



Demystifying Parta system

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The Parta system originally conceptualized and structured by Mr. Ghanshyam Das Birla was an extremely pre eminent system of accounting way back in 1800 century, the concepts of which have been successfully integrated into the relevant costing modules of modern times. Using Parta system, every Birla group firm provided informed estimates of how much it cost to manufacture a given quantity of their product. Based on it and the expected profits corresponding to the sale price, the promoters sitting at their gaddis in Kolkata or Mumbai compared the unit's actual daily earnings to the normative parta cash flows. If substantial deviations occurred, a trouble-shooter was sent to check out the ground situation and report back. This parta system was not only adopted by all the family members and the managers of the Birla firm but also by many of the other business communities of India

It is the control device in Micro terms for time, product mix, consumption & yield of raw material, logistics, sales volume & profit / loss. Micro level control on profitability can only be exercised if regular utilization efficiency reports for prime performance parameters are made and analyzed scientifically. In order to high light the impact of efficiency lower or higher than specified norms impact charts be made and supplied to all concerned. In this system the yearly budget was divided on a daily, monthly and yearly basis. The production cost of every machine is cast separately after which daily output was rated. The advantage of this was that the daily profit and loss could be ascertained easily. Not just this the drawbacks could be known immediately enabling timely action to be taken.

With Parta System, thus, complete information about the monthly and daily profit and loss could be known on the same day. It acts as a daily health check of the business

Conventional profitability statement or balance sheet is neither cost specific nor related to output of prime performance parameters. under Parta system total expenditure against each head for each department with specified "Partha" norms is be compiled, monitored and analyzed at regular intervals. Close monitoring and effective corrective action for all deviations noticed in the "Partha" statement is the key for managing profitability of business operations. All departments record all below norms performance entries in red ink so as to high light areas that need prompt attention of top management and all concerned. Profits projected in overall "Partha" profitability report can only be achieved if all departmental heads keep their focus on their prime

performance parameters. Goals, objectives and tasks relating to all prime performance parameters are clearly specified and resources are made available and progress closely monitored under Parta system.

Feature of Parta system

- Parta is a system of establishing return on Investment based on Cost Management.
- Parta is the financial performance monitoring system for any organization which indicates Profit/ Loss on daily basis.
- Parta is a convenient and efficient mechanism for control and monitoring
- It is MIS tool
- Parta challenge and controls and generates competition to perform better than the best.
- It enables Corrective actions to be taken in time .
- Parta mandates that each and every rupee spent either towards capital expenditure or revenue expenditure must earn in a pre decided time
- Parta monitors Not only Production or Sales but almost all aspects of cost and revenue.

How Parta system operates

Parta is normally made at the start of Project / New Plant / New Machinery / New Product Manufacturing. Target v/s Daily Working is explained by Head of function. All information is validated by discussion & questioning with related persons.

Parta is of 2 types:

- Production based: capacity of each equipment was based on a guarantee of production given by the manufacturers of the machine who studied the factor that enabled the overshooting of the rated production. Estimates of investment would give the capacity of the project in cases where supply was lower than demands.
- Market based: for items where demand was lower than supply, the parta system was based on projected estimates of the demand in the market.

Working of parta provides details of :

- INPUT Raw Material (a) Mix (Quantity), (b) Source, (c) Quality
- Production Cost, (a) Capacity Utilization, (b) plant no of days running in year

(3) Selling & Administrative Cost per Unit of Product, 1) Fixed 2) variable

(4) Marketing & Advertising costs: one-time and Regular. Parta is a dynamic concept that has proved its worth during the last 100 years of Birla record of growth. The group organizes Parta conferences at different places, and different unit teams deliberate almost all the aspects so as to determine targets for expenses and savings that generates a healthy competition amongst the units and ultimately the Bottom-lines are improved for all the organizations. Parta is thus a powerful tool for ensuring the continued viability of the unit.

In Parta system a unit-in-charge is responsible to the chairman of the company or group. Further, the performance of the unit-in-charge is monitored by the group chairman based on important variables like daily quantity of production, value of production, sales, material consumed, cost of material consumed, fixed costs, profit etc. The person in charge gives his explanation for the exceptional items to the chairman who evaluates the performance of the unit-in-charge.

The 'parta' represents the commitment of the unit in charge to the chairman of the company or the group. It is arrived at taking into account various factors like manufacturing capacity, operational efficiency, consumption norms, market situation, supply of materials, and labour productivity. The performance of the unit in-charge is monitored on a daily basis by the group chairman on key variables like Quantity produced, Value of production, Sales, Material consumption, Fuel efficiency, Material cost, Variable conversion cost, Contribution, Fixed costs, Profit, Cash flow. The rewards to the unit in-charge are linked to the extent to which the 'parta' commitment is fulfilled.

Many variations of Parta have evolved over the centuries. But, at the heart of all the different variations, the underlying principle remains the same: at the end of the day, there should be a net inflow of cash into the system. If there isn't, something somewhere needs fixing. In making parta one may challenge norms & its controls generate competition to perform better than the previous best. Parta monitors all aspects of business not only sales or production. It is a dynamic concept, which changes with any major change. Main parta has full details of working running into more than 100 pages while daily review is on one sheet and the monthly review goes up to 10 sheets.

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Contrary to what is commonly believed, the Parta system actually holds equal if not more relevance today. The ubiquitous costing model prevalent in most industries originates from the Parta system. The Cash flow Return on Investment (CFROI) functions as a kind of computer spread sheet era version of the Parta system

Parta - Not a Penny More Not a Penny Less

Parta is like a daily health check for any business. broadly a system that indicates profit and loss on a daily basis-net to pocket. Parta is a convenient and efficient mechanism for control and monitoring. Essentially, it emphasizes the speed of reporting, even sacrificing some accuracy in the process. So there is a mental pressure on the manager to perform daily. The simplicity and continuity in monitoring and control mechanism on a regular basis makes the system very across a wide section of industries. Mr. Kumar Mangalam Birla swears by it. "It is a timeless concept and can be applied even 100 years from now. Though it may no longer be fashionable, many of our businesses still have what I'd call an informal parta system, super-imposed with modern reporting. Parta epitomises the dictum -watch the money, delegate but monitor, plan but have a style and system, lead to expand and do not let the system inhibit growth, the right corporate culture, do not get blown away by fads and do not miss new developments.

References

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OBITUARY

CMA Suyog Hanumant Gavali, (M/44589) passed away on 27th September 2018 at Pune due to ill health.

CMA Vaijnath Ghule, final passed from December 2017 Batch passed away.

May the departed souls rest in peace.