

Date of Publication  
**01-01-2022**

Date of Posting  
**02-01-2022**

Monthly Journal Regd. APENG/2012/49672  
Volume No. 9 | Issue No. 6  
Posting under Registration No. HD/1181/2019-21

₹1



# HYDERABAD CIRCUIT

JANUARY - 2022

A News Magazine from the Hyderabad Chapter of

**The Institute of Cost Accountants of India**

hyderabad@icmai.in | 040-27635937, 27607893



Courtesy Visit to the offices of  
Sri Parmod Kumar Arora, Member (Actuary), IRDAI  
L-R CMA Vijender Sharma, Vice president - ICAI  
Sri Parmod Kumar Arora, Member (Actuary), IRDAI,  
CMA P. Raju Iyer, President - ICAI  
CMA Dr. K.Ch.A.V.S.N. Murthy, Central Council Member - ICAI  
CMA P.Chandra Sekhara Reddy, Chairman -HCCA

Courtesy Visit to the offices of **Shri Navin Mittal IAS.**,  
Commissioner, Collegiate Education & Technical Education at Government of TS  
L-R **CMA Vijay Kiran Agastya**, Secretary - SIRC of ICAI  
**CMA Dr. K.Ch.A.V.S.N. Murthy**, Central Council Member - ICAI  
**Shri Navin Mittal IAS.**,  
Commissioner, Collegiate Education & Technical Education at Government of TS  
**CMA P. Raju Iyer**, President - ICAI  
**CMA K. Someswara Babu**, Secretary -HCCA  
**CMA P. Chandra Sekhara Reddy**, Chairman -HCCA



Lighting the auspicious ceremonial lamp  
on the occasion of Members' Meet

Behind every successful business decisions, there is always a **CMA**

 *The Chairman  
writes to you*



*"Ethos gives us an institutional conscience, a distinctive character and above all a unique identity. Therefore, there are times when we have to be different from people. Because we are expected to behave differently. It helps to push ourselves beyond our mental and physical capacities, nudges us towards higher vistas of excellence in every field of our chosen endeavor. And in combat, it does drive the Indian soldier to the ultimate form of human valor- the supreme sacrifice.*

**- General Bipin Rawat**

*Dear Professional Colleagues,*

*I am deeply saddened by the news of the sudden demise of Chief of Defence Staff Gen Bipin Rawat, his wife and 11 other Armed Forces personnel in an extremely unfortunate helicopter accident in Tamil Nadu. His untimely death is an irreparable loss to our Armed Forces and the country. My heartfelt condolences to their families.*

*This month we have organised members' meet with our newly elected President, Vice President and Central Council Members. I considered it a red-letter day in my tenure as a chairman. We have visited the offices of Shri Naveen Mittal, IAS., Commissioner, Collegiate Education & Technical Education at Govt of Telangana, Shri Parmod Kumar Arora, Member (Actuary), IRDAI and Hyderabad Centre of Excellence.*

*We have conducted a career counselling programme at RG Kedia College of Commerce. My sincere thanks to N.S.V. Krishna Rao garu for taking time out of his busy schedule to counsel the student.*

*My hearty congratulations to CMA B. Mallikarjuna Gupta garu on receiving Indian Achievers' Award -2021 in recognition of outstanding Professional achievement & contribution in National building.*

*I am extending my greetings to CMA K.V.N. Lavanya garu, our managing committee member on winning VNR Vignana Jyothi Institute of Engineering & Technology Distinguished Alumni Award for the year 2021 in the category of Academic Excellence.*

*I request all my professional colleagues to keep your guard up, and don't be casual at this time as the number of Omicron cases rise.*

*Greetings on the occasions of Makara Sankranti & Republic Day*

*With Warm Regards,  
CMA P. Chandra Sekhara Reddy  
Chairman*



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### MANAGING COMMITTEE 2021-22

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email: chandra.ponugoti@gmail.com

**VICE-CHAIRPERSON**  
**CMA Kalyani Pemmaraju**  
email: pemmaraju.kalyani.85@gmail.com

**SECRETARY**  
**CMA K. Someswara Babu**  
email: someshbabuacma@gmail.com

**TREASURER**  
**CMA Sirisha Chintapalli**  
email: sirishaacs@gmail.com

**MEMBER (Immediate Past Chairman)**  
**CMA M. Venkateshwarlu**  
email: mlaxmivenkat@gmail.com

**MEMBER (Past Chairperson)**  
**CMA Lavanya K V N**  
email: 31069lavanya@icmaim.in

**MEMBER**  
**CMA Khaja Jalal Uddin**  
email: 33031uddin@icmaim.in

**MEMBER**  
**CMA Hima Vidya S**  
email: himavidya@gmail.com

**MEMBER**  
**CMA Lavanya Kanduri**  
email: lavanyakanduri@yahoo.co.in

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email: hyderabad@icmai.in

### A C T I V I T I E S S C O R E B O A R D

| Month (2020-21) | APR | MAY | JUN | JUL | AUG | SEP | OCT | NOV | DEC | JAN | FEB | MAR | Year-to-date |
|-----------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|--------------|
| No. of Programs | 3   | 0   | 0   | 6   | 6   | 4   | 4   | 2   | 0   | -   | -   | -   | 25           |
| CEP Hours       | 3   | 0   | 0   | 6   | 9   | 5   | 5   | 3   | 0   | -   | -   | -   | 31           |



 *From the Edit Room...*

*Dear Esteemed Members,*

*As an Indian, I am saddened by the news of sudden demise of Chief of Defence Staff Gen Bipin Rawat, his wife and 11 other Armed Forces personnel in helicopter accident in Tamil Nadu. My sympathies to their families.*

*Our Hyderabad members are overwhelmed with happiness with the visit of our beloved president CMA P. Raju Iyer garu and Vice president CMA Vijender Sharma garu. We are very confident that their rich professional experience will certainly benefit our Institute.*

*I am extending my greetings to CMA Mallikharjuna Gupta garu on receiving Indian Achievers' Award and CMA KVN Lavanya garu on winning VNR Vignana Jyothi Institute of Engineering & Technology Distinguished Alumni Award.*

*This month's articles feature 'Thinking and Acting like a Professional: How Do Accountants conceptualize Ethics?' compiled by CMA JS Anand garu, 'Finance clips', 'CMA update' compiled by Satyanarayana Yadav garu, Hey CMA – be prepared for the challenges – Series 3 of 27 written by CMA D. Zitendra Rao garu, 'Hybrid Costing System for Hospitals' written by CMA Balasubramnyam garu. Their contribution for our magazine is invaluable, and we want to take a moment to thank them and recognize them for all of their hard work.*

*Finally, I would like to thank you, the contributors and readers of 'Hyderabad Circuit' for your interest in the magazine and I encourage you to send us your invaluable feedback and ideas at 'hyderabad@icmai.in' for further improvement of your journal.*

*Stay safe and healthy.*

*With Warm Regards,*

*CMA P. Kalyani*

*Editor – Members' Circuit*

*Chairperson – Members' Circuit Sub - Committee*

*Vice Chairperson - HCCA*





## Performance Track

### **16.12.2021 - Visit to the office of IRDAI**

CMA P. Raju Iyer - President - ICAI, CMA Vijender Sharma - Vice President - ICAI, CMA Dr. K.Ch.A.V.S.N. Murthy - CCM - ICAI, CMA P. Chandra Sekhara Reddy - Chairman - HCCA, CMA K. Someswara Babu - Secretary - HCCA visited the office of Shri Parmod Kumar Arora, Member (Actuary), IRDAI as a part of courtesy visit on the occasion of President - ICAI and Vice President - ICAI's visit.

### **16.12.2021 Press Meet**

At the Hyderabad Chapter's Press conference on 16th December, 2021 CMA P. Raju Iyer - President, CMA Vijender Sharma - Vice President, CMA Dr. K.Ch.A.V.S.N. Murthy - Central Council Member talked about diploma courses, MOUs etc.

### **16.12.2021 Members' Meet with newly elected President, Vice President and Central Council Members**

The Hyderabad Chapter of Cost Accountants organized 'Members' meet with newly elected President, Vice President and Central Council Members on 16th December, 2021 in Hotel Abode. The Programme started at 6.00 pm with the welcome address by the Chairman CMA P. Chandra Sekhara Reddy after the lighting of the Lamp. The guests of the occasion lit the customary lamp. The dignitaries on the dais were CMA P. Raju Iyer - President, CMA Vijender Sharma - Vice President, CMA Dr K.Ch.A.V.S.N. Murthy - Central Council Member, CMA Vijay Kiran Agastya - Secretary - SIRC, CMA P. Chandra Sekhara Reddy - Chairman, CMA K. Someswara Babu - Vice Chairman.

The dignitaries talked about online examinations, Global opportunities for qualified CMAs, Various Diploma Courses, Hyderabad Centre of Excellence etc.

CMA P. Raju Iyer - President of ICAI, CMA P. Vijender Sharma - Vice President of ICAI, CMA Dr. K.Ch.A.V.S.N. Murthy - Central Council Member of ICAI, CMA Vijay Kiran Agastya - Secretary of SIRC were felicitated by CMA B. Ramana Murthy - Past President of ICAI, CMA Dr P.V.S. Jagan Mohan Rao - Past President of SAFA & ICSI, CMA D.L.S. Sreshti - Past Chairman of SIRC, CMA Khaja Jalal Uddin - MC Member.

The programme wrapped up around 09.00 pm. The vote of thanks was given by CMA K. Someswara Babu, Secretary of HCCA.

### **18.12.2021 - Visit to the office of Commissioner, Collegiate education & Technical Education at Govt. of Telangana**

CMA P. Raju Iyer - President - ICAI, CMA Dr. K.Ch.A.V.S.N. Murthy - CCM - ICAI, CMA Vijay Kiran Agastya - Secretary of SIRC, CMA P. Chandra Sekhara Reddy - Chairman - HCCA, CMA K. Someswara Babu - Secretary - HCCA visited the office of Shri Navin Mittal, Commissioner, Collegiate education & Technical Education at Govt. of Telangana, as a part of courtesy visit on the occasion of President - ICAI and Vice President - ICAI's visit.

### **23.12.2021 Career Counselling**

We have conducted a career counselling programme at RG Kedia College of Commerce. CMAN.S.V. Krishna Rao, Practicing Cost Accountant counselled the students.

## FINANCE CLIPS

**CMA RAJAPETA SATYANARAYANA**

M.Com, FCMA

Email: yadav.satyanarayana@gmail.com



FINANCE CLIPS

- UDIN for Audit Firms:** In order to mitigate the likely hardships that would be faced by the tax payers due to non-compliance owing to such invalidation, the Condonation Scheme to regularize UDINs provided by the ICAI vide its announcement dated 31st January 2021 which ended on 28th February 2021 is now being extended upto 31st March 2021. Whereby, all the missed UDINs between the period 1st February 2019 to 10th March 2021 can now be generated upto 31st March 2021 and this is in continuation to the Condonation Scheme announced previously and for details refer to [www.icai.org](http://www.icai.org)
- Proposed Amendments in IAS-1:** IAS 1 Presentation of Financial Statements requires that, for an entity to classify a liability as non-current, the entity must have the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period (right to defer settlement) and for details refer to [www.icai.org](http://www.icai.org)
- Proposed amendments -Supplier Finance Arrangements IAS 7 & IFRS 7:** The IFRS Interpretations Committee (IFRS IC) considered a question about the information an entity is required to provide in its financial statements about supply chain finance (reverse factoring) arrangements and for details refer to [www.icai.org](http://www.icai.org)
- Major changes in CARO 2020:** CARO 2020 shall not apply to the auditor's report on consolidated financial statements EXCEPT, if there are qualifications or adverse remarks given by respective auditor of Consolidated Financial statements in CARO reports. Indicate the details of Company, Paragraph of CARO Report where such qualification or adverse remarks are given and for details refer to [www.icai.org](http://www.icai.org)
- SAFE Funding:** SAFE stands for "Simple Agreement for Future Equity", and SAFE notes are a form of convertible security issued by very early start-ups to raise funds in their initial seed stage from individual angel investors.
- Notaries:** To give opportunity to young eligible legal practitioners aspiring to serve as Notary Public, the draft Bill proposes to restrict the renewal of certificates of practice of Notaries up to two terms The Notaries Act, 1952 was enacted by the Parliament to regulate the profession of Notaries.
- PLI Scheme extended to 14 sectors:** Keeping in view India's vision of becoming 'Atmanirbhar' and to enhance India's Manufacturing capabilities and Exports, an outlay of INR 1.97 lakh crore (over US\$ 26 billion) has been announced in Union Budget 2021-22 for PLI schemes for 14 key sectors of manufacturing starting from fiscal year (FY) 2021-22.
- E-Verification Scheme Notified:** CBDT has notified e-verification Scheme 2021 for details refer to CBDT Notification No.137/2021-Income Tax dated 13-12-2021 on [www.cbdt.gov.in](http://www.cbdt.gov.in)
- Operating Lease as Financial Product:** The Central Government hereby notifies operating lease including any hybrid of operating and

- financial lease of such product or equipment as may be specified by International Financial Services Centres Authority, as financial product vide Notification dated 14-12-2021 of Ministry of Finance.
- Government Agency Business:** RBI decided in consultation with the Department of Financial Services, Ministry of Finance, Government of India, to make scheduled payments banks and scheduled small finance banks eligible to conduct Government agency business. Any payment bank or small finance bank that intends to undertake Government agency business may be appointed as an agent of RBI upon execution of an agreement with RBI, provided that the overarching regulatory framework prescribed for these banks is complied with vide RBI Circular dated 15-12-2021 and the same can be referred on [www.rbi.gov.in](http://www.rbi.gov.in)
  - Professional Institutes Acts Amendment Bills:** A Bill further to amend the Chartered Accountants Act, 1949, the Cost and Works Accountants Act, 1959 and the Company Secretaries Act, 1980 vide Bill No.161 of 2021 introduced in the Lok Sabha.
  - XBRL filing:** Ministry of Corporate Affairs (MCA) has mandated the filing of financial statements in XBRL format for the specified class of companies for which the XBRL Taxonomies for Commercial and Industrial Sector- AS and Ind AS Based are already in place.
  - Exposure Draft of ICAI:** ICAI released an exposure Draft of the Amendments in the Commercial & Industrial (C&I) Taxonomies- IND AS based Taxonomy & AS based Taxonomy (Comments to be received by January 15, 2022) and for details refer to [www.icai.org](http://www.icai.org)
  - PCA Framework:** In the view of growing nature of the NBFCs and other segment of the financial system, SEBI decided to put in place a PCA Framework for NBFCs to further strengthen the supervisory tools applicable to all NBFCs covering all deposit-taking NBFCs, and middle, upper, and top non-deposit taking NBFCs. PCA framework will monitor the key areas of capital and asset quality which will be tracked down using certain indicators such as Capital to Risk Weighted Assets Ratio (CRAR), Tier I Capital Ratio and Net NPA Ratio (NNPA). RBI issued the Prompt Corrective Action (PCA) Framework for Non-Banking Financial Companies (NBFCs). This PCA Framework for NBFCs will come into effect from October 1, 2022, based on the financial position of NBFCs on or after March 31, 2022 and for details refer to [www.rbi.gov.in](http://www.rbi.gov.in)
  - Quality Review Board -Actuaries:** The Central Government has appointed Quality Review Board on 23-12-2021 with Sri G.C.Chaturvedi has Chairperson Actuaries Quality Review Board Rules, 2008 vide Ministry of Finance GOI Notification dated 23-12-2021.
  - ICAI announces schedule for convocation:** ICAI vide its announcement dated 14-12-2021 has announced the schedule for this season Convocation. Members who are enrolled during the period from November 2019 to August 2021 and Rank holders of CA Final Examination held in July 2021. They will be awarded Certificate of Membership in this Convocation and for details refer to [www.icai.org](http://www.icai.org)

# CMA UPDATE

## CMA R. SATYANARAYANA,

M.Com, FCMA

Email: yadav.satyanarayana@gmail.com



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### GENERAL

- **Bank accounts may get frozen:** Many customers of banks and other financial services who have not updated their identity and address proof documents might find their accounts frozen in the new year as the last date given by RBI 's freeze on action by banks against customers who have not complied with know your customer (KYC) norms will come to an end on 31-12-2021 (TOI dated 24-12-2021).
- **Card tokenization last date put off by 6 months:** E-commerce companies and other establishments that accept payment online will now have six more months before they have to delete credit card data from their systems as RBI has announced extension of six months its deadline for non-bank payment aggregators and merchants to purge card data they already stored. Further, RBI also allowed the payment industry to devise new methods to handle recurring payments and equated monthly instalments (EMI) payments without storing cards and hence Card tokenization process extended upto 30-6-2021 (TOI dated 24-12-2021)

### LABOUR

- **Pension to Widow of pensioner:** Supreme court directed the payment of Pension due to the widow of the Pensioner within 8 weeks vide Veena Pandey Vs Union of India (Supreme Court of India) Appeal Number: Civil Appeal No. 6953 of 2021.
- **ESI/PF Deposits:** As per the Amended provisions under Sections 36(1) & 43 of the IT Act 1961 effective from 1-4-2021 ie AY 2021-22 the

contributions recovered from the employees are deposited to the authorities before filing the IT Return, the same are allowable expenditure for the company vide Abhimanyu Sharma Vs ITO (ITAT Jaipur) Appeal Number: ITA No. 175/JP/2021.

- **Pension to whole time Directors:** It is held that pension paid to whole time Director as approved by the Board of a company is an allowable expenditure vide decision given in the cases of ACIT Vs Tata Sons Ltd. (ITAT Mumbai) Appeal Number: ITANo. 4630/Mum/206.

### GST

- **CBIC extends term of NAPA:** CBIC vide Notification No. 37/2021–Central Tax extends tenure of National Anti-Profiteering Authority (NAPA) to 5 years and amended FORM GST DRC-03. MINISTRY OF FINANCE (Department of Revenue) (CENTRAL BOARD OF INDIRECT TAXES AND CUSTOMS) New Delhi, the 1st December, 2021 Notification No. 37/2021–Central Tax G.S.R. 842(E) and for details refer to [www.cbic.gov.in](http://www.cbic.gov.in)
- **Amendments in Form GST DRC03:** CBIC vide Notification No. 37/2021–Central Tax dated 01.12.2021 makes the following amendments in Form DRC-03 and for details refer to [www.cbic.gov.in](http://www.cbic.gov.in)
- **Compliance Burden under GST:** Taxpayers with Annual Aggregate Turnover (AATO) upto 2.5 Crore not required to file the reconciliation statement in FORM GSTR-9C for FY 2020-21 onwards Taxpayers with AATO above 2.5 Crore can now self-certify the reconciliation statement in FORM GSTR-9C for FY 2020-21 onwards (instead of getting it certified by Chartered / Cost Accountant) and for details refer to [www.cbic.gov.in](http://www.cbic.gov.in)
- **Mandatory linking with Aadhaar:** The GST Council in it's 45th meeting inter alia made recommendations regarding the Aadhaar



authentication of registration to be made mandatory for being eligible for filing refund claim and application for revocation of cancellation of registration under GST. Refer to the Central Government vide Notification No. 38/2021-CT dated 21.12.2021 has notified January 1, 2022 as the implementation date for Rule 10B of CGST Rules, 2017 on [www.cbic.gov.in](http://www.cbic.gov.in)

- **Services provided by Clubs or Associations to its Members:** The Hon'ble Finance Minister, in Union Budget 2021-22, proposed changes vide the Finance Bill, 2021, that amends the Central Goods and Services Tax Act, 2017 ("the CGST Act") to levy GST on services provided by Club or Association to its members. Accordingly, amended Bill was passed in Rajya Sabha, the upper house, and it received presidential assent vide Finance Act, 2021. The CBIC vide Notification No. 39/2021- Central Tax dated December 21, 2021 notified the amendments made vide Section 108 and 122 of the Finance Act, 2021 w.e.f. January 01, 2022 to be effective from July 01, 2017 retrospectively and for details refer to [www.cbic.gov.in](http://www.cbic.gov.in)

#### RBI

- **Credit Information companies:** RBI vide No. DOR. SIG. FIN. No. 52140/20.16.050/2021-22 in exercise of the powers conferred by section 37 of the Credit Information Companies (Regulation) Act, 2005 (Act 30 of 2005), the Reserve Bank of India made the regulations, to amend the Credit Information Companies Regulations, 2006 and for details refer to [www.rbi.gov.in](http://www.rbi.gov.in)
- **Maintenance of SLR:** As announced in the Governor's Statement dated December 08, 2021, it is proposed to return to the normal dispensation. Accordingly, banks will be able to dip into the Statutory Liquidity Ratio (SLR) up to two percent of NDTL instead of three percent for overnight borrowing under the MSF with effect from January 1, 2022 and for details refer to [www.rbi.gov.in](http://www.rbi.gov.in)

#### INCOME TAX

- **Tax exemption of charitable organization:** Tax exemption is allowed to Charitable society using its profits for charitable activities vide decision given in the case of PCIT Vs Servants of People Society (Delhi High Court) Appeal Number: ITA 161/2021.
- **LIC Jeevan Akshay under 80C:** CBDT notified vide Notification No. 134/2021- Income Tax, dated: 06.12.2021 that Jeevan Akshay-VII Plan of the Life Insurance Corporation of India qualifies for deduction under section 80C of Income Tax Act, 1961 and for details refer to [www.cbdt.gov.in](http://www.cbdt.gov.in)
- **E-Verification Scheme of IT Department:** CBDT has launched e-Verification Scheme 2021 and for details refer to Notification No. S.O. 5187(E) on 13th December 2021 and for more details refer to [www.cbdt.gov.in](http://www.cbdt.gov.in)

#### SEBI

- **Social Stock Exchange:** SEBI in its meeting dated 28th Sept 2021 has discussed regarding the Regulatory Mechanism for setup of Social Stock Exchange (SSE) in India. The concept of a Social Stock Exchange (SSE) is rather new. It is a mechanism that allows companies engaging in work for the betterment of the society to raise finance in an environment that is quite similar to that of a stock market and for details refer to [www.sebi.gov.in](http://www.sebi.gov.in)
- **Disclosure of complaints by Debenture Trusts:** In order to facilitate investor awareness about various activities where an investor has to deal with DTs for availing various services, SEBI has developed an Investor Charter for DTs, inter-alia detailing the services provided to Investors, timelines for various DT services provided, Rights and Obligations of Investors and Grievance Redressal Mechanism. In this regard, all the registered DTs shall take necessary steps to bring the Investor Charter, as provided at Annexure - to the notice of investor in non-convertible debt securities and for details refer to [www.sebi.gov.in](http://www.sebi.gov.in)

- **Portfolio Managers Regulations amended:** The SEBI (Portfolio Managers) Regulations, 2020 (PMS Regulations) were amended by SEBI (Portfolio Managers) (Fourth Amendment) Regulations, 2021 vide notification no. SEBI/LAD-NRO/GN/2021/58 dated. 09th November, 2021, to facilitate co investment by investors of Alternative Investment Funds (AIF) through the portfolio management route and for details refer to [www.sebi.gov.in](http://www.sebi.gov.in)
- **Business Reporting Responsibility:** SEBI expands the ambit of Business Responsibility Reporting (BRR) by notification No. SEBI/LADNRO/GN /2019/45 dated 26.12.2019 (Securities and Exchange Board of India - Listing Obligations and Disclosure Requirements) (Fifth Amendment) Regulations, 2019 and for details refer to [www.sebi.gov.in](http://www.sebi.gov.in)
- **Revision in Operational Circular on listing Commercial paper:** Revision to Operational Circular for issue and listing of Nonconvertible Securities, Securitised Debt Instruments, Security Receipts, Municipal Debt Securities and Commercial Paper vide Circular dated 17-12-2021 on [www.sebi.gov.in](http://www.sebi.gov.in)

#### DGFT

- **Issue of RCMC & RC by DGFT:** A new online common digital platform for issuance of Registration Cum Membership Certificate (RCMC)/ Registration Certificate (RC) has been developed which would be single point of access for all exporters/importers and Issuing agencies. The given platform shall be available at the following URL: <https://dgft.gov.in>.
- **MEIS schedule:** Certain additions/amendments have been made to Table 2 of Appendix 3B, the MEIS schedule to harmonize it with Notification No. 48 dated 22.12.2020 and changes as enacted by the Finance Act 2020 vide Public Notice No.43/2015-20 and refer also to Corrigendum to Public Notice No. 43/2015-2020 dated 16.12.2021 on [www.dgft.gov.in](http://www.dgft.gov.in)

#### IBBI

- **Limited Insolvency Examination in 2022:** The Insolvency and Bankruptcy Board of India hereby publishes the syllabus and details of the Limited Insolvency Examination (Examination) under regulation 3 (3) of the Insolvency and Bankruptcy Board of India (Insolvency Professionals) Regulations, 2016 for the examination to be conducted from 1st March 2022 and for details refer to [www.ibbi.gov.in](http://www.ibbi.gov.in)

#### COMPANIES ACT

- **Clarification on passing of Ordinary and Special resolutions by the companies:** MCA clarifies that it has allowed companies to conduct their EGMs through Video Conference (VC) or Other Audio-Visual Means (OAVM) or transact items through postal ballot in accordance with framework provided in the aforesaid Circulars up to 30th June, 2022. All other requirements provided in the said Circulars shall remain unchanged and for details refer to MCA Circular dated 8-12-20212 on [www.mca.gov.in](http://www.mca.gov.in)
- **Time line extended:** The Ministry of Corporate Affairs vide its General Circular No. 19/2021 dated 08.12.2021 has allowed the Companies whose AGMs are due in the year 2021, to conduct their AGMs on or before 30th June 2022 in accordance with the requirements laid down in Para 3 and Para 4 of the General Circular No. 20/2020 dated 05.05.2020 ie it is through Video Conference (VC) and Other Audio Visual Means (OAVM). It has further been clarified that the aforementioned extension shall not be construed as conferring any extension of time holding of AGMs by the companies under the Companies Act, 2013 and for details refer to [www.mca.gov.in](http://www.mca.gov.in)

“You must be the  
change you wish to  
see in the world.”

MAHATMA GANDHI

## Hey CMA – Be prepared for the Challenges – Series 3 of 27



**CMA CA D. ZITENDRA RAO**  
Cost and Management Accountant in Practice

It is my pleasure to continue my little contribution to the CONTENT WORLD and I must thank the editorial team of Circuit for giving me the opportunity. The emerging trends in Valuation and establishing the nexus to the Cost management practices is the topic that I have chosen this time - to share few of my thoughts. When I say valuation – I am referring to the Business valuations that would help the stakeholders in their investment decisions in the form of Debt or Equity. My Hypothesis is that Cost Experts can emerge as Data Scientists and can serve the professional Valuers.

- Let us begin by understanding something about Valuation and the related terms though it is of repetition. PRICE refers to the monetary value of the underlying transaction where a deal is struck between a Buyer and a seller. The VALUE that the Buyer attains with such purchase is a function of future benefits. We all know that the COST is directly related to consumption of resources to have the asset. In Valuation - the Challenge lies in integrating Value, Price and Cost. In today's business scenario the task of Valuation involves an amount of Judgement or Gut Feeling or Hunch Of the valuation Professional. A CMA can minimise the dependence on such Judgemental aspects by providing data to substantiate the decision – so that the Value established is Just or equitable and more importantly can be substantiated.
- Valuation is the process of determining the Economic Worth of an Asset or a Liability under certain Assumptions and Limiting Conditions and subject to the data available on the a specific date. Value is a monetary worth of future benefits one is going to have from an asset. When we talk of future benefits obviously the discussions leads to profitability – which is in a way derivative of Revenues reduced by the COSTS. Thus the Cost

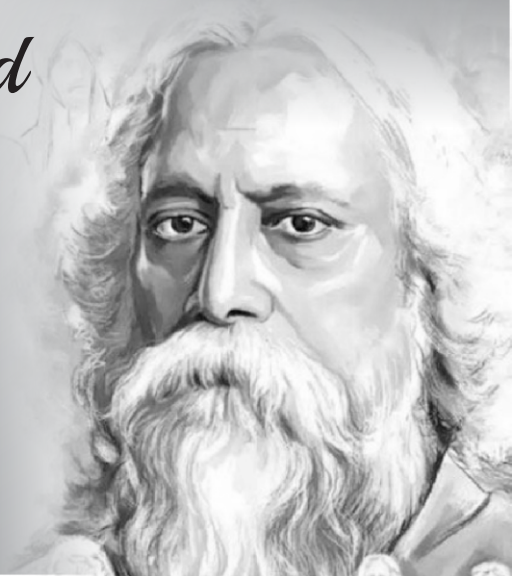
data and the assumptions relied by the valuation professional matter a lot.

- The conventional components of Cost viz., Material – Labour – Overheads can be well estimated on empharical basis. But the degree of error at times can vitiate the over all profitability which is as such thin in many industries . Ofcourse – there could be other parametres that are external and one such aspect is the selling price assumed in the profitability analysis. This has to be judgmental and the risks involved in adopting wrong sellig price can be minimised by resorting to the sensitivity analysis.This will enable the decision maker to be cautious about the trends. Thus a reader of a valuation report can place much reliance atleast on the Cost Data. Cost drives the profitability estimates which in turn will derive the valuation of an entity.
- As experts in the field of Cost management, a CMA is in a better position to establish a matrix of varied Cost Elements of a given product or industry expressed as percentage of either of Cost of sales or selling price of the said product or industry.
- An experienced Cost and Management Accountant can more authoritatively talk on certain pareametres such as Input Out Put ratios - Joint Cost apportionments - Capacity determination for absorbing the fixed overheads – Machine Down Time Analysis and the impact in Costs - and the popular Contribution analysis . At macro level a line or two can also be written affectively with golden pen by the CMA ( precisely with his or her exposure to no. of entities and industries) upon Business Environmental Analysis - Working capital Cycles – Segmental analysis and so on.

- I strongly vouch the approach of developing certain TOOLS by a CMA by himself (individually) so as to be the guiding force the Valuation tasks.
  - a. One needs to evolve a Purchase Price Index of Prime Inputs that are been dealt with by the entities with which the CMA is engaged for.
  - b. Maintain the data base of Cost of Production and Cost of sales. Monitor the trends in fixing the selling prices either in commanding manner or compromising manner.
  - c. Give an attempt to periodical macro level Value Added analysis for varied entities or the industries with the help of information available in public domain. No matter even if the entity is not in one's own client list.
- d. Develop an FAQ sort of guide that would enable the methodology to be adopted in ascertaining the costs involved in a particular process or activity.
- e. Evolve a comprehensive outlook on the industry specific costs which are unique to that of a conventional Industry. For example the impact of licensing costs for an entity that is engaged in Telecom services.
- That is all for now friends - I am of the view that a CMA can be a good "reference book which is to be kept in the virtual library of a valuation professional. Because – CMA himself is a 'Data Bank'. Readers may share their views at [chatwithcma@gmail.com](mailto:chatwithcma@gmail.com) for further refinement.

*The one who plants trees,  
knowing that he will never  
sit in their shade, has at least  
started to understand  
the meaning of life.*

*- Rabindranath Tagore*





# Hybrid Costing System for Hospitals

- Compiled by  
**CMA Balasubramanyam. N**  
Practising Cost Accountant



Healthcare providers are unique, provide different services, and use different resources for treatments. A one-size-fits-all costing system can't work for all sizes and different specialty practices. Many costing systems can be used for ascertaining cost of services in hospitals such as Standard Costing, ABC etc., however, these costing systems when applied traditionally will not yield desired results for hospital. Hence Hybrid Costing system which is a combination of several costing systems and aspects of these costing systems when combined together to derive the purpose of a simple and accurate system.

A simple Hybrid Costing System for Hospitals is presented herewith, and the purpose of this article is to recommend Hybrid Costing System that can be easy to implement for healthcare providers. The Hybrid Costing System will capture all costs that are unique to hospital services and determine the cost of care at department levels that will help management in decision making process.

The Hybrid Costing System presented herewith is only part of total Hybrid Costing where the department costs are identified herewith. This is a prerequisite for implementation of total costing system that can provide costs at service level.

A brief discussion on Hybrid Costing System at Macro Level is provided herewith for discussion and further improvement of the said system which is already implemented in few hospitals for my clients.

## Hybrid Costing System for Hospitals

To begin with the Accounting Centers of the hospital are divided into three categories i.e.,

1. Revenue and Cost Centers: These are the Profit centers of the hospital, which represents an area within the hospital that regulates revenue without controlling overall profit and / or costs.
2. Clinical Support Cost Centers: These are cost

centers that are categorized into Clinical support cost centers on the fact that these cost centers serve directly the Revenue Centers of the hospital like operating room, labor room etc.

3. Non-Clinical Cost centers or Transient Cost Centers: These are cost centers that provide services that are described as supportive or indirectly related to the main services. These are also called as Transient Cost Centers (TCC), the term "Transient" has been attached to these particular centers since the costs contained in their accounts are considered to reside there temporarily and thus transit in nature eg., Personnel dept., Finance, MIS etc.

The table below the show the list of these centers:

| Revenue and Cost Centers | Clinical Support Cost Centers          | Non-Clinical Cost Centers or (TCC) |
|--------------------------|--|------------------------------------|
| Dermatology              | Operating Room                         | CEO office                         |
| Pediatrics               | CSSD                                   | Hospital Administrator             |
| Obs/Gynecology           | ICU                                    | Medical Director                   |
| Cytogenetics             | Ambulatory Nursing                     | Patient care services Director     |
| Dietary                  | General Casualty                       | Non-clinical services Director     |
| General Surgery          | Patient Affairs                        | QMI Manager                        |
| Anesthesiology           | Maternity Services                     | Finance Department                 |
| Pain Clinic              | Labor room                             | Marketing Department               |
| Plastic Surgery          | Obs/Gyn Casualty                       | MIS Dept.                          |
| ENT                      | Neo-natal                              | Telephone                          |
| Ophthalmology            | Inpatient Services                     | Personnel Management               |
| Urology                  | Laundry                                | Materials Management               |
| Orthopedic Surgery       | Medical Records<br>Inpatient Reception | Maintenance dept.<br>Security      |

|                          |                      |
|--------------------------|----------------------|
| Cardiology               | Outpatient Reception |
| Internal medicine        | Admission Office     |
| IVF                      | Bio-medical          |
| Physical Medicine        |                      |
| Dental & Allied services |                      |
| Pharmacy                 |                      |
| Radiology                |                      |
| Laboratory               |                      |

The above mentioned list of Clinical Support Cost Centers is identified with the activity which it is serving like In-patient, Out-patient or with both this is important because the clinical profitability will be measured separately for both inpatient and outpatient.

## II. COMPONENTS OF EXPENSES:

Hospital's financial General Ledger contains the hospital expenses identified for each functional center. These financial expenses can be broadly classified into Fixed and Variable based on the nature of expenses, these expenses are listed down below:

| Variable                            | Fixed/Semi fixed  |
|-------------------------------------|---|
| Consumables                         | Salaries  |
| Pharmacy issues                     | Rent  |
| Other operating expenses            | Housekeeping expenses   |
| Other variable specific to hospital | Maintenance expenses  |
|                                     | General & Admn. Exp.<br>Financial expenses<br>Utilities         |
|                                     | Laundry expenses/<br>CSSD/bio waste<br>Depreciation<br>Goodwill |

Each of these major object categories has sub-categories, designed to provide more detailed tracking of expenses. Further each of these categories is

identified with the Accounting centers at the stage of the booking itself. Like salaries expenses of each individual is identified with the accounting center where he/she is working and booked to the respective accounting center in the General Ledger this is done thru the payroll module of HMIS system, similarly all the Variable expenses are identified with the accounting centers directly and booked in the financial records to the respective accounting center. Some of the Fixed Costs are apportioned to the various accounting centers of the hospital as follows:

| Expenditure      | Basis of allocation                            |
|------------------|--|
| Rent             | Area of the accounting center in Sq.mtrs       |
| Housekeeping exp | Area of the accounting center in Sq.mtrs       |
| Maintenance exp. | Volume of the accounting center in Cu.mtrs.    |
| Telephone exp.   | Number of extensions of each accounting Center |
| Depreciation     | Net book value of the Assets                   |

## III. METHODOLOGY:

Steps in Clinical Costing Process: Methodology

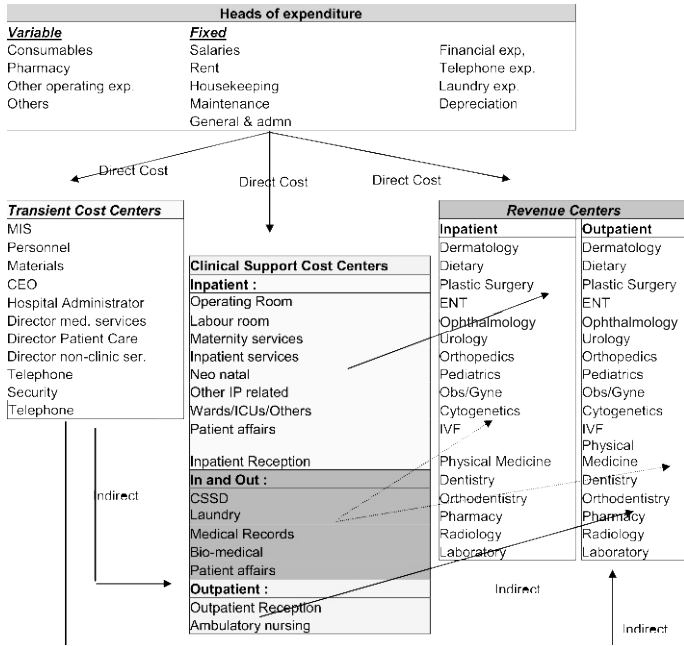
1. Identification of Revenues of the Revenue Centers separately by inpatient and outpatient.
2. Identification of direct cost both fixed and variable to the respective accounting center.
3. Allocation of Non-Clinical Cost Center's costs to both Clinical Support Cost Center and Revenue/Cost centers using step down costing.
4. Allocation of Clinical Support Cost Center's costs (loaded with Non-Clinical Cost Center's cost) to Revenue Centers identified either to inpatient or outpatient in some cases or both in some cases as explained earlier (as identification with activity).

The above methodology is explained below in the table form:

## IV. BASIS OF ALLOCATION:

Basis of Allocation of Transient Cost Centers Cost to Clinical Support Cost Centers and subsequently the cost

### Clinical Costing Methodology



of Clinical Support Cost Center's cost to Revenue Cost Centers is given below:

Transient Cost Center's Cost : Transient Cost Center's cost is allocated to all the Clinical Supporting Cost centers as well as the Revenue centers on the following basis.

| Cost Center            | Basis of Allocation                      |
|------------------------|--|
| MIS                    | Number of Pc's in each accounting center |
| Personnel              | Salary RVU (Gross of each acc.center)    |
| Materials              | Accumulated Material Cost                |
| CEO                    | Total Cost till allocation Cost          |
| Hospital Administrator | Accumulated Cost                         |
| Finance Dept.          | Accumulated Cost                         |
| Security               | Area in Sq.m                             |

### Clinical Support Cost Center's Cost

Clinical Support Cost center's cost is allocated to Revenue Centers based on the activity or nature of the support centers service i.e., if it is only related to inpatient or if it is only related on outpatient or some times both.

The complete list of how these Clinical Support cost centers cost's are allocated is give below:

| Clinical Support Cost Center | Basis of Allocation            |
|------------------------------|--------------------------------|
| Operating room               | OR RVU                         |
| CSSD                         | OR RVU/no.of op visits         |
| Labor Room                   | Direct to Obs/Gyn              |
| Maternity services           | Direct to Obs/Gyn              |
| Inpatient services           | No.of inpatient days           |
| Obs Casualty                 | Direct to Obs/Gyn              |
| Neo-natal                    | Direct to Pediatrics           |
| General Casualty             | Casualty Revenue               |
| Patient affairs              | No. of OP visits/admissions    |
| Inpatient Reception          | Number of admissions           |
| Laundry                      | No.of inpatient days/op visits |
| Medical Records              | No. of admissions/patient days |
| Outpatient Reception         | Number of OP visits            |
| Ambulatory Nursing           | Number of OP visits            |

### Allocation between Inpatient and Outpatient:

1. Physician's salary is apportioned between inpatient and outpatient based on the inpatient and outpatient revenues of each department.
2. Total cost of Medical records is apportioned between inpatient and outpatient based on a RVU i.e, each inpatient visit is considered as equal to x outpatient visits. And subsequently allocated to inpatients based on the number of admissions and to outpatient based on the number of outpatient visits
3. Biomedical departments cost is apportioned between inpatient and outpatient based on the NBV of the medical equipment.
4. CSSD cost is apportioned between inpatient and outpatient on the bases of revenue, within outpatient CSSD cost is apportioned based on the number of OP visits and within inpatient CSSD cost is apportioned based on OR RVU.

The above discussed Hybrid System is specific to a hospital and the same needs to be customized to hospitals based on the services provided by them and most importantly availability of data for such implementation.

## *Thinking and Acting Like a Professional: How Do Accountants Conceptualize Ethics?*

Source: IMA Educational case Journal

- Compiled by CMA J.S. Anand

The way an individual thinks helps inform their ethics as well as judgments about moral dilemmas and resulting moral intent. Cognitive bias or unethical conduct may result from poor or limited frames. This problem is often compounded when individuals are unaware of the frames they use or unable to see alternative views. Accounting professionals must cultivate awareness of and engage appropriate moral frames, referred to here as conceptual metaphors, to exercise proper judgment and ensure ethical action.

A conceptual metaphor refers to the conceptualization of one subject in terms of a different subject. In simple terms, a conceptual metaphor is a cognitive frame that allows us to think and reason about something in terms of something else.<sup>1</sup> A common example is how humans conceptualize “time as a resource.” This metaphor frames our understanding of time in terms of monetary resources and, thereby, allows us to reason that it can be borrowed, budgeted, invested, saved, used, or wasted.<sup>2</sup> Such conceptual metaphors are powerful drivers of human thought, especially with respect to abstract domains of understanding such as ethics.<sup>3</sup>

Moral concepts are largely based on underlying metaphors that offer practical frames for ethical conceptualization and reasoning.<sup>4</sup> Different metaphors carry different terms and logic and, as a result, offer different rationale for ethical reasoning. But since such metaphors are embedded in the cognitive unconscious, individuals are largely unaware of and tend to reason and act automatically in terms of these underlying frames.<sup>5</sup> Lack of awareness of such conceptualizations may limit ethical judgment and/or allow hidden biases, errors, or risks into the reasoning process.<sup>6</sup> Understanding the metaphors engaged to frame and make sense of moral issues can offer insights into how we reason and act (or fail to act) when confronted with ethical dilemmas.

Classic normative philosophies, such as consequentialism, contractualism, deontology, justice and fairness, pragmatism, and virtue ethics, are ingrained in contemporary societal mores and, as such, serve as conceptual “root” metaphors. Root metaphors are foundational metaphorical concepts that govern one’s overall world view and, as a corollary, other

**Table 1: Normative Philosophies**

| <b>Normative Philosophy</b> | <b>Key Concepts/Terms</b>             | <b>Concept Logic/Rationale for Ethical Action</b>   |
|-----------------------------|---------------------------------------|---|
| Consequentialism            | Consequences, impacts                 | Ethicality assessed in terms of net consequences or impacts (i.e., benefit/harm) of the potential act   |
| Contractualism              | Moral agreement, cooperative behavior | Ethicality assessed in terms of conformity of the potential act with a hypothetical social contract   |
| Deontology                  | Duty, motives                         | Ethicality assessed in terms of the intent of the potential act with respect to a duty, obligation, or rule   |
| Justice/fairness            | Fairness, justness                    | Ethicality assessed in terms of impartial equality (procedural) or relative equality (distributive) of the potential act with respect to individuals involved |
| Pragmatism                  | Useful practices                      | Ethicality assessed in terms of practical usefulness (or workability) of the potential act to produce the desired moral consequence/outcome                   |
| Virtue ethics               | Character traits, values              | Ethicality assessed in terms of individual virtues or moral character as reflected by the potential act   |



supporting conceptual metaphors engaged to make sense of experience.<sup>7</sup> Normative philosophies frame moral issues differently and offer alternative terms and logic for reasoning (see Table 1).

### **VIRTUE ETHICS AS A ROOT METAPHOR FOR ACCOUNTING ETHICS**

While each of these classic normative philosophies offers a valuable cognitive frame for reasoning, virtue ethics has particular significance as an ethical root metaphor for accounting. Virtue ethics focuses on the individual virtues, or dispositional character traits, that lead to proper ethical conduct. Virtues may be characterized as intellectual virtues or instrumental virtues.<sup>8</sup> Intellectual virtues influence an individual's intent to exercise professional judgment and consist of character traits, such as integrity, truthfulness, independence, and objectivity. Instrumental virtues impact an individual's willingness to act and consist of behavioral traits, such as diligence, resourcefulness, persistence, and courage. Accountants must possess apt intellectual and instrumental virtues to enable ethical intent and action.

Professional codes of conduct (e.g., those of IMA® (Institute of Management Accountants), International Accounting Education Standards Board, and American Institute of Certified Public Accountants) articulate expected virtues for the accounting profession. Code principles define the essential character traits that professional accountants must possess. Code rules define the logic that practicing accountants must follow to exercise proper professional judgment. That is, codes are prescribed virtue ethics frames for accountants.

The significance of virtues to accountants suggests that practitioners should engage virtue ethics, as defined by a relevant code, as a root metaphor to frame ethical judgment. But it is common knowledge that accountants do not always act consistent with professional virtues, so it raises the question of whether accounting professionals actually internalize virtue ethics as a root metaphor for ethical reasoning.

### **LONGITUDINAL STUDY**

We designed a longitudinal study to explore this

question. Its basic purpose was to examine how accounting professionals think and reason about ethics. More specifically, it was designed to elicit conceptual metaphors engaged by accounting professionals to frame ethical issues.

As individuals are not normally aware of conceptual metaphors, and such cognitive frames are hardly evident, simply asking subjects to identify framing metaphors is of limited usefulness. One way to reveal underlying framing metaphors is by examining language.<sup>9</sup> Research in cognitive semantics suggests linguistic expression reflects underlying cognitive activity and, as such, offers evidence of unconscious conceptual metaphors.<sup>10</sup> Images have also been used to provide symbolic evidence of such underlying framing metaphors.<sup>11</sup> In this study, we analyzed subject-selected images and the language used by subjects in associated written narratives to elicit underlying conceptual metaphors; we then examined the terms and logic of elicited conceptual metaphors to identify normative root metaphors.

The expectation was that professional accountants would employ conceptual metaphors consistent with a virtues-based cognitive frame informed by professional codes of conduct. In any case, revealing the cognitive frames engaged during ethical thinking may offer valuable insights and enable enhanced ethics education or professional strategies to reduce bias and ensure accounting practitioners think and act based on expected professional virtues.

### **Subjects and Data**

Subjects consisted of aspiring or continuing accounting professionals enrolled in a required graduate-level business ethics course within a master of science in accounting program. We gathered data from subject responses to two reflection exercises completed during the course. The first reflection exercise asked subjects to identify an image that represented business ethics and then write an accompanying narrative to explain the selected image. This provided both symbolic (image) data and linguistic (narrative) data to serve as a basis for eliciting unconscious conceptual metaphors.

For instance, a subject might select an image of a directional road sign, navigational map, pathway, roadway, or crossroads or intersection of roadways and then describe ethical reasoning in the associated narrative using language such as “choosing the correct path,” “mapping out directions,” “standing at a crossroads,” “turning in the right direction,” “things can get off track,” “this is a dead end,” “a wrong turn,” or “reaching an ethical destination.” Such images and language use indicate a classic conceptual metaphor often referred to as the “journey metaphor,” which includes travel-related terms and logic consistent with an expedition, trip, or quest and a goal of reaching a particular destination.<sup>12</sup> An “ethics-as-a-journey” conceptual metaphor, in turn, can be interpreted to suggest an underlying consequentialist root metaphor (i.e., suggesting directional decisions made during travel undertaken to reach the correct destination, the desired or positive consequence).<sup>13</sup>

The second reflection exercise asked subjects to explicitly identify the normative philosophy with which they most identified subsequent to coverage of this material in class. This provided conscious identification of a preferred root metaphor for ethical reasoning. We collected subject responses over 19 terms covering a period of approximately eight years, which resulted in 377 responses, of which 329 were useable.<sup>14</sup>

## Methods

We analyzed images and written narratives that subjects provided in response to the first reflection exercise using symbolic and linguistic analysis, respectively, to identify underlying conceptual metaphors. We each independently analyzed images and narratives and then reconciled discrepancies via reassessment and agreement. Images indicated classic visual metaphors for ethics (e.g., angels and devils, street signs and signals, pathways and roadways, balancing scales, handshakes, and teams and meetings), which, in turn, suggested corresponding root metaphors.

For instance, as mentioned previously, images depicting pathways or roadways suggest an underlying journey or travel metaphor, a classic conceptual metaphor analyzed by George Lakoff and Mark Johnson. Journey

or travel metaphors used to conceptualize ethics generally indicate an underlying root in consequentialism (i.e., destinations are conceptualized as outcomes) or possibly pragmatism (i.e., the right path is the one that leads to the desired destination). The narratives were largely consistent with images and offered linguistic and explanatory evidence to confirm categorization of the identified metaphors.

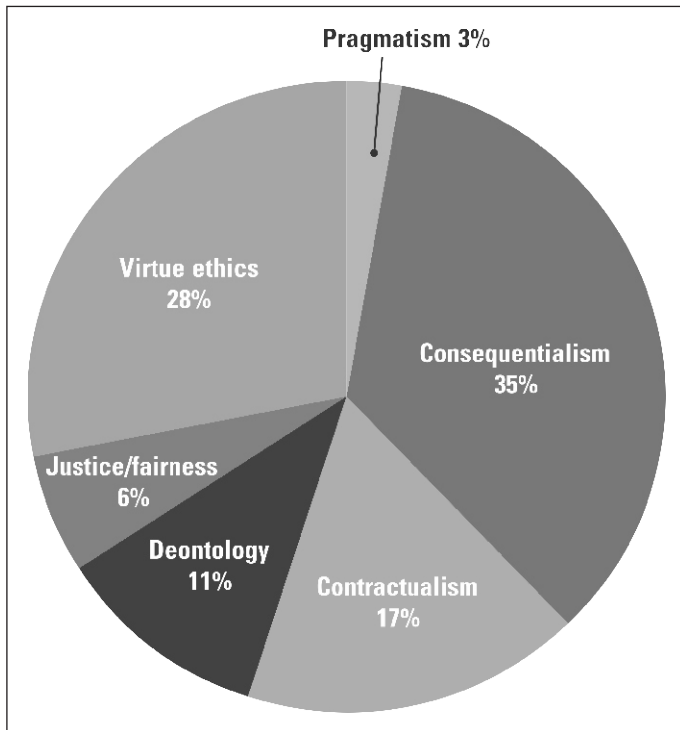
In the second reflection exercise, subjects identified their preferred normative philosophy, the one with which they identified most. Again, we examined responses and reconciled apparent conflicts. We then summarized identified normative philosophies and compared them to the root metaphors elicited from image and narrative analyses.

## Results and Implications

Analysis of the images and narratives and preferred philosophies resulted in three primary findings.

First, the majority of subject images and narratives did not reflect virtue ethics as a central, underlying root metaphor. As Figure 1 indicates, the most prevalent root metaphor elicited from subject responses was consequentialism (35%) followed by virtue ethics (28%) and contractualism (17%). Of those subjects who did engage a virtue ethics frame in their narrative, none indicated a professional code of conduct as the basis for relevant virtues. This suggests that most subjects have not internalized virtue ethics as a root metaphor for framing ethical issues, and those who have do not base this frame on virtues prescribed by the profession. This may be an artifact of the study, as subjects were either full-time or part-time graduate students, and many did not possess extensive professional practice experience. Limited exposure to relevant professional codes or the application of relevant virtues in practice would likely result in incomplete or poorly internalized code-based virtue frames. In any case, the result suggests subjects were either unaware of core virtues defined within relevant codes or did not attribute great significance to such codes or virtues as a basis for ethical reasoning. This indicates a need for greater exposure to professional codes and application to practice issues.

**Figure 1: Elicited Root Metaphors**



This finding has potential implications for ethical reasoning in accounting. If accountants do not think in terms of a virtue ethics root metaphor, they may be less likely to rely on professional virtues as a basis for ethical judgment.<sup>15</sup> Moreover, lack of awareness of or failure to attribute importance to virtues defined within relevant codes may result in ethical judgment in conflict with professional expectations. Furthermore, practitioners who do not possess necessary intellectual and instrumental virtues may fail to establish sound ethical intent and/or fail to act aptly on intentions, especially when confronted by a potentially compromising situation or unethical environment.<sup>16</sup>

Second, some subjects' narratives reflected poorly defined frames or conflicting (i.e., mixed) metaphors. Images were sometimes vague or conflicted with language in the narratives, or, alternatively, language in narrative descriptions lacked consistent internal logic or reflected the existence of different, incoherent framing metaphors. This could simply reflect subject failure to carefully articulate explanatory details within written responses to the first reflection exercise. Alternatively, it may suggest weak or incoherent internalization of root

metaphor concepts. Research suggests that clear, strongly internalized values are key to consistent ethical action, especially when individuals face pressures or situations that may compromise judgment.<sup>17</sup> If virtues are not strongly internalized, inconsistent behavior or lack of action may result even if the frame embodies appropriate professional virtues.

Third, most subjects did not identify virtue ethics as their preferred philosophy in the second reflection exercise. Moreover, and more interestingly, there was little correspondence between the root metaphors indicated by images and associated narratives and the normative philosophies students consciously identified as their preferred moral frame. Only 35% of the subjects who specifically identified virtue ethics as a preferred philosophy engaged this root metaphor as a frame in their narrative. This suggests a lack of awareness of internalized frames, which is not surprising given Lakoff and Johnson's assertions that such metaphors are largely unconscious. But it is worthy of note that lack of awareness precludes critical reflection that can reveal hidden biases or limitations inherent within a frame and, thereby, allow for improved ethical judgment.

### **ENCOURAGING THE "RIGHT" METAPHORICAL FRAME**

The central conclusion of the study is that most aspiring accounting professionals do not internalize virtue ethics and, in particular, professional code-based virtues as a root metaphor or frame for ethical reasoning. Professional virtues are critical to sustaining the integrity of the accounting profession. So, how do we get accounting professionals to internalize code-based virtue ethics as a frame for ethical judgment? The profession has long attributed ethics failures and unethical conduct among accounting practitioners to poor ethics education. But academics is just a starting place and can only go so far. Accounting academics, the professional community, and practice environments are all pieces of the puzzle. Figure 2 (see p. 6) summarizes suggestions for each area, which will be briefly discussed in the next section.

### Accounting Academics

Aspiring accountants need to understand moral frames and how they impact professional judgment and conduct. Courses in which ethics are taught should cover moral frames (e.g., normative philosophy, conceptual metaphors, reasoning models, professional codes, etc.) and demonstrate how different frames result in different rationales for judgment. In addition, instructors should include critical reflection to enable awareness of biases and limitations inherent in such frames.

Aspiring accountants also need to understand the expectations of professional accountants and how those expectations relate to fulfillment of professional responsibilities. As such, instructors should teach virtue ethics as a key frame and emphasize the critical role of intellectual and instrumental virtues in exercising ethical judgment and conduct, respectively. It is also important to cultivate appropriate virtues in students via detailed coverage of relevant professional codes. Reflective exercises and simulations that focus on applying codes

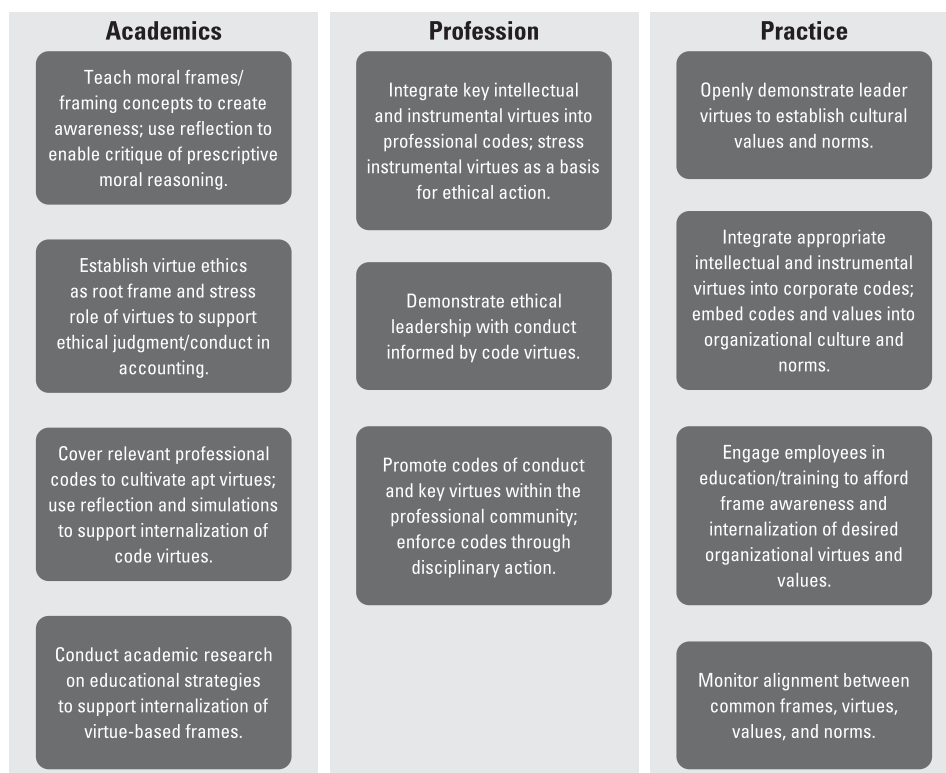
may support internalization of code virtues and facilitate habitual use of code-based virtues as a frame. In addition, future academic research is needed to examine the use of different educational strategies to support internalization of virtue-based frames.

### The Accounting Profession

Practicing accountants are expected to engage virtues based on relevant professional codes. Research indicates that virtues explicitly defined within codes are perceived as highly important, whereas excluded virtues are considered less important. 18 Crucial intellectual and instrumental virtues must be defined within professional codes so appropriate significance is attributed to such dispositional character traits.

Most professional codes currently focus on intellectual virtues, but instrumental virtues receive less attention. For instance, the principles underlying the IMA Statement of Ethical Professional Practice include honesty, fairness, objectivity, and responsibility. 19 These principles are the professional virtues members are expected to possess and act upon. Honesty,

**Figure 2: Encouraging a Code-Based Virtue Ethics Frame**





fairness, and objectivity are essentially intellectual virtues that provide a basis for an individual's intent to exercise professional ethical judgment, whereas responsibility is an instrumental virtue that provides the basis for an individual's willingness to act based on intellectual virtues. That is, while honesty, fairness, and objectivity may provide the rationale for action, only a strong sense of responsibility will lead one to act, especially if doing so is risky. A greater emphasis on instrumental virtues (e.g., moral courage, resourcefulness, and persistence) within professional codes may strengthen the willingness to act in the face of pressure to compromise.

It is important to note that it is difficult to internalize a concept, even when informed by strong intellectual virtues contained within a professional code, if one is repeatedly confronted by practice pressures to the contrary. Leaders within the professional community must exhibit conduct that publicly demonstrates code virtues as the basis for action and practice relationships. All professionals should actively embrace relevant codes and associated virtues (intellectual and instrumental) and promote them as conduct expectations and practice norms. Code virtues must also be readily enforced by means of sanctioned disciplinary proceedings to reinforce their importance.

### **The Accounting Practice Environment**

Accountants are often confronted by situational conflicts and pressures unique to their professional role, and, as a result, individuals do not always act on their intentions, even when framed aptly. As such, code virtues may be insufficient to incite ethical action if not supported by organizational culture. Companies can establish a corporate culture to reinforce stated virtues and facilitate ethical action based thereon by managing frame awareness as well as supporting leadership, values, and norms.<sup>20</sup>

Corporate leaders must openly embrace key virtues, communicate their importance, and create an environment where situational influences allow for and encourage desired behavior. It is also critical to integrate key intellectual and instrumental virtues into corporate codes and embed code virtues into corporate culture in

the form of stated values and practices. Companies must integrate stated values into policies, decision making, employment practices, incentive systems, support systems, and disciplinary actions to establish code virtues as workplace practice norms.

In addition, employees may be engaged in educational workshops to support awareness of common frames, alternative frames, and associated biases.<sup>21</sup> Training simulations may also allow employees to practice applying codes as frames and reflect on this activity to promote internalization of organizational virtues. A closer look at the ability of ethics training and practice simulations to deepen a commitment to ethical action based on professional code virtues would offer further insights.

Finally, organizations should carefully monitor and manage alignment between common frames, code-based virtues, stated organizational values, and workplace norms, as conflicts can arise that may compromise ethical conduct. Conflicts must be quickly identified and procedures established to address these issues; employees should also have access to support resources (e.g., ethics advocates or helplines) to assist in resolving such conflicts and properly applying code virtues.

It is difficult to change the way individuals think and act. If we want responsible behavior on the part of accounting professionals, it is imperative that all three constituencies (academics, the professional community, and the practice environment) provide the same message, as the sustainability of the profession depends on the exercise of professional virtues. n

I. Melissa Walters, Ph.D., is an associate professor of accounting at the University of Tampa and a member of IMA's Tampa Bay Chapter. She can be reached at [mwalters@ut.edu](mailto:mwalters@ut.edu).

Teresa M. Pergola, DBA, CMA, is an associate professor of accounting at the University of Tampa and a member of IMA's Tampa Bay Chapter. She can be reached at [tpergola@ut.edu](mailto:tpergola@ut.edu).



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CMA Dr. K.Ch.A.V.S.N. Murthy - CCM - ICAI, CMA Vijender Sharma - Vice President - ICAI, CMA P. Chandra Sekhara Reddy - Chairman - HCCA, CMA K. Someswara Babu - Secretary - HCCA, CMA M. Venkateshwarlu - Past Chairman - HCCA.



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**Press Meet**

CMA K. Someswara Babu - Secretary - HCCA, CMA Dr. K.Ch.A.V.S.N. Murthy - CCM - ICAI, CMA Vijender Sharma - Vice President - ICAI, CMA P. Raju Iyer - President - ICAI, CMA P. Chandra Sekhara Reddy - Chairman - HCCA.



**Career Councillng by CMA N.S.V. Krishna Rao, Practicing Cost Accountant for Intermediate students of RG Kedia College of Commerce**



**Career Councillng for Intermediate students of RG Kedia College of Commerce**



**A Red Letter Day  
Members' Meet with Newly Elected President,  
Vice President and Central Council Members**



**CMA B.V. Ramana Murthy, Past-President - ICAI** Offering a sapling to our newly elected president **CMA P. Raju Iyer** as a token of love and respect.



**CMA Dr. P. V. S. Jagan Mohan Rao - Former President SAFA & ICSI** offering a sapling to our newly elected Vice President **CMA Vijender Sharma** as a token of love and respect.



**CMA D. L. S. Sreshti - Past Chairman of HCCA and SIRC of ICAI** extending greetings to **CMA Dr. K. Ch. A. V. S. N. Murthy - Central Council Member of ICAI**.



**CMA Khaja Jalal Uddin - MC member of HCCA** extending greetings to **CMA Vijay Kiran Agastya - Secretary of SIRC of ICAI**



**Dignitaries on the dais during National Anthem**

**L- R CMA Vijay Kiran Agastya - Secretary - SIRC of ICAI, CMA Dr. K. Ch. A.V.S.N. Murthy, Central Council Member - ICAI, CMA P. Raju Iyer - President of ICAI, CMA Vijender Sharma - Vice president of ICAI, CMA P. Chandra Srkhara Reddy - Chairman of HCCA, CMA K. Someswara Babu - Secretary of HCCA.**



**Dignitaries on the Dais**

If undelivered please return to:

**HYDERABAD CHAPTER OF COST ACCOUNTANTS**

CMA BHAVAN, Street No. 5,  
Himayatnagar, Hyderabad - 500 029.  
Ph. 040-27635937, Telefax: 040-27607893  
Web: [cmahyderabad.in](http://cmahyderabad.in)  
Email: [hyderabad@icmai.in](mailto:hyderabad@icmai.in)

To

Views expressed by contributors are their own and The Institute of Cost Accountants of India - Hyderabad Chapter does not accept any responsibility.

Editor: CMA Kalyani Pemmaraju, The Institute of Cost Accountants of India - Hyderabad Chapter, 1-2-56/44A, 5th Street, Himayatnagar, Hyderabad - 500 029.

Posting under registration No. HD / 1181 / 2019-21. Printed and Published by: Mrs. K. Kavitha, Superintendent on behalf of Hyderabad Chapter of Cost Accountants, 1-2-56/44A, 5th Street, Himayatnagar, Hyderabad-500 029 and printed at Gayatri Printing Press, 5-18, Durganagar, Dilukh Nagar, Hyderabad - 60 and published at Hyderabad Chapter of Cost Accountants, 1-2-56/44A, 5th Street, Himayatnagar, Hyderabad-29. Phones : 27635937/27611912.