

PIA ACCOUNTING SYSTEM

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Abstract

In this research paper, with the help from PIA Finance and Accounts Department, I have analyzed the functions and working procedures of PIA Accounting Department and the other departments linked to it. Firstly, the objectives of PIA Corporation (PIAC) have been showcased in the light of PIAC Act, and then all the departments linked with Finance Department have been analyzed in their proper perspective of the work performed by them.

The entire flow of revenue from earning perspective from various sources to the expenditure has been analytically tracked revealing how PIA gains the revenue and how this revenue is used by PIA. Towards the end of this research paper, I have done S.W.O.T. analysis; which will tell itself the strengths, weaknesses, opportunities and threats to the PIA in general and PIA Accounting Department specifically.

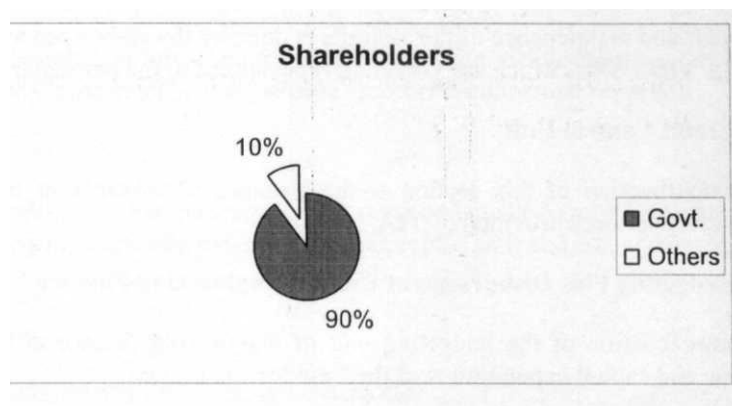
Introduction

Pakistan International Airlines (PIA) is the only state-owned airline of Pakistan, based in Karachi. It operates at about 46 international destinations and 24 destinations through out Pakistan. The ownership break down is visible from this pie chart as under resting 90% ownership with govt, of Pakistan and rest is issued to general public.

Objectives of Pakistan International Airlines Corporation

According to PIAC Act 1956, following are main objectives of the corporation.

- To provide and further develop safe, efficient, adequate, economical and



properly coordinated air transport services, internal as well as international.

- To operate any air transport service or any flight by aircraft for a commercial or other purpose, and to carry out all forms of aerial work;
- To acquire, own, run, manage or participate in the running or management of, any hotel or business connected therewith;
- To provide for the instruction and training in matters connected with aircraft or flight by aircraft of persons employed or desirous of being employed either by the Corporation or by any other person;
- With the previous approval of the Federal Government, to promote any organization outside Pakistan for the purpose of engaging in any activity of a kind which the Corporation has power to carry on;
- To acquire, hold or dispose of any property, whether movable or immovable, or any air transport undertaking.
- To repair, overhaul, reconstruct assemble or recondition aircraft, vehicles or other machines and parts, accessories and instruments thereof or there for and also to manufacture such parts, accessories and instruments whether the aircraft, vehicles or other machines are owned by the Corporation or by any other person.

Finance Department of PIA

Finance is considered as a brain of every organization. In PIA it is further divided into the following

- 1) Revenue Accounting:** To record main revenue (Passenger and Cargo).
- 2) Budget department :** Preparing the overall budget
- 3) Funds Management :** Managing of funds
- 4) General Accounting :** Book keeping of all financial transactions

Finance section is further subdivided into following units:

5) Repair Abroad Unit

The repair and maintenance of the aircrafts is done by the authorized and well recognized FOREIGN REPAIR VENDORS which are very much specialized to the particular type of the aircraft.

6) Credit Control Unit

The main function of this section is the issuance of invoices or billing to the party(s) for the Engineering services provided by PIA.

7) Budgeting Plus Disbursement Unit Of Engineering Finance '

The main function of the budgeting unit of engineering finance is to allocate the budget for the Revenue and capital expenditures of the Engineering section.

8) TA-DA Unit Of Engineering Finance

Traveling Allowance and Daily Allowance is given to the aircraft engineers for the certification of the Aircraft and to the technicians who travel for the helping in case of any Problem.

9) Disbursement Unit

All parties are paid either monthly or one time payments. In the monthly payments there is an agreement between the parties of an engineering section for example: AC Maintenance contract, transport contract are currently operating on the monthly basis.

10) Payroll Unit Engineering Finance

This unit is only concerned with the processing of salaries/benefits of engineering related employees all aircraft engineers & technician etc).

1. Revenue Accounting Division

In Pakistan International Airline, Revenue Accounting deals with revenues or sales generated mostly [through tickets and cargo. Revenue accounting division is a backbone of any organization and its [existence plays a vital role in the success of the organization. Interline relationship occurs when two or more airlines align their operations to bring the Passengers or Cargo to a certain destination.

Revenue is earned by three sources:

- a. Passenger Revenue
- b. Interline Revenue
- c. Cargo Revenue

a. Passenger/Pax Revenue

Pax revenue is the sub-section of revenue section. It is decentralized into various units and deals with the revenue that PIA generates through its passengers. This section deals with the two types of revenue.

i. Unearned Revenue

When a passenger purchases a ticket in advance, it is liability on the airline because the airline cannot provide the services to that passenger so this revenue recorded as unearned revenue.

ii. Earned Revenue

When the PIA, provides the services to the passengers, this revenue is called earned revenue. This section is also divided into following units like pax sale unit, pax refund unit and pax agency unit.

b. Interline Revenue

- i. Pax
- ii. Miscellaneous (handling, catering and Engineering services etc)

c. Cargo Revenue

- i. Interline passenger revenue (comprises of 88% of total revenue)
- ii. Interline cargo revenue (comprises of 8-9% of total revenue)
- iii. Interline Miscellaneous revenue (comprises of 2-3% of total Revenue)

Sales Report Control Unit

Sales Report Control Unit is assigned to receive sales report from Domestic agents, Domestic Counters and International Stations. The sales report control unit receives report on daily, weekly and monthly basis from stations at head office. After the report has been arrived the international and domestic counter sales are upgraded and this shows the receipt of sales report.

Time limitation Reports

The time limit that is set on domestic and international stations for sending the reports at sales control unit.

- **Domestic**

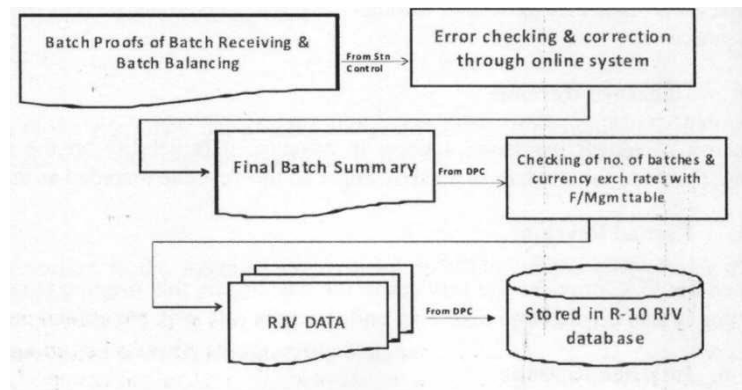
One week i.e. seven days. Further extensions allow three days for sending reports.

- **International**

Done according to the settlement on weekly, monthly and fortnight basis in which BSP reports are sent on fortnight and monthly basis.

Domestic Control Unit

This unit ensures availability of ample documents. The next function is to check whether the received document is proper and are they in correct sequence. After printing and receipt they have to control. Next function is to distribute those documents into different section that distribution is known as distribution and dispatch. After dispatch and distribution complete record is made, follow up is done and then record is updated. To dispatch a complete procedure is followed; they pack those documents and send through cargo, custom and security clearance is done. After dispatch confirmation is done that the documents is been received or not. All those tickets are



place in storage room.

Reconciliation Unit

In this unit reconciliation of revenue accounts is done and the agency sales report are collected from different stations on monthly and fortnightly basis and after that these report are sent to Reconciliation unit which is also referred as RIO unit.

Credit Control Unit

Guidelines that spell out how to decide which customers are sold on open account, the exact payment terms, the limits set on outstanding balances and how to deal with delinquent accounts is known as credit policy.

PAX Unit

This is the payment which PIA pays to government and civil aviation. It is an impost for raising revenue for the general treasury which will be used for general public purposes. All payments of M/S CAA are made & released on lift basis, in which all payments are liable to pay the government of Pakistan (CBR) on collection basis.

Exemptions

- Hajj passengers
- Diplomats
- Supernumerary crew

Refund Unit

Refund means the repayment to the purchaser of all or a portion of fare, rate or charge for unused carriage or service. Refund is claim against surrendered documents and it can only be made if revenue is earned.

Refund for different types of ticket:

- Revenue ticket
- Army APW/ TAC
- Student Applicant
- Difference of Fares
- Agent Refund
- Bank Commission

Ticket Control Number (TCN):

TCN means Transaction Control Number or Ticket Control Number. In this unit error correction is done on tickets. When tickets are sold their data is recorded electronically in CRS (Computer Reservation System) errors in the tickets block the system and it stops the data to proceed further. When this data is corrected these tickets are preceded further.

D-15

Monthly expenditure report is called D-15 which consist of Pay vouchers with relevant supports, payment book listing all the disbursements made at station during a specific month, disbursement accounting summary, staff payments register, budget control register, bank imprested reconciliation and bank statements.

Budget and Financial Monitoring Division

The key functions of this division include compilation of annual corporate plan, compilation of annual revenue and capital budgets, evaluate and provide monthly reports showing the actual results with the budget figures to the various responsibility centers. Compilation of operation data / statistics such as ASK, RPK, AFTK, etc and preparation of various reports required by the management **CAA**, TCAO, IATA etc. Also the preparation of monthly route performance and profitability reports. Evaluation and review of projects and feasibilities and assist management in its decision making process.

Insurance

The main responsibility of this section is to give the benefits and other related provisions of various insurance policies arranged by the management for the welfare of PIA employees and their families.

General Accounting

Accounting is an active department in the Business Area. PIA General accounting division is computerized. All the work and transaction record on computer and manually. PIA use double entry accounting system to record the transaction. And the entry record on computer to the Access.

General accounting is consisting on following division:

- a. Accounting:
- b. Payroll & paxes
- c. Disbursement

SWOT Analysis Strengths

- PIA's market share was 51.2% at the end of year 2007
- Its an international market share was 43.5%, In the Domestic market, its market share was 69.4% last year
- PIA is one of Pakistan's leading air carriers, with more than 800 daily flights.
- PIA has successfully incorporated latest technology in all its systems, giving it an edge over competitors
- Factors' contributing consists of different series of Boeing and Airbus and an efficient, high-utilization and point- to-point route structure.

- Superior operating structure serves as the primary competitive advantage of PIA.
- IT enjoys a strong network in key domestic and international destinations. The company's network includes three the major airports in Pakistan, as well as major international airport such as Dubai International Airport. Having a strong network means that PIA can generate traffic feed for both its domestic and international Flights.
- It operates from its hub in Jinnah International Airport; Karachi. It is one of the world's busiest airports in terms of number of passengers carried. It is also one of the largest international gateways to Asia. It is also the leading international air passenger (and cargo) gateway to Pakistan.

Weaknesses

- The centralized system is one of the biggest obstacles of long term success of PIA. The centralized structure leads to barrel between different level of management, decreased motivation and difficult access to information.
- Passenger revenues accounted for 87 percent of the PIA's total revenue in 2007. Cargo services allow airlines to generate additional revenues from existing passenger flights.
- PIA's balance sheet showed has a significant amount of around 41 billion debts. Debts could also put PIA as a disadvantage to competitors that have lesser debt and could also increase the company's vulnerability to interest rate increases.
- A steep rise in oil prices can seriously damage the long term viability of any airline PIA's sustainability, growth and revenues directly depend on oil prices
- There is no justifiable performance appraisal for the employees. The ACR system must be transparent. No regional and political influence or biasness should be accepted so that the deserving employees may come forward.

Opportunities

- PIA is discovering new regions for market diversification
- PIA is having the maximum route and fleet domestic and international destinations network in Pakistan as compared to its Competitors. Route and fleet expansion will positively impact the company's operations by increasing revenues
- E-ticketing generating major chunk of revenue for PIA
- Introducing Travel Cards are the biggest opportunity to increase the revenue.
- Pool Unit Agreements and Court share agreements with Turkish airways, Thai airways are opening new markets with no expenditure
- PIA's frequent flyer and loyalty programs can help it retain customers. PIA's Awards plus (frequent flyer program) was established to develop passenger loyalty by offering awards and services to frequent travelers. Such schemes encourage repeat travel on PIA, as passengers seek to accrue the benefits given to regular travelers.

PIA Accounting System

- The needs of air passengers are increasingly changing, as they are becoming more and more price sensitive. If PIA succeeds in making its prices more competitive, then the company will be able to gain significant market share.
- New technologies like e-ticketing and self check-in terminals, comfortable cabins and superior customer service.

Threats

- Too much government influence that some times exploits the management in terms of induction of the incumbents or sending the employees on posting
- Political instability in Pakistan is a major setback that affects the management of PIA because every government wants to induct their near and dear ones.
- PIA has to continuously ensure utmost safety and security of its passengers. Accidents can adversely affect customer confidence in PIA and result in declined revenues intensifying competition.
- PIA has started new low-fares subsidiary "PIA Express" to stop the Air blue market share growing to fast. Moreover, major legacy airlines have been focusing on restructuring costs, which has improved their competitiveness. With costs restructured, the legacy airlines are becoming more formidable competitors in terms of increasing capacity, matching prices and leveraging their frequent flier programs. Increasing competition could adversely affect the company's margins.

Recommendations

- There is a shortage of specialized manpower in miscellaneous department which is to be reduced by hiring more employees
- Paper full environment should be converted in to paper less environment by using Enterprise Resource Planning.
- Information Technology Setup should be established so that the Finance Department may integrate with other departments
- There should be a system to check the proper documentation of invoices by other airlines
- Frequent Training Programs to be conducted to upgrade the employees with the IATA rules and regulations
- There is a need to increase the pay scale because small Salaries are the major cause of the dissatisfaction for the employees.
- Transparent Performance Assessment should be conducted for the employees and so that the deserving employees may get the chance to come forward
- Communication among the top management, middle management and the first line management should be improved through frequent meetings to understand the problems or difficulties of the employees

- PIA should decentralize its structure that would lead to the easy management, increased motivation, easy access to information and resolution of the conflicts (as they would be resolved by the immediate manager time span would then reduced). Since employees issues regarding their behavior would lessen, so it would ultimately lead to more satisfied employees that would result in enhanced productivity of the organization.
- PIA needs to involve its customers more directly in the decision making process when making strategies in order to improve

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