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The Concept of Accounting in The *Arthaśāstra* of Kauṭilya

Biva Sania Chowdhury*

Abstract

The current paper examines the concept of Accounting as revealed in the *Arthaśāstra* of Kauṭilya from different points of view. In this regard we have tried to discuss in short on these fields: Concept of Income, Additional Income during Inflation, Preparing Good Accounting Reports, Design of Accounts, Embezzlement of State Revenue, Village Administration and Accounting. Accounts are to be prepared by dividing the total period into different days. After a careful consideration of the accounts, it will be easy to understand that the modern ledger Accounts show a mere technical improvement over the ancient ones and modern accounts are never new from the core. This discussion may draw the attention of the readers to have an idea about what a great Sanskrit scholar was Kauṭilya in ancient times.

keywords: Ancient and modern ledger, Technical improvement, Arthaśāstra, Accounting, State revenue, village Administration, Design of Accounts

Accounting is essentially related with particular periods. In case of continuing concerns, where the business has got an assumed perpetual existence, accounting activities are fragmented into parts having regular intervals of time between two published statements as to the financial position of the business. The most common interval, however, between two published financial

* Associate Professor, Department of Psychology, University of Development Alternative (UODA), Dhanmondi, Dhaka

statements, is one calendar year or financial year or simply twelve months. Without relating time to her activities, the work of the accountant would turn to be meaningless. The concept of Accounting period, therefore, is of vital importance for all types of accounting activities. In case of terminable Ventures, however, the task of the accountants becomes very simple, because, in such cases, business activities may cease much before the expiry of the Accounting period. In case of concerns, therefore, the normal convention is to calculate income and to prepare statements of assets and liabilities at regular intervals of one year. This is called the concepts of periodicity or the convention of Accounting period. It is interesting to note that Periodicity Concept of Accounting is an ancient Indian idea. Three hundred and fifty four days and nights is a working year. Such a work shall be paid for more or less in proportion to its quantity at the end of the month of Ashadha(about the middle of July). The extra work done during the intercalary month shall be separately calculated from Kautilya's *Arthaśāstra*. (Kangle, 1992: 43)

Concept of Income

According to Kautilya, income is of three types:

- (a) Current Income or Present Income or Daily Income (Vartamāna)
- (b) Income Accrued in the previous period but not received during that period and received in the current year
- (c) Other Income or Income from other source is income forgotten for a long time, now known or, recovery of any bad debt. (Kangle, 1992:42)

Income may be (1) Current, (2) Last balance, and (3) Accidental.

What is received day after day is termed as current. Whatever has been brought forward from the year before last, whatever is in the hands of others, and whatever has changed hands is termed as last balance. (Kangle, 1992:42) Whatever has been lost and forgotten

by (others), fines levied from Government servants, marginal revenue, compensation levied for any damage, presentations to the king, the property of those who have victims to epidemics leaving no sons, and treasure troves, all these constitute accidental receipts. Apart from the above types of incomes, Kauṭilya refers to another special type of income which he calls “Vyāya Pratyāyah” or residual income, that means, incomes which remain as residue.

Amount remaining (out of specific funds) as balance after expenditure (has been made) for capital type of investment or amount remains as residue out (of the fund for medical treatment) of sick persons. (Kangle, 1992:42)

It can be very well observed what an improved idea about the concept of income we had in ancient India. The most modern thoughts of Revenue Income, Accrued Income, Income from other Sources (applicable for present day Income Tax purposes), Income from Enemy Property, Income from Vested Property, Earned Income, Unearned Income were there well within the knowledge of ancient Indian people. So, these are not new ideas.

As to the ascertainment of profits or losses, Kauṭilya's concepts are very much convincing. According to him, if the outlay is more than the output, then the result, is to be treated as loss. The same principle holds good in the accounting world even today. In any Profit and Loss Account prepared by any accountant, if the expenses or outlays are aggregated to be more than the output or gross income generated by such expenses, the result is taken as loss. If again, as per Kauṭilya's Arthaśāstra, the total of the various types of incomes generated by the total expenses or outlays are more than such total expenditure, the difference is to be treated as profit or income. (Kangle, 1992:191)

There is a term “Upasthāna” used by Kauṭilya to mean “recovery of past arrears” or “collection of arrears”. This appears to be the similar idea as “recovery of Bad Debt previously written off” as used in modern accounting. (Kangle, 1992:63) Collection of arrears is termed as “Upasthāna”, or recovery of past arrears.

Kauṭilya has dealt very nicely in his *Arthaśāstra* with the question as to what type of gain is better—a short term small profit or a long term large profit. (Kangle, 1992:184) He says that long-term large gains are better than short-term small gains because long-term gains are as continuous as a productive seed. Kauṭilya says a long-term large gain, as continuous as a productive seed, is better; otherwise, (one should select) an immediate small gain (instead of long-term large gain. If however, the long-term gains are not continuously productive, then, according to Kauṭilya, short-term small amount of gain is good for the business. The above concept of Kauṭilya appears to be applicable at the time of the choice of the mode of investment. Whether a short-term investment is to be made or a long-term is to be judged from the point of view of expectation of return from the same and in this respect, the discussion made by Kauṭilya on this point seems to be quite justified. (Kangle, 1992:186)

Concept of Additional Income During Inflation

We know, now, that income due to inflationary tendencies prevailing in any country or income due to price rise is treated as not a real income but unearned income. This is the most talked of topic of the present day accounting world because it poses a serious problem to the orthodox accounting system or conventional accounting method as with the help of this method, the correct income cannot be calculated during the days of rising prices. But, if we go through the 27th Chapter of Kauṭilya's *Arthaśāstra*, it may be observed that he clearly refers to this type of unearned income due to price rise. Kauṭilya says, if at the time of sale, the price of goods purchased earlier at a lower price rises, then, this sale will generate an additional income; this is income from the sale of prohibited or forbidden or unsaleable goods. This means that if goods which are marked as “not to be sold” by the proper authority for any reason (like bad quality or not up to the standard or damaged goods or goods detrimental to the health and well-being of common people), are sold, the income from such sale will go to the Government. (Kangle, 1992:42) If any businessman makes any profit by a small variation of weights and measures, such income will be transferred to the government.

When a huge quantity of goods are sold e.g., rice, wheat, coal etc., on consignment basis, then these goods are weighed at one end by the consignor, (the person who is sending the goods) and at the other end again weighed by the consignee (the person taking delivery of the goods or receiving the goods). When he receives those goods, due to this type of weighing or measuring or handling, and loading and unloading time and again, there is always the possibility of some probable loss of goods which may occur in future. For the purpose of protection or prevention of this future loss, Kauṭilya says that right at the beginning of the business, the consignee (the person taking delivery of the goods) must have the quantity of the goods increased by $1/20^{\text{th}}$ portion. That means, the consignor should send the actual quantity of goods as per agreement plus an extra quantity of $1/20^{\text{th}}$ portion of those goods for the prevention of future loss of the consignee. At the time of auction sale, even at the time of a stable price-level, there may be an undue tendency among the buyers to compete amongst themselves which may ultimately result in an inevitable price-rise. Here it is noteworthy that the justice and sound reasoning behind this unique idea are noteworthy. Nobody was allowed in ancient India to enjoy any undue income or profit. The extra amount of profit or extra money was taken away by the Government and was invested in Capital Assets, i.e., construction of forts etc, and thus the system proved to be an effective measure for lowering the inflationary tendencies down.

The Concept of Expenditure

Now-a-days, in modern accounting methods, expenses are divided into three categories, viz., (1) Nominal expenses, or, Revenue Expenses (the effect of which is short-lived, like a day, or a month, or six months or a year), (2) Deferred Revenue Expenses, (the effect of which is not so much short lived like Revenue Expenses, but the effect of which lingers for a bit longer period like 3 years or 5 years etc., e.g., Advertisement Expenditure) and (3) Capital Expenses (the result of which is long-lasting or expenses which are made for acquiring some permanent asset for the business).

Let us now discuss what Kauṭilya states in his *Arthaśāstra* about expenditure or Vyāya. In chapters 27 and 36, he says that expenses are of four types:

1. Nitya, 2. Nityôtpādika, 3. Lābha, 4. Lābhôtpādika

1. Nitya Vyāya is the expenditure which is made daily.

2. Nityôtpādika Vyāya is the extra expenditure made with the fixed Nitya Vyāya or daily expenses.

3. Lābha Vyāya is the expenditure made during a fortnight, or a month or a year for the purpose of making a profit during that particular period.

4. Lābhôtpādika Vyāya is the extra expenditure made at the time of effecting the Annual Expenditure or Lābha Vyāya.

Kauṭilya says: Vyāyasamjātādāyavyāyaviśuddhā | Nivī prāptā cānuvṛttā ceti || (Śāstrī 1919: 62.) That means—That which remains after deducting all the expenditure already incurred and excluding all revenue to be realized is the net balance or nivī, which may have been either just realized or brought forward.

Public Expenditure:

- (1) Maintenance of the Royal Household, the Harem, including the queens, the concubins, princes (and their education), the harem-guards, spies, the king's kitchen and the guards that protected the Royal person.
- (2) Maintenance of the religious establishment with the priests, and the sacrificers.
- (3) Payment of the salaries of higher officials, and their subordinates including the magistracy and the judiciary, the police, the espionage and the mental staff.
- (4) Maintenance of factories, manufacturing establishments, mines, forest etc. (Bandyopadhyaya, 1927: 167)

The Concept of Capital

According to Kauṭilya, “Nivī” or “capital” is the ultimate excess of goods or money remaining after all types of expenses have

been completed and after all the incomes and expenses have been corrected accounted for. According to him, Capital is of two types:

1. Capital already deposited into the Royal Fund;
2. Capital remitted for deposit to the Royal Fund, but in transit. (Kangle, 1992:42)

Monetary Cost Concept:

The basic subject matter of accounting is the measurement and recording of heterogeneous exchange transactions in homogeneous terms, i.e., in terms of a common denominator which is monetary unit. This is, precisely, the modern Money Measurement Concept or Monetary Cost Concept. In ancient India also, records of transactions were kept in terms of some homogeneous monetary unit, and a single unit of money was divided into a number of small parts for the purpose of correct and efficient accounting. So it can be said that this Money Measurement Concept or Monetary Cost Concept was in existence in ancient India.

Division of Coins as shown by Kauṭilya:

1. Pana __ made of Silver __ Modern 1.32 Taka
2. Ardha Pana __ made Silver __ Modern 50 Paisa.
3. Pada Pana __ made of Silver __ Modern 25 Paisa.
4. Astabhāga Pana __ made of Silver __ Modern 12 ½ Paisa

Kauṭilya says:

Kārayet Paṇamardhapaṇaṃ
 Pādamaṣṭabhāgamiti
 Pādājīvaṃ tāmrarūpaṃ ।
 māśakamardhamāśakaṃ
 Kākaṇīmardhakākaṇīmiti ।। (Kangle, 1992:57)

That means- The Superintendent of mint should get manufactured a Paṇa, a quarter, and one eighth. Also copper coins made up of four parts of an alloy shall be a māśaka, half a māśaka and half a kākaṇī.

The above divisions has been shown of *Arthaśāstra* by Kauṭilya. More or less the same types of division of monetary unit is followed not only in India but also throughout the whole world even to day.

The Concept of Preparing Good Accounting Reports

In present-day Management, reports play a vital role. A good report is a very valuable tool in the hands of the Management for conducting the business efficiently. For Kauṭilya the qualities of a good report are as follows:

1. Arthakrama __ Sequence of matter.
2. Sambandha __ Relevancy or establishment of relationship (with the previous one).
3. Paripūrṇatā __ Completeness of ideas.(Kangle, 1992:49)

Arthakarmaḥ sambandhaḥ paripūrṇatā,
mādhuryamoudaryam, spaṣṭatvamiti, lekhasampat.

(Basak, 1964:46)

That Means, The use of words with a charming meaning easily conveyed is sweetness, the use of words that are not vulgar is exaltedness, the employment of words that are well known is lucidity.

It appears that the present-day analysis as made by J. Batty, Brown and Howard regarding the qualities of a good report are similar. J. Batty, has stated: “Scientific and technical language is probably best left out of reports...simplicity of form enables him to follow without misunderstanding, what has taken place.” (Batty, 1966: 294) According to other scholars:

The language should be clear and unambiguous. The report should be impersonal. Professional Jargon should be avoided, since those who receive the report may be quite unfamiliar with expressions the accountant takes for granted. (Brown and Howard, 1982:69)

If we now compare the ancient Indian idea of Kauṭilya and the modern idea, it will surely appear to be true that the Indian Idea was superior to the modern thoughts in so far as the qualities of a good report are concerned, specially so, because Indian ideas

were registered in about 300 B.C.. There is no new point in the modern thought.

Further, Kauṭilya has also pointed out the possible defects or drawbacks of a report. The following are, according to Kauṭilya, the defects or drawbacks of a writ or report:

1. Clumsiness;
2. Contradiction of ideas;
3. Repetition of ideas ;
4. Grammatical mistakes;
5. Misarrangement of ideas; (Kangle, 1992:51) So we see, that , not only the essential qualities of a good report were considered by Kauṭilya, but the possible defects of the same were also well within his thoughtful consideration.

Design of Accounts

In Kauṭilya's *Arthaśāstra*, there is a clear reference of the design of accounts to be prepared. The design is as follows: Accounts are to be prepared by dividing the total period in One day, Five Days, Fifteen Days, One Month, Four months and One Year. (Kangle, 1992:44) At the time of recording or posting of income or expenditure into the accounts, the following points are to be specially mentioned.

- (a) Byuṣṭa or year,) in which the account is prepared.
- (b) Kāla or Date,) on which the account is prepared.
- (c) Desha or Place) where the transaction occurred.
- (d) Mukha or the Head of Income or Expenditure (Govt. accounts are even to-day divided into different heads of Income or Expenditure)
- (e) Utpatti or the Source from which the particular income arises.
- (f) Anuvritti or occurrence or recurrence of income.
- (g) Lābha or the amount of expenditure.
- (h) Kārana or the reason or purpose of expenditure .
- (i) Deya or the name and description of the goods or articles despatched,

- (j) Parimāna or the quantity of goods paid out of the Stock.
- (k) Ajñāpaka, or the name of the official on whose order the expenditure has been effected.
- (l) Uddhāraka, or the name of the official who has withdrawn the money from the Royal Bank.
- (m) Vidhātaka, or the name of the Bank Manager or Governor of the Royal Bank at that time, or the name of the custodian.
- (n) Pratigrāhaka, or the name of the person to whom the money has been paid or the name of the person who has received the money. (Kangle, 1992:44)

Again at the time of recording of or accounting for Capital Assets also, the points (a),(b),(c) and (d) as referred to above in clause (2) should be written first, and then,

- (a) Anuvartana, or the name of the asset brought forward or, the amount of capital brought forward.
- (b) Rupam, or the nature of the asset or capital.
- (c) Lakshaṇam, or the specialities of the particular asset or any special marking on the particular asset.
- (d) Paimāṇa, or the quantity or number of Assets.
- (e) Nikshepabhājana, or the place of placement of the asset.
- (f) Gopāyaka, or the name of the person in charge of maintenance of the asset.(Kangle, 192:44)

Furthermore, if we put the above design of accounts as conceived by Kauṭilya in a columnar form, as all the accounts are maintained now-a-days, it will be easy for us to compare the superiority of the ancient Indian thought over the so-called modern idea, which is considered to be mostly European. However, let us put the above in a tabular form as follows:

ACCOUNT OF INCOMES FOR THE PERIOD ENDED ON.....

BY- US- TA	KĀLA	DE- SHA	MUKHA	UT- PATH	ANU- VRIT- TI	PRAMĀ- NA. OR PARIMĀ- NA	DĀPA- KA	DĀPA- KA	NIVAND- HAKA	PRATIGRĀ- HAKA
Year	Date	Place	Head of Income	Source of Income	Recur- rence of In- come or not	Amount of Income	Name of the Person paying the money	Name of the govt. official who has effected the col- lection	Name of the ledger Keeper or Account- ant	Name of the Receiver of the amount of Money
1	2	3	4	5	6	7	8	9	10	11

The modern design is only an improvement of the old ancient Indian Design of Accounts, so that it may be more fruitfully applicable to the modern types of business transactions.

Conclusion

As we have now come to the close of our discussion as to the existence and exercise of the various accounting and commercial concepts like the Periodicity Concept, Concepts of Income, Expenditure, Capital etc, Maintenance of Real Capital, practice of Audit, Agricultural Accounting, Farm Accounting and choice of trade routes, and even as to the existence of the most modern concepts of earned and un-earned profits, or extra profit at the time of price-rise, we can conclude without doubt that all these were well-conceived and well practised in Ancient India as is evident from the *Arthaśāstra* of Kauṭilya. After reading the various chapters of this book, we may conclude that the above-mentioned accounting ideas, concepts of costing and auditing and many other commercial concepts, practices and rules and laws of modern India are of Western origin; and India has borrowed these from the West. But in reality, as the present study reveals that these ideas were all present in ancient time in India. Therefore, it is the West that has borrowed in Indian ideas. We had everything in India but we forgot everything, perhaps due to the loss of link between the

ancient India and Modern India, and that link is our celebrated mother language Sanskrit.

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