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SOME THOUGHTS ABOUT DEPRECIATION.*

When your Secretary asked me a few months ago, I would be prepared to speak to you upon any subject which I cared to choose, I hesitated. You are naturally interested in the accounts of railways more than in those of companies controlled to some extent by Company Law, and I have had little or no experience of railway accounts which to those with no experience, appear to be the product of a machine rather than of a thinking human being. The criticism can be levelled at the accounts of Joint Stock Companies in this country—the legislature having in effect by laying down a form of balance-sheet, insisted upon a maximum of information.

But already I am wandering from the subject about which I undertook to speak. After your Secretary's visit and after considerable deliberation I decided that of whatever form of accounts we have most experience, depreciation must have a certain amount of interest. I accordingly undertook to let you have in a short time "some thoughts about depreciation".

What is depreciation?

The Dictionary states that *"to depreciate"* means "to bring down the price or value of; to cause to be less valuable".

Accountancy text books—I quote from one that is well known—say that "Depreciation is the term employed by Accountants to indicate the gradual and inherent diminution both in the value and the usefulness of those assets which by the reason of their nature and uses, cannot last for ever".

I cannot argue about the dictionary definition of the word; that accountancy text books have a somewhat similar definition, would make one imagine that accountants—both those who write books and those who keep accounts—have never seriously considered the theory and purpose of depreciation. This, of course, is not so, but in producing or approving accounts for the proprietors—the shareholders, accountants have to remember that in

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*Being a lecture delivered in the Institute on September 22nd. 1939.

the opinion of the Law there is no necessity to charge anything against income as depreciation on fixed assets. In other words, when shareholders demand dividends, and profits are not sufficient to provide them and put something aside for the future, the shareholders get their dividends and to my mind there is no reason why they should not get the dividends *provided* they appreciate and the investing public are given an opportunity of realising that the payment of a dividend in such circumstances is a repayment of capital.

If the same shareholders decided to provide depreciation and then wish to take what they might legally have obtained as a dividend as a return of capital, an application would have to be made to Court and the sanction of Creditors obtained. There seems here to be a conflict between case law and company law. There is little doubt that the original framers of the latter intended that in normal circumstances the capital of a company should be kept intact and be available for distribution to shareholders on liquidation.

Might I for a moment digress—or appear to do so—from my subject, and remind you of how the normal individual replaces personal "worked out" assets. After a more or less long and somewhat expensive training—at the expense of his parents—the individual enters the business or professional world, let me say, completely clothed. He knows or should know that his capital consists of his learning, ability to work, and his clothes (I mention clothes but you will appreciate that I intend the word to cover all personal assets—be they a house and furniture or motor car). Clothes wear out and must be replaced and they can be replaced only if the individual *sets aside out of his income* at least a sufficient sum to meet the cost of replacement. If he does not do so, what happens? No employer looks with approval upon a badly dressed or naked employee so the ability to work, if it still exists (and that is doubtful) is of no value, and the individual loses his job. In other words, through not conserving part of his income, he becomes bankrupt—like many trading firms and companies.

You will have gathered from my simple illustration that in my opinion a provision for depreciation should be made in order to replace wasting assets and not to produce, by reduction, a figure which can represent the present value of such assets.

In speaking of "present value" I refer, of course, to the value of fixed assets to a going concern and not to the realisable value in the event of a sale either forced or voluntary.

To a going concern the value of fixed assets cannot appear in a balance-sheet: it appears in the income account, and cannot be accurately assessed because to do so would necessitate making a calculation of future earnings—a calculation which no one can make with any degree of accuracy. One can, however, realise that the life of most income earning assets is limited and that, therefore, it will be necessary to have in one form or another at the end of the life, and, so that income may continue, funds available so that an asset dead or due for retirement may be replaced. These funds will exist only, in normal circumstances, if profits are put aside at least to the extent necessary, as depreciation or more correctly in my opinion as a "reserve for replacements".

To provide such a reserve, several methods are followed and I shall refer to some of them briefly.

Firstly, there is "The Reducing Balance Method" a method which really has no redeeming feature. It is popular for two reasons. It has for many years been followed in the United Kingdom for Income-tax purposes—and it is very easily operated. It is a lazy man's method of depreciating and is next year to be blindly followed by the Income-tax Department in this country. This is not a paper upon Income-tax, so I shall not dwell on the subject apart from stating that the Legislature in arriving at rules and regulations for assessing the income of a business might have hesitated about approving of a most unscientific method of calculating what proportion of the earnings of a business should be allowed to represent what should be a fair annual charge to be set aside to replace wasting assets.

Next we have "The Straight Line Method", which probably is the best known in commercial circles in this country. So far it has been followed in Income-tax practice, and although it should necessitate the keeping of detailed plant registers, etc., if followed rather unscientifically, it is simple to operate.

My reason for mentioning the word "unscientifically" is this. Usually if an asset is estimated to have a useful life of, say, ten years, the original cost is written off in ten equal annual instalments. But the Engineer in assessing the life of a machine surely considers working hours—or even smaller periods of time. Therefore, when calculating annual depreciation on the "straight line" method, points such as, has a machine been silent for a certain time, or has it been working to full capacity, should be taken into account.

Although I think that the straight line method, followed scientifically, is a good one, I must admit that it, as well as the "reducing balance method", ignore the question of interest. It is a large question and in order to refer to a third method of providing for depreciation—the annuity system—I shall here merely point out that in correct accounting it would appear to be sound to make a charge for interest on an owned asset equal to what would have to be paid as interest on the same asset if it had been hired.

Much has been written and spoken about the Annuity System, but it is unnecessary for me this evening to say more than a few words about it.

The system is, I think, explained most easily by assuming that all businesses consist of two parts—a finance department and a production department, the latter department hiring from the former all plaint, etc., in use. For the use of the plant, the production department pays a fixed sum, part of which the finance department credits to a replacement reserve, and part to income—the income part representing interest.

In operating the system, an equal annual charge is made as depreciation, and the total of such annual charges should at the end of the effective life of the asset equal the original cost *plus* interest charged annually at an agreed rate on the periodical balance. The result is that, in effect, the annual net charge against income increases.

One disadvantage of the three systems to which I have already referred is that while in the books provision is made for a replacement reserve, they do not exercise any control over the cash retained with the result that when an asset has expired and should be replaced the funds required may not be available. To obviate such a situation, the "Sinking Fund Method" has been devised. It follows, as far as a charge to revenue is concerned, the annuity system, and at the same time earmarks liquid funds.

From the book-keeping point of view the system is simple to operate. Assets remain in the books throughout their lives

at cost prices, and funds are invested annually so that, with interest, sufficient is accumulated when necessary to replace the assets—assuming prices have not varied. Annually also a charge equal to the sum invested must be made against revenue, and credited to a sinking fund, or if you prefer, a replacement reserve.

I have just said in connection with the Sinking Fund method "assuming prices have not varied". This aspect of providing for replacement reserves, in my opinion, is very much more important from the Management point of view than is the concensus of opinion about the advantages and disadvantages of any of the methods about which I have spoken.

To my mind, as an Accountant, price levels should not be taken into account when determining depreciation. Original cost should be charged to operating expenses so that it is recovered in full at the expiry of the life of each particular asset. The result of such a theory is obvious—if price levels are down, surplus liquid assets may have been accumulated, but if they are up, funds may not be available. I am, therefore, of opinion that the management of any company should before recommending dividends, consider whether or not it is desirable to place to a reserve for replacements any sum *in addition* to what has been charged as depreciation.

Before completing my remarks, I wish to emphasise the fact that principally because of depreciation, very few balance-sheets can by themselves show a really true and correct view of the state of affairs of the proprietors, and it is a great pity that more of the investing public do not realise the fact. In the case of unsuccessful Companies which have got to go into liquidation, capital assets seldom, if ever, realise anything approaching their book values with the result that the shareholders feel that they have a grievance against all who have had any part whatever to play in the production of the balance-sheets. No one who has money to spare should be allowed to invest until he has signed an affidavit to the effect that he appreciates that balance-sheet properly drawn up has definite limitations, that at its best, it can do no more than indicate the position at one particular moment, and that with regard to fixed assets, the values shown give no indication whatever of what would be obtained by sale. Until those facts are realised it might be well to follow the suggestion made recently by a prominent industrialist and write off immediately, when purchased, the cost of fixed assets against capital subscribed. Of course, if such a suggestion were ever followed the necessity for providing replacement reserves would still exist.

These are a few of my thoughts upon this most important subject. If you think in the same way you will agree that while methods of providing depreciation affect, more or less, costs of production, the building up of available funds against reserves for replacing wasting assets, is a subject which does not receive the consideration which it deserves.

W. J. YOUNIE.

CONTINGENT LIABILITY.

The accountant, as other people see him, has an air of finality about him. He is a stickler for details and formality, and in his passion for ensuring fidelity of figures to facts, and checking totals and arithmetical operations, he seems to be hardly human. His reputation to exasperate other people with the least trouble for himself takes them at a disadvantage and they naturally prefer to take him at his word and not worry about pressing their own ideas. The very character of the routine duties of the accountant thus imparts an impression of authority, accuracy, and certainty. While this is certainly true as regards much of his work, there are certain transactions regarding which even the accountant has got a great deal of uncertainty. In respect of many of these, some approach to facts may be attempted. There is one group of items which defy all attempts at appraisal, namely, contingent assets and liabilities. Recently, however, professional accountants have been directing their attention to a better definition of the items themselves and the methods of tackling them. It is proposed in this paper to deal briefly with the subject of contingent liability, as the liability aspect is more important to a business concern from the point of view of conservative accounting and, therefore, deserves prime consideration.

A contingent liability is a liability which matures into an ordinary liability involving payment of a definite amount of money upon the happening of the contingency. It is the uncertainty as to the nature and amount of these obligations which distinguishes it from an ordinary liability. A simple illustration of a liability of this nature will be found in a disputed claim on which a suit has been filed in a court of law. The liability remains contingent during the pendency of the suit. If the court disallows the claim including the cost of the suit, the claim or any part thereof, the mist of uncertainty hangs round the question till the final decision of the court is obtained.

A contingent liability may arise from a claim which has already been made or may be made in future. The possibility for such claim is inherent in the nature of transactions which the business houses have to enter into, to perform the functions for which they exist. The nature of the business or the transaction made chiefly determines the way in which such claims may arise. But the accountant can contemplate endless possibilities for contingencies arising and in diverse ways. He is really in the dark in most instances whether there are any reasonable grounds for any contingencies arising which may land the owner of the business in a liability of a definite amount. It is, of course, not humanely possible to foresee any liability arising from forged instruments which have been unwittingly and quite innocently dealt with by the client or out of any unguarded statements made by the client's servants in the course of business dealings which are open to pursuit in a court of law. Where the contingency can be foreseen it is the recognised practice to indicate on the balance-sheet or any supplementary document the existence of the liability, though it is not always possible to state the amount. Thus, the following note was made on the balance-sheet of a well-known Sugar Company:—

"Contingent Liabilities".
The Indian Sugar Syndicate Limited.

1. The undertaking to contribute, in the event of the Syndicate being wound up in accordance with the provisions of Clause 5 of the Memorandum of Association.
2. Liability to contribute, on the sugar produced in accordance with the provisions of Clause 32 (*d*) of the Articles of Association".

A stimulating contribution to this subject has been recently made by Mr. F. C. Holgate in *The Contingent Liabilities of English Commercial Banks.* What Mr. Holgate states in connection with English banking, is true of the contingent liability in all types of business. "Certain obligations," he says, "are somewhat elusive when it is sought to define them. Accountants are in the habit of referring to them as Contingent Liabilities but tells us nothing as to what is meant by the phrase." The principal characteristics of the contingent liability has thus been set forth by him:

(*a*) "That there have been certain transactions which may or may not lead to a liability or, perhaps a better term, indebtedness.
(*b*) That such indebtedness is either already the subject of a claim or if the claim is not yet made, there are potential claimants.
(*c*) The outcome of these claims is vague and uncertain.
(*d*) The amount of these claims may or may not be ascertainable."

"What transactions," he asks himself, "give rise to indeterminate issues of this kind?" The banker, he remarks, is one who eschews the vague and intangible. He is, "a businessman and not an ideologist; and he must deal with the world and its uncertainties. Above all his customers are human, and the uncertainties of the human race are pandemic. In consequence his transactions are perforce affected by the quality of the world he lives in."

We may very well ask ourselves the question: Is there any possibility of contingent liability arising in connection with transactions entered into by Indian Railways, as carriers of goods, animals and passengers? The answer is, of course, in the affirmative.

So far as one can see, contingent liability may arise on a railway as a carrier from the following circumstances attending the business of transportation:—

1. As a carrier of goods.—Non-delivery, short delivery, delay in delivery, wrongful delivery, change of condition of consignment, explosions of goods of a dangerous nature, damage to goods, theft of goods in transit, etc.
2. As a carrier of animals.—Injury or death of animals booked to be carried.
3. As a carrier of passengers.—Injuries caused by collision of trains, leaving a carriage door open, bad lighting, explosion in a carriage, etc.
4. Otherwise than as a carrier.—Fire caused by spark from engine, damage to adjoining lands, damage caused by railway works, wrongful dismissal of servants, unguarded statements made by railway servants, etc.

This is by no means an exhaustive list of circumstances from which contingent liabilities may arise on Railways. As in the case of any other business it is possible to contemplate endless possibilities for such contingencies arising and in diverse ways and the railway accountant is in the dark at the time of preparing his balance-sheet as to what unexpired contingencies there are on the transactions of his railway on which definite amounts of liabilities may arise on a future date. It is certainly not possible to foresee all such contingencies. But does he make any effort to obey the injunction laid down in Dicksee's "Auditing"? "All such liabilities as are known should be noted on the balance-sheet". Unless this is done his balance-sheet has not the merit of "completeness and finality". It should be the aim of every accountant to present this document to interested parties in "as informative a manner as possible; in so far as it concerns the uncertainties endemic in contingent liabilities."

We may now turn to the accounting practice on foreign railways. On the American Railways, the procedure is laid down by the Interstate Commerce Commission which refers to "Contingent Liabilities" in the following terms in the "Classification of Income, Profit & Loss and General Balance-sheet Accounts for Steam Roads" prescribed under section 20 of the Act to Regulate Commerce (issue of 1914):

"Contingent assets and liabilities shall not be included in the body of the balance-sheet statement but shall be shown in a supplementary statement accompanying the balance-sheet statement. Contingent assets are those without value to the accounting company until the fulfilment of conditions regarded as uncertain. Contingent liabilities include items, which may under certain conditions, become obligations of the company, but are neither direct nor assumed obligations on the date of the balance-sheet."

The Street Railways in America provide reserves to meet, amongst other things, damages which come under contingent liability. It is stated: "Nearly every street railway corporation provides funds which are known as reserves. Presumably the most important one in connection with the operating part of the business is the reserve for damages. This reserve is created by charging to operating expenses a certain amount, month by month crediting a like amount to an appropriate reserve account. At the end of the year a statement should be obtained from the claims agent or legal department in charge of accidents and the reserve account adjusted according to the total of estimated liability, at the close of the fiscal year."*

On the English Railways, "Compensation for Accident Accounts" is an instance of a provision against a similar kind of contingent liability. Serious accidents on railways are fortunately of rare occurrence, but when they occur the company is involved in very heavy claims for compensation. Consequently it is the usual practice, according to Mr. C. H. Newton, to build up a reserve fund to meet exceptional claims. The Reserve Fund is formed by debiting a certain sum annually to Compensation (Accidents and Losses) Account No. 10, and *per contra* crediting Accident Reserve Fund. The accumulated

**Street Railway Accounting* by I.A. May, 1927, Edition.

amount available in the Reserve Fund for compensation is included under heading "Reserve Account."

Turning to the commercial practice in this country, according to the Indian Companies Act, 1913, as amended by Act of 1937, the balance-sheet in Form F in the Third Schedule of the Act provides for contingent liabilities being shown by a note as follows:

1. Claims against the company not acknowledged as debts.
2. Money for which the company is contingently liable (showing separately the amount of any guarantees given by the company on behalf of directors or officers of the company).
3. Arrears of Cumulative Preference Dividends.

Under the Insurance Act 1938, the balance-sheet in Form A (in Part of the First Schedule of the Act) provides space for contingent liabilities being shown as indicated in note (*e*) which runs as follows:—

"Such items as amount of liability in respect of bills discounted, uncalled capital of other investments, etc., must be shown in their several categories under the heading "Contingent Liabilities" or the appropriate items on the asset side must be set out in such detail as will clearly indicate the amount of uncalled capital."

There is a difference in the position in the matter of unpaid calls as regards shares held and those parted with at any time within one year prior to the date of commencement of the winding up of the company whose shares have been sold. The liability as a B. contributory attaches to the latter. Mr. Holgate suggests that in such circumstances the position would be better indicated if the note is made out as follows:

"There is a contingent liability in respect of unpaid calls on other investments of £.............of which £...........relates to contingencies expiring shortly."

Generally speaking, the method of indicating the position with regard to this kind of liability varies according to circumstances. Where the contingency is known but the amount of liability is unascertainable, a note on the balance-sheet explaining the nature of the contingency is considered to be adequate. An example of this kind will be found in the note on the balance-sheet of the Sugar Company referred to earlier. Where the amount involved in the liability is known, as in case of a disputed claim which is the subject-matter of an arbitration or a legal action on the date of a balance-sheet, the amount may be included in the note. But there are circumstances where, upon the happening of the contingency, the liability, though in the first instance payable by the undertaking, the amount paid can be recovered from other parties involved in the transaction. An instance to the point is a banker's liability on bills sold or re-discounted. The transactions are passed through the accounts by debit to an account headed "Liability on Customers" Bills sold, and credit to "Liability on Bills Sold". These accounts include the nominal value of the bills. The total figures appear on the balance-sheet both as a liability and as an asset. The liability of the bank on these bills if the contingency matures would not exceed these figures. It is not possible to ascertain the exact amount of the liability on the date of the balance-sheet. The same remark applies to a banker's liability on Acceptances and Credit, Commitments under Guarantees.

R. P. RAY.

RAILWAY NATIONALISATION IN FRANCE.

The trend of opinion during the past twenty years on the subject of railway management has been towards amalgamation, unified control and, wherever feasible, assumption by the State for direct operation. These tendencies have been evidenced in varying degrees in the United States, Great Britain and many European states. In the first two countries where private ownership and management have held the field from the beginning of railways, proposals for state management were hardly raised outside academic circles. During the last two decades the attitude even in these two countries has changed and apart from the positive encouragement of ideas of amalgamation and state management in official or semi-official literature, responsible authorities have put forward schemes and even seriously discussed the problems raised.

The change in the angle of vision will be observed with interest in India, if only for the reason that the same attitude for entirely different reasons has been held in this country for at least a generation. While public opinion has been unhesitatingly in favour of fully fledged State management, there has been a hesitation on the part of Government at least recently to translate this desire to actual practice. Certain doubts have also been raised in a memorandum prepared for the Public Accounts Committee and in the Wedgwood Committee's report regarding the advisability of further amalgamation of our railways and the termination of the contracts of the existing companies to bring the railways affected into Government control. Even while these ideas were being discussed by our railway authorities and the members of the Committee, the Government of France took a bold step towards a reorganisation of the French Railways and embarked on an experiment which will have the closest interest to every student of railway operation in India. In one respect the French railway policy was more analogous to that pursued by the Government of India for over 60 years. No apology is, therefore, needed to attempt a brief account of the recent developments on the French Railways.

Excluding the colonial possessions and mandated territories in Africa, Asia and certain islands, France has an area of 212,659 square miles and a population (1931) of 42 millions. The French Railways had a total mileage of 26,434 which were distributed amongst seven systems. Two of them were owned and worked by the State while the other five were operated by Companies. The mileage operated by them is given below.

Railways.	*Mileage.*	
I. *State.*		
(1) State System.	5,674	
(2) Alsace Lorraine.	1,443	7,117
II. *Companies.*		
(1) Est.	3,194	
(2) Nord.	2,380	
(3) Midi.	2,666	
(4) Paris-Lyons-Mediterranean.	6,182	
(5) Paris-Orleans.	4,895	19,317
Total:		26,434

French Railways have always been looked upon as a remarkable achievement. Summarising the situation in France, the late Sir William Acworth said:

"The railway history of France stands by itself. Nowhere is the passion for logic and the love of symmetry which distinguish the French genius better exemplified than in the history of the French Railway Systems. The ground plan and the policy which, broadly speaking, France has followed ever since was laid down in a law passed as long ago as 1842. There were important developments, after the world crisis in 1857 and again in 1878. And on 1st January, 1909, the Government by taking over one of the six great systems—the Western—upset the symmetry of the original plan. But with this exception, throughout the whole history the original plan has stood firm."

As in many other countries, the State took a particular interest in railway development from the very outset. Thus, in 1833 the French Parliament voted half a million francs to the Ministry of Public Works to study the technical and commercial aspects of railways. Michael Chevalier was sent to England and the United States to study railways and in 1838 he submitted a report recommending six main lines radiating from Paris to the main frontiers. On account of unfavourable economic conditions the State could not, as originally expected, build the rail-

ways which was estimated to cost a thousand million francs. Private enterprise was, therefore, induced to undertake railway construction but Government retained authority to supervise construction and technical aspects of working, control of rates, measures to eliminate discrimination, and to enforce measures of safety. The terms of the concessions to private companies laid down that Government would furnish the rights of way and prepare the road bed while the companies would lay down the tracks, supply the equipment and operate the lines. The original concessions had a tenure of 40 years, but in 1852 the Government undertook a process of fusion. The intention was to concentrate concessions so as to build up a few major systems which, by means of their large financial resources, were expected to develop the country in a systematic manner. The companies were, by a series of decrees between 1852 and 1857, given the concessions for a period of 99 years at the expiration of which Government may take over the operation of the properties after compensating them for their own investment.

An important feature in the concessions was the undertaking offered by Government to guarantee the payment of interest and principal of all securities of the private companies. Although the French Parliament approved the guarantee of interest as early as 1840 the general adoption of the practice, however, did not come until 1859 when the private companies found themselves, as a result of a policy of expansion, on the verge of bankruptcy necessitating Government support. The new set of agreements under the Convention of 1883, defined the relations between the State and the private undertakings. Up to this year the right of the State to purchase the railways was written into the charters of the companies on a uniform basis, namely, through an annuity extending to the termination of the concession of the undertaking which should be equal to the average earnings of such company for the best five of the seven years preceding the purchase and a principal sum based on the expert valuation for rolling stock, equipment, etc. But according to the Convention of 1883, the State agreed to value railways which had operated for less than 15 years on the basis of earnings if the companies so preferred. The State also undertook to compensate the companies on request for their so-called "Supplementary Expenditure", not including rolling stock, on the basis of original cost instead of expert valuation. This was, however, subject to the proviso that $\frac{1}{15}$ should be written off each year at the end of the first year in which the expenses were incurred.

The effect of these changes was to increase the sums which the companies would receive. The six private systems undertook the completion and working of the new mileage which the State had undertaken to instal. The companies were to find the money and bear themselves a portion of the expenses which varied from $\frac{1}{4}$ to $\frac{1}{5}$ of the whole. The rest of the outlay was ultimately to be repaid to the companies by the Government. Again, under the system of guarantees approved in 1883, each railway subject to them was allowed to charge its gross revenues with the operating expenses, interest, amortisation and accessory charges for capital expenses and besides a minimum dividend which varied according to the individual undertaking concerned. If the net revenues proved insufficient to meet the minimum dividend, the State advanced the difference. The State advances were, however, looked upon as loans bearing 4 per cent. interest and repayable on the expiry of the concessions. Any surplus over the minimum dividend was to be applied to the repayment of the State advances during the earlier years after which only could the dividends be increased up to a specified limit. When this limit was reached, excess earnings were to be divided between the State and the Companies in the proportion of $\frac{2}{3}$ and $\frac{1}{3}$ respectively.

The period of the guarantee differed from railway to railway. Thus, that of the Northern and Paris-Lyons-Mediterranean railways terminated in 1914, that of the Eastern in 1934, and that of the Western in 1935. Although no dates were mentioned in the case of the Orleans and the Midi, the dates were fixed by the Council of State to the end of 1956-60. The total advances made by the State on account of the guarantee of interest at the end of 1913 was over 650 million francs. By the end of 1919, the advances to all the private undertakings during the war totalled 1,596 million francs.

In the following year as a consequence of the unfavourable financial situation, certain proposals for reorganisation were made and a new system was introduced to regulate the relations between the Government and the private railways. The French railway finance during the period 1921-1937 can be really appreciated only in the light of the new arrangements inaugurated with effect from 1921. The reorganisation scheme under the Convention of 1921 dealt with the subject of the liquidation of obligations to the government which the private undertakings had incurred during the previous years. It also proposed a new organisation for the operation and financing of railways.

Two co-ordinating bodies, the *Conseil Superieur des Chemins de Fer* and the *Comite de Direction* were created. The former, was constituted of 21 members representing the railways executive board, 14 representatives of the employees and 35 members nominated by the Ministry of Public Works from the trade and industrial interests. This body considered only those matters referred to it by the Ministry on questions of common interest on which its advice was required. The *Comite de Direction*, consisting of three delegates from each railway, dealt with all important matters concerning railways and subject to the approval of the *Conseil Superieur* and the Ministry, its decisions are binding on all railways. Thus by the Constitution of these two co-ordinating bodies the State retained control of transport policy in its hands.

On the financial side the Convention attempted to secure financial solidarity, so that an equilibrium between interest and other charges on the one hand and the traffic receipts on the other might be obtained. The means to attain this end was found in the institution of a Common Fund. Each Company was to take from its total gross earnings the operating expenses, interest, amortisation and miscellaneous charges and pay into this Common Fund the excess. From the balances thus paid into the Fund was to be met the deficits of the other railways.

The Convention also changed the basis for financing new railway construction as settled by the earlier Convention of 1883. In view of the increasing costs of railway construction the State agreed to assume responsibility for 4/5 of the total actual expenditure the balance being borne by the railway companies. But the assistance rendered by the State assumed the shape of undertaking the service (interest and amortisation) in connection with loans floated by the railways to meet this expenditure.

Although the State hoped that as a result of the Convention it would be able to relieve itself of all liability for making good the deficiency of the railways, the expectations were only borne out in part. In interpreting the actual working of the Convention it should not be forgotten that there were certain extraneous influences which militated against a rapid recovery. These were, to mention the main factors, the increase in the cost of operation, higher wages, higher cost of fuel and the devaluation of the franc.

Although the revenues increased, working expenses appear to have increased faster. It was, however, expected that the Common Fund would be in deficit during 1921-26 after which it was hoped that the balances would be adequate to meet the demands in full. The deficits of the first five years amounting to [illegible],283 million francs were met by borrowing. In 1926 a profit of 560 million francs went to the Common Fund, but the deficit of the succeeding year exceeded the amount in the Fund by 154 million francs. In 1928 the Fund showed a net profit, and in the succeeding year there was again a deficit. Under such conditions it was impossible to meet the entire annuity of 87 million francs on account of the money borrowed to meet the deficits of the first five years. From 1930 onwards the depression commenced and the railways began to show heavy deficits which had to be met by borrowing on State account. These deficit loans naturally implied increasing annuities undertaken by the State which touched 1,500 million francs in 1937. The net deficits during 1930-37, totalled 23,319 million francs apart from the payments made by the Treasury amounting to 2,919 million francs on account of the annuities for the 1921-25 deficits, and a further amount of 3,456 million francs paid for interest on current deficits. The total deficiency at the end of 1937 thus stood at the colossal figure of 37,000 million francs.

It was obvious that such a state of things could not continue long and the economy measures during the depression and under the Laval Decree Laws in 1935 were not adequate to meet the emergency. Various solutions were discussed including a proposal for the complete nationalisation of the railways and their administration as a Government department. Out of the discussions emerged a scheme according to which railways were to be handed over to a national company in which the majority of the shares would be held by the State. Between the two parties concerned, namely, the State and the railway companies an agreement was reached and a Convention was concluded on August 31, 1937 which was approved on the same day by decree-law passed by the French Parliament.

NATIONAL RAILWAY COMPANY.

The new arrangements came into effect on 1st January, 1938. A company was formed under the Convention on a limited liability basis, known as *La Societe Nationale des Chemins de Fer Francaise*. It has absorbed for unified operation all the systems hitherto worked by the five main line companies and the two State Railways. All the assets of these railways have been transferred to the new company with the exception of their private resources and reserves built up out of the profits of earlier years. The agreement is to hold good till 1982 after which the National Company with all its assets and equipment reverts to the State. The capital of the company was fixed at 2,838,824 shares of the value of 500 francs each. The State retained in its hands 51 per cent. of the total shares known as "B" shares while the balance, namely, "A" shares have been issued to the five main line private companies in full settlement for the stockholders' interest in the assets due. Both "A" and "B" shares are to receive interest at the rate of 6 per cent. payable annually on December 31 beginning from 1938 onwards.

ORGANISATION AND MANAGEMENT.

According to the Convention, the Board of Directors (*Conseil d'Administration*) of the National Company will consist of 33 members until December 31, 1955, after which date the number will be reduced to 27. The constitution of the Board is as follows:

1. Three ex-officio members, who are the Vice-President of the State Council, the Governor of the Bank of France; and the Director-General of the *Caisse des Depots et Consignations;*
2. Twelve Directors, namely four from the Cabinet Secretariat, four from the Ministry of Finance and four from the Ministry of Public Works;
3. Twelve Directors nominated by the boards of railway companies (a specified number for each)[1] until December 31, 1955 and thereafter, six Directors representing the A and J[1] shareholders;

1. According to the Convention, as the "A" shares are redeemed, the holders of such shares receive at the same time a class of share called "actions de Jouissance" and referred to by the letter J. in the Convention. Till the whole of the ordinary shares are paid off and the concessions of the company expires, the Jouissance shareholders are entitled to any excess of dividend over the statutory guaranteed rates.

4. Two Directors, persons who have done eminent service to the railways, to be nominated by the Ministry of Public Works; and

5. Four Directors, representing the staff to be nominated by the Minister of Public Works.

It is also provided that no Senator or Deputy is eligible to become a Director.

The Directors, other than those ex-officio, hold their office for six years. Five per cent. of the appointments expire each 3 years and the next expiry date is January 1, 1941. The retiring Directors are eligible for re-appointment.

The Chairman of the Board of Directors is nominated by the Minister of Public Works from among the Directors representing the State. The first Chairman is Monsieur Guinand. There are two Vice-Chairmen, chosen respectively from among the Directors representing the public departments and the railway companies. The Executive Committee of the Board consists of the Chairman, the two Vice-Chairmen, four Directors elected from the ex-officio members, directors representing the public departments and the railway companies.

In addition to the direct representation of the State on the Board, there is a Government Commissioner, who is Director-General of Railways and Transportation in the Ministry of Public Works. He is assisted by a Deputy Commissioner who is Chief Financial Controller of the Railways. Besides exercising the right of sitting with the Board of Directors and of access to the Executive Committee, the Commissioner has also authority to call meetings of the Board or the Committee and to require consideration of any measure which he considers necessary. As he is also at the head of an organisation which represents government interest in the two State lines, his opinion must carry weight with the Board.

The Board of Directors is granted wide powers in the administration of the National Railway Company. The Chairman of the Board of Directors appoints the General Manager and Assistant General Manager and the Secretary of the National Company, on the recommendation of the Board subject to the approval of the Minister of Public Works. But the first appointments have been made by decree. These officers can only be relieved of their duties by the Chairman after consultation with

the Board and in the event of any disagreement the Minister intervenes and decides. While the principal officers are appointed by the Chairman of the Board on the recommendation of the General Manager and in consultation with the Executive Committee, the General Manager is specifically invested with the responsibility for all staff appointments and promotions subject to the general control of the Board.

A great deal of attention has been bestowed on the financial organisation of the National Company. The Board is expected to prepare before 1st November a budget for the succeeding year. The income must be sufficient to cover working expenses, interest and capital charges, with the exception of certain liabilities on certain lines contracted by them prior to 1938. If the receipts prove insufficient, it is directed that rates and fares must be adjusted. The charges in rates and fares proposed by the Board must be referred to the *Conseil Superieur des Transports* which has replaced the old *Conseil Superieur des Chemins de Fer*.

The Board of Directors were required to prepare by June 30, 1938, a programme of re-organisation and simplification of working with a view to securing economy in expenditure. As it is not expected that the re-organisation will succeed in removing the deficits immediately, detailed provisions are made for financial assistance by the Treasury till 1943 to assist the railways, if necessary, with long-term interest-free advances to meet the liabilities not taken into the accounts. But it is hoped that the National Company will eventually balance the budget.

Under Article 23, the National Company is required to establish a Renewals Fund by charging working expenditure with a sum equal to 20 per cent. of the amount by which the value of current renewals exceeds the original value of the assets replaced. If there is a balance of net income after meeting ordinary working expenditure, 20 per cent. of such net income is credited to the Renewals Fund. But it is provided that the total charge on the net income, namely, the two cash contributions to the Fund mentioned above *plus* write-offs representing the original cost of material and equipment replaced during the year, should not exceed 3 per cent. of the investments in plant and equipment. The Reserve is to be drawn upon by the Board of Directors for such renewals as they may consider necessary.

Out of such profits which remain for repayment of the short-term Treasury advances and credits to the Renewals Fund is to be built up a Reserve Fund until it represents a sum equivalent to 10 per cent. of the operating revenues. The Reserve Fund is to meet future deficits before the Treasury is called upon to provide advances.

To summarise. The net income after meeting all statutory and operating deductions of the National Company is to be dealt with as follows:

(*a*) 80 per cent. of the net income to reimburse the outstanding Treasury short-term advances towards meeting the deficits of the previous one or two years;

(*b*) 20 per cent. of the net income to be credited to the Renewals Fund according to the formula stated;

(*c*) After the obligations mentioned in (*a*) have been paid off, any surplus along with the balance remaining after the credits to the Renewals Fund are paid into the Reserve Fund until it reaches the maximum fixed;

(*d*) Next in order follows the liability on account of the Treasury advances made between 1929 and 1937 and the long-term advances proposed to be made during 1938-42 if required.

There is no reference in the Convention as regards the disposal of any profits remaining after the charges referred to above have been fully met. Obviously the profits will be distributed to the public in the shape of reduced fares and freight rates.

Along with the railway re-organisation has also been announ- [illegible] according to a decree, measures for the co-ordination of [illegible]sport agencies dealing in detail with passenger traffic, freight [illegible]affic and general arrangements in regard to railway and highway and water transport.

Sources:

Sir William Acworth, *State Railway Ownership*, Murray, 1920; W. M. W. Splawn, *Government Ownership and Operation of Railroads*, Macmillan, 1928; Stewart Daggett, *Principles of Inland Transportation*, Harpers, 1934; Paul Wohl and A. Albitreccia, *Road and Rail in Forty Countries*, 1935; Foreign Railway News, Special number on French Railways, 1937; Railway Research Service Bulletin, 1938.

REVIEWS.

Organisation and Traffic of the Illinois Central System: Compiled and edited By the Research and Development Bureau (Chicago: the Illinois Central Railroad Co., 1938).

This work, it is stated in the foreword, is a "brief compilation of lectures prepared and delivered as part of the training course by fifty Illinois Central men depicting in their own language their several functions and the activities of their several departments and additionally a resume of the history, the organisation and the traffic of the Company."

The volume is divided into six parts. In Part I, entitled, History and Property of the Illinois Central System, Mr. C. J. Corliss has given a brief history of the railway system. Mr. O. J. Williford describes the geography of railway. The property and operations of the Illinois Central in Chicago are described by Mr. C. H. Mollier at some length. Mr. F. R. Short gives an account of the Chicago produce terminal.

In Part II, there are ten lectures dealing with the administrative organisation of the Illinois Central System. The functions of the Operating Department, Transportation, Accounting, Purchasing and Supply Departments are discussed separately by different writers. Other topics dealt with in this part are perishable protection services, trackage and car haul arrangements, track cars and peddler cars, relation of traffic and operating departments and regulation under the Interstate Commerce Act.

In the third part the functions and the procedure of the traffic department are examined in considerable detail. The lectures in this part deal individually with the General Freight Agent's Offices; Classification and Association Territories; Railroad Freight Associations; the Consolidated Freight Classification, the official railway equipment register, Agent Dunn's Tariff, the official list of open and pre-pay stations and Agent Jones' demurrage tariff; tariff posting rules of the Interstate Commerce Commission; procedure before the Interstate Commerce Commission; divisions of freight rates; Chicago switching district, leases and side tracks; relation of the Service Bureau to the Traffic Department, files and filing systems; agricultural development; industrial development; statistics and their use; and Research and Development Bureau.

Part IV deals with the passenger traffic of the railway. Besides a general lecture on the subject there are four others dealing with passenger rates and associations, passenger train make-up at Chicago, head-end traffic and suburban passenger operations in traffic.

Grouped in the succeeding part are descriptive lectures on the different kinds of traffic handled by the railway, namely, coal, lumber, petroleum, rates and transit on grain, cotton and cotton transits, livestock and packing-house products traffic, fruit and vegetable traffic, sugar, coffee and banana traffic, automobile and parts traffic, merchandise export and import traffic. There is, besides, a brief exposition of the functions of the industrial traffic manager. The last part presents a brief account of the ten areas into which the Illinois Central System is divided.

It is not easy to indicate the nature of about sixty lectures on diverse specialised subjects given by the officers of the railway. From the list of the chapters dealt with under each one of the parts referred to above may be gathered the wealth of information and the ability with which the wide range of the activities of the Illinois Central System has been described. Many of the chapters, such as those referring to the Accounting Department, will be found to be of considerable value to Indian railwaymen.

The Railway: By Edgar B. Schieldrop, [London: Messrs. Hutchinson & Co. (publishers), Ltd., 1939, Pp. 256, Price 5|- net].

Dr. Schieldrop has given a fascinating survey of the story of the development of the railway. A distinguished scientist and engineer, the author has a reputation beyond the bounds of Norway. Sir Ronald Mathews, Chairman of the London and North Eastern Railway, has contributed a foreword.

After a brief introduction on the achievements effected by the locomotive and other mechanical inventions in the world of transport the author says that the last word as regards speed has not yet been said. In successive chapters the author describes the different aspects of railway construction and working, namely, the importance of gradients, signalling, construc-

tion of tunnels, spanning rivers and chasms, conflict with the elements, the different kinds of locomotives passenger, comfort, safety devices, electric locomotives and underground railways.

In the last chapter Dr. Schieldrop discusses the future prospects for railways. As regards the nature of the innovations, mention is made of welded rails, rubber wheels, rail zeppelins and suspended railways. But whatever developments and adaptations may happen, the railway, he considers, will retain its characteristics feature, namely, the steel track.

The volume has been issued as the first of a series on "The Conquest of Space and Time". Further volumes on the Highway, the High Seas and Air are expected to follow.

Main Street—Not Wall Street: Brotherhood of Railroad Trainmen (Cleveland, Ohio: 1938, Pp. 482).

The purpose of this volume is clearly indicated by the subtitle "A Reply to the Railroads' Demands for Wage Reduction—1938." It presents a counterblast to the case presented by the American railways for a reduction of the wages of railway workers to meet the financial deterioration of 1938. How the controversy raged on this question and how the workers won in the arbitration proceedings instituted at the instance of President F. D. Roosevelt was described in an earlier issue of the Journal.

The present work not only vindicates the attitude of American Railway labour but goes very much more. The book presents, to quote from the foreword of Mr. A. F. Whitney, the President of the Brotherhood, "not only the view point of the railroad workers, but the facts which will convince any impartial person that the condition of the railroads of this nation is not due to the wages they pay to their workers, but is due to the mismanagement, to fraud, to gambling, and to the abject surrender by the railroad management to Wall Street bankers, who to-day control our railroads, not for the public welfare but for their own selfish ends."

The book is divided into three parts. In Part I, the reader is given a detailed account of the railway wage movements since 1932 and of the wage-cut demands of 1938. A large amount of valuable material is presented on the subject of the rates and bases of pay and productivity of the employees.

In Part II, the Brotherhood tries to rebut the argument that "railways cannot afford to pay the existing scales of wages." "The extravagant and wasteful practices" of the railways are exposed. There is first an account of the propaganda attempted by the railways during 1934-35, which was indeed partly questionable and adversely commented upon in the Senate Committee in one of their investigations. The depletion of the revenues of railways through "illegal practices and unwarranted concessions to Shippers tantamount to rebates fostering of competing forms of transportation" is next discussed in considerable detail. The cumulative effects of under-depreciation and of the strong roads milking the weak provide interesting reading. It is pointed out that despite the alleged decline of revenues, fabulous dividends continue to be paid and salaries of the higher grades have increased during the depression.

In the last part, the book presents a series of cases, on the lines of Myers' treatment, illustrating "the looting of American Railroads". The conclusion, of course, is that there is no case for a wage-cut. In the appendices are given the documents on which the labour unions rest their case. There is a good general index besides a table of charts.

History of the East Indian Railway (Part II): By George Huddleston, C.I.E., V.D, (Bristol: St. Stephen's Bristol Press Ltd., 1939, Pp. 95).

The History of the East Indian Railway which appeared in 1906 has always been referred to as a work full of interest to the student of Indian Railway history with personal touches from one who had something to do with the administration of the system. Mr. Huddleston has now offered, after the lapse of a third of a century, Part II of the work surveying the history of the railway from 1906 to 1924, the date on which the State acquired the railway for direct operation.

Despite the long interval, Mr. Huddleston, writing in a reminiscent mood imparts an unusual interest and life to the conditions and personalities on the East Indian. Thus, Sir William Dring, Dr. Saise, Fred Palmer and the Youngs, men who have done much to make the E.I., what it is to-day, come to life again in the pages of the book under review. Those who expect a bare impersonal record of construction, receipts and expenditure of the Railway will be disappointed. It would be wrong to judge this book on that standard.

The remarks the author has to offer on the passenger classes, staff discipline, etc., are well worth considering to-day. No one can rise from a perusal of the book without regretting that the author should have made it so short.

OFFICIAL PAPERS.

THE PUBLIC ACCOUNTS COMMITTEE'S REPORT.

The report of the Public Accounts Committee on the railway accounts of 1937-38 presents its usual survey of the accuracy of budgeting and the standard of financial administration on railways. The Committee found that the accuracy of budgeting of revenue expenditure was better than that during last year. A remarkable improvement was noticed in connection with the Capital Grants in which the variation from the estimates during the year was the lowest since 1932-1933. The Committee had expressed themselves in favour of the grant of a Development Fund for dealing with railway capital expenditure, but in view of the considerations urged by the Auditor-General and the Financial Commissioner, they were convinced that no change in the existing arrangements was called for. Reference is made in the report to the experiment of placing the Railway Accounts Department under the General Manager on the two State-managed railways, to which reference is made elsewhere in this issue. The report expressed the satisfaction of the Committee on the work done by the Central Standards Office which gave an impetus to Indian industry and thereby helped to reduce the stores balances.

A ruling has been given as regards the principle laid down by the Committee namely, that the accounts classification should follow the budget and that the rectification of important errors should not be left over until the next year. The classification referred to are as regards adjustments between revenue, capital and depreciation fund transactions which affect the revenue surplus payable to general revenues and transactions regulated by contracts with railway companies. As regards the question of rectification of errors—whether these should be restricted to the transactions of the year in which the error was detected or it should cover the transactions of earlier years also—the Committee expressed the opinion that each case should be judged on its own merits but that ordinarily there should be no general reopening of past accounts. On the question of allocation between revenue and depreciation fund, or expenditure written back from capital on account of abandonment of projects, a re-examination of the existing practice in the light of correct accounting principles was suggested.

APPROPRIATION ACCOUNTS OF RAILWAYS IN INDIA FOR 1937-38.[1]

The Review of the Appropriation Accounts of Railways in India presents a survey as during past years of railway finance during 1937-38.

[1] Appropriation Accounts of Railways in India for 1937-38. Part I: Review. Part II: Detailed Appropriation Accounts issued by the Chief Commissioner of Railways.

The main object of the review is a comparison of the actual expenditure of the year with the grants and appropriations under the various heads of grants voted by the Legislative Assembly or sanctioned by the Governor-General in Council. The variations from the original and final figures of ordinary working expenses have been a little over 1 per cent. and it is explained that there were two disturbing factors for which in framing the revised estimate inadequate allowance was made, namely, the increased cost of materials and the difficulties in regard to coal supplies for railways. Examining the detailed abstracts. 6-B Grant showed a considerable increase, a large part of which is attributable to the increase in the consumption and stocking of coal and other fuel and freight on coal. Grant 6-C has also recorded a rise on account of the additional cost of repairs to the rolling-stock, the higher prices of stores and the heavier repairs to wagons. The remarkably close budgeting as regards works expenditure not charged to revenue, rightly elicited the appreciation of the Public Accounts Committee.

The review refers in detail to the cases of excesses or surpluses with appropriate explanations under the different heads of railway budget grants. The stores balances are slightly higher during 1937-38, but expressed as a proportion of the issues there was an improvement namely to 41 per cent. against 44 per cent. in the previous year. There is an interesting reference to the return on the capital outlay on residential buildings.

Part II of the Appropriation Accounts presents the detailed accounts for the year, on the same lines as during the recent years.

ANNUAL REPORT ON THE WORKING OF THE HOURS OF EMPLOYMENT REGULATIONS DURING 1937-38.

All State-managed Railways, together with three important Company-managed systems, are now complying with the provisions of the Hours of Regulations, says the Supervisor of Railway Labour in his annual report for 1937-38, on the working of the Hours of Employment Regulation. The majority of railway servants in India are now protected by the two International Labour Conventions. The total number of non-gazetted employees on all Class I, Railways on March 31, 1937, was 649,077, of which 500,362 were employed in the seven railways on which the regulations were in force. In other words 77 per cent. of the total staff are now enjoying the benefits of the legislation.

Although the regulations have now been in force for several years on the four State-managed Railways and the initial difficulties in their application have mostly been overcome, there is still room for improvement particularly in classification. The position on the East Indian and Eastern Bengal Railways, which was not so encouraging in the previous years, has improved. The general application of the Regulations on the Company-managed Railways is considered satisfactory.

It is too early yet to comment on conditions prevailing on the Bengal and North Western Railway where the Regulations were brought into force only on October 1, 1937, but it is observed that the number of staff excluded from the scope of the Regulations is high.

The number of those who occasionally or habitually work beyond their rostered hours, is limited to certain well-defined categories of staff such as goods clerks and the inferior staff of the Transportation Department, who are called upon to do the loading and unloading of 'smalls' in addition to their normal duties. The factors that are responsible for keeping the goods clerks beyond their rostered hours, and their habit of not keeping their work up-to-date, the inadequacy of staff particularly during heavy seasonal traffic, the unsuitability of rosters and perhaps to a certain extent the desire to avoid complaints from customers.

Efforts made from time to time to arrange for the periodic rest to coincide with the calendar day have not been in vain. Except on the M. & S. M. Railway, where the percentage of staff enjoying a calendar day's rest on the total staff has slightly decreased, the position on all other Railways has improved. The goods clerks are sometimes found working during their weekly rest periods. The delivery of perishables on Sundays often leads to infringement. The Supervisor suggests that other staff should be deputed or special arrangements made to deal with this work.

A large number of employees who until recently were classed as "intermittent" staff are now classified as "continuous". Whereas in 1936-37 the percentage of continuous on the total staff (excluding those under the Factory Act) ranged from 55 to 71 and last year from 54·8 to 71.6. The position has improved on the B.B. & C.I., G.I.P., and N.W. Railways and remained stationary on the E.B. Railway. The B. & N.W. Railway which has only recently come under the scope of the Regulations shows a low percentage of 56:2, which, though better, than that of the M. & S.M. does not compare favourably with the other systems.

As regards intermittent staff there is a slight change for the better on the N.W. and G.I.P. Railways, practically no change on the E.I., E.B., and M. & S.M. Railways, but on the B.B. & C.I. the percentage came down from 27.6 to 23 and there was an increase in the percentage of the continuous staff.

Occasionally it came to light that records of overtime work had not been kept. In order to facilitate the control, the Supervisor suggests that a separate register for this purpose should be maintained. Sometimes payment for overtime was delayed. The Payment of Wages Act, it is hoped, however, will put a stop to these delays, for its provision makes it obligatory on the Administrations to pay overtime within the stipulated period.

Rarely have intermittent employees been found exceeding the limitation of 12 hours' daily duty. There is no justification for giving the employees more than 12 hours' duty at a stretch except at the time of changing shifts. The allowances to all employees of eight consecutive hours break in every 24 hours, has improved on almost all the Railways except the M. & S.M.

As the duties of the running staff present peculiar difficulties, this category of staff has been excluded from the protection afforded by the Regulations. Mostly it has been found, however, that the rosters on which these employees generally work, conform to the principles of the Regulations. It is hoped in due course to bring this category under the statutory provisions of the Regulations.

In November 1937, following the reshuffling of some of the Departments of the Government of India, the office of the Supervisor of Railway Labour was transferred from the administrative control of the Railway Board to that of the newly created Labour Department, thus making the Labour Inspectorate independent of the Railway Department.

CEYLON GOVERNMENT RAILWAYS.

The Report of the Acting General Manager, Ceylon Government Railways, for 1938, discloses a decrease of 1 per cent. in the gross receipts as compared to the previous year. The total receipts amounted to Rs. 16:129 millions. Expenditure has gone up from Rs. 18:720 millions to Rs. 20:159 millions. The increase is attributed to increased maintenance of works, heavy repairs and abnormal rise in coal prices. The resultant deficit was Rs. 4:140 millions, slightly higher than the figure for last year. The interest charges for the year amounted to Rs. 6:596 millions which could not be met on account of the heavy losses in working. The total sum due to Government inclusive of the interest due for the year now amounts to Rs. 44:846 millions. It is reported that the observations made last year on the subject of road-motor competition still hold good and that until the law is amended and the necessary power conferred on the police to avoid overloading it will not be possible to remedy the present abuses. The new Motor Car Ordinance is expected to be brought into force early, and when that is done, it is hoped that the railway will regain much of its lost business. The retrenchment measures recommended by the Sub-Committee of the Advisory Committee mentioned in the previous report have, it is stated, been mostly carried out. At the request of the Retrenchment Commission appointed by the Governor in August last year to investigate and report on the possibility of reducing public expenditure, by changes in organisation, operation, staff cadres and salaries standards of Public Departments. The Railway Department minutely examined the situation on the Government Railways and has proposed further retrenchment measures calculated to effect substantial reduction in working expenses. That the Railway is making a genuine effort at a recapture of lost traffic is evident from a reference to the additional facilities and new features in the services rendered by the Government Railways, such as low passenger fares on short distances exceeding 20 to 25 miles in certain sections, reduction on the ordinary return and week-end excursion fares, introduction of cheap day-tickets at substantially reduced rates from Colombo and other important centres on certain days of the week, acceleration of the services, etc.

Certain important statistics of working are given below:

STATISTICS OF WORKING ON THE CEYLON GOVERNMENT RAILWAYS FOR THE YEAR, 1938.

		For the year ended 30th September 1937	1938
Average Mileage Operated	..	1,063	1,063
Capital cost of construction (In thousands)	..	Rs. 228,016	Rs. 228,123
Gross Earnings ,,	..	Rs. 16,305	Rs. 16,129
Working Expenses ,,	..	Rs. 20,355	Rs. 20,268
Net Revenue ,,	..	Rs. 4,050	Rs. 4,140
Operating Ratio	..	114:82	124:99
Percentage of Net Revenue to Capital	..		
Number of Passenger Journeys (In thousands)	..	9,506	10,859
Coaching Earnings (Inc. Mails) ,,	..	Rs. 7,040	Rs. 7,151
Goods in tons (Inc. Live-Stock) ,,	..	1,122	1,162
Goods Earnings ,,	..	Rs. 8,742	Rs. 8,400
Passenger Train Miles ,,	..	2,672	2,900
Goods Train Miles ,,	..	1,581	1,160

NEW ZEALAND RAILWAYS, 1938-39.

The Railways statement of the Hon. D. G. Sullivan, Minister of Railways, and the Annual Report of the General Manager of the New Zealand Railways, present a record of satisfactory progress. The Minister's statement contains a broad summary of the results of railway working and a reference to the long-range railway policy of the present Government as regards railways. That policy was one of "handling the whole transport situation in the general interests of public welfare", of making railways an instrument for furthering the Government's general policy of economic development and of reorganising the railways "to keep pace with the Government's desire for national recovery". The results of the long-range planning has, it is stated, been encouraging and increased activity is in evidence in every department of railway working.

The Gross earnings for 1938-39 amounted to more than £9 1/3 millions, 8:24 per cent. higher than the record established in the previous year. Working Expenditure was just under £8 2/3 millions or 8 per cent. more than in 1937-38, more than half the increase being due to increased wage costs. Operating revenue shows an increase against all the heads, Passenger and Goods: The net revenue amounted to £701,000 which was short of the interest charges by £1.7 millions.

Mr. G. H. Mackley has given a full account of all the activities in his detailed report. Amongst other developments may be mentioned the revision of the rating system by which the two highest merchandise rate classes (A & B) were merged in the third highest class, as a result of which the commodities which were previously chargeable under classes A and B have now been afforded a much lower freight standard. The results of working may be judged from the statistics of operation given below:—

STATISTICS OF WORKING ON THE NEW ZEALAND RAILWAYS, FOR THE YEAR, 1938-39.

	For the year ended 31st March 1937-38	1938-39
Average Mileage Operated ..	3,322	3,319
Capital cost of construction (In thousands) ..	£63,189	£67,076
Gross Earnings " ..	£8,634	£9,345
Working Expenses " ..	£8,001	£8,644
Net Revenue " ..	£633	£701
Operating Ratio ..	96:05	95:73
Percentage of Net Revenue to Capital ..	1:15	1:23
Number of Passenger Journeys (In thousands) ..	22,441	23,266
Coaching Earnings (Inc. Mails) " ..	£1,698	£1,786
Goods in tons (Exc. Live-Stock) " ..	6,848	6,917
Live Stock in tons " ..	668	662
Goods Earnings " ..	£5,411	£5,695
Other Services " ..	£1,042	£1,340
Train Miles " ..	12,778	13,073
Goods Train Miles " ..	7,456	7,522

SOUTH AUSTRALIAN RAILWAYS, 1937-38.

The Annual Report of the South Australian Railways' Commissioner for the year 1937-38 reveals an increase in the total deficit as compared to last year namely, by £52,895 to £726,843. While earnings increased by £277,422 resulting in the total earnings of £3,299,084, there was a heavy increase in the Working Expenses due principally to the Industrial Awards prescribing higher wages, short hours, additional pension charges, higher prices for coal and other materials. The total working expenses as a result of these factors rose from £2,447,549 to £2,756,598. The operating ratio rose to just under 84 per cent. The surplus earnings over working expenses was £542,486 which was insufficient to meet the fixed charges and left a deficit as stated above. The total accumulated deficit in working up to 30th June, 1938, was approximately £10½ millions while there was a slight decrease in passenger earnings. There were, except from minerals, larger receipts from freight traffic.

The year under review witnessed further improvements in the wages and working conditions of the employees. Following an enquiry by the Board of Industry towards determining the State Living Wage for the adults, males and females, the minimum wage was raised from 11*s*. 7*d*. to 12*s*. 4*d*. per day for males and 34*s*. 9*d*. to 36*s*. 6*d*. for females per week. The Commonwealth Basic Wage advanced during the year from 11*s*. 6*d*. to 12*s*. 4*d*. per day, as the whole of the daily wage employees came under the jurisdiction of the Commonwealth Arbitration Court Awards.

The total increase in the expenditure as a result of these changes amounts to £121,500 per annum. Another reform has been the general introduction of 44-Hour Week or 88-Hour Fortnight, the effect of which also will be to increase the expenditure to the extent of £20,000 per annum.

Other features on the results of working during the year may be gathered from the selected statistics given below:—

STATISTICS OF WORKING ON THE SOUTH AUSTRALIAN RAILWAYS FOR THE YEAR ENDED JUNE 30, 1939.

	For the year ended 30th June 1937-38	1938-39
1. Average Mileage Operated ..	2,556	2,557
2. Capital cost of construction (In thousands).	£28,476	£28,614
3. Gross Earnings " ..	£3,299	£3,133
4. Working Expenses " ..	£2,757	£2,828
5. Net Revenue " ..	£542	£310
6. Operating Ratio ..	83:56	90:09
7. Percentage of Net Revenue to Capital ..	1:43	0:60
8. Number of Passenger Journeys (In thous.).	17,632	17,529
9. Coaching Earnings (Ins. Mails) " ..	£735	£759
10. Goods in ton (Inc. Live-stock) " ..	2,897	2,661
11. Goods Earnings " ..	£2,153	£2,361
12. Goods ton miles " ..	365,066	348,614
13. Train Miles " ..	6,111	6,177

KENYA UGANDA RAILWAYS & HARBOURS.

The Report of the General Manager on the administration of the Kenya and Uganda Railways & Harbours for the year ended December 31, 1938, is an interesting document. The financial results of working during the year disclose a decrease in earnings which amounted to £3.17 millions as compared with 1937, but a continued increase as compared with 1936. Ordinary working expenses were higher than last year namely £1.59 millions as against £1.46 millions in 1937. The gross surplus was £1.57 millions. The operating ratio was slightly over 50 per cent. the rise being attributed to reductions in rates and fares and the increased cost of coal, stores and materials. Contributions to the Renewals Fund per mile on an average rate of 2½ per cent. on the capital value of railway wasting assets and at varying full life rate on other assets. The Railways including Lake and Motor services showed total earnings of £2.66 millions and Ordinary Working Expenditure was £1.40 millions. The Net Revenue after allowing for the payment to the Renewals Fund was £914,646. After allowing for interest (£542,119) repayment charges (£105,717) the net surplus amounted to £251,707.

Examining the earnings under the main heads, there was an increase in passengers, live-stock and miscellaneous; but a very heavy decrease occurred under goods and parcels, luggage and mails. As regards goods traffic freight ton miles moved recorded a large increase namely 36 million ton miles of public traffic as compared to 1937. But freight receipts were down by £52,000 on account, it is stated, of the rates reductions introduced at the beginning of the year and alteration in the balance of traffic. As regards Ordinary Working Expenses there has been a rise under all heads except motor services. As regards the details of working the General

Manager has presented a record of efficient working under most of the heads. The financial position of the administration is sound as may be seen from the figures given below.

A more successful way of approach has been attempted during the year as regards securing co-ordination of transport. It is reported that during the year 1938, as a result of the amendments to the Orders in Council, the High Commissioner for Transport has been given power to enter into agreement "relating to the ownership, control, working or management of any railway road motor services or craft services, ports, harbours, wharves or steamship services with any persons, corporate body or authority concerned in such ownership, control, working or management" and to make any interest acquired in any such agreement part of the services and to authorise the expenditure of money in connection with such agreement. With so good a record behind it the railway looks forward to the future with complete confidence, despite the disturbed state of the whole world.

STATISTICS OF WORKING ON THE KENYA & UGANDA RAILWAYS AND HARBOURS FOR THE YEAR, 1938.

			For the year ended 31st December 1936-37	1937-38
Average Mileage Operated		..	1,622	1,625
Capital cost of construction (In thousands)		..	£22,030	£22,218
Gross Earnings	"	..	£2,716	£2,659
Working Expenses	"	..	£1,261	£1,397
Net Revenue	"	..	£584	£286
Operating Ratio		..	59:16	65:60
Percentage of Net Revenue to Capital		..		
Number of Passenger Journeys (In thousands)		..	771	892
Coaching Earnings (Exc. Mails)	"	..	£193	£194
Goods in tons (Inc. Live-Stock)	"	..	1,656	1,796
Goods ton miles	"	..	504,274	536,944
Goods Earnings (Exc. Live-Stock)	"	..	£2,405	£2,353
Other Services	"	..	£117	£112
Passenger Train Miles	"	..	402	407
Goods Train Miles	"	..	2,910	3,009

NOTES AND MEMORANDA.

RAILWAY ACCOUNTS DEPARTMENT UNDER EXPERIMENT.

In a memorandum of the Railway Department submitted to the Public Accounts Committee this year the subject of the working of the experimental transfer of Railway Accounts Department to the General Managers is discussed in the light of the experience of the past year. Satisfaction is expressed that the "new system has led to an increase in the utilisation of the services of the Financial Adviser and Chief Accounts Officer to the Railway Administration". The Auditor-General according to the wishes of the Public Accounts Committee had submitted a memorandum on the arrangements made of the N.W.Railway for controlling the Railway Accounts staff through the Personnel Branch. This Branch is intended to ensure uniformity in the application of service rules and regulations and discharges the functions of an expert adviser in this matter to the General Manager.

The Auditor-General states in his memorandum as follows:

The orders transferring the Chief Accounts Officer and the department under him to the control of the General-Managers on the Great Indian Peninsula and the North Western Railways were issued on the 31st October, 1938. It was necessary that various important points should be discussed and decided before the final arrangements for the introduction of the scheme could be settled and the experiment cannot be said to have been properly in operation until the spring of the current year. In order that the Auditor-General should be fully associated with the detailed arrangements for working the scheme a conference was held by him with the Chief and Financial Commissioners of Railways and the General-Manager and Chief Accounts Officer of each of the railways concerned. The Auditor-General also visited the Great Indian Peninsula Railway in Bombay and the Deputy Auditor-General as his representative, the North Western Railway in Lahore, and on the occasion of these visits further conferences were held with the General-Managers and the Chief Accounts Officers.

So far the attention of the Auditor-General and of the Railway authorities had been concentrated on securing that the conditions and arrangements for the proper conduct and observation of the experiment were properly conceived and effectively put into operation. It is possible to give some assurance on two points:—

(*a*) A satisfactory definition has been made on both Railways of the relations of the Financial Adviser and Chief Accounts Officer with the General-Manager and through the General-Manager with the other heads of Departments on Railways. These definitions provide for the utilisation of the Financial Adviser and Chief Accounts Officer as a Financial Adviser to the General-Manager and to all departments. They also provide for the participation of the Financial Adviser and Chief Accounts Officer in inter-Departmental conferences.

(*b*) A satisfactory system has been evolved whereby the Railway Audit Branch can observe the detailed working of the experiment on both railways.

Full co-operation has been afforded by the Railway Administration in both cases. The first tendency to associate the Railway Audit Branch with a mass of detailed railway work from which no particular deductions, could be drawn, a tendency which would have led to the slowing up generally of work at the headquarters of Railway Administrations, was resisted, and it may now be accepted that the Chief Auditors of the Great Indian Peninsula Railway and of the North Western Railway see all the material which they really require to enable them to form a considered view of the working of the experiment but that the system of observation adopted does not hamper current administration.

Owing to the limited time during which the experiment has been in full operation and to the necessarily small number of cases seen by the Railway Audit Branch from which any reasonable deductions can be drawn it is not yet possible to give any final view of the working of the experiment. The material available from a few months' observation is too scanty to form the foundation of any decision. The experiment will have to continue for another year before anything like a conclusive report from the Auditor-General's side at any rate, can be submitted.

So far two impressions have been recorded:—

(*a*) The introduction of the new system has led to an increase in the utilisation of the Financial Adviser and Chief Accounts Officer as the Financial Adviser of the Railway Administration. This view is held by the Financial Advisers and Chief Accounts Officers of both the Railways concerned and accepted by the Chief Auditors.

(*b*) There has always been in the minds of the Audit authorities a reservation regarding the effect of the new system upon the independence of the Railway Accounts staff. Both in financial cases and in the exercise of internal accounts check, the accounts staff must be expected and feel free to maintain a critical, though of course impartial, attitude. This is essential if the Accounts Branch is to play its proper part in administration; and the accounts branch must have conditions of service which conduce to this end. On the Great Indian Peninsula Railway the control over the accounts establishment is exercised by the General-Manager through the Financial Adviser and Chief Accounts Officer and it is unlikely that the new system will have any unfavourable reactions on the accounts staff. The organisation on the North Western Railway, however, is peculiar in that the control of all staff is exercised by the General-Manager through a Personnel Branch represented by a Deputy General-Manager, Personnel, at Headquarters and by the Divisional Superintendents through Personnel Officers in all the Divisional Officers. The General-Manager of the North Western Railway has insisted that the arrangements for controlling the accounts staff should conform to the arrangements applying to the rest of the Railway staff, and that, while control and disciplinary action in specifically technical matters may be exercised by accounts officers, general control, which would include powers of promotion, major punishments for offences of a general character, should be exercised by the heads of departments to whom the accounts staff is attached, working through the Personnel branch of the railway administration up to the General-Manager in the last resort. This involves a considerable change in the authority of the Financial Adviser and Chief Accounts Officer *vis a vis* members of the accounts staff. The arrangements have, however, been accepted experimentally for 6 months under certain safeguards which should operate adequately if the General-Manager himself in his daily practice recognises the principle already indicated, namely that a certain measure of independence of view on the part of the accounts staff is a necessary complement in the Railway organisation or any other business organisation taken as a whole.

The Auditor-General presumes that it is recognised that in the end he will only be able to pronounce upon the success or otherwise of the experiment from a limited point of view. The Auditor-General should be able

to report through his Chief Auditors whether there has been any diminution of regularity in financial practice and procedure, or any diminution in facilities for audit check. Whether the experiment results in the administration of Railways being more efficient or more successful financially is a point on which the opinion of the Railway Board will necessarily be of more value than the opinion of the Auditor-General.

DEPRECIATION FUND TRANSACTIONS.

The Public Accounts Committee recommended last year that the Auditor-General should look into the accounting arrangements and suggests measures to prevent large variations between actual adjustments in transfers to and from the Railway Depreciation Fund and the estimates for these transfers. The matter was considered by the Auditor-General and the results have been recently stated as follows:—

In the case of appropriations *to* the Depreciation Reserve Fund, the contribution to the Fund is calculated at 1/60th of the total capital outlay to end of the previous year. When the budget is framed the capital at charge 'to end of previous year cannot be known'. The difference between the actuals and the estimates is, therefore, inevitable. An examination of the figures, for the five years 1933-34 to 1937-38 has, however, shown that the differences are comparatively insignificant.

As regards appropriations *from* the Depreciation Reserve Fund, the difference between the practice in the Railway Department and that in other departments is that in the case of the latter the provision for capital (including renewals) expenditure is made for the net amount while in the case of the former the expenditure from the Depreciation Reserve Fund is fully voted under the Railway separation convention. The provision for this expenditure is made in Demand No. 12 along with the provision for capital expenditure proper. The adoption of the procedure obtaining in other departments of showing the appropriation from the Depreciation Reserve Fund as a *deduct* item would not by itself obviate large variations between the estimates of expenditure and actuals but would merely tend to obscure such variations in the presentment of figures in the Appropriation Accounts. It is felt also that it would be unsuitable to change the system of budgeting under Demand No. 12 while the separation convention is still valid. The question of making actuals correspond with grant to a greater degree is bound up with the more general one of the improvement of budgeting under Grant No. 12 as a whole. The Railway Department have already issued instructions to all concerned to include in the budget only such projects as have reached maturity, except those of an urgent nature or having attractive revenue prospects. It is hoped that this will result in improvement in the estimating of capital as well as renewals expenditure.

In the circumstances the Auditor-General considers, and the Government of India also agree with him, that no change is advisable at present, especially in view of the changes that will follow the establishment of the Federal Railway Authority.

CAPITAL EXPENDITURE INVOLVED IN THE REPLACEMENT OF MACHINERY AND PLANT.

In response to the wishes of the Standing Finance Committee a note has been circulated by the Railway Board to the Committee explaining the disparity in the amounts allocated to Capital and Depreciation Fund. In the case of replacements to Machinery and Plant:

The disparity mentioned above had attracted the attention of the Board in its preliminary examination of the works programme for 1939-40 of the South Indian Railway. It was subsequently noticed that on many railways a considerable portion of the cost of replacement of machinery was shown as a charge to capital. The question was examined accordingly in detail with reference to the programmes of all railways generally, and the result is stated below.

In the case of replacements of most of the important assets, such as rails, girders, locomotives, carriages, wagons, etc., definite formulae have been laid down for measuring the value of the improvement involved in replacement, and this improvement is treated as a legitimate charge to capital. Briefly, the value of improvement in rails and girders is measured by weight, in locomotives by tractive force, in carriages by floor area, in wagons by carrying capacity and so on. When the application of these formulae reveals no improvement, the entire cost of replacements is charged to revenue or depreciation fund, although the actual cost of the new asset may be more than the original cost of the existing asset. It has not been practicable to devise such easily workable formulae for determining improvement in the case of machinery. The output capacity of machine tools depends on many variable factors and cannot be accurately defined. Further, among the machines purchased to-day, there are only a few which had counter-types 25 or 30 years ago. The simple cost basis has, therefore, been adopted for the purpose of allocating between capital and revenue-depreciation fund, the cost of replacement of machinery, that is, the excess of the cost of the new machine over the cost of the one replaced, is charged to capital, which bears, therefore, the whole effect of the increase in prices which has been substantial during the past 25 years. The output capacity of machine tools has also increased, but hardly in proportion to their cost. At present, machine tools are sold at particularly high prices, and the margin between cost and output capacity has been widened. Carrying out renewals on a unit cost basis consequently results in heavy debits to capital.

It must also be borne in mind that, in connection with the drive for more intensive use of rolling-stock, it is a matter of very great importance to reduce the number of days the stock remains in the shops for repairs and overhauls, etc. While replacing old machinery, therefore, opportunity is taken to obtain new machines which will ensure a quicker outturn, and such machines are more expensive. This is another reason why the debit to capital through the replacement programme appears to be disproportionately high.

Arrangements are being made to give in the programmes in future a more detailed justification for the provision of machine tools with output capacity appreciably in excess of the capacity of the machines to be replaced. The Standing Finance Committee will then appreciate more precisely the need for the capital expenditure proposed in the programmes for replacement of machinery.

THE PROCEDURE IN RESPECT OF SUPPLEMENTARY GRANTS.

In the meeting of the Standing Finance Committee on September 20, 1939, the procedure proposed in respect of Supplementary Grants was approved:—

(1) In cases where supplementary demands, once approved by the Committee, had to be subsequently increased and their revised approval sought, they should be furnished with more detailed explanations showing the particular directions in which new and unexpected circumstances had arisen and the additional expenditure attributable to each of those special circumstances;

(2) Some finality should be reached in respect of supplementary demands when the budget is presented to the Assembly, any excess occurring later being dealt with in due course under the prescribed procedure.

As regards first point Government will make every effort to comply with the Committee's wishes and to place before it the information asked for. As regards the second point, the legal position is that under Section 162 (*i*) of the Manual of Business and Procedure in the Legislative Assembly "an estimate shall be presented to the Assembly for a supplementary or additional grant when the amount voted in the budget of a grant is found to be insufficient for the purpose of that year." Thus an obligation is imposed on the Government to place a supplementary demand before the Assembly, if, between the passing of the budget and the end of the year, it is found that a further supplementary demand is necessary and if the business of the Assembly admits of such a demand being placed before it. It is, however, recognised that there is some force in the implication behind the suggestion, the implication being that supplementary demands should be considered at the same time as the budget estimates. It has, therefore, been decided by the Government of India that supplementary demands for Railways should be placed before the Assembly along with, or about the same time as, the budget estimates. Later on, if a further supplementary demand is found necessary, it shall also be placed before the Assembly if the business of the Assembly permit.

MORATORIUM EXTENDED.

In the recent session of the Legislative Assembly Hon. Sir Jeremy Raisman, Finance Member, moved the following resolution:—

That this Assembly recommend to the Governor-General in Council that railway revenues be declared not liable before 1st April, 1942, or before the fixation under section 187 (1) of the Government of India Act, 1935, of the sum thereunder referred to whichever is earlier, to repay to the Depreciation Reserve Fund maintained for Indian State-owned railways a balance outstanding on 1st April 1937, on loans taken from the fund to meet railway deficits or to pay to General Revenues any contributions or deficiency in contributions due under the resolution of this Assembly of the 20th September 1924, in respect of the period beginning on the 1st April 1931, and ending on the 31st March 1939.

In effect this means that the position permitted under the moratorium resolution of 1937, under which railway surpluses were appropriated without meeting the liabilities on account of the withdrawal from the Depreciation Fund and the unpaid contributions would continue for over a period of 2 years. This has been the rather unfortunate result of the constitutional arrangements introduced in connection with the inauguration of Provincial Autonomy. The Neimeyer Order in Council tied up Central and Provincial Finance in a manner which makes it difficult to avoid this. In the course of a speech Sir Jeremy expressed his appreciation of the issues involved such as to deal in the revision of the Separation Convention, the inability of railways to build up reserve under the present system, the failure to deal with the important questions of amortization of debt and reduction of railway capital. He was prepared to undertake the examination of this moratorium. The resolution was adopted by majority.

MANUFACTURE OF LOCOMOTIVES IN INDIA.

Proposals under Consideration.—Metre gauge locomotive for the Bombay Baroda and Central India Railway have been manufactured in the Ajmer Workshops for some years past. Recently the Bombay, Baroda and Central India Railway's requirements of metre gauge locomotives decreased appreciably and the possibility of undertaking work on behalf of other Railways was considered in order that there might be continued employment for the labour previously in service there.

Owing to legal difficulties arising from the existing Act prohibiting the manufacture by the Bombay, Baroda and Central India Railway of locomotives for other Railways, necessary legislation to enable this to be done was introduced in Parliament and passed. As a result of this, nine YB class locomotives for the Assam Bengal Railway are now under construction at Ajmer. Negotiations are also in hand with a view to the Bengal and North Western Railway also placing an order for the construction of certain YB class engines at Ajmer.

Ten XT Class locomotives recently sanctioned by the Standing Finance Committee for Railways for the North Western Railway against the 1940-41 requirements will also be constructed by the Bombay, Baroda and Central India Railway and with these orders in hand it is expected that the locomotive building section of the Ajmer Workshops will be reasonably well employed up to the end of 1941.

In addition to the action the Railway Board have already taken in respect of the locomotive building at Ajmer they propose to appoint one or possibly two officers on special duty to examine the practicability of constructing broad gauge locomotives on a limited scale, in one of the existing

State-owned railway Workshops in India, suitably extended and equipped with the necessary additional plant, machinery, equipment, supervision and labour. These officers will be required to prepare estimates of the expenditure involved in making the necessary extensions and providing the additional machinery, etc., required in some existing workshop for undertaking the work of building broad gauge locomotives. They will also prepare estimates of the cost of construction of different classes of locomotives in these shops for comparison with market prices.

When this detailed examination has been completed, and the plans and estimates of the financial implications have been thoroughly examined by the Railway Board the matter will probably again be placed before the Standing Finance Committee for Railways with the recommendation of Government.

PURCHASE OF LOCOMOTIVES FOR INDIAN RAILWAYS.

In reply to request for information on the purchases of locomotives for the Indian Railways, the following statement was presented during the earlier session of the Assembly this year:—

STATEMENT SHOWING PARTICULARS OF LOCOMOTIVES PURCHASED OUT OF INDIA DURING 1935-36, 1936-37 AND 1937-38.

Railways.	1935—36		1936—37		1937—38	
	No. pur chased.	Country from which pur-chased.	No. pur-chased.	Country from which pur-chased.	No. pur-chased.	Country from which pur-chased.
Broad Gauge.						
Eastern Bengal ..	..	..	..	..	..	..
East Indian ..	14	Germany	10	Germany	8	England
Great Indian Peninsula ..	..	..	2	England	*1	England
North Western ..	15	Germany	..	..	8	England
Bengal Nagpur ..	..	..	..	..	2	England
Bombay, Baroda & Central India ..	†1	England	..	..	..	..
Madras & Southern Mahratta ..	..	..	2	England	..	..
South Indian ..	7	England	..	..	4	England
Metre Gauge.						
Assam Bengal ..	6	England	..	..	4	Germany
Bengal & North Western ..	8	England	...	..	9	England
Bombay, Baroda & Central India ..	..	..	..	..	.	..
Eastern Bengal ..	..	..	..	..	..	..
Madras & Southern Mahratta ..	..	..	..	..	5	England
Rohilkund & Kumaon ..	..	..	4	England	4	England
South Indian ..	..	..	..	..	2	England

* Electric Locomotives.

† Diesel-electric Shunting Locomotives.

6

REVENUE DERIVED FROM RENTS AND LICENCE FEES.

In answer to a question, the following statement was placed on the table in the Assembly presenting the details of the revenue received from Rents and Licence Fees on the State-managed Railways during the last year.

REVENUE DERIVED FROM RENTS AND LICENCE FEES, ETC., ON STATE RAILWAYS.

	Eastern Bengal Railway.	East Indian Railway.	Great Indian Peninsula Railway.	North Western Railway.
	Rs. a.	Rs. a.	Rs. a.	Rs. a.
(*i*) Rent for refreshment rooms..	552 0	41,176 8	11,465 0	Nil.
(*ii*) Rent for other premises ..	4,386 0	40,000 0	1,656 0	60,446 14
(*iii*) Auction of salesman's contracts ..	Nil.	35,930 0	1,515 0	*
(*iv*) Licence fees charged from stall holders ..	10,629 8	145,370 8†	7,152 0	Nil.

AMERICAN DECISION ON REPLACEMENT *versus* RETIREMENT BASIS OF DEPRECIATION ACCOUNTING FOR RAILWAYS.

In connection with a recent attempt by the Canadian Government to establish a uniform classification of accounts one of the important principles to be decided was the question of proper accounting for changes to property. There are two methods of accounting for property changes in vogue: Retirement Accounting, in which upon replacement of property, the old is written out of the Investment Account and the new written in; and Replacement Accounting, in which only the betterment features of a new property are capitalised. Under Retirement Accounting, changes in price levels are reflected in the Investment Account, while under Replacement accounting these changes are absorbed in expenses.

In reply to a question the Committee of the Accounting Division of the Association of American Railroads reaffirmed its position previously taken by the Railway Accounting Officers' Association as to the soundness of the principle of Replacement Accounting and held that from present revenues, the carriers should currently maintain their property; that the replacement of property in kind is maintenance chargeable against current

* The North Western Railway does not auction salesman's contracts, but, as an experimental measure, the contract from the Delhi Hindu refreshment room, the Hindu sweetmeats and tea stalls was put to tender, Rs. 7,025 per annum was accepted for the combined contract from the 15th February, 1937.

† Licence fees are not realised from stall-holders paying rent. This amount represents fees charged from vendors for hawkers engaged by them.

income; that when betterments are involved in replacement only the cost of betterment features is a proper charge to capital; and that in the replacement of property with or without betterment, current income should absorb the changes in price levels.

THE SQUARE DEAL REPORT IN GREAT BRITAIN.

The recommendations of the report are:

That the present system of control of railway freight charges should be abandoned.

That subject to certain safeguards, the railway companies should be entitled to make such reasonable charges as they think fit.

That the safeguards for trade and industry should take the following form:—

(*a*) Periodic conferences on a voluntary basis;

(*b*) Existing rates and charges not to be increased save by agreement (by the appropriate conference in the case of a general increase, or by the traders concerned in the case of an individual increase) or by the authority of the Railway Rates Tribunal;

(*c*) A right of appeal to the Tribunal as to the reasonableness of any charge.

That the safeguards for other forms of transport should be—

(*a*) Periodic conferences on a voluntary basis;

(*b*) Agreement as to rates with the road haulage interests [subject to the provisions of (*b*) above];

(*c*) Certain specific provisions to prevent unfair competition.

The Council have reached the conclusion that—

"In existing circumstances a material relaxation of the present statutory control of charges is necessary to assist the railway companies in overcoming the difficulties which they claim to arise from that control, and to establish conditions which in their view and that of the other transport interests will provide a favourable approach to the ultimate objective of co-ordination" (Para. 14).

On the question of co-ordination, the report adds: "We propose and desire to emphasise that any Act that may be passed as the result of this report should be regarded as a temporary measure to meet an emergency and should be limited in its duration to a period of not more than five years, or such shorter period as may be necessary to establish such a degree of co-ordination as will avoid unnecessary overlapping of services and uneconomic competition".

In view of the large measure of agreement which has been reached, and their proposals for safeguarding other interests, the Council recommend repeal of the present statutory provisions regarding—

(*a*) Classification of merchandise and standard charges.

(*b*) Exceptional rates and agreed charges.

(*c*) Adjustment of charges to produce standard revenue.

(*d*) Equality of charge and undue preference.

(*e*) Disintegration (*i.e.*, analysis of exceptional rates to show how much is charged for conveyance, station terminals and service terminals).

The Council were unable to reach agreement as to the publication of rates, and make no recommendation on this point, which is admittedly one of major importance.

Having regard to their other recommendations, the Council are of opinion that the provision of the Railways Act, 1921, linking rates with "Standard Revenue" will no longer be appropriate.

The Council's proposals for safeguarding trade and industry are based mainly on two generally similar agreements reached between the railway companies, on the one hand, and the Trader's Co-ordinating Committee on Transport and the agricultural interests, on the other. These agreements are of the first importance; the general principles underlying them being:—

(*i*) The setting up of conferences to consider proposals by the railway companies for any general increase of existing charges;

(*ii*) Failing agreement on any such proposal at the appropriate conference, the giving of one month's notice by the railway company or companies concerned of their intention to bring the increase into force and the automatic reference of the matter to a Tribunal for determination;

(*iii*) That giving of notice by the railway companies of increases in individual charges with a right to the trader affected to take them to the appropriate conference and the Tribunal;

(*iv*) The right of any trader or body of traders to approach the Tribunal to reduce any charge on the ground that it is too high or that the charges made to other traders, with whom he is in competition are low in relation to those paid by him; and

(*v*) The basis of the Tribunal's determination in all cases to be the reasonableness of the proposed charge.

It is not proposed that the conferences should be governed by statute, the Council being of opinion that it is better to leave the position as flexible as possible, in order that the parties may adjust the form, procedure and scope of the conference to the needs of the industry or district.

REASONABLE CHARGES.

In determining whether or not a charge is reasonable, it is proposed that the Tribunal should have regard, *inter alia,* to the following considerations:—

(*a*) Whether or not the charge is detrimental to the public interest;

(*b*) Variations in the value of currency;

(*c*) The cost of affording the service or services in respect of which the charge is made;

(*d*) The existence of any alternative or competitive transport facilities for the conveyance of the merchandise in respect of which the charge is made, and the charges made for the carriage of like merchandise by such alternative means of transport;

(*e*) The effect of the charge on the financial position of the parties concerned, either generally or individually;

(*f*) The charge made in other trades for the carriage of like merchandise if it affects the trader concerned.

Rail-road Agreements.

In regard to safeguard other forms of transport, the Council's proposals are based on agreements reached between the railways and the other interests concerned, these appearing as appendices to the report. An essential feature of all the agreements is the proposal for consultation on matters of common interest with a view to an amicable settlement of differences.

Under their agreement with the road haulage industry, the railway companies undertake for a period of two years that (save where the applicant has failed to comply with the conditions of his licence) they will not raise objections to applications for carriers' licences under the Road and Rail Traffic Act, 1933, of the following nature:—

(*a*) The renewal, without any alteration, of existing "A" or "B" licences;

(*b*) The granting of existing hauliers of "A" licences for additional vehicles;

(*c*) The granting to existing hauliers of additional "B" licences for vehicles whose operations for hire or reward are limited to a radius not exceeding 25 miles.

Consultation between the two interests is to be effected by a Central Consultative Committee (with power to appoint Regional Committees) to be set up on a voluntary basis to formulate the principles on which agreements can be made as to the charges for the carriage of merchandise by road and rail.

The Report recommends that effect should be given to the proposals, in the agreement that these agreed charges, which will not necessarily be the same for the two forms of transport, should be referred to a Tribunal (the Railway Rates Tribunal suitably enlarged) for approval and should then be made binding on the railways and on all road rauliers. Adequate publicity is to be given to agreements both before and after approval. The Council also recommend that the traders should be brought into consultation before charges are finally agreed between road and rail and submitted to the tribunal for approval. (*Modern Transport.*)

THE *ECONOMIST* ON THE "SQUARE DEAL" PROPOSALS.

The *Economist* writes:

"These safeguards go far to allay natural uneasiness that the railways should be granted complete absolution from control. Their effectiveness will depend, in large measure, on the strength of the organisations representing the trader's interest. Their operation, however, will be determined by the speed at which the entire transport industry moves towards "ultimate objective of co-ordination." Co-ordination is a blessed word. Among its manifold meanings, at least two almost contradictory ones can be distinguished. Co-ordination may mean such an organisation of transport that traffic always moves by the route and on the system which involve the smallest social cost; in this sense it would involve a decision that certain types of traffic are suitable for the rail and others for the road, and it would take away the more costly varieties of the trader's present freedom of choice. Or it may mean that the present competitors strike a bargain with the object not so much of maximising their joint efficiency as of stabilising their present positions. In this meaning of the word, the existing alternative and competing services would be left in existence, but they would merely cease to undercut each other.

The present proposals have elements of both conceptions. But since they are based on a road-rail agreement it is inevitable that they lean to the second meaning of co-ordination. Possibly, by a scheme of differential charges, traffic may be directed to the system best fitted to handle it. It will be interesting to see in five years' time, how much progress has been made on these lines.

The interim period provided by the "Square Deal" Report, however, may show whether the more remunerative traffic can be shared to better advantage with the road hauliers, so that the railways may make up the growing deficiency on heavy goods. The period may be too short to reveal any decisive result. Perhaps, when it has elapsed, more fundamental treatment may be needed. It may be that the tentative methods of negotiation which have arisen from the recent discussions will not function, even with the exercise of the greatest goodwill on all sides. Time will be needed to sketch even the outline of a co-ordinated rates structure for rail and road. Meanwhile, the transport user will enjoy safeguards, explicitly on the rail side and by implication on the road side. Out of this web of bilateral understandings a co-ordinated system of transport may emerge. But the reflection cannot be suppressed that it would emerge more quickly if full community of financial interest existed between rail and road. The ultimate problem is to ensure that transport pays its way, and offers a reasonable return upon its capital. Both of the principal partners would have difficulty in defining precisely what their capital investment is. But, so far as the transport user is concerned, it is fair neither to ignore the social investment in our highways nor to refuse to consider whether economic changes have rendered some part of past capital investment in the railways redundant."

HOLLERITH ACCOUNTING ON SOUTH AFRICAN RAILWAYS CRITICISED.

The Controller and Auditor-General of the Union of South Africa in his report on the State of Accounts of the South African Railways and harbours for the financial year 1937-38 has made some interesting remarks on the application of the Hollerith system of accounting. This system, it is stated, "was found unsatisfactory" when applied to the Mechanical Department and the rough Stock-Books in the Stores Depots. The Controller and Auditor-General observed as follows:

(a) *Mechanical Department.*—The Hollerith system was introduced for the Incomplete Works Accounts at the Mechanical Department, Bloemfontein, in September, 1937. The method followed in the application of this system of accounting necessitated prolonged search to ascertain the particulars and accuracy of the total expenditure recorded against the individual accounts. The details were so obscured as to render an efficient audit extremely difficult; whereas the old method of recording such expenditure on cards was easy of access and readily available for internal checks at all times.

In advising the General Manager that I was at all times ready to co-operate in furthering the introduction of methods making for improved efficiency and economy, I could not refrain from uttering a note of warning when, in my opinion, the foundations of internal check and the efficiency of audit were being undermined.

After the system had been in operation for some ten months, the General-Manager informed me that as a result of investigations it had been decided to revert to the old practice of keeping the accounts on cards.

(b) *Rough Stock Books.*—Reference was made in the 1934-35 Report, to the abolition of the rough stock books at certain depots, and the matter was discussed by the Select Committee (R. & H.) 1936. In evidence (Q. 799) the General Manager remarked *inter alia* that he had given instructions for the rough stock book system to be reintroduced.

During the year, the Hollerith system was applied to the rough stock books thereby greatly impairing their value. Under this system entries in these books are recorded from Hollerith totals obtained some days after the transactions in the stock have taken place. Hitherto the operations with stock were recorded daily in the rough stock books from the original documents and the position of the stock at any given date could be readily ascertained.

My inspecting officers experienced great difficulty under the new system in carrying out tests of the stocks on hand, and in reply to my representations regarding the position at the Stores Depot, Salt River, the General Manager, on the 4th February, 1938, remarked *inter alia*:—

"..............in common with the introduction of all new systems, minor difficulties were bound to arise when the Hollerith system was applied, but the considerable saving in staff has more than justified its innovation".

I am not opposed to the utilisation of the Hollerith system of accounting where practicable but where its use tends to weaken control and presents difficulties in subsequently ascertaining essential details, then definitely its adoption is undesirable and it is doubtful whether a saving in staff would in the end prove to be economical.

Further representations in connection with the position at the Stores Depot, Bloemfontein, were made on 18th March, 1938, and on 31st October, 1938, the General Manager informed me:—

"...........I have to advise you that at a meeting of Stores Superintendents held on 24th October, 1938, the present system of working in the Stores Department was debated and fully considered.

As a result it has been decided to revert to the practice of hand posting rough stock books daily with effect from the December, 1938, accounting month".

REVISION OF RATING SYSTEM ON THE NEW ZEALAND RAILWAYS.

The New Zealand Government Railways have carried out a revision of the scales of charges with the objective that fares and freight should be brought into line with present day requirements. An essential feature of the operations of a national transport organisation such as railways, writes Mr. G. H. Mackley in his report for the year 1938-39, is that the system of charges should be governed by such principles as establish conditions of stability and equality in its application. Unfortunately, the conditions obtaining during the past decade have precluded of this requirement being fully met, due to the fact that the relationship of the various scales of charges has had to be adjusted from time to time so as to counteract the effect on the railway financial position of the progressive attrition of higher-rated traffic resulting from the continued development of road competition.

The effect of this trend is reflected in a lack of balance as between the transport costs which different communities are required to meet, due to the existence of a multiplicity of "local" or differential rates introduced to safeguard rail-borne traffic. In many cases trading interests have benefited by what has been, in effect, a fortuitous reduction in transport costs. Whilst the position thus created was quite acceptable to those favourably affected, opposing interests in other areas which, in the absence of road competition, did not enjoy the advantage of reduced freight rates complained with some justification of being deprived of the natural advantage which they claimed they should rightly enjoy by virtue of their closer proximity to the common market. There are many instances of this nature where the trading relationship between different communities which had developed under stabilized conditions has been subjected to disturbances by the operation of differential freight rates.

The measures which have recently been adopted with the object of giving effect to the Government's policy of co-ordinating the existing services of transport on the principal routes throughout the Dominion and eliminating redundant units have resulted in a marked amelioration of the past competitive conditions and so paved the way for a general reconstruction of the rates structure along the lines previously indicated.

As a major step in this direction provision has been made for the merging of the two highest merchandise rates classes (A and B) in the third highest class (C). Consequent on this adjustment those commodities at present chargeable under classes A and B will enjoy a much lower freight standard.

The lowering of the freight level resulting from the elimination of the two highest-rate classes will have the effect of bringing the standard rates within measurable distance of the many local rates now operating, and it has therefore been possible to make provision for the elimination of many local rates. In some cases the transaction from local rates to the standard charges will result in a slight decrease in the established transport costs, whilst in others the reverse position will obtain. Such variations will, however, apply only to goods conveyed to or from the specified points where local rates now operate. Any increase in costs incidental to the elimination of the local rates will be offset either wholly or in part by the application of the reduced-rate standard to the large volume of goods transported between points outside the existing local-rates areas and which are at present subject to charges at the standard rates.

Having regard to the general conditions as they now exist, the reversion to stability in the matter of freight rates presents a problem of considerable complexity. Taking all factors into account, however, the revised scales incorporate many desirable features, and a more equitable distribution of the incidence of the rates will be achieved from their adoption. To the

extent that the adjustments are designed to provide the community as a whole with the service of transport at a reasonable cost, and that there can be no suggestion of the parochialism which previously obtained in the manner of their application, the concensus of opinion must favour the new freight schedules.

In order that the position relating to the tariff revision should be viewed in its proper perspective it should be borne in mind that the proposals apply solely to goods coming under the heading of general merchandise, which comprise approximately 8 per cent. of the total rail-borne tonnage. The lower-rated bulk goods, comprising in the main, commodities essential to industrial development and representing approximately 92 per cent. of the aggregate rail-borne tonnage, are in noway affected by the adjustments.

The effect of the alteration in the general merchandise rates may be judged from the following figures:—

Distance, Miles.	Present rate per ton. Class A	Present rate per ton. Class B	New Rate per Ton, Class C (including A & B).
	Sh. d.	Sh. d.	Sh. d.
30 ..	30 10	26 3	22 6
60 ..	55 9	47 3	40 6
100 ..	76 0	63 6	51 9
200 ..	106 10	85 5	67 6
300 ..	132 6	102 0	80 6
400 ..	158 2	114 10	93 3

Though the new tariff benefits ordinary merchandise goods certain articles of a light bulky or exceptional nature and goods which require special handling or transport bear a somewhat higher rate than class C. As a result of this, secondary industries are expected to benefit materially from the new freight schedules which are so based as to facilitate the wide-range distribution of their products. It appears that these adjustments have been welcomed by the manufacturing industries and the business community.

NEW RAILWAY BILL.

The following Bill "further to amend the Indian Railway, 1890, for a certain purpose," has been published in the Gazette of India. The asterisks indicate the omissions. The bill has been amended by the Select Committee:—

"Whereas it is expedient further to amend the Indian Railways Act, 1890, for the purpose hereinafter appearing; it is hereby enacted as follows:—

IX of 1890.

Short title.

1. This Act may be called the Indian Railways (Amendment) Act, 1939.

Insertion of New Section 42B in Act. IX of 1890.

2. In the Indian Railways Act, 1890, after section 42A, (* * *) the following section shall be inserted namely:—

Power of the Federal Railway Authority to fix maximum and minimum rates.

"42B. (1) The Federal Railway Authority may (* * *) by general or special order fix maximum and minimum rates for the whole or any part of a railway, other than a minor railway, and (* *) prescribe the condition in which such rates will apply.

(2) Any complaint that a railway administration is contravening any order issued by the Federal Railway Authority in accordance with the provisions of this section shall be determined by that Authority."

CHANGES IN FORM AND CLASSIFICATION.

There are three changes in form and classification of sufficient importance to be specially brought to notice:—

(*i*) With the introduction of provincial autonomy from 1st April 1937, under the Government of India Act, 1935, the actual cost of "Order" police is paid by the railways to the Provincial Governments. Previously such charges for the State-Managed railways were borne by the local Governments and company-managed railways paid a fixed contribution according to their contracts.

(*ii*) The accountal of unpaid wages of railway employees has been altered.

All amounts (with the exception of capital items of magnitude which are credited as receipts on capital account) placed in "Deposits Unpaid Wages" during a half year and not paid till the end of the succeeding half year are with effect from 1st April, 1937, adjusted in the accounts of the following month (*i.e.*, April or October, as the case may be) in reduction of working expenses instead of as earnings as done previously. The subsequent payments of the items thus adjusted are debited to working expenses instead of to "Deposits—Unpaid Wages". Such of these payments as are ordered but again returned as unpaid are taken in reduction of working expenses.

(*iii*) Under the new allocation rules, as they stood when introduced in 1936-37, when an asset was replaced, the full cost of replacement by a like asset, or the original cost, whichever was greater, was to be charged to the depreciation fund in all cases without any qualification. On examining the effect of the operation of this rule, it was found that, as repairs must necessarily include renewals of minor parts, there was a tendency on railways to charge to the depreciation fund, items of expenditure which, on sound principles of finance were properly debitable to repairs, and so to save working expenses at the cost of the depreciation fund. It is also difficult in regard to many works to draw a clear line of demarcation between renewals and repairs. The decision was, therefore, taken, as a measure of prudence, to fix an arbitrary monetary limit and prescribe that

all renewals, costing Rs. 2,000 or less individually, should, with a few exceptions, be charged to ordinary working expenses and not to the depreciation fund.

Again, after the introduction of the new rules of allocation in 1936-37, some railways began charging the cost of all replacements and renewals of ballast, however small they might be, to the depreciation fund, which was not the original intention. Instructions, were therefore issued to railways asking them to make a distinction, between block renewals and casual renewals and charge the renewals of the former class alone to the depreciation fund. This distinction, however, appears to have presented considerable difficulties in practice. Subsequently, it was also found that, owing to a misapprehension of the actual procedure which was in force in this respect on some railways, the financial effect of the new rule regarding ballast, renewals on the depreciation fund had been under-estimated. Before the introduction of these new rules, it was the practice on most railways to charge all ballast renewals, of whatever magnitude, to repairs (ordinary working expenses). It was then decided that a reversion should be made to this old procedure. The Auditor-General also expressed his concurrence in the principle underlying this revision of allocation in the direction of tightening up the control over debits to the depreciation reserve fund. When the revised estimates of 1937-38 incorporating this change were discussed by the Standing Finance Committee for Railways, the Committee also unanimously agreed that the principle underlying the change was sound, but some members of the Committee maintained that, in view of the present state of the depreciation fund, which, in their opinion, was satisfactory, the change referred to should be postponed to a future date. The Railway Board, on further consideration of the matter, postponed the change for the present, deciding, however, that the change referred to in the foregoing paragraph regarding petty renewals costing Rs. 2,000 and below should apply also to ballast.

A few railways failed to give full effect to the final change in the rules and the result was a few misclassifications which are detailed in Annexure J to the Appropriation Accounts.

INSTITUTE NEWS.

Ninth Conference.

The Conference of the Institute for the current year proposed to be held in December at Delhi has been postponed. It was decided by the President and Council that in view of the special conditions prevailing now owing to the war the Conference should be postponed for the present and be held some time later. The abstracts and copies of papers already forwarded to the Secretary will, of course, be included for the Conference when held. Members who intend submitting papers but have not done so are reminded that the final date for submitting the abstracts of papers is now extended to February 23rd, 1940.

Institute Lectures.

According to the Programme of Lectures drawn up in July, 1939, the following lectures were delivered:—

"Balance Sheets" by Mr. S. C. Cooke, A.C.A., of Messrs. Lovelock & Lewes, Chartered Accountants.

"Machine Accounting on the Calcutta Port Trust" by Mr. J. G. Mair, C.A., A.S.A.A., Deputy Chief Accountant, Calcutta Port Trust.

"Some Thoughts About Depreciation" by Mr. W. J. Younie, C.A., of Messrs. Price Waterhouse Peat & Co.

The first meeting was held on August 25th, with Mr. S. C. Das Gupta, Chief Accounts Officer, East Indian Railway, in the chair. A large number of members and others interested were present and the lecture stimulated a good deal of discussion on certain problems raised by the principles of the Balance Sheet.

The second lecture was delivered on Friday, September 8th, at 5-30 P.M. in the Meeting Room of the Bengal Nagpur Railway.

Mr. J. G. Mair, Deputy Chief Accountant, Calcutta Port Commissioner's Railway, Calcutta, gave a brief description of the system of machine accounting on the Calcutta Port Trust and explained the nature of the forms in use and how they helped to produce the information required, to eliminate delays

and facilitate checking. A large number of members, particularly of the Bengal Nagpur Railway, were present. Mr. F. T. Castells, who presided, said that he was already convinced of the success of mechanisation. It was surprising to find that opposite views were held on the subject. In his own railway, mechanisation had made some measure of advance and mechanisation, he was sure, was going to become in the not very distant future an accomplished fact not only on Indian Railways but other Government Departments as well. In his concluding remarks, he thanked Mr. Mair, for his exceedingly interesting lecture and he was himself specially interested in the methods discussed by him as regards stores and workshop accounts on the Calcutta Port Trust.

Mr. L. A. Natesan, proposing a vote of thanks to the lecturer and to the chairman of the meeting, said that all must have benefited from Mr. Mair's discourse which was of remarkable interest and value. From what they have seen of Mr. Mair he was sure the members would be glad to have the lecturer again in their midst on a future occasion. On behalf of the Institute, Mr. Natesan thanked him for having been kind enough to accept their invitation and co-operating in the lecture programme of the Institute. As regards Mr. Castells, all of them knew how busy he was and it was very kind of him to fill the breach occasioned by the unexpected absence of Mr. A. Duncan. Thanks are, therefore, due to him for having conducted the proceedings of the meeting that night.

The third lecture was given at a meeting held on September 22nd, at the East Indian Railway, at 5 P.M. by Mr. W. J. Younie, C. A., of Messrs. Price Waterhouse Peat & Co., on "Some Thoughts about Depreciation". Mr. B. N. Mitra, Director of Railway Audit (retired) and past President of the Institute presided. The text of Mr. Younie's lecture on "Some Thoughts About Depreciation" is reproduced elsewhere in this issue. Mr. Mitra thanked the lecturer for his illuminating talk on depreciation and said that he himself had a great deal to do on the subject of depreciation on Railways. He felt sure that all those who were present felt indebted to Mr. Younie for his paper.

Proposing a vote of thanks, Mr. Natesan said that the members of the Institute were grateful to Mr. Younie for the stimulating discourse on a subject which was of as much importance to railway as to commercial accounting. He said that the Institute has endeavoured to provide a meeting ground between the railway and the public accountants and the co-operation of Mr. Younie representing a leading firm of Chartered Accountants was most welcome. He announced that the discusssion on the lecture will take place on a subsequent date to be notified later.

ELECTION TO VACANCIES IN THE COUNCIL AND THE COMMITTEES.

At a meeting of the Council held on August 5, 1939, during the visit of the President to Calcutta, Messrs. T. K. Rajagopalan (Fellow) and T. R. V. Sarma (Fellow) were elected to the Council.

Mr. R. P. Ray (Member) was elected Member of the Editorial Board.

Messrs. S. C. Das Gupta (Fellow) and D. R. Carmody (Member) were elected Members of the Finance Committee of the Council.

It was also resolved that the Examinations Committee of the Council be constituted of:—

Mr. T. S. Sankara Aiyer, C.I.E., Director of Finance.
,, T. K. Rajagopalan, Director of Railway Audit.
,, D. C. Campbell, Controller of Railway Accounts.
,, R. W. F. Butterfield, Chief Auditor, B.B. & C.I. Railway.
,, S. C. Das Gupta, Chief Accounts Officer, E.I. Railway.
,, A. E. W. Jervis, Chief Auditor & Accountant, M. & S.M. Railway.
,, T. R. V. Sarma, Chief Auditor, G.I.P. Railway.

THE A. B. RAILWAY LOCAL ASSOCIATION.

The Annual General Meeting of the A. B. Railway Local Association was held on November 17th, 1939, and the accounts and report of 1938-39 were adopted. The following gentlemen were elected as members of the Committee of the Association for the succeeding year:—

Mr. S. R. Guha, Member.
,, K. Ramachandran, Associate Member.
,, B. K. Dey, Associate Member.
,, A. K. Shome, Affiliated Member.
,, Jyotilal Banerjee, Affiliated Member.
,, B. Bose, Affiliated Member.

The Association reports a year of sustained activity. Of the lectures and papers read may be mentioned "The Theory of the Powers Machines" by Mr. J. H. Bavin, Vice-President of the Institute, "The Structure of Traffic Accounts" by Mr. P. S. Sachdev, "Revised Classification of Railway Expenditure and Earnings" by Mr. K. C. Das Gupta and Mr. B. K. Dey. The Local Association organised an essay competition and the

three best essays in order of merit were offered by Messrs. K. Ramachandran, Jyotilal Banerjee and Himangshu Bimal Lala. The essay which won the first price entitled "Office Organisation" was already printed in the last issue of the Journal. We wish the Association an equally successful year during 1939-40.

NEW MEMBERS.

The Balloting Committee of the Council have approved of the election to Membership of the Institute of the following gentlemen:—

Mr. M. R. Swaminathan, Accounts Officer, E.I. Railway.
,, K. R. Rama Iyer, Traffic Accounts Officer, E.I. Railway.

The following gentlemen have been admitted to Membership of the Institute:—

Mr. G. S. Kothari, Traffic Auditor, Gwalior Light Railway.
,, Mobarik Ali, Asst. Auditor, S.I. Railway.
,, Amar Nath Grover, Divisional Accounts Officer, E.I. Railway.

RAILWAY STATISTICS.

TABLE I.—TEN/ELEVEN DAYS APPROXIMATE GROSS EARNINGS OF ALL STATE-OWNED RAILWAYS.

(IN LAKHS OF RUPEES)

Period.		Year 1938	Year 1939
Ten days ending 10th April	..	2,82	2,70
Ten days ending 20th April	..	2,86	2,77
Ten days ending 30th April	..	2,79	2,68
Ten days ending 10th May	..	2,74	2,75
Ten days ending 20th May	..	2,80	2,72
Eleven days ending 31st May	..	2,90	2,88
Ten days ending 10th June	..	2,62	2,58
Ten days ending 20th June	..	2,48	2,48
Ten days ending 30th June	..	2,50	2,44
Ten days ending 10th July	..	2,34	2,21
Ten days ending 20th July	..	2,25	2,23
Eleven days ending 31st July	..	2,30	2,31
Ten days ending 10th August	..	2.15	2,10
Ten days ending 20th August	..	2,11	2,14
Eleven days ending 31st August	..	2,37	2,51
Ten days ending 10th September	..	2,39	2,35
Ten days ending 20th September	..	2,41	2,66
Ten days ending 30th September	..	2,69	2,71

TABLE II.—MONTHLY PROGRESS OF WORKING EXPENSES OF THE PRINCIPAL STATE-OWNED RAILWAYS.

(IN LAKHS OF RUPEES)

Railways.		Up to April.		Up to May.		Up to June.	
		1938	1939	1938	1939	1938	1939
A. B.	..	10	10	21	20	30	29
B. N.	..	47	51	90	96	140	147
B. B. & C. I.	..	47	46	92	90	137	134
E. B.	..	36	37	66	72	96	102
E. I.	..	91	95	179	188	264	266
G. I. P.	..	52	50	105	101	160	157
M. & S. M.	..	30	28	61	56	92	89
N. W.	..	65	72	138	136	212	218
S. I.	..	20	21	45	44	70	67
Tirhoot & Lucknow Bareilly	..	6	6	13	14	18	22
Other Railways	..	2	2	3	3	8	8
Total	..	406	418	813	820	1,227	1,239

TABLE II.—MONTHLY PROGRESS OF WORKING EXPENSES OF THE PRINCIPAL STATE-OWNED RAILWAYS—(*Contd.*)

(IN LAKHS OF RUPEES)

Railways.		Up to July.		Up to August.		Up to September.	
		1938	1939	1938	1939	1938	1939
A. B.	..	40	40	50	50	63	62
B. N.	..	181	187	225	226	289	294
B. B. & C. I.	..	182	182	228	226	289	294
E. B.	..	128	135	159	168	201	201
E. I.	..	350	354	434	441	537	525
G. I. P.	..	217	211	277	270	351	340
M. & S. M.	..	123	118	154	151	192	187
N. W.	..	292	292	370	372	463	467
S. I.	..	94	89	116	112	143	141
Tirhoot & Lucknow Bareilly	..	24	29	30	32	40	43
Other Railways	..	10	10	11	11	13	13
Total	..	1,641	1,647	2,054	2,059	2,581	2,567

TABLE III.—PROGRESS OF UP-TO-DATE EARNINGS OF THE PRINCIPAL STATE-OWNED RAILWAYS.

(IN LAKHS OF RUPEES.)

Railway.		Total earnings for the period (ten/eleven days) ending								
		April 10th.	April 20th.	April 30th.	May 10th.	May 20th.	May 31st.	June 10th.	June 20th.	June 30th.
A.B. ..	1938	4	9	14	18	23	28	33	38	43
	1939	**5**	**10**	**14**	**18**	23	28	**34**	**40**	**44**
B.N. ..	1938	28	55	85	112	140	171	198	224	251
	1939	**29**	**60**	**91**	**121**	**151**	**184**	**214**	**242**	**270**
B.B. & C.I. ..	1938	37	74	110	147	184	222	255	286	316
	1939	**35**	**70**	**106**	**141**	**177**	**215**	**248**	**280**	**309**
E.B. ..	1938	15	31	46	61	75	88	104	118	131
	1939	**16**	**31**	**45**	**60**	**73**	**89**	**101**	**115**	**129**
E.I. ..	1938	66	129	195	258	323	383	444	499	554
	1939	**58**	**117**	**175**	**237**	**298**	**360**	**426**	**479**	**531**
G.I.P. ..	1938	39	82	122	161	200	240	274	305	337
	1939	**37**	**79**	**118**	**158**	**197**	**238**	**272**	**304**	**336**
M. & S.M. ..	1938	20	43	65	86	108	133	154	175	196
	1939	**22**	**45**	**68**	**91**	**115**	**138**	**160**	**183**	**205**
N.W. ..	1938	51	99	142	186	232	284	327	370	416
	1939	**46**	**92**	**134**	**175**	**216**	**261**	**302**	**342**	**383**
S.I. ..	1938	14	30	44	59	75	92	107	122	136
	1939	**15**	**29**	**43**	**59**	**74**	**90**	**106**	**120**	**135**
Tirhoot and Lucknow Bareilly ..	1938	7	13	20	27	33	40	46	52	57
	1939	**6**	**11**	**17**	**24**	**30**	**37**	**43**	**49**	**54**
Other Railways ..	1938	1	3	4	6	8	10	11	12	14
	1939	**1**	**3**	**4**	**6**	**8**	**10**	**11**	**12**	**14**
Total ..	1938	282	568	847	1,121	1,401	1,691	1,953	2,201	2,451
	1939	**270**	**547**	**815**	**1,090**	**1,362**	**1,650**	**1,917**	**2,166**	**2,410**

TABLE III.—PROGRESS OF UP-TO-DATE EARNINGS OF THE PRINCIPAL STATE-OWNED RAILWAYS.—(*Contd.*)

(IN LAKHS OF RUPEES.)

Railway.		Total earnings for the period (ten/eleven days) ending.								
		July 10th.	July 20th.	July 31st.	August 10th.	August 20th.	August 31st.	September 10th.	September 20th.	September 30th.
A.B. ..	1938	47	53	57	62	67	72	77	82	87
	1939	50	55	60	65	69	75	81	87	92
B.N. ..	1938	274	295	318	338	359	383	406	429	456
	1939	296	320	346	374	398	424	453	478	507
B.B. & C.I. ..	1938	344	369	397	424	448	475	505	536	567
	1939	339	365	391	415	440	467	494	528	563
E.B. ..	1938	145	158	172	185	199	215	231	248	269
	1939	141	155	169	180	195	213	229	247	266
E.I. ..	1938	607	658	708	756	803	855	911	966	1,028
	1939	586	638	691	736	786	841	897	957	1,018
G.I.P. ..	1938	368	395	424	450	478	512	544	578	616
	1939	362	387	416	444	471	505	534	572	610
M. & S.M. ..	1938	215	234	253	270	288	305	322	339	357
	1939	224	244	263	282	299	318	337	356	373
N.W. ..	1938	458	501	544	584	621	661	700	738	783
	1939	421	458	496	531	565	609	647	693	740
S.I. ..	1938	150	164	178	192	204	220	235	250	266
	1939	150	165	180	193	206	222	238	253	268
Tirhoot and Lucknow Bareilly..	1938	62	67	72	76	80	85	89	94	99
	1939	59	63	68	71	75	80	84	88	92
Other Railways ..	1938	15	16	17	18	19	20	22	23	24
	1939	15	16	17	18	19	20	22	23	24
Total ..	1938	2,685	2 910	3.140	3,355	3,566	3,803	4,042	4,283	4,552
	1939	2,643	2,866	3,097	3,309	3,523	3,774	4,016	4,282	4,553

TABLE IV.—COMPARATIVE STATEMENT SHOWING THE PROGRESS OF UP-TO-DATE WAGON LOADINGS ON CLASS I RAILWAYS.

Commodity.		Period ended								
		April 10th.	April 20th.	April 30th.	May 10th.	May 20th.	May 31st.	June 10th.	June 20th.	June 30th.
Coal and Coke ..	1938-39	32,736	68,913	1,03,197	1,36,544	1,66,855	2,01,201	2,33,040	2,62,716	2,91,799
	1939-40	35,370	68,615	1,01,156	1,33,356	1,65,263	1,99,940	2,32,400	2,62,492	2,90,055
Grains and Pulses ..	1938-39	17,977	37,547	58,202	80,709	1,05,914	1,35,576	1,57,934	1,78,268	1,99,479
	1939-40	21,260	44,072	66,668	91,756	1,19,385	1,48,221	1,73,679	1,96,917	2,20,421
Oil-seeds ..	1938-39	8,948	16,916	25,866	35,651	44,487	52,839	57,908	62,913	68,584
	1939-40	7,978	16,570	23,938	30,966	38,350	44,981	49,405	53,251	56,513
Cotton ..	1938-39	5,367	10,013	15,742	20,001	24,178	28,170	30,702	33,055	35,732
	1939-40	5,240	10 943	15,768	20,647	25,157	29,947	33,716	36,889	39,949
Miscellaneous Smalls ..	1938-39	48,228	96,376	1,48,732	1,97,052	2,47,258	2,99,559	3,46,716	3,91,483	4,37,391
	1939-40	47.255	98,202	1,48,709	1,98,679	2,48,981	2,99,462	3,47,122	3,92,495	4,40,982
Miscellaneous full wagons ..	1938-39	76,483	1,53,088	2,31,254	3,06,367	3,78,843	4,56,989	5,27,010	5,89,383	6,52,741
	1939-40	76,108	1,52 320	2,25,245	2,95.500	3,65,905	4,44,327	5,13,579	5,81,755	6,47,115
Home Line Stores and Materials.	1938-39	11,558	24,296	36,928	47,100	60,805	73,966	87,133	99,267	1,11,315
	1939-40	11,502	24,329	37,043	49,813	63,254	77,556	90,115	1,02,508	1,16,298

TABLE IV.—COMPARATIVE STATEMENT SHOWING THE PROGRESS OF UP-TO-DATE WAGON LOADINGS ON CLASS I RAILWAYS—(*Contd.*)

Commodity.		Period ended								
		July 10th.	July 20th.	July 31st.	August 10th.	August 20th.	August 31st.	September 10th.	September 20th.	September 30th.
Coal and Coke ..	1938-39	3,19,603	3,45,627	3,72,348	3,98,388	4,27,688	4,59,170	4,93,137	5,25,323	5,59,582
	1939-40	3,18,964	3,45,685	3,73,507	3,99,129	4,26,452	4,57,711	4,91,741	5,26,543	5,63,618
Grain and Pulses ..	1938-39	2,19,430	2,38,745	2,58,026	2,74,127	2,89,976	3,07,252	3,22,711	3,39,708	3,57,848
	1939-40	2,40,944	2,63,213	2,85,543	3,09,308	3,31,322	3,54,020	3,75,457	3,95,793	4,16,575
Oil-seeds ..	1938-39	74,139	78,911	83,892	87,278	90,746	94,466	1,01,305	1,07,907	1,12,617
	1939-40	59,146	62,125	65,240	68,048	70,880	74,201	77,871	82,232	87,521
Cotton ..	1938-39	38,244	41,127	43,995	46,226	48,136	50,349	52,619	55,120	57,962
	1939-40	42,111	44,538	46.994	49,352	51,109	53,144	55,246	59,253	63,736
Miscellaneous Smalls ..	1938-39	4,79,865	5,23,407	5,70,026	6,13,335	6,55,529	7,02,065	7,47,996	7,95,424	8,45,464
	1939-40	4,84,459	5,29,364	5,77,222	6,20,769	6,62,363	7,11, 828	7,54,994	8,00,094	8,48,880
Miscellaneous full wagons ..	1938-39	7,09,244	7,67,021	8,28,987	8,85,049	9,42,991	10,06,860	10,69,008	11,34,821	12,06,614
	1939-40	7,03,671	7,62,074	8,23,675	8,80,949	9,36,644	10,04,805	10,69,487	11,41,699	12.14,656
Home Line Stores and Materials.	1938-39	1,22,464	1,34,655	1,47,379	1,58,278	1,70,150	1 83,265	1,95,239	2,07,577	2,19,888
	1939-40	1,28,804	1,42,521	1 56,314	1,68,291	1,80,857	1,94,442	2,05,635	2,17,229	2,29,579

CURRENT PERIODICALS.

Modern Transport, 1939—

May, 6.—*Salesmanship in Railway Administration*, Ashton Davies, p. 9; *Railway Directors in Libel Action*, p. 22.

June, 10.—*Place and Function of Communal Transport*, Walter Luff, p. 5; *After the "Square Deal"*, p. 7.

June, 17.—*Encouraging Passenger and Freight Traffic*, E. J. Missenden, p. 6; *Fare Collection and Ticket-Issuing Machines*, G. H. Brooks, p. 18.

June, 24.—*National Aspects of Transport*, G. F. Bilbrough, p. 19.

July, 22.—*Regulation of Road Transport in India*, A. Forbes Smith, p. 6.

July, 29.—*French National Railways*, M. Guinand, p. 4.

August, 26.—*Railway Working Economics*, p. 2.

The Accountant, *Vol. C*, 1939—

A Few Remarks on Balance Sheets and Profit and Loss Accounts, Russell Kettle, p. 467; *The Nature and Measurement of Income*, Ronald S. Edwards, p. 499; *Disclosure in Published Accounts*, Hargreaves Parkinson, p. 502; *Recent Accounting Developments in the United States*, Professor T. H. Sanders, p. 535; *Recent Accounting Developments in the United States, II*, Professor T. H. Sanders, p. 572; *Foreign Branches and the Certificate*, F. A. Roberts, p. 678; *Discrepancy Between Words and Figures*, N. C. W. Edge, p. 750; *The Learned Judges and the Auditor*, Edward F. Jeal, *I*, p. 777; *II*, p. 813; *Audit Procedure in America*, p. 834; *Accounting Principles, A Constructive Attack*, Harry Norris, p. 846.

Vol. CI, 1939.

Financial Planning-Insuring for Future Profits, F. R. M. de Paula, p. 137; *Cost Accounting and State Control in Germany*, Dr. T. Plaut, p. 163; *The Accountant and the

Community*, W. Norman Bubb, p. 233; *The Audit of Machine Written Records*, A. W. A. Howell, *I*, p. 265; *II*, p. 299; *III*, p. 321; *IV*, p. 338; *Checking Additions at Audit*, p. 337.

Railway Age, *Vol.* 106—1939—

Streamlined Trains as Traffic Builders, p. 647; *Changes in Railway Unit Revenues and Expenses*, p. 664; *Communication Men Compare Notes on Recent Progress*, p. 736; *Prospective Transport Legislation and Railway Net Earnings*, p. 761; *Rail-Highway Co-ordination Brings Business*, G. W. Frink, p. 828; *The Making of a Railway Officer*, p. 1026; *High-Capacity Locomotive for Fast Service*, p. 1067; *More Net on Less Gross*, p. 1076.

Vol. 107—1939—

Accountants Hear About Transport Equality Movements, p. 73; *Commerce Rather Than Agencies Should be Regulated*, p. 79; *How Accurate Are Advisory Board Estimates?*, p. 107; *Diesel-Locomotive Operation*, H. H. Urbach, p. 108; *A Monumental Cost Analysis Job in California*, p. 150; *Union Pacific Air Conditions Its General Offices*, p. 170; *Prize Papers Discuss Coal and Storekeeping*, p. 188; *Rail Investigation Uncovers More Valuable Data*, Dr. H. F. Moore, p. 209; *I. C. C. Launches Rate and Classification Probes*, p. 218; *Motives Controlling the Purchase of Rolling Stock*, L. K. Sillcox, p. 248; *What Railroads Should Know About Scrap*, p. 252; *Senator Reed Analyses Transportation Problem*, p. 286; *Could U. S. End Discriminatory State Taxation of Railroads?*, Harold D. Koontz, p. 312; *Some Big Business Patrons of Socialized Transportation*, p. 339; *Keeping the Variables Variable*, E. H. Bunnell, p. 347; *An Economist Dissects the Upper Mississippi Waterway*, C. Emery Troxel, p. 403; *How to Select a Trainmaster*, p. 412; *Economic Preparation for War*, p. 429; *Causes of Low Tie Renewals*, Charles E. Smith, p. 438.

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Competition Aspects of Road and Rail Freight and Passenger Rates, S. D. Clark; *Motor Competition and Railway*

Labour Costs, J. B. Rollit; *The Senate Committee on Railways*, 1938, J. L. McDougall.

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