सरकारी लेखाकरण मानक सलाहकार बोर्ड
भारत के नियंत्रक महालेखापरीक्षक का कार्यालय
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Record Notes of the Workshop on Experience Sharing of transition from Cash to Accrual Accounting in the Department of Posts and Railways.

1. A workshop on Experience sharing of transition from Cash to Accrual Accounting in the Department of Posts and Railways was organised by the GASAB Secretariat on 24th March, 2014 in the office of the Comptroller and Auditor General of India. The meeting was chaired by the Deputy Comptroller and Auditor General (Government Accounts) and Chairperson GASAB.

2. The list of participants in the Workshop is placed at **Annexure 1.**

3. Smt Akoijam Rina, Principal Director and convenor of the workshop welcomed all and gave a brief background on how GASAB follows the process of holding interactive workshops for experience sharing and raising awareness among stakeholders in its efforts towards facilitaing the transition from cash to accrual accounting in Government and mentioned that this workshop will be a precursor to the next GASAB meeting.

3. Chairperson GASAB and Deputy Comptroller and Auditor General, Smt Revathy Iyer, in her Opening remarks, highlighted the importance of pilot studies by the various stakeholders to understand the intricacies, technicalities and challenges of transitioning from cash to accrual accounting in Government, and mentioned that the efforts and milestones made by the Department of Posts and Railways in this area particularly with reference to asset accounting and asset management will be a critical source of learning for other stakeholders who will be taking up pilot studies as they prepare for the shift from cash to accrual accounting. She also mentioned that interactive workshops like this one will have a meaningful role to play in GASAB's efforts towards steering accounting reforms in Government.

4. The first presentation was made by Shri Rajkumar Manocha, ED-AIMS, and Technical Advisor to the Financial Commissioner, Indian Railways who spoke among other things on (i) the Existing Accounting System in Indian Railways, (ii) the Accounting Reforms Initiative by Indian Railways, (iii) Transition Plan from Existing Cash to Accrual Based Accounting and (iv) What is expected from Accounting Reforms.

5. Some of the key points from the experience sharing by Indian Railways is as follows:

5.(i) The existing system of accounts in Indian Railways is largely Cash based so far as the preparation of Finance Accounts is concerned. However, they also follow partial commercial accounting which is based on accrual accounting as different from cash based accounting in areas like **Demands Payable**, **Demand Recoverable**, **Traffic Suspense**, **WMS – Workshop manufacturing Suspense, Stores Suspense which are maintained to link commercial Accounts, Generating Annual Profit and Loss Accounts, and Annual Balance Sheet**

5.(ii) With the 12th Finance Commission recommendations, Indian Railways took the decision to shift to accrual accounting and formulated its **Accounting Reform Policy and Programme in 2007, Appointed Accounting Reforms consultants, prepared a Basic Roadmap to transition to Accounting Information Management (AIMS) based Accrual accounting in IR and nominated an Accounting Reform Team.**

5.(iii) The Accounting reforms include **Mercantile accounting i.e Accrual based double entry and general ledger system of bookkeeping via subsidiary ledgers, a new accounting architecture based on Existing chart of accounts, Integrated IT infrastructure for AR (i.e AIMS).** Pilot implementation of the Accounting Reforms will be carried out first in two select railways, then in the other zonal railways before being rolled out pan India.

5.(iv)The areas identified for focusing during the transition included **Primary and Subsidiary Accounting System, Internal Check and General Ledger Control System, Assets, Liabilities, Income, Expenditure and Other Areas.**

5.(v) **For the Asset side of the Balance Sheet**, the following items were identified for consideration:

FIXED ASSETS ACCOUNTING

(a) Construction of Asset Register (b) Physical enumeration of Assets (c) Physical verification of Assets (d) Tracing of opening balance Gross block and Depreciation (e) Imputing value to Assets where not available and (f) Revaluation of Assets.

INVENTORIES AND STORES ACCOUNTING

(a) Rationalisation of Inventories, (b) Physical Verification of Inventories, (c) Classification of Inventories, (d) Valuation of Inventories (e) Valuation of material at site and (f) Valuation of Non stock items

OTHER ASSETS ACCOUNTING

(a) Accountal and valuation of all investments (b) Accountal of all advances including deposits with outside agencies (c) Provision amortization on IT Assets, IPR and other Copyrights , if any

5.(vi) For the Liabilities side of the Balance Sheet, the following were identified for consideration:

(a) Correct classification of owned and loan capital (b) Correct Accountal of reserves fund and other funds (c) Assessment of accrued liabilities for contractual obligations (d) Assessment of accrued liabilities on account of establishment claims and (e)Disclosure of Contingent Liabilities

5.(vii) Some of the expected results from the Accounting Reforms include: (a) **Govt Accounts in GASAB compliant form and format. This will result in a hybrid accounts being prepared which has reporting format supplemented by GASAB pronouncements e.g under IGFRS 1, like accounting policies, charter of responsibilities etc. (b) Annual Govt Accounts Financial Statements including Appropriation Accounts(CGA&CAG compliant) (c) Accrual based commercial accounts &MIS Reports (d) Annual Financial statements P&L A/C, Balance Sheet and Cash Flow Statement as per GAAP/IGFRS (e) Cost accounts Reports i.e Section/Route/Train costing (f) Activity Based costing Report, Performance Budget ,Variance analysis and Responsibility accounting Report and (g) Reconciliation of Finance and Cost accounts Reports**

5.(viii) On being queried by the Chairperson as to whether any costing system has been put in place in Indian Railways for calculating the cost of shifting from cash to accrual basis of accounting, Sh. R. K. Manocha explained that Indian Railways already has a robust system of accounting and the cost implication for shifting to accrual accounting, which is being worked out line-wise, would not be much.

5.(ix) To Shri Sesh Kumar's query as to whether the Accounting Reforms was meant for the entire Railways, Shri Manocha responded in the affirmative.

6. The next presentation pertaining to experience of the Department of Posts (DoP) was made by Sh. Rajnish Jenaw who intimated that the mandate to switchover from cash based single entry accounting system to accrual based double entry system in the DoP was assigned to Accounting Research Foundation of Institute of Chartered Accountants of India (ICAI-ARF) with the signing of an MOU on 25th June, 2009 by ICAI-ARF and Department Of Posts, Government of India for implementing accrual accounting in two Head Post Offices (HPO) viz. (i) New Delhi GPO (Gole Dak Khana) and (ii) Naraina Industrial Estate Head Office (NIEHO), Naraina.

The highlights from the experience of the Department of Posts include the following:

6.(i) The Existing Chart of Accounts for classifying the accounting transactions of Department of Post were restructured to (a) Incorporate the new accrual heads required under accrual concept; (b) Facilitate preparation of accounts under accrual basis of accounting; and (c) Linkage of existing cash based budgets with accrual and cash based accounts.

6.(ii) **A new 7th tier** was also added to the existing chart of accounts containing six tiers for capturing the accrual accounting classification with the minimum digit structure.

6.(iii) Two softwares namely 'Sanchay Post' and 'CC Patram' are maintained in DoP for capturing Accruals from the data relating to Saving Bank Deposit Schemes and Cash Certificates and it was briefly explained as to how data maintained on cash based accounting is converted to that required as per accrual based accounting by running relevant queries.

6.(iv) Fixed Assets Register was prepared based upon the accounting policies finalized by ICAI-ARF team in consultation with DoP keeping in view the reporting standard "Property, Plant and Equipment" (IGFRS-2 issued by GASAB and IPSAS-17).

6.(v) For **collection of data on Asset**s, Stock Register and Permanent Register are referred to.

6.(vi) All the assets (movable and immovable) except Building of New Delhi HPO (Gol Dak Khana) are v**alued at Historical cost**. In case of Building of New Delhi HPO, since the actual cost was not available, therefore building of New Delhi HPO was **valued at Rs. 1**/-

6.(vii) **Depreciation** was calculated for all items of fixed assets following the Straight Line Method provided in Schedule XIV of Companies Act, 1956 which are as follows:

Data processing machines including computers:	16.21 %
Electrical Equipments	7.07 %
Furniture & Fixtures	6.33 %
Mail Motor Vehicles	11.31 %
Motors-cars, Motor cycles & Scooters	9.5 %
Office Equipment	4.75 %
Plant & Machinery	4.75 %
Land & Building	
Land	0 %
Building	1.63 %

Further it was informed that the percentage of Land & Buildings is 70% of the total assets of DoP calculated upto March 2013.

6.(viii) **Threshold** levels for capitalization of items as fixed assets has been fixed as Rs. 5000/-.

6.(ix) **Composition of Fixed Asset Register** was as follows:

(a) Immovable Assets: Land & Building

Land and Building comprise only those buildings and other constructions made for the use by Department of Post from the records available with them in respect of Different HPOs, Sub Offices and Branch Offices

The Fixed Asset Register provides following details in respect of **Land and Building:**

a.i. Account Code	a.ii. Name of Village/Locality
a.iii. Cost of Land	a.iv. Covered Area
a.v. Built-up area	a.vi. Cost of Development
a.vii. Cost of construction	a.viii. Year of construction
a.ix. Rate of Depreciation	a.x. Accumulated Depreciation
a.xi. Net Block as on reporting date	a.xii. Remarks

(b) **Movable Assets:**

In respect of **movable assets** the Fixed Asset Register provides following details:-

b.i. Account Code	b.ii. Name of Asset

b.iii. Type of Asset b.iv. Date of Purchase

b.v. Rate per Unit b.vi. Total no. Of units

b.vii. Total Cost b.viii. Place of installation

b.ix. Year of purchase b.x. Rate of Depreciation

b.xi. Accumulated Depreciation b.xii. Net Block as on reporting date

b.xiii. Remarks

6.(x) A robust system of review and verification of the Asset Register was introduced which constituted of the following steps:

- Primary accounting unit SO (Sub Office) fills the form along with Assets of BO (Branch Office) > Rs.5000.
- These are physically verified by IPO (Inspector of Post Offices).
- The verified asset register information is then sent to the HO(Head Offices).
- The Other offices under account jurisdiction also send duly verified asset information to HO.
- HO will prepare the asset register information of its own duly verified as well as received from SO and other offices.
- HO will up load the information into Asset Register SW. (More than 1000 Users are Created)
- The other CDDO (Cheque Drawing Disbursing Office) will also upload to Asset Register SW.
- Regional Asset Management Committee Headed by PMG will check and approve it.
- The Asset Management Committee Headed by CPMG (HOC) will certify the correctness of data of Asset Register with the help of IFA and Freeze the data.

6.(xi) For Compilation of Opening Balance Sheet, the basic steps followed was**:**

6.xi. a CAPTURING OF DATA

- Identification of Assets and Liabilities;
- Designing of formats for capturing data relating to accrual;
- Collection of data to prepare complete list of all assets and liabilities.

6.xi. b VERIFICATION

- Physical verification of immovable and movable assets;
- Physical verification of stores, inventories, cash, and investments as a particular date;
- Valuation of Assets and Liabilities, in cases where values are not available from the books and records;
- Cross-checking with original/source document, to the possible;
- Obtain third party certificates (like from banks) to confirm balances.

6.xi.c. COMPILITION

- Compilation of figures from various records, registers, and formats so filled in;
- Preparation of Opening Balance Sheet with the required disclosures;

6.xii Shri Jenaw also mentioned about the software on accrual accounting being developed for facilitating the migration.

6.xiii The SAP developed by TCS is being customized as per requirements of DoP and all the data is being migrated to this customized SAP software.

6.xiv Through this software two types of reporting will be generated viz. (i) Cash based accounting (15 digit CoA for submission to Controller General of Accounts (CGA)); and (ii) Accrual based accounting (10 digit CoA for internal purpose).

6.xv The 15 digit Head of Accounts have been converted to 10 digit as per the limitation of SAP software.

6.xvi. Through the IT Modernisation Project, called Core Banking Solutions (CBS) the post office will be moving from the existing Sanchay Post Application to the new CBS application called "FINACLE"

6.xvii CBS training of pilot locations for Tamil Nadu, Karnataka, Rajasthan, Maharashtra and Delhi circles is in progress and 38 Post offices (as on 10-02-2014) have been migrated to the new CBS application. The Financial System Integrator targets to complete the Rollout in 1000 Post offices across the circles by end of March 2014

6.xviii. In the new system will provide a single view of the financial performance of the DoP and maintain the accounting records under both accrual and cash system, and information on costs and tariffs. This will include tracking and reporting on budget approvals and fund utilization as per Government of India guidelines. It will also manage the procure-to-pay cycle for goods and services purchased by DOP including inventory management, budgeting and procurement, efficient vendor management for payables and receivables to ensure favorable liquidity position for the department.

6.xix. Finally, some of the major problems faced by DOP in the process of transition of Accrual Accounting are (i) Non availability of proper primary information/record in respect of huge assets in Gov. departments (ii) Problem in drawing of opening balance sheet; (iii) Accrued Liability on account of retirement benefit; (iii) human resource constraint to deal with the additional activities involved in accrual based accounting and (iv) the need to follow both accounting system as reporting on CGA is still based on cash accounting.

7. Shri Kurien raised an important issue regarding the need for appropriate amendment to statutory legislations for implementation of accrual accounting considering that the existent legislations pertain to the cash based accounting prevalent in Government. To this the Chairperson responded that the issue will be taken up at the appropriate forum for decision.

8. Shri Pillai and Shri Khattri queried on how the verification of assets are being carried out, either through physical verification through site visits and also through records from the collectorate office. To this, Shri Jenaw replied that in case of DOP, physical verification as well as verification based on available records is being used for enumeration of the assets.

9. The workshop ended with a vote of thanks by Shri Pranav Khullar, who expressed gratitude to the Chairperson GASAB and all participants for the discussions and valuable comments, and particularly to the DOP and Indian Railways for sharing their experience regarding transition from cash to accrual accounting.