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*Chapter One*

# Introduction

# CHAPTER-I

## INTRODUCTION

Transport is a key infrastructure for economic development and yet priority given for the transport sector during the planning era was largely influenced by priorities of other sectors, their growth rate and the demand they are likely to make on transport service. The resource constraint has been the predominant factor in deciding the size of the transport plan. Transport is concerned with movement of men and material from place to place. Marshall describes the function and importance of transport as the industries which undertake nothing more than the mere movement of persons and things from one place to another. This has constituted one of the most important activities of men in every stage of advance civilization.<sup>1</sup> It carries ideas and innovations to the public and has contributed to the evolution of civilization. The function of transport is to carry commodities from points where their marginal utility is relatively low to points where it is

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<sup>1</sup> Marshall A., Industry and Trade, McMillan and Co. Limited, London, 1921, p.423.

relatively high. It provides place and time utility to both man and material.

Transport being a form of commercial activity, expanding transport investment in the public sector raises many important issues of public sector economics. With liberalisation and globalisation policies in force, infrastructure can as well be funded through private investment but even this requires a major favourable response from Government by way of acquisition of land/right of way, regulatory measure and the level of user charges.

Though the demand for transport is not fundamental in human nature like the primary demand e.g. demand for food and essential commodities, yet it is an indispensable part of culture "the hall mark of civilization". As the entire mechanism for satisfying primary demand rest upon the efficient transport system, "the collective demand of transport of an organised society with a high standard of living may be exceedingly strong."<sup>1</sup>

From the viewpoint of cheap transport service, railways have an edge over other modes of transport with the rider that shipping, which is the cheapest, does not rescue the bottlenecks of

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<sup>1</sup> Bonavia, M.R., "Economics of Transport, James Nisbet and Co. Ltd., Cambridge, 1947, p.4.

inland transport. Indian Railways are in the forefront in providing an efficient and cheaper inland transportation service. This is so even for urban transportation where commuters need rapid mass transit system at cheaper rates. Indian Railways are the pride of nation and they are unique in the entire world because Indian Railways have been showing profits for the past few years continuously whereas railways in most other countries have been recording heavy losses. The Indian Railways earn substantial profit even after meeting its total expenditure.

The Indian Railways have another significant aspect which needs elaboration. This is the excessive use of large amount of financial resources for a country which is involved in the development of its economy from the stretch. It is commonly said that Indian Railways must take more capital to produce annual revenue which can be obtained by it. Though the Indian Railways are committed to do tremendous volume of business, their capital investment is proportionately larger than the need. Thus, it is inevitable that the finance of Indian Railways and the regulation of its accounting and auditing would constitute an important segment of the field of financial management. This is the areas of this research work.

There is severe dearth of literature and research studies in the field of railway transport, especially on Indian Railways and the financial aspect of Railways. However, a number of researches and studies have been made in India in the past on this important subject. Their number is definitely restricted, though some researches and work have been going on at present also.

Sherrington<sup>1</sup> in 1937, carried out a study on "The Economics of Rail transport in Britain". He has analysed the problem of railway transport in Great Britain. He has also explained how cheap transportation helped Britain to establish trade supremacy during the nineteenth century. Larger part of Britain was served by water communication (Canal System). Britain was fortunate in possessing a long shore line which provided a cheap route to much of the country's area and large quantities of bulk goods could be carried by this means at low cost.

A study by Kirkadly and Evans<sup>2</sup>, was carried out in 1923, on "The History and Economics of transport". In this study, they have

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<sup>1</sup> Sherrington, C.B.R., "The Economics of Rail Transport in Britain", Edward Arnold & Company, London., 1937

<sup>2</sup> Kirkadly, A.W. and Evans, Alfred, D. "The History and Economics of transport". Sir Isaac Pitman & Sons Ltd., New York, 1923.

discussed the development of various modes of transport giving emphasis on railway and water transport in Britain.

A study on "Railway and Geography" was made by O'Dell and Richard<sup>1</sup> in 1971. In this study, they have concluded that the railway transport is the best agency for meeting increasing requirement of transport facilities in Britain:

James<sup>2</sup>. has given an economic model on demand for transportation through the study on "An Economic Model of Transportation"

Dr. Rabindra Kumar Choudury<sup>3</sup> in 1986 carried out a study on "Economics of Public Utilities in India". This study seeks to deal conveniently with the problem areas of definitions and scope, rate making process, valuation of utility property and authorised returns, pricing policies, peak loads, experience of the railways, taxation problem and cost benefit analysis.

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<sup>1</sup> O'Dell, A.C. and Richard, P.S., "Railway and Geography", Hutchinson and Company, London, 1971.

<sup>2</sup> James, P.S. and Strucker, "An Economic Model of Transportation", North Western University, Illinois, 1969.

<sup>3</sup> Choudhury, R.K., "Economics of Public Utilities", Himalaya Publishing House, Bombay, 1986.

A study by Miller<sup>1</sup> on "Inland Transportation principles and policies – A Review and extension of Railway Transportation", in 1933, also explained the role of various modes of transportation giving emphasis on railway expansion in New York.

Jackman<sup>2</sup> brought out a book on "Economic Principles of Transportation" in 1935. His opinion was that though development of motor, water and air transport has attracted a large share of passenger and goods traffic from railway, yet for carriage of bulk of the freight traffic, railway must be given the prime importance. He also discussed the problems in the background of Canada.

Johnson<sup>3</sup> reviewed the origin and history of Indian Railways during British Regime. His study was on "The Economics of Indian Rail Transport". He was of the opinion that the introduction of Railways in India was dictated not so much by economic consideration as by strategic reasons and administrative facilities. He has also examined the present organisation and performance of Indian Railways

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<sup>1</sup> Miller Sidney H., "Inland Transportation principles and politics – A Review and extension of Railway Transportation", McGraw Hill, New York, 1933.

<sup>2</sup> Jackman, W.T., "Economic Principles of Transportation", Toronto, University Press", 1935.

<sup>3</sup> Johnson, J., "The Economics of Indian Rail Transport", First edition Allied Published Pvt. Ltd., Bombay, 1963.

to find out to what extent railways have been instrumental in moulding the socio-economic life of the country.

A study was made in 1958 on "History and Problems of Railways in India" by Sejawalker<sup>1</sup>. He has highlighted the role of railway transport on the mobility functioning of the Indian metro-polities.

Tiwari's<sup>2</sup> study entitled "Railways in Modern India", is a thorough study on the history, role and problems of railways in modern India.

A study entitled "A Monograph on Indian Railway Rates" in 1918 by Ghose<sup>3</sup> discussed the development of railways rates and government regulation over them in the light of their impact on the economic development of India. It is worth mentioning that most of the investigations on Indian freight rate structure undertaken by different scholars in the subsequent periods were essentially based on the work of Ghose.

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<sup>1</sup> Sejawalker, P.C., "History and Problems of Railways in India", Unpublished Ph.D. Thesis, Puna University, Puna.

<sup>2</sup> Tiwari, R.D., "Railways in Modern India", New Book Company, 1941.

<sup>3</sup> Ghose, S.C., "A Monograph on Indian Railway Rates", Railway Board, New Delhi, 1918.

Tiwari<sup>1</sup> in his study on "Railway Rates in India" concluded that the rate policy followed in India was injurious to the development of indigenous industries. The rate policy was such that it favoured the export of raw material and import of finished goods.

Aggrawal,<sup>2</sup> Chandra,<sup>3</sup> Mishra<sup>4</sup> and Mittal<sup>5</sup> made extensive studies on railway rates in India. They have been examined a critical analysis of freight rate structure of Indian Railways.

A study entitled "Railway Rates and Fares during Plan Period and their Impact on Trade and Industry" by Dr. Ziauddin Khairowala, in 1976<sup>6</sup> is an attempt to highlight the best method of determining railway rates and fares. This study is divided into ten chapters. It deals with various aspects of the Railway rates and fares with the help of both primary and secondary data. It shows that the

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<sup>1</sup> Tiwari, R.D., "Railway Rates in India", Longmans Green and Co. Ltd., Bombay, 1937.

<sup>2</sup> Agrawal, Y.P., "Railway Freight Flow, Transport costs and the Regional Structure of Indian Economy", Unpublished Ph.D. Thesis, Jawaharlal Nehru University, New Delhi, 1982.

<sup>3</sup> Chandra, Mahesh, Railway Rates and Fares in India since 1849 – A Historical and Analytical Study", Delhi School of Economics, University of Delhi, 1964-65.

<sup>4</sup> Mishra, Gopal Krishna, "Railway Rates and Fares in India since 1950", Department of Economics, Indore University, Indore, 1965.

<sup>5</sup> Mittal, Kailash Chandra, "An Intensive Study of Indian Railway Freight policy before and since Independence", Department of Commerce, Jodhpur University, Jodhpur, 1963-68.

<sup>6</sup> "A Study of Railway Rates and Fares during Plan Period and their Impact on Trade and Industry", by Dr. Ziauddin Khairowala [Thesis submitted at AMU, Aligarh, 1976].

Railways have not yet agreed to take the responsibilities of an insurer. It amounts that the law and order situation is poor. The railway authorities do not have sufficient number of covered wagons with the result that when trains – shipment on different gauges increased beyond normal limits, it becomes risky and out of control. The author advises that the Railways should undertake its responsibility as an insurer. The author in this study gives many findings and lays down certain criteria upon which the Railway rates and fares can be fixed easily.

A study on “Government Control of Business”, was made by Harold D. Koontz, as early as in 1941.<sup>1</sup> The book is designed to describe and analyse comprehensively the field of Government control of business in the United States. The author has attempted to obtain unity and order by presenting the manifold instances of control as directed toward particular areas of economic relationships. In the opening section of the book before treatment of individual areas, the author discuss the nature of the problem of control. In the closing section he presents his conclusions and findings.

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<sup>1</sup> Koontz, H.D., “Analysis of Financial Statements”, Prentice Hall of India Pvt. Ltd., New Delhi, 1964.

Dr. M.O. Mathew<sup>1</sup> laid emphasis on the point that the degree of economy and efficiency of the transport industry as a whole is determined by organisational considerations in the context of unit sizes. Transport being a public utility industry, is regulated by governmental prices in many ways, of which some have a direct or indirect impact on the evolution of size. He has discussed the railways from the angle of size at a given point and analysed a number of interesting features such as operational ratio and traffic density.

A book entitled *"Economics of Transport"* by S.K. Srivastava<sup>2</sup> in 1987, is an attempt to analyse the various factors that have affected the technological and economic development of the various means of transport operating in India. Suggestions has also been given by the author to increase the efficiency of the transport agencies in this country.

G.S. Khosla,<sup>3</sup> wrote a book entitled, "Railway Management in India" in 1972. He has discussed various accounts of the different departments of the Railways, like Finance, Planning, Operation,

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<sup>1</sup> Mathew, M.O., "Rail and Road Transport in India – A Study in Optimum Size and Organisation", Scientific Book Agency, Kolkatta, 1964.

<sup>2</sup> Srivastava, S.K., "Economics of Transport" S. Chand & Co., New Delhi, 1987.

<sup>3</sup> G.S. Khosla, "Railway Management in India", Thacker & Co. Ltd., Bombay, 1972.

Administration, Civil Engineering, Personnel, Stores, Industrial Relations etc. He also put suggestions to remove deficits of different operational arches of the Railway working.

A book entitled "Indian Railway Administration and Finance" published by the Railway Board<sup>1</sup> offers a detailed discussion of the various Railway Operational areas such as Railway Finance, Economics of Rail Transport, Management Accountability etc. In this book the author has given all the general information on organisational management structure and objectives, accountability of the railways to public and Parliament Operational and financial planning, industrial relations and the financial structure in general. In the last chapter of this book, the author details with rules and orders on specified subject of general application to all departments.

"Trends in Indian Transport System" is a book written by Dr. Panduranga Rao<sup>2</sup>, in 1985. It is an attempt to study the transport infrastructure in India and the plan investment pattern as compared to International Transport. The author in this book presumes that the trends in the demand for transport at the district level cannot be explained in isolation without at perspective undertaking of the

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<sup>1</sup> "Indian Railway Administration and Finance" by Railway Board, 1976.

<sup>2</sup> Rao, P.D. Panduranga, "Trends in Indian Transport System", Inter-India, Publication, New Delhi, 1985.

transport and economic infrastructure and salient characteristics of the economy like population, income, expenditure on transport etc.

In 1974 a book entitled "Indian Railways" by M.A. Rao<sup>1</sup> was published. It is an attempt to show the whole picture of the Indian Railways from the very beginning to the end, from early days to the present stage. The author of this book tries to represent all the working areas of the Railways.

R.N. Saxena,<sup>2</sup> in his book "*Rail Transport Pricing in India*" has discussed the system of rail transport pricing. He has also reviewed the goods freight, structure, and passenger fare structure. He has deeply discussed the siding charges and competition with other modes of transport.

A book entitled "*Indian Railways: Problems and Prospects*" by K.K. Saxena,<sup>3</sup> was published in 1962. The author of this book mainly examined the quality of rail service provided on Indian Railways. He emphasises the need for radical improvement of both passenger and goods services and states that this can only be achieved by laying more emphasis on internal economies. He presents a historical survey

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<sup>1</sup> Rao, M.A., "Indian Railways", National Book Trust of India, New Delhi, 1974.

<sup>2</sup> Saxena, R.N. "Rail Transport Pricing in India" Traffic Commercial (Rates) Railway Board, New Delhi, 1985.

<sup>3</sup> Saxena, K.K. "Indian Railways", Vora & Co., Publishers, Bombay, 1962.

of the development of Indian Railways and also highlights the problems and prospects of its development.

Dr. S.M. Imamul Haque<sup>1</sup> in his book entitled *"Management of Indian Railways"*, has examined the financial management of railways. He has also highlighted the government accountability, industrial relations, regrouping and personnel management in Indian Railways.

A study on *"Indian Railways Transportation Management"* was made by Vinod Pal<sup>2</sup> in 1998. He has analysed the system of working, passenger operation and freight operation on the Indian Railways. He has also discussed the planning process, railway accidents and safety in railway operation.

Nafees Baig's<sup>3</sup> study entitled *"Transport Accounting"* is a thorough study on the accounting procedure of transport. He deeply examined the financial statements, ratio analysis, cost accounting, depreciation and double account system in transport undertakings. He also discussed the audit of transport accounting.

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<sup>1</sup> Haque Imamul, S.M. *"Management of Indian Railways"* Mittal Publications, New Delhi, 1989.

<sup>2</sup> Pal Vinod, *"Indian Railway Transportation Management"*, Bahri Brothers, Publishers & Book Sellers, New Delhi, 1998.

<sup>3</sup> Baig, Nafees, *"Transport Accounting"*, Printwell Publications, Aligarh, 1984.

Samiuddin's<sup>1</sup> study on *"Economics of Indian Railways"* in 1988 discusses the development of railways. He highlights his views on the finance of railways. He also deals with regrouping of railways. This book gives an historical account of the development of railways.

B.N. Asthana's<sup>2</sup> study entitled *"Financial Management of Indian Railways"*, is a thorough study on the performance of Indian Railways since 1831 to 1974. The book is divided into twelve chapters and examines the early attempts made for the establishment of railways in India. It also analyses the railway finances during pre and post world wars and during the plan period.

A book entitled *"Railway Accounts and Administration"* by R.R. Nanda<sup>3</sup> appeared in 1987. It is divided into various chapters. This book is an attempt to deal with all important codes, rules, laws, procedures and of the railways in precise and concise form.

An exhaustive study in 1998, on *"Indian Railway Finance"* made by K.B. Verma.<sup>4</sup> has examined the financial management,

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<sup>1</sup> Samiuddin, *"Economics of Indian Railways"*, Published by Faculty of Commerce, AMU, Aligarh, 1988.

<sup>2</sup> Asthana, B.N., *"Financial Management of Indian Railways"*, Ramesh Book Depot, Jaipur.

<sup>3</sup> Nanda, R.R. *"Railway Accounts and Administration"*, Bahri Brothers, New Delhi, 1987.

<sup>4</sup> Verma, K.B. *"Indian Railway Finance"*, Academic Foundation, New Delhi, 1998.

infrastructure financing and planning. He has also highlighted the productivity and operational evolution. Among them he has deeply analysed the financial management of railways. He point out the financial problems and accounting system also.

Various reports are issued by the Ministry of Railways, which examine the current position as they relate to financial analysis of Indian Railways. These reports are very helpful in the analysis of financial performance of Indian Railways. The Annual Reports and Accounts of Indian Railways are most important among the others. These annual reports highlight the various aspects of development of Indian Railway System. The planned development, passenger and freight traffic, finance, electrification, signaling and telecommunication, traction and rolling stock, research and development, personnel, public relations, financial statements and statistical statements etc. are the natural items of these reports.

#### **PAPERS AND ARTICLES:**

A number of papers and articles on the subject have been published. In the article on "The Performance of Railways" compiled by

The Indian Institute of Public Opinion<sup>1</sup>, analysed the working and financial position of Indian Railways upto the year 1980.

K.T.V. Raghvan, in his article entitled "Rail Transport Development – The yeas to come" (Indian Railways New Delhi, October 1984) makes an appraisal of the railway development in the near future and discusses its importance in the Indian economy.

Nafees Baig, in his article entitled "Railway Management Emerging Pattern" (The Economic Times, Bombay, September 10, 1973) has analysed the emerging pattern of railway management in the country. He has, in particular, touched upon the social responsibilities of Indian Railways so far as they relate to the provision of services by railways to the common man.

An article entitled "Golden years of Indian Railways" by R.P. Singh was published in April 1987. In it a detailed discussion is made about railways development since the start of regrouping. He states that in 1950-51, railways hauled only 73 tonnes of revenue earning traffic and the total traffic was just 93 million ton<sup>n</sup>es, but after regrouping this situation improved and in 1985-86, the revenue earning

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<sup>1</sup> "The Performance of Railways" The Indian Institute of Public Opinion, Monthly Commentary, New Delhi, March, 1980.

traffic rose to 257.5 million tonnes and the total traffic to 286.4 million tonnes which amounts to an increase of 354 percent.<sup>1</sup>

M.V. Ruparelia<sup>2</sup> discussed in his article, entitled "Ultimate efficiency of Railways", the various functions of Personnel Department. He has reviewed the necessity of training, promotion system and standard of efficiency for the railways. He has suggested that all these aspects are essential to improve the efficiency of railways.

M.N. Bery<sup>3</sup> in his article entitled "Indian Railways – Performance and Prospects" has examined the industrial relations in Indian Railways. He has also discussed the energy crises in Indian Railways.

In an article written by Mrs. Aarti Khosla<sup>4</sup> entitled "Financial Administration in Railways", She has discussed the various aspects of financial administration. She describes the necessity of the Chief Accountant and Financial Adviser, his role, and his functions. She has

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<sup>1</sup> R.P. Singh, "Golden Year of Indian Railways", Indian Railway, Journal April 1987, p.15.

<sup>2</sup> M.V. Ruparelia, "Ultimate efficiency of Railways", Indian Railway, Journal, February 1980, p.25

<sup>3</sup> M.N. Bery, "Indian Railways – Performance and Prospects", Indian Railway, Journal, March 1974, p.8.

<sup>4</sup> Mrs. Aarti Khosla, "Financial Administration in Railways" Indian Railway, Journal, July 1977, p.19.

deeply investigated into the history of accounts department of Indian Railways.

S.S. Gauba<sup>1</sup> in his article, entitled "Analysis of Railway Earnings and Expenditure" has analysed various items of earnings and expenditures of the railways. He has discussed all the earning items and expenditure items separately. He gave his ideas on Pension Payments, Depreciation Reserve Fund, staff cost and fuel expenses.

Shankar Raghuraman<sup>2</sup> has discussed, in his article entitled "*A Financial Mass*" the financial performance of Indian Railways according to Railway Budget 1999-2000. He has highlighted the dangerous cuts in investment and depreciation. He has also described the working expenses and gross traffic receipts of Indian Railways.

The Economic Times has brought out in its editorial a number of studies on the role, structure and financial performance of Indian Railways. It has also been publishing on other aspects which provide valuable resources for compiling this study.

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<sup>1</sup> S.S. Gauba, "Analysis of Railway Earnings and Expenditure", Indian Railways, Journal, July 1986, p.25.

<sup>2</sup> Shankar Raghuraman, "A Financial Mass". The Economic Times, February 26, Friday, 1999, p.12.

The Financial Bureau of the Financial Express has taken keen interest in analysing the profitability of Indian Railways. This is apparent from the various issues of Financial Express where the Bureau has discussed, among other things, price hikes, Rail Bonds and the financial position of Indian Railways.

In view of the above examination of the literature available on the subject, it can be easily summed-up that though there are a lot of books, reports, statements, articles, case studies etc. Yet they cannot be considered as sufficient material for the purposeful analysis. In short, there is a paucity of literature available on the subject. I have therefore, endeavoured to present this study on the Accounting and Financial Reporting Practices in Indian Railways during 1990s.