



West Central Railway



Implementation of Accrual System of Accounting for West Central Railway Zone

(A joint initiative between the Indian Railway Board and Accounting Research
Foundation of The Institute of Chartered Accountants of India)

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INTRODUCTION TO ACCRUAL SYSTEM OF ACCOUNTING

- Presently all three tiers of Governance – The Union, The States and the Local Bodies including autonomous and statutory bodies predominantly follow cash system of accounting linked with the budgeting process within the framework of legislative financial control
- The basic principles of the government accounts are enunciated in General Financial Rules and other related legislations, manuals, etc., as prescribed in the ‘Operational Guidelines for Accrual Based Financial Reporting’ as issued by GASAB secretariat.

INTRODUCTION

- In recent times, there is a paradigm shift in priorities of public finance management from identifying resources for public scheme funding to fiscal prudence, efficiency and transparency in public spending. It is reflected that there is a need for Financial Reporting that is to be in sync with the shift in priorities of Public Finance.
- Thus Ministry of Railways has decided to prepare its financial statements on accrual basis of accounting also in addition to the existing cash based Finance Accounts.

INTRODUCTION

- Accrual system of accounting will bring in more transparency, make available timely information, improve the financial performance, result in advanced decision making etc.
- ICAI ARF was awarded the consultancy work for validation of Accounting Reforms Report and related Pilot Study at North Western Railway (Ajmer) and consequently upon completion of the said project similar projects have been awarded for other railways too. BORKAR & MUZUMDAR., chartered accountants have been awarded the consultancy work for West Central Railway Zone

BENEFITS OF ACCRUAL SYSTEM OF ACCOUNTING

- Effective for financial management and monitoring activities
- Better Budgeting for expenditure
- Better control and management over Fixed Assets
- Truer depiction of resources and financial responsibilities
- Better management of costs and delivery services
- Proper ascertainment of performance, financial position and cash flow of the organisation

PROJECT DELIVERABLES AND TIMELINES

Deliverables	Due Date
Opening Balance Sheet as on April 1, 2015	July 31, 2017
Fixed Assets register – March 31, 2015	July 31, 2017
Closing Financial Statements March 31, 2016	August 31, 2017
Closing Financial Statements March 31, 2017	Sept. 30, 2017

In addition, we shall suggest redundancies in preparation of existing financial/accounting statements, suggest improvements in existing systems, streamlining of existing procedures and also updates if any to accrual accounting implementation manual

ACCRUAL CONCEPT

Cash System of Accounting	Accrual System of Accounting
Revenue is recognised when cash is received	Revenue is recognised when earned
Expense is recorded when cash is paid	Expense is recognised when incurred
Fixed assets stated at cost	Fixed Assets are disclosed at cost less accumulated depreciation and impairment loss
Inventory is expensed out	Closing Inventory recorded

ACCRUAL CONCEPT

Accounting conventions are the customs or traditions guiding the preparation of accounts. They are adopted to make financial statements clear and meaningful. The Accounting Conventions are as follows:

- Convention of Disclosure
- Convention of Materiality
- Convention of Consistency
- Convention of Conservatism
- Matching Concept

INFORMATION REQUIRED FROM ZONE/DIVISIONS/WORKSHOPS

- Accrual impact sheets as below have been circulated to HQ, Divisions, Construction Cells and Workshops:
- FA-1 to FA-18 – Relating to Fixed Assets
- CA-1 to CA-15 – Relating to Current Assets
- CL-1 to CL-19 – Relating to Current Liabilities

FINANCIAL STATEMENTS

- Upon receipt of all the required information the financial statements comprising Statement of Financial Position (Balance Sheet), Statement of Financial Performance (Profit and Loss Account), Cash Flow Statement along with statement of significant accounting policies and accompanying notes/schedules shall be prepared.

FIXED ASSETS (BASIC CONCEPTS)

What are Fixed Assets? They are Assets held by an entity:

- for use in the production or supply of goods or services
- for rental to others
- for administrative purpose and
- are expected to be used for more than one reporting period

Depreciable Assets are Fixed Assets:

- Expected to be used during more than 1 accounting year and
- Have a Limited useful life

FIXED ASSETS (BASIC CONCEPTS)

Fixed Assets may be:

- Tangible Assets or Intangible Assets
- Owned or Leased
- Acquired or Self Generated

Asset should be **recognized** when:

- It is put to use
- It is probable that future economic benefits associated will flow to the organization
- and cost of the asset can be measured reliably

FIXED ASSETS (BASIC CONCEPTS)

Acquired Fixed Assets should be shown at their acquisition / historical cost which includes:

- installation charges
- transportation charges
- expenses up to the date of commissioning of assets
- professional fees directly attributable to asset
- Expenses on development on assets e.g. Land should be capitalised

Less: discount/rebate on purchase

FIXED ASSETS (BASIC CONCEPTS)

Self Generated Assets should include:

- all directly attributed costs incurred to construct the Fixed Asset

FIXED ASSETS (BASIC CONCEPTS)

Concept of Control:

- Defined in Accounting Standard 26
- 'Control' is identified when the enterprise:
 - has the power to obtain future economic benefits flowing from the underlying resources
 - and also can restrict the access of others to those benefits

FIXED ASSETS (BASIC CONCEPTS)

Concept of Control:

- This concept is important as it brings non-owned assets into the books such as
 - Leasehold Assets
 - Even Land in the permissive possession of the Railway is to be considered @
Re.1 value

FIXED ASSETS (BASIC CONCEPTS)

What is Depreciation? For a Depreciable Asset it is:

- Wearing out/Consumption/Loss of Value from:
 - Use
 - Effluxion of time
 - Obsolescence through Technology
 - Market changes
- It includes amortization (where life is predetermined) and depletion (for wasting assets)

FIXED ASSETS (BASIC CONCEPTS)

- Depreciation is calculated based on the following parameters:
 - Cost of the Fixed Asset
 - Date on which the asset is put to use
 - Useful Life/ Codal Life
 - Residual/ Salvage Value @ 5%
- Hence it is very important to capture these details in the Fixed Asset Register accurately.

FIXED ASSETS (BASIC CONCEPTS)

- Depreciation should be calculated:
 - for **ALL** Fixed Assets
 - **except Land and Capital Work in Progress**
 - based on Straight Line Method (SLM) as per useful life defined in para 219 of Indian Railways Finance Code Vol-I

FIXED ASSETS (BASIC CONCEPTS)

Exceptions to Useful Life as per Finance Code:

- Rail, Sleeper and Track Fittings to be taken on Technical Estimation as 20 Years

Useful Life not prescribed in Finance Code and prescribed by ICAI ARF in AAIM

Name of Asset	Useful Life
Building	70 years
Furniture & Fixtures	10 years
Roads & Streets	5-15 years
Ballast	10 years

FIXED ASSETS (BASIC CONCEPTS)

Capital Work In Progress (CWIP) is

- Expenditure of Capital Asset
 - in the process of construction/completion
 - before commencement of operations
- It includes
 - total expenditure on Capital Assets not completed till year end
 - value of work done and entered in Measurement Book **whether paid or not** i.e. money spent and paid **plus** amount of bills passed but not yet paid
 - Advance for Capital Works and Project stores

FIXED ASSETS (BASIC CONCEPTS)

- CWIP *will not be depreciated* since the asset is not ready to use
- CWIP will be transferred *to the respective asset head* once the asset has been *fully constructed and ready for economic use*
- Information related to CWIP is available in the *Works Register* maintained in each unit and *pink book* may be used as a reference
- In the case of CWIP of Track, caution is required to *avoid* double accountal of data in FAR of Track as well as in CWIP

FIXED ASSETS (BASIC CONCEPTS)

Treatment of Leased Assets:

- Presently, a major part of Rolling Stock of Indian Railway is financed by IRFC and leased to Indian Railways
- Leased assets under finance lease agreement should be accounted as follows:
 - Fixed Asset is accounted at cost of acquisition on commencement of the lease term and a liability is created for an equivalent amount
 - Depreciation on such assets shall be provided at the same rates as in case of owned assets

FIXED ASSETS (BASIC CONCEPTS)

Treatment of Leased Assets contd:

- Each Zonal Railway is required to compile the data relating to Rolling Stock segregated into Leased (IRFC) and non-leased (non IRFC) stock to be provided to the Unit Team which will be forwarded to the Nodal Team of ICAI ARF

Finance Lease:

- Finance lease is a type of lease in which a finance company is the legal owner of the asset for the duration of the lease, while the lessee not just has operating control over the asset, but also has a substantial share of the economic risks and returns from the change in the valuation of the underlying asset.

FIXED ASSETS REGISTER FORMATS

FA. No.	Name of Assets	Illustrations
FA-1	Lands	Details of Land as well as land relating to Buildings, Roads, Bridges, etc., are covered in this format.
FA-2	Buildings	Residential building, staff quarters, station building, LC gate, water hut, Overhead tank, tube well, open well, etc.
FA-3	Bridge/Flyover/Tunnel/ Subways	All kind of Bridge/Flyover/Tunnel/ Subways like Road Under Bridge (RUB), Road Over Bridge (ROB), etc.
FA-4	Road/Street	Details of all Roads/Streets which pertain to Indian Railway.
FA-5A to 5D	Railway Tracks	Details of Rails, Sleepers, Ballast and other track Fittings.
FA-6	Furniture and Fixtures	Fan, UPS, Tables, Cupboards, AC, Coolers, Invertors, etc.
FA-7	Office Equipment	Fax machines, Xerox machines, Typewriter, projector, etc.
FA-8	Vehicles	Truck, Cars, Ambulance, Jeep, etc.
FA-9	Plant, Machinery & Equipment	DG set, Solar hot water plant, Lift, escalators, etc.
FA-10	Computers and Peripherals	Computer, Laptop, Printer, Routers, Thin cabinet, Networking equipment's, etc.
FA-11	Medical Equipment	X-ray machine, Eye scan Biometer, etc.
FA-12	Loco/Coach/Wagons	Details of all Loco/Coach/Wagons.
FA-13	Capital work in progress	Running civil construction works
FA-14	Plant, Machinery & Equipment (Signal)	Point machines, Signal, Relay room, Track circuits, Panel, etc.
FA-15	Plant, Machinery & Equipment (Telecom)	VHF sets, Display boards, LCD Monitor, etc.
FA-16	Electrical Equipment and Fittings	Transformer, Pump, Battery charger, etc.
FA-17	Intangible assets	Software, Copyrights, Patents, etc.
FA-18A to FA – 18D	Other Assets	Mast, Portals, Transformers, Conductors, etc.

KEY POINTS FOR FAR PREPARATION

Which Fixed Assets should be included?

- Identify **ALL** Fixed Assets.
- If sufficient Documents/records are not available then conduct physical verification and list the actual Fixed Assets available
- Cross verify the same with existing records maintained

What if number of Units is not available?

If number of units for each assets are not available, consider unit as one

KEY POINTS FOR FAR PREPARATION

How should the Cost be ascertained when records are not available?

- Consider Cost of Acquisition / Historical cost as Rs 1/-
 - If cost is not ascertainable due to various reasons such as inadequate or non-existent records
 - Value of assets transferred by Government or any other individual free of cost
- Hypothetical / self assessed cost should not be considered
- Approximate values should not be entered
- Direct or Indirect Grants received by Indian Railway (eg. State Government Grant for Bridges, Flyover, Tunnel, Subways etc) should be netted off

KEY POINTS FOR FAR PREPARATION

➤ Date of Acquisition / Construction is not known precisely

- Where only the year is known, then consider date as 1st April of that year
- Tentative number of years used is known and used life is less than useful/codal life – do reverse calculation and derive year of put to use
- if date is not available, useful/codal life is over, but cost is available then fully charge depreciation and maintain net 5% residual value
- If neither date nor value is available then value @ Re.1. No depreciation is charged on such assets.

GENERAL INSTRUCTIONS FOR FAR PREPARATION

- Try to make the collection and compilation of data as comprehensive as possible and fill all columns of respective FAR formats with accurate data
- Where sufficient records are not available, provide at least the following data accurately:
 - Description of Asset
 - Cost of the Fixed Asset
 - Date on which the asset is put to use
 - Useful Life/ Codal Life
 - Residual/ Salvage Value @ 5%

GENERAL INSTRUCTIONS FOR FAR PREPARATION

- Data to be classified correctly based on the FAR Formats provided e.g.
 - Land on which Track is laid is to be classified as Land
 - Cost of Development of Land to be classified under Land
 - Cranes/ JCB Vehicles to be treated as part of Plant & Machinery not vehicle
 - Control Office Equipment to be part of Plant, Machinery & Equipment – Telecom
- Correct Categorization where the useful/ Codal Life is different eg. RCC, Non RCC, Temporary Structures
- Eliminate items which are not in the nature of Fixed Assets such as Printer cartridges, stationery etc and also Assets which do not belong to IR such as Hired Vehicles

COMPOSITION OF FIXED ASSETS REGISTER

- Apart from some specific information as applicable to each class of asset, following are the common details which are generally required in each class of asset:
- **Description**: in this column description of asset is required to be mentioned. For example, in case of details of furniture, description will be forms of its nature e.g. table, chairs, almirah or safe, etc. and in case of Building description may be Station Building, Administrative Office, etc.
- **Stock Holder Code**: It denotes the custodian of assets. In Railways, units such as SSE may be treated as the custodian of assets.
- **Block Section**: Block section denotes 'Between two stations'. It would help to trace the location of any asset in a convenient manner.
- **Cost of acquisition/construction**: Cost of acquisition shall also include, in addition to the cost incurred in acquiring/constructing the said assets, cost incidental to the acquisition/construction. For example, in case of acquiring land, cost of registry would also be part of cost of acquisition.

- **Cost of improvements:** Any cost incurred for improvement of assets, which results in increasing the life or the utility of the asset, should be considered as an improvement cost. Expenses of a normal and routine nature incurred for the repairs and maintenance of assets should not be considered as an improvement cost. For example, in case of Vehicle, normal periodical services for smooth running of vehicle will not be treated as cost of improvement. However, if engine or chassis is replaced which results in increasing the life of vehicle will be treated as cost of improvement
- **Date of acquisition:** The date of acquisition is the date on which the Property was legally vested. For instance, in case of civil structure date of completion would be taken as date of acquisition while in case of other assets such as office equipment, furniture etc., and actual date of purchase may be taken as date of acquisition.
- **Mode of acquisition:** Mode of acquisition is required to be explained. For example if asset is received as gift then its mode would be 'Gift', if it is constructed than its mode of acquisition is 'constructed,' etc.

- **Reference of available title documents**: It has to be ensured that as far as possible the relevant documents like title deeds, contracts, invoices, etc., are available. A reference of the same may also be provided in the formats in the prescribed column. If documents are not available then same is also required to be mention.
- **Codal Life of Assets/Normal useful life**: Useful life of assets is the period of time over which an asset is expected to be used by the entity. In IR, life of most assets has been prescribed in the code/manuals. Life of assets is required in order to calculate the rate of depreciation.
- **Fund Allocation Code**: In Indian Railways, there are many sources of funds for acquiring/constructing new assets, e.g., DRF, Capital fund, RSF, etc. Source of fund is required to be mentioned, out of which an asset is created.
- **Rate of Depreciation**: Depreciation rate which is used for depreciating the asset is mentioned in this column. Depreciation rate is calculated from the codal/normal useful life of assets, i.e., $\frac{\text{cost of acquisition} - 5\% \text{ residual value}}{\text{normal useful life/Codal life}}$.
- **Accumulated Depreciation**: Accumulated depreciation is depreciation on asset from the date of acquisition to the Balance Sheet Date.

- **Net book value/Written down value**: This value will be derived after deducting accumulated depreciation from the cost of acquisition.
- **Remark**: If any other relevant detail is required to be mentioned in respect of any asset then same may be mentioned in 'Remark'. For example – pending litigation in respect of any asset, any unauthorised use or encroachment on the assets, assets for condemnation, etc.

GENERAL INSTRUCTIONS FOR FAR PREPARATION

- Include only those items which should be capitalized as enumerated in the Accrual Accounting Implementation Manual such as:
 - Machinery Spares which can be used only in connection with an item of fixed asset and whose use is expected to be irregular
 - Tools costing more than Rs. 5,000 or less than 5000 etc
- Do not merge Rows or Columns as it creates problems while uploading data
- Even if data is common or repetitive, fill the applicable data in the respective cell rather than merge it or leave it blank

GENERAL INSTRUCTIONS FOR FAR PREPARATION

- NIL to be mentioned where details are not available without leaving any cells blank and N/A to be mentioned where format itself is not applicable
- Any important, relevant and useful details should be mentioned in remark column such as:
 - pending litigation in respect of any asset
 - any unauthorised use or encroachment on the assets
 - consideration of any asset is not paid by IR but the permissive possession is with IR
 - assets marked for condemnation, etc.

ADDITIONAL REQUIREMENTS

- Divisionwise Rates of Ballast to be provided from 2005 to 2017 by all Zones to Unit Teams for forwarding to the Nodal Team of ICAI ARF
- Also provide physical data of track too.
- FAR for March 31, 2015 should be derived after considering Sale/ Scrap/ Disposed/ Condemned assets for the year 2014-15.
- Details of Sale/ Scrap/ Disposed/ Condemned assets to be provided in a separate Format provided by ICAI ARF Asset wise for:
 - FY 2015-16
 - FY 2016-17

Current Asset(CA) – Number	Name of Current Asset	Source of Information
CA-1	Detail of Investment	N.A.
CA-2	Details of Advances to employees	E- Suspense Section
CA-3	Details of Misc.Advances other than employees	Books Section
CA-4	Details of EMD and Security Deposit	Books Section
CA-5	Transfer Certificate (TC) Debit	Zonal HQ - info to be obtained from HQ Books
CA-6	Transfer Certificate (TC) Credit	Zonal HQ - info to be obtained from HQ Books
CA-7	Details of Demand Recoverable	TAO & BR section of each Division
CA-8	Details of Bank Balances	Books Section HQ
CA-9	Details of Cash and Cash Equivalents	Books Section HQ
CA-10	Details of Inventory/Closing Stock	SS of Shops and SSE's of all Departments

Current Asset(CA) – Number	Name of Current Asset	Source of Information
CA-10A	Diesel at Railway Diesel	Fuel Section and Store Suspense
CA-11	Details of Imprest	Expenditure section of Each Unit
CA-12	Details of Receivables	Book Section (P&AO,AG etc.)
CA-13	Details of Foreign Service Contribution	ENG section of HQ
CA-14	Advance Against State Railway Provident Fund	PF Section
CA-15	Details of Warranty Charges	To be discussed

Current Liability(CL) – Number	Name of Current Liability	Source of Information
CL-1, 2, 3	Details of TDS Payable	ENG for Employees and Expenditure Section of all units
CL-4	Details of Service Tax Payable	Expenditure HQ as it is centralised
CL-5	Details of Sales Tax/VAT Payable	SAO of Sales, Sales Tax and VAT Returns from Div.
CL-6	Details of Wages Payable	Books Section Head Office/Divisions/Workshops
CL-7	Details of Salary Payable/Demand Payable	ENG Section, PF Section, Pay Sheets
CL-8	Details of Provident Fund (PF)	Book Section
CL-9	Details of other Employee Benefits Payable	EG & ENG Section
CL-10	Details of Expenses/Bills Payable	Expenditure section

Current Liability(CL) – Number	Name of Current Liability	Source of Information
CL-11	Details of amount payable to Contractors/Suppliers	Book Section and Executive department
CL-12	Details of Deposits	Efficiency Section at HO, Suspense Review report
CL-13	Details of Various Funds Balances	Zonal HQ- Account Current/ schedules
CL-14	Details of Loans Payable	Zonal HQ- Account Current/ schedules
CL-15	Details of Payables to Contractors/Suppliers	Purchase suspense account officer of SAO Fuel
CL-16	Contractual Liabilities for Works contract	Construction Dept
CL-17	Details of Earning Contract	Senior DFM (Traffic)
CL-18	Details of Income Received in Advance/Way leave Charges	Senior DFM (Traffic)
CL-19	Detail of Pending Claims	RCT/CCO

Thank You

