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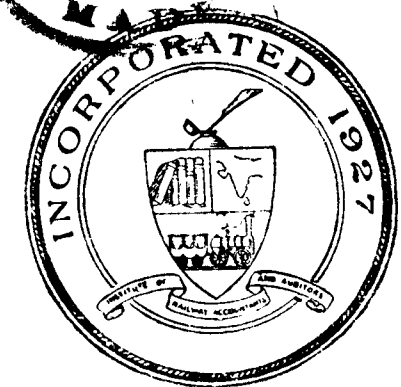
Railway Accounts and Finance.



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ACCOUNTANCY IN WAR PRODUCTION.

AN AID TO EFFICIENCY.

[The following article, by Dr. H. W. Singer, Economics Department, University of Manchester, emphasises certain aspects of the importance of accounting principles which are in danger of being overlooked at the present time. It is reproduced with acknowledgments to the MANCHESTER GUARDIAN.—Ed.]

As the resources of labour power becomes exhausted the best possible utilisation of each man and woman available becomes of paramount importance. As all our eyes are focussed on planes, tanks, ships and shells, we may become impatient of everything that is not "directly productive," such as office and accountancy work. In fact, this view was strongly expressed by several members during a recent Commons debate on production. "Why check the costs of firms so minutely when all that matters is getting output, and profits go back to the Chancellor in E. P. T. any way?"

The view is obviously coloured by the belief that present accountancy practices are an impediment rather than a help in war-production. This was recently pointed out by the Association of Chambers of Commerce in a memorandum to the Ministry of Production. Businessmen blame the Government accountants; their various departmental rules put an unnecessary strain on office work, delay progress, payments and final settlements, and thus hold up production. The Government departments in their turn blame the businessmen: accounts are not made up in time, and when they are made up, no proper accounting system is used; each firm makes up accounts in its own way; essential documents and invoices are not kept; the Government accountants are not given enough help by firms.

It seems a tempting way out of this tangle to cut through it and do away with accounting altogether or, at least, as far as it is compatible with income-tax or company law. But what the present state of affairs really shows is not that there is no need for accountancy but that there is need for better accountancy.

FORMAL AUDITING.

The kernel of truth in that view is that formal auditing, that is, elaborate checks on the honesty of contractors, sub-contractors, and tax-payers involves much waste of time and that any change in contract methods or taxation that reduces the need for such formal auditing in war time should be welcome. Although the public agitation against "cost-plus" contracts has been overdone and was largely based on ignorance of the relevant facts, from the point of view of reducing purely formal checks, there is much to be said for reducing the scope of "cost-plus" as much as possible.

But true accounting is much more than formal auditing. In factories the cost accountant should be the production engineer's or organiser's right-hand man. By proper cost comparison and departmental cost distribution, sources of industrial waste and inefficiency should be checked. In such matters knowledge must precede action—and only accountancy can give that

knowledge. In the "pooling" of experience, tools, orders and so on between different firms on which we shall have to rely increasingly to secure more output, the "pooling" of accounts and the comparison between similar departments of different firms will play an important part. Only thus can we utilise what is best in the various firms and set up improved standards of efficiency for all. Such inter-firm comparisons presuppose a unification of accountancy systems in different firms and it is significant that since the war the tendency towards such unification has become apparent in a number of industries.

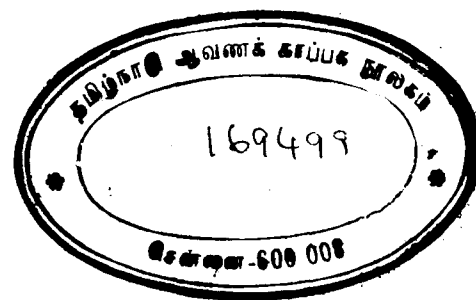
UNIFORM ACCOUNTING.

Among such movements we notice the setting up of a number of committees to promote uniform cost accounting by the various professional accounting organizations and the Chambers of Commerce. A number of trade associations, such as the Internal Combustion Engine Makers and the Bolts and the Nuts Association have agreed since the war, on uniform systems. Over twenty trade associations are now known to have issued uniform costing handbooks to their members. The British Standards Institution has rightly considered the standardization of accountancy to be within its province just as much as technical standardisation and has just embarked on a special enquiry on the possibilities in that field.

Detailed accounting on a unified basis will also be indispensable to planning bodies—whether regional boards, commodity controls, Ministries allocating orders, managing ordnance factories, or concentrating output in the most efficient units. All these need accurate knowledge to guide their decisions; accurate knowledge involves the kind of statistics that can only arise out of the accountancy system of firms. So it becomes more and more important that like should be compared with like.

The more we enter the sphere of planning the greater the weight that will be thrown on accountancy systems. This has been proved again and again by experience. Let those who advise us to "do away with accountancy" reflect on what the Webbs say in their great book on "Soviet Communism" about the enormous growth in the number of accountants and economic statisticians in Soviet Russia. And this is not a special Soviet feature but a necessary adjunct of any planned system such as a war economy is bound to be.

The objection, sometimes heard, that uniform accounting is "totalitarian" is absurd. Uniform accounting method are just about as "totalitarian" as a common language, common money, or a common rule of the road.



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TRAVELLING INSPECTORS OF ACCOUNTS : THEIR TRAINING AND CHECKS.

Travelling Inspectors of Accounts are the watch-dogs of the railway and, perhaps, the most hard-worked amongst the Inspectors of the railway. Their chief duty is to inspect initial records at stations and to carry out checks of such a searching character as to render it nearly impossible for the station staff to commit fraud either independently or in collusion with the public or the railway staff of other stations. Generally, men of exceptional ability and character are selected for the post both from outside and from amongst the office staff. In either case, the men selected require special training to be imparted to them so as to fit them for this important work. Their training generally is directed to acquire

(i) a knowledge of the work done in the various sections of the Traffic Audit /Accounts Branch of a Railway Audit/Accounts Office, with particular reference to Balance Sheet and Debit sections; and

(ii) Practical training with an experienced Travelling Inspector of Accounts in respect of inspection of Station Accounts.

The period of training does not, ordinarily, exceed six months. A further period than this, if required by a probationer, is regarded as a reflection upon his intelligence. Having completed this training, the Probationary Inspector is given a few small stations to inspect independently. This done, he is required to pass both the theoretical and practical examinations relating to his work. The theoretical examination consists of questions relating to the various checks that he is required to exercise in accordance with the instructions laid down in the Travelling Audit Manual as well as those relating to General Rules embodied in the I. R. C. A. Coaching and Goods Tariffs, etc. As against this, the practical test comprises the conduct of inspection of station accounts in the presence of a Gazetted Officer, generally in charge of the Travelling Audit Branch. The probationary Inspector, having come out successful in both these examinations, is declared fit to hold an independent charge of a Travelling Audit District.

It has, however, been found on experience that this method of training has several inherent defects, inasmuch as, it does not enable an Inspector unless he falls back upon his own resourcefulness and initiative, to visualise the various ingenious methods of frauds resorted to by the station staff and then intelligently to direct his efforts both in the direction of "Detection" and/or "Prevention" of the same discarding his sole dependence upon the checks embodied in the Travelling Audit Manual. This being so, the present method of training calls for improvement to a method more comprehensive and practical. This should be somewhat as follows:

(a) A probationary Inspector should, at first, be given practical training in the duties of a—

- (i) Goods clerk.
- (ii) Luggage and Parcels clerk.
- (iii) Booking Clerk.

- (iv) Ticket Collector, and
- (v) Travelling Ticket Examiners.

This training will not only acquaint him with the daily periodical and monthly compilation of station accounts, but will also give him a first-hand knowledge of the various irregular and fraudulent devices adopted by the station staff, independently of, or in collusion with, the other Railway staff and the public. He would further acquire by this training an intimate knowledge of rating and routing of foreign traffic which will prove very useful to him, in dealing with disputed debits, outstanding in station accounts and in putting up suggestions for diversion of foreign traffic through an alternative route favourable to Home Railway.

(b) When a probationary Travelling Inspector of Accounts has completed his training, he would have an insight into actual working and the nature of the various tactics adopted to defraud the railway. He should next be sent out on line with an experienced Travelling Inspector of Accounts, having a good record for detection and methodical and conscientious work. As the Probationary Inspector already knows the up-keep of station accounts, the Training Inspector will merely have to explain to him the aims and objects of the various checks which are required to be exercised and indicated by means of upright and cross tick marks in red and blue chalk. This would necessarily take about one fourth of the time at present required for training of a Probationary Inspector who has no idea of the up-keep of station accounts.

(c) A probationary Inspector should, after this training, be deputed to work in all sections of the Traffic Audit Accounts Branch, right from sorting (Returns Receipts) section to Traffic Book section. He should in each section be given a full portion of work of a clerk to do independently. This would enable him to supplement his knowledge acquired by working at stations and make him realise how a petty error in the correct preparation of station documents and compilation of returns involves clerical labour both in the Audit Accounts Office as well as at stations. This will, in addition, make him realise how the functions of Audit in the office only lead to detection of errors, misappropriations and frauds etc. and how the audit of station accounts by an Inspector is the only means towards the prevention of embezzlements and frauds.

(d) The next step will be to depute the probationary Inspector to inspect independently a few small and medium sized stations to enable him to put into practice, what he has learnt so far, to acquire confidence in himself and to gain rapidity in the art of applying tick marks. His inspection reports should on receipt, be critically scrutinized by a responsible person who is thoroughly conversant with station inspection work. Any errors and/or omissions noticed should be promptly intimated to him to enable him to avoid repetition at other stations.

(e) He should next acquaint himself with the rules embodied in—

- (i) The I. R. C. A. Goods and Coaching Tariffs.
- (ii) The Audit Manual on Station Accounts.
- (iii) Special rules and Exceptions embodied in the home railway Goods and Coaching Tariffs.
- (iv) The I. R. C. A. Red Pamphlet,
- (v) The I. R. C. A. Tariff for railway materials.
- (vi) The Conference Rules II.

sometime has to be allowed him for this purpose and he should be made to sit for a theoretical examination and *viva voce* test. Questions relating to detection and prevention of frauds and misappropriation of station earnings should be asked in order to test his general knowledge and intelligence.

(f) Finally, he should be put to a practical test at a traffic station by a Gazetted Officer, preferably, in charge of the Travelling Audit Branch. In this practical test, it should be seen that—

(i) the probationary Inspector has fully satisfied himself in respect of the total cash on hand.

(ii) all the Goods and Coaching Books have been correctly and intelligently closed by him, putting them in some such groups as follows :—

Goods.—

- (a) Inward accounts books.
- (b) Outward accounts books.
- (c) Miscellaneous books and returns.
- (d) Wagon Exchange book.

Coaching.—

- (a) Ticket account books.
- (b) Parcel office books.
- (c) Ticket collectors' books.
- (d) Telegraph books.
- (e) Miscellaneous books.

(iii) the periodical account books have been initialled by him to see that they are posted up-to-date and that the returns for preceding periods have been submitted to audit on due dates ; and

(iv) the abstract of overcharges is scrutinised by him to see that it is complete in every respect.

(g) After the initial checks have been carried out in the manner, indicated above, the probationer should, at first, be asked to check the broken or the incomplete period and prepare his Inspection balance sheet. This done, the check of completed period should not be insisted on, it being sufficient to have a few important checks carried out and their aims and objects fully explained. If the probationary Inspector has given a good account of himself in the practical test, the examining officer should have no hesitation to declare him fit for the post of Travelling Inspector of Accounts and for holding an independent charge of an Audit District.

Another advantage of the method of training, proposed above, would be that the Travelling Inspector of Accounts when transferred to office as Accountant or Superintendent in the Traffic Audit Accounts Branch, will prove himself useful. His experience of station accounts would enable him to deal with office matters in an intelligent manner, thereby, avoiding misunderstanding between the office and stations with consequent saving of clerical labour at both ends.

The next point to be discussed is about the checks exercised by the Travelling Inspector of Accounts, which are embodied in the Travelling Audit Manual. They have been in force for a long time and fairly known

to the station staff. The time has come to introduce checks in the light of present-day conditions. Apart from this, some of the present checks are a senseless duplication and waste of time. We shall quote here two such checks in proof of these observations.

(i) *Coaching*.—The daily Trains Cash Book is an initial record. It summarises coaching earnings from all sources, at first, train by train and then for the whole day. The station master remits the total cash, as recorded in this book, daily to the cash office or the treasury. The postings of this book are carried to the periodical summary of coaching transactions and totals of both the books made to agree. At the end of such period, the station trial balance sheet is posted from the periodical figures appearing in the summary. Now the Inspector is required to check, at first, the daily and periodical totals of the summary and, thereafter, to check the daily totals of the Daily Trains cash Book and compare them with those of the Periodical Summary. The check of daily totals of the Periodical Summary, obviously, serves no useful purpose, as any mistake in them would automatically come to notice when these totals are compared with those of the Daily Trains Cash Book or with those of daily remittances appearing on the credit side of the trial balance sheet. This check of the Periodical Summary could with advantage be reduced to the comparison of daily figures of coaching earnings from all the sources recorded in the Daily Trains Cash Book. This method could safely be adopted in the case of both the completed and the broken periods and would result in a saving of very considerable time which the Inspector could usefully utilise in other important checks.

(ii) *Goods*.—Invoice receipts are compared with their respective forwarding notes to see that they are prepared in accordance with the particulars recorded on the latter. The receipts, are, further, traced into outward Tally Book to see that there has been no delay in the despatch of goods. The Outward Tally Book is, then, checked with the Wagon Exchange Book to see that loaded wagons have not been unnecessarily detained at the station. Experience has, however, shown that it is seldom if ever that a booked consignment is detained and even in such an instance it is not possible for the Audit Inspector to ascertain the real reason for it. What actually the Inspector is concerned with is to see that

- (a) a consignment has not been booked without a covering invoice, and
- (b) a wagon has not been unnecessarily detained for want of loadings,

To ascertain these an entirely different process of check of

- (a) Invoice Receipts,
- (b) Outward Tally Book,
- (c) Wagon Exchange Book, and
- (d) Detailed Sheets,

is necessary. It may be noted, in passing, that no such check, as at present in force, is exercised by Audit Inspectors at transshipment stations where it is more likely for goods consignments to be unnecessarily detained for a number of reasons, not connected with railway working.

Numerous other instances of the nature can be readily specified, were it not for the limitations of space. The whole question can, however, be best tackled by railways by forming themselves into a special committee for the purpose of introducing uniform checks of a really intelligent and searching character, more based on sound principles and present-day requirements than

on farfetched ideas and speculations of a wild goose chase type. This committee should also consider and submit recommendations on the—

- (i) Programme of inspection ;
- (ii) Extent of check ;
- (iii) Forms of regular and surprise inspection reports.
- (iv) Checks to be exercised on surprise visits ;
- (v) Mode of dealing with debits outstanding in station accounts ; and
- (vi) Confidential issue of circular letters detailing in full the *modus operandi* of frauds, from time to time, detected on railways and the measures taken to prevent and detect them.

A brief comment is offered below as to how they are to be dealt with by the committee of experts.

(i) *Programme of Inspection*.—The State Railway Code for the Accounts Department, Part II lays down that all stations must be inspected at the maximum period of 4 months. Some railways have fixed the period of regular inspection of all stations at an interval of three months. Others have half yearly inspections ; while a few, have adopted, a programme of half yearly, triannually and quarterly inspections taking into consideration the volume of traffic at each station.

All such inspections are carried out with such clock-like precision that sometimes the dates of successive inspections do not vary even by a day, the result of which is that station staff, expecting the Inspector keep themselves alert.

(ii) *Extent of check*.—Once the accounts have been inspected, the extent of checks exercised by Travelling Inspectors of Accounts become fully known to the station staff. Some railways have a cent per cent. check of one completed period plus the broken period ; others have two completed periods with percentage checks which, under certain conditions, also extend to the broken period. A few have those completed periods with still smaller percentage checks. All these periods are taken in three different months from the date of last inspection. All such percentage checks could hardly afford satisfaction to the Inspector as to the accounts so checked by him having been free from temporary misappropriations and other serious errors of omission and commission, nor could he be made responsible if anything irregular subsequently comes to light in the accounts so checked by him.

(iii) *Forms of Regular and Surprise Inspection Reports*.—There are different forms in use on railways. Some of these are too sketchy, while others are so lengthy and full of unnecessary details, that an unusually long time is spent by Inspectors in complying with their requirements. This naturally results in the Inspector's time at stations being taken up in performance of clerical work rather than usefully devoting the same to the checks of station accounts. Further, the reports prepared with so much labour generally get a routine reception in the office at the hands of clerks, who have no knowledge, whatsoever, of station accounts and who generally get satisfied by pointing out occasionally one or two arithmetical errors and trivial omissions.

(iv) *Checks to be exercised on surprise visits*.—All these checks are indicated in the Surprise Inspection Report form. The Inspector, therefore, confines his activities only to their performance. This, in itself, defeats the object of the visit. Surprise visit to a station is more important in certain respects than a periodical visit, provided it has real elements of surprise and the checks carried

out are such as cannot ordinarily be exercised on a periodical visit. The surprise checks should, therefore, differ at each station and be carried out with reference to the irregularities and mal-practices found on regular inspections coupled with such other checks of a detective character as the Inspector considers necessary keeping in view the various methods of commission of frauds and temporary misappropriations.

(v) *Mode of dealing with debits outstanding in station accounts.*—In dealing with these, Inspectors do not make any attempt to have admitted debits made good by the station staff in their presence. These comprise

- (a) Undercharges raised by Audit; and
- (b) Shortage in remittances.

Both are due to the negligence of the staff and there is no reason why they should not be got promptly made good by them.

As regards disputed debits the Inspector is hopelessly dependent upon what the Station Staff contend. He has no knowledge of rating and routing of foreign traffic, and, therefore, he has no alternative but to repeat their arguments and draw attention of the office to the communications issued by the station staff. This is a sheer waste of time, which could, however, be saved if Travelling Inspectors of Accounts are trained in a manner suggested here and then one inspector has been solely deputed to deal with station debits. Some criterion will, of course, have to be adopted for selecting stations for his visit. His reports should also receive prompt consideration in office.

(vi) *Confidential issue of circular letters.*—Audit Inspectors are not, at present, kept informed of the frauds detected on other railways and measures taken to prevent them. Whenever, such frauds are discovered and preventive checks provided against them, a circular letter should be confidentially issued to all railways explaining therein in full the *modus operandi* as well as the instructions issued to prevent or discover them. If, however, the committee proposed is appointed it will be desirable to refer all such frauds to it with a view to obtaining the most expert advice in the direction of their prevention or detection.

4. The proposed Committee should in my view be a sub-committee of the I. R. C. A. Audit and Accounts Committee and composed of officers in charge of Travelling Audit Branch of an Audit/Accounts office of a railway. The members of this committee should meet, at least, twice a year and its decisions sent up to the I. R. C. A. Audit and Accounts Committee for consideration and ratification.

Jodhpur Railway.

J. R. BENJAMIN.

REFORM OF ACCOUNTING AND RESPONSIBILITIES OF AUDITORS.

Of late there has been a demand from several quarters for reforming the present standards of accounting. In Great Britain the need for reform, for new methods and a fresh outlook in regard to the presentation of the accounts of joint stock companies and the general attitude of directors and auditors to their responsibilities has been pressed with vigour in a series of articles in the *London Economist*. The requirements of the Securities Exchange Corporation in the United States under the Acts of 1933 and 1934 have had the effect of requiring a specified minimum of information relating to the accounts of companies as a condition precedent to their securities being allowed to be dealt with in the exchanges. The professional organisations of accountants and auditors in Great Britain have recently taken the new step of issuing directions to their members on what they consider the approved practice on certain accounting questions.

The tendency seems to be towards enlarging the scope of the responsibilities of management. Under the present law the duty of the board of directors and the auditors is to the shareholders, and all that legislation has attempted is to ensure that this responsibility is discharged as satisfactorily as possible. The opinion is gaining ground that affairs of companies are not merely questions concerning the shareholders and management alone: there are other partners in industry, apart from investors, mainly labour and the whole community. The inclusion of the community may seem to be stretching the point too far, but the general public, according to the *Economist*, is entitled to ask at least this in return for the privilege of limited liability which it grants to business enterprise.

If the public took a greater interest in the accounts of large-scale undertakings, the progress of reform would have been more rapid, but unfortunately the present character of accounting technique militates against an intelligent appreciation of corporation finance. The indictment against the present system is thus summed up in the words of the same authority:

"The normal company statement tells something which is far less than the whole truth, even to those who understand it. To extract the maximum from accounts it is necessary for the figures to be interpreted in the light of some expert knowledge of the peculiar conventions of the profession and to make adjustments in the light of external evidence. Even the improvements in law and practice have for the most part been designed to ensure that the picture was not painted in too roseate hues, rather than to secure an exact statement of the true position. The broad outlines of this convention have long ago filtered down to the workers, and they are, perhaps, even less equipped than the shareholders to disentangle the truth, and of the more instructed as 'wangling' designed to deceive rather than as attempts to enlighten. Surprising or not, that is the case; and the misconception is so complete that many of those who are engaged in giving their share to earn the profits of industry believe that the absolute amount going to the owners of capital is proportionate to their labours although all too often there is a tendency for the reverse to be the case. Such an attitude is good neither for morale at the present time nor for good relations between capital and labour, either now or in the critical years of reconstruction."¹

¹ April, 11, 1942, p. 507.

Corporate accounts are considered unsatisfactory on three grounds. Firstly, the accounts of holding companies are mystifying; secondly, there is "lack of information as regards all companies, about depreciation, tax provisions, and the trading accounts, associated with an extreme wooliness in statements purporting to explain what figures are given"; and finally, there is a lack of uniformity both in the material provided and the use of words. As the auditor is the person who has dealt with, and approved, the accounts before they are published, the question of his responsibility has naturally come up. The auditor's status legally is that of a servant of the shareholders who appoint him yearly. His duties, according to a famous judicial dictum, are rather those of a watchdog than a bloodhound. These canine metaphors are stated to be out of date in view of the fact that it is rarer for auditors to be changed at the request of the shareholders than for directors to be unseated. The auditor does his duties as he sees them, but as the *Economist* observes, he "tends to see them rather from the standpoint of the board or at least, relying on the dictum, to leave with the directors the responsibility for imperfections which offend neither the law nor the canon of accurate accounting."

The position becomes even more anomalous in the case of monopolies or quasi-monopolies. Gross abuse of their privileges in the past raised questions of public interest, which has now become an important consideration in the regulation of not only this type of enterprise but competitive enterprise as well. It has been argued that monopolistic undertakings must work in the full light of day, and the special privileges enjoyed by them justify their accounts being examined by an independent public body. But on other grounds it would appear that the finance of other companies also need to be looked into with care and private enterprises are also affected with public interest. "The immediate justification for the demand that light should be let into the dark places in the history of company finance," says the *Economist*, "is abuses and to re-educate the suspicious A system of uniform and readily intelligible accounts probing deeper as the degree of privilege conferred increases, is not a heavy price to ask in return for the benefit of limited liability, right of association and legalised monopoly."¹ Even as regards other companies, whose financial record has been eminently satisfactory, the question of public interest has cropped up. Thus minority control of capital has led to certain controversial issues bearing on the larger interests of the community as a whole. It may, therefore, be conceded that the affairs of largescale private undertakings at the present can no longer pretend to be the concern merely of the management and the proprietors only.²

¹ *Economist*, April 25, 1942, p. 575.

² The last annual meeting of the Carreras revealed certain unwelcome features of company finance and management. The Chairman, Sir Edward Baron, believed to hold voting control, used it to bar the re-election of Mr. W. M. Codrington to the board. An earlier attempt to legally restrain the chairman from doing so failed. Despite opposition from all the other votes to secure the return of his own candidate, Sir Edward used his management of the company's affairs by the Baron family, and their control seems to have been exercised on the whole in the best interests of the concern. Holding a majority of the 240,000 £1 voting shares, the "A" and "B" shareholders of £350,000,000, even if they combine they could get the votes of £1,300,000 preference shares. Nothing can be more preposterous than such a dissociation of financial ownership and voting control. The case by drawing attention to this aspect of company management has disclosed a wide prevalence of such anomalies. The question raised is most emphatically one of public interest.

It has been suggested that auditors have also a public responsibility in addition to their duties, as at present understood of watching the interests of the shareholders. But situations may arise where their duties to the public may conflict with their legal obligations to the shareholders. To meet this it has been proposed to give accountants the *de jure* status of public servants. Though this may be desirable, the *Economist* thinks "it is less clear that it is desirable to confer official status upon a body of people who have still to show in many cases that they appreciate the nature and extent of duties very different from those hitherto performed. It is, in fact, doubtful whether any change from without can do much to assist—it certainly cannot replace—a determination on the part of the profession to view their duties in a broader light."¹

This criticism of the limited view held by the profession regarding its functions appears to be borne out by its treatment of financial questions. The general attitude is negative, that is to say, the auditor concerned is to see that there is no overt contravention of the law rather than to guarantee the adequacy of the accounts and the accuracy of figures published. Again in the matter of costing,

"the auditor is in no way concerned He is indeed not obliged to take any responsibility for securing that the accounts kept by the company accountant, whether the latter is a member of one of recognised bodies or not, do, in fact, put the board in possession of the information necessary to give a complete picture of the company's operations. He has only to say that, given the system of accounting, adopted, the statement as far as it goes, is not misleading—and not misleading to a person who understands just how much and how little it does say. While the auditor is in law the servant of the shareholder, he frequently acts in practice towards the board in the matter of the Companies Act very much as an income-tax consultant does towards his client in the matter of his tax claims."²

The unintelligibility of the published accounts is another charge. The wide diffusion of shares has meant that they are largely held by the public, most of whom may not be familiar with the alchemy of modern accounting. If the accounts are intended for the information of shareholders, they ought to be presented in a form readily understood. The responsibility for management rests with the directors, while that of explaining the financial results belongs to the auditors. It is, therefore, essential that

"these should be stated in language which demands only the minimum of special training for its interpretation, and they should be neither so voluminous as to be difficult to assimilate nor so imperfect as to leave undisclosed matters of any considerable moment to those concerned. Finally, it would seem desirable to abandon the practice usually considered sound hitherto of understating the true profit of position. The published profit figure should be one which comes as near the truth as possible having regard for the fact that valuation of most assets and liabilities are matters of estimation rather than of mathematics."³

Even more important is the need to insist on a standard of information below which published accounts should not fall and the auditor should see that it is fully maintained. The desiderata are thus summed up:

"For all companies in which the public is interested, directly or indirectly, a statement is needed of the original cost of fixed assets by categories, with details of provision for depreciation and all other relevant particulars, together with the source of the funds expended; possibly the allowance for income-tax purposes; details of other floating assets; a trading account showing the sums spent on materials, wages and salaries; and gross receipts, profit and loss, and appropriation accounts, showing how the net trading profit was dealt with, and a clear statement of what concerns are controlled and how the control is exercised, and of any substantial interests."³

¹ The *Economist*, April 11, 1942, p. 508.

² The *Economist*, September, 26, 1942, pp. 392-3.

³ The *Economist*, September, 26, 1942, pp. 392-393.

The fundamental change in the outlook called for by the new emphasis on larger public interest is stressed by the *Economist* in a concluding article on the subject,

"It must be his (auditor's) duty to see to it that the accounts are prepared not merely accurately so far as they go, but that they are up to the agreed standard. Further he must vouch for the fact that they fulfil the spirit as well as the letter of the law. He should be the servant of the shareholders in fact and not only in name, and he should be barred by law from accepting any employment but that of auditor, while he retains any connection with that profession, whether through association with an auditing firm or through membership of the Institute or the Society. In fact, he should look for his rewards inside his profession, and not elsewhere and within it, to serve society and not a particular interest. There would seem to be no reason to suppose that with the enhanced status conferred by the greater responsibility and the more stringent conditions of membership which ought to accompany it, the rewards open would not suffice to attract the right type."¹

REVIEWS.

TRANSPORT GOES TO WAR : *Issued for the Ministry of War Transport by the Ministry of Information.* (London : His Majesty's Stationary Office. Price 1/- net. Pp. 79, 1942).

This is a publication issued by the British Ministry of Information giving a readable account of the contribution of transport to the present war effort. In successive chapters are given a description of the first effects of the war on the transport system, the extraordinary demands made on it, the consequences of the blitz and how they were met. The road system was similarly dislocated and it is a remarkable record how the waterways, roads and railways between themselves met the inordinate demands made on them by the country. In this account the railways naturally come in for the largest share. The reader will note with interest the ingenuity displayed in meeting diverse problems in connection with the movement of the emergent traffic and how the effects of enemy action dislocating the lines were set right with what in normal times would be deemed as incredible speed. Witness one of the accounts during the 1940 blitz. There was a time bomb on the bridge. So orders were given to clear the station and the road outside. The station master got through to headquarters and this is what follows:

" 'You'll have to close,' they said to me. 'We've cleared one line,' I told them. 'Let me run one train. Let me run that little local over the bridge.' 'You can't do that,' they said. 'Yes, I could. I'd like to. To keep the station open.' "

He argued and argued with them, until at last they said, "All right. You can run a short one if you like."

"And," says the station-master with a touch of mischief and pride, "we did. We can say now that we didn't close down on April, 17th. We ran a short one."

Instances like these were to be found almost everyday on all the sections which were the objectives of enemy action. The book concludes with an account of the work in the ports. The volume is profusely illustrated.

HIGHWAY RESEARCH BOARD, *Proceedings of the Twenty-first Annual Meeting* : Edited by Roy W. Crum Washington, D.C.

The proceedings of the twenty-first annual meeting of the Highway Research Board held at the John Hopkins University during December, 2nd to 5th, 1941 contains a mine of information on different aspects of road transport. The volume presents the reports of the Departments of Finance Economics, Design, Materials and Construction, Maintenance, Traffic and Safety and Soil Investigations. These reports embody the results of valuable research work and discussions thereon by many experts. Among the papers which will be found to be of interest by the readers of this journal are the report of the Committee on Uniform Accounting, and the paper on "The relation of Highway Developments to National Economy," by Charles M. Upham. A brief note on the former will be found elsewhere.

¹ The *Economist*, September, 26, 1942, pp. 392-393.

OFFICIAL PAPERS.

INDIAN RAILWAYS, 1941-42¹.

The financial results of working on the State-owned railways for the year 1941-42 record an unprecedented increase in earnings. The gross traffic receipts of railways were Rs. 135.17 crores, against Rs. 117.58 crores in 1940-41, an increase of Rs. 17.59 crores. Ordinary working expenses amounted to Rs. 63.54 crores, against Rs. 55.62 crores in the previous year or Rs. 7.92 crores more. The amount set apart for depreciation was Rs. 12.68 crores against Rs. 12.64 crores in 1940-41. The operating ratio was 47 per cent. excluding depreciation and 56 per cent including depreciation. After making allowance for miscellaneous transactions, the net revenue for the year was Rs. 9.38 crores more, at Rs. 55.62 crores as compared to the previous year. The surplus available was Rs. 28.08 crores as against Rs. 18.46 crores in 1940-41. Under the special arrangements introduced last year, Rs. 7.91 crores would have accrued to the railway reserve and the general revenues would have received the balance. In view of a reconsideration of the arrangements it was decided to apply the surplus after meeting the contribution for the year towards the discharge of the arrear contribution, and the repayment of the loans from the depreciation Fund. Accordingly a sum of Rs. 7.91 crores was credited to the depreciation fund and Rs. 4.80 crores as arrear contribution. The balance of Rs. 7.33 crores, paid to the general revenues in 1940-41 over and above the contribution due for that year was also applied towards the repayment of the arrears.

The striking improvement in the results of working for the year was mainly due to the war. Both the passenger and freight traffic showed a substantial increase. The way the former improved in view of the decrease since the beginning of the depression is really gratifying. The freight earnings, however, did not record anything like the same improvement but it should be remembered that during recent years there has been such a remarkable increase in the freight traffic that the scope for further increase is naturally limited. In the aggregate the performance for the year not only made up for the decrease in rail traffic consequent on reduction of foreign trade: it produced a handsome surplus as well. The principal factors in producing these results were the movement of troops and commodities required for the army, the great increase in the movements of indigenous products, evacuation from certain areas and the influx of refugees.

The exceptional increase in the volume of traffic naturally led to emergency measures and restrictions. The rolling stock equipment revealed a serious shortage. But by skilful adjustments in the movements of certain commodities, the formation of through long distance train loads, insistence on maximum loading, adoption of short routes, allocation of special routes for army requirements and such other measures, the situation was met.

The year is memorable for the further advance in the acquisition of railways by the State. The B. B. & C. I. and the A. B. were acquired, and notice was given to the B & N. W. and the R. & K. railways, both of which were transferred to the state-managed group during 1942-43. The

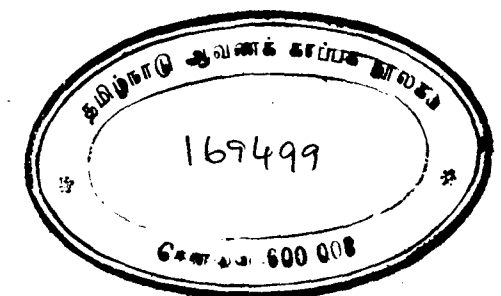
¹ The Report by the Railway Board on Indian Railways for 1941-42.

railways also rendered direct help in the war effort apart from meeting the demands made on them for the movements of materials and the troops. Railway employees were released for services in the army and supply departments while munitions manufactured in railway workshops absorbed over 16,000 workers. Railway materials and equipments were also supplied to the defence department and recruits for railway military units were trained by railways for service overseas.

The principal statistics of the State-owned Railways are given below :

		Year ending March '31.	
		1942	1941
Average mileage operated		40,477	41,052
Capital cost of construction (in crores)	Rs.	848.06	853.78
Gross earnings	Rs.	144.69	126.36
Working Expenses	Rs.	80.32	73.19
Net Revenue	Rs.	64.37	53.17
Operating Ratio		55.51	57.92
Percentage of Net Revenue to Capital		7.59	6.21
Passenger earnings (in crores)	Rs.	39.69	34.14
No. of Passengers (in millions)		623.07	575.72
No. of passenger miles (in millions) ¹		21,298.03	19,221.00
Average earnings per passenger mile (in pies)		3.46	3.29
Other coaching earnings (in crores)	Rs.		
Goods earnings	Rs.	89.63	81.48
Volume of Goods hauled, in tons (in millions)		97.00	92.78
No. of ton miles (in millions) ¹		27,351.48	24,559.33
Average earnings per freight ton mile (in pies)		6.14	6.19
Passenger train miles (in millions) ¹		107.21	109.04
Goods train miles		81.11	74.70
Total train miles		206.15	200.90
Gross earnings per train mile	Rs.	7.10	6.33
Working expenses per train mile	Rs.	3.93	3.66
Net earnings per train mile	Rs.	3.17	2.67
Net earnings per mean mile worked	Rs.	15,578	12,746

¹ Class I Railways only.



NOTES AND MEMORANDA.

RAILWAY BUDGET, 1943-44.

The Railway Budget estimates for 1942-43 and 1943-44 disclosed an unprecedented scale of traffic earnings and surpluses. Within four years the earnings of Indian Railways have increased by 50 per cent. and touched the 150 crore mark. According to the accounts for 1941-42, the financial results were substantially in excess of the revised anticipations of last year. The revised estimates for 1942-43 have already been improved upon according to the approximate figures now available. In the light of these facts, it would seem that even the budget estimates for the current year may prove to be somewhat understated.

The budget estimates place the gross traffic receipts at Rs. 150 crores. Working expenses are expected to be Rs. 73.85 crores. Taking depreciation at Rs. 12.84 crores and the payments to worked lines at Rs. 1.45 crores, net traffic receipts amount to Rs. 61.86 crores, or Rs. 87 lakhs less than the figure estimated for last year. Net miscellaneous receipts amount to Rs. 2.17 crores, and the total net revenue, at Rs. 64.03 crores, leaves, after payment of Rs. 27.99 crores as interest charges, a surplus of Rs. 36.04 crores.

The abnormal increases in traffic receipts during both the last and current years, have been attributed to a striking recovery of passenger earnings and a continued rise of goods earnings, as a result of the conditions created by the war. It is reassuring to observe that the increase in income has not been accompanied by a corresponding increase in expenses, and this has led to the phenomenal surplus.

The apportionment of the surplus between the railway and general revenues has given rise to a good deal of discussion. Last year witnessed the termination of the extended moratorium, and the basis of the distribution of the surplus was altered. With the approval of the Legislature, a larger payment—in excess of the contribution due for 1941-42, was made during that year, and the balance of the contribution under the Convention due for 1942-43 is Rs. 17.77 crores. But in view of the substantial surpluses earned, Government considered the taxpayer entitled to full relief, and an extra-conventional payment of Rs. 2.36 crores was made. Out of the balance, Rs. 16.08 crores were paid to the Depreciation in repayment of the temporary loans borrowed in the past. With these payments all the outstanding liabilities for arrear contributions and to the Depreciation Fund were fully cleared. The current year, therefore, starts with a clean slate.

With a view to affording greater relief to the taxpayer, Government have sought to appropriate to the general revenues a larger proportion of the budgetted surplus than sue under the Convention. It was proposed "to abandon so much of the Convention as provides for contribution and allocation of the surplus to general revenues and to distribute the estimated surplus for 1943-44 on commercial lines between the general revenues and railways in the proportion of 3 to 1, general revenues receiving also the anticipated gain on the strategic lines." This proposal was accepted by the Legislature and the share of surplus for general revenues during the current year will be Rs. 27.10 crores, including the profits from the strategic lines.

The balance of Rs. 8.94 crores will be transferred to Railway Reserve. It was further proposed that until a new convention is adopted, the distribution of each year's surplus should be determined afresh after duly weighing the respective needs of general revenues and railways and that the proportion of 3 to 1 would not be regarded as a precedent.

The Resolution amending the 1924 Convention to give effect to these proposals met with some opposition, and a representative Committee of the Legislature was set up to go into the question of the examination of the principles of a revised Convention, referred to elsewhere.

The principal features of the estimates are summarised below :

1. The operating ratio (excluding depreciation) indicate a slight increase from 47 to 48 and 49 during the last and the current financial years. The ratios (including depreciation) drop to 58 in 1942-43 but increase to 59. The levels of the ratios represent the lowest touched since 1924. The general decrease is reflected in the ratios of most of the lines. The B. & A. Railway as with the constituent systems in previous years, has the highest ratio.

2. Gross traffic receipts set up a new high last year and are expected to be 45 per cent. higher than 1924-25. The upward trend is noticeable on all the systems.

3. After an extended period of stagnation, passenger revenue registered a remarkable increase of 17 per cent. in 1942-43 and is expected to be 18 per cent. higher during the current year.

4. There has been a phenomenal rise in Other Coaching Receipts.

5. The principal increase in receipts has been under goods earnings which, as compared to 1924-25 stand 42 per cent. higher last year and 46 per cent. higher during the budget year.

6. Ordinary working expenses have moved up and compared to 1924-25 will be 34 per cent. and 39 per cent. higher.

7. The increase in the total working expenditure has been relatively lower namely 30 per cent. and 32 per cent. during the last and the current years.

8. Analysing the operating expenses, the largest increase has been under general administration, the cost of which expressed as a percentage of 1924-25 is 163 in 1942-43 and 177 in 1943-44.

9. Net traffic receipts stand 72 per cent. and 70 per cent. higher than the basic figure. The profits earned during 1942-43 set up a new record.

10. These features are reflected in the results of most of the railways.

TABLE II.—STATISTICS OF OPERATING RATIOS ON THE PRINCIPAL STATE-OWNED RAILWAYS. Rs. in Lakhs.

RAILWAYS.	EXCLUDING DEPRECIATION.			INCLUDING DEPRECIATION.		
	1941-42	1942-43*	1943-44†	1941-42	1942-43*—1943-44†	
	Rs.	Rs.	Rs.			
B. & A.	61.8	72.6	74.4	75.0	84.7	86.3
B. B. & C. I.	43.2	43.1	45.5	50.9	50.1	52.6
E. I.	49.0	46.9	48.6	58.2	55.8	57.6
G. I. P.	42.3	39.5	41.2	50.8	46.6	48.2
N. W. Com.	48.4	48.6	47.3	59.2	57.8	56.4
N. W. Str.	39.3	44.5	48.7	43.4	48.9	57.2
O. & T.	48.1	54.5	57.6	57.9	63.9	66.9
B. N.	44.8	45.2	46.8	53.9	53.0	54.7
M. & S. M.	45.5	45.2	47.9	56.2	53.8	56.8
S. I.	47.0	47.8	49.3	58.9	58.0	58.8
Total	47.0	47.8	49.3	58.9	58.0	58.8

*Revised estimates.

†Budget estimates.

TABLE II.—FINANCIAL RESULTS AND ESTIMATES OF STATE-OWNED RAILWAYS. Rs. in Lakhs. 1924-25=100

RAILWAYS.	GROSS TRAFFIC RECEIPTS.				PASSENGER EARNINGS.			
	1941-42	1942-43*	1943-44†	%	1941-42	1942-43*	1943-44†	%
B. & A.	9.93	10.76	10.93	129	3.70	5.07	5.11	172
B. B. & C. I.	16.32	17.45	17.54	124	4.70	4.81	4.83	104
E. I.	27.13	27.85	27.65	128	6.55	7.26	7.23	113
N. W. Com.	22.02	26.67	26.82	141	4.79	5.25	5.28	117
N. W. Str.	22.93	26.68	26.89	121	4.79	5.25	5.28	117
O. & T.	5.35	5.01	5.08	134	1.94	1.94	1.96	107
B. N.	13.50	14.06	14.17	166	2.22	2.22	2.29	102
M. & S. M.	9.84	11.34	11.31	120	3.37	3.38	3.38	127
S. I.	7.27	8.85	8.84	132	3.35	3.35	3.34	127
Total	1,35.17	1,49.25	1,50.00	131	36.36	42.49	42.71	119

RAILWAYS.	OTHER COACHING EARNING.				GOODS EARNINGS.			
	1941-42	1942-43	1943-44	%	1941-42	1942-43	1943-44	%
B. & A.	53	93	94	174	5.38	4.61	4.74	117
B. B. & C. I.	1.31	1.26	1.27	98	9.89	10.98	11.03	148
E. I.	1.59	2.27	2.28	145	18.47	17.57	17.53	139
G. I. P.	3.05	4.58	4.59	296	13.67	16.40	16.48	167
N. W.	2.21	2.97	2.97	233	13.13	13.95	14.08	122
O. & T.	21	20	21	117	2.94	2.93	2.68	114
B. N.	75	1.26	1.27	192	10.50	10.32	10.34	137
M. & S. M.	71	97	98	142	6.25	6.75	6.75	140
S. I.	38	40	39	141	4.09	4.84	4.84	188
Total	10.78	14.90	14.95	187	84.76	85.51	88.92	176

* Revised estimates.

† Budget estimates.

TABLE III.—FINANCIAL RESULTS AND ESTIMATES OF STATE-OWNED RAILWAYS. Rs. in lakhs. 1924-25 : 100.

Railways.	ORDINARY OPERATING EXPENSES.				TOTAL WORKING EXPENSES.			
	1941-42	1942-43*	1943-44†	%	1941-42	1942-43*	1943-44†	%
B. & A.	6.13	7.81	8.13	136	7.66	9.22	9.55	171
B. B. & C. I.	7.06	7.52	7.98	111	8.68	8.96	9.44	112
E. I.	13.29	13.06	13.45	122	15.80	15.84	15.94	120
G. I. P.	9.31	10.54	11.04	113	11.59	12.88	13.38	118
N. W.	11.10	12.97	12.72	109	13.87	15.76	15.52	116
O. & T.	2.09	2.22	2.47	144	4.12	3.60	2.90	104
B. N.	6.50	7.66	8.16	171	7.82	8.99	9.49	145
M. & S. M.	4.41	5.13	5.29	116	5.44	6.16	6.31	135
S. I.	3.31	4.00	4.24	117	4.22	4.99	5.19	133
Total	63.54	71.27	73.65	120	79.55	86.52	88.14	123

RAILWAYS.	OPERATING EXPENDITURE—I. General Administration.				OPERATING EXPENDITURE—II. Repairs and Maintenance.			
	1941-42	1942-43*	1943-44†	%	1941-42	1942-43*	1943-44†	%
B. & A.	1.65	2.35	2.78	136	2.20	2.78	2.66	165
B. B. & C. I.	1.71	2.23	2.16	118	2.10	2.60	3.00	105
E. I.	2.89	3.66	3.89	121	3.97	4.47	4.48	104
G. I. P.	1.87	2.54	2.63	102	2.52	3.24	3.28	97
N. W.	2.46	3.05	3.32	130	3.10	3.93	3.59	90
O. & T.	46	51	63	124	64	76	79	139
B. N.	1.64	2.08	2.50	144	2.27	2.65	2.68	134
M. & S. M.	1.10	1.52	1.83	126	1.20	1.37	1.45	103
S. I.	88	1.17	1.32	147	86	98	98	97
Total	14.72	19.19	20.85	125	18.93	22.88	23.03	108

* Revised estimates.

† Budget estimates.

Rs. in lakhs.

TABLE III—FINANCIAL RESULTS AND ESTIMATES OF STATE-OWNED RAILWAYS.—(Contd.)

Railways.	Operating Expenditure—III. Operation.					Operating Expenditure—IV. Fuel.				
	1941-42	1942-43	1943-44	1941-42	1942-43	1943-44	1941-42	1942-43	1943-44	1943-44
	Rs.	Rs.	Rs.	%	%	%	Rs.	Rs.	Rs.	%
B. & A. C. I.	1,39	1,84	1,94	110	146	154	63	73	92	114
B. B. & C. I.	1,81	1,85	1,73	108	111	104	97	98	1,10	83
E. I. P.	3,32	3,49	3,58	91	96	98	1,25	1,37	1,56	124
G. I. W.	3,09	3,16	3,37	109	173	184	1,22	1,45	1,73	83
N. W. & T.	2,46	2,97	3,01	96	116	117	2,35	2,83	2,79	122
O. & T.	62	67	69	103	176	182	32	30	69	124
B. N. & S. M.	1,77	2,09	2,16	119	140	145	73	80	98	223
M. & S. M.	1,10	1,19	1,21	122	132	134	86	98	1,05	158
S. I.	1,00	1,09	1,13	135	147	154	56	71	85	123
Total	16,68	18,50	18,93	113	131	134	8,94	10,20	11,39	129
										113

Railways.	NET TRAFFIC RECEIPTS.					PROFIT (+) OR LOSS (—).				
	1941-42	1942-43	1943-44	1941-42	1942-43	1943-44	1941-42	1942-43	1943-44	1943-44
	Rs.	Rs.	Rs.	%	%	%	Rs.	Rs.	Rs.	Rs.
B. & A. C. I.	2,33	1,54	1,38	110	73	65	—62	—1,35	—1,47	—1,47
B. B. & C. I.	7,64	8,49	8,10	143	159	151	+4,47	+5,70	+5,36	+5,36
E. I. P.	11,33	12,31	11,71	141	153	145	+5,59	+6,72	+6,14	+6,14
G. I. W.	10,43	13,79	13,44	181	240	233	+6,45	+9,92	+9,61	+9,61
N. W. & T.	9,06	10,92	11,37	102	195	203	+3,52	+5,54	+5,54	+5,54
O. & T.	1,20	1,39	2,18	104	121	190	+2,42	+45	+45	+45
B. N.	5,68	5,07	4,68	217	194	179	+2,07	+2,87	+1,77	+1,77
M. & S. M.	4,40	5,18	5,00	123	145	140	+1,28	+1,99	+1,59	+1,59
S. I.	3,05	3,86	3,65	147	186	176	+2,87	+1,99	+2,72	+2,72
Total	55,62	62,73	61,86	153	172	170	+28,08	+36,28	+36,04	+36,04

DEPRECIATION ACCOUNTING FOR AMERICAN RAILWAYS.

Last year a mandatory group plan of depreciation accounting for road property was proposed. A Special Committee of 12 members was constituted by the A. A. R. Accounting Division to examine the proposal, with Mr. J. J. Ekin as Chairman. Although not agreeing in regard to details, the Committee recommended that the proposal should be accepted by all railways, provided the Commission would eliminate depreciation accounting for track structure. This, the Committee argue, may be left until railways have had some years of experience with depreciation of fixed property. The reasons underlying its objections are discussed in the extracts from the Committee's report reproduced below.

"Present accounting for ties, rails and other track material reflects the loss in service life when the items are replaced or retired. The proposed order would reflect such loss through equal charges to operating expenses spread over the estimated service life of the items. The replacement method is simple, practical and realistic. In contrast, the proposed depreciation method is an attempt to apply a theoretical concept of depreciation to the minor parts of a complete structure, which would also result in the publication of misleading financial statements.

The Commission is directed to "prescribe for carriers the classes of property for which depreciation charges may properly be included under operating expenses." This direction is on all fours with the proposition that certain of the property accounts are not adaptable to depreciation accounting. The Commission has recognised - and quite properly so - this situation, by excluding over 30 per cent. of the estimated original cost of all property, excluding land, from the classes of depreciable property. Therefore, the treatment of ties, rail and other track material as non-depreciable items would not create a precedent. Rather it would with contribute to the establishment of a reasonable system of depreciation accounting.

Ties, rails and other track material are but parts of the complete track structure - not separate units of property. Renewal of parts is merely repairs of the structures. Depreciation accounting is adaptable to complete structures, but any attempt to extend it to parts of units, such as track elements, will result in an unintelligible scrambling of routine repair expenses depreciation charges.

The Commission has evidenced agreement with the proposition that renewals of parts should be treated as current repair expenses. In the case of equipment, it has found that a complete locomotive, a complete car, etc., is the depreciable unit. The cost of repairing the unit is charged direct to the appropriate operating expense account when the work is performed. The renewal of an axle or a wheel or a brake is the same in principle as the renewal of a tie or a rail or a switch stand. All are parts of complete units. To the same effect, the proposed order treats a complete building, including floors, roofs, foundations and fixtures as a unit. Thus, the renewal of the roof of a building at a cost of, say, \$10,000 would be chargeable to current operating expenses while the renewal of a \$1.50 tie would be a capital charge. A building is not usable if a floor is missing nor is a railroad usable if a rail is missing."

After reviewing the treatment accorded to repairs in arriving at taxable income in the Federal Income-tax Laws, which are probably the most strictly construed of all statutes, the Committee proceed to state:

"Accepted accounting practice treats repairs and renewals of parts of structures as current operating expenses. And that practice is peculiarly applicable with respect to the track elements. No one questions the fact that the track structure must be maintained in a safe and efficient operating condition by renewals (repairs) and replacements, nor that the increased speed and tonnage of trains has necessitated an increase in the standards of maintenance. According to the studies made by the Bureau of Valuation, 75 per cent. of the wear and tear on ties is attributable to use and that 100 per cent. of the wear and tear on rails and other track material is attributable to use. It follows, therefore, that repairs to the track structure are in direct ratio to use. If that be true then the cost of keeping up the track should be in the years in which it is used. Let us take the ton miles, which represent use: In 1941 the ton miles will be double the ton miles of 1932 with variations in the years. Surely this is a clear demonstration of maintenance following the wear on the track.

The proposed order provides for equal annual charges to spread the estimated loss in depreciable property over the estimated service life. Thus, the monthly and annual charges for the track elements in operating expenses would be substantially the same regardless of the quantity of such elements applied in renewal. Yet, as traffic increases, revenues increase and track maintenance expenses increase. And just as surely as there is a decrease in traffic there is a decrease in revenue and in track maintenance. Obviously, it would be misleading to show track maintenance as costing X dollars each year when the actual use of the track

structure necessitates expenditures for repairs of, say, $1\frac{1}{2}$ X dollars in one year and only $\frac{1}{2}$ X dollars in another year. The average of the sum of 1 and 99 is 50; but 50 bears no sensible relationship to either of these two figures. Track maintenance expenses should be stated so clearly that he who runs may read. The public, investors and others are entitled to factual financial statements rather than statements showing merely a book-keeping entry of the theoretical concept of property used up which is at best merely an average over the life cycle of the plant. Thus, on its merits, the exclusion of the track elements from depreciation accounting is fully justified.

The proposed order treats each tie, each ton of rail and each of the more important items of other track material as a unit of road property. When any unit, as defined, is replaced, the cost of the new unit must be written into the investment accounts, and at the same time the cost of the retired unit must be written out of the investment accounts. There are more than one billion ties; fifty million tons of rail and an unknown quantity of items of other track material in the railroad track structure. Meticulous accounting for each of these units would be an unreasonable and unnecessary burden upon railroads. We believe the statement of the Commission, with respect to the track laying and surfacing account, that "the application of strict theory would involve difficulty and expense not justified by the results obtained," is equally applicable to the track elements accounts.

We are dealing with a seasoned property. The period immediately following construction, during which replacements might not be normal, has long since passed. Also, a tie, a ton of rail and other track material are, in fact, nothing more than parts of the track structure. The replacement of track elements represents merely repairs to the track structure. These elements are renewed under normal conditions from year to year as necessary, and therefore, lend themselves particularly to maintenance accounting rather than depreciation accounting.

If depreciation accounting is made applicable to the track elements, the high renewal costs will be written into the investment account. The real value of the plant will be the same. There is no reason for such inflation of the investment account. Nor is it persuasive to say that in the past operating expenses have been burdened at the expense of the investment account. Without admitting the correctness of the argument, it is clear that it offers no good reason for price levels. The cost of parts used in repairs is charged to expenses, although such costs are generally in excess of the cost of the original parts. Some property items wear out quickly, others remain in service over an indefinite period; price levels are constantly changing. In these circumstances, it is obvious that the investment account can never reflect costs as of any given date. Is it good accounting to capitalise prices when no value is added to the plant? A railroad cannot at all times provide for all of its capital expenditures out of earnings and it is not sound financing to issue securities represented by increase in prices or replacements of property. The trend of today is towards a reduction in funded debt and stock."

The American Railways are subject to taxation, and charges in income affect income-taxes. The Committee, therefore, examines the safeguards required to present any inequitable taxation of railway income, by reason of the new accounting order. The desirability of the substitution of an Approved Use Basis for the Straight Line method in the determination of depreciation charges is next discussed by the Committee.

"The proposed order requires the determination of the depreciation charges by the straight line method, thus distributing losses in service value solely on the basis of units of time. The straight line method disregards the fact that losses in service value are due largely, although not entirely, to use. Paton says: "In general the greater intensity of operation the shorter the life. Thus a machine operated at high speed and for twenty four hours in the day may be expected to wear out more rapidly than one operated at a lower speed or intermittently." The use of railroad facilities is in direct ratio to business activity. Business activity is not static. On the contrary, it is subject to violent fluctuations."

"We believe that each carrier should have the opportunity of submitting to the Commission for approval a formula for measuring depreciation in the units of use rather than time. And we recommend that any depreciation accounting order definitely state that this option is available."

In some cases a railway facility may be abandoned for reasons other than depreciation, such as the exhaustion of traffic, natural resources, or otherwise. The Committee considers that any depreciation accounting order should include provision for amortizing the cost of railway facilities under special conditions; and recommend that the following provision in para 2 of Docket 15100 (177 I.C.C. 351) should be retained:

"Provided, that in case a steam-railroad company can show that the service life of its property is dependent upon a particular source of traffic upon exhaustion of which the operation

of the property for common-carrier purposes must in all probability be abandoned, and that the time of such exhaustion can be predicted with a reasonable degree of accuracy, then the entire property of such railroad may be classed as depreciable, in which case, however, depreciation of this character shall be provided for through a special amortization account, instructions as to which will hereafter be given."

The Committee further recommends that the amortization provisions be extended to any part, as well as all of a carrier's property.

COSTS FOR PRICING vs. FORMAL ACCOUNTS.

In a recent bulletin of the National Association of Cost Accountants, Mr. Harry E. Howell discusses the proper function of cost accounting in business management and price control. "There has been," he writes, "an enormous increase in the production of figures, but in many cases little progress in determining which facts are of vital significance in charting the profit and loss course of the company. There is, to quote his own words, "a 'delusive appearance of accuracy' about financial statements, chiefly because they balance and are expressed in figures. There is a compulsion about accounting conventions which leads one to mistake the shadow for the substance." Mr. Howell criticises the present methods of overhead distribution which fails to distinguish between those costs which are a function of time and those which are a function of use between standby costs which are those that we have regardless of whether or not we produce and variable costs which fluctuate directly and consistently with production.

The management problem in controlling standby costs is distinct from that in controlling variable costs. Initial investment, capacity and size of standby organization affect, first, cost, so that volume or utilisation is the prime factor. It is the fixed cost that varies with each added or reduced unit of production. But with the variable cost element the problem is one of methods, of efficiencies and of constant control because these costs are constant for each and every unit of production. Moreover, failure to distinguish between standby and variable costs produces erroneous costs due to improper assessment and distribution. . . . One of the last points in this group is probably the hardest for the accountant to understand. He has been trained to charge costs against the product on the basis of casual responsibility. In other words, if it was because of this particular product that the expense was incurred, or if it was this particular product that received the benefit of the service, then it should be charged to that product. There is no particular argument with this theory until we deny that it is possible to look at the matter in any other way. We must admit that many costs must be assigned to products in the determination of their selling price and in the determination of their relative contribution to the profits of the company, on the basis, for example, of what the traffic will bear. In other words, it might be excellent business—in fact, a matter of necessity—to let the product which for some reason or other can command a relatively high price carry more of the overhead than a product which has to meet severe competition.

In view of these considerations Mr. Howell concludes that it is not wise to assume that a product that cannot carry its full share of the overhead should be discontinued unless we have made a most careful study of the standby charges which it should not be forgotten include the fixed cost of selling and administration. These fixed costs embrace the salaries and other expenses of the salesman unless he works on commission only. While, therefore "a given product may not produce very much net profit, its absorption of fixed costs which otherwise would have to be spread over other products—thereby reducing their gross—fully justifies its position in the line. From

this analysis the writer observes that the accountant has to realise that there is no such thing as an all-inclusive conception of cost: "We may want to determine a cost which expresses the entire economic outlay from the time the investment is first made until it is recovered: we may want to determine the cost for purposes of inventory valuation or we may want to compute cost as one of the determinants of selling price at a time when our volume is below normal capacity. In the latter case, the figure needed would be entirely different from the cost which we would consider then we are already above normal."

ECONOMY OF STATISTICS.

In a report presented before the American Association of Railroads on the subject of adequate man-power, how operations peculiar to a division can be evaluated and controlled precisely by statistical studies was discussed. As it is impossible to watch every operation, a statistical study adapted to the problem on hand affords in many respects a better and more revealing control than personal supervision, for it is in effect a continuing observation and can be used to set exact standards for performance which will exclude guesswork. In the preparation and use of statistical studies as an indication of relative efficiency, the following considerations were stated as important:—

1. Is the study being used or is it merely filed?
2. Is there necessity for a periodic appraisal of the various data? Does the cost of its presentation exceed the value of the result?
3. Is the compilation of sufficiently broad proportions to present an adequate and reasonably precise picture? There is an ever present possibility, if improperly prepared data are used, of falling into the trap of reasoning from the particular to the general—with resultant false conclusions.
4. Is there systematic and efficient preservation of the compilations to permit ready comparison of present with previous figures of a like nature in order to determine relative changes?
5. Is there simplicity of presentation, avoiding abstractions and undue refinements that might obscure essential points?
6. Is use made of averages in basing judgments, with due consideration given to the highest, lowest and medium?
7. Is use made, wherever, possible, of percentage figures, as in a frequency table, for example, to convert totals into percentages of the whole in order to give proper significance to each part?
8. Are the data accumulated by or under the direct supervision of a competent person, preferably one with an academic background in statistical methods and application, to insure inducements to study depend to a large extent, of course, on the general character of the business of the division. Therefore, it is not feasible to enumerate, except in a general way, the studies that might be made which would offer tangible and effective results in maintaining careful supervision of personnel.
9. Way freight train performance: Set up in tabular form to show miles run and actual running time; the time lost on account of superior trains and meets (if too high, re-may be doing work that can be done more efficiently in yards); tonnage handled, light-car-load local freight trains.
10. Through freight train performance: tonnage handled, actual and adjusted, number of cars and type of power; miles run and running time; coal and water time; and superior trains; arrival and departure times to show delay at origin and for connections.
11. Drop trains, or cut outs; Daily departure time and delay report, to develop delays to way freights originating at intermediate points as well as delays in handling house freight at intermediate points.
12. Passenger trains: Miles run and actual running time; time at stations fork, to show whether the schedule is too tight or not tight enough, avoiding instances that reflect seasonal fluctuations.

13. Car detention in yards: Average, high, low and medium.
14. In larger stations: The cost per ton for L. C. L. freight and transfer work, and tons handled per man per hour.
15. In yards: Cars switched per engine hour and yard costs for switching, reduced to the cost per car, with due consideration given to the fact that these costs will not always fluctuate in the same ratio as the business.

PROTECTION OF RECORDS.

The danger of enemy action and the increased hazards of destruction of records has attracted considerable attention on the part of Government and commercial organizations during recent months in those areas which are exposed to air attacks. Mr. P. G. Wharton, General Auditor of the Atlantic Refining Company, U. S. A., had made a timely study of the steps taken by companies representing diverse types of business.

The problem of protecting records against destruction has been met in two ways: by duplication and distribution of records. The time element, the scarcity of material and the cost factor make it impossible to attain complete protection. Distribution of records affords the cheapest solution. The originals and duplicates may be kept in separate places in the same building, but this affords only a very low degree of protection. Even if they are kept in the same town there is no greater assurance. Records must be distributed sufficiently far apart to make sure that the originals and duplicates cannot both be destroyed in one attack. As a general rule if a given area is considered safe for employees, it may be taken as safe for records.

It is of course, impossible to safeguard all records, and therefore, the question arises as to their relative importance. Mr. Wharton has proposed a tentative classification into four broad groups:

- Class I:** VITAL RECORDS. Consisting of papers and books indispensable for the continuance of the business, such as engineering studies, plans of critical plants or equipment, accounts receivable, minute books, important contracts and agreements, service and pay-roll records, general ledger, records of property deeds, bonds, mortgages, etc.
- Class II:** IMPORTANT RECORDS, such as can be reproduced only at considerable expense; such as statistics and supporting data, accounting records needed for the establishment of the correctness of entries, and other papers; operating records, etc.
- Class III:** USEFUL RECORDS, which are helpful for the smooth operation of the business and whose loss will occasion inconvenience, but would not present any obstacle to the continuance of the business; such as papers substantiating loss and damage, personal injury, labour expenses, stock ledgers, bills of lading, etc., after delivery has been taken, and evidences of payment to employees, etc.
- Class IV:** NON-ESSENTIAL RECORDS, which have no long-term value.

The first two may be further classified according to location risk. Having classified the records, the next question is that of reproduction. There are three methods, namely, the transcription of records in the identical manner in which the originals were prepared; copies prepared by photography or blue printing; and duplicating on the typewriter or by any other process.

The first method is preferable for the general ledger, tax statements and similar papers, the deciding factor being the volume of labour required to produce the finished record twice and the cost of re-production by photography or blue printing. The length of time during which the prints would be retained, the rapidity with which the originals change and therefore require change in duplicates: and the volume of duplicate prints with reference to the storage space needed are the factors to be considered in selecting the photographic or transcribing process. Some of the class: "Vital Records."

How about the current working records? Mr. Wharton considers that each section, group, or department should be designated individually whose duty it would be, in the event of an air-raid alarm to remove all records, according to their classification to the vault, safe, etc. A practical answer to this problem is to be found in the method employed by Australian firms in regard to the general records which are in use everyday, and are out of their files during the working period. Each department is supplied with one or more air-raid boxes, constructed of light wood or plywood with a hinged cover, handles on ends, a hasp and padlock. They are painted so as not to be unsightly in the office, and lettered or numbered with a code signifying their location and contents. When the siren sounds, each clerk takes the papers that he is at the moment looking on and place them in the box. Even the drawers may sometimes have to be employed. Two male employees are assigned to each box to move it when filled to a prearranged place of comparative safety in a specified order, so that they may be brought back without confusion and with speed.

ECONOMY IN STATIONERY AND OFFICE MATERIALS.

War-time pressure for materials has enforced the need for utmost economy in the use of paper and other office materials. If supplies are not available, or are available only at prohibitive cost, every office will be anxious to effect as large a reduction as possible in the use of materials.

The question appears to have been approached with characteristic thoroughness in the American T. V. A. Conservation Programme for office materials. According to this programme, suggestions and proposals are received, assigned to the proper section and scheduled. Reports from analysts are co-ordinated and proposals with revised rules and regulations and necessary publicity are handed by the supervisor. The nature of the organization that has been set up to deal with the multitude of problems involved, is indicated in the diagram on page 63.

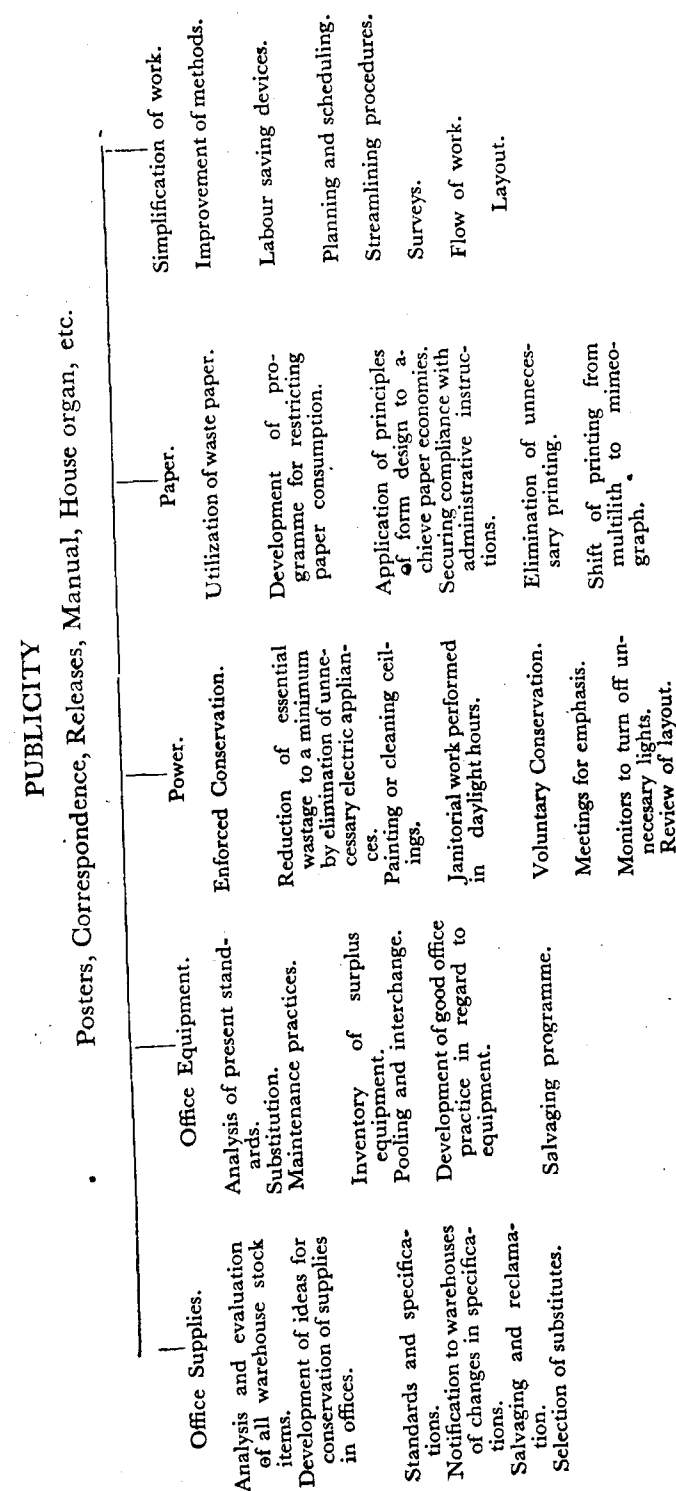
POWERS OF GENERAL MANAGERS.

The Standing Finance Committee for Railways discussed a memorandum of the Railway Board on the subject of the powers of General Managers to sanction works. They approve of the discontinuance of the experiment on the East Indian Railway and of the restoration to the General Managers of powers to sanction works up to a limit of one lakh in each case subject to the proviso that the whole question would be re-examined after the war. The memorandum of the Railway Board reviewing the results of the experiments of the East Indian Railway, is summarised below :

The following are the figures of estimated costs of new works provided for in the budgets of that railway for 1941-42 and 1942-43 :

	Rs.	Rs.
	1941-42.	1942-43.
1. Works costing more than Rs. 1 lakh each	36.08	19.97
2. Works costing between Rs. 50,000 and 1 lakh each	9.65	2.56
3. Lumpsum provision for works costing not more than Rs. 50,000 each	11.63	8.43
Total	57.36	30.96

If the limit of powers of sanction of the General Manager had not been reduced, the estimated cost of works which he would have sanctioned without reference to the Board, would have been only 9.65 lakhs in 1941-42 and 2.56 lakhs in 1942-43. This, however, does not mean that these works would have completely escaped the scrutiny of the Railway Board. As the Standing Finance Committee are aware, the Railway Board obtain from the General Manager of each



railway, an itemised list, together with a brief justification, of all works costing over 20,000 each, which he contemplates in the course of the ensuing year. Although a General Manager is competent to vary this list, generally there is no radical departure from such a programme, and the Board have a fairly accurate idea of the works which the railway administration proposes to carry out during a financial year. It will be seen that this change has not, in effect materially affected the control of the Railway Board over the works expenditure, of the East Indian Railway.

The Railway Board have also introduced an important reform in the machinery of financial control on railways with the approval of the Public Accounts Committee. The Chief Accounts Officer has now been clearly instructed that he has a special responsibility not only with regard to matters of accounting propriety but also with regard to important matters of financial prudence, whether within the financial powers delegated to the General manager or not. If the Financial Adviser and Chief Accounts Officer disagrees with the General Manager he has to make a reference to the Railway Board, should the General Manager be unwilling to do so. The Railway Board consider that this day to day scrutiny of the Financial Adviser should result in much better financial control over railway expenditure than the examination in their own office of justifications given in works programme, which must necessarily be brief, and that even if there were previously any reasons for curtailing the powers of General Managers, they do not exist now.

The only effect of curtailment of the powers of General Managers would be unnecessary increase of work in the office of the Railway Board and delay in the execution of urgent works which is to be specially deprecated in times like the present. Such curtailment would also be opposed to the spirit underlying our present machinery of financial control.

On these grounds the Railway Board did not recommend the extension of the experiment to other railways and asked for the approval of the Standing Finance Committee. The Committee required the Railway Board to submit a report on the results of the reforms introduced by the Railway Board referred to in their memorandum.

ADVANCE ALLOTMENTS.

Under the present arrangements advance indents can be placed by railways for general purposes stores up to 60 per cent. of the average of the actual purchases for the previous three years and the Railway Board are authorised to relax this limit in special cases subject to a report to the committee with the reasons for the relaxation in each case. The Railway Board reported to the meeting of the S. F. C. in December two cases in respect of the last financial year. The first occurred on the Great Indian Peninsula Railway on which the cost of stores required was 221.7 lakhs against the previous three years' average of 141.08 lakhs, thus exceeding the limit by 32 lakhs. The second was on the East Indian Railway on which certain urgent indents of the value of 1.35 lakhs were placed in excess of the limit. In confirming the action of the Railway Board, it was suggested that in future the reason for all excesses should be mentioned.

WHAT IS A "LOCOMOTIVE?"

The definition of a Locomotive led to a good deal of discussion last year when the Statistics Committee of the American R.A.O. A. adopted the following definition of a locomotive for the purpose of securing uniformity of reporting locomotive rules :

"A locomotive is a self-propelled unit or combination of units of equipment operated under a single control designed solely for moving other equipment."

But there appeared to be some difficulty in connection with reporting locomotive miles for Diesel electric freight locomotives consisting of more than one unit. To meet this problem, the Director of the Bureau of Statistics, I. C. C. had tentatively adopted the following :

"When an electric locomotive or a diesel-electric locomotive hauling a train consists of more than one unit, the miles made by the unit from which the controls are operated should be reported as Principal locomotive miles and the miles of the units from which the controls are not operated should be reported as helper locomotive miles, irrespective of whether such units are equipped with controls. When such locomotives are running light the miles of each unit taken separately should be counted as light locomotive miles irrespective of whether equipped with controls."

As this definition was in direct conflict with the preceding one, after further consideration and discussion the following substitute rule was approved :

"A locomotive is a self-propelled unit or combination of units of equipment operated under a single control designed solely for moving other equipment. A locomotive mile is a movement of a locomotive (consisting of a unit or combination of units operated under a single control), a distance of one-mile under its own power."

UNIFORM ACCOUNTING FOR HIGHWAYS.

A report of the Committee on Uniform Accounting of the Highway Research Board of the National Research Council, U. S. A. was prepared by Mr. Anson Marston, Chairman and Mr. Robley Winfrey. The synopsis of the report is given below :

Largely as a result of the work of the committees on accounting of the American Association of State Highway Officials and the Highway Research Board, the State Highway Commission of Kansas has organised complete investment and depreciation ledgers for its rural system of state highways. In organising these ledgers, the state made use of material collected in the road life study, a special phase of the State-wide Highway Planning Survey. In this paper the main accounting forms and the main steps of procedure are described. Some discussion of the advantages of the system and use of results is given.

The 9,350 miles of the system are controlled by 488 route sections, each of which is used as a basic property unit for accounting and other record purposes. The procedures for the investment accounting are fully integrated with the regular books of account and with the normal daily routine of the regular employees. Special employees and special equipment are not required.

The ledgers show for each routine section the annual cost of construction, the retirements of investment, and present remaining investment for the following items : roadway surface (by type) ; roadway base (by type), grading, culverts, and drainage ; structures 20 to 200 feet span, structure over 200 feet long, traffic services ; roadside improvement ; and right of way.

Continuation of the road life studies and keeping of the mileage log are also a part of the daily routine, so that all three activities—investment, mileage, control, and road life—are coordinated in a manner to insure accuracy, completion of records and reports on schedule, and the minimum handling of papers and accounts, in the U.S.A. A road system is as necessary to a modern state as a railway system, and it may be hoped that a policy for the country as a whole will be evolved at no distant date, and that proper allowance will be made for the maintenance of the existing highways.

LOWER GAZETTED SERVICE.

At a meeting of the Standing Finance Committee held on January 30th, the question of the abolition of the lower gazetted service was discussed. It was referred to a sub-committee of the S. F. C. who reported as follows :

Promotion to Lower Gazetted Service in all cases except Accounts Department be abolished and this class be eliminated by wastage.

In future recruitment to Superior Services be made in the following manner :

(a) 85 per cent. posts which fall vacant every year in the Junior Scale Services be filled by direct recruitment through Federal Public Service Commission.

(b) the remaining 15 per cent. posts be filled by promotion from amongst the Lower Gazetted Service and the non-gazetted staff combined—(the better qualified non-gazetted staff should have same facility as older but lesser qualified staff of Lower Gazetted Service)—Federal Public Service Commission should review all such cases.

The staff consisting of Lower Gazetted Service and non-gazetted service should be allowed to sit for open competition provided their age and other qualifications allow.

The cadre of Junior Gazetted Scale Services to be fixed at what it is at present but should increase annually by the number which should be equal to the number of Lower Gazetted Service who would be eliminated from that service either through wastage or promotion to the Gazetted Service until a maximum is reached which should be equal to the combined strength of the Junior Scale posts plus Lower Gazetted Service posts existing at present.

The committee stated that in view of the increase caused in the vacancies reserved for recruitment in the United Kingdom as a result of the proposal the following decision to be recorded :

"It was brought to the notice of the Committee that the original proposals of the Railway Board and the revised proposals of the Sub-Committee would have the effect of increasing the number of vacancies in the Superior Services reserved for recruitment from the United Kingdom. In the view of the Committee this was not in accordance with the Government of India's declared policy of Indianisation and the Committee, therefore, recommend that the Board should reconsider the matter and place fresh proposals before the Committee which would not so increase the number of vacancies reserved for recruitment from the United Kingdom."

THE PURCHASE OF THE GUJARAT RAILWAY.

The Standing Finance Committee approved of the proposal in the Railway Board's memorandum on the purchase of the Gujarat Railway. According to the memorandum the Gujarat Railways, owned by the Gujarat Railways Co. Ltd., comprise three narrow gauge lines about 85 miles in length managed by the company through the agency of the B. B. & C. I. Railway for actual cost plus certain other similar charges. Government have an option of acquiring the lines on the 31st March, 1944 by giving the Company 12 months' previous notice. The purchase price payable under the contract is a sum equal to 25 times the average net earnings received by the company during three years immediately preceding the date of purchase subject to a maximum of 120 per cent. of the total capital expenditure incurred by the company and to a minimum of the total capital expenditure. According to the estimate now available, the purchase price will be limited to Rs. 54.81 lakhs. The Railway Board estimates that the average return on the purchase price will be about 5.09 per cent. As the purchase of the lines is financially profitable and administratively feasible it was proposed to give notice before 31st March, 1943, for acquisition at the end of the current financial year. As the purchase price will not be due for payment before 1st April, 1944, provision will have to be made only in the budget for 1944-45.

INDIAN RAILWAYS ACT AMENDED.

During the August session, the Indian Railways (Amendment) Bill was referred to a Select Committee. The purpose of the bill is to enable Railways to pay compensation to passengers injured or otherwise affected in railway

accidents. In his speech on introducing the motion, Sir Edward Benthall pointed out that by widening the liability of railways to cover passengers and their luggage involved in train accidents of whatever kind, whether or not the railway is liable, obviously a considerable sum of money may be involved. But in view of the large passenger traffic and the comparatively limited number of accidents, even a charge of one pie per passenger per journey would produce a sum much in excess of what railways have been paying out in the past. The bill on emerging from the Select Committee incorporated certain changes. One related to the case of a passenger injured in an accident and in spite of taking care and proper medical attention continued to be ill. In this case the passenger would be covered. But it does not absolve the passenger from the effects of subsequent neglect of such injury. A second change was the enhancement of the maximum limit from Rs. 7,000 to Rs. 10,000. The bill was passed by the Assembly on February 25, 1943.

RAILWAYS IN THE CENTRAL LEGISLATURE.

In reply to a question in the Legislative Assembly on February 15, 1943, it was stated that the cost of breaches on the N.W. Railway to floods in Sind was Rs. 10,78,000.

The payment of the Railway Annuities was the subject of another question, and Sir Jeremy Raisman stated that the aggregate amount of annuity payments due after October 1, 1942, and payable in half-yearly instalments terminating on various dates between 1942 and 1959, was £ 34,114,654. The lump sum payment represents the total of the present value as on October 1, 1942 of each annuity allowing interest at 2½ per cent per annum, was £ 30,054,250. The real gain to the country, he added, lay in the liquidation of external obligations which might prove an embarrassment in the future, and the replacement by internal debt. Sir Jeremy explained that although some of the annuities ran for as long as 17 years others terminated earlier and repayment by H. M. G. commenced in the first year. The result was that the average period during which the capital will be held by H. M. G. was about 5 years. The appropriate sterling borrowing rate for such short term money is 2½ per cent. The transaction was financed to the extent of Rs. 15 crores by a re-issue of the 3 per cent. loan 1963-65 at 95, the balance being covered by the issue of treasury bills at the prevailing rate averaging no more than 1 per cent. per annum. The legal obligation for repayment under the various purchase Acts of course rested on the Government of India where it belonged. But the agreement with the H. M. G. effectively ensured the availability of sums required to meet the liability as and when it fell due and no further payments from the revenues of the Government of India would be required. H. M. G. had therefore virtually taken over the financial liability.

In answer to a question, Sir Edward Benthall stated that the number of staff discharged or dismissed on account of abstention from duties after the December, air raids was 1,132 on the E. I., 3,736, on the B. & A. and 589 on the B. N. Railways.

RAILWAY CONVENTION COMMITTEE.

The changes in the basis of the allocation of the railway surplus between railway reserve and the general revenues proposed in the Railway Budget estimates introduced in the Central Legislature last February necessitated a revision of the Separation Convention of 1924. The resolution incorporating the proposals was moved in the Assembly on March 2nd, 1943, and read as follows :

"That whereas it has been found that the Convention which was adopted under the Assembly resolution dated 10th September, 1924, and which was intended to renew the General Budget from violent fluctuations caused by the incorporation therein of the railway estimates and to enable the railways to carry on a continuous railway policy based on the necessity of making a definite return to general revenues on the money expended by the State has not achieved these objects, this Assembly recommends to Governor-General in Council that

(i) for the year 1942-43 a sum of Rs. 2,35,32 thousand, shall be paid to general revenue over and above the current and arrear contribution due under the Convention;

(ii) from the 1st April, 1943, so much of the Convention as provides for the Contribution and allocation of surpluses to general revenues shall cease to be in force;

(iii) for the year 1943-44 the surplus on commercial lines shall be utilised to repay any outstanding loan from the depreciation fund and thereafter be divided 25 per cent. to the railway reserve and 75 per cent. to general revenues, the loss, if any, on strategic lines being recovered from general revenues, and

(iv) for subsequent years and until a new Convention is adopted by the Assembly, the allocation of the surplus on commercial lines between the railway reserve and general revenues shall be decided each year on consideration of the needs of the railways and general revenues, the loss, if any, on strategic lines, being recovered from general revenues."

The debate on the resolution revealed a certain amount of dissatisfaction at the rather summary method of dealing with so important a financial proposal. The War Transport Member in his reply to the points raised by the members offered to have the whole question enquired into by a committee of the House. A committee was constituted later during the session to serve with the Member for War Transport and Finance Member and the Financial Commissioner, Railways, to consider matters arising out of clause (iv) of the Resolution.

The terms of reference suggested to it were reported to be :

(I) Whether the present provision for depreciation is adequate and whether any alteration is necessary on the basis of the appropriations made thereto under the present rules of the Fund after investigation into the following among other questions : (a) Whether the present assumptions as to the life of the assets is correct ; (b) whether the Depreciation Fund should provide for the full replacement cost of an asset or the original cost thereof ; (c) Whether any special provision is required to be made for arrears of depreciation or for writing down or writing off of Capital ?

(II) Whether it is desirable to establish a fund to be made up by appropriations from surplus revenue to cover expenditure on betterment and minor capital improvements ?

(III) Whether railway revenues should be required to provide in addition to interest and depreciation, an annual allocation from revenues for redemption of the whole or a part of the capital advanced by the Government to the railways ?

(IV) How the actual surplus accruing in any year after provision has been made for interest, depreciation, etc., should be distributed, and in particular, whether any, and if so, what share should be allotted to ; (a) The Reserve Fund, (b) General Revenues ?

(V) Whether strategic railways should be treated separately and, if so, how ?*

The members of the Committee elected by the Assembly are Sir Cowasji Jehangir, Dr. Sir Zia Uddin Ahmad, Mr. K. C. Neogy, Mr. Jamnadas Mehta, Sir Muhammad Yamin Khan, Sir F. E. James, Khan Bahadur Mian Ghulam Kadir Muhammad Shaban, Maulvi Syed Murtuza Sahib Bahadur, and Sardar Sent Singh. The report of the Committee is expected to be completed during the next session of the Assembly and will be dealt with in and next issue.

INDIA'S TRANSPORT POLICY.

Reviewing the war effort of the Indian Railways in a leading article, the *Modern Transport*, London, pays a tribute of praise to the very real contribution made by the Indian people. Reference is made to the striking record of our railways, and movement towards complete state-management and operation. But the paper criticises the transport administration as being partial to railways. It states :

* Capital, April 23, 1943.

"If criticism of our transport administration must be made, then the grounds for it might be that the railways have become a vested interest of Government, and that as a result the development of the highways has been retarded. At best, road transport is regarded as a parochial affair, and whereas the railways were built out of capital to increase income, it has been the endeavour to build roads out of revenue. Construction of a modern road system, which would so greatly benefit the small agricultural communities at a distance from the railways, has been lethargic in the extreme in consequence and the prosperity of India must have suffered in consequence compared with what might have been achieved in the motor era. Where roads are provided, vehicles have been restricted in the radius of operation or provincial boundaries have caused, by imposition of size and weight regulations, artificial highway barriers similar to those between States.

NET EARNINGS OF RECENTLY CONSTRUCTED RAILWAY LINES.

Details of the net earnings during the financial year 1941-42 of new Railway lines opened after and on April 1, 1935, were given in a statement laid on the table during the budget session of the Assembly. Only those lines as were entirely open and have been working for a full year are included.

	Jhudo-Pithoro.	Khadro-Nawab-shah.	Agastampalli Point Calcutta.
1. Working Railway	... Jodhpur	Jodhpur	South Indian
2. Gauge	... Metre	Metre	Metre.
3. Mileage	... 64.11	30.72	5.50
4. Date of opening	... 1-6-1935	20-11-1939	20-1-1936
5. Net income creditable to the Pro-Rs. 3,03,567		Rs. 2,30,823	Rs. 19,757*
ject for 1941-42			
6. Percentage of return of income (6 on Capital outlay) : 1940-41 ... 12.05		14.37	5.32*
1941-42 ... 13.12		15.29	5.88*
7. Estimated percentage return of income on capital outlay some years after opening as estimated originally	... 6.12	0.87†	10.5§

CHANGES IN FORM AND CLASSIFICATION.

A. CHANGES IN FORM.

In accordance with the recommendations of the Public Accounts Committee the monetary limits for listing the items of objectionable expenditure individually in the statement of unsanctioned expenditure (Annexure A to the Appropriation Accounts of Railways in India, Part II, detailed Accounts) has been raised from Rs. 10,000 to Rs. 25,000.

During 1941-42, effect was given to the decision reached in 1938 with the concurrence of the Auditor-General that the expenditure on renewals of ballast be charged to ordinary maintenance and not the depreciation Fund, to which it had been charged since 1936-37. This involved a sum of Rs. 31½ lakhs.

B. CHANGES IN CLASSIFICATION.

1. The monetary limit for charging expenditure on new minor works to revenue has been raised from Rs. 2,000 to Rs. 10,000, on State-managed Railways. The limit of Rs. 2,000 in regard to the allocation between depre-

* Excludes net earnings of existing lines from new traffic interchanged with new railway but estimated return took such credits into account.

† This is the figure arrived at in the "final location survey." The earlier estimates produced before the Standing Finance Committee showed a probable return of 0.5 per cent. only.

§ Government were committed to the construction of the line as part of the terms of the transfer of the Tanjore District Board lines to the South Indian Railway. It was estimated that a loss of Rs. 37,500 would accrue to Government on an outlay of Rs. 3½ lakhs.

ciation reserve fund and ordinary revenue of the expenditure incurred on the renewal of certain classes of assets, has not, however, been altered.

2. A new provident fund for the employees of railways, called the defence saving provident fund (railways), has been introduced during the year and a new minor head "Defence Savings Provident Fund (R)" has been opened under the major head "State Provident Funds" in Section "O—Unfunded Debt," for recording the transactions of the fund.

3. The amounts of imprests with the home boards of certain company-managed railways or their consulting engineers in London has been adjusted under the major head, "Permanent Advances—Railways," in Section "P—Deposits and Advances—Advances not bearing interest" instead of under the capital suspense head, "London Invoices" under which these amounts were previously booked.

4. A new head, "Special Renewal Suspense Account" under the major head "P—Deposits and Advances—Deposits not bearing interest," has been opened in the accounts of the Bengal and North-Western and the Rohilkund and Kumaon Railways to record the amounts set aside from the working expenses of the railways in order to meet the companies' share of renewal and replacement expenditure deferred till after the war.

5. Where telephones have been obtained on hire from government telegraph department, the charges paid to that department on account of rent and trunk calls have been treated as contingent expenditure of the department concerned. These charges were previously debited to Abstract H.

6. Control charges on sleepers have been charged to Abstract G, instead of being added to cost of sleepers.

7. Freight charges for the haulage of engines transferred from one State-managed railway to another, have been booked under Abstract B, instead of being added to the cost of engines.

8. Expenditure on replacements and renewals of all apparatus and appliances, including instruments and accessories, for railway hospitals and dispensaries has been charged to a detailed head under "Repairs and Maintenance" instead of under "General Administration" in Abstract F.

9. Renewals of service motor cars and trollies of the traffic and general departments have been allocated to Abstract C IV instead of Abstracts E II and F II respectively.

10. Expenditure on maintenance and repairs of electrical signals and inter-locking works has been charged to Abstract H instead of to Abstract A.

11. Suspense transactions of collieries (colliery floating assets) have been booked separately under the minor head, "IX—Suspense," instead of under the head "VII—Collieries."

12. Recoveries from tourist agents on account of cost of tickets supplied to them have been credited to sundry other earnings, instead of being taken in reduction working expenses under Abstract E.

13. Pay and leave salary of the operating and inferior staff of the control office have been booked under Abstract E, instead of under Abstract H.

14. Pay and allowances of the supervising staff of collieries under the control of the Chief Mining Engineer, Railway Board have been charged to the head, "15-D Miscellaneous Railway Expenditure" in the first instance separately under voted and non-voted, and then transferred to the colliery suspense account as voted.

15. Pay and allowances of dynamometer-car-staff have been charged to "15-D Miscellaneous Railway Expenditure" instead of to Abstract C.

16. Recoveries of over payments made to staff on the basis of assumed attendance effected in a subsequent year, have been adjusted in reduction of expenditure instead of earnings.

17. A new major head "15-F Transfers to Railway Reserve Fund" has been opened in Section B—Railway Revenue Account with effect from 1940-41.

The changes in classification during 1941-42 are summarised below :

(1) A new fund has been started temporarily for the benefit of trainees under the Technical Training Scheme and fines and deductions realised from their stipends are credited to a new minor head "Technical Trainees Benefit Fund" under the major head "O—Unfunded debt—Other Accounts."

(2) Pensionary charges which were previously brought to account entirely in the books of the Eastern Bengal Railway under "15-D—Miscellaneous Railway Expenditure—Commercial Lines" have been distributed between Commercial and Strategic Lines, the portion attributable to Strategic Lines having been adjusted in the books of the North-Western Railway under a new minor head "Pensionary Charges" under the major head "15-E—Miscellaneous Railway Expenditure—Strategic Lines."

(3) Rebate allowed by shipping companies on Government passages has been adjusted as reduction of expenditure instead of being booked as earnings.

(4) Cost of permanent labour employed in Stores Department has been charged to Abstract F instead of Abstract G.

(5) Cost of electric energy for lighting and power in departmental office supplied direct by outside agencies has been treated as contingencies of the Departments concerned and charged accordingly to the respective revenue abstract. Previously such charges were booked under Abstract H like cost of electric energy supplied by the railway power houses.

(6) It has been decided to change the classification of the pay etc., of writers or clerks or timekeepers employed under the engineering subordinates or signal inspectors from E Repairs and Maintenance" to "General Administration."

(7) Provident fund contributions in respect of London office staff of the Company managed railways have been charged to Abstract G instead of to Abstract F.

(8) Expenditure on advertisements relating to changes in accommodation in trains, provision of through accommodation in trains, running of extra trains has been charged to Abstract E instead of to Abstract G.

(9) Expenditure in repairs and maintenance of electric refrigerators installed in railway hospitals has been charged to Abstract H instead of Abstract F to which the expenditure was previously debited.

(10) Credits on account of contribution towards gratuity charges have been booked as earnings instead of being adjusted as reduction of expenditure under Abstract G.

(11) For recording the following new or special classes of expenditure suitable detailed heads of accounts have been opened under the revenue Abstracts indicated against each.

(i) Extra expenditure to be borne by State-managed Railways under Revised Ecclesiastical Expenditure allocation rules, 1940. Abstract G.

(ii) Overcharges and undercharges in connection with the training of War technicians. Abstracts A, B and C.

(iii) Debit raised by the Defence Department on account of difference in Military and Civil Pay of railway personnel employed in Military Railway Units. Abstract G.

(iv) Railway Administration's share of the cost of camouflaging petrol tank wagons, Abstract C.

(v) Write-back of capital cost of dismantled lines. Abstract A.

(vi) Write-back of capital cost of assets abandoned before 1924-25. Abstract A.

(vii) Payments to Provincial Governments for additional police employed for protection of railway property during war. Abstract F.

(12) Due to the amalgamation of the office of the Controller of Railway Accounts with that of the Railway Board, the expenditure classified under the minor head "Controller of Railway Accounts" has been included under the minor head "Railway Board" under the major head, "15-D—Miscellaneous Railway Expenditure—Commercial Lines."

(13) It has been decided to collect in the first instance losses due to enemy action under a separate portion of the stock adjustment account and then transfer the same to the various abstracts of revenue expenditure.

INSTITUTE NEWS.

KING'S BIRTHDAY HONOURS.

We have pleasure in seeing the name of one of our senior members, Mr. Santokh Singh, Deputy Chief Auditor, Bengal Nagpur Railway, included among the new Sardar Bahadurs in the King's Birthday Honours. We congratulate Mr. Santokh Singh on the distinction conferred on him.

OBITUARY.

UNIFORM ACCOUNTING.

Among such movements we notice the setting up of a number of committees to promote uniform cost accounting by the various professional accounting organizations and the Chambers of Commerce. A number of trade associations, such as the Internal Combustion Engine Makers and the Bolts and the Nuts Association have agreed since the war, on uniform systems. Over twenty trade associations are now known to have issued uniform costing handbooks to their members. The British Standards Institution has rightly considered the standardization of accountancy to be within its province just as much as technical standardisation and has just embarked on a special enquiry on the possibilities in that field.

Detailed accounting on a unified basis will also be indispensable to planning bodies—whether regional boards, commodity controls, Ministries allocating orders, managing ordnance factories, or concentrating output in the most efficient units. All these need accurate knowledge to guide their decisions; accurate knowledge involves the kind of statistics that can only arise out of the accountancy system of firms. So it becomes more and more important that like should be compared with like.

The more we enter the sphere of planning the greater the weight that will be thrown on accountancy systems. This has been proved again and again by experience. Let those who advise us to "do away with accountancy" reflect on what the Webbs say in their great book on "Soviet Communism" about the enormous growth in the number of accountants and economic statisticians in Soviet Russia. And this is not a special Soviet feature but a necessary adjunct of any planned system such as a war economy is bound to be.

The objection, sometimes heard, that uniform accounting is "totalitarian" is absurd. Uniform accounting method are just about as "totalitarian" as a common language, common money, or a common rule of the road.

Travelling Inspectors of Accounts are the watch-dogs of the railway and, perhaps, the most hard-worked amongst the Inspectors of the railway. Their chief duty is to inspect initial records at stations and to carry out checks of such a searching character as to render it nearly impossible for the station staff to commit fraud either independently or in collusion with the public or the railway staff of other stations. Generally, men of exceptional ability and character are selected for the post both from outside and from amongst the office staff. In either case, the men selected require special training to be imparted to them so as to fit them for this important work. Their training generally is directed to acquire

(i) a knowledge of the work done in the various sections of the Traffic Audit /Accounts Branch of a Railway Audit/Accounts Office, with particular reference to Balance Sheet and Debit sections; and

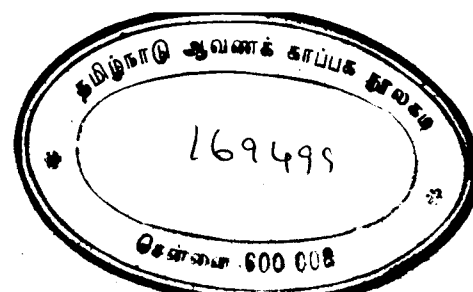
(ii) Practical training with an experienced Travelling Inspector of Accounts in respect of inspection of Station Accounts.

The period of training does not, ordinarily, exceed six months. A further period than this, if required by a probationer, is regarded as a reflection upon his intelligence. Having completed this training, the Probationary Inspector is given a few small stations to inspect independently. This done, he is required to pass both the theoretical and practical examinations relating to his work. The theoretical examination consists of questions relating to the various checks that he is required to exercise in accordance with the instructions laid down in the Travelling Audit Manual as well as those relating to General Rules embodied in the I. R. C. A. Coaching and Goods Tariffs, etc. As against this, the practical test comprises the conduct of inspection of station accounts in the presence of a Gazetted Officer, generally in charge of the Travelling Audit Branch. The probationary Inspector, having come out successful in both these examinations, is declared fit to hold an independent charge of a Travelling Audit District.

It has, however, been found on experience that this method of training has several inherent defects, inasmuch as, it does not enable an Inspector unless he falls back upon his own resourcefulness and initiative, to visualise the various ingenious methods of frauds resorted to by the station staff and then intelligently to direct his efforts both in the direction of "Detection" and/or "Prevention" of the same discarding his sole dependence upon the checks embodied in the Travelling Audit Manual. This being so, the present method of training calls for improvement to a method more comprehensive and practical. This should be somewhat as follows:

(a) A probationary Inspector should, at first, be given practical training in the duties of a—

- (i) Goods clerk.
- (ii) Luggage and Parcels clerk.
- (iii) Booking Clerk.



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(1927)**

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