SIGNIFICANT ACCOUNTING POLICIES

for Accrual Based Financial Statements of North Western Railway

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सत्यमेव जयते

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रेल भवन, नई दिल्ली-110001
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MINISTRY OF RAILWAYS
(RAILWAY BOARD)
RAIL BHAVAN, NEW DELHI-110001

Foreword

Accounting policies of any organization are the specific policies and procedures that are used to prepare its financial statements. These include methods, measurement systems and procedures for presenting information in financial statements. The need for disclosure of accounting policies arises from the fact that alternative treatments for a transaction or item would be available under different standards. It is therefore imperative that, as users of the financial statements, it is clear as to which standard has been followed by the entity. Moreover, a clear delineation of accounting policies would also enable users to compare the financial statements with other entities.

During the Pilot study on introduction of accrual accounting in North Western Railway (NWR), an Expert Group comprising senior officials of Indian Railways (IR) and Council members of the Institute of Chartered Accountants of India (ICAI) was constituted to prescribe a standard set of policies and principles to be consistently followed in the preparation and presentation of the accrual based financial statements of IR. The Expert group studied the accounting policies obtaining on various international railways viz. Australia, New Zealand, USA and China and also those of DMRC and KRCL while finalizing these accounting policies. It is planned to further broaden their scope and incorporate those aspects that were not applicable to operations of NWR.

I take pleasure in presenting the first set of Significant Accounting Policies that were finalized during the NWR pilot Study and followed in preparing the accrual based financial statements of North Western Railway for the year ending 31st March 2015.

I am thankful to the members of the Expert Group including Sh. Naresh Salecha, Adv/AR & Mission Director, Sh. Satyendra Kaushik, Chief Project Manager/AR/NR, Sh. A. Venkateshwar, Consultant/AR, Railway Board, CA. Amarjit Chopra, past President, ICAI; CA. Sanjay Vasudeva, CA. M.P. Vijay Kumar, CA. Atul Gupta, CA. Harinderjit Singh and CA K Tulshan who have drafted the Significant Accounting Policies with professional finesse.

I am sure that these policies would be of immense use to all the stakeholders.

(Shahzad Shah)

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PREFACE

The Ministry of Railways entrusted the task of ***Validation of Accounting Reforms Report and Related Pilot Study Project on Migration to Accrual Based Accounting System at North Western Railway (NWR), Jaipur*** to the Accounting Research Foundation of the Institute of Chartered Accountants of India (ICAI - ARF).

The Pilot Study involved preparation of the accrual based financial statements of NWR for the year ended 31st March 2015. In order to give a true and fair view of the entity to the end user and also to ensure comparability of these financial statements with other entities, it was essential to formulate and then disclose the Accounting Principles and policies followed while preparing the financial statements.

The need for the Accounting Policies essentially arises because a certain accounting transaction can be recorded in more than one way. Therefore, to avoid ambiguity in the preparation of the financial statements, the principles which have been used for preparing financial statements, are adopted and disclosed.

An Expert Group comprising senior officials of Indian Railways and Central Council Members of the Institute of Chartered Accountants of India was constituted to prescribe the Significant Accounting Policies that would form the basis of the accrual based financial statements of North Western Railways and other Zonal Railways in course of time. The Expert Group conducted several rounds of intensive discussions on accounting principles and policies in order to ensure that they are in consonance with the Generally Accepted Accounting Principles.

While finalising the Significant Accounting Policies, principles of various international and domestic Railway Corporations and several other transport companies in aviation and shipping sector were also referred to.

I sincerely appreciate the professional finesse with which the members of the Expert Group conducted several sessions on finalising accounting policies in a systematic and comprehensive manner. I compliment the Expert Group comprising Sh. Naresh Salecha, Adv/AR & MD, Sh. Satyendra Kaushik, Chief Project Manager/AR/NR, Sh. A. Venkateshwar, Consultant/IR who together with my ICAI colleagues CA. Amarjit Chopra, Past President ICAI & Director ICAI ARF, CA. Atul Gupta, Director, ICAI ARF and Project incharge, CA. Sanjay Vasudeva, Member Central Council, ICAI, CA. MP Vijay Kumar, Member Central Council, ICAI, CA. Harinderjit Singh and CA. K K Tulshan who drafted the Significant Accounting Policies for IR in a time bound manner. Further, I would like to thank CA. K Sripriya, Director ICAI-ARF and Member Central Council and CA. Ranjeet Kumar Agarwal, Director ICAI-ARF and Member Central Council for their timely support.

I am sure this document will enhance stakeholders' confidence. We look forward to working with the Indian Railways in their endeavour of introduction of accrual accounting in their organization. It has indeed been our privilege to be partnering with an organization such as Indian Railways in the process of nation building.

16-December-2016

(CA. M. Devaraja Reddy)
Chairman
ICAI Accounting Research Foundation

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Basis of Preparation of Financial Statements

Purpose/Objectives

The purpose of this accounting policy is to prescribe the way general purpose financial statements should be presented to ensure a true and fair view of the financial position and operating results of an organization and to ensure comparability with the entity's financial statements of previous periods as well as with the financial statements of other entities. To achieve this objective, it sets out overall considerations for the presentation of financial statements, guidance for their structure, and minimum requirements of the content of financial statements prepared under the accrual basis of accounting.

Existing System in Indian Railways

Presently, financial statements in Indian Railways are prepared at Zonal level and subsequently consolidated at Railway Board level. However, these are not self-explanatory. Some of the key information like CWIP, depreciation, activity wise cash flow, etc., are either missing or can't be identified easily. Further, accounting policies although detailed in various railway codes and manuals are not completely disclosed in the financial statements / Appropriation Accounts.

Analysis of practice followed by other Railways

a. **The National RailRoad Passenger Corporation (Amtrak)**
The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.*(Source Annual Report of FY 2013 page 18)*

b. **Australian Rail Track Corporation**
The general purpose financial statements have been prepared in accordance with Australian Accounting Standards, the requirements of the Corporations Act 2001 and other authoritative pronouncements of the Australian Accounting Standards Board. Australian Rail Track Corporation Ltd is a for profit entity for preparing the financial statements. The consolidated financial statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements are prepared on a historical cost basis except for certain classes of plant and equipment, held for sale assets, the defined benefit fund plan liability and derivatives which are measured at fair value. (*Source Annual Report2014page 44*)

c. **Kiwi Rail Holdings Ltd.**
The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"), and comply with the State-

Owned Enterprises Act of 1986, the requirements of the Companies Act 1993 and the Financial Reporting Act 2013.The financial statements have also been prepared based on historical cost, except for certain non-financial assets and derivative financial instruments, which have been valued at fair value.*(Source Annual Report 2014 Page 56)*

d. China Railway Construction Corporation Ltd.

The financial statements have been prepared in accordance with Accounting Standards for Business Enterprises — Basic Standard and specific standards, and the implementation guidance, interpretations and other relevant provisions issued and revised subsequently by the Ministry of Finance (collectively referred to as "Accounting Standards for Business Enterprises"). The financial statements have been presented on a going concern basis.

The financial statements have been presented under the historical cost convention, except for certain financial assets, which have been measured at fair value. If the assets are impaired, the corresponding provisions for impairment shall be made according to relevant requirements.*(Source Annual Report 2014 Page 169)*

e. Delhi Metro Rail Corporation Ltd.

The financial statements have been prepared on the historical cost basis in conformity with the statutory provisions of the Companies Act, and the Statements, Standards and Guidance Notes issued by The Institute of Chartered Accountants of India and in accordance with Generally Accepted Accounting Principles as adopted consistently by the company.*(Source Annual Report 2013-14 Pages 51)*

f. Konkan Railway Corporation Ltd.

The accompanying financial statements are prepared and presented under the historical cost convention, in accordance with the Generally Accepted Accounting Principles in India (Indian GAAP) to comply with the Accounting Standard as notified in the Companies Act, as applicable along with the rules of allocation, classification/recognition of revenues and expenditure adopted by Indian Railways as are relevant and applicable.*(Source Annual Report 2014 Page 61)*

Analysis of practice followed by Indian Railways

On an analytical review of aforesaid best practices and existing system of Indian Railways, the view of the ICAI – ARF is that the Financial Statements of the Indian Railways should be prepared in a manner, that provides information about the financial position, financial performance and cash flows of the entity and is useful to a wide range of users in taking economic decisions.

Decision

According to the Group, the basis of preparation of Financial Statements of Indian Railways shall be as follows:

"Financial Statements are prepared and presented under the historical cost convention on a going concern basis using the accrual basis of accounting, to comply with the Pronouncements of 'Government Accounting Standards Advisory Board (GASAB)' and Accounting Standards Issued by ICAI along with the rules of allocation, classification/recognition of revenues and expenditure as are relevant and applicableexcept retirement benefits to employees which shall continue to be accounted on cash basis".

Use of Estimates

Purpose/Objective

The purpose of this accounting policy is to state and assist the user of the financial statements in the understanding of the accounting estimates, assumptions and changes in accounting estimates & assumptions used to prepare the financial statements of an entity.

Existing System in Indian Railways

The Budgetary Estimate is also used to make projections of capital funds required for projects and other works being charged to different heads of accounts including Depreciation Reserve Fund for Depreciation provision on various operational and other Assets. These funds are allocated yearly for projects whose execution may exceed more than a year. Determination of allotment of fund to the project, in the beginning of the financial year, is based upon the actual financial and physical progress so far, as well as anticipated financial and physical progress to be achieved during the ensuing year.

Analysis of practice followed by other Railways

a. **The National Rail-Road Passenger Corporation (Amtrak)**
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclose contingent assets and liabilities at the date of the financial statements, and report amounts of revenues and expenses during the reporting period.

The Company bases these estimates on historical experience, the current economic environment, and on various other assumptions that are believed to be reasonable under the circumstances. However, uncertainties associated with these estimates exist and actual results may differ from these estimates. Some of the more significant estimates include: allowance for doubtful accounts and obsolescence of material and supplies, estimated useful lives of property and equipment, calculation of accelerated depreciation related to Sandy, recoverability of long-lived assets, estimates of wrecked and damaged equipment, estimates of casualty reserves, pension and other post retirement employee benefits expense and obligations (including expected return on plan assets, discount rates, rate of future compensation increases, and health care cost trend rates), estimated costs for retroactive wages for union employees, estimated costs of asset retirement obligations, valuation allowance for deferred tax assets and environmental reserves.*(Source Annual Report 2013 Page 28)*

b. Australian Rail Track Corporation

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities or may involve a higher degree of judgement or complexity within the next financial year are as follows:

i. Defined benefit plan;
ii. Timing of project completion;
iii. Fair value;
iv. Deferred tax recognition;
v. Provisions - Short term employee benefits;
vi. Provisions – Long service leave, etc.*(Source Annual Report 2014 Page 56)*

c. Delhi Metro Rail Corporation Ltd.

The preparation of the financial statements in conformity with the generally accepted accounting principles requires estimates and assumptions to be made that affect the reported amounts of revenues and expenses during the reported period and the reported amounts of assets, liabilities and disclosures of contingent liabilities on the date of financial statements. Actual results could differ from these estimates. Differences between actual results and estimates are recognized in the period in which the results are crystallized.*(Source Annual Report 2013- 2014 Page 51)*

d. Konkan Railway Corporation Ltd.

The preparation of financial statements requires estimates and assumptions to be made that affect the reported amount of assets and liabilities on the date of financial statements and the reported amount of revenues and expenses during the reporting period. Difference between the actual results and estimates are recognized in the period in which the results are known / materialized.*(Source Annual Report 2014 Page 61)*

Analysis of practice followed by Indian Railways

On an analytical review of aforesaid best practices and existing system of Indian Railways, the view of ICAI-ARF team is that the preparation of Financial Statements of the Indian Railways in conformity with the accounting principles and relevant accounting pronouncements requires the management to make estimates and assumptions that affects the reported amounts in the Financial Statements.

Decision

According to the Group the accounting policy on use of estimates in Indian Railways shall be as follows:

"The estimates are based on historical experience, the current economic environment, and on various other assumptions that are believed to be reasonable under the circumstances. However, uncertainties associated with these estimates exist and actual results may differ from these estimates. Any revision to accounting estimates is recognised prospectively in current and future periods. Some of the significant estimates include: obsolescence of material and supplies, estimated useful lives of property and equipment, non – realisation of railway dues and liabilities.

Fixed Assets Accounting

Purpose/Objective

The purpose of this accounting policy is to prescribe the accounting treatment for property, plant and equipment (PPE) so that users of financial statements can obtain information regarding an entity's investment in its property, plant and equipment and any changes in such investment. The principal issues in accounting for property, plant and equipment are the timing of recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.

Existing System in Indian Railways

Presently, in Indian Railways the expenditure is classified into Demands for Grants. (D 1 – 15 pertains to revenue expenditure and D 16 pertains to capital expenditure). For instance, if a computer set is purchased from Demand No. 3 to 13 then it is classified as revenue expenditure and not shown in Block account whereas if the same set of computer is purchase from Demand No. 16 then it is classified as capital expenditure and shown in the Block account. Capital work-in-progress (CWIP) is also not recognized separately. (Refer Para 427 to 431 of Finance Code-1).

On the other hand, under accrual accounting system, the amount spent for processing any long-term capital asset or to enhance the working capacity of any existing capital asset or to increase its lifespan in order to generate future cash flow or to decrease the cost of production is known as ***Capital Expenditure.*** The expenditure which is incurred on a regular basis for conducting the operational activities of a business is known as ***Revenue Expenditure.***

Analysis of Practice followed by other Railways

a. **The National Railroad Passenger Corporation (Amtrak)**
Property and equipment owned by the Company are carried at cost and depreciated using the group method of depreciation ("group method") in which a single composite depreciation rate is applied to the gross investment in a particular class of property or equipment, despite differences in the service life or salvage value of individual property units within the same class. This excludes computer equipment and software, which are stated at cost and are individually depreciated on a straight-line basis over their estimated useful lives, which are generally 5 to 10 years. Properties held under capital leases and leasehold improvements are depreciated over the shorter of their estimated useful lives or their respective lease terms. Land is carried at cost.*(Source Annual Report 2013 Page 21)*

b. Australian Rail Track Corporation

Infrastructure assets are shown at fair value (inclusive of revaluations and impairments) less accumulated depreciation, based on periodic, but at least triennial revaluations. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalue amount of the asset. All other property, plant and equipment are stated at historical cost less accumulated depreciation, and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred. *(Source Annual Report 2014 Page 48)*

c. Kiwi Rail Holdings Ltd.

Property, plant and equipment asset classes consist of land, buildings, railway infrastructure, rolling stock, ships and plant and equipment. Property, plant and equipment are shown at cost or valuation, less any accumulated depreciation and accumulated impairment losses. Items of property, plant and equipment during construction are classified as capital work in progress. Cost includes expenditure that is directly attributable to the acquisition of the asset. Where an asset is acquired for nil or nominal consideration the asset is recognised initially at fair value, where fair value can be reliably determined; and the fair value of the asset received less costs incurred to acquire the asset is also recognised as income in the Statement of Financial Performance.*(Source Annual Report 2014 Page 58)*

d. China Railway Construction Corporation Ltd.

A fixed asset is recognized only when the economic benefits associated with the asset will probably flow to the Group and the cost of the asset can be measured reliably. Subsequent expenditure incurred for a fixed asset that meets the recognition criteria shall be included in the cost of the fixed asset, and the carrying amount of the component of the fixed asset that is replaced shall be derecognized. Otherwise, such expenditure shall be recognized in profit or loss for the period in which it is incurred.

Fixed assets are initially measured at cost, and the effect of any estimated costs of abandoning the asset is considered. The purchase cost of a fixed asset comprises its purchase price, related taxes and any directly attributable expenditure for bringing the asset to its working condition for its intended use, such as transportation costs and installation expenses. If the payment for a purchased fixed asset is deferred beyond the normal credit terms, cost of the fixed asset shall be determined based on the present value of the instalment. The difference between the actual payment and the present value of the purchase price is recognized in profit or loss over the credit period, except for such difference that is capitalized according to Accounting Standard for Business Enterprises No. 17 Borrowing Costs.*(Source Annual Report 2014 Page 185)*

e. Delhi Metro Rail Corporation Ltd.

Fixed assets including intangible assets are shown at their acquisition cost / historical cost.

i. Deposit works/contracts are capitalised on completion based on statement of account received from executing agencies and in its absence based on technical assessment of the work executed.
ii. Assets & systems common to more than one section of the project are capitalised based on technical estimates/assessments.
iii. Machinery spares which can be used only in connection with an item of fixed asset and whose use is expected to be irregular is capitalised.
iv. Capitalization of the assets for new section to be opened for public carriage of passengers is done after ensuring its completeness in all respect as per manuals of practice of Delhi Metro Railway, administrative formalities and compliance of requirements stipulated by Commissioner of Metro Railway Safety imperative for the opening of such section.
v. Assets created under Public Private Partnership (PPP) Model, are capitalised at cost incurred by company plus Re.1/- when such Section to be opened for public carriage of passengers after ensuring its completeness in all respects as per Manual of Practice of Delhi Metro Railway, Administrative formalities and compliance of the requirements stipulated by Commissioner of Metro Railway Safety imperative for the opening of the Section.
vi. In the case of assets put to use, where final settlement of bills with contractors is yet to be effected, capitalisation is done on provisional basis subject to necessary adjustment in the year of final settlement.
vii. Payments made towards permissions for construction of viaduct, bridges, tunnels, culverts, binders, etc. from various land owning agencies is capitalized as intangible asset. *(Source Annual Report 2014 Page 52)*

f. Konkan Railway Corporation Ltd.

i. In classifying the nature of “Fixed Assets” and “Capital Works in Progress” the requirements of Revised Schedule VI and the format of disclosure followed by Indian Railways have been kept in view.
ii. The Fixed Assets in use are shown at cost less accumulated depreciation. Adjustments arising from Foreign Exchange Rate variations relating to borrowings attributable to fixed assets are allocated to those assets purchased out of Foreign Exchange Loans.
iii. The Corporation has been charging small items of Plant, Equipment, etc. valuing up to ` 1 lakh each procured for 'Open Line Working including administrative

offices' to Statement of Profit and Loss on materiality basis, except, plant and equipment procured for implementation of individual project which is charged to the project account irrespective of the cost as per the terms of contract. From the financial year 2010-11, the Corporation has decided to capitalize, such items as fixed assets in line with the provisions of Schedule XIV of the Company's Act, 1956.

iv. The cost of furniture and fixtures lying at offices, stations and rest houses including office equipment procured and used during construction period have been added to the respective building cost at the time of initial capitalization. Furniture & Fixtures including office equipment acquired subsequently after commissioning of entire line have been shown separately under the head "Furniture & Fixtures".*(Source Annual Report 2014 Page 61)*

Analysis of practice followed by Indian Railways

On an analytical review of aforesaid best practices and existing system of Indian Railways, the ICAI-ARF team's view is that the Fixed Assets, being a significant portion of the total assets of any organization, the accounting thereof involves proper classification, segregation, recording and presentation for reflecting the financial status and determining the level of efficiency of the organization in relation to the cost incurred on the assets. So, it is essential for Indian Railways to record all the assets in the books of accounts and make provision for depreciation.

Decision

According to the Group the accounting policy on fixed assets of Indian Railways shall be as follows:

a) ***"Fixed assets are shown at their acquisition cost/historical cost less accumulated depreciation. Cost of fixed assets includes incidental expenses like installation charges, transportation cost, etc., and expenses up to the date of commissioning of assets.***
b) ***In the absence of any determinable cost, i.e., acquisition cost/historical cost because of inadequate and non-existent record, asset is carried at Re. 1/-, except for land that shall be valued as per the Appropriation Account for the year ended March 31, 2015. (This shall be applicable only in case of preparation of Opening Balance sheet, i.e., first balance sheet under accrual accounting system).***
c) ***Machinery spares which can be used only in connection with an item of fixed asset and are in nature of insurance spares are capitalized.***
d) ***Any cost of improvement which increases the future economic benefits, safety features, operational efficiency including fuel/energy efficiency from asset and enhances the life and utility of asset is capitalized.***

e) *When ownership of the any land is transferred free of cost from Government/individuals or has been donated, then such lands are recorded at a nominal value of Re. 1/-. Any development work done on that land is capitalized."*

f) *Assets created under PPP model/Depos***it work model using non railway funds and reflected in the books of the Indian Railways , are capitalized at cost incurred by Indian Railway plus Rs.1/- when such section is opened for traffic.**

Capital work in progress

Purpose/Objective

The purpose of this accounting policy is to identify and disclose those fixed assets which are under construction. On the completion of construction, they are transferred to the respective category of fixed assets. No depreciation is charged on CWIP since the asset has not been put to use.

Existing System in Indian Railways

On Indian Railways there is no practice of maintaining a separate head of account of capital work in progress. The capital expenditure pertaining to construction of an asset is straight away charged to final head of account. Capital work-in-progress (CWIP) is also not recognized separately. (Refer Para 427 to 431 of Finance Code-1).

Analysis of Practice followed by other Railways

a. **The National Railroad Passenger Corporation (Amtrak)**
   Construction in progress is stated at cost and includes direct costs of construction as well as interest expense capitalized during the period of construction. Amtrak capitalizes interest costs in connection with the construction of major facilities, locomotives, and passenger cars. Construction in progress is transferred to fixed assets when substantially all the activities necessary to prepare the assets for their intended use are completed, at which time depreciation commences. Capitalized interest is recorded as part of the asset to which it relates and is depreciated over the asset's useful life.*(Source Annual Report 2013 Page 22)*

b. **Australian Rail Track Corporation**
   Work in progress comprises expenditure on incomplete capital works. Expenditure on the acquisition of new infrastructure assets is capitalised when these new assets increase the net present value of future cash flows. Infrastructure assets during construction are classified as capital work in progress. Capital works in progress are recorded at cost, and are not depreciated until they have been completed and the assets are ready for economic use.*(Source Annual Report 2014 Page 49)*

c. **China Railway Construction Corporation Ltd.**
   Construction in progress is recognized based on the actual construction expenditures incurred. It consists of all types of expenditures necessarily to be incurred, capitalized borrowing costs on related borrowed funds before the asset is ready for its intended use, and other related expenditures during the period of construction.

Construction in progress is transferred to fixed assets, intangible assets or completed properties held for sale when the asset is ready for its intended use.*(Source Annual Report 2014 Page 186)*

d. Delhi Metro Rail Corporation Ltd.

Income pertaining to construction period such as interest, sale of tender documents etc. is adjusted against expenditure during construction.

a. Claims including price variation are accounted for on acceptance.

b. Liquidated Damages are accounted for on settlement of final bill.

c. Administrative and general overheads (net of income) directly attributed to project are allocated in the ratio of assets capitalized to the total CWIP as at the end of the month of commissioning.

Interest during Construction (IDC) in respect of qualifying assets commissioned during the year, is allocated in the ratio which the value of commissioned assets bear to the qualifying CWIP as at the end of the month of commissioning. In other cases, IDC is allocated based on the date of capitalization of the last section.*(Source Annual Report 2014 Page 52)*

e. Konkan Railway Corporation Ltd.

KRCL is classifying the "Capital Works in Progress" according the requirements of Revised Schedule VI and the format of disclosure followed by Indian Railways have been kept in view. *(Source Annual Report 2014 Page 61)*

Analysis of practice followed by Indian Railways

On an analytical review of aforesaid best practices and existing system of Indian Railways, the view of ICAI-ARF team is that Capital work in progress is also a major category of fixed assets and identification of CWIP is essential for better presentation.

Decision

According to the Group the accounting policy on fixed assets of Indian Railways shall be as follows:

a) "The total expenditure on Capital Assets during n the process of construction or nearing completion is accounted under the head CWIP. CWIP includes value of work done, and billed whether paid or not.

b) Capital work in progress is not depreciated until it is completed and the asset is ready for economic use."

Depreciation

Purpose/Objective

The purpose of this accounting policy is to reflect the effect of depreciation on the financial position and operational results of any organization. Any organization which uses mercantile system of accounting for capturing of financial transactions and preparation of financial system is required to charge depreciation on all the depreciable assets to present a true picture of its operational results of a particular accounting period.

Existing System in Indian Railways

There is no concept of charging depreciation on each individual asset on Indian Railways. However, each year alumpsum amount is transferred to the Depreciation Reserve Fund (DRF) as a charge on Railways revenue for replacement and renewal of assets as per recommendations of the Railway Convention Committee (RCC)

Analysis of Practice followed by other Railways

a. **The National Railroad Passenger Corporation (Amtrak)**
   i. Property and equipment are carried at cost and depreciated.
   ii. Computer equipment and software are carried at cost and individually depreciated on a straight-line basis over their estimated useful lives, which are generally 5 to 10 years.
   iii. Property held under capital leases and leasehold improvements are depreciated over the shorter of their estimated useful lives or their respective lease terms.*(Source Annual Report 2013 Page 21)*

b. **Australian Rail Track Corporation**
   i. Land is not depreciated.
   ii. The cost of improvements on leasehold properties is amortised over the expected lease term or the estimated useful life of the improvements to the Group, whichever is the shorter.
   iii. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalue amounts, net of their residual values, over their estimated useful lives.*(Source Annual Report 2014 Page 49)*

c. **Kiwi Rail Holdings Ltd.**
   i. Depreciation is charged on a straight-line basis at the rates that will allocate the cost or valuation of the asset over its expected useful life to its estimated residual value.
   ii. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter.

iii. In determining an asset's useful life, consideration is given to its expected usage, its expected wear and tear, technical or commercial obsolescence, and legal or similar limits on its use.
iv. Depreciation is provided on Freehold Buildings, Railway Infrastructure, Rolling Stock, Ships and Containers, and Plant and Equipment.
v. Further, Land is not depreciated.*(Source Annual Report 2014 Page 59)*

d. Delhi Metro Rail Corporation Ltd.

i. Depreciation on Fixed Assets is provided on Straight Line Method as per useful life prescribed in Schedule-II of Companies Act, 2013 except in respect of those assets, where useful life is determined based on technical evaluation like Rolling stock, Escalators, lifts, etc.
ii. Fixed assets costing Rs. 5,000/- or less are depreciated fully in the year of purchase;
iii. Useful life of Buildings in the nature of temporary structures is considered as 3 years.
iv. Intangible assets are amortised on SLM basis over a period of legal right to use or 5 year whichever is earlier.
v. Viaduct, Bridges & Tunnels, Permanent Way/Track Work and payment made towards permission for construction of viaduct, bridges & tunnels is depreciated/amortised on Straight Line Method in line with the useful life prescribed for "Bridges, Culverts, Bounders, etc." in Schedule-II of the Companies Act,2013, from the date of commercial operation of respective sections of the corridors.
vi. Leasehold Assets except land are amortised over the lease term or its useful life (as per Companies Act, 2013) whichever is shorter.
vii. Depreciation on addition to/deduction from an existing asset which form integral part of main assets capitalised earlier is charged over the remaining useful life of that asset.
viii. Expenditure on the items, ownership of which is not with the Company is charged off to revenue in the year of incurrence of such expenditure.*(Source Annual Report 2014 Page 53)*

e. Konkan Railway Corporation Ltd.

i. Depreciation is charged as per useful life prescribed in Schedule II of the Companies Act, 2013 under Straight Line Method, except some items like Lease hold land, Bridges, Tunnels, etc.
ii. Depreciation on assets added/disposed of during the year is charged from/up to the month of addition/disposal.
iii. Intangible assets like Patents, Design, etc., over their useful life or 10 years whichever is lower. However, specialized computer software is amortized over a period of 3 years.*(Source Annual Report 2014 Page 62 and 64)*

Analysis of practice followed by Indian Railways

On an analytical review of aforesaid best practices and existing system of Indian Railways, the ICAI-ARF team's view is that the Indian Railways should charge depreciation on each item and class of assets as per the recommendations prescribed in IGFRS-2 for presenting financial statements.

Decision

The Group decided that the Straight Line Method of deprecation shall be applied with the residual value being assumed @ 5% of the cost of the asset. Further, the accounting policy on Depreciation in the context of Indian Railways shall be as follows:

Depreciation on the following Fixed Assets shall be charged over their useful lives as prescribed in Para 219 of Finance Code-1 under Straight Line Method (SLM):

Name of Asset	*Useful life*
Bridge/Flyover/Tunnel/Subways	40 - 60 years
Office Equipment	4 - 15 years
Vehicles	7 - 10 years
Plant, Machinery and Equipment	3 - 25 years
Computer and Peripherals	3 - 8 years
Medical Equipment	3 - 10 years
Plant, Machinery and Equipment (Signal)	3 - 28 years
Plant, Machinery and Equipment (Telecom)	3 - 25 years
Plant, Machinery and Equipment (Electrical)	4 years
Locomotive	36 years
Wagon	30 years
Coach	25 years

The useful life of Rail, Sleeper & Other Track Fittings will be taken as 20 years based on a technical estimation. Further, the useful life of the following assets which are not prescribed in the Finance Code-1,shall be taken on the basis of technical estimation:

Name of Asset	*Useful life*
Buildings	70 years
Furniture & Fixtures	10 years
Roads & Streets	5-15 years
Ballast	10 years

Intangible Assets are amortized over 5 years.

Provisions, Contingent Liabilities and Contingent Assets

Purpose/Objective

The purpose of this accounting policy is to ensure that an appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount.

Existing System in Indian Railways

On Indian Railways the Provisions, Contingent liabilities and Contingent assets are not recorded and disclosed in the notes to the financial statements.

Analysis of practice followed by other Railways

a. **Kiwi Rail Holdings Ltd.**
Contingent Liabilities and contingent assets are identified and disclosed in the notes to the financial statements.*(Source Annual Report 2014 Page 126)*

b. **China Railway Construction Corporation Ltd.**
The Grouprecognizes an obligation related to a contingency as a provision when all the following conditions are satisfied:
   i. The obligation is a present obligation of the Group;
   ii. It is probable that an outflow of economic benefits from the Group will be required to settle the obligation; and
   iii. The amount of the obligation can be measured reliably.

   A contingent liability recognized in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of
   - The amount that would be recognized in accordance with the general guidance for provisions; and
   - The amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with the principle of revenue recognition.*(Source Annual Report 2014 Page 189).*

c. **Delhi Metro Rail Corporation Ltd.**
A provisionis recognised when the company has a present obligation because of a past event and it is probable that an outflow of resources will be required to settle the obligation and in respect of which a reliable estimate can be made.

   Provisions are determined based on management estimate required to settle the obligation at the balance sheet date and are not discounted to present value.

Contingent liabilities are disclosed based on judgment of the management/independent experts. These are reviewed at each balance sheet date and are adjusted to reflect the current management estimate.

However, contingent Assets are neither recognised nor disclosed in the financial statements.*(Source Annual Report 2014 Page 55)*

d. Konkan Railway Corporation Ltd.

Provisions involving substantial degree of estimation in measurement are recognized when there is a present obligation because of past events and it is probable that there will be an outflow of resources.

No provision for contingency is recognized in respect of warranty/defect or maintenance liability where the corporation has back to back arrangement with sub-contractor for the same liability and there is certainty that such liability would be made good by the sub-contractor.

Contingent Liability is disclosed in the case of:

- A present obligation arising from a past event, when it is not probable that an outflow of resources will be required to settle the obligation.
- A possible obligation, unless the probability of outflow of resources is remote. No contingent liability is disclosed for defects or maintenance liability when corporation has back to back arrangements with sub-contractor for liability and there is virtual certainty that such liability would be made good by the sub-contractor.

  However, Contingent Assets are neither recognized nor disclosed.*(Source Annual Report 2014 Page 65)*

Analysis of practice followed by Indian Railways

On an analytical review of aforesaid best practices and existing system of Indian Railways, the ICAI-ARF team's view is that the Indian Railways should disclose their Provision, Contingent liabilities and Contingent Assets to appreciate their total financial commitment, risk, exposure to loss, etc., and to make suitable decisions with respect to fiscal sustainability. Disclosure of these in the Financial Statements would help in tracking possible future obligations.

Decision

Principles of AS-29 (Provisions, contingent liabilities and contingent assets) need to be followed. If the decision of an arbitration panel is accepted by the Indian Railways, then the amount awarded will be treated as current liability and if challenged in higher legal forums then the amount challenged will be recognised as contingent liability.

According to the Group the Accounting policy on Provision, Contingent Liabilities and Contingent Assets in the context of Indian Railways shall be as follows:

a) ***"A provision is recognized when IRhas a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation.***

b) ***Contingent Liabilities are not recognised in the financial statements and are disclosed in the notes to the financial statements.***

c) ***Contingent Assets are neither recognised nor disclosed in the Financial Statements."***

Valuation of Inventories

Purpose/Objective

The purpose of this accounting policy is to prescribe the accounting treatment and method to determine the value at which inventories are recognised in the financial statements.

Existing System in Indian Railways

For the purpose of physical inventory, records are maintained at various stock holding units but these do not contain details of the value of inventory. Purchase of stores and issue of stores during the year routed/accounted through the store suspense account and the balance at the end of year is shown in the Block Account at cost.

Analysis of practice followed by other Railways

a. **The National Railroad Passenger Corporation (Amtrak)**
Materials and supplies are stated at weighted-average cost, net of allowance for shrinkage and obsolescence; consist primarily of items for maintenance and improvement of property and equipment. An allowance for shrinkage and obsolescence is recorded based on specific identification and expected usage rates.*(Source Annual Report 2013 Page 20)*

b. **Australian Rail Track Corporation**
Inventories are valued at lower of cost and net realizable value. Cost is assigned on a first in first out basis.*(Source Annual Report 2014 Page 48)*

c. **Kiwi Rail Holdings Ltd.**
    i. Inventory is recorded at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventory to its present condition and location.
    ii. Cost is calculated using the weighted average method.*(Source Annual Report 2014 Page 60)*

d. **China Railway Construction Corporation Ltd.**
    i. Inventories are initially carried at the actual cost. Cost of inventories comprises all costs of purchase, costs of conversion and other costs.
    ii. The actual cost of inventories transferred out is determined by using the weighted average method.

    At each balance sheet date, inventories shall be measured at the lower of cost and net realizable value.*(Source Annual Report 2014 Page 182)*

e. Delhi Metro Rail Corporation Ltd.

i. Inventories including loose tools and Carbon Credits other than land are valued at the lower of cost determined on weighted average basis, and net realisable value; and

ii. Land inventory is valued at the lower of cost and net realisable value.*(Source Annual Report 2014 Page 53)*

f. Konkan Railway Corporation Ltd.

i. The inventories are valued at cost or net realizable value whichever is lower. The cost of Inventories is determined on Weighted Average Basis;

ii. Stores for repairs and maintenance are charged off to revenue in the year of purchase. Used material is also valued at Nil; and

iii. Project and construction related Works in Progress are valued at cost till the major portion of the job is completed and thereafter valued at realizable value.*(Source Annual Report 2014 Page 62)*

Analysis of practice followed by Indian Railways

On an analytical review of aforesaid best practices and existing system of Indian Railways, the ICAI-ARF team's view is that the Indian Railways should value their inventoryto exhibit the true and fair view of financial statements. The measurement of inventory has a significant effect on income determination and financial position of an entity.

Decision

According to the Group the Accounting policy on Valuation of Inventory in the context of Indian Railways shall be as follows:
"Inventory is measured at the lower of cost and net realizable value.The cost of inventories comprises costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition."

Revenue Recognition

Purpose/Objective

This accounting policy outlines the accounting requirements as to when to recognise the revenue from sale of goods, rendering of services, interest, royalties. Revenue is recognised only when it is probable that future economic benefits or service potential will flow to the government entity and these benefits can be measured reliably.

Existing System in Indian Railways

Indian Railways recognizes the revenue on receipt basis irrespective of date of travel/date of delivery of goods. Sundry other earning is also recognized on receipt basis.

Analysis of practice followed by other Railways

a. The National Railroad Passenger Corporation (Amtrak)

i. "Passenger related" revenues are recognized as operating revenues when the related services are provided.

ii. Amounts received for tickets that have been sold but not used are reflected as "Deferred ticket revenue" in the Consolidated Balance Sheets.

iii. "Other" revenue includes revenue from reimbursable engineering and capital improvement activities; other transportation revenue from use of Amtrak-owned tracks and other services; commercial development revenue from retail, parking, advertising, real property leases/easements/sales, and right-of-way fees; freight access fee revenue from the use of Amtrak-owned tracks by freight railroad companies; and other gains.*(Source Annual Report 2013 Page 26)*

b. Australian Rail Track Corporation

Revenue is measured at the fair value of the consideration received or receivable to the extent it is probable the economic benefit will flow to the Group (?) and the revenue can be reliably measured. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.*(Source Annual Report 2014 Page 45)*

c. Kiwi Rail Holdings Ltd.

Revenue is measured at the fair value of the consideration received or receivable by the Parent and Group to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue represents amounts receivable for goods and services provided in the normal course of business once significant risks and rewards of ownership have been transferred to the buyer.

i. Freight revenue is recognised based on the date of freight acceptance. Freight revenue also includes maintenance revenue which is recognised at the date that the maintenance service is provided.
ii. Passenger revenue is recognised at the date of travel.
iii. Dividend income is recognised when the right to receive payment has been established.
iv. Other sources of income are recognised when earned and are reported in the financial periods to which they relate.
v. Grants received in respect of services provided are recognised when the requirements of the relevant grant agreement are met.*(Source Annual Report 2014 Page 57)*

d. China Railway Construction Corporation Ltd.

i. Revenue is recognized only when it is probable that the associated economic benefits will flow to the Group and when the revenue can be measured reliably.
ii. Royalty income is recognized according to charge period and charge rate as stipulated in the relevant contract or agreement.*(Source Annual Report 2014 Page 192 and 194)*

e. Delhi Metro Rail Corporation Ltd.

i. Income from fare collection is recognised based on use of tokens and money value of the actual usage, in case of smart card and other direct fare collection;
ii. Income from Feeder Bus is recognized based on yearly attributable amount of the total income as agreed in the contract.
iii. Income from consultancy/contract services is accounted for based on actual progress/technical assessment of work executed, except in cases where contracts provide otherwise.
iv. Income from sale of scrap is accounted on realization basis;
v. Income from Property development/Rental Income in respect of land is recognised in accordance with the terms and conditions of the contract with licensee/lessee, etc.*(Source Annual Report 2014 Page 54)*

f. Konkan Railway Corporation Ltd.

i. Revenue from Passengers and Goods earnings (Traffic Earning) are accounted on accrual basis irrespective of actual travel by the passengers or actual transportation of goods;
ii. Revenue from service related activities is recognized using proportionate completion method in case the amount received is less than the project cost incurred, the income is accounted for when the revised estimate is submitted, and there is no uncertainty to receipt of income or objection to revised estimate;
iii. Sale of scrap, salvage or waste materials is deemed to be completed at the time of realization and is accounted for accordingly;

iv. Commission received on encashment of warrants issued by Defence/Police is recognized on accrual basis.*(Source Annual Report 2014 Page 63)*

Analysis of practice followed by Indian Railways

On an analytical review of aforesaid best practices and existing system of Indian Railways, the ICAI-ARF team's view is that as the Indian Railways is mainly providing the services and revenue from operation mainly consisting of Passenger traffic and Freight traffic.

For considering the revenue from passenger and freight:
i) When the booking, journey start date and completion date fall in the same accounting year, such revenue is to be considered in the same accounting year.

ii) When the booking is done in year 1 and the journey start date is in year 2, the revenue so received should be shown as received in advance , based on matching concept as the services for which that revenue has been received are yet to be rendered and no matching cost has been incurred during that year.

iii) When booking is done in year 1 and journey also starts in year 1 but the completion date fall in year 2, the revenue may be recognized in the year when the journey is completed. For preparing accrual based financial statements for the first time, it was discussed and decided as under:

For passenger revenue where the journey terminates within 48 hours of its commencement the revenue may be considered as soon as the journey begins i.e. in the year 1 in which the train starts its journey.
As the freight train takes a maximum of seven days to complete the journey, therefore, applying the matching concept, the revenue for the same need to be prorated.

Decision

According to the Group the Accounting policy on Recognition of Revenue in the context of Indian Railways shall be as follows:

i. Revenue from Passengers Traffic is accounted on accrual basis:
- ***The revenue in case of passenger trains is considered when the journey begins, i.e., in the year in which the train commences its journey.***

ii. Revenue from Goods (Traffic is accounted on accrual basis as per following:
- ***2/3rd of the freight income of the last four(4) days of the financial Year is considered as the income of the financial year in which the freight train begins its journey, while 1/3rd income is considered the income in the year in which the freight train completes its journey.***

iii. ***For sundries:***

- ***Rental Income in respect of land/property is recognised on accrual basis in accordance with the terms and conditions of the contract with licensee/lessee, etc.***
- ***Income from saleof un-serviceable revenue scrap, not creditable to Development Fund, DepreciationReserve Fund, etc. is accounted for on realization basis.***

Lease Accounting

Purpose/Objective

The purpose of this accounting policy is to prescribe the appropriate accounting treatment and disclosures in respect of lease accounting.

Existing System in Indian Railways

Indian Railway Finance Corporation (IRFC) raises money from the market to part finance the plan outlay of Indian Railways. Each year, IRFC enters into a Standard Lease Agreement with MoR through which lease rentals in respect of assets acquired during the year are fixed. Further, the lease tenure of 30 years comprises a primary lease period of 15 years followed by a secondary lease period of 15 years). Indian Railways takes assets on lease from IRFC on finance lease terms. Principal and interest amount is being recovered by IRFC from the Indian Railways for the lease period and after its expiry, the assets are transferred to the Indian Railways at a nominal price.

Analysis of practice followed by other Railways

a. **The National Railroad Passenger Corporation (Amtrak)**
   Amtrak leases equipment, primarily passenger cars and locomotives, and related maintenance infrastructure under capital leasing arrangements. Amtrak maintains and operates the assets based on contractual obligations.*(Source Annual Report 2013 Page 40)*

b. **Australian Rail Track Corporation**
   Group as a lessee:
   Lease of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

   Group as a lessor
   Leases in which the Group retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income.*(Source Annual Report 2014 Page 47)*

c. Kiwi Rail Holdings Ltd.

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

(i) Group as a lessee

Finance leases

Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. They are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the Statement of Financial Performance.

Operating leases

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term. Operating lease payments are recognised as an operating expense in the Statement of Financial Performance on a straight-line basis over the lease term.

(ii) Group as a lessor

Leases in which the Group retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.*(Source Annual Report 2014 Page 61)*

d. Delhi Metro Rail Corporation Ltd.

DMRC is following Accounting Standard-19 on 'Leases' as issued by ICAI for the lease accounting. Disclosure of Gross carrying value and depreciation on lease business assets is done as per Accounting Standard (AS-19). *(Source Annual Report 2014 Page 67)*

e. Konkan Railway Corporation Ltd.

Lease rentals and other charges payable thereon are accounted for with reference to terms and other conditions of the lease.*(Source Annual Report 2014 Page 63)*

Analysis of practice followed by Indian Railways

Rolling stock on Indian Railways is being financed by IRFC since 1986 s on finance lease basis. Since 2006, the interest thereon is being expensed in the year of payment itself while the principal is added to the Gross Block. Therefore, the cost is being incrementally built up while the liability is not recognised in the books. Depreciation under Income Tax Act, 1961, is being accounted for by IRFC in its accounts. IR does not charge any deprecation.At the end of the lease period, the leased assets are transferred to Railways by IRFC @ Rs. 1000/- per asset. It was informed that this policy is approved by CGA and CAG, as the accounts are being maintained on cash basis. However as per accrual accounting, the approach need to be modified in conformitywithAccounting Standard 6 – Deprecation, Accounting Standard 10 - Accounting for fixed assets and Accounting Standard 19 - Accounting for leases.

On an analytical review of aforesaid best practices and existing system of Indian Railways, the ICAI-ARF team's view is that the assets acquired under lease arrangements and the associated lease obligations as liabilities should be disclosed separately in the financial statements.

Decision

According to the Group the accounting policy on 'Lease Accounting' of Indian Railways shall be as follows:

"Leased Assets, where substantially all the risks and rewards vest in the Indian Railways are classified as Financial Leases. Such leases are capitalized at historical cost/cost of acquisition and a liability is created for an equivalent amount. Each lease rental paid is allocated between the liability and the interest cost to obtain a constant periodic rate of interest on the outstanding liability for each year".

Investments

Purpose/Objective

The Objective of this accounting policy is to disclose in the financial statements the basis of valuation and classification of investments.

Investments are assets held by an enterprise for earning income by way of dividends, interest, and rentals, for capital appreciation, or for other benefits to the investing enterprise. Assets held as stock-in-trade are not 'investments. Investments are classified as long term investments and current investments.

Existing System in Indian Railways

At present in Indian Railway the investments are reflected as a part of the ""Block account" under the head "Investment in Other Undertakings". This is bifurcated into two heads namely i). shares in road transport undertakings and ii) Other Government undertakings.

Analysis of Practice followed by other Railways

a. **The National RailRoad Passenger Corporation (Amtrak)**

Fair Value Measurements

FASB ASC Topic 820, Fair Value Measurements and Disclosures, clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosures about the use of fair value measurements. FASB ASC Topic 820 established a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – Observable market inputs that are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 – Other significant observable inputs (including quoted prices for similar securities, interest rates, credit risk, etc.).
- Level 3 – Significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments).

Domestic Equity Securities

This investment category consists of common stock issued by U.S. Corporations and American Depository Receipt (ADR) issued by U.S. banks. Common shares and ADRs are traded actively on exchanges and price quotes for these shares are readily available. These assets are classified as Level 1 investments.

Fixed Income Securities
This investment category consist of U.S. Treasuries, U.S. Government bonds, corporate bonds, agency-backed bonds, municipal bonds, asset-back securities and mortgage-backed securities. These assets are valued based on a compilation of primary observable market information or a broker quote in a non-active market. These assets are classified as Level 2 investments.(Source: Annual Report 2013 Page 58)

b. Australian Rail Track Corporation
Level 1: The fair value of instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. These instruments are included in level 1.

Level 2: The fair value of instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. Disclosed fair values The carrying amounts of trade receivables and payables, bonds, banking facilities, cash and short term deposits equates approximately to their fair values due to their nature and are carried at amortised cost. (Source: Annual Report 2014 Page 83)

c. China Railway Construction Corporation Ltd.
Classification and measurement of financial Assets
Financial assets are, on initial recognition, classified into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. A financial asset is recognized initially at fair value. In the case of financial assets at fair value through profit or loss, relevant transaction costs are directly charged to profit or loss for the current period; transaction costs relating to financial assets of other categories are included in the value initially recognized.

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are designated upon initial recognition as financial assets at fair value through profit or loss. A financial asset held for trading is the financial asset that meets one of the following conditions:

1) the financial asset is acquired for the purpose of sale in a short term;
2) the financial asset is a part of a portfolio of identifiable financial instruments that are collectively managed, and there is objective evidence indicating that the enterprise recently manages this portfolio for the purpose of short-term profits; or
3) the financial asset is a derivative, except for a derivative that is designated as an effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured. These kinds of financial assets are subsequently measured at fair value. All the realized or unrealized gains or losses on these financial assets are recognized in profit or loss for the current period. Dividend income or interest income related to financial assets at fair value through profit or loss is charged to profit or loss for the current period.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. These kinds of financial assets are subsequently measured at amortized cost using the effective interest rate method. Gains or losses arising from amortization or impairment and de-recognition are recognized in profit or loss for the current period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These kinds of financial assets are subsequently measured at amortized cost using the effective interest rate method. Gains or losses arising from amortization or impairment are recognized in profit or loss for the current period.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. After initial recognition, available-for-sale financial assets are measured at fair value. The premium or discount is amortized using the effective interest rate method and recognized as interest income or expense. A gain or loss arising from a change in the fair value of an available-for-sale financial asset is recognized as other comprehensive income, except for impairment losses and foreign exchange gains or losses resulted from monetary financial assets, until the financial asset is derecognized or determined to be impaired, at which time the accumulated gain or loss previously recognized is transferred to profit or loss for the current period. Interest and dividends relating to an available-for-sale financial asset are recognized in profit or loss for the current period.

Investments in equity instruments, which do not have quoted prices in an active market and whose fair values cannot be reliably measured, are measured at cost.

(Source: 2014 Annual Report Page 175-176)

Analysis of practice followed by Indian Railways

Indian Railways is having investments in Other Government Undertakings and these are being carried at cost. On the analytical review of aforesaid best practices and existing system of Indian Railways, the view of ICAI-ARF team is that investments of IR as on period end are of long term nature and accounting policy for the same is essential to be disclosed for better presentation.

Decision

Accounting policies on investment is under consideration. According to the ICAIARF, the accounting policy on investments of Indian Railways should be as follows:

Current Investments are carried at lower of cost and quoted/fair value. Long term investments are stated at cost. Provision for diminution in the value of Non-Current Investments is made only if such a decline is other than temporary.

Employee Benefits

Purpose/Objective

The Objective of this accounting policy is to disclose and recognize the employee benefits cost into financial statements. Employee benefits may be categorized into following two parts:

a) Defined Contribution Plan; and
b) Defined Benefit Plan

Existing System in Indian Railways

At present in Indian Railway the all the retirement benefits like pension, gratuity, etc., is recognized on cash basis. Each year IR appropriates amount to pension fund which is used for the payment for pension. Analysis of Practice followed by other Railways

Practice followed in other Railways

a. **The National Rail Road Passenger Corporation (Amtrak)**

Amtrak has a qualified non-contributory defined benefit retirement plan whose assets are held in trust covering non-union employees and certain union employees who at one time held non-union positions.

Amtrak provides medical benefits to its qualifying retirees and life insurance to some retirees in limited circumstances under its postretirement benefits program. Railroad union employees' life insurance benefits are covered by a separate policy purchased by Amtrak. Under Amtrak's postretirement benefits program, except as described below, substantially all salaried employees may become eligible for medical benefits if they meet the service requirement and reach age 55 while they are working for Amtrak. Company-provided medical benefits are reduced when covered individuals become eligible for Medicare benefits or reach age 65, whichever comes first. Medical benefits are subject to co-payment provisions and other limitations. On March 27, 2013 the defined benefit retirement plan and non-union postretirement benefit plan were amended to provide that no employee hired, rehired or who transfers from a collectively bargained position on or after April 1, 2013 will be eligible to participate in these plans. However, if a non-union employee terminates employment or transfers to a collective bargaining position and returns within 90 days of the termination or transfer, he or she will be eligible to re-enter the plans.(Source: Annual Report 2013 Page 54)

b. Australian Rail Track Corporation

(w) Employee benefits

(i) Short term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Other long term employee benefit obligations

The liability for long service leave and associated on costs is accumulated from the date of commencement. They are measured at the amounts expected to be paid when the liabilities are settled and discounted to determine their present value. Consideration is given to expect future wage and salary levels with an allowance for expected future increases.

The revised standard has also changed the accounting for the Group's annual leave obligations. As the entity does not expect all annual leave to be taken within 12 months of the respective service being provided, annual leave obligations are now classified as long term employee benefits in their entirety. Annual leave is measured on a discounted basis.

(iii) Defined benefit fund

ARTC is a member of the following superannuation schemes: State Authorities Superannuation Scheme (SASS), State Authorities Non-contributory Superannuation Scheme (SANCS) and the State Superannuation Scheme (SSS). The schemes are all defined benefit schemes at least a component of the final benefit is derived from a multiple of the member's salary and years of membership. All schemes are closed to new members. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, in other comprehensive income. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss. The defined benefit asset or liability recognised in the consolidated balance sheet represents the present value of the defined benefit obligation, less the fair value of the plan assets. Any asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the plan.(Source Annual Report 2014 Page 50 & 51)

c. China Railway Construction Corporation Ltd.

Employee benefits

Employee benefits are all forms of considerations given by an entity in exchange for services rendered by employees or for the termination of employment. Employee benefits include short-term benefits, post-employment benefits, termination benefits and other long-term employee benefits. The benefits the Group provided to employees' spouse, children, dependent, and families of deceased employees also belong to employee benefits.

Short-term benefits

In the period of employee services, short-term benefits are actually recognized as liabilities and charged to profit or loss or the related costs of assets for the current period.

Post-employment benefits (defined contribution plans)

Employees of the Group participate in the endowment insurance plans managed by local governments, the relevant costs incurred are recorded in the relevant capital costs and expenses by the Group.

Post-employment benefits (defined benefit plans)

The Group provides benefit plans for long-term post-leaving personnel, which are considered as defined benefit plans. The Group does not put any funds in the plans; the costs of the defined benefit plans are measured by the projected cumulative unit credit method.

Any remeasurement caused by the defined benefit plans, including actuarial gains or losses, is recognized in the balance sheet immediately and recorded in equity as other comprehensive income in the accounting period the re-measurement occurred. Those losses and gains should not be recognized in profit or loss in the subsequent accounting periods.

The past service costs should be recognized as current expenses at the earlier of the following dates: a) when the Group modifies the defined benefit plans; and b) when the Group recognizes relevant restructuring costs and termination benefits.

Net interest equals to the net defined benefit liability multiply by the discount rate. The Group recognized changes in the net defined benefit obligation as management expenses in the statement of profit or loss. Those changes include service costs, including current service costs, past service costs and gains and losses on settlement, and net interest, which are the interest expenses of the plan.

Termination benefits

The Group recognizes a liability and expenses for termination benefits at the earlier of the following dates: a) when the Group can no longer withdraw the offer of those benefits; and b) when the entity recognizes costs for restructuring and involves the payment of termination costs.

Housing funds
All full-time employees of the Group in Mainland China are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

Bonus entitlements
The estimated cost of bonus payments is recognized as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonuses are estimated to be settled within twelve months and are measured at the amounts estimated to be paid when they are settled.
(Source: 2014 Annual Report Pages 197-198)

d. Kiwi Rail Holdings Ltd.
Employee entitlements: Provision is made for benefits accruing to employees in respect of annual leave, retiring leave (including involuntary retirement as medically unfit) and long service leave when it is probable that settlement will be required and they are capable of being measured reliably. Employee entitlements are accounted for based on NZ IAS 19 Employee Benefits.

The provision for retiring leave and long-service leave is calculated on an annual basis by independent actuaries.

Provisions made in respect of employee benefits expected to be settled within twelve months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within twelve months are measured on an actuarial basis at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

Employee entitlements such as long service leave and other similar benefits are actuarially valued on an annual basis and are recognised in the Statement of Financial Performance when they accrue.

Contributions to superannuation plans
Certain employees are members of defined contribution schemes and the Group contributes to those schemes. A defined contribution scheme is a plan under which the

employee and the Group pay fixed contributions into a separate entity. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits in relation to employee service in the current and prior periods. The contributions are recognised as labour and related costs in the Statement of Financial Performance when they are due.

Employee entitlements

Independent actuaries are engaged to provide the valuation of employee entitlements. Reliance is placed on the expertise of the independent actuaries to provide accurate valuations of employee benefits. Key assumptions used in calculating this liability include the discount rate and the salary inflation factor. The discount rate is the yield on 10-year Government bonds as at the end of the financial period, which has terms to maturity that match, as closely as possible, to the estimated future cash outflows. The salary inflation factor is determined with consideration of historical salary inflation patterns.(Source: 2014 Annual Report Page 63)

e. **Delhi Metro Rail Corporation Ltd.**

RETIREMENT BENEFITS

The contribution to the Provident Fund for the period is recognized as expense and is charged to the profit & loss account. Company obligation towards post-retirement benefits and baggage allowance, sick leave, earned leave, leave travel concession are actuarially determined and provided for as per AS-15 (Revised).

The company has set up a Gratuity Trust Fund with LIC of India and gratuity liability to employees is provided for on basis of actuarial valuation.(Source: Annual report 2013-14 Page 54)

f. **Konkan Railway Corporation Ltd.**

Pension

'Konkan Railways Employees Superannuation Scheme' is a defined benefit scheme and is applicable for those employees who have joined service prior to 01-01-2004. Liability under the scheme is recognized on the basis of actuarial valuation and charged to Statement of Profit & Loss. Actuarial gain and losses in respect of Pension is charged to the Statement of Profit & Loss.

Employees who have joined on or after 01-01-2004 are governed by 'Contributory Pension Scheme' announced by the Government of India. The said scheme is a 'defined contribution scheme' and contribution is charged to Statement of Profit & Loss.

Gratuity & Leave Encashment

Gratuity & Leave Encashment Benefits are 'defined benefit plans'. Liability towards the same are recognized on the basis of actuarial valuation and charged to Statement of Profit & Loss accordingly. Actuarial gain and losses in respect of Gratuity& Leave

Encashment is charged to the Statement of Profit & Loss.(Source: Annual Report 2014 Page 63)

Analysis of practice followed by Indian Railways

Indian Railways is contributing into NPS for the employees who has join on 01-01-2004 or thereafter which is expense off. Further, pension is paid to those employees who have joined prior to 01-01-2004.

Decision

Accounting policies According to the Group the accounting policy on employee retirement benefits of Indian Railways should be as follows:

i) **Defined Contribution Plan**
Employees who have joined on or after 01-01-2004 are governed by 'New Pension Scheme' announced by the Government of India. The said scheme is a 'defined contribution plan' and contribution is charged to Statement of Profit & Loss on accrual basis.

ii) **Defined Benefit Plan:**

The following are defined benefit plans:

- Gratuity
- Leave Encashment
- Medical benefit
- Pension for those employees who have joined service prior to 01-01-2004 is a defined benefit
- Composite Transfer Grant

Liability of obligations towards Post Retirement Benefits (Gratuity and Pension) and Other benefits payable to employees (Leave Encashment, Medical benefit and Composite Transfer Grant) on pre and post retirement are determined based on Actuarial Valuation as per Accounting Standard 15 (AS 15) - "Employee Benefits" issued by the Institute of Chartered Accountants of India but are not provided in the Financial Statements.