Chapter Six

Conclusion
CHAPTER VI

CONCLUSION

The Indian Railways constitute the biggest segment of the transport system and they are considered as the principal mode of transport within the country. No other means of transport is as important as railways for inter-regional movement of goods and men. The Indian Railways have played a crucial role in the social, political and economic life of the country. Indian Railway network has played a key role in weaving into a nation. This network has not only integrated markets but also people across the length and breadth of this huge country. Indian Railway has facilitated the industrial and economic development of the country by transporting materials such as coal, iron-ore, fertilizers and steel, for such an organisation it is essential that its accounts are maintained properly. Its finances also need a thorough examination and analysis. All this has been done in this work.

The Indian Railways forms an essential part of the country transportation. In 150 years of its existence, Indian Railway has successfully adopted to the changing needs of travel and transport in the country. It has also absorbed advancements in the technology and
kept itself in tune with the requirement of moving large volume of passenger and freight traffic. In 2000-01, Indian Railways carried about 13 million passengers per day and lifted more than a million tonne of freight traffic daily on the network spread over 63,028 route kilometers, covering 6,853 stations.¹ In the present budget, the total route kilometers are 63140 million.²

The Indian Railways are essential part of the country transportation infrastructure. As the growth of the country economy accelerates, the supply of all transportation services will also have to accelerate. Environment in the world the cost incurred in transportation will also have to be increasingly competitive with similar services provided elsewhere, with competitiveness being measured in terms of both costs and quality of services. India being a large continental economy the role of Indian Railways in providing such competitive services will be a critical part of the solution to Indian infrastructure needs.

Infrastructure services are regarded as the physical framework of facilities through which goods and services are provided

¹ Year Book 2000-01 Indian Railways, Ministry of Railways (Railway Board), Government of India, New Delhi, p. 5.
to the public. The links to the economy are multiple and complex, because they affect production and consumption directly, create positive and negative spill over effect, and involve large flows of continuous investments. Transportation constitutes one component of infrastructure and the railways are a key component of the transportation infrastructure. Looking at them from the production point of view railway services can be seen as intermediate inputs to production. Any reduction in these input costs raises the profitability of production, thus permitting higher levels of output, income and employment. Efficient railway services will also raise the productivity of other factors including labour and other capital.

The Indian Railways have been divided into sixteen (16) zones including the additional seven new zones and these zones have been grouped in many operating divisions under Divisional Railway Managers for better management and internal administration. However, the seven new zones were announced by the Railway Minister in the Railway Budget for the year 1996-97. The headquarters of these new zones at Allahabad, Jaipur, Bangalore, Hajipur, Jabalpur, Bhuvneshwar and Bilaspur. Two zones, Eastern Central Railway, Hajipur and North Western Railway, Jaipur have started their work from 1 October 2002
and remaining five zones have also been doing their work from 1 January 2003. Thus, now the total number of railway zones are sixteen doing their work properly for the railways.

Our endeavour has been to highlight the accounting and financial reporting practice in Indian Railways. The Indian Railways are in the nature of a public undertaking. Finance is regard as an important functional area in all business whether it is a public utility or some other kind of business enterprise. In public utility concerns the function of finance is particularly unique in the sense that the public utility is in the nature of Government owned and managed concerns. More, so because it is said that as compared to other business enterprises, public utility lack sound financial acumen and judgment as there are no inside and outside pressures and checks as deterrents to poor financial management and performance.

In the beginning when the railways were introduced in India, the government lacked sufficient funds to pursue construction and make available rolling stock and so on. Railways were privatised with government guarantee for a fixed rate of return. The management and control of these companies was in the hand of the Central Government. By the early part of the 20th century, most of the
railways were nationalised and the budget system formed a significant portion of the total government finances of the day. At that time, there was no provision of separate budget for railways, so there was an urgent need for separation of railway budget from the general budget. After the recommendation of Acworth Committee the railway budget was separated from the general exchequer and creation of an in-house accounting machinery was to make the chief executives of the railways totally responsible for the administration, operation and financial results of the individual railways in their charge on commercial lines.

So far as the finances of railways are concerned it is common knowledge that a gigantic amount of investment has been made in this sector. Ever since the first railway line was laid in India between Mumbai and Thane in 1853, the issue of financing of railways has remained a live issue. Different methods of financing have been used at different times along with corresponding changes in the organisational structure of Indian Railways. Over its long history, the financing of Indian Railways has been done in many different ways.

Since 1950-51, marked structural changes can be noticed in the development strategy of railways. It has expended to a great
extent on all fronts. To begin with we have analysed the significance and financial performance of this public utility undertaking in the second chapter wherein the necessary information about the Indian Railways has been presented.

The main objective of railways in the past was to carry out the projected quantum of passenger traffic movement so as to avoid disadvantages. They formed an integral part of the Central Government finances. They have now been separated from the general finances of the Central Government. With this development, the commitments of the railways to the general revenue have been regularly met and a portion of surplus is being diverted to numerous railway funds like the Railway Development Fund, the Depreciation Reserve Fund, the Pension Fund etc. From 1950 to 1966 the railways showed a surplus in the income and expenditure account almost every year. An area of persistent deficit started from 1966 onwards. Out of the ten years ending 1975-76, eight year’s operations showed deficit while merely two years yielded surplus. During these years due to heavy deficit the railways could not met fully even the annual dividend liability to the general exchequer. The railway earned surplus from 1976-77 onwards, except some accounting years as 1979-80, 1980-81, 1983-84 and
1984-85. Consequently, the railways had to rely on general revenues to meet their dividend liabilities and also to finance their expansion programmes.

The total earnings of the railways are represented by the different components of the traffic handled, viz. passengers, goods, parcels/luggage known as other coaching and sundries. The budget of the earnings is fixed by a study of the trends in the quantum of the various components of traffic-like passengers carried and tonnage lifted – anticipated to be handled in a budget year as well as the average distances over which the traffic will be carried. In estimating the earnings from traffic handled, the activities of large industries both in the public and private sectors are also kept in view as any variation up or down in the production trends in those industries, which supply the bulk traffic to the railways, is bound to affect the traffic handled by the railways. The total of the earnings from the various components of traffic are the gross earnings of the railways. Unlike the commercial practice, the gross earnings thus arrived at, which represent the total of the earnings accrued during the year, both realised and unrealised, are not directly taken for the purpose of computation of the final working results because the Government System of accounts is based
on "cash" in contradiction to "accrual" procedure. In Government accounts, all transactions are closed as on the 31st March. As such the portion of earnings unrealised, i.e. earnings remaining uncollected during the year, is deducted from the gross earnings and the actual gross receipts only figure in the calculation of the financial results. The unrealised portion of the earnings would usually be a minus item to be deducted from the earnings.

The performance of a commercial enterprise is measured in terms of its net profit or earnings. However, railways are not purely a commercial undertaking as they have to fulfil certain national economic and social obligations which do not give them freedom to charge commercial rates of freights and fares. As such, the earnings do not truly reflect the performance of railways.

We find that the actual earnings of total passenger are Rs.10,515.07 crores and goods earnings of Rs.23,305.10 crores during 2000-01. However, the gross traffic receipts are Rs.34,880.48 crores during the same time. The variation in the percentage is not very wide and roughly about 64 percent of our earnings come from the freight traffic. It may be pertinent to point out that even though 64 percent of our earnings come from freight-traffic, we do not spend the
same proportion of our expenditure on freight services, while the
freight services are the profitable component of railways traffic. The
passenger services are being highly subsidised. However, since the
losses on passenger services are made good by profits on freight
services, we are not receiving any subsidy from the General Revenues
and this is a situation of cross-subsidisation by the Railway
Administration.

As far as passenger services are concerned, the proportion
in total gross traffic receipts was nearly 36 percent. In the budget
2002-03, the target for the originating revenue earning freight traffic
has been revised upwards to 515 million tonnes in the revised
estimates. The goods earnings are likely to exceed the budget target of
Rs.26,118 crores by Rs. 540 crores, whereas passenger earnings are
likely to fall short of the budget target of Rs.13,450 crores by Rs. 720
crores. The gross traffic receipts also have been reduced.

The expenditure on running of suburban traffic and II class
ordinary passenger service is much more than the earnings obtained
from them. However, the number of passenger travelling on our
suburban and ordinary II class service is very high.
As regards working expenses of railways, the estimates of working expenses are largely related to the assumptions of traffic. A direct co-relation between the traffic handled and the working expenses cannot be determined with any degree of accuracy. Apart from the broad co-relation with the traffic requirements, other extraneous liabilities such as anticipated increases in allowances of staff, increases in prices expected during the budget year in respect of certain vital materials which constitute a significant part of railway expenditure are also assumed and provided for “Ordinary Working Expenses” which cover the cost of providing transportation services are booked under convenient classifications as administration costs, repairs and maintenance, operating staff, fuel, other operating costs, payment of gratuities, staff welfare measures etc. To these are added the appropriations to depreciation reserve fund and pension fund, payments to worked lines and the net miscellaneous expenditure to arrive at the total expenditure in any year. The net revenue for the year is arrived at by deducting from the gross receipts the total expenditure. From the net revenue the dividend payable to the general revenues is deducted and the balance represents net surplus or deficit for the year.
The proportion of rupee spent on dividend to general revenues varies from year to year depending upon revenue surplus/shortfalls and also the operating ratio. But the dividend paid by railways to the general revenue is not a part of the operating expenses, and for this the reason is not quite clear. As is well known this dividend is not like dividend in the commercial parlance. It is actually an interest payment. In fact, for this payment the word ‘dividend’ is used only in the railway documents. In the budget documents of the Central Government, the word used is ‘interest’. It is interest payment not only because of the compulsory nature of payment but more so because it is a payment for the capital borrowed by railways from the Central Government. During 1999-2000 and 2000-01 when there were revenue surplus of Rs.405.99 crores and Rs.203.47 crores respectively, and the operating ratio was 89.3 percent and 92.6 percent full amount of the dividend due was paid to the general revenues and that is why the proportion of dividend was on the higher side. In case of the shortfall in any year, the full amount of dividend due is not paid and a portion of that amount is transferred to the deferred dividend liability.
The appropriation to depreciation reserve fund is charged to total working expenses as distinguished from the actual expenditure on renewals and replacements met from the fund. It is argued that this is not correct because the amount of appropriation is not based on any principle. It varies depending on the overall financial condition of the railways. The appropriation to depreciation reserve fund was only Rs. 319.92 crores in 1996-97 and it was go down to Rs. 265.46 crores and Rs. 154.81 crores in 1997-98 and 1998-99 respectively. But is has gradually gone up to Rs. 221.41 crores and Rs. 295.57 crores in 1999-2000 and 2000-01 respectively. This increase is clearly reflected in the proportion of rupee spent on depreciation reserve fund from year to year. If we want to ensure good health of the railway assets and maximum safety of railway passengers and freight traffic, we must maintain the provision for the depreciation reserve fund. The depreciation reserve fund should be maintained at the optimum level till such time we are able to liquidate all arrears in replacement of our worn out assets. The expenditure on development works is on the low side. The main reason is absence of adequate surpluses in the railway budgets. Another reason is that we are charging the element of
improvement in the cost of replacement to depreciation reserve fund and not to development fund.

The proportion of expenditure on fuel was Rs. 770.01 crores in 1996-97 and it has gradually gone up to Rs. 1178.90 crores in 2000-01. The estimates of Rs. 7997.74 crores for operating expenses for fuel, an increase of Rs. 641.49 crores over the revised estimates, is to provide for higher staff costs and more expenditure on fuel due to increase in fuel prices. The proportion of fuel under operating expenses, depend upon the relative quantities of various types of fuels namely coal, diesel and electricity used by the railways, but the use of coal now very little and only diesel and electricity is used for running the railways, as also on the relative prices paid by us for procuring the same. Sometimes the price of diesel goes up and some times the cost of electricity is increased thus affecting the proportion of the rupee which are spent on fuel. It would be interesting to note that as far as the fuel economy is concerned, rail transport happens to be the most economical mode of transport. Similar proportion of expenditure on fuel in the case of trucks and buses would be very high and it would be still higher in the case of air-lines. If we have to conserve our depleting resources of economy, we should
encourage more and more transportation by the railways who consume much lower quantity of fuel per unit of transport compared to other modes of transport.

The proportion of expenditure on staff is gradually increasing every year. The proportion of staff wages is going up. However, it cannot be said that the wages paid to railway staff are very much on the high side in comparison with wages paid to staff working in other undertakings both in the Public as well as Private sectors. The number of staff engaged on the railways is rather on the high side and is not commensurate with our actual requirements. There has been very substantial increase in the salaries paid to category ‘D’ staff and the labour. The railway budget for 2003-04 seems to have fallen short of expectations on the issue of railway safety. In the current session of Parliament, resolve to install anti-collision devices on locomotives and brake vans at stations and level-crossings, the budget has not given enough attention to other safety issues. However, the Railway Minister Nitish Kumar singled out human failure as the major contributing factor for accidents. He decided to fill up 20,000 vacancies in one year to plug this gap. While he has proposed to accelerate the anti-collision device survey of 10,000 route kilometers,
the minister has also proposed to spend Rs.425 crores on continuous tracking circuits to improve line capacity and safety at level crossings.¹

According to the budget 2003-04, the working expenses of the railways higher at 39,447.14 crores for 2003-04 as against revised estimates of Rs. 36,666.37 crores a year ago. The increase in the working expenses of railways is on staff and welfare amenities and operating expenses like fuel, traffic and other miscellaneous expenses. The estimates for staff welfare and amenities have been increased to Rs. 1,354.16 crores for this fiscal from earlier revised estimates of Rs. 1,269.23 crores. The hike of Rs. 84.98 crores for staff welfare and amenities has been proposed on account of dearness allowance, higher contractual payments cost of materials and fuel for other than traction.

In the accounting and audit system in Indian Railways, we highlight the accounting system firstly, the accounts of railways also separately maintained. The accounts of railways are kept on liability or accrued basis. The railway accounts, therefore, not only follow the essential formalities of commercial accounting but also conform to the requirements of Government accounting. The railway accounts are kept of all money coming into and going out of the railway finances.

¹ The Railway Budget 2003-04, Hindustan Times, Thursday, February, 27, 2003., p. 1
These accounts are maintained by each railway administration and submitted to Railway Board. Account is maintained separately for revenue and capital transactions by the railways.

Secondly, audit in railway accounts, there is a need of check and verifying the railway accounts. The functional area of railways is very wide and the accounts are maintained through a large process so it is very necessary to properly check them and control on the expenditure and revenue, we have given the detail about the audit system, their powers and duties, and also described the internal check system, internal audit and statutory audit, their reporting on the accounts and other sections of railways.

The Indian Railways does not follow the accounting standards as prescribed in the Companies Act 1956, most of the work of accounts is department or function based and not activity based. The accounting procedure of Indian Railways follow the principles of booking government expenditure and not corporate profit and loss account. The government accounts give little indication of income-versus-cost of different services or activities. The costing system is based on joint and distributed cost rather than on unit or specific costs. The systems is oriented towards production type environment.
not business culture. Indian Railways operates as a going concern and assess viability of railways. The standard presentation of Indian Railways financial results made to Parliament and for public information includes a Statement of Revenue Receipts and Expenditure (Profit and Loss account) and a Balance Sheet. The expenditure categories grouped under item Ordinary Working Expenses, conform to the constitutional obligation of control government ministries and departments for regulating expenditure in conformity with Parliament authorisations. The main function of accounts departments in Indian Railways is to keep accounts and act as a day-to-day check on expenditure. But from the point of view of commercial and financial reporting requirements of a service-cum-manufacturing company as normally understood, these heads of accounts do not provide important information that the enterprise owner, potential investor or stakeholder would seek. The accounts do not provide a clear segregation of costs of staff, the value of opening and closing stocks and consumption of stores and spares. In orders to get the details about the railway accounts one has to delve much deeper into the detailed classifications of the demands for grants and a mass of railway statistical statements that are complied and published.
separately every year. The existing system of accounts does not give a true and fair financial picture of Indian Railways, in the absence of depreciation provisions in the balance sheet, nobody can ascertain the net block of Indian Railways, the data are not presented in a way in which one can ascertain labour productivity of employee cost, there is no clear separation between revenue and capital or between top of the line and below the line. The financial and accounting structure concerns, in regard to depreciation reserve fund noted that the fund operation does not fit into any of the standard depreciation norms laid down in the Companies Act. The amounts allotted to Depreciation Reserve Fund tend to be fixed in an adhoc manner and are not determined by financial principles. The reduction in the value of total assets post-depreciation is not shown. The procedure adopted by Indian Railways is normally as a system that no commercial enterprise operating in a market environment can sustain for long. Indian Railways currently spend over half of its revenues on staff related expenses.

In the sources of funds, Indian Railways has a term called loan capital which is the capital-at-charge loaned in perpetuity by Government of India. There is no shareholder equity. The Depreciation
Reserve Fund, Development Fund, Pension Fund, Capital Fund, Railway Safety Fund and Special Railway Safety Fund do not conform to the interpretation of reserves given in part III of Schedule VI of the Companies Act. Moreover, the cumulative investments financed out of the funds and from revenues and miscellaneous sources are shown separately on the liabilities side. The value of liabilities as reported by Indian Railways does not present a true picture of what this term conventionally denotes. The matter of reporting by the railways of its application of funds is not adequate. It’s estimates of capital stock is not reliable. Indian Railways do not separately show gross block, depreciation and net block. All assets are shown at original costs, and further capital expenditure incurred from year to year is capitalised. The leased assets are not shown separately. And the fixed assets are not classified in terms of opening balance and additions or deletions for the year. The amounts that are appropriated annually to the depreciation reserve fund are not shown in the balance sheet but only the improvement element. There is no depreciation provision in the application of funds and no net block.

Capital work-in-progress is not shown separately, although this is quite substantial for the railways. Inventories are neither properly classified as required by the Companies Act, nor is there any indication to how stocks are valued. There is neither a proper classification of sundry
debtors, nor any provision for bad or doubtful debts. There are many reasons that make Indian Railways accounts unintelligible to any one other than those in Indian Railways and in the Ministry. On the other hand, for any organisation of the size of Indian Railways, there has to be tight financial discipline and targeting. The present accounting system also precludes that the accounts do not allow managers to set revenue and other operational targets whose returns can then be measured against the corresponding cost of capital. In this system it difficult to set cost and profit centres that would then communicate the right incentives down the line. Thus, it is fair to say that the Indian Railway accounts do not conform to the disclosure standards that are expected of going concern entities registered under the Companies Act. The accounting system of Indian Railways comes under the system of government accounting, the mass of the government accounts is kept by single entry.

The system of accounts has stood the test of time, and in the light of overall accountability, the maintenance and rendering of accounts have kept pace with modern times. Notwithstanding the integration of smaller railway system and regrouping of railways, the accounting has been up to date. Divisionalisation of accounts has made it possible to judge the performance of the divisions and establish identification of cost-centres for better cost control.
As far as the audit of the Indian Railways is concerned, the accounts of Indian Railways are audited by the government auditors such as the Comptroller and Auditor General of India. The Comptroller and Auditor General of India is responsible to check and verify the accuracy and correctness of accounts in order to secure that all revenues and receipts collected are brought into account under the appropriation heads, that all expenditure and disbursements are authorised, vouched and correctly classified and further the final accounts represents a complete and true statement of the financial transactions. However, in most cases the responsible department do not provide the correct information about the collection of revenue, while the government auditor entirely depends upon the government officials and on the responsible departments for compilation of their works.

Indian Railways are at present in a financial crisis. Its ability to invest adequately in providing efficient and cost comparative services in the future is seriously in question. Since independence, investment in Indian Railways have been controlled in a manner similar to all other public investment through the central planning process. It has been financed through a contribution of internal generation, budgetary support from the Government and market borrowings. The internal generation of funds has come under severe pressure after the implementation of the
recommendations of the Fifty Central Pay Commission. The share of the budgetary support in the plan size has been coming down. The loss of market share in the profitable freight business, lock of flexibility in pricing, high cost of internally sourced products and services together with investments in unremunerative projects have meant that the rate of growth in revenues has been outstripped by the rate of increase in cost. The revenue growth has also suffered from the saturation of freight traffic on trunk routes. This is partly due to the large differential in speed between passenger and freight trains, which severely constraints the freight carrying capacity of trunk routes. Thus expansion of traffic on these routes requires both managerial action and investments on new technology to raise the speed of freight trains significantly. Rising employee costs, poor productivity and declining budgetary support have compounded the problem and these problems have essentially resulted from the wrong structure of Indian Railways which devalue accountability at every level.

The proportion of expenditure on repairs and maintenance has been declining steadily over the years. The strain on the railways resources has also prevented adequate investment in track renewals and other safety related areas.
As for railway finances, they formed an integral part of the Central Government finances. They have now been separated from the general finances of the Central Government. With the development of Indian Railways, the commitment to the general revenue has been regularly met. The revenues of railways has been showing an increasing trend, but the total working expenses have also been rising. The factors responsible for the poor performance of the railways can be enumerated as the impact of inflation, burden of social responsibility, operational inefficiency, lack of railway wagons and rolling stock, indifferent labour attitude resulting in strikes, go slow, work to rule and other agitational approach having serious and widespread repercussions of traffic earnings. The faulty railway rates policy has also been responsible to some extent for this financial mess in the railway sector. It is a fact that a high rate structure would result in high cost of transport and may disrupt and discourage industrialisation of this country and may lead to a tendency on the part of the users of railways to shift to alternate modes of transport like, road transport, air transport etc. This would result into reducing the generation of finance in the system. In the determination of structure of fares and freights the railways should consider two important factors, firstly, it should be able to obtain the necessary finances for meeting its operating expenses as well to finance its expansion and development.
programmes. Secondly, the rate structure should be such that it gives an
impetus to the smooth trade, commerce, industry and agriculture. The
railways have adopted numerous rates policies and there has been an
evidence of continuous reform and modification in the railway rate policy
since independence but still there is a lot of desired. The need of the hour
is an appropriate rationalisation of the whole system of rate making.

The Indian Railways should raise money through extra
budgetary resources and should raise market borrowings through the
Indian Railway Finance Corporation. These borrowings will increase the
share of the internal resources in the railway investment and thus help to
reduce the strain on the general budget for meeting the resource gap.
Railways should borrow money from general public through the issue of
bonds etc. which can be helpful in improvement of railway finance. Apart
from raising funds from the Indian public through the issue of bonds the
railways should also explore the possibility of acquiring funds from
abroad. These funds from foreign countries, international financial
agencies and other institutions could be very useful because of their low
interest rates. A start has already been made as the Asian Development
Bank has sanctioned a loan of 1 billion dollar over the next few years. In
an effort to tap extra-budgetary resources for development, the railways
has already decided to set up a new entity, Rail Vikas Nigam Ltd. to
assess funds. This company, Rail Vikas Nigam, has already tied up 313 million dollar from the Asian Development Bank as part of a larger 1 billion dollar deal. Additional funds required by the railways for investment should be borrowed either directly by the railways or by Ministry of Finance specially for the railways. It should also not be impossible to amend the allocation of business rules to empower the railways to borrow directly. The servicing of the loans and repayments should be the responsibility of the railways.

The railways should also increase the rates and fares for passengers and freight services. However, it is clear that a mere increase in rates and fares would not be enough to take the railway finance on the right track. There should be some other measures which need to be adopted by the railways to take them out of the red. The main among such measures will be a cut in the working expenses and a reduction in their liabilities. One major area of this economy will be in the direction of wages and salaries bill which has gone up year after year. Another field of direction which needs attention is the discontinuation of uneconomic lines and other social and political burdens upon the railways like rates and freight connections, free railway passes to political parties and individuals preferential treatment given to certain items for low rate freight like coal,

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foodgrains, fodder, agriculture goods and losses on suburban and metropolitan traffic etc. The current year’s railway budget (2003-04) has announced neither increase in passenger fares nor hike in freight rates. This implement is good for the social point of view but not fulfil the goals of railway financial requirement, and extra burden on the railway will rise, however, the finance of railways is so poor. There should be no cut in any type of railway rates or fares. The extra burden on railways will increase through provides the concessions to senior citizens, in this case the age limit also cut down from 65 to 60 years. The railway minister has also been announced in their budget that cancer, thalassemia, kidney and heart patients to get 65 per cent concession. This is the fact that the concession must be given to the eligible person but there should be cut down in the percentage of concessional rates, because there will be heavy burden on the railways.

The current revenue earnings of railways does not give a satisfactory result because the railways need more return from their customers through providing services. For increments in railway revenues there should be a flexible pricing policy which could help to increase the freight business as well as passenger business. In the freight area, Indian Railways should actively consider introducing yield management systems with variable pricing for customers based on dynamic demand situation.
Freight is the key profit earner for Indian Railways. There is urgent need for a new viable, long-term strategy to profitably grow the freight business. The new element is an investment package making up a total business plan mainly targeting the needs of the railway users.

New operators should be permitted to enter the field for container traffic, which is a very high growth area. To fully explore the demand and arrange for co-ordinated growth between road and railways, there is need to set up two or three additional container depots. There are some other suggestions to improve the revenue earnings of railways which as follows:

- Indian Railways should improve its information and customer service to the passengers as well as enhance revenue through Revenue Management technique.
- When capacity is abundant, discounts should be offered to induce customers to travel. Outsourcing of distribution can also help Indian Railways reduce the high cost of ticketing and distribution.
- Indian Railways should also consider introducing flexible pricing through a Revenue Management System, through this system, the railway should increase the price of certain number of seats, when demand is very high, and when the train is going empty reduce the
price to increase demand and thereby fill the train. A seat being a perishable commodity, every rupee earned on the empty seat directly profits increases.

- The Information Technology should be used effectively for improving Indian Railways image among the various stakeholders, especially the passenger customers. The Information Technology can be used to offer high speed and easily accessible information about timing, rules, seat availability, booking information etc. to the customers.

- Indian Railways should consider implementing freight related management and information systems, such as Wagon and Crew Management System, Parcel Management System and Inland Traffic Management System, among which the first system is the most critical.

- Indian Railways should improve customer service leading to increase revenue and greater customer satisfaction.

- Indian Railways should improve freight operations and control with a more reliable timely and efficient information handling system.

- Leasing of front break van in all passenger trains for parcel traffic.

- Recomence manufacture of parcel vans with a view to increase parcel traffic.
• Running of special parcel trains between important stations and trading centres in which some space will be available on lease.

• Increase minimum penalty for ticket less travel.

• Focus on the core business i.e. running of transport services and spin off the non-core activities including production units. This will also help reduction in manpower. The railways earn profit from freight. It is necessary that the focus must be on the customer.

• The imperative need to make our tariffs cast-based specially the tariffs for suburban traffic and ordinary passengers so that the element of subsidy in these tariffs can be gradually wiped out. This will also help in preventing the tariffs for high rated freight traffic becoming counter productive and thus enable the railway administration to meet effectively the growing challenges and competition from road transport, especially in the matter of high rated freight traffic.

• Indian Railways should cut their working expenses. The proportion of expenditure on fuel should minimise as far as possible.

• There is imperative need for modernisation and updating the skills of our existing railway staff by instituting time bound training programmes. We should reduce the number of unskilled staff as far as possible keeping in view the sophisticated equipment which we
are introducing on the railways from year to year and which would require the services of highly skilled persons as against unskilled persons who happen to be in a majority in some of the departments, especially those dealing with repair and maintenance of railway assets.

- The proportion of expenditure on stores other than fuel should cut down as far as possible.
- Indian Railways should make provision for adequate funds under depreciation reserve fund we should provide enough money so that all the arrears in replacement of worn out assets can be liquidated.
- We should have funds to modernise our assets and up to date our technology.
- On the part of dividend to General Revenues, should be to ensure that full payment of dividend is maintained.
- The expenditure on miscellaneous working should be contained and restricted to the extent possible. We should bring it down.
- We have to suggest about the reduction in working expenses of railways such as, control over spurt in staff strength, planned introduction of diesel and electric traction, mechanisation and expansion of important yards to maximise throughput, welding of rail joints to minimise wear and tear and to reduce maintenance,
substitution of imported items by indigenous items, computerisation of Broad Gauge Wagon movement to secure better utilisation of wagons and control over trip ration of fuel etc.

- There should be cut down in percentage of travelling and daily allowances. A sharp reduction in the holding of conferences and seminars. To cut down in the percentage of contingencies and maximum economy in the use of papers, stationary, furniture and office equipment and the use of staff cars, telephones, etc.
- Strict watch on productive utilisation of ballast trains.

The Indian Railway’s accounting procedures and audit system are department or functional based and not activity based. These are follows the principles of booking government expenditure and not corporate profit-and-loss account. The accounts give little indication of income-versus-cost of different services or activities.

The real issue is the urgent need for the Indian Railways to change from government department to an enterprise, albeit owned by the government. This would require certain basic structural changes such as redefining Indian Railway’s relation with government, clear definition of its corporate goals and strategies, autonomy and accountability of the top management for attaining corporate goals, adequacy and stability of
tenures of the top management, lessening of political control, interferences and patronage in railway lines including capital restructuring and granting same freedom governmental constraints, delinking of railway employees from the norms for civil service employees and better accounting practices recast the railway accounts etc.

However, issues of basic structural change are larger issues with political implications and may therefore come about immediately. But some major areas of financial and accounting management need urgent reforms. We have to suggest about financial and accounting management as below:

- The Indian Railways should use the Management Accounting System effectively on the railway materials. To enable the executive to exercise better control on expenditure, it is suggested that a consolidated inventory account should be maintained under each executive rather than separate Management Accounting System accounts for each work, transfer of surplus materials under each executive should be effected promptly to other executives, the lead time of materials should be reduced, the prices bring controlled by publication of a quarterly price list of materials by the store department, the inventory held by each executive and the
consolidated inventory held by each chief engineer should be reported separately in all accounts and also to Parliament. Accounts Department should effectively contribute to the railway revenues by achieving economy as well as by making effective role of management for more profit generating business.

- The railways should use the inflation accounting system more effectively in pricing policies.
- The process of responsibility accounting should be used increasingly and in the right direction.
- The participative management should be more effective through which the reasons behind the orders will be understood quickly. Through the right direction the overall performance of Indian Railways will be improved.

- Indian Railways should apply the rules of Management by Exception and Management by Objectives. This technique cut out wastages to the minimum and increase the number of wagons on the move.
- Indian Railways should follow the rules and regulations of Companies Act 1956 in accordance with their accounting system.
- Indian Railways should maintain the liabilities registers, numerical accounts and cash accounts of materials at site, issue and receipts,
a master file of payments to contractors and preparation of bills, works register and other transactions through proper channel.

- Costing procedures should be changed and progressively refined so as to deliver all inclusive specific costs of each activity from which cost of different services could be diverted. Principles of costing under various situations such as, whether to charge marginal costs or average costs should be laid down.

- Indian Railways should take necessary advices from Financial Adviser in respect of planning as well as marketing also.

- Railway should review the standards of internal check and arrest deterioration dilution.

- Standards of accounts inspection should to be improved.

- There should be greater professional expertise and better in service training.

- Gaps in management of loans, advances and cash should be bridged.

- Greater innovation and dynamism is needed in management reporting, quite apart from financial control, systems and methods.

- There should be a system for establishing internal audit to review independently, methods and controls, because at present, such reviews are awfully inadequate.
Indian Railways should also use the process of commercial audit system through which to examine the profit and loss accounts and verify the assets and liabilities of railways.

Our analysis and examination of the financial and accounting performance of Indian Railways clearly indicates that there is an urgent need to bring the financial and accounting reporting of this largest and oldest public undertaking concern in India. An absolute, sure and well balanced growth of Indian Railways is not possible unless and until sound financial management practices are adopted proper recording of their accounts maintained by the concerned managers and administrative staff of the Indian Railways. The proper accounting records are most important because, if the Government of India sanctioned a huge amount for the railways from their total revenues, through borrowings, or budgetary supports there may be misuse of borrowed money. If the proper accounting records are maintained the possibility of misuse of lending money is very thin. Thus, these accounting records are very essential which show clearly the true and fair picture of revenue and expenditure of Indian Railways.