

GOVERNMENT OF INDIA

R E P O R T

BY

SIR A. LOWES DICKINSON, M.A., F.C.A.

ON THE

**SYSTEM OF ACCOUNTING,
AUDIT AND STATISTICS
OF THE RAILWAYS
OWNED AND MANAGED
BY THE GOVERNMENT OF INDIA**

1926-27.

Part I.

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REPORT

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Part I.

4. To consider and report on the form of the various accounts rendered by Railway administrations to the Accountant-General, Railways, and to make recommendations thereon.

5. To consider and report on the experimental system in force on the East Indian Railway of the separation of accounts from audit and to make recommendations thereon.

6. To examine and report on the methods now in process of adoption for the establishment of a Railway Clearing House, and to make recommendations thereon.

7. To examine and report on the methods in force for the preparation of statistics ; to suggest improvements therein where possible ; to examine the statistics now prepared with a view to eliminating and that may be superfluous or to suggesting additions of value, having regard to the purposes for which alone statistics are required, *viz.* :—

(I.) to assist the administrative and executive officers in the efficient management and operation of the Railways.

(II.) to enable the Railway Board to watch and control the management and operation of the Railways in the direction of efficiency and economy.

(III.) to furnish the Government of India and the Auditor-General with such information and returns as are required by them.

8. To examine and report on the advisability of the more extended employment of machines in the Accounts, Audit and Statistical Offices of Railways, and to make recommendations thereon.

9. To examine and report on the system of workshop accounts in force on the Bombay, Baroda and Central India Railway.

10. To report upon any other matters arising out of the investigations and pertinent to the above specific Terms of Reference.

11. To report whether the realised surplus of any considerable amount resulting from the disposal of a fixed asset should be treated as a receipt on capital account or credited to revenue account.

My report is divided into three parts, the arrangement of which is as follows :—

ARRANGEMENT OF REPORT.

Part I contains the Introduction and the following chapters :—

Chapter I.

Which contains references to and extracts from the Reports made during recent years by Mr. G. W. V. de Rhe-Philipe (paragraphs 19 and 20), Sir William Acworth (paragraphs 22 to 24), and Sir Vincent Raven (paragraphs 25 and 26), in so far as they have relation to accounts and statistics.

Chapter II.

Which comments upon the general conditions disclosed by my investigation. (Paragraphs 27 to 50.)

Chapter III.

Which describes the general principles to be observed in a sound and efficient system of accounting. (Paragraphs 51 to 60.)

Chapter IV.

Which outlines the proper organisation for the Accounting and Statistical Departments and for the Government Audit. (Paragraphs 61 to 87.)

Chapter V.

Which describes the proposed new system of cash receipts and disbursements. (Paragraphs 88 to 113.)

Chapter VI.

Which describes the proposed new system of audit. (Paragraphs 114 to 130.)

Chapter VII.

Which deals with the proposed new forms of annual accounts for individual Railways, including balance sheet for each, and of a consolidated income account and balance sheet for the whole of the Railway administration. (Paragraphs 131 to 164.)

Chapter VIII.

Which deals with the proposed new system of traffic accounting. (Paragraphs 165 to 193.)

Chapter IX.

Which deals with the proposed new system of stores accounting. (Paragraphs 194 to 214.)

Chapter X.

Which deals with the proposed new system of workshop accounting. (Paragraphs 215 to 239.)

Chapter XI.

Which describes the new general accounting system. (Paragraphs 240 to 252.)

Chapter XII.

Which outlines the proposed new system of accounting for collieries. (Paragraphs 253 to 269.)

Chapter XIII.

Which discusses the question of depreciation. (Paragraphs 270 to 288.)

Chapter XIV.

Which deals with the form of budget of the Railways and with proper tests in comparing the budget with the actual expenditure. (Paragraphs 289 to 300.)

Chapter XV.

Which deals with the methods of compiling statistics and discusses those which are at present prepared with suggested amendments thereto. (Paragraphs 301 to 338.)

Chapter XVI.

Which deals with the freight on stores and supplies for use on the Railways. (Paragraphs 339 to 343.)

Chapter XVII.

Which deals with mechanised accounting. (Paragraphs 344 to 352.)

Chapter XVIII.

Which deals with the installation of a new system. (Paragraphs 353 to 364.)

Chapter XIX.

Which contains a summary of my recommendations. (Paragraphs 365 to 380.)

Chapter XX.

Conclusion. (Paragraph 381.)

Part II contains the Appendices, to which reference is made throughout Part I.

Part III contains the forms for use in the New Accounting and Statistical Systems recommended in the report and detailed in the Appendices.

A complete Index to the Appendices and Forms will be found at the opening of Parts II and III respectively.

In Chapter XIX of the Main Report there is embodied a summary of my recommendations, and these are as follows :—

SUMMARY OF RECOMMENDATIONS.

Separation of Audit and Accounts.

1. That the principal Accounting Officer of each State Railway be styled "Chief Accountant," and be directly responsible to the Agent of each Railway, but appointable and removable only by the Railway Board. Chapter II, paragraph 33.)
2. That the accounts of the Railway Board at present kept by the Accountant-General Railways be handed over to a chief accountant appointed by and responsible to the Railway Board. (Chapter IV, paragraph 62.)
3. That the title "Accountant General Railways" be altered to "Chief Auditor Railways." (Chapter IV, paragraph 62.)

4. That the independent post-audit of all Railway accounts be carried out by the Auditor-General, who would have no power or authority to hold up payments or accounts but only to report thereon. (Chapter VI, paragraphs 116 to 122.)
5. That the efficiency be judged by the relation between the earnings and the operating expenses ; by the value to the community of the services rendered, and by the efficiency and economy with which they are rendered. (Chapter II, paragraph 37.)

General Accounts.

6. That the Accounting Department of each Railway be reorganised as shown on the chart on page 22. (Chapter IV, paragraphs 62 to 85.)
7. That an entirely new and modern system of general accounting be introduced with a proper system of control accounts. (Chapter XI, paragraph 249.)
8. That the Railway Accounts be kept upon the basis of work done and services rendered by the Railways and of work done for the Railways, both expressed in money values and entered in the books as at the time when the services are performed and the work done and whether paid for at that time or not. (Chapter II, paragraph 37.)
9. That a system of rewards for any suggestions made and adopted for improvements in accounting methods be introduced. (Chapter IV, paragraph 86.)

Expenditure Abstracts.

10. That the Expenditure Abstracts be remodelled as indicated in Appendix III. (Chapter VII, paragraphs 141 to 144.)
11. That a separate abstract be prepared to include all expenses connected with stores. (Chapter VII, paragraph 145.)
12. That a separate abstract be prepared for all expenses of the Electrical Department. (Chapter VII, paragraph 146.)

Capital and Income Accounts and Balance Sheet.

13. That the Capital and Income Accounts rendered by each Railway be revised in accordance with the new forms attached to Appendix III. (Chapter VII, paragraphs 135 and 136.)
14. That the Suspense Account be treated as working capital and included in Capital Expenditure instead of in Income. (Chapter VII, paragraphs 138 and 139.)
15. That payments to worked lines in respect of net earnings of those lines under the terms of the contracts be treated as a charge to Income and not as at present deducted, as to Receipts, from Gross Earnings, and, as to Expenses, from Operating Expenses. (Chapter VII, paragraph 151.)
16. That each Railway prepare monthly and annually a balance sheet in the form set out supported by exhibits showing how the various assets and liabilities are arrived at. (Chapter VII, paragraph 155.)
17. That the Railway Board prepare an income account and balance sheet recording their activities apart from those of individual Railways, and that from these accounts and from the income accounts and balance sheets of individual Railways, a consolidated income account and balance sheet of the Railway Department be prepared monthly and annually. (Chapter VII, paragraph 136.)

Cash System.

18. That the Controller of Currency act as banker and keep separate accounts for each Railway system, crediting to this account all the receipts and charging to it all the payments. That the Treasurer of each Railway send daily to the Controller of Currency a statement of the Railway receipts showing the bank or sub-treasury to which they have been paid over, and a statement of all cheques drawn against authorised credits. (Chapter V, paragraphs 90 to 101.)
19. That all accounts between the Railways and other Government Departments or Provincial Governments and other Railways be settled by cheque instead of by transfers as at present. (Chapter V, paragraphs 102 to 109.)

Traffic Accounting.

20. That the Railway Clearing House at Lahore be converted into a Central Station Accounting Office and moved to Delhi ; that, in addition to dealing with the foreign traffic between the four State Railways, it should also handle the local traffic of those Railways, commencing first with that of the North Western Railway ; that branch offices be established at Howrah, Wadi Bunder and Karachi for the traffic audit at those stations, these branches to be under the control of the Central Station Accounting Office at Delhi ; and that the methods of audit worked out by Mr. W. H. Scott be gradually extended to comprise the whole system of State Railways. (Chapter VII, paragraphs 176 to 181.)

Stores Accounting.

21. That all Railway stores, except imprest stores of small amount at running shed and engineers' depots, be placed under the control of the Controller of Stores, and that he keep detail quantity records thereof; that quantity and money records be kept of all stores by the stores accountants; and that an entirely new system of accounting for stores receipts, issues and balances be adopted. (Chapter IX, paragraphs 198 and 199.)
22. That the whole cost of purchasing and handling stores, including all administration and clerical expense, be added to the cost of stores by a percentage addition to all purchases, so that departments using stores may be charged with the full cost thereof. (Chapter IX, paragraph 211.)
23. That an official price list of stores be established for all issues, and be varied from time to time so that divergencies between money value of stores on hand in accordance with this price list and the book value may be kept within small limits. All such differences should be written off whenever there is a change in price. (Chapter IX, paragraph 212.)
24. That the purchasing of stores be entirely separated from their custody and be entrusted to a supply officer who would purchase on requisition from the Controller of Stores or other authorised officers. (Chapter IX, paragraph 197.)

Workshop Accounting.

25. That a system of planning, progressing and scheduling be adopted in all Railway workshops, and that a new system of cost and general accounting be put into force under a workshop accountant. (Chapter X, paragraphs 215 to 239.)
26. That all expenses incurred in connection with the workshops which cannot be allocated direct to any specific job or jobs, *viz.* : repairs to plant and machinery, superintendence and depreciation, be included as overhead expenses and distributed over the output as a percentage addition to the direct labour costs. (Chapter X, paragraph 230.)

Statistics.

27. That a "Deputy Agent Statistics" be appointed on each Railway as an assistant to the Agent to study the statistics submitted by the Chief Accountant and other Railway Departments. (Chapter XV, paragraph 302.)
28. That a statistical committee be set up, consisting of the Director of Finance to the Railway Board, the Assistant Director of Statistics to the Railway Board, and representatives of the operating departments, and of the statistical offices of the various Railways to decide from time to time upon any variation in the matter to be tabulated and the methods of tabulation. (Chapter XV, paragraph 302.)
29. That machine methods be adopted to a much greater extent in the preparation of statistics. (Chapter XV, paragraph 304.)
30. That some revision be made in the statistics with a view to their improvement by eliminating duplication and some tables of small value. (Chapter XV, paragraphs 305 to 310.)

Depreciation.

31. That the present plan of providing for depreciation be continued, except that :—
- (1) Additional cost of replacing any unit be a charge to revenue and not to Capital.
 - (2) That the life of any unit be not estimated to exceed 50 years, and in case of electrical units 25 years.
 - (3) That capital expenditures to the extent to which they do not increase operating revenues or decrease operating expenses be written off to surplus income under the term "Betterments." (Chapter XIII, paragraphs 270 to 288.)
32. That the realised surplus over original cost, less accrued depreciation, resulting from the disposal of a fixed asset should be credited to a capital reserve account, to which should be charged any losses due to sales of a similar asset for sums less than the difference between the original cost and the amount standing to the credit of Depreciation Fund in respect of this asset. (Chapter XIII, paragraph 287.)

Coal Mines Organisation and Accounting.

33. That the Railway Collieries be removed from the control of the separate Railways and concentrated under the control of a director of collieries responsible to the Railway Board ; and that a new system of cost, stores, workshop and general accounts be introduced. (Chapter XII, paragraphs 254 to 268.)
34. That all coal shipped to State Railways be charged at cost including depreciation, sinking fund and administration expenses, and in addition a sum calculated to yield approximately 6 per cent. interest per annum on the capital at charge to the Collieries. (Chapter XII, paragraph 268.)

Railway Budget.

35. That the Budget submitted to the Legislative Assembly continue in its present form, but be supported by a revised set of income and capital accounts and a consolidated balance sheet of the Railway Department. (Chapter XIV, paragraphs 294 to 297.)
36. That in comparing Budget figures with actual results regard be had to any variations in expenditures that might be expected on account of variations in gross earnings. (Chapter XIV, paragraphs 298 and 299.)

Charges on Transport of Railway Supplies.

37. That all goods carried by a Railway for its own use be charged for transportation at 60 per cent. of the full rates. (Chapter XVI, paragraph 341.)

Mechanised Accounting.

38. That machine methods and loose leaf ledgers be employed in the new accounting systems, and that the machines be installed under suitable conditions of housing and with an undertaking on the part of the suppliers to give effective service in the way of supervision and repairs. (Chapter XVII, paragraphs 344 to 352.)

Installation of New Systems.

39. That in order to instal the new systems of accounting the following staff should be engaged for a term of five years :—
- 4 Chartered accountants, at Rs. 2,000 per month, rising to Rs. 2,400.
 - 4 Cost accountants, at Rs. 1,200 per month, rising to Rs. 1,600.
 - 4 Production engineers, at Rs. 1,200 per month, rising to Rs. 1,600.
- (Chapter XVIII, paragraphs 358 to 361.)
40. That chartered accountants be instructed to audit the present records, and prepare balance sheets of each Railway as of the date at which the new accounting system is to be installed and the new books opened on each Railway. (Chapter XVIII, paragraph 364.)

I am, Dear Sir,
Yours faithfully,
A. LOWES DICKINSON.

PART I.

INDEX.

<i>Chapter.</i>	<i>Paragraphs.</i>
Introductory	1-17
I. References to and extracts from the reports made during recent years by Mr. G. W. V. de Rhe-Philipe, Sir William Acworth and Sir Vincent Raven in so far as they have relation to Accounts and Statistics ..	18-26
II. Comments upon the general conditions existing in accounting departments	27-50
III. General principles to be observed in a sound and efficient system of accounting	51-60
IV. Accounting organisation	61-87
V. New System of Cash Receipts and Disbursements ..	88-113
VI. New System of Audit by Auditor General's Department..	114-130
VII. New Forms of annual accounts for individual Railways, including Balance Sheet for each, and of Consolidated Income Accounts and Balance Sheet for the whole Railway Administration	131-164
VIII. New System of Traffic Accounting	165-193
IX. New System of Stores Accounting	194-214
X. New System of Workshop Accounting	215-239
XI. New System of General Accounting	240-252
XII. New System of Accounting for Collieries	253-269
XIII. Depreciation	270-288
XIV. Budget	289-300
XV. Statistics	301-338
XVI. Method of dealing with freight on Stores and Supplies for use of the Railway	339-343
XVII. Mechanised Accounting	344-352
XVIII. Installation of New System	353-364
XIX. Summary of Recommendations	365-380
XX. Conclusion	381