

INDIAN RAILWAY ACCOUNTING – PRESENT AND PROSPECTIVE

- V.A.PADMANABHAM, IRAS
ADDL. DIRECTOR/CTARA

Indian Railway accounting system is designed in such a way to suit the requirements of Government department by following Government Accounting principles and as well as on the lines of a business enterprise having to maintain accounts on commercial principles following commercial accounting practices. Government accounts are kept on actual basis – receipts and payments where outstanding expenses and income and prepaid expenses and income accrued but not received are not taken into consideration where as commercial accounts require such items to be identified and accounted. On Indian Railways, the Structure of Accounts followed is explained in detail in Indian Railway code for Accounts Department volume I.

Of late, discussions are on regarding accrual accounting and the need to implement the same in Railways. This needs a question as to type of accounting followed in Indian Railways. Is it single entry system or double entry system followed? Is it cash based accounting or accrual accounting? The present article aims to discuss these aspects and also to propose changes required to completely shift to accrual accounting based on the commercial principles.

Way back in the year 2007, there was an article published in Business Line by Smt Vijayalaxmi Viswanathan, Retd FC/Railways on accrual accounting. The article highlighted the following points.

- The article discussed the points in favor and against the accrual accounting system.
- This system provides improved management information, particularly on cost and assets including working capital management leading to better informed decisions by management.
- The points against accrual accounting include, inter alia, difficult to implement and very expensive, element of subjectivity involved in recognizing and measurement of assets and prone for manipulations.

It is stated by the learned author in the above article, that Indian Railways is better placed and one of the most adaptable government departments. to migrate easily to accrual accounting system. The practice of Operating suspense accounts like Traffic Suspense and Demands Payable etc., lends itself to changes system of accounting.

IR is maintaining its accounts in a well-structured way in a great degree of detail and it has well-meaning accounting classification introduced in 1979 which clearly separates Capital expenditure and Revenue expenditure and is highly computerized system with vast scope for analysis and serves as a vital tool for decision making. Costs are segregated as Fixed, Variable and Semi-variable lends itself to costing of services, though not exactly as commercial costing.

Features of Indian Railways accounting system: The system of accounting envisaged and practiced in IR has following features:

- Indian Railways maintain accounts in two sets viz., Government Accounts on actual basis and Commercial accounts on commercial lines.

- Finance accounts are compiled for submission to Government to provide information on ways and means and satisfy the requirements of Government accounting.
- Monthly account current is compiled by each accounting unit and consolidated at Zonal and Railway Board level for further submission to the Finance Ministry for knowing the ways and means position of Railways. The Account Current is simply a statement of receipts and payments.
- As a commercial enterprise, as IR to keep its accounts on commercial basis and the same are known as Capital and Revenue accounts. The various processes followed in account of earnings and expenses lead to compilation of these accounts
- Both the set of accounts explained above are effectively linked by operating the suspense accounts which Traffic account, Demands Payable and Labour.
- Simply stated, Debt and Remittance represents Government accounts and Capital and Revenue accounts are known as Commercial accounts. While the former is kept on actual basis, later is kept on accrual basis.
- Peculiar features of accounting in Railway include inter alia Minus entries, Deduct entries, Contra entries in recording transactions.
- In Railways, profit and loss account & Balance sheet are prepared both at zonal level and IR level.
- No trial balance is prepared before preparation of Final accounts. However there is elaborate procedure envisaged for rectification of mistakes in accounts.
- No Bank Reconciliation Statement is prepared even though reconciliation of Cheques & Bills and Remittance Into Bank are in vogue.
- Operating Ratio, Net revenue to Capital at Charge and surplus/shortfall to capita at charge, are calculated as part of working out financial results.

ACCRUAL ACCOUNTING:

Accrual accounting is defined as an accounting which states into expenditure incurred but not actually discharged or paid and income received but not earned appropriations to reserves and funds.

The question relevant now is whether IR is following Accrual accounting or not. Is IR following Single Entry or Double Entry book keeping?

IR is following Double entry book keeping and there is laid down system of accrual accounting in Railways though exactly not same as in Company accounts. Maintenance of Traffic suspense and MAR- Miscellaneous Advances Revenue and other suspense accounts itself demonstrates existence of accrual accounting. It does not mean the IR has implemented Accrual Accounts completely. There are many gaps and shortcomings and lack of transparency in accounting. Disclosures are inadequate. Terms used in accounting and formats are not intelligible for outsiders even though they are understood well in the organization. Some of the points are highlighted below.

- First of all equity is not defined well in Railway Balance Sheet, it is shown as Loan Capital. It should be either Loan or Capital, but not both. Since IR is paying Dividend to Government, this can be changed either as Capital at Charge or treated as Loan. It cannot be construed as Share Capital of a company as there are no shareholders at all

except GOI and this is not listed in Stock Exchange. Dividend is almost akin to interest on borrowed capital which is not repayable and interest is paid perpetually.

- Cash at Bank is not visible on the face of Balance Sheet as the same is closed to the Government. In case of migration to accrual accounting, change should be made in to reflect Cash at Bank in Balance Sheet.
- Advance reservation for tickets should be reflected as Income received in advance and shown as Liability.
- Surplus or shortfall in Profit & Loss Account should be reflected clearly in Balance Sheet. Presently it is added to Development Fund and Capital Fund treating Profit as Surplus.
- In order to switch over to Accrual accounting, IR may have to be declared eventually and treated as PSU, otherwise it may not be possible to maintain accounts on company lines. The present system of maintaining dual set of accounts should be given up. Capital provided by GOI so far should be treated as Loan and Capital at Charge up to the year 1980 should be ignored as the same has already been paid off in the form of Dividend for so many decades and Assets had been replaced with DRF.
- Investment in Railway PSUs like RVNL, IRCTC, IRFC are reflected in Balance sheet as a part of Assets under plan head 62-Investment in PSUs but dividend declared and received are not reflected in Profit & Loss Account.
- In the light of no surplus allocated to Capital Fund, repayment of Principal Component to IRFC for financing rolling stock is attracting Dividend to Government. It means on the same principal IR is paying lease charges debiting working expenses and also paying dividend to General revenues. This aspect is to be examined by Railway Board.

In conclusion, it may be stated that presentation of accounts reflecting a true and fair view of state of affairs with better transparency is no doubt a pre- requisite to attract adequate and continuous flow of investments into IR. Turning IR as a vibrant, solvent and financially strong commercial organization will help in the overall development of Indian economy. Thinking, analysis, discussion, decision making and restructuring should be on these lines but not in a fragmented, isolated and incomplete way.
