

# Need of Accounting Reforms - The case of Indian Railways



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# Purpose of Accounting System

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- To present true & correct picture of the financial performance and financial position of the firm
- To meet information needs of
  - Investors for profitability
  - Govt. for taxation /subsidy etc.
  - Creditors / Financial Institutions for credit worthiness
  - Management for decision making including investment & financing & pricing decisions
  - Other Agencies/ regulators ( SEBI)



# Background of Accounting System

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- Evolution of accounting framework based on several indigenous factors
- Interesting & significant differences in accounting practices
- Based on organizational requirements – cash based govt. accounting system due to no need to ascertain profit & loss like a business..



# Quality Dimensions of Accounting

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- Least uncertainty
- Assistance in increasing overall efficiency
- High levels of investors confidence.
- Reflects financial strength of the organization.
- Correct reporting of business results
- Generate accurate data for sound decision making.



# Current Accounting System of IR

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- Reasonably detailed breakdown of operating costs from functional view point (supervision, repairs & maintenance, operating activities etc.)
- Support department wise budgeting and expenditure
- Business segment ( passenger, goods etc.) wise cost data not available automatically
- Change required in method of capturing accounting information, its grouping & maintenance.



# Classification of accounts of expenditure & earnings

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- Indian Railway Finance Code Pt. II
  - Major Heads
    - ✓ Revenue expenditure
    - ✓ Capital Expenditure
    - ✓ Earnings



# Classification of accounts of expenditure & earnings

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- Sub- major heads
- Minor heads
- Sub heads
- Minor heads
- Sub heads
- Detailed head
- Primary Units (Object of expenditure)



# Existing Accounting Classification

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Sub- major heads – revenue expenditure

<b>Abstract</b>	<b>Description</b>
A03	General supervision
B04	Repair & Maintenance (R&M) – Permanent Way& works
C05	R&M- Motive Power





# Sub- major heads – revenue expenditure– contd.

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- D06 R&M – Carriage & Wagons
- E07 R&M - Plant & Equipments
- F08 Operating expenses Rolling stock & equipments
- G09 Operating expenses – Traffic
- H10 Operating expenses – Fuel



# Sub- major heads – revenue expenditure– contd.

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- J11 Staff welfare & amenities
- K12 Misc. working expenditure
- L13 Provident fund, Pension & other retirement benefits
- M14 Appropriation to funds
- N15 Suspense



# Minor, sub-heads & detailed Heads - A04

Minor head	Sub-head	Detailed Head
200 Maintenance of P.Way	210 Gr. A BG 220— 230	211 Manual Maintenance 212 Maintenance by machines 213 Ballasting



# Primary Units(Objects) of Expenditure

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- 01 Salaries and Wages**
- 02 Dearness Pay and Dearness Allowances**
- 03 Productivity Linked Bonus**
- 04 House Rent allowances**
- 05 Compensatory (City) Allowances**
- 06 Interim Relief**
- 09 Wages of Casual Labour**
- 10 Kilometre allowance**
- 11 Overtime allowance**



# Primary Units--contd

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- 12 Night duty allowances**
- 13 Other allowances**
- 14 Fees and honoraria**
- 15 Transfer allowance**
- 16 Travelling expenses**
- 17 Air Travel Expenses sanctioned in lieu of  
privilege passes**
- 18 Office expenses**
- 19 Rental for P&T telephone and call charges  
including Trunk calls**
- 21 Advertising expenses**



# Primary Units--contd

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- 22 Utilities**
- 23 Rental for office equipment(other than Data Processing)**
- 24 Printing and stationery including Publications**
- 27 Cost of materials from stock**
- 28 Cost of materials-Direct purchase**
- 31 Fuel for other than traction**
- 32 Contractual payments**
- 33 Transfer of debits**



# Primary Units--contd

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- 34 Adjustment of Wages on POH and other repairs from WMS account to Revenue Heads**
- 35 Adjustment of materials on POH and other repairs from WMS to Revenue Heads**
- 36 Excise duty paid/payable for purchase of materials**
- 37 Customs duty paid/payable for purchase of materials.**
- 38 Sales Tax paid/payable for purchase of materials.**
- 39 Air Travel(Domestic)**
- 40 Air Travel(Foreign)**
- 99 Other expenses.**

# Sub-Major Heads-Capital Expenditure

<b>Plan Head s</b>	<b>Name</b>	<b>Plan Head s</b>	<b>Name</b>
<b>11</b>	<b>New Lines</b>	<b>12</b>	<b>Purchase of new lines</b>
<b>13</b>	<b>Restoration of dismantled lines</b>	<b>14</b>	<b>Gauge conversion</b>
<b>15</b>	<b>Doubling</b>	<b>16</b>	<b>Traffic facilities, yard remodelling</b>



# Sub-Major Heads-Capital Expenditure --contd

<b>Plan Hea ds</b>	<b>Name</b>	<b>Plan Hea ds</b>	<b>Name</b>
<b>17</b>	<b>Computerisation</b>	<b>18</b>	<b>Railway Research</b>
<b>21</b>	<b>Rolling stock</b>	<b>29</b>	<b>Road Safety Works-level crossing</b>
<b>30</b>	<b>Road Safety works- Road Over/under bridges</b>	<b>31</b>	<b>Track renewals</b>



# Sub-Major Heads-Capital Expenditure --contd

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<b>32</b>	<b>Bridge works</b>	<b>33</b>	<b>Signalling and Telecomm works</b>
<b>34</b>	<b>Taking over line wires from P&amp;T dept</b>	<b>35</b>	<b>Electrification projects</b>
<b>36</b>	<b>Other electrical works</b>	<b>41</b>	<b>Machinery and Plant</b>
<b>42</b>	<b>Workshops incl.Prod.units</b>	<b>51</b>	<b>Staff quarters</b>

# Sub-Major Heads-Capital Expenditure --contd

<b>52</b>	<b>Amenities for staff</b>	<b>53</b>	<b>Passengers amenities</b>
<b>62</b>	<b>Inv.in Govt. Comm.undertaking</b>	<b>64</b>	<b>Other Specified works</b>
<b>71</b>	<b>Stores Suspense</b>	<b>72</b>	<b>Manufacture suspense</b>
<b>73</b>	<b>Miscellaneous advances</b>	<b>81</b>	<b>Metropolitan Transport projects</b>
<b>82</b>	<b>Transfer to SRSF</b>		




# Primary Units(Objects) Capital Expenditure

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<b>1</b>	<b>Pay&amp; allowances of Departmental Establishment</b>	<b>01</b>
<b>2</b>	<b>Payment to Casual Labour</b>	<b>02</b>
<b>3</b>	<b>Payment to contractors and others for Engineering works or supply and erection contracts etc.</b>	<b>03</b>
<b>4</b>	<b>Direct supply of material</b>	<b>04</b>

# Primary Units(Objects)-Capital Expenditure ---contd



<b>5</b>	<b>Stores supplied from stock</b>	<b>05</b>
<b>6</b>	<b>Freight on stores</b>	<b>06</b>
<b>7</b>	<b>Credits for released material</b>	<b>07</b>
<b>8</b>	<b>Others</b>	<b>08</b>
<b>9</b>	<b>Transfer of debits/credits affecting capital works expenditure/suspense accounts</b>	<b>09</b>



## Primary Units(Objects) Capital Expenditure --contd

<b>10</b>	<b>Productivity Linked Bonus</b>	<b>10</b>
<b>11</b>	<b>Excise duty paid/payable for purchase of materials</b>	<b>11</b>
<b>12</b>	<b>Custom Duty        "</b>	<b>12</b>
<b>13</b>	<b>Sales Tax               "</b>	<b>13</b>
<b>14</b>	<b>Interim Relief</b>	<b>14</b>
<b>15</b>	<b>Travelling Expenses</b>	<b>15</b>
<b>16</b>	<b>Air Travel(Domestic)</b>	<b>16</b>
<b>17</b>	<b>Air Travel(Foreign)</b>	<b>17</b>



# Sub- major heads – earnings

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X Coaching

Y Goods

Z Sundries



# Minor heads, sub-heads & detailed heads –earnings

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Minor head

100 Passengers

Sub-head

110 Ordinary

full fare

Detailed head

111Ord. Full

fare

112 Excess

fare at  
stations

113 Excess

fare at train





# Existing Accounting System- general features

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- Cash based accounting system followed by central govt. linked to accrual based accounting system ( commercial accounts ) through suspense accounts
- Annual financial accounts termed as appropriation accounts presented to parliament along with balance sheet and profit & loss accounts of previous year.



# Existing Accounting System- general features- contd.

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- Railway budget presented separate from general budget of the central govt. although linked at macro level
- Expenditure accounts prepared by field units ( Divisions, workshops), zonal railways, production units & railway board
- Earnings accounts only at zonal railways and Railway Board level.



# Current Reporting System

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1. General cash abstract book- monthly
2. Revenue allocation register – monthly
3. Revenue account current- monthly
4. Capital account current – monthly
5. Final revenue accounts current – annual
6. Final capital accounts current- annual
7. Half yearly review of suspense balances – six monthly



# Current Reporting System – contd.

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- 8 Dead head report (Civil Grants)– annual
- 9 Block Accounts - annual
- 10 Profit & Loss Account – annual
- 11 Balance Sheet – annual



# Shortcomings of existing accounting system

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- Falls short of the requirements in providing necessary inputs /data for
  - Business segment based costing of services
  - Identification of systemic maintenance & operational inefficiencies
  - Strategic managerial decisions in investments, financing, pricing and outsourcing etc.



# Shortcomings of existing accounting system- contd.

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- Implementing responsibility accounting system (cost, profit & investment centre approach)
- On line generation of data not available
- Delays in adjustment (non cash) transactions
- Delay in compilation of actual expenditure(actual available after more than one month of close of the month)



# Accounting Reform Project-

## The objective

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- Improve the performance of Indian Railways.
- Support implementation of institutional and policy reform to improve commercial orientation
- Provide financial, commercial and management information as per business segments/units in place of depts.
- Support expansion of core business by financing priority investments to overcome capacity bottlenecks and improve operational efficiency and safety.
- Attract private funds(equity) to fund its bankable projects.



# Accounting Reform Project – The purpose

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- To recommend restructuring to be done to the existing accounting system in a way as to
  - Support existing govt. reporting requirements.
  - Meet all the accounting standards set in future by Govt's Accounting standard Advisory Board(GASAB)
  - Generate activity based revenue and cost data so as to
  - ✓ Identify and mitigate systemic, maintenance and operating inefficiencies.





# Accounting Reform Project – The purpose -contd

- ✓ Facilitate generation of detailed revenue and cost inputs for assessing
  - Profitability of different operations(Passenger, Goods, Parcels)
  - Profitability of different routes/sections
  - Margins for flexibility in pricing
  - Be capable of producing financial statements of the highest quality.
  - Meet all the commercial accounting requirements and opted by rail industry



# Accounting Reform Project – The purpose -contd

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- Facilitate evaluation of the costs and profitability of individual traffic movements between pairs of points
- Facilitate development of financial statements (Profit & loss accounts) for various lines so that private participation become easy and transparent.
- Facilitate break down of business into main lines of business (passenger, parcel, & Goods into main services in their main line of business (Rajdhani express))



# Accounting Reform Project – The purpose --contd

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- Ultimately help in organising each business or business services, as a separate profit centre.
- Facilitate complete accounting separation of the major segments of railway service providers.
  - Fixed rail infrastructure(Permanent Way, Stations etc)
  - Passenger Operations
  - Freight Operation
  - Sub-urban Operations



# Accounting Reform Project – The purpose -contd

- Facilitate organisation of each of the non-core activities (Catering, Cleaning) manufacturing units as separate cost/profit centre)
- Facilitate identification of loss making services, activities and units and also sound analysis of underlying reasons to help management in decision making



# Accounting Reform Project –

## The purpose ---contd

- Evolve sound basis and models for identification of joint costs and their allocation( apportionment) particularly cost of infrastructures like tract, OHE system, signal/telecom, stations, yards and terminals etc.



# Accounting Reform Project – The purpose --contd

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- Develop a model cost sharing protocol based on intentionally accepted principles/allocation followed by major efficient rail systems in the world.
- Identify certain common assets as independent profit centres viz big passenger and freight terminals.



# Accounting Reform Project – The purpose -contd

- Enable to provide specific cost information (total and marginal cost per unit) to be used for marketing purpose.
- Facilitate a more dependent estimation of both fully distributed allocated cost and marginal costs.
- To evolve a workable methodology for arriving at the operating and maintenance cost of Mumbai, Sub-urban Railways including accounting separation of this system from Western and central Railway.

# Accounting Reform Project – The purpose --contd



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- Study the issue of subsidy needs of Mumbai suburban railway system based on the experience and practices obtaining in different comparable railways in other countries.
- To provide for complete computerisation of account leading to automatic generation of account & exception reports and supervise its implementation.





# Conditions-Reform Assignment

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- Present vertically integrated structure not to be disturbed.
- All Govt. reporting needs to be fulfilled.
- All accounting standards decide by GASAB to be followed.
- Meet all commercial data needs.



# Accounting Reform Project- Main Tasks

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- Critical analysis of existing account system of earning and expenditure accounting transactions processing system.
- Suggest necessary modification in grouping of transaction to bring them in synchronisation in the internationally accepted accounting standards in rail industry and investor's requirements



# Accounting Reform Project- Main Tasks

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- Design costing modules
- Design activity based pricing models for passenger, freight and infrastructure services& production units.
- Design pricing model for cost based services like health and RDSO,CTIS etc.
- Design Audit traits in software (development of auditbots) Study audit objection and suggest system improvement
- Prepare check/concordance list between existing and proposed system



# Accounting Reform Project- Main Tasks

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- Across the broad application of I.T.for instant/on-line generation of data including monitoring, supervision and commissioning of software development and implementation.
- Train and develop key account officers who will train others.
- Modification and rewriting of Codes,Manuals and system instruction books &software operating procedures for revised system.



# Accounting Reform Project- Main Tasks

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- Revenue accounting system-traffic accounts
- Project/construction accounting transaction process.
- Store transaction accounting
- Production Units/Workshop accounting systems
- System of accounting governance through codes



# Accounting Reform Project- Main Tasks--contd

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- IR's accounting policies and standards
- Existing capabilities of the on line Financial Management information System in practice in reference to its adequacy strength and weaknesses and adoptability in the reformed system.



# Accounting Reform Project- Current Status

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- Short listing of consultants done
- Their queries replied
- Offers under examination/evaluation
- Selection of Consultant to be done shortly.