

Transforming Indian Railways: Towards an Integrated and Transparent Accounting System

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Abstract: *This article delves into the critical analysis of the existing accounting system within Indian Railways IR, a vast network managed by the Government of India. Despite being one of the world's largest railway systems, IRs accounting practices have been scrutinized for their complexity and lack of transparency, which obscure the financial health of the organization. Drawing insights from various committee reports including the Bibek Debroy and Rakesh Mohan Committees, the article highlights the urgent need for accounting reforms. These reforms aim to replace the current fragmented and government-oriented accounting system with a more commercial, understandable, and unified system. By adopting standardized accounting practices, IR seeks to enhance financial transparency, improve resource allocation, and support managerial decisions with accurate cost and performance data. The proposed transformation advocates for a shift to a single, consolidated accounting framework under One India-One Railway, thereby aligning IR with global accounting standards and practices.*

Keywords: Indian Railways, accounting system, transparency, financial reform, unified management

Accounting system in INDIAN RAILWAY (IR)

Indian Railways (IR) is a statutory body under the ownership of the Ministry of the Railways of the Government of India that operates India's national railway system. Indian Railway has the fourth largest railway network with over 22, 593 operating trains with a daily passenger count of 24 million passengers and has loaded 1512 MT during 2022-23. India's railway network is recognized as one of the largest railway systems in the world under **single management**.

Accounting is an art of recording financial transaction. At present, accounts of Indian Railways is maintained at various level of organization viz. Divisions and workshops, Zonal Railways, Production Units. The accounts of IR is governed by rules and procedures codified in Manuals and Code books. Essentially, the basic system of accounting in form of recording the transactions and preparation of periodic accounting statements as well as final accounts are uniform for *each level of organization*.

The expenditure and earnings are divided into each Zonal Railway and subsequently compiled for arriving Indian Railway financial statements. Major expenditure on repairs and maintenance is common to both coaching and goods services and is bifurcated on assumptions which can be questioned. There is urgent need for developing suitable parameters. Most of the performance review committees of IR have suggested that the accounting system of Indian Railway needs to be changed and would be easily understand by outsiders.

The books of Accounts of IR contain accounts drawn up in accordance with Governmental Accounting principles and accounts drawn up as a commercial enterprise of the Union. The linking of these accounts is done by passing them through certain accounts heads in the railway books.

Need for Accounting Reforms

Bibek Debroy Committee report says that "Despite a comprehensive accounting architecture and presentation of the accounts to Parliament, concerns have been raised as to

the complexity of accounts of IR in terms of their intelligibility (mainly because of a non-standard approach followed), and lack of stated policies of accounting and practices, as is mandatory in accounting for any other commercial enterprise the world over. Independent outsiders such as multilateral agencies have often observed that the accounts of IR are inherently complex and do not reveal the true financial state of the organization. Consequently, there is a growing concern for its books to align with commercial enterprises, bringing out its liabilities, assets, revenues, expenditure etc. in a more lucid manner.

Suggestion

WHY STILL WE NEED ZONAL RAILWAYS?

Rakesh Mohan Committee

The Rakesh Mohan Committee observed that Indian Railways over the past decade (1991-2002) has fallen into a vicious cycle of *under investment, mis-allocation of scarce resources, increasing indebtedness, poor customer service and rapidly deteriorating economics*.

NTDPC Report (2012)

The accounting system at present is organized to cater to government budget and control functions and not to shed light on the cost of various activities and services. As a result, computation of the losses on various activities and the contribution made by various services is difficult. There is virtually no support to management from the accounting side to enable the manager to achieve his/her objectives. IR's accounting system must be revamped to accurately reflect the cost of various activities and services. Only with a credible accounting system, IR can manage the commercial and social parts of the business on a rational footing. The commercial part of the business must be managed to yield a surplus for reinvestment in the system.

ADB Railway Sector Investment Program (RRP IND 36330).

The current accounting system in IR has not conformed to generally accepted accounting principles, reporting and management practices. Major aspects include the cash based system and the fragmented and manual systems, and without

a general ledger. For commercial oriented business, the focus should be more attuned to performance, risk management, customer focus, effectiveness, governance, rewards and sanctions, cost management, value, service quality, competition and sustainable relationships.

Bibek Debroy Committee report

According to Debroy, the process of accounting in Indian Railways is "**very complicated**". "It is impossible to figure out what the rate of return on a project is".

The report recommends: Refinements in the way Indian Railways prepares and maintains accounts, and costs its businesses, activities and services. The financial statements of Indian Railways need to be re-drawn, consistent with principles and norms nationally and internationally.

HANDOUT ON TRAFIC COSTING - RAILWAY BOARD

Under the existing system, though the financial accounts are maintained division-wise or workshop-wise, the Zonal Railway is considered the operating unit for the purpose of ascertaining transport cost for various facets of Traffic operations. The process of computation begins as soon as the financial accounts of the Zonal Railways are closed for the year.

The revenue working expenses on each Division, Workshop and the headquarters office of a Zonal Railways are compiled separately by the attached accounting units. These are then consolidated for the Zonal Railways as a whole.

The Traffic costing data produced on the Railways has serious shortcomings. The present system generates aggregated costs for various facets of operation for the Zonal Railways as a whole, whereas the financial accounts are prepared division-wise. There are wide variations in the costs from one Zonal Railway to another, which remains unexplained. The figures appear prima facie unreliable. The Railways instead of concentrating on production of aggregated costs should which over to route-wise costing on each Division.

A serious drawback of the existing system is that a major portion (75 per cent) for the expenditure on repairs and maintenance is common to both coaching and goods services and is bifurcated on assumptions which can be questioned. There is urgent need for developing suitable parameters for apportionment of joint costs.

The traffic cost data is available quite late, usually after 18 months of the close of the financial year by which time it is only of historical interest and cannot be profitably used by the management. It is essential that the costing system should be integrated with the management information system and provides useful traffic costing data in real time. With gradual computerization, it should be possible for the Railways to produce costing reports in time and quarterly instead of only once a year so that the effect of seasonal variations on the cost of operations can be gauged.

The costing data produced by a Railways being aggregative in nature and unreliable cannot be used in bringing about

requisite changes in their fare and freight. **This is a serious handicap and must be corrected.** They should make their fare and freight structure cost based; on the lines suggested by Rail Tariff Enquiry Committee and annually revise their fares and freight on the basis of escalation formula.

According to Bibek Debroy Committee's report says that "IR doesn't follow a commercial accounting system. Therefore, one doesn't quite know the accounts for fixed railway infrastructure, Railway passenger traffic, freight traffic, suburban railways and the production and construction units.

The introduction standard costing of each facet of traffic operation is a different proposition. Instead for cost control, Railway costing cells must conduct special on-the-spot studies and investigation of important marshalling yards, goods sheds, terminals etc. They will, this way, be able to identify and eliminate areas of waste and unjustified expenditure. **Traffic costing organization on the Railways is weak and should be strengthened on the basis of World Bank report.**

Source of information

The unification of railway services has already been recommended by several committees like Prakash Tandon Committee (1994), Khanna Committee (1998), Rakesh Mohan Committee (2001), Sam Pitroda Committee (2012) and Bibek Debroy committee (2015). **But all committee are not recommended for abolition of Zonal Railways. Like BSNL, GST, all the Zonal Railways, Production units are needs to be unified under one name as "INDIAN RAILWAY".**

Conclusion

One India - One Railway

A single accounting system under one railway instead of maintaining zonal -wise booking and compiling, may be maintained for transparent, apparent, easy understanding accounts of Indian Railway. All zonal railways and production units, workshops are to be renamed as "Indian Railway".