

# Relevance of Accounting Practices of Arthashastra in Today's Business World

Dr. Sanjit Kr. Das

Vice-Principal and Associate Professor in Commerce, Bhairab Ganguly College, Belghoria (India)

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### Corresponding Author

Email: sanjitbgc[at]gmail.com

## ABSTRACT

According to Kautilya, the most important element of the state is the Treasury or Finance and without it the well being (yogakshema) of the people may not be possible. Kautilya, the writer of Arthashastra, mentioned that a strong and wealthy monarchy would be in a position to protect the interest of the people against the invasion of other kings. In Arthashastra, Kautilya emphasized on creation of a welfare state where the government plays a key role in the protection and promotion of the economic and social well-being of its citizens. Kautilya was of the opinion that treasury was the most important ingredient for a State's prosperity and for this reason strict guidelines were provided for maintenance of proper accounting system. The present accounting principles and standards are very much similar those that used in the Arthashastra during 4th Century B.C. It covers the accounting principles and standards, role and responsibilities of accountants and auditors and also the methodology of accounting, auditing and provides necessary steps for prevention of misappropriation and fraud.

## 1. Introduction

Arthashastra is about different aspects of governing a monarchy such as, administration, diplomacy, law, taxation, revenue, business, trade, etc. Arthashastra contains 150 chapters, in 15 books, which includes topics like national security issues, administration of justice and economic development policies. Since long artha is regarded as one of the *trivarga* (artha, dharma, and kama) or three goals of human existence but it stands for material well-being and the means of securing the material well being. The word Arthashastra literally means principles of money or wealth in any form such as cattle rearing, agriculture etc. and it tried to endeavour acquisition and preservation of the "Artha" or wealth. So Kautilya had given special emphasis on application of proper accounting system so that treasury could be enriched. This paper intends to explore the accounting principles and standards applied in the ancient India and its relevance in the modern perspective.

## 2. Methodology

This paper is an analytical study and it is based on secondary data. There are many books available on different aspects of Kautilya's Arthashastra which was originally in Sanskrit. Later it was translated in English by many scholars. Sources of data collection include books written on Arthashastra by different authors, articles published in various journals and papers published by various authors on the subject.

## 3. Accounting Concepts in Arthashastra

In Arthashastra, the accounting year is termed as *karmasamvatsarah* which includes 364 days and night constitute the year of work. The accounts should come in on the *asadha* full moon day when the officers have come with sealed accounts books and balances in sealed containers (*samudrapustakabhandanivikanam*). It covered the method of consolidating the accounts from various departments of the government to assess the net income and loss. The

accountants were required to furnish the completed annual accounts to the head office mid-July. It means that the financial year was fixed to July-June period and with a full process for closure of accounts and audit of the same. It may be presumed that closing of accounts was fixed in the month of *asadha*, the period of monsoon and rain restricted the king, army and officers in the kingdom forced them to concentrate on the official works. *Karanadhithitam* refers the twelve sections of the yearly accounts, one for each month so accounts for the each and every month as well as for the whole year were maintained. The superintendent should caused to be entered in the record-books; the extent of the number, activity and total income of the departments; the amount of increase or decrease in the use of the various materials, expenses, excess, surcharge, mixing, place, wages and labourers in connection with the factories; the price, the quality, the weight, the measure, the height, the depth and the container in connection with the jewels, articles of high value, of low value and forest produce; laws, transactions, customs and fixed rules of regions, villages, castes, families and corporations; the receipts of favours, lands, use, exemptions and food and wages by those who serve the king; the receipts of jewels and land and the receipts of special allowances and payments against sudden calamities, by the king and his queens and sons; and payment and full receipts in connection with peace and war with allies and enemies. After collecting all these, the superintendant of accounts should hand over in writing the estimated revenue, accrued revenue, outstanding revenue, income and expenditure, balance, custom and fixed rules to all the departments. After finalization of the total of income and expenditure and balance, he should cause the balance to be taken away to the treasury. The difference between *nitya* and *labha* is that the former expenditure is incurred from day to day, the later at fixed intervals of time, a fortnight, a month, a year etc. The term *labha* represents the point of view of the recipient, labourer, officer etc. as in *bhaktavetanalabha*, and that it is a sort of deferred payment. It may also stand for a lump sum payment. The term *samjatad ayavyayavisuddha*

meant that from the total income the total expenditure is deducted. The term *prapta* was used for the income actually delivered into the treasury and *anuvrita* meant income accrued but not actually delivered into the treasury; it is thus carried forward to the next accounting period. *Parna* seems to refer to the palm-leaf inside the account book and *antaravarna* is the book in which the actual balance is described. The term *karmika* is obviously the officer concerned with carrying out of the work, while *karanika* is the account-keeper. At that time all the accounting records were preserved in the record office which was supposed to face the East/North with separate place for record book. It is probably to avoid displacement of loose leaves used for accounting purpose as the wind direction in our sub-continent found to be from South to North for most of the time.

Factory accounts include the cost of raw materials, wages and salaries, cost of the place of work including additions to the factory. Shrinkage of weight or volume of materials during manufacturing is explicitly recognized and properly accounted. Accounts include non-financial information like number of workers, quantities in weight and volume, quality of materials and the size of their containers etc. The accountant has to check receipts for the time, place, amount, source, name of recorder, expense entries for time, place, amount, category, person who orders, person who delivers and balance entries for place, time, amount, category, characteristics in case of goods etc. Discrepancies in the information due to misrepresentations, errors, negligence or fraud are investigated and punished. Receipts in cash and kind by the king and other members of the royal family, gifts and payments made to, and received from, foreign rulers by the king were accounted separately. The accountants maintained books of accounts on an annual basis according to prescribed standards. The same were furnished for audit at the end of the year. Kautilya suggested to pay handsome salaries to accountants and auditors as high income would keep them ethical because accountants would be more prone to commit fraud if they earned very little.

#### 4. Accounting Principles and Standards: Guidelines of Arthashastra

The superintendant should check the accounts for each day, group of five days, fortnight, month, four months and year. He should check the income with reference to the period, place, time, head of income, source, bringing forward, quantity, the prayer, the person causing payment to be made, the recorder and the receiver. He should check the expenditure with reference to the period, place, time, head of expenditure, gain, occasion, the thing given, its use and amount, the persons who orders, the person who takes out, the person who delivers and the receivers. He should check the balance with reference to the period, place, time, head, bringing forward, the article, its characteristics, amount, the vessel in which it is deposited and the person guarding it. The terms used in *Arthashastra* viz. income, expenditures, excess, surcharges, high & low value, price, weights, measures, receipts, payments, balances, current, estimated, accrued, outstanding etc. clearly signifies that there was a complete accounting system like modern days. State income is classified in the budget and accounts under seven heads; city, country, mines,

irrigation works, forests, cattle-herds and trade routes. Kautilya states that "receipts may be current, last balance, and accidental (*anyajatah* means received from external source). He differentiates between cash receipts and debtors, current and accrued income, income from other sources, windfall gains, and recovery of bad debts. He recognized the concept of risk and suggested different rate of interests for loans. Foreign trade loan attracted the highest interest, as the returns were uncertain.

The revenue comes from taxes, import or profit made by the state enterprises. All the sources of income are together called the body of income (*ayasarira*). These are again classified under seven heads; the source of income (*ayamukha*). The 'Samaharta' or the mantri whom we would call the Finance Minister today, was responsible for the preparation of the budget and accounts. The officer was to fix the amount of revenue to be collected from all the heads of income and then to arrange the income under the *aayamukhas* or sources. He was responsible to disclose any increase or decrease in revenue and any increase or reduction in expenditure and to explain the reasons. In present day business we use journal, ledger and trial balance for preparation of accounts which have similarities with that of Kautilya. Expenditure is shown in the budget and accounts shown under fifteen heads (the body of expenditure, *vyayasarira*). What is left over after deduction of expenditure from total of revenue items is balance and like present accounting system the balance was carried forward for the next year. The majority of items involve expenditure on state account; few constitutes privy pursue of the king which is nothing but drawings account in present day business. There is no reference of state expenditure like mining etc, probably means that income is calculated after deducting all expenses. Separate accidental sources of revenues and expenditures e.g., recovery of dues and debts that had been written off earlier, compensation collected for loss or damage, unspent budgeted amounts due to disbanding of the army, etc. were also accounted.

Kautilya opined that centrality of treasury to the kingdom makes it the first concern of the king and treasury may be depleted by theft, natural disasters, tax exemptions, cash gifts, obstruction, lending, concealment, unauthorized use, substitution and misappropriation. So, stress has been given both on fraud prevention as well as on fraud detection. Kautilya had listed several ways by which funds are misappropriated. Similar types of fraudulent transaction are also detected in today's corporate environment e.g. (a) falsification with a motive of personal profit (b) misrepresentation of income received or expense incurred with a motive of personal profit (c) discrepancies in personally supervised work. Every trader had to compulsorily maintain an account book which had to be presented to the superintendent of commerce while paying the taxes. Every transaction had to be recorded on the date of transaction in the account book. Not maintaining such a book was considered fraudulent and was punishable. Also, the accounting system was uniform and as prescribed by the superintendent of commerce from time to time. The auditors are independent of the minister and are responsible for planning the budget and revenues and the expenses. The records-cum-audit office has to maintain records for each

department's activity. While preparing budget Kautilya suggested deferred revenue and expenditures should be taken into account making his budgeting more logical and scientific. In his book, Kautilya highlighted the importance of proper maintenance of books of accounts and the role of auditors. Responsibility of auditors was outlined by Kautilya in the 'Arthashastra'. Failure to conform to regulations was a punishable offense. Royal officers were responsible for rendering the accounts for their sphere of activities without any contradiction in them. Those who told lies or made contradictory or doubtful statements were liable to pay heavy penalty. Fear of severe punishment kept unscrupulous and irresponsible auditors on guard while preparing audit reports.

## 5. Fines and Penalties

The officer in question if not conversant with the activity, customs and fixed rules, causes loss of revenue through ignorance, if unable to endure the trouble of activity, through laziness, if addicted to the pleasure of the senses, sound and others, through remissness, if inclined to show favour to those who have work with him, if inclined to do them harm, through anger or arrogance will be liable to pay fine. The fine is as much as the loss of money increased by many folds in conformity with the offence. The superintendant should make the officer pay eightfold whatever may increase in the balance over the total of income on the page inside the accounts book or whatever the officer may cause to decrease from the balance of expenditure. For officers not coming at the proper time or coming without the account book and balances, the fine shall be one-tenth of the amount due. When the works officer presents himself and the accounts officer is not ready for audit, the lowest fine for violence shall be imposed. The high officers should render accounts in full in accordance with their activity, without contradicting themselves and among those who make a divergent statement or speaks falsely shall pay the highest fine. The superintendant should wait for one month, if the officer has not brought in the day-to-day accounts. After one month, the officer shall pay a fine of two hundred *panas* increased by that amount for each succeeding month. If an officer has a little of written balance due from him, he should wait for five days. If he brings in the day-to-day accounts after that period, preceded by delivery of the balance into the

treasury, he should look into the case with reference to laws, transactions, customs and fixed rules and by totalling up, and by looking at the work actually carried out, by inference and the use of spies. If in an affair of the king, the accounts officer is not ready for audit or disregards an order or changes the income and expenditure in a way different from the written order, the lowest fine for violence shall be imposed. For one writing down an item in the accounts without any order or in a wrong order in an illegible manner, or twice over, the fine is twelve *panas*. For one writing down the balance in any of these ways, the fine is doubled. For one who swallows it, the fine is eight-fold. For one who destroys it, the fine is one-fifth of the amount and restitution of what is lost. In case a false statement, the punishment is that for theft. If admitted afterwards, the fine is doubled, so also if an item is forgotten and then brought in.

## 6. Conclusion

Arthashastra sets down a very well-defined structure for the financial ordering of a kingdom. The provisions for budgeting and accounting narrated in Arthashastra clearly signify its resonance with modern budgeting and accounting system. It is noteworthy in this respect that Kautilya provided such mechanism for accounting procedure that creates safeguard to the treasury through audit and review process. Kautilya emphasized on formation of citizen friendly good governance by appointing competent ministers and officials possessing qualities of leadership, intellect, good moral conduct, accountability, energy, physical fitness and capable of taking prompt decision.

Kautilya was of the opinion that an efficient allocation of resources depended on appropriate measurements of profits is very much critical for enhancing economic growth. He emphasized the estimation of expected profits and also insisted on strict adherence to the prescribed uniform standards and accurate measurements of actual profits. Kautilya realized that in the absence of uniform standards and accurate measurement of economic performance, resources could not be allocated efficiently. This in turn depended on proper accounting methods, ethical values, general knowledge and proper governance system.

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