India:

- Illegal trade which is estimated at US $ 3 to 4 billion through third country could become legal;
- Pakistan light engineering sector could be expanded;
- Indian bicycle sector could be benefit as the same could export to Pakistan;
- Indian good can enter in Central Asian Markets through Pakistan;
- Traders from Haryana, Punjab, Himachal Pradesh, and North Rajasthan could be benefited substantially;
- Purchasing power of Pakistani could increase due to access to goods at competitive rates;
- The freight cost could be reduced resulting into lower cost of business in Pakistan;
- The existing competitiveness and productivity of Pakistan’s industry could improve substantially;
- Time frame and cost of procurement could also decline;
- The business linkages between India and Pakistan could improve further and may in turn improve the existing degree of competitiveness of Pakistan’s local industries;
- Pakistani producers could get desired access to a large Indian market.

Bilateral trade relations between India and Pakistan are appearing to move out in the right direction and spirit, if Pakistan likely to grant MFN status. According to a
SAARC report, the total trade potential between India and Pakistan could be around US $12 billion.

Two Common Fears:
Both the Indian Government and Government of Pakistan have two common fears and these fears could be the major hindrance in normalizing bilateral trade relations in coming times. Pakistan’s fear is that Indian Goods would flood Pakistan’s markets and would result into the ruining domestic goods. This fear is neutralized as WTO has provisions that allow member countries to provide necessary protection to domestic good of the importing country. This could be possible through restricting imports may be for temporary periods, should such imports unfairly or seriously injure local manufacturers and producers. On the other side of it, Indian business community has a fear that India and Pakistan's political tensions would defeat smooth trade functioning especially trade creation and facilitation. In this regard, the well established examples are China and Taiwan trade that has gone up from US $ 8 billion in 1991 to US $ 100 billion in 2010 and US and Vietnam agreement that took place in 2001. This agreement has resulted into the US emergence as leading investor in Vietnam. Then why such example could prove productive in case of India and Pakistan?

Preventive Steps Taken by Pakistan Government:
The Government of Pakistan is taking the following steps while granting MFN to India.

1. The import of 1,958 items from India would be allowed as per the Pakistan’s Import Policy for the year 2010-11.
2. In order to provide safeguard the interest of the Pakistani industry, the Government planned to implement measures aimed at normalizing trade with India in phases.
3. The items given in negative list would not be permitted for import from India at any cost.
4. The Government has engaged in extensive consultation process with local stakeholders, including the chambers and sectoral trade associations for identifying vulnerable goods for inclusion in the negative list.
5. In order to firm up the negative list on a sound economic basis, the Government of Pakistan has involved the services of country’s premier research organization to examine and firm up items to be included in the negative list.
6. The time frame for phasing out negative list would be based on the stakeholders’ inputs and recommendations.
7. The process of formulation of negative list has been completed in February 2012.

Myth VS Reality:
The recent announcement made out by the Pakistan’s Government for granting the Most Favoured Nation (MFN) status to India continued to draw a mixed reaction from all sections especially industrialists, businessmen, agriculturalist and security analysts. There are two issues to look into. First, one section of the Pakistan’s economy expressed views that by granting MFN status to India do Pakistanis get the needed access to a robust market of more than a billion persons, but more significantly, the free trade dynamics will unleash a future of mutual dependence, resulting into minimization of cross-border security concern. Second segment of Pakistanis especially, manufactures, struggling cultivators and skeptical security people, who all are remain equally fearful of India's regional designs in particular and its poor performance on bilateral trade in general.

Keeping in mind the diverse perception of Pakistanis, it is worthwhile to analyze the existing trends and situation and then to evaluate the possible effects and impact on the exciting bilateral economic relations.

In the year 2009-10, total bilateral trade between India and Pakistan was amounted to US 1.5 billion. India’s Exports to Pakistan were more than US $ 1.2 billion, constituting 81 per cent of the total bilateral trade. India’s Imports from Pakistan very meager when compared with India’s exports stood at US $ 275 million accounting for 19 per cent of the total trade of both the nations.

In the year 2010-11, the bilateral trade between India and Pakistan amounted to US $2 billion, witnessing an appreciable increase within one year, hence resulting into favourable balance of trade in India’s favour. At the end of 2012-13, Indo-Pakistan trade amounted to US $ 3 billion.1 Trade analysts believe that Pakistan consumes nearly US $ 3.5 to 4 billion Indian goods through illegal trade (smuggling) that has been taking place through the third countries namely, Dubai, Singapore and Thailand.

Pro MFN segment of Pakistanis believes that Government
of Pakistan could earn crucial revenue by transforming illegal trade into legal trade. Added to this, through this transformation, import burden may be reduced further through sourcing cheaper Indian goods closer to home and tapping into the huge trade potential up to US $ 42 billion that is in existence between two nations.2

The other side is that India granted the MFN status to Pakistan as back as 1996. But this productive step did not work in the right earnest and spirit. This is because of the imposition of a number of non-tariff barriers by the Indian Government, resulting into further decline of Pakistan exports to India. Hence, the existing unfavourable balance of trade could not be reduced and there could be higher gravity impact on bilateral trade between India and Pakistan.

Is it a win-win situation?

Today, Pakistan’s Exports to India are 850 items. On the other hand, Pakistan has already allowed 1,945 items from India under non-MFN. Recent World Bank report has opined that by granting MFN status to India, Pakistan has three options to deal with.

First option is, to expand the positive list of items gradually and steadily. Second alternative is, to replace a positive list with a short negative list. Third choice is to eliminate positive list completely. From Indian perspective, the underway liberalization of imports could not have come at a worst possible time for Pakistan.

As of March 2012 nears so does the real testing time when Pakistan’s repayments to IMF start coming up. The current balance has become a serious issue for concern to Pakistan Government. Added to this, Foreign Direct Investment (FDI) flows into Pakistan have come down to a meager level of US $ 359 million from a record level of US $ 7 billion in 2006-07. Therefore, under the persisting trends and situation, the first option the policy makers could take up is to review and then restrict imports. Hence, granting MFN status to India could prove counter productive and may result into further postponement of MFN status to India for further coming time.1

The Pharmaceutical Manufactures Association of Pakistan (PMAP) has shown a reservation on granting the MFN status to India. The association opined that the ongoing move would importantly and strategically affect the local companies, and there are possibilities that they close down their firms. The association wants that all medicines must be on negative list. This is because in case of war, natural disasters and epidemics the local firms could meet the demand. It is more sensible fear as local firms could desist from granting MFN status to India. The industrial and commercial bodies are of the view that as India has a comparative advantage in most sectors namely- pharmaceutical, automobiles and agriculture, granting MFN to India could hit the interests of Pakistan business community. Local industry and commerce lobbies in Pakistan fear that Indian competition may sound their “death knell”. This is why the Pakistan Cabinet has failed to clear the MFN proposal. Hence, Pakistan is unlikely to meet January 2013 deadline for MFN Status to India.2

Despite several indications, Pakistan’s promise of granting MFN status to India before the end of the year or January 2013 hangs in uncertainty. Pakistan granting MFN status to India has been touted as a major tangible outcome of the resume negotiations, along with the new visa agreement that has been put in place.
The most noteworthy feature is that India has been walking the extra-mile to improve trade ties with Pakistan. For instance, whereas Pakistan would have to cut its sensitive list to 100 items by 2017, India would bring its list down to the same number under the South Asia Free Trade Agreement from 2013 itself. The rational behind this move is to give Pakistan business community extra time to face competition from India. The country is going in for elections soon are another issue that factors in the complications.

Other Strategic and Vital Obstacles:
It is being observed that whereas Indo-Pakistan relations are progressing on some horizons, the two neighbors need to confront four fundamental issues which have to be solved in order to get real boost in economic relations between the two nations.

26/11 Terror Siege of 2008:
There are no serious efforts on this count. India is of the view that Pakistan to show some degree of seriousness in examining the issue and must act accordingly. On the other side of it, Pakistan Government’s point of view is that the wheels of justice are slow and proof is hard to find and fix responsibility.

Sir Creek Border Dispute:
This is another area of serious disagreement between Indian and Pakistan which had been persisting as back as 1914. Indian Government had argued for keeping the 1914 demarcation that runs the border through the middle of the creek. Accordingly, a joint surveying team has finished mapping the creek and also agreed upon a solution close to Indian position. Despite this exercise, Pakistan Government on the other hand wants a 1925 demarcation be retained, that puts that country’s border on what India considers its bank of the creek. The silver lining is that Pakistan Government is becoming more flexible on this horizon. What required is “political courage” to be shown by Indian and Pakistan Governments.6

Kashmir and Terrorism:
This is the oldest issue that has not yet solved having far reaching consequences, implications and impact on Indo-Pakistan Economic relations. Indian Government has been continuing pushing for a Kashmir package under which the line of control is being treated as the border for both India and Pakistan. As a result, both the countries have extended autonomy to their respective halves of Kashmir, with the eventual objective militarizing the state. India has been demanding from Pakistan to dismantle “terror infrastructure” existing in the half part of Kashmir controlled by Government of Pakistan.

Then Pakistan President Mr. Pervez Musharraf had agreed to this demand and outlines a package. Unfortunately that had been materialized. Thereafter, no one recognized and realized the package. As a result, the successor of him even did not take into account and discuss it. These days Pakistan Government has been dealing with Afghanistan issue and needed attention has not been given to Kashmir and terrorism issues. The existing situation is critical and has been affecting the hope of normalization of relations with Pakistan in general and economic relations in particular as the common men of both sides are only interested with economic relations rather than other issues.

Siachen Glacier Border Dispute:
Here too, there has been a conflict between the two Governments. Indian Government is of the view that no withdrawal of troops is possible unless and until the Actual Ground Position Line (AGPL) is finalized and clearly demarcated. Added to this, the top military brass is averse to giving up Siachen’s heights until and unless the very needed more comprehensive and cohesive Indo-Pakistan Relations are attained. On the other hand, Pakistan Government wants for mutual withdrawal of troops with out making any delineate of lines. Although this is more beneficial to them, there is an increasing sense and opinion among the Pakistani people that this is a pointless battlefield- a sentiment that has only grown since avalanche killed 130 Pakistani soldiers there in April 2012.7

Pakistan’s View Point:
On the flip side, there is a much degree of disappointment as India has failed to show any required degree of flexibility on the resolution of the Jammu and Kashmir issue and is taking a tougher stand on its last known position on issues of Sir Creek and Siachen. Indian Government has hardened its stand and continues to introduce new conditions or clauses creating an impression that settlement if any has to be on its terms. Accordingly, Indian Government increasing insistence on Pakistan to first take concrete steps in respect of prosecution of the terrorist involved in the Mumbai attack is just a reminiscent of Pakistan last insistence on Kashmir first. For India the terrorism issue is most important than other
issues, this is why India has been asking Pakistan to take care of it as early as possible. On the other side of it, in Pakistan there is not sufficient awareness among people that how deep has been the scar of the Mumbai terrorist attack on the psyche of Indian people and persisting slow progress on prosecuting the terrorist has played out natively.8

Compulsions:

It is also an undisputed fact that there are also some real legal and political constraints that are affecting speedy persecution of those who were directly and indirectly engaged in the attack. It is also genuinely said by many political analysts that Pakistan itself is a victim of terrorism and the nation has also failed to bring doers to justice.

The most significant thing which has come up is that the changing international and regional environment has compelled Pakistan Government to bring change in economic and political attitude towards India. Pakistan has been facing threat within the country and in order to face it more effectively and efficiently, peaceful neighbours’ borders is a sine-quo-non. Hence, Pakistan has to maintain peaceful relations with India and Afghanistan.

It is also a fact that Pakistan’s economy is also under heavy odds and deep distress. Therefore, trade and investment relations with neighbours could be most beneficial for both India and Pakistan. This is because of the low transport cost which is one of the contributory factors in keeping edge in comparative cost of goods and services. The biggest benefit for India is to reestablish trade and economic relations with Afghanistan and nations of Central Asia. If transit route is open up India could improve trade and investment relations with Pakistan and other surrounding nations of the region. New avenues and economic opportunities could be created and facilitated among Central Asian countries, Afghanistan and India.9

One of the strategic and vital changes that has come in the attitude of Pakistan Government, perhaps the lesson that it has taken from India and China relations and China and Japan economic and commercial relations. India has dispute with China but trade and economic relations are being improved gradually and steadily. Similar trends are witnessed between China and Japan economic and commercial relations.10

What is required to do by Pakistan?

Granting MFN to India is not only panacea. It is not a remedy for all ills prevailing between Indiana and Pakistan. It is not an answer to all problems and difficulties which both the countries are facing in enhancing the bilateral economic and political relations. Its economic philosophy is good but its application is other wise. This could only be possible or reality if economics is separated with politics ends. Economic decisions are compulsion and could not be decided with politics. Some of the following measures may go a long way in enhancing the existing degree of degree of bilateral economic relations:

a) To sign Preferential Trade Agreement;
b) To follow the examples of China and Taiwan and US and Vietnam in true spirit;
c) To make existing visa regime more liberal and purposeful;
d) To improve economic infrastructure in terms of warehouses, rail, air and cargo facilities; and
e) To ease out restrictions in terms of number of hours and days of a week when trade across border take place.

Special Measures:

India has to do some concrete efforts in order to make a myth into reality. Some of the measures are as follows:

1. India must translate its commitment into progress by constituting a committee comprising of representatives of the private sector, Government officials and independent and neutral specialist;
2. India must enhance its economic cooperation with Pakistan;
3. India must also identify the practical difficulties that are affecting the process of transformation with Pakistan;
4. India must further suggest the changes required in the existing trade policy of Pakistan; and
5. India must encourage FDI inflows from Pakistan.

Initiative in 2014:

After a gap of nearly one year, Indo-Pakistan trade liberalization regime will be commencing in the month of January 2014. India is hoping to get long over due accord on Most Favoured Nation (MNS) status by Government of Pakistan. This would be a part of the trade opening process which will entitle it to export goods to the country. It is believed that the up coming trade talks in January 2014 would base on the following presumptions:

1. India to be accorded MFN Status by Pakistan;
2. Pakistan will allow all items through Attari-Wagah route;
3. Pakistan now allowing more than 6,800 items from India; and
4. Textiles, automobiles may be allowed.

Although, Government of Pakistan has already removed ban on a large number of Indian goods during the last two years, nearly 1,209 items which include, textiles, chemicals and automobiles would remain out of the export list of Pakistan to India. It is being hoped that when the process restart in January 2014, both the countries will be able to pick up the thread and may move faster on the liberalization agenda which is already in place. At
from lifting the ban on specific items, the road map for liberalization also needs Pakistan to all trade of all items through the Attari Wagha land route. Presently, Pakistan Government allows just a handful of items to be traded through the land route that results into exorbitant transportation costs for the remaining goods.

It is believed that once, Government of Pakistan moves on at least one of the two main areas, India has agreed to cut down tariffs substantially on all but 100 items imported from Pakistan. This will be a major concession for Pakistan as it could export items such as textiles to India at low import duties offered to other SAARC nations.11

NDMA instead MFN:
In a move that will enhance the existing degree of bilateral trade and investment relations between India and Pakistan, Pakistan has agreed upon Non-Discriminatory Market Access (NDM) on reciprocal basis both countries. Accordingly, Governments of both the countries have agreed to keep open the Wagha-Attari boarder for 24 hours in seven days a week for trade and allow containers to move up to terminals at Amritsar and Lahore respectively. Till recently, the containers are unloaded at the check post and reload on the other side of the countries.

The most significant out come of the trade talks in January 2014, to intensify and accelerate the process of trade normalization, liberalization and facilitation and also implement the greed upon steps by the end of February 2014. Government of both countries have agreed upon to enhance bilateral trade ranging between US $ 7 and 8 billion per year as against of the existing trade level of US $ 3 billion.

Both the countries reaffirmed to bring down their respective sensitive list under South Asian Free Trade Agreement (SAFTA). Under the SAFTA, India has to bring down its sensitive list to 100 tariff line from 614 April 2013.

Both countries have further agreed upon in principle to extend banking licences to banks as nominated by the respective Governments and also multiple visas to businessmen of both the countries. The have also suggested that both the countries have to encourage large scale investment along with trade. State Bank of Pakistan has requested Reserve Bank of India to grant permission to establish three banks in India.

Conclusion:
India and Pakistan are two faces of a same coin. Better economic relations between two nations could bring economic emancipation on the one hand and on the other hand could build greater degree of peace which is the basis for accelerating the existing degree of economic cooperation which is essential and beneficial for both the countries. India and Pakistan must open up their boarders for trade, commerce and cultural activities. India has been sincerely engaging with Pakistan in normalizing economic relations and there have also been breakthroughs. For instance, the given assurance in respect of moving from a positive list to negative list of trade able goods by the Government of Pakistan. In the past 18 per cent tariff lines were trade-able. Today, 18 per cent are on the negative list and 82 per cent are trade-able.

Changes in the rules in FEMA and creation of both hard and soft infrastructure may go a long way in transforming the myth into reality.

The current bilateral trade between India and Pakistan is at the low ebb of US $ 3 billion. But estimates made by research think tank states that it would grow many more times, once trade and non-trade barriers are dismantled. Granting NDMA to India instead of MFN, it is believed that much enhancement in the degree of economic relations will not take place.

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The acquisition of new clients continues to be a dominant driver of profitability for small- and medium-sized practices (SMPs). Indeed, in the latest edition of the IFAC SMP Quick Poll, the largest portion of respondents identified acquisition of new clients as the main driver of practice profitability—by a wide margin (see chart below).

While SMPs understand the importance of improving operational leverage (doing more with less), improving productivity (e.g., changing work practices or introducing technology), reducing overheads, and better utilization of assets, these are not the main drivers of profitability for most SMPs. This is not surprising given the fact that practice overheads are relatively fixed.

The poll results seem to question the wisdom of many practice management “gurus” who say that the cost of acquiring a new client is far higher than the cost of retaining, or selling more services to, an existing client. What those “gurus” may be failing to recognize is the full potential and cost effectiveness of a marketing campaign that includes low-cost social media.

This article looks at promotion and marketing and, in particular, the role of social media in acquiring new clients and driving practice profitability.

### Branding

The first step of a marketing strategy is to identify your target customers and what they need. You then have to determine how you can satisfy those needs at a profit and, at the same time, differentiate yourself from your competitors. This becomes your brand. The aim of your marketing strategy is to have people associate your brand with their needs and desires, choose you over the competition, and, if you do it right, pay a premium for your services.

### Promotion and Marketing

An organic growth strategy involves leveraging promotion and marketing activities to build brand and attract new clients or sell additional services to existing clients. Remember that most businesses in the market are likely to already have an accountant. In the majority of cases, that means for you to grow your practice you will need to win clients from rival practices. And, in order to do that, you must offer a compelling reason for them to switch. This makes promotion and marketing more important than ever—and demands that practices build the capability to proficiently promote and market their brand and service offerings. You will likely be faced with the classic “make-or-buy” dilemma, that of using (and training as needed) existing staff to do promotion

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**Diagram:**
- **45%** Acquisition of new clients
- **23%** Better retention of existing clients
- **11%** Increased productivity
- **10%** Increased average fee size
- **7%** Reduced overheads
- **2%** Better utilization of working capital and other assets
- **2%** Other

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**Social Media Marketing May Be the Key to Practice Profitability**

Stuart Black and Paul Thompson

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**The Pakistan Accountant | Oct-Dec 2013 43**
and marketing, or else recruiting or outsourcing for the requisite skills.

Promotion and marketing efforts are most effective when a number of activities and channels are used simultaneously: this harnesses the momentum of such efforts and is likely to be more impactful. There are many “tried and true” strategies for marketing but the newest one, social media, has already broken the mold. Social media marketing has rapidly grown in prominence and gone from marginal to mainstream in the marketing space. Social media is a low-cost channel with a very wide reach into your target market.

**Social Media Marketing**

Social media essentially has taken traditional word-of-mouth marketing (historically the norm for accountants) and moved it to a digital space, exponentially increasing opportunities to influence. It is one of the most powerful tools to engage customers and drive revenue growth. But according to Steven D. Strauss, small business expert and author of *The Small Business Bible*, while small business owners recognize how important social media is to their success, they’re not taking advantage of social media’s full potential.1 And, chances are, the same applies to SMPs: after all, SMPs are effectively small businesses in the accountancy sector.

Getting started in social media marketing and deciding whether it can benefit your practice can be quite overwhelming—even scary, at first. Here are some steps to take when building a social media presence:

1. Set aside preconceived notions—social media carries risks but the rewards are greater: it will take time and expense to plan and execute but there are many tools, resources, and articles to help.

2. Learn about the what, why, and how—take the time to read and educate yourself about social media, including Twitter (see Twitter’s Small Business Guide), LinkedIn, Facebook, and blogging, and see what your peers are doing.

3. Check out the tools and resources available to help—there is a growing suite of tools, resources, and guidance available, for example, the AICPA PCPS has developed a number of resources, many of which are available for free, including a social media toolkit and articles.

4. Create a strategy and action plan—define goals, decide how you will measure success and allocate responsibility, then start out small by, for example, pilot testing one of the tools. See “10 Questions to Ask When Creating a Social Media Marketing Plan.”

5. Implement the plan—aim to provide content that creates conversation rather than advertises and involve staff from the millennial generation as they often have the most experience.

6. Periodically evaluate, analyze, and update the plan—track your efforts and monitor the return on investment using common metrics including likes, shares, followers, traffic, and conversions.

7. Consider the need for a policy—this can help manage the risks and reap the rewards.

**Resources**

IFAC’s website hosts a range of resources and tools to help SMPs grow their practices. See Resources and Tools in the SMP area of the IFAC website (www.ifac.org/SMP, especially the Guide to Practice Management for Small-and Medium-Sized Practices) and the SMP Committee’s Delicious page, which features bookmarked links to relevant free resources (see especially Practice Management, Module 3).

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The pace of change and increased complexity in audit and financial reporting standards over the past few years has been dramatic and may weigh disproportionately on smaller accounting practices who typically audit smaller entities. This burden is being exacerbated by the difficult economic environment, which is prompting clients to put pressure on their accountants to lower fees. As a result, it is getting harder for practices to maintain sufficient profitability from audit work.

The good news is that automation, made possible by recent developments in technology and by process improvements, can help practices simultaneously boost the quality and efficiency of their audit work—in turn, lowering costs and ensuring its profitability.

Increasing Audit Quality
Automating your micro-entity audit practice provides an opportunity to improve audit quality at both firm-wide and individual engagement levels. At the firm level, setting up standardized templates helps ensure that all phases have been completed in every audit. Customized checklists can be updated as needed and incorporated into individual engagement files at the beginning of every engagement.

File automation can significantly increase quality at the engagement level as well. If you import data from one application program to another, data conversion errors should be eliminated and grouping and arithmetical errors can be minimized. A word of caution: as every audit is unique, make sure you customize each and every file. The generic firm template is a great place to start but it is only a start. Customization for things such as industry characteristics and internal controls are as essential as fully automating the underlying file structure.

Boosting Engagement Efficiency
Much of the tangible output of auditing is very similar from file to file: individual practitioners typically use common file structures and similar checklists and forms. In addition, commercial audit file, spreadsheet, word processing, and database platforms often allow for seamless and rapid data sharing between applications and client files. None of these features are new, but are you using them to maximum advantage? There are many easy-to-implement ways to increase the efficiency of every micro-entity audit. The trick is to be creative and use your imagination. Here are a few suggestions.

Pre-Engagement Phase
When using commercially available software for micro-entity audit engagements, you can:

- Phil Cowperthwaite
  Member, IFAC SMP Committee
Roll forward last year’s electronic file almost instantly; Call the client, or send an email, to discuss timing, and ask if there were significant events/changes over the past year; and Assuming no, email an engagement letter, an audit strategy letter, and a list of the materials you will need when you visit the client to begin the audit. All of these documents should have been already prepared as part of the file update.

Engagement Processing and Assembly
Following the pre-engagement phase, ask your client to email you a trial balance in a format you can import into the audit file.

Fieldwork Phase
An efficient automated audit of a micro-entity might progress as follows:

- Arrive at the client’s office with the rolled-forward audit file. After an initial discussion with the client, update your rolled-forward schedules, documenting your knowledge of the client’s business for any industry, environment, and entity control changes since last year.

- Program the engagement and performance materiality calculations and sample size calculations, based on the imported trial balance.

- Review the multi-year account analyses (e.g., key ratio analysis such as gross profit percentage), all of which can be pre-programmed.

- Print confirmations required and have them signed at your client’s office.

- Review for relevance and complete the rolled-forward engagement checklists. (Again, a word of caution: avoid falling into the trap of simply repeating last year’s procedures without having first used your professional judgment).

- Draft key points for communication to management and those charged with governance as required by International Standard on Auditing (ISA) 260, Communication with Those Charged with Governance, and ISA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management, at the client’s office as they arise and review them with the client to ensure you have your facts right.

Forming an Opinion Phase
Review the post-fieldwork analytical review automatically updated for your audit adjustment.

- Email the adjusted trial balance and proposed audit adjustments to your client.

- Email the client the letter of representation and an updated ISA 260 audit summary document.

- Email/mail a copy of the signed auditor’s report and an invoice once appropriate personnel have accepted responsibility for the statements.

The above assumes you have taken time to standardize data fields across all your client files. Client names and address fields, year-end and other dates, and other standard documentation can all be programmed into a master file containing individual templates for correspondence, planning lists, etc. Firm-wide standardization is essential if you want to maximize efficiency with automation.

Be Smart About the Automation Process
There are a number of cautions to heed before embarking on even a modest automation project:

- Be realistic. The initial automation process will likely take longer than you think.

- Spend time up-front to get it right. If you have an error in your template, you will have to fix it each time you use it. That significantly increases the cost of automation.

- Aim for consistency across clients. Using standardized templates for analytical schedules, financial statements, statement coding, and file indexing avoids having to reinvent the wheel on every micro-entity audit engagement.

Summary
Automation of your practice is an exacting process requiring project management skills and a significant time commitment from senior members of the firm. If you have the discipline to make it happen, automation will pay off over the long term many times over.

IFAC Resources
IFAC hosts a range of free resources and tools, including guides and articles, to help implement audit and quality control standards: See Resources and Tools at www.ifac.org/SMP.
One of my relatives (having worked as Chief Executive of a large MNC) once told me that when he joined that organization at a senior position in sales department, he observed that the appraisal of sales staff was solely based on achievement of sales targets. In the next year, he presented to the board of directors that targets would weigh 70% and people development 30% in performance measurement of sales staff. There was resentment and hue and cry from senior management that how come less weight can be given to target achievement. However, finally they were convinced to approve this. But they did not know that he was going for 100% people development appraisal system in the coming years!

A CFO asked CEO “what if we train our people and they leave us?” and the CEO replied “what if we don’t train them and they keep working for us?!” Today’s competitive and ever changing environment requires fast adaptability and brings pressure to improved return on investment. In the push to improve bottom line, an organization’s biggest investment and its primary assets are its human capital. The famed management guru Peter Drucker was the first to assert that workers should be treated as assets, not as liabilities to be minimized or eliminated. He originated the view of the corporation as a human community built on trust and respect for workers, and not just a profit-making machine.

Human capital refers to level of skill and expertise carried within the human resource of an organization whereas fixed capital means those assets which do not vary from day to day i.e., fixed assets like land, buildings, machinery etc. Human capital represents the remaining assets of a business when everything else has been eliminated. A poorly constructed building can be covered by

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Invest in Human Capital Instead of Fixed Capital

“*The most valuable of all capital is that invested in human beings.*”

Alfred Marshall, Principles of Economics

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Adil Farooq Qureshi, ACA
good attitude of staff but an excellent infrastructure cannot make up for poor service quality. For successful companies today, management goes beyond capital assets. It involves consistent, long-term investments in leadership and committed, talented people.

Successful organizations recognize that intellectual capital and knowledge management are the core ingredients of success. Good businesses know that while most other assets are replaceable and become obsolete, developing and nurturing people, and exploiting their knowledge and experience is paramount. The systems created to recruit, reward and develop people form the major part of any company’s value — more than other assets such as cash, land, plants and equipment, and intellectual property. Although measurement and recognition of human capital has not yet been defined in financial terms, it is what an organization has in essence, this is what an organization is run and expanded by. The organizations are not run by systems or policies or procedures, but by people, and if they are developed and invested in properly, they in turn develop the organization itself. They set higher targets for themselves and achieve miraculous results.

The investment in human capital starts right from the birth, the values and customs taught at home, the learning at school and other institutions and the development during employment / job. More specifically, investment in human beings is divided in these categories;

- On-the-job Training
  - Specific
  - General
- Schooling
- Other Knowledge

Globally we live in times of turbulence and change. Because of accelerating technology, business is moving at ever greater speeds. Today, people under the age of about 35 have abandoned organizational loyalty and consider the continued development of their own skills as their personal passports to survival in changing times. Some of these attitudes have come about as a result of corporate short-sightedness in ignoring individual tenure during difficult times.

The problem is not that companies don’t value their people — it is that they don’t know how to value them in the new business environment. It’s not simply a matter of buying more tools and additional equipment and paying more attention – it’s much more widespread and diffuse than that. Treating people as if they are costs demoralizes and disenfranchises them. A company’s competitive advantage erodes whenever investment in people is cut back – when layoffs occur. This takes a predictable toll on the company’s health and inevitably the bottom line. The company value and therefore shareholder value suffers when human capital is mismanaged.

Empirical studies have shown that investment in human resource does not only increase work productivity but also improve work quality, enhance satisfaction and motivation. Although, at the time a person is getting trained, there would be costs involved, not only in the form of cost of training, but also the opportunity cost of letting go of work due to training. However, this has far reaching effects in the long term and can take the organization to prosper and increase profitability in the later periods.

It has to be clearly understood that investment in human capital does not only include paying higher salaries and wages, giving good bonuses/increments and retaining competent personnel, but also goes beyond them to encompass people development, learning and training. Some organizations even invest in understanding their employees and developing each one of them in the specific manner appropriate for that person and field.

Although fixed capital is also required to produce goods or services, infrastructure is nonetheless important for the owners and employees alike, but these investments come once in a while, however learning and development of employees is a continuous activity and ever increasing asset. An interesting fact is that the value of a fixed asset depreciates with the passage of time till the end of economic life whereas the value of developing human resource increases with the passage of time.

In modern world, the organizations need not only catch up with the fast changing external environment but outpace it. Otherwise failure will be knocking its doors very soon. In the words of guru of management;

“We now accept the fact that learning is a lifelong process of keeping abreast of change and the most pressing task is to teach people how to learn.”

Successful organizations are learning organizations. People inside these organizations are lifelong learners who are continuously learning new skills and floating new ideas and it is high time for organization itself to realize this and inculcate the learning ability and urge in its human resources and provide them with opportunities to develop and excel.
You think you are free. Wait a second. Think again. Who or what defines your decisions? The quality of your decisions will tell if you are free or enslaved. The procedure you use to arrive at your decisions will tell whether you are free or enslaved. Not only other human beings but a host of other-than-human masters can enslave a free person. Only such slavery is more complete and more dangerous.

How do we make our decisions? Look at the most simple inner argument that goes on in our head without even thinking. When we have to make a decision that will be known to a large number of people, our brain says “loug kia kahain gay” (“what are people going to think or say”). Thus for such decisions the concept of ‘loug kia kahain gay’ becomes a master and defines for us what decision we shall choose from among the available choices. And most frequently, while choosing a decision compliant with the deity of ‘loug kia kahain gay’ we ignore the choice that our heart was telling us to be the correct choice. And since the choice so made is uttered using our own mouth, we fall prey to the illusion of making a free decision. It would be a free decision only if you did not have the fear of ‘loug kia kahain gay’ and had still made the same decision. In your daily life, while making such choices, try to think for a moment assuming the problem of ‘loug kia kahain gay’ wasn’t there, what would be your choice in that case. You will realize by the end of first day how far your decisions are from the decisions of a free person.

A thinking pattern subordinate to the idol of ‘loug kis kahain gay’ is not a free pattern of thinking. It’s an enslaved pattern. Hence decisions chosen according to this pattern of thinking cannot also be claimed as free decisions. And the person adhering to such a pattern of thinking cannot claim to be a free person. He is enslaved. A large number of people are very easily and happily and at times almost proudly enslaved by the invisible master of ‘log kia kahain gay’. They no more make their own decisions; their master defines their decisions for them. Many examples can be given in this regard. Our day to day decisions concerning inviting others to our home, accepting invitations, giving gifts, making arrangements for events such as marriages, deaths, accepting and rejecting marriage proposals, spending, staying silent where no one is taking a stand etc etc. A large number of decisions of all people are enslaved in this simple way.

It does not matter if the decision you are looking at is a small decision or a big one. The pattern of decision making after passage of some time becomes a habit and still later becomes nature. Moreover, bigger matters very often emanate from matters that were really small in the beginning. A person who is not a mad person is supposed
to be mostly coherent in his patterns of behavior. It is humanly very difficult, almost impossible and very tiring to keep an enslaved pattern of thinking and decision making for smaller decisions and a free pattern of thinking and decision making for bigger decisions. Our brain does not work like that. And if one tried to push ones brain too hard in such conflicting ways, one would be taking the risk of going mad. Therefore it is important to be consistent.

Some examples of invisible masters other than ‘loug kia kahain gay’ that keep dictating us inside our heads and enslave us are bosses’ wrath, displeasure of in-laws, personal ego, anger, money, hatred, family traditions, financial insecurity, other insecurities and so on. Whoever the master is, one thing is common, they define your choices and make you think that those are your choices. The simplest test is to sit back and assume the master was not there, what decision would then you choose? I ask many people this question. Some are so desperately enslaved that their brains refuse even for analysis sake to assume in its privacy that the master wasn’t there. Others who can hold their wild thoughts still for a moment and assume that the fear of loug kia kahain gay (or any other invisible master) wasn’t there, they most commonly say their choice would be different. And while saying so, under the assumption only, that the fear wasn’t there, you can see their eyes lighten up at the very idea of being able to think freely, though for analysis alone.

Behaviors to comply with their designs. This is worse than the physical slavery. These invisible masters today have turned free people (individuals as well as whole nations) in debt slaves, salary slaves, fashion slaves and shopaholics, reducing human beings to mere means to fulfill their invisible masters’ wills and designs.

A whole personal list of masters that define our decisions for us can be developed by closely looking at our daily decision making process. And one can start the efforts to be free of all those masters one by one to actually one day reach the state of a truly free person. Help in this direction if sought is easily available as we were designed and manufactured to live as free beings not as slaves. This is going to be a long journey but one worth taking.

Slavery of an individual who knows, who is aware of his slavery is also bad but not even half as bad as the slavery of the one who is not aware of his slavery, who continues to believe that he is free and never looks at the quality of his life, his ideas, his decisions to know that he is neither thinking nor behaving nor deciding in a free manner.

A truly free person is the person who has the will and ability to think freely and act freely and whose freedom is only limited by the ethics and moral values that he freely acknowledges as worthy of being cognizant of. A free person alone can think of a better future for his self and those around him. A free person alone can love truly. A free person alone can choose to live according to the values and morals he likes. A free person alone can choose to walk the right path. Others will do what their masters will tell them too. Perhaps this is why Allah holds in such high value the act of freeing a slave. Let’s free the slave within.

Any questions related to this article may be sent at nabihashhnawaz@hotmail.com
Towards Predicting Future
Things that may disappear – may be in a decade or so

Mujahid Abbas and S. K. Ahmed

It is expected that in the future many things may disappear. Whether these changes are good or bad depends on the whole circumstances and how we adapt to them but the every possibility is that these will disappear for one reason or the other, primarily due to technological changes that are taking place in all walks of life for time and cost saving reasons.

The things that may disappear are:

1. **The Post Office**
   We must be ready to imagine a world without the post office. They are so deeply in financial trouble that there is probably no way to sustain the post office system in the long run. The extensive use of e-mails, Federal Express, DHL, UPS and other courier services have just about wiped out the minimum revenue needed to keep the post office alive.

2. **The Cheque**
   In Britain the groundwork to do away with cheques by the year 2018 is already laid down. We all know that it costs the financial system a lot of money to process cheques. Plastic cards and online transactions will lead to the eventual sad demise of the cheque.

3. **The Newspaper**
   The fact remains that the younger generation simply doesn’t read the newspaper. As for reading the paper online, get ready to pay for it. The rise in mobile Internet devices and e-readers has caused all the newspaper and magazine publishers to form an alliance. They have met with Apple, Amazon, and the major cell phone companies to develop a model for paid subscription services.

4. **The Book**
   You can browse a bookstore online and even read a preview chapter before you actually buy the book. And the price is always much less than the price of hard copy of the book. And think of the convenience! Once you start flicking your fingers on the screen instead of the book, you find that you are lost in the story, can’t wait to see what happens next, and you forget that you’re holding a gadget instead of a book.

5. **The Land Line Telephone**
   Unless you have a large family and make a lot of local calls, you don’t need it anymore. Most people keep it simply because they’ve always had it. But at times you are paying double charges for that extra service. All the cell phone companies will let you call customers using the same cell provider for no charge against your minutes.

6. **Music**
   This is one of the saddest parts of the change story. The music industry is dying a slow death. Not just because of illegal downloading. It’s the lack of innovative new music being given a chance to get...
to the people who would like to hear it. Greed and corruption is the problem. The record labels and the radio conglomerates are simply self-destructing. Over 40% of the music purchased today is "catalog items," meaning traditional music that the public is familiar with.

7. Television
Revenues to the networks are down dramatically. Not just because of the economy. People are watching TV and movies streamed from their computers. And they're playing games and doing lots of other things that take up the time that used to be spent on just watching TV.

8. "Things" That You Own
Many of the very possessions that we used to own are still in our lives, but we may not actually own them in the future. They may simply reside in "the cloud."

Today your computer has a hard drive and you store your pictures, music, movies, and documents. Your software is on a CD or DVD, and you can always re-install it if need be. But all of that is changing. Apple, Microsoft, and Google are all finishing up their latest "cloud services." That means that when you turn on a computer, the Internet will be built into the operating system. So, Windows, Google, and the Mac OS will be tied straight into the Internet. If you click an icon, it will open something in the Internet cloud. If you save something, it will be saved to the cloud. And you may pay a monthly subscription fee to the cloud provider. In this virtual world, you can access your music or your books, or your whatever from any laptop or handheld device. That's the good news. But, will you actually own any of this "stuff" or will it all be able to disappear at any moment in a big "Poof?" Will most of the things in our lives be disposable and whimsical? It makes you want to run to the closet and pull out that photo album, grab a book from the shelf, or open up a CD case and pull out the insert.

9. Privacy
If there ever was a concept that we can look back on nostalgically, it would be privacy. That's gone. It's been gone for a long time anyway. There are cameras on the street, in most of the buildings, and even built into your computer and cell phone. But you can be sure that 24/7, "They" know who you are and where you are, right down to the GPS coordinates, and the Google Street View. If you buy something, your habit is put into a zillion profiles, and your ads will change to reflect those habits. And "They" will try to get you to buy something else. Again and again.

All we will have that can't be changed are our Memories.
In Conversation with the Gold Medalists & Merit Certificate Holders

Foundation and Intermediate - Autumn 2013

Muhammad Saad (Roll No. 4077707)
Ameena Khatib Foundation Gold Medal
- Financial Accounting Module-C, and
Merit Certificates
- Financial Accounting and Taxation Module-C

Q.1) What was your source of inspiration to join CA?
A.1) My first source of inspiration to join CA was my father who belongs to the same profession. Later on, I took Accounting in A Levels and found it interesting so that I decided to join CA.

Q.2) What does it take to be a gold medalist?
A.2) It requires determination and preparation. Determination comes from your resolution to understand each and every concept of the subject thoroughly and not just cram it. Preparation covers both getting a grip over different types of questions and learning the examination techniques.

Q.3) What are your future plans after the completion of CA?
A.3) I have certain alternatives in mind and have not decided yet. However, I would prefer to become a financial consultant.

Q.4) What message would you like to convey to the students who would like to join the same qualification?
A.4) There is no better qualification than CA. Make your mind and shape your study plans accordingly so that you can avail maximum exemptions upon joining CA and complete it within reasonable time.

Q.5) What are your academic strengths?
A.5) I have always been a punctual and attentive student. Learning concepts thoroughly and compiling my own comprehensive notes are my academic strengths.

Q.6) Generally what are your thoughts and impressions about CA qualification?
A.6) CA is one of the best qualifications keeping in mind professional excellence and job security. Moreover, it is quite achievable despite the general perception in the outside world.

Q.7) During your study period was there something you struggled with, such as a specific technical issue or time management etc? If so, how did you manage to overcome this difficulty?
A.7) Initially, the language in Taxation Laws was a bit difficult to understand. However, through constant revision and practice, I overcame this problem. Moreover, I also faced time management issue in Financial Accounting. To remove this issue, I used to monitor my speed while doing questions at home and gradually it improved.

Faryal Khan (Roll No. 4080448)
Merit Certificate
- Functional English Module-A.

A.1) I wanted to be a dynamic accountant. Chartered Accountancy provides the ability to choose an exciting career path towards the industry anywhere in the world, as it is a globally recognized qualification.

A.2) Endowing full attention towards the subject and keen interest in learning are essentialities to be a high achiever.

A.3) I will keep enhancing my accounting knowledge as well as over all skills set to remain my options open. I hope to work on some projects overseas, which will provide a broader outlook of the business.

A.4) Students must choose CA because this qualification...
offers more opportunities and flexibilities than any other degree. People have a stereotypical view about accountants that they are limited to sort of ‘debit, credit work’ but in today’s rapidly changing world; Chartered Accountants are more like business advisers.

A.5) I am self-motivated to pay full attention to achieve my goals. Some other academic strength may include self test taking skills, hard-working and perseverance.

A.6) CA is a premier accountancy qualification and provides a solid foundation for a business career. It keeps my options open as it is an internationally recognized qualification.

A.7) The time management has remained an issue with CA students because every subject requires adequate time to study/revise besides regular class schedules. But it can be cover-up by abandoning extra curriculums.

Syed Iftikhar Ahmed (Roll No. 4080465)
Merit Certificate
- Quantitative Methods Module-A

A.1) I came to know about this profession during my schooling where career counselors used to tell that this is a challenging profession and there were not many chartered accountants in the work force of our economy so it is a very lucrative qualification. There is not exactly any person that was my inspiration but the unmatched success of this qualification.

A.2) To become a high achiever is an achievement that everyone dreams about but it demands exceptional determination to reach towards the much desired results. High achiever must aim for excellence and devise plan of action for self assessment of performance. One can be successful only after pushing boundaries and introducing new definition of perfection.

A.3) I have some knowledge and experience of actuarial sciences. In future I hope to add another direction in order to broaden my horizon.

A.4) This qualification is for those who have the right determination that would take them through a tough journey ahead.

A.5) My academic strengths mainly involve mathematics, creative problem solving, learning new concepts and good writing skills.

A.6) CA qualification is famous within and outside the country and people admire chartered accountants.

A.7) One technical issue I came across was the difference between the suggested answers published at the website and given by my teachers.

Ahsan Ali (Roll No. 4079102)
Merit Certificate
Introduction to Economics and Finance Module-B

A.1) To me the degree itself was a great source of inspiration as it is the toughest and highly rewarded degree in Pakistan. So I came up with to challenge this task and with the blessing of Allah Almighty, I succeeded.

A.2) I believe commitment and self-motivation are extremely important for achieving an objective. You need to set a goal and try to pursue it through hard work. Consistency is the key and one should put in his/her best efforts and then pray to Allah for His blessings.

A.3) Well, I do not have any specific plans right now. It all depends on how things go. It could be like joining any leading firm delivering my best. After gaining practical experience, I may start a business venture or setting up own firm.

A.4) CA is a prestigious qualification. It opens the door to a vast range of exciting career opportunities in business and finance. CA gives enough insight to start your own venture. So, passionately join this vibrant field.

A.5) Quantitative subjects remained a prime interest throughout my education career. I feel ease whilst tackling problems which have some quantitative touch.

A.6) After coming this way I realized CA gives not only knowledge and insight but maximum exposure to the corporate world. It has the most rigorous and long-standing courses of study along with mentoring and examination in a systematic way. CA has broaden my horizons and brought a major shift in my personality as well.

A.7) I came in this field by choice so whenever I faced any study related issue I loved to tackle it by trying it over and over again until it was resolved. And of course teachers’ quality guidance was always there to help me.

Muhammad Rizwan Farooq (Roll No. 4079871)
Merit Certificate
- Introduction to Financial Accounting Module-B

A.1) The thing which inspired me most to join CA qualification was its worth in the growing environment of business, I found it to be according to my taste as it involves business law, taxation, business behaviour, accounting, audit etc.

A.2) One must have keen interest in the field to achieve something and work hard to reach that goal. For me
it was my teachers especially my accounting teacher, classmates, parents and friends prayers which contribute a lot and of course with the blessings of Almighty Allah that I got merit.

A.3) After the completion of CA I wish to start work in the field of Taxation, as our economy is suffering heavily due to lack or an ineffective tax system. So I wish to introduce some effective taxation system in my country.

A.4) CA is not as much difficult as people talk about it. A student can easily qualify it if he or she shows a firm determination and hard work in the field as nothing is possible without hard work.

A.5) I joined CA qualification after completing my F.Sc, so hard working is my core strength.

A.6) Generally I thought CA to be highly technical and interesting qualification.

A.7) Accounting, M.Law and Economics was new to me as I came from science background and found all to be a bit difficult. But I followed my teachers and utilize my time wisely to overcome all the problems.

Prem Kumar (Roll No. 4078550)
Merit Certificate
- Mercantile Law Module-B

A.1) There are some professions which are respected and honored by people and CA is one of them. It is the most challenging profession so I decided to join this because I like to play with challenges. One more reason is that it provides opportunities of employment in multiple fields also.

A.2) I was expecting merit in M. Law or FA1. When I got this achievement, I was excited about my expectations that didn’t went wrong. This achievement put my confidence to new levels and boosted my morale.

A.3) At the present time, I have no clear-cut plans regarding my future after completion of CA. I want to do MBA. The synergic effect of both the qualifications (CA and MBA) will definitely enlighten my future with brightness.

A.4) CA is not as tougher as it is said. Those who want to do CA, before joining, must analyze themselves that what they think, they can do it or not? they should take guidance from their teachers, other CA students, counselors at RAET’S and other people in their circles. The one who is having no tensions can do CA much more easily than others.

A.5) My academic strengths include good common sense, expertise in solving mathematical and logical problems, good in writing, reading and understanding etc.

A.6) I have very clear-cut thoughts and impressions about CA. This profession can make your life, it requires hard work, planning, time management, and studying techniques. In the end, a line from my heart, “CA empowers you and makes your life successful”.

A.7) I had not many issues during my studies. However, there are some issues within which I struggled a lot, and tried to make study plans and this helped me a lot to do my work on time.

Salima Mohammad Ali (Roll No. 4078874)
- Merit Certificate
- Business Communication and Behavioural Studies Module-C

A.1) Both of my sisters chose MBBS as their career and I wanted to be different. Because of the status, prestige and opportunities associated with it, I opted for CA as my destiny.

A.2) Smart study, right direction, effective time-management, self-confidence and most importantly Allah’s support and parents’ prayers.

A.3) Besides professional practice, I wanted to work for an NGO, probably for Women’s Rights. I also enjoyed teaching as a part timer.

A.4) Never ever give-up. Be consistent. CA is for those who accept and respond to challenges, are self-starters and can manage time and stress exceptionally well.

A.5) Consistency, clarity of concepts and commitment.

A.6) It’s not a mere certificate; it’s a visa of success. It brings out the best in you. You enter as a student and exit as a MASTER PIECE.

A.7) Time management is an issue when you have three comprehensive subjects but making daily, weekly and monthly schedules really helped me to cater all three of them simultaneously.

Junaid Basharat Hashmi (Roll No. 4074390)
Merit Certificate
- Company Law and Information Technology Module-D.

A.1) It was my parent’s dream to do CA and my inspiration was to fulfill my parent’s wish.

A.2) I believe Determination and Dedication is the key to becoming a high achiever. If you follow your aims with dedication and remain determined in achieving them, success comes your way.

A.3) I plan to pursue the Chartered Financial Analyst (CFA) program, prior to a professional career with a reputable institution.
A.4) Don’t shy away from the tough examination system and low passing percentage. If I can achieve this, you can do it as well. All you need is commitment and hard work.

A.5) I believe that I am a quick learner with good analytical and problem solving skills but my biggest strength is creativity and out-of-the-box thinking.

A.6) It is one the most prestigious and rewarding qualifications with recognition around the globe which produces high caliber professionals who can compete with the world’s best accounting and finance professionals.

A.7) There was nothing in particular that I struggled with. However, covering the syllabus in time and managing the three hours examination time were definitely a challenge.

Murtaza Quaid (Roll No. 4074159)
Merit Certificate
- Auditing Module-D

A.1) I always wanted to pursue some extraordinary career and after many career counseling sessions with my teachers and relatives, and finally I took up CA as it is the toughest but highly rewarding field.

A.2) Proper planning and prioritization of studies, efficient utilization of time, smart working, high level of commitment and discipline are very important. Strong revision before examination is essential. Supervision of experienced teachers is the most important too.

A.3) After CA, I plan to pursue teaching as my career. I also plan to carry out some social service program in order to educate the underprivileged class of our society who cannot afford the education of their children.

A.4) No doubt, CA is a challenging field but it is not something impossible to achieve. It promises great respect and prestige but requires high level of dedication and discipline. Have good teachers, be punctual, manage and plan studies appropriately with great discipline to be successful.

A.5) What makes me achieve a merit certificate are my meritorious teachers. I am very thankful to all my teachers for their hard work and support, which helped me utilize my strengths and achieve a big success. Furthermore, I am a person comfortable with quantitative subjects that has helped me throughout my academic career.

A.6) Being a Chartered Accountant offers more than just a globally respected post-graduate qualification. It marks the beginning of a journey that could lead to exciting career opportunities both at home, and around the world; a career that could take you straight to the top of the business world. Chartered Accountancy is a rewarding career and has excellent prospects for employment in industry.

A.7) I mostly faced difficulty in revising the syllabus, But I overcome it with proper planning and scheduling, and through making summaries and focusing on core areas.

Hanzala (Roll No. 4075136)
Merit Certificate
- Cost Accounting Module-D

A.1) Initially one of my teachers introduced me about the profession later on as I proceeded in my education I came to know more about the profession that is its demand, its global acceptance, and no unemployment therefore my choice was strengthened.

A.2) Its your commitment, hard work, passion, and determination combined with grip on the underling concepts.

A.3) After completing CA I am willing to help those who have will, passion and ability to join this profession but are not able because of their financial position.

A.4) First evaluate yourself to ensure you are able to face hardships of this profession and make decision after due consideration but after making decision don't loose hope and stick with the target of completing CA.

A.5) From my intermediate I am good in accounting and practical subjects. I find easy to tackle practical subjects then theoretical.

A.6) My thoughts about this qualification are good enough. Although this profession is difficult but it provides you greater reward after completion.

A.7) Time management is specific for every person. You need to recognize your strengths and allocate time accordingly.