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CMA AUSTRALIA

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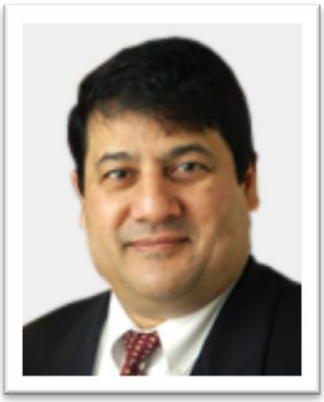
CEO Message

Mutual Recognition Agreements and IFAC



The ICMA is often asked two different but related questions: (1) do you have any *Mutual Recognition Agreements (MRAs)* with other global professional accounting bodies, and (2) is ICMA a member of the *International Federation of Accountants (IFAC)?*

In answering the first question, it is worth noting that *The Institute of Certified Management Accountants (Australia)* was formed as the ***only*** global *specialist management accounting body* operating at the *post-graduate level*. In other words, the ICMA draws its membership mainly from individuals who are already members of other professional bodies which operate at the school-leaver and undergraduate-level of education and training.

The ICMA therefore is ***not*** a generalist professional body with large numbers of members; but instead an *exclusive* specialist body with tight controls over who does our education programs. Other large global management accounting bodies allow their courses to be taught by training organisations and individuals external to them; and controls quality by only running the examinations. ICMA (Australia) does not permit unrelated third parties to teach the course syllabus. Only ICMA trained professionals are permitted to teach the CMA program via *Recognised Provider Institutions*; and all assessments are done only by ICMA.

This difference in approach to training specialist management accountants makes it difficult for ICMA (Australia) to enter into any *Mutual Recognition Agreements* with other global professional accounting bodies. Most MRAs require full reciprocal membership rights; which is not possible as CMA (Australia) members require all members to complete the 2 post-graduate level subjects: *(1) Strategic Cost Management and (2) Strategic Business Analysis*; no matter what their previous educational and professional training is. This quality requirement required of our members will not be compromised by ICMA when entering into MRAs.

This brings me to the second question: i.e. is ICMA a member of the *International Federation of Accountants (IFAC)?* The IFAC is now only a body for the *financial accounting profession* after that body closed its management accounting section about 5 years ago. Some management accounting bodies resigned from IFAC at that time [e.g. IMA (USA)]; whilst others continued their membership for their own strategic reasons [e.g. CIMA (UK)]. The IFAC draws its membership from a wide variety of professional bodies including those at the Accounting Technician and Bookkeeper levels. For these reasons, the ICMA has not applied for IFAC membership.

From time to time ICMA conducts its own review of members' wishes regarding IFAC. In the past ICMA members have overwhelmingly voted ***not to apply*** for membership of the *International Federation of Accountants* (IFAC) as it sees no strategic reasons for doing so. However, at the last AGM (November 2013) two committees were formed: (1) to look into the strategic reasons and costs associated with joining IFAC and (2) to explore the possibility of joining with other management accounting bodies to set up a global body Management Accounting Collaborative; with similar objectives to IFAC, but with a focus only on management accounting.

When these reports are in; I will communicate the results to all members.

Best Wishes to all members in their professional life.

Professor Janek Ratnatunga

CEO, ICMA Australia

How the Cloud Will Be Capitalized?

By Scott Bergquist

In December, Google announced its launch into the public cloud as a direct assault on Amazon, IBM and Microsoft, betting it can be the systems infrastructure for corporations. Businesses of all kinds will be built on top of such computing power and storage capacity. But how are SaaS (software as a service) and IaaS (infrastructure as a service) vendors (other than the giants) going to be capitalized and financed to enable the next leap in cloud computing?

Relative to the enterprise software sellers of the past, SaaS companies require less upfront dollars to build infrastructure (e.g., servers). By some estimates, the application company of the past required 10x to 100x the capital to realize the same enterprise value. But SaaS companies confront greater working capital challenges. Those challenges come from client acquisition and on-boarding.

Recurring revenue business models are also uniquely measured. The metrics are committed monthly recurring revenue (CMRR), customer lifetime value (CLTV), customer acquisition cost (CAC) and customer churn. For a SaaS company, these distinct attributes help determine enterprise value and the likelihood for sustained growth in value over time.

The inherent “stickiness” of recurring (and committed) revenue yields a valuation premium over traditional enterprise license, or non-recurring, sales models. But financing such models requires working capital and growth capital structures that are non-traditional.

Capitalization Scenarios

Financing cloud-based businesses can be difficult through traditional means. That’s because recurring models make a trade-off at inception: a lower-priced perpetual revenue stream with higher long-term value, versus a traditional revenue stream with higher initial price but lower long-term value.

The recurring revenue model can be worth more over time and require less capital to fund. But fixed assets, front-loaded expenses associated with client acquisition, and on-boarding put demands on the internal cash flows, debt, and equity needed to support growth.

Cash Flow. A few cloud-based companies are able to capture sufficient cash flow to grow organically without institutional capital. Few can do so without the benefit of a cash-cow elsewhere in the business, though. In the SaaS model, there is an inherent mismatch between client acquisition expenses and subscription revenues. Client acquisition costs (CAC) can equal several months of revenue, putting enormous pressure on a fast-growth company to manage a positive working capital position. As growth rates are king for SaaS companies to stay competitive, it is difficult to pare back these sales and marketing expenses, and revenues will not flow until the software is successfully installed and integrated with existing systems — both are material, front-loaded expenses. Accordingly, fast organic growth exceeding 80 percent CAGR is rare, except for a company with a product that is “pulled” into a large market opportunity and is relatively self-serve for new clients to load and run.

Debt. Recurring revenue models, like cloud-based SaaS and IaaS, provide a strong platform for leverage with or without positive cash flow. A few bank and nonbank debt providers are delivering "recurring revenue lines of credit" (RRL) to address the strain that front-loaded client acquisition costs can put on working capital and precious equity. RRLs are a relatively new debt product. They require an untraditional underwriting approach, as the borrowers do not have adequate supporting assets (like accounts receivable) or cash flow.

Broadly, debt providers are willing to lend a multiple of several months' revenue on the premise that committed monthly recurring revenue (CMRR) is highly predictable and sales expenses are variable — and decoupled. Unlike a company that sells widgets, a high percentage of a SaaS company's forward top-line revenue will be already baked and independent of any incremental marketing spend. Accordingly, RRL commitments range from 1x to 12x CMMR. This is possible because a lender's downside modeling will show that existing client revenue can be quickly turned into cash flow and service such debt loads. Lenders factor growth rates, revenue granularity, client churn and billing frequency into their borrowing formulas. Companies with positive EBITDA can find even more aggressive borrowing multiples beyond the aforementioned range.

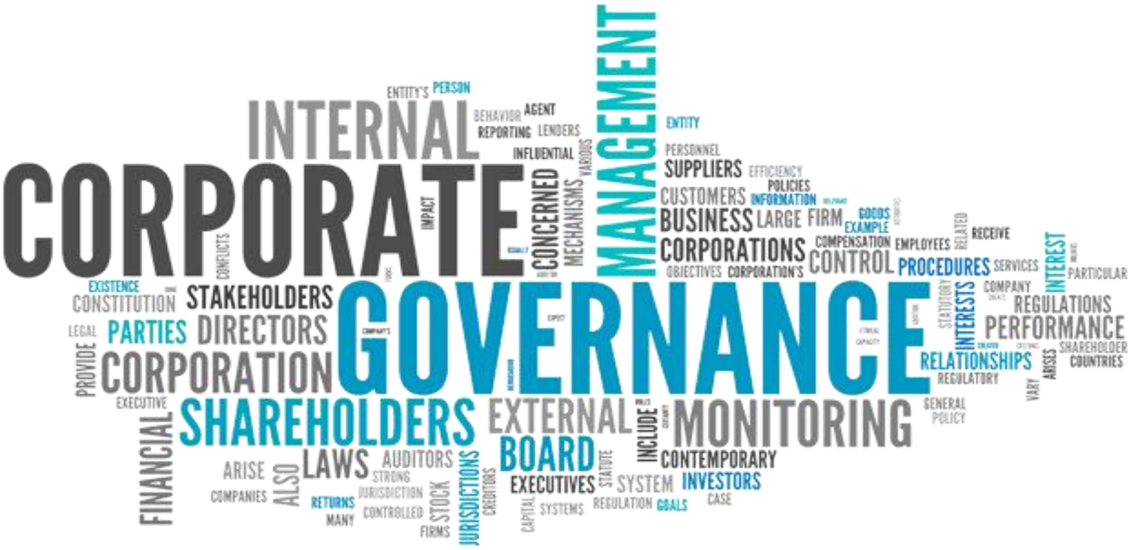
Equity. Institutional equity is a preferred path for fast-growth SaaS companies that are selling, marketing and on-boarding at rates that can double top-line revenues year-over-year. While equity represents the highest-cost capital for an entrepreneur, it can also accelerate enterprise value and offers inherent advantages: committed funds, flexibility relative to debt and certainty relative to yet-proven organic cash generation. The cost or valuation multiple will be a function of current sales and forecasted, defensible net growth rates. Many investors have modeled (as Scale Venture Partners has) that companies will need initial growth rates in excess of 80 percent and not slow that growth more than the norm of 10 percent to 20 percent per annum to achieve a targeted venture return of 10x in five years.

Companies interested in financing their cloud-based business via an external debt or equity source must have tracking and reporting tools that explain the real performance metrics that drive value in their businesses. The best cloud-based managers are data geeks, relentlessly measuring and making adjustments to front-end sales or back-end support in pursuit of increasing acquisition and retention.

Additionally, early and periodic conversations with potential financiers are critical to optimize timing and cost. For example, an RRL facility could be the perfect tool to help reach a significant recurring revenue threshold before securing a larger equity round with significant step-up in valuation.

Scott Bergquist is the central U.S. division manager for Silicon Valley Bank, overseeing business development and client relationship activities with 2,000 companies and managing more than $1 billion in committed capital. He specializes in financing solutions for high-growth technology and life-science companies. Gary Jackson of Silicon Valley Bank in Salt Lake City contributed to this column.

Source: CFO.com



Corporate Governance, Firm Characteristics and Earnings Management in an Emerging Economy

By Nelson M Waweru and George K. Riro

The main motivation for this study is to examine the relationship between the quality of corporate governance and earnings management in a developing country, Kenya. Specifically this paper investigates the influence of corporate governance characteristic (Ownership structure, Independence of the Audit Committee and Board Composition) and firm specific characteristics (Firm size, Firm Performance and Leverage) on earnings management by Kenyan listed companies. We seek to contribute to the debate of whether good corporate governance may be viewed as a prerequisite to good business (Che Haat et al., 2008) by reducing earnings management.

Whereas many of corporate governance studies have been carried out in developed countries of Europe, United States of America (USA) and Japan (Joshi and Wakil, 2004), only a few studies have been completed in developing countries of Africa (for example Uddin and Choudhury, 2008). According to Zoysa and Rudkin, (2010) empirical studies on corporate governance and reporting quality reveal that the majority of them have been conducted in countries with developed capital markets, and studies conducted in countries with emerging capital markets are extremely sparse. The conclusions of the studies conducted in developed capital markets cannot be considered as applicable to emerging capital markets due to the large differences in political, cultural, technological, economic, and social factors between the two markets. It is therefore necessary to study the question of quality of information reported by Kenya listed companies (an emerging capital market) and examine whether corporate governance and firm specific variables have an impact on the quality of this information.

The main objective of this paper is to investigate the influence of corporate governance and firm specific characteristics on earnings management in Kenyan listed companies. The study extends research on the quality of reporting by examining the impact of corporate governance and firm specific variables on earnings management in Kenya.

The results of this study are important to investors in developing countries, who must interpret financial statement numbers reported by companies while making investment decisions. Furthermore, the study contributes to our understanding of how corporate governance influences financial reporting in developing economies, such as Kenya.

Overall results indicate that corporate governance plays an important role in enhancing the quality of reporting in Kenya Specifically, the study found that companies with concentrated ownership structures are more likely to engage in earnings management. These findings are important to developing countries such as Kenya where ownership structures are reported to be highly concentrated, hence the need for regulators to offer more protection to the minority shareholders. Our findings also suggest that firms with more independent boards are less likely to manage their earnings. We therefore argue that the boards that are dominated by non-executive directors may constrain manager's motives hence improving the quality of reporting. The results support the recommendations of the KCMA (2002) which calls for a board consisting of a balance between executive and non-executive directors preferably with a majority of NEDs, of who a majority number should be independent.

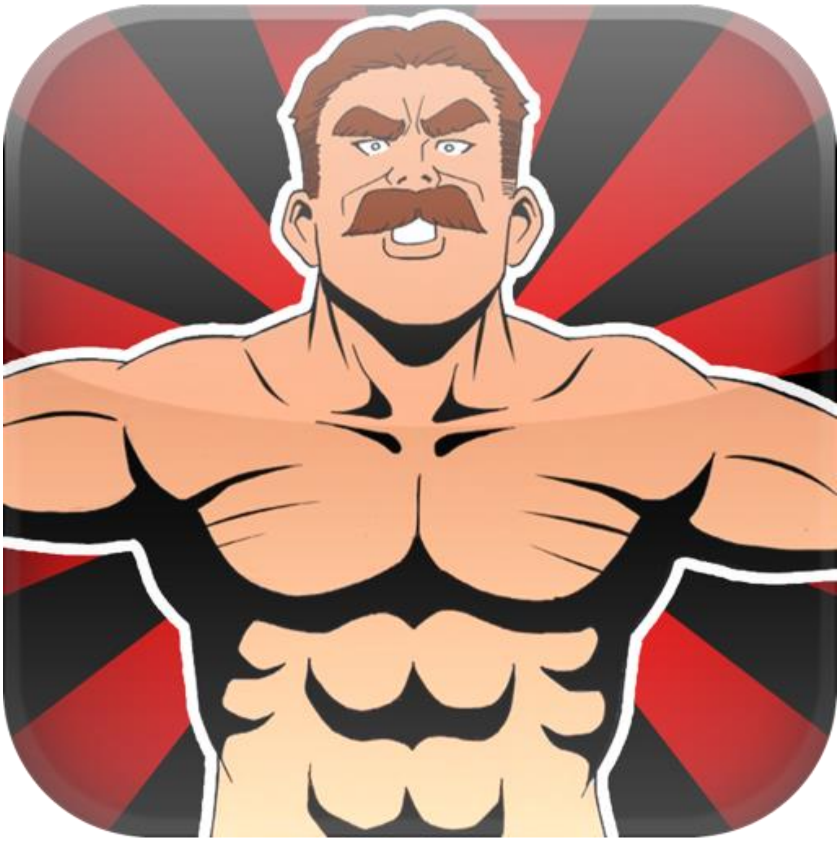
The results provide empirical evidence to policy makers that corporate governance and firm specific variables are associated with quality of reporting. Therefore companies should re-examine the criteria used in selecting their directors and ensure that corporate boards are more independent. This will ensure that the directors are accountable to the shareholders with a ripple effect of improving investor confidence. Interestingly the relationship between the independence of the audit committee and the levels of earnings management was not significant. Previous

studies Waweru and Uliana, (2005); Bokpin and Isshaq, (2009) and McGee, (2009) have argued that most developing countries suffer from a lack of skilled human resources, suggesting that companies in developing economies may experience difficulties in attracting people with accounting or finance knowledge to their audit committees. This may make it difficult for Kenyan boards and their audit committees to monitor and control financial reporting. Overall our findings suggests that investors can rely more on the financial reports of firms with lower debt to equity ratios, higher proportions of outside directors, and with more dispersed shareholding.

This study is not without limitations. First only listed companies have been included in the study and the quality of information reported by unlisted companies represents a limitation of the study. Restricting the study of quality of reporting to publicly traded corporations excludes a significant and most efficient institutional arrangement for undertaking productive activities. Secondly like many empirical studies that rely on disclosed proxy data, proxy disclosures may not represent all aspects of corporate governance practices. As discussed in section 2.3, the accrual methods of detecting earnings managements have several shortcomings and these are some of the limitations of this study. Further research may be directed in comparing the findings of this study with findings that relate to firms operating in other developing countries of Africa.

Download full research paper

A 'Six-Pack' of Tips for Aspiring Entrepreneurs



(BPT) – In 1984, armed with his great-great-grandfather's recipe, Jim Koch brewed a batch of beer in his kitchen. Shortly thereafter, equipped with bottles of his cherished brew, Koch went from door-to-door tenaciously selling it to local bars and restaurants.

He recognized early on that to be successful, the journey will come with mistakes – potentially million dollar mistakes. Drawing upon both past feats and failures, Jim Koch offers up a collection of lessons and tips he's used throughout his journey to make Samuel Adams one of the leading independent American craft breweries and a successful business.

Better and cheaper

One of the first valuable lessons Koch learned was that if you're going to bring out a new product, it has to be better or cheaper than the competition. If your product is neither better nor cheaper, you are not adding value for customers; and you probably don't have a business. Once Koch decided to start a beer company, he believed that by using quality ingredients and a traditional brewing process, he could make a better beer than anything that was on the market during the 1980s.

Think big, start small

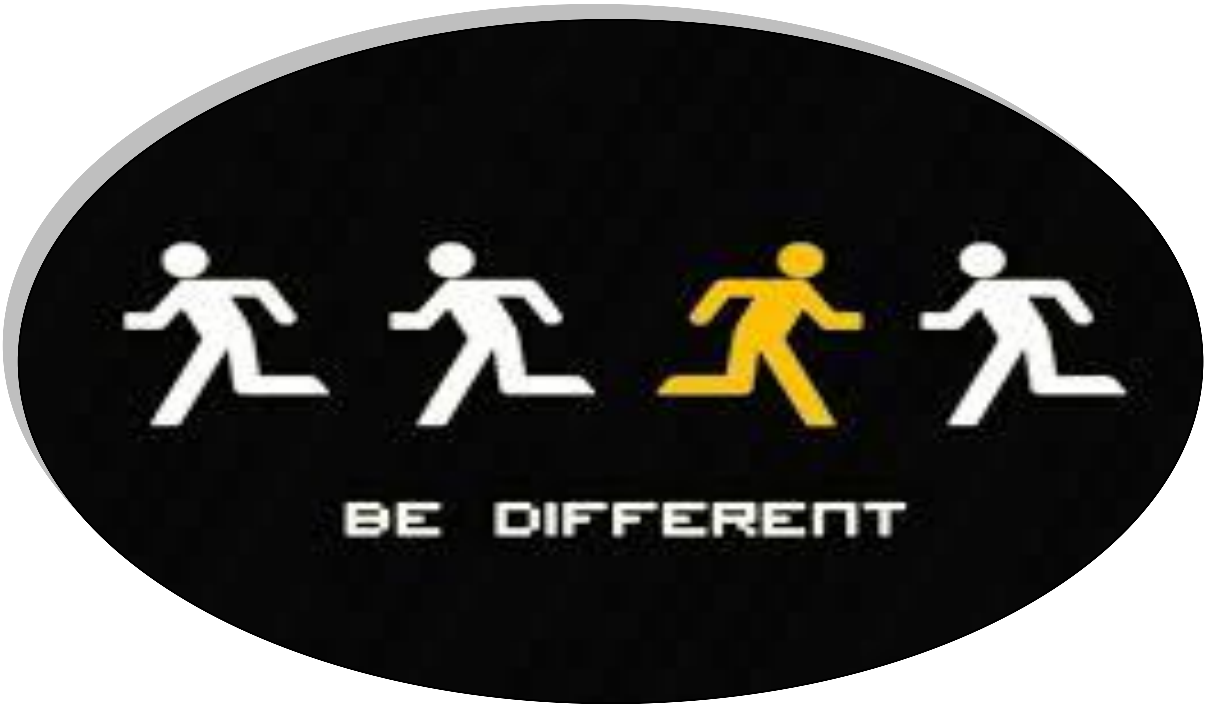
Koch admits that early on, he occasionally forgot the simple truth that a business really starts when a customer buys your product. Luckily, his uncle reminded him of that one morning just before the first batch of beer was ready. Jim recalls, "My uncle called and asked what I had been working on. I told him that I planned to buy a computer to track sales. He pointed out that I didn't have any sales to track and suggested instead that I spend my time actually getting sales. Immediately, I got it. It all starts with your first customer." From that day forward, Koch followed the adage, "Have a big idea but start small."

We're all salesmen

When Koch was a student, Harvard Business School offered about 22 courses on marketing and not a single course in sales. Therefore, there was nothing that prepared students for the abject terror of a sales call. It was March 1985 when he walked into a local restaurant and delivered an ill-prepared pitch to a man behind the bar, who stood silently throughout. In that humbling moment, Koch gained instant respect for all sales people, and vowed to acquire selling skills. Great salesmen are sometimes born, but they can also be made. Today's business culture doesn't always pay adequate respect to the job of selling. Koch urges all young entrepreneurs to never look down at salesmen, because if you start a company, you become your first and most important salesperson.

The string theory

In the middle of graduate school, Koch decided to take a break and became a mountaineering teacher at Outward Bound. The program teaches participants self-reliance, teamwork, creativity and how to handle challenges. Through his teaching, Koch developed something he likes to call the "string theory." At the beginning of each four-week course, participants were given a supply of alpine cord (heavy nylon string) for lashing gear, pitching tarps, etc. Consistently, if participants received plenty of string, they would run out and need more. But, when they were given less and told they had only two-thirds of what they really needed, they would get incredibly creative and make the cords last.



Company values

In the beginning, when local distributors declined to carry Samuel Adams, Koch had to become his own distributor and sales force. He carried chilled bottles of Boston Lager to bartenders around Boston. They admired the fact that Koch was so hands-on, opting to brew small batches, rather than trying to compete with the larger brewers mass-producing mainstream beers. These early practices are the same ones Koch uses today. When you start your own company, be sure to instill a solid foundation of operations and processes throughout every step of the journey, to ensure that your business stays true to your philosophy and values.

Getting rich is life's great booby prize

Although the promise of financial success is what motivates some people to start their own businesses, the fact is money is nothing if you're not happy. Often, when young entrepreneurs embark on the journey of starting a business, they do it with the goal of getting rich. The unfortunate fact is that about 90 percent of businesses fail within the first five years. And, most of the businesses that do survive don't create great wealth for the owners. If your objective is to accumulate wealth, starting a business may not be the wisest path. On the other hand, if you get into business doing something you love, you have a very high chance of being happy. Ask any person: would you rather be rich, or would you rather be happy?

Koch knew he had to focus on the activities that provide the best return on time invested. To this day, he still tastes a sample from every batch, keeping an obsessive eye on quality and flavor. From the people to the product, Koch is as involved in the company's day-to-day operations as he was when Samuel Adams started. He makes decisions based on what's best for the beer, not the bottom line.

Indian Branch Also Servicing Members in Indian and African Subcontinent

The CMA Australia – Indian Branch will also service members in India, Pakistan, Bangladesh, Nepal, and Countries in the African Subcontinent from Feb 2014.

Members and potential members can get more information on www.cmaindia.co.in.

The CMA Executive Program was held in February. Prof. Janek Ratnatunga with participants during the seminars.

Sri Lanka Branch Organised Networking and Social Activities

CMA (Australia) Sri Lanka branch organised a number of events including many social days trips for networking and professional development purposes. A Seminar titled Finance vs Marketing was co-sponsored with CIMA. Before is a pic from the 2013 CMA Group with Professor Janek Ratnatunga.

Philippines Organized Series of CPD Activities

CMA Philippines organized series of CPD activities for members last year. Among the topics that were featured in the CPD events include seminars and training *on Strategic Planning and Budgeting, Balanced Scorecard Intensive* and *Activity Based Costing Using Excel*.

The training was handled by seasoned CMA professionals who shared their knowledge and corporate experience. More than 100 participants in total have attended all the CPD activities organized by CMA Philippines. Last year, a simple Christmas party was also held at the ESDA Shangrila Plaza Hotel for CMA graduates.

The party was organized by the CMA graduates themselves.

Hong Kong Office New Year Cocktail

The new year cocktail was hosted at the Hong Kong office on 17 January 2014. Over 80 members and friends of CMA Australia has joined the cocktail and enjoyed the opportunities in meeting new friends. This event is proudly sponsored by a CMA member from Ascent Partners.

What's On in the World of the CMA?

- Feb 2014: CMA India CMA Program run by the Academy of Professional Education (Mumbai, India)
- Feb 2014: CMA Sri Lanka CMA Program run by the Academy of Finance (Colombo, Sri Lanka)
- March 2014: Telekom Indonesia CMA Program (Jakarta, Indonesia)
- March 2014: Hong Kong CMA Program (Hong Kong)
- April 2014: CMA Previews – MultiMedia University (Kuala Lumpur, Malaysia)
- April 10 & 11, 2014: Strategic Planning & Budgeting Program (Pasig City, Philippines)
- May 2014: Wisdom CMA Program (Dubai, UAE)
- May 8 & 9 2014: Balance Scorecard Intensive Program (Pasig City, Philippines)
- May – July 2014 – Business Sense CMA Program (Mandaluyong City, Philippines)
- June 2014: AFA CMA Program (HaNoi, Vietnam)

Private Providers

Navitas Workforce Solutions, Australia

Wharton Institute of Technology and Science (WITS), Australia

Academy of Professional Education, India

The Institute of Chartered Accountants in Sri Lanka (ICASL), Sri Lanka

Academy of Finance, Sri Lanka

IPMI (Indonesian Institute for Management Development), Indonesia

Multimedia College (MMC), Malaysia

Business Sense, Inc. Philippines

HBS for Certification and Training, Lebanon

Wisdom Group of Institutions (UAE)

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