

TRAFFIC ACCOUNTS- ACCRUAL ACCOUNTING PERSPECTIVE

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Indian Railways is planning to switch over to Accrual Accounting as recommended by Debroy Committee in its report on the study of Indian railways. Traffic Accounts of IR which brings into account earnings of railways is also to be geared up in this direction. The earnings of IR are projected at Rs.1.80 lakh crores during 2015-16 garnered from passengers, other coaching, goods and sundries arising over 8000 stations of Indian Railways.

Accounting of Earnings and their realization in Railways are regulated by the provisions envisaged in Indian Railway Accounts Code Vol II and the following are main source of documents to capture the earnings.

- PRS, UTS, EFT, BPT and PCTs are main sources of passenger earnings.
- Ticketing through e ticket, ticket through mobile phones also occupy a major segment ticketing in Railways.
- Several schemes of issue of unreserved ticketing is also in vogue like JTBS, YTSK, AVMs to clear the rush at booking offices of stations.
- Invoice forms the basic document freight earnings
- Parcel Way Bill for parcel traffic

Several agencies help IR in the accountal of earnings like CRIS, FOIS & RITES .

At the outset, it is necessary to bear in mind that Traffic Accounts Branch has been following Accrual Accounting in most of the areas even though in some cases Cash based accounting is followed. Even in the best of the commercial organizations, this practice is in vogue and cannot be overcome totally.

Accrual Accounting in Traffic Accounts of Railways.

Traffic Accounts follows accrual accounting by virtue of operating traffic suspense in the accounting of earnings. The underlying principle in accrual accounting or commercial accounting system is that accounting method should follow accounting period concept which is usually a year-financial or calendar year. Accordingly, accounting should recognize incomes pertaining to the period and account for irrespective of the fact whether the income is realized or not. To a large extent, Traffic Accounts of Indian Railways follow this principle thus conforming to accrual accounting system.

PRESENT ARCHITECTURE OF TRAFFIC ACCOUNTS IN IR

Salient features of present architecture of Traffic Accounts in Indian Railways is outlines as under:

- Station Balance Sheet which is prepared separately prepared monthly by every station over Indian Railways is deftly designed on accrual accounting basis long back. Station Balance Sheet takes into account all the earnings on its debit side

irrespective of realization. It reflects closing balance which forms part of traffic suspense of IR and it is absolutely on the principles of commercial accounting.

- Similarly, Traffic Accounts branch compiles Accounts Office Balance Sheet every month separately for coaching and goods transactions. It brings into account all the carriage bills billed against all government departments, Central/State Government from whom moneys to be realized for journey performed by police personnel, defence personnel etc. against warrants. Amounts on account of carriage bills are debited in the Accounts Office Balance Sheet and realized subsequently. Pending realization, the outstanding balance forms part of traffic suspense the realization of which is the responsibility of Traffic Accounts Department. This is another example of accrual accounting followed on Railways.
- Traffic Book is a compilation of earnings of a zonal railway which brings into account all the earnings whether accrued at stations or otherwise, irrespective of their actual time of realization.
- Operation of Traffic Account and Traffic Suspense ensures that all the earnings are accounted in the accounting period irrespective of their realization. The unrealized earnings as reflected in Traffic suspense of railways is closely monitored and watched for realization.
- Traffic Suspense is the core element and crux of accrual or commercial accounts in Railways and as such is considered easy to switch over to accrual accounts on earning side as most of the areas are already covered excepting few areas where cash accounting is going on.
- Traffic Suspense balance is reflected on the asset side of the Balance Sheet.
- Accounting is well structured, codified and classified and highly computerized. Consolidation and compilation of account of earnings is done on systems with the help of all-railway programmes developed by CRIS, FOIS, RITES etc.,

AREAS OF CONCERN FOR SWITCHING OVER TO ACCRUAL ACCOUNTS

- Advance Reservations of Passengers four months in advance.
- Circular journey tickets.
- Diversion of Rakes, cost of coal, freight etc.,
- RRs issued in fag end of March where goods have not reached the destination.
- Sundry earnings where there is delay in raising bills in March but done and realized in next financial year.

Way forward for change over

- **Advance Reservations.**

As commented by Debroy Committee report and earlier by the Committee on Accounting Reforms, the amount collected towards advance reservations by IR in advance of actual service rendered is being accounted in the year in which collected even though, part of the amount pertains to journeys to be performed in next financial year. It has been observed by the above Committees that the earnings of IR are overstated to that extent. As per commercial accounting principle, these amounts are to be deducted from the earnings in Profit & Loss Account and reflected as Income received in advance on the liability side of the Balance Sheet. IR is not following this system.

The following procedure is suggested.

- This can be implemented very easily by IR. CRIS need to develop a soft ware for capturing PRS reservations according to date/month of journey to capture 4 months advance reservations data to enable Traffic Accounts Branch to do necessary ADJUSTEMENTS IN March Accounts every year.
- Allocation to be added in Finance Code Vol II to segregate and prepare necessary JV in accounts.
- There will be less earnings only in the first year of implementation, say, March, 2016 and this gets neutralized in the next year.
- Railway Board can issue instructions with the concurrence of Audit to zonal Railways so that IR can overcome this aspect.

Circular Journey Tickets

Similar procedure as advised for Advance Reservation above can be adopted with necessary changes.

Diversion of traffic

Diversion of traffic may give rise to following situations:

- Diversion of rakes is prevalent in substantial way in Railways due to operational reasons or on customer account.
- Again these diversions may involve rebooking. Some diversions do not alter the original destination only via route changed. In some cases, destination is changed.

- Party may be the same where cost of coal need not be paid by Railways or in case of different parties, cost of coal also is involved.
- Some parties are on e-payment where some others are not covered.

The above situations may affect both freight and revenue expensed under Demand 12 because of claims cases. Issue of Super sessional RRs is the main issue. Transactions involving huge amounts are taking years of time to bring out final adjustments. In case Accrual Accounting is to be introduced, this is one of the major areas of concern to be sorted out.

Railway Board issued detailed circular in August, 2014 on this vexatious matter which stipulates that the SRR to be issued on FOIS itself after collection of original RR. However, these instructions are yet to be implemented by Zonal railways.

RRs Issued in March but traffic moved in next year and delivered

Transactions of the above nature are bound to occur in any commercial organization. Even in Commercial entities, transactions of Sale or return are in vogue. A few such transactions taking place at the end of the year remain in Sales of the financial year and they get reversed only customers return them if they feel so which may take place in April month. As such, some accountal in Cash basis is inevitable in Commercial Accounts. In Railways, we may have to continue to treat these minor variations on cash basis which does not affect financially in substantial nature.

Treatment of Sundry Earnings

While some of the Sundry Earnings are accounted on accrual basis by operating the Suspense Head 'Demands Recoverable' and some others are on Cash basis mostly due to delay in billing against parties. In such case, earnings are brought to book only when they are realized. Divisions should critically review billing schedule and ensuring raising of bills in the financial year itself so that same may be accounted on accrual basis and watched for realization through Traffic Suspense.

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