

Accounting & Reporting in the Telecommunications Industry

India's telecom story has confounded telecom pundits. The Indian telecom juggernaut that started its humble journey in 1995 shows no sign of tardiness. As per TRAI estimate, the total revenue of Indian telecom companies was a whopping US \$17.78 billion in 2005. Chartered Accountants have always been actively associated with this astounding growth of this sector. This article discusses key issues relating to accounting methods of telecom companies.

India, which achieved tele-density of only 2% after 48 years of Independence and state planning till 1995, has now crossed 11.43% tele-density in January 2006 as compared to 8.62% at the end 2004. This is an overall annual growth of 34.42%. The gross subscriber base consisting of fixed as well as mobile has touched 124.85 million at the end of December 2005 as compared to the subscriber base of 92.88 million at the end of December 2004. Experts predict that India is on the trajectory of a very high growth path, particularly in rural areas and towns. This will increase India's tele-density between 25% - 35% in next three years. These predictions are music to the ears of foreign investors who are more than eager to pump in billions of dollars as FDI in the country. By TRAI (Telecom Regulatory Authority of India) estimates, the total revenue of Indian telecom companies was a whopping US \$17.78 billion in 2005, whereas the revenues of Chinese mobile firms were approximately 4 times higher than Indian telecom companies. At the end of September 2005, 85 licensees were providing GSM services in 23 licensed areas. As per the revenue report submitted by GSM operators, the estimated annual revenue for

the GSM sector itself was Rs. 20,000 crore net of service tax and pass through charges.

The telecom sector has received much required government focus since the waves of liberalization swept the Indian subcontinent. The New Telecom Policy 99 (NTP99) gave a major boost to the telecom Industry. In November 2005, the Government announced the enhancement of FDI ceiling from 49% to 74% in the telecom sector subject to certain preconditions. This step is likely to attract more FDI in the sector. The Telecom Ministry has been proactive in addressing the increasing demand for spectrum by withdrawing it from the Defence services. In addition, the Government is also keen on bridging the digital divide between urban and rural areas and is offering sops to the industry by extending USO to private operators that extend their services in specified rural areas. TRAI has also played a pivotal role in managing various regulatory policies to ensure healthy competition and provide appropriate support to the private sector.

Accounting and Financial Reporting Issues

The entire business framework of telecom companies revolves around the regulatory and licensing framework and hence it is essential to understand some important regulatory levies paid by telecom companies. These regulatory levies are discussed in the following paragraphs:

Licence Fee: Telecom Licenses are granted



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by the Department of Telecommunications (DoT) of the Government of India on payment of an entry fee. For licensing purposes, India has been divided into three categories of circles. While the charges for the Metro circle are high, the fee for state licenses categorised as B or C circles are lower. Upon commencement of services, operators pay a license fee based on the Adjusted Gross Revenue (AGR) on a quarterly basis. The accounting practice for treatment of the license fee varies from one operator to another. Some operators consider the entry fee as deferred revenue expenditure to be amortised over the period of the license, and charge it off fully in the year of payment to maintain a healthy balance sheet. As regards the license fee quarterly the annual fees paid as a percentage of AGR, the same is charged off in the year of payment. In this regard, it is interesting to note the treatment of the license fee paid in the initial year. An interesting treatment adopted by some companies was the amortising of the annual license fee over the balance license period. This treatment was adopted on the ground that it is only the payment mechanism which is annual, the benefits of the license fee payment is likely to accrue to the operator over the balance license period.

However, with the increase of Mergers & Acquisition (M&A) activities in the telecom sector and with acquisitions of previous licenses by a new set of foreign investors, these exotic treatments were reversed to give a more realistic picture of the state of affairs of the operations. Although many of the telecom operators are not listed and their financial status is not readily available, it can be safely concluded that most of the operators have now adopted the practice of charging the full license fee to the year of incurrence. This practice will go a long way in providing a transparent picture of the profitability of operators.

It is also interesting to note that telecom operators have to pay a license fee to the Department of Telecommunications (DoT), on account of sale of handsets, which is essentially

a trading activity, not subject to licensing. A non-licensed entity is not liable to pay any license fee to DoT on handset sales, whereas a licensed entity has to pay the fee. The Government should consider excluding handsets from the ambit of the license fee so that telecom companies stop resorting to several complex accounting and operational routes to avoid paying the license fee.

Interconnection Usage Charges (IUC): Telecom operators have to interconnect their networks for forwarding calls made by their customers to customers of other operators or vice versa. Thus, operators have to pay charges for network usage based on guidelines announced by TRAI from time to time. These interconnection charges have been reduced over the years thus making calls affordable and cheap.

Access Deficit Charges (ADC): Access deficit charges or ADC as it is popularly called is paid by telecom operators to fixed service providers like BSNL, MTNL and Reliance Infocomm for meeting their rural telephony obligation as part of IUC charges payable by operators. ADC charges are revised regularly and currently the rate is at 1.5% of adjusted gross revenue for domestic traffic, while for ILD traffic, it is Rs. 1.60 per minute for incoming traffic and Rs. 0.80 for outgoing traffic. It is estimated that BSNL will receive approximately Rs. 3,335 crore in 2006-2007 due to the ADC. In a major development, TRAI has also removed revenue from rural areas from ADC obligation to promote rural tele-density.

Some of the key issues related to accounting treatment of telecom companies are:

Revenue Accounting: Revenue accounting is the most critical accounting process for any telecom operator, which in turn depends to a large extent on the efficacy and robustness of the billing system and a smart revenue assurance process. The billing system is one of the most advanced software systems of a telecom network. It is the network's main

component, as it has to process each and every Call Detail Register (CDR) generated by the switching system. Telecom operators prepare multiple monthly billing cycles for all their customers. This is based on the total number of customers and their category within each network. Revenues are booked based on the total billing (also estimated billing is taken for the break up period) for each bill cycle, post the accounting assessment for prepaid revenues and deferred income. While the majority of operators carry out billing in arrears for rental and call charges.

Revenue accounting is more complex for prepaid cards, which constitute the lion's share of revenue for operators. Collections against sale of prepaid cards and refill vouchers are recognised as revenues only after customers utilize the services or on expiry of refill period, subsequent to expiry. In case of prepaid cards, the majority of telecom operators have deployed the Intelligent Network (IN) system to monitor the usage of prepaid services on a real time basis and they can disconnect services when customers breach their set threshold limits. Thus, for prepaid services, revenue recognition is based on reports generated by the IN system. The revenue accountant has to be conversant with complex billing systems and various interfaces that the billing system has with other network systems like the mediation system, IN, SAP, etc.

Item	Jun-05 %	Sep-05 %
Rental Revenue/Processing fee	31.67	31.66
Revenue from Call charges (usage)	42.78	42.02
Revenue from Roaming	12.54	11.34
Revenue from SMS	5.25	5.40
Other Revenues	7.76	9.58
Total	100	100

Depreciation: As per Indian GAAP, companies are required to provide for

depreciation as per rates specified in Schedule XIV of The Companies Act, 1956. This is in stark difference to the U.S. GAAP, where depreciation is required to be provided based on estimated useful life of the assets. With large investments in Indian telecom companies by global investors including Hutchison and Vodafone, many Indian telecommunication companies have voluntarily adopted U.S. GAAP practices for depreciating their telecom assets based on estimated useful life. Due to an absence of regulatory policies regarding the useful life of assets, there remain gaps in assessing the estimated useful life of these assets as they vary from one operator to another. In case of telecommunications equipment that have no alternative uses, the maximum estimated useful life of an asset cannot exceed the period for which the license has been granted.

India has become one of the fastest growing mobile markets in the world and has caught up with Chinese numbers by adding around 4 to 4.5 million subscribers per month. This was just a dream 2 years ago.

Debtors Provisioning: This is a major bone of contention for telecom operators. As per Industry norms, unpaid billed amounts over three billing cycles (or ninety days approximately) are classified as non-recoverable. Similarly, dues from other telecom operators on account of roaming receivables or interconnect charges are provided in case of dues exceeding 180 days, net of payable.

While companies follow the 90-day norm for collection and credit control purposes, disclosure of debts on this basis is not required. Schedule VI requires disclosure of debts in 0 - 180 and 180 - 360 days and above category. Thus, the user of financial statements cannot make a realistic estimate of actual defaults of the company, and this significantly impacts the true and fair

view of the state of affairs. Therefore, due to an absence of industry specific guidance, telecom companies are not obliged to make provisions for dues in the 90 – 180 day category.

However, telecom operators also receive dues from other telecom companies on account of roaming, IUC, NLD charges, etc. for which provisions are made based on recoverability and dues in the higher bracket.

Segmental Reporting: As with other industries that do not follow segmented reporting based on the various products offered, cellular companies treat prepaid and post-paid services as the same product offered, calling them 'telecom services'. Therefore, no segmented results are provided to distinguish between prepaid and post-paid services by GSM mobile providers. Integrated telecom players like Bharti Televentures Limited have classified their business into four segments – Mobile, Broadband, Long Distance, Enterprise and Others. For purposes of geographical segmentation, Bharti discloses results for the Indian region as one geographical area and rest of the world as another geographical area.

VSNL has revised its reportable segments into two categories. For the year ended 31st March 2005, it revised its segments to consider "Telephony and Related Services", including international and national voice and data services and Internet services. "Other Services" include transponder lease, television up-linking, gateway packet switching services and video conferencing facilities. VSNL has identified geographical segments as India (58%), USA (11%), Saudi Arabia (3%), UAE (8%) and Others. In case of geographical segmentation, Bharti Televenture's disclosure is limited to India (90%) and the rest of the world (country-wise details

are not relevant, as they amount to less than 90%).

Some of the indicators used by the telecommunications Industry are follows:

EBITDA: EBITDA or Earning before Interest, Tax, Depreciation and Amortisation is an indicator of the operating margin of a telecom operator. The average EBITDA margin for a telecom operator ranges from 36% to 20% as seen from the following table:

Operator	Period/ year ending	Profit/loss (Rs/crore)	EBITDA (Rs/crore)	EBITDA Margin
Bharti (BTVL)	Q3, 2006	3,025	1120	37%
Reliance (RCVL)	Q3, 2006	3,327	848	25%
MTNL	Q4, 2006	1,594	342	21%
Tata Tele(Maharashtra)	Q3, 2006	289.10	32.90	11.38%
VSNL	FY-2005	3410	793.84	23.28%
Shyam Telecom	Q2, 2004	45.52	7.07	15.53 %

ARPU: The Average Revenue Per User or subscriber is an indication of the net recurring revenue per subscriber per month earned by the telecom operator. This is calculated by dividing the monthly net revenue by the average subscriber base. ARPU includes monthly rentals, airtime /call charges, VAS charges, and all other charges as reduced by Pass Through. ARPU does not include non- recurring revenues like handset sales, installation fees, revenue from roaming services from other networks, etc. Due to a large variation between prepaid and post-paid services, the ARPU is calculated separately for both these services. ARPU for prepaid services is generally lower (approximately 40% less) as compared to post-paid services bringing down the blended ARPU. For June 2005 and September 2005 (table below), the blended ARPU on an all India basis has fallen from Rs. 381 in June 2005 to Rs. 374 in September 2005. It is interesting to note that the Indian telecom industry has witnessed a continuous fall of ARPU on a Q2Q basis due to falling airtime rates, stiff

competition and the entry of new operators, thereby cutting down on margins. The blended ARPU reported by Bharti for Q3, 2006 was Rs. 470 as against Rs. 514 in the previous quarter. While MTNL reported an ARPU of Rs. 308 for post-paid services and Rs. 280 for prepaid services for FY ending 2006, the blended ARPU was Rs. 635 due to a higher ARPU derived from Basic Services at Rs. 805.

Circle	Postpaid		Prepaid		Blended ARPU	
	Jun'05	Sept'05	Jun'05	Sept'05	Jun'05	Sept'05
Circle A	605	599	286	283	375	364
Circle B	561	554	265	276	327	330
Circle C	605	576	321	310	410	386
Metro	836	803	290	292	446	438
All India	662	646	282	284	381	374

Source: TRAI

MOU: The Minutes of Usage (MOU) is the total duration of minutes for which a customer uses a telecommunication network during a given month. In the nascent days of mobile telecommunication in India, airtimes rates were very high and a customer had to pay for incoming calls as well. During those days, the MOU ranged from 110 to 150 minutes per month, as customers were wary of making calls. However, with falling rates, the MOU has steadily reduced. As on September 2005, the blended MOU was in the range of 367 minutes signifying a multi-fold increase in network utilization.

The MOU is also analysed between prepaid and post-paid services and further drilled down

between incoming and outgoing. In the current billing system, a customer does not pay for any incoming calls. However, incoming calls bring in revenue for a telecom operator in the form of IUC charges paid by other service providers for terminating calls.

The following conclusions can be drawn about the MOU:

(a) There is a consistent rise in MOU while the ARPU and Revenue Per Minute (RPM) have declined.

(b) The MOU indicates that the incoming-outgoing minutes ratio is 61:39. For post-paid services, ratio of incoming-outgoing minutes is 55:45 and for the prepaid segment, it is 66:34.

(c) An average customer sends a maximum of 1 - 2 SMSs per day.

RPM: Revenue Per Minute is the blended tariff, which an operator provides across various tariff plans or customer segments. This is obtained by dividing the total revenue for a month or period by the relevant MOU. While the per minute rates are generally higher in case of low rental plans and prepaid services, on an overall basis, the business planner has to ensure that he maintains an equilibrium of total MOU and RPM. The table on the next page gives an indication of RPM obtained by GSM service providers for the quarter ending September 2005.

Circle	Postpaid				Prepaid			
	Outgoing MOU	Incoming MOU	Total MOU	Outgoing SMS	Outgoing MOU	Incoming MOU	Total MOU	Outgoing SMS
Circle A	291	366	657	37	92	183	275	53
Circle B	285	306	591	44	97	165	261	19
Circle C	284	245	528	34	143	247	390	13
Metro	300	398	698	44	77	197	273	44
All India	292	351	643	40	93	184	277	37

(in Rs.)			
Circle	Post paid	Prepaid	Blended
Circle A	0.91	1.03	0.97
Circle B	0.94	1.06	1.01
Circle C	1.09	0.80	0.90
Metro	1.15	1.307	1.11
All India	1.01	1.02	1.02

Another study by TRAI indicates that the per minute cellular tariff in India is the lowest in this region, driving competition and lowering the margin of cellular companies.

S. No.	Countries	Per Minute Cellular Tariffs (in US Cents)
1.	India	2.5
2.	China	3.5
3.	Bangladesh	6.5
4.	Nepal	6.5
5.	Pakistan	8.4
6.	Sri Lanka	11.0
7.	Bhutan	11.4
8.	Maldives	14.4

As stated, tariff of other telecom services are also one of the lowest in the region creating pressure on margins. For example, the minimum monthly tariff for a broadband connection has come down to Rs. 199 with 400 MB free downloads, which was approximately Rs 1,000 a year ago.

Churn: Churn indicates disconnection of services of a customer from the network. Telecom operators offer various attractive schemes and packages to prevent churn. Churn may take place voluntarily when existing customers move out of the local coverage area permanently or they decide to change their service providers. Churn can also be forced by the service provider in disconnecting mobile services of defaulting or fraudulent customers to keep credit under control. When a customer voluntarily disconnects services, it is termed as voluntary churn. Churn occurs due to seasonal

patterns or also due to aggressive sales marketing by competing operators to increase their own market share.

COSTS ANALYSIS

The major costs incurred by a telecom operator are licensing and network, which account for approximately 50% of total costs. We have analysed the audited financials of three

Costs as % of revenue	Bharti	MTNL	RCVL
Network Cost	40%	23%	25%
Operating & other	22%	17%	44%
Depreciation	13%	10%	12%
Staff Cost	6%	30%	-
Taxes	4%	4%	0.4%
Dividend	NA	NA	-
Reserves			-

leading public listed telecom companies for the financial year ended 31st March 2005.

LEGAL & REGULATORY ISSUES

The telecom industry has faced litigation by tax authorities across the country, some of which have involved almost all existing operators. A few of the key litigations faced by the telecom industry as evident from their annual reports are:

Excise duty on construction: The Central Excise Department has issued show-cause notices on some telecom operators on the grounds that erection of cell sites amounts to the manufacture of telecom equipment and hence duty @ 16% should be levied on the value of equipment installed on the site. Such demands have been stayed or quashed by various commissionerates from time to time. However, many demands are still pending for adjudication before the relevant authorities.

Double taxation: The Indian cellular industry has also faced double taxation issues in case of activation charges and the sale price of SIM cards. Sales Tax authorities include the

value of activation charges in the sale price of SIM cards on the grounds that the activation procedure was incidental to sales. Hence activation charges formed part of sales and were thus liable for Sales Tax. On the other hand Service Tax authorities hold an opposite view stating that the sale of SIM cards are incidental to the provision of services and hence proceeds of sale of SIM cards is also liable for Service Tax. The High Courts of Allahabad in Uttar Pradesh, Punjab & Haryana have rejected the stand of the Sales Tax authorities that Sales Tax should be levied on rentals charged by operators on subscribers. The Supreme Court, in *State of U.P.*

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vs. Union of India, overruled these decisions of the High Courts. However, the Kerala High Court took a different view in the case of *Escotel Mobile Communication vs. Union of India*. The Kerala High Court held that sale of SIM cards included its activation; hence activation charges could be subjected to the Kerala General Sales Tax Act. In the same vein, the Kerala High Court also upheld that the sale of SIM cards and process of activation were both services and were hence liable for service tax payment under section 65(72) (b) of The Finance Act, 1994.

Thus, another writ petition was filed under Article 32 of the Constitution before the Supreme Court in the case of *Bharat Sanchar Nigam Limited and Anr. vs. Union of India and Others*. After a careful analysis of conflicting judgments of various High Courts, the Supreme Court has referred the matter back to the Sales Tax authorities for fresh assessment, while keeping in view the following broad principles:

1. Goods do not include electromagnetic waves or radio frequencies.
2. The nature of transaction involved in providing a telephone connection may be a composite contract of service and sale.
3. If the SIM card is not sold by the assessee to the subscribers but is merely a part of services rendered by service providers, then a SIM card cannot be charged separately to Tax.
4. The High Court also erred in including the cost of services in the value of SIM cards by relying on aspects doctrine. The doctrine does not allow states to entrench upon the Union List and tax services by including the cost of such services in the value of goods.

COST ACCOUNTING GUIDELINES

The Government has issued the Cost Accounting Record (Telecommunication) Rules, 2002 directing all telecommunication companies to maintain detailed costing records vide GSR 689(E) dated 8th October 2002.

These guidelines are applicable to over 17 different types of telecommunication services including basic telephony, cellular mobile, NLD providers, paging companies, PMRTS operators, ISPs, etc. However, there are certain exemptions provided to certain categories of companies. They are:

- (a) Companies whose value of the machinery and plant installed as on the last date of the preceding financial year, does not exceed the limits as specified for a small scale industrial undertaking under the provisions of the Industries (Development and Regulation) Act, 1951, and
- (b) The aggregate value of the turnover during the preceding financial year does not exceed Rs. 10 crore.

The books of accounts maintained under the rules should contain, *inter alia*, particulars specified in annexure to the schedule and Proforma A, B, C and D in the said Schedule as follows:

Proforma A— Capital Cost of Plant & Machinery and Network Equipment: This schedule contains details of Gross Block, Depreciation and Net Block of assets deployed for each business activity of the operator like Basic Telephony, Cellular Telephony, etc.

Proforma B— Statement of the Cost of Operation

Proforma C— Quantitative Information: This schedule requires disclosure of Installed Switch Capacity, Traffic Capacity (in Erlangs), Capacity Utilisation, the number of Points of Interconnection, the number of E1 Links, the total duration of calls, average duration per call, traffic analysis between incoming and outgoing calls, etc.

Proforma D— This schedule requires allocation of various costs to business activities or revenue segments of the company.

These rules provide guidelines for maintaining detailed cost and statistical records in respect of material and supplies, salaries and wages, service department expenses, utilities, repairs and maintenance, fixed assets and depreciation, overheads, royalty and technical know-how fees, interconnection expenses, human resources development, etc. Rule 19 of the said Schedule also makes it mandatory for maintaining records for related parties' transaction and provides detailed definition of related parties.

The cost records maintained under the regulations are intended to help regulators like TRAI and DoT to verify the cost claims submitted by the telecom companies while negotiating a reduction in licensing fee and ADC support or Universal Service Obligation (USO) support, etc. In case of predatory tariffs, the regulator can also inspect the cost records for checking instances of cross subsidy.

It is important to note here that cost accounting guidelines are applicable only to operating companies whereas many of the listed telecom companies are purely investment companies. Hence, shareholders of such companies will not be able to come across any adverse comments

of statutory auditors in case there is any discrepancy in cost records maintained by the company for the operating companies. It has also been observed that as per practice, cost records are not 'audited' by statutory auditors and a general confirmation is included in the Auditors' report that the companies have maintained cost records as required under the Cost Accounting Record rules. Auditors may make the following comment in case of any anomalies: "We have broadly reviewed the books of accounts maintained by the Company in respect of product in pursuant to rules made by the Central Government where maintenance of cost records has been prescribed under clause (d) of sub section (1) of section 209 of the Act, and are of the opin-

While the Accounting Standards issued by ICAI require the companies to use Historical Cost convention as the basis of accounting for financial reporting, TRAI has preferred to implement Replacement Cost Accounting for regulatory reporting on a biennial basis.

ion that prima facie the prescribed records and accounts have been made and maintained. We have not, however, made a detailed examination".

Till date, the Government has not ordered the audit of cost records of telecom operators, which is presumably on the ground that TRAI has already ordered account separation as discussed hereunder which is subject to separate audit by Auditors. This move is intended to avoid multiplicity of audit and reporting by telecom companies.

TRAI GUIDELINES

In its constant endeavour to harmonise the accounting and reporting practises of India's telecom industry to global standards, TRAI has issued many guidelines. One of the most

important guidelines issued by TRAI is the Accounting Separation Guidelines called the Reporting System on Accounting Separation Regulations, 2004 applicable to all service providers providing any of the nine specified telecom services in the existing regulation.

It requires listed service providers to prepare accounting separation reports on the basis of historical cost accounting every year. Every second year the service provider should prepare accounting separation reports based on replacement cost accounting.

By a recent amendment, TRAI has exempted the following categories of operators from maintaining Accounting Separation Records:

- (a) Operators whose annual turnover in the previous year did not exceed Rs. 25 crore, and
- (b) Standalone operators who operate in single segments like ISP, Radio Paging and PMRTS. Currently the rules are applicable to nine categories of service providers.

The Reporting System on Accounting Separation Regulations, 2004 provides a clear year-on-year indication of the service provider's financial performance within each of the services. The main objective of the Accounting Separation Regulation is to measure financial performance of individual services and to identify cross-subsidisation across services and to help detect predatory pricing, etc. This exercise also helps the operator to provide audited cost figures for tariff setting.

The Cost Accounting Telecom Rules notified by the Ministry of Finance apply only to companies with a minimum turnover of Rs. 10 crore or less for the previous year. While keeping this limit in mind TRAI also has concluded that a higher ceiling of around Rs. 100 crore would not have allowed many standalone operators access to significant market share in services like VSAT. Also, a lower ceiling of around Rs. 10 crore may have resulted in the Regulation being applicable to operators providing standalone service like PMRTS or to standalone operators

having insignificant market share when compared to their competitors. Thus, the limit was defined at a turnover of Rs. 25 crore. Since most service providers with a turnover of Rs. 25 crore or below provide service like PMRTS, internet, radio, paging, etc and for which tariffs are forborne, their accounting separation reports may not be required.

Further, the Regulation also requires that the accounts prepared under the separation guidelines have to be audited by an Auditor other than the Statutory Auditor. The Regulation also permits a Chartered Accountant to carry out the audit of accounting separation records and thus opens up a lucrative opportunity for the CA fraternity. The auditor's report, together with the audited Accounting Separation Statements must be submitted by the operators to TRAI. A copy of the audited Annual Financial Statements should also be submitted by the operators along with the Accounting Separation Statements within six months of the end of the Financial Year to TRAI and should include the Auditor's opinion on following:

- Any material non-compliance with the OASM pertaining to the accounting separation and the impact thereof, if any.
- Whether all changes to the OASM that materially affect the accounting separation for the period have been filed with TRAI.
- Any other matters arising from the audit, as the operator considers necessary, would have to be reported.

Current Cost Accounting Under Accounting Separation

Historical costs have often been criticised for "providing a poor guide to resource allocation and investment decisions". This is particularly so in the case of telecommunications where technological changes are rapid and declining costs are common. The costing of services based on historical accounts at times give very different results from those based on current costs. The costing of interconnection usage,

ports, etc based on replacement/current costs by various telecom regulators is common. Hence, economic decisions regarding allocation and investment in telecommunications services or infrastructure are most often forward looking. In general, current costs are considered to better reflect the price of access to a network, as measured by costs that would be faced by a hypothetical new entrant (i.e., an efficient competitor).

Current cost accounting measures are currently the preferred method in the UK and the European Union and are gaining broader use in North America. While the Accounting standards issued by ICAI require the companies to use Historical cost convention as the basis of accounting for financial reporting, TRAI has preferred to implement Replacement cost Accounting for regulatory reporting on a biennial basis. These guidelines are now applicable to four operator categories i.e. basic services, national long distance operators, international long distance operators and cellular mobile telephone services.

TRAI has further advised that in maintaining accounts on current costs, operators should adopt the Financial Capital Maintenance approach (FCM) as against the Operating Capital Maintenance (OCM) approach. Further, keeping in view international standards and considering the complexities involved with development and implementation of the LRIC Model, Accounting Separation should be implemented on the basis of the FAC. The implementation of LRIC for Accounting Separation should be reviewed at a later date.

Additional Financial Records: Chapter VII of the Guidelines requires telecom companies to maintain additional records and documents over and above the Guidelines as set out in Section 209 of the Companies Act, 1956 and Cost Records Guidelines. These additional requirements pertain to Fixed Assets registers, Cost records, Statistical records and Production Records. Stipulations on cost records are broadly on the same lines as provided in the

Cost Accounting Record Rules, 2002. However, by mandating the maintenance of Statistical and Production records, TRAI has ensured that total transparency is ensured and adequate records are available for inspection by Auditors and Regulatory bodies.

Companies providing any of the services as previously mentioned are required to prepare an Operator Specific Accounting Separation Manual. The auditor would have to make a reference in his report on the following aspects:

- Any material non-compliance with the Operator Specific Accounting Separation Manual (OSAM) pertaining to the accounting separation and the impact thereof, if any.
- Whether all changes to the OSAM that materially affect the accounting separation for the period have been filed with TRAI.
- Any other matters arising from the audit, as the operator considers necessary, would have to be reported.

India is not the only country where a telecom regulator has mandated operators to maintain replacement cost accounting. A similar legislation in Australia called 'The Accounting Separation Direction Australian Competition and Consumer Commission' (Accounting Separation Telstra Corporation Limited) Direction (No. 1) 2003 requires Telstra to produce reports that provide:

- Regulatory accounting records for core services based on current costs as well as on historical cost basis.
- An imputation analysis comparing Telstra's retail prices with the costs (vis-à-vis its competitors) of Telstra's core wholesale services and
- Key performance indicators on non-price terms and conditions that compare Telstra's service performance between its retail and wholesale customers.

The reports must be compiled on both a six-monthly and yearly basis. Also, the ACCC is required to report on the accuracy of the reports

and the extent to which the reports comply with the RAF. The ACCC is also required to publish its report and financial statements and make them available to the public.

GAP IN REGULATORY LEVIES

It is interesting to note that India's growth is always compared to China's. However, telecom analysts miss two major points. First, the regulatory levies in China are much lower, and second, all four telecom companies of China are state-owned, thus having preferential treatment on regulatory and licensing issues.

The following table gives an insight on regulatory levies in India and its neighbouring countries.

accounting issues surrounding auditing for the telecommunications industry like revenue recognition, network sharing, and revenue reporting are complex and differ from operator to operator. The ICAI may consider issuing guidance notes on various accounting and reporting issues for the telecom industry to bring about uniformity in reporting.

Today Chartered Accountants in the telecom industry not only manage accounting and financial issues but also manage core operations like billing, revenue assurance, collection and credit control and regulatory issues. The role played by Chartered Accountants in the telecom industry has been well appreciated by industry captains, bankers, financial institutions and regulatory bodies.

Regulatory Levies on Mobile services in some developing countries				
	Pakistan	Sri Lanka	China	India
Regulatory charges	% age of revenue	% age of revenue	% age of revenue	% age of revenue
Service Tax, GST	GST	VAT	3%	8% + GST
License Fee	0.5% + 0.5% R&D	0.3% turnover (t.o.) + 1% of capital invested (inv)	Nil	5-10%
Spectrum Charge	Cost Recovery	-1.1% of t.o.	-0.5%** (China Mobile)	2-6%*
USO	1.5%	Nil (only on ISD calls)	Nil	Incl in License Fees
Total Regulatory charges	2.5% + GST + cost recovery	= 1.3% t.o. + 1% inv + VAT	-0.5% + 3% (Tax)	15% - 24% + GST
* Backbone spectrum charges extra				
** Estimated from spectrum fees & revenue of China Mobile				

CONCLUSION

The Indian telecom industry is yet another example of rapid growth in the infrastructure sector. Chartered Accountants have played a great role in various functions in the telecom industry in addition to core finance, for example, tariffs, regulatory, revenue assurance, business support, product designing, process implementation, etc. However, many of the

India has become one of the fastest growing mobile markets in the world and has caught up with Chinese numbers by adding around 4 to 4.5 million subscribers per month. This was just a dream 2 years ago. In order to provide impetus to telecom growth, the role of the private sector needs to be supplemented with adequate support from the Government including rationalisation of levies, spectrum provision, etc. □