

## Indigenous Accounting and Financial Practices in the Indian Knowledge System

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### Abstract

The Indian Knowledge System (IKS) encompasses a wide spectrum of intellectual traditions developed over millennia in the Indian subcontinent, including philosophy, governance, science, mathematics, economics, and commerce. Among these, indigenous accounting and financial practices form a significant yet underexplored domain. Long before the formalization of Western double-entry bookkeeping and modern banking systems, India had evolved sophisticated methods of financial recording, credit instruments, taxation systems, and community-based financial governance. These practices were deeply embedded in socio-cultural norms, ethical frameworks, and administrative institutions.

This research article examines indigenous accounting systems such as Bahi-Khata, Mahajani bookkeeping, temple and guild accounting, state financial administration described in the Arthashastra, and financial instruments like hundis. It analyzes their conceptual foundations, institutional mechanisms, and socio-economic relevance. The study also explores their transformation under colonial rule and their continuing relevance in contemporary India. By situating accounting within the broader framework of Indian epistemology and ethics, this article argues that indigenous financial practices were not merely technical tools but part of a holistic civilizational knowledge system integrating economics, morality, and governance.

### 1. Introduction

Accounting and financial management are often associated with modern corporate systems and European mercantile history. However, civilizations across the world developed indigenous mechanisms to manage resources, maintain records, regulate trade, and administer taxation. In the Indian context, such practices evolved organically within the broader Indian Knowledge System (IKS), guided by the philosophical categories of Dharma (ethical order), Artha (wealth and material prosperity), Kama (desire), and Moksha (liberation).

Among these, Artha provided the intellectual basis for economic organization and statecraft. Textual traditions, epigraphic records, merchant archives, and community practices reveal that India possessed well-structured financial systems dating back to ancient times. This article explores the conceptual foundations, operational techniques, and institutional structures of indigenous accounting and financial practices in India.

### 2. Conceptual Foundations: Artha, Dharma, and Economic Ethics

The Indian approach to finance was not value-neutral. Economic activity was embedded within moral and social frameworks. The concept of Artha in classical Indian thought did not merely denote wealth accumulation but referred to the proper acquisition and management of resources consistent with Dharma.

One of the earliest systematic treatises on political economy is the Arthashastra, attributed to Kautilya (also known as Chanakya). Composed around the 4th century BCE, this text provides detailed instructions on taxation, treasury management, auditing, state expenditure, and financial oversight. It prescribes:

- 1) Maintenance of daily accounts
- 2) Periodic audits of officials
- 3) Strict penalties for embezzlement
- 4) Separation of revenue collection and treasury custody

The Arthashastra conceptualized finance as a pillar of state stability, asserting that efficient revenue administration was essential for political sovereignty. It demonstrates an early understanding of checks and balances in public finance.

### 3. Early Record-Keeping Traditions

#### 3.1 Proto-Historic and Early Historic Evidence

Archaeological findings from the Indus Valley Civilization indicate standardized weights and measures, suggesting systematic trade practices. Though decipherment of the script remains incomplete, material evidence points to organized commercial activity requiring accounting logic.

In the Vedic and post-Vedic periods, references to wealth, tribute, and taxation appear in texts such as the Dharmashastras and epics, implying structured economic governance.

### 4. Bahi-Khata and Mahajani Accounting System

#### 4.1 Structure and Methodology

One of the most enduring indigenous accounting systems in India is the Bahi-Khata (ledger system). The term combines bahi (account book) and khata (account). It was widely used by traders, shopkeepers, moneylenders, and business families across regions.

1) **Key characteristics include:**

- a) Maintenance of physical cloth-bound ledger books
- b) Use of regional scripts such as Mahajani, Modi, and Kaithi
- c) Recording transactions in narrative format
- d) Classification into credit (Jama) and debit (Udhar)

Unlike modern double-entry bookkeeping, the Mahajani system was often single-entry in nature but functionally sufficient for small and medium enterprises. It prioritized clarity and familiarity over mathematical symmetry.

#### 4.2 Ritual and Cultural Dimensions

Accounting in India was integrated with ritual practice. During Diwali, business communities perform Chopda Pujan (worship of account books), symbolizing reverence for wealth and ethical trade. The opening of new ledgers on auspicious dates reflects the sacralization of economic life. This integration of spirituality and commerce demonstrates the holistic orientation of indigenous financial practice.

### 5. Indigenous Financial Instruments: Hundi System

Among the most remarkable contributions of India to financial history is the Hundi system. A hundi functioned variously as:

- a. Bill of exchange
- b. Promissory note
- c. Remittance instrument
- d. Credit note

Hundis facilitated long-distance trade without the physical transfer of coins. Merchants operating across regions relied on networks of trust-based bankers who honored these instruments.

**Types of hundis included:**

- a. Darshani Hundi – payable on sight
- b. Muddati Hundi – payable after a specified period
- c. Jokhmi Hundi – linked to risk in trade ventures

The hundi system reflects advanced financial intermediation and resembles modern banking instruments. It significantly reduced transaction risk and enhanced commercial mobility across pre-modern India.

### 6. Guild-Based Financial Governance (Sreni System)

In ancient and early medieval India, merchant and artisan guilds—known as Sreni—played vital economic roles. These guilds:

- 1) Maintained collective funds
- 2) Provided credit to members
- 3) Regulated trade standards
- 4) Engaged in philanthropic endowments

Guild inscriptions from various regions record donations, loans, and interest-bearing endowments. Some guilds functioned similarly to cooperative banks, pooling capital for shared enterprise. Their internal accounting systems ensured transparency and collective trust. This decentralized financial governance model contributed to stable commercial networks.

### 7. Temple Accounting and Endowment Management

Temples in medieval India were not only religious centers but also economic institutions. They received land grants, donations, and endowments.

**Temple inscriptions reveal:**

- a. Detailed revenue registers
- b. Allocation of funds for rituals and maintenance

- c. Wage payments to staff
- d. Agricultural income accounting

Such systematic documentation demonstrates advanced institutional bookkeeping practices. Temples effectively operated as financial custodians and redistributive centers within regional economies.

## 8. Public Finance and Administrative Accounting

### 8.1 Revenue Administration

The Arthashastra outlines multiple revenue sources:

- 1) Land tax
- 2) Customs duties
- 3) Mining revenue
- 4) Forest produce
- 5) Trade levies

Officials such as Samaharta (chief revenue collector) and Sannidhata (treasurer) maintained distinct accounts to prevent collusion. Daily revenue entries and surprise audits were mandated.

### 8.2 Anti-Corruption Mechanisms

The Arthashastra identifies forty ways of embezzlement, illustrating awareness of financial fraud. Preventive strategies included rotation of officials and cross-verification of accounts. This demonstrates an early institutional approach to financial accountability and governance.

## 9. Indigenous Banking Communities

Certain communities specialized in financial services. Merchant groups such as Marwaris, Chettiars, and Multanis developed extensive credit networks.

They:

- a. Accepted deposits
- b. Issued loans
- c. Financed trade caravans
- d. Facilitated remittances

These indigenous bankers functioned similarly to private banking houses before the emergence of colonial banks. Their reputation-based operations were sustained by social capital and community enforcement.

## 10. Transition Under Colonial Rule

The advent of European trading companies introduced Western accounting methods, particularly double-entry bookkeeping. The British colonial administration formalized accounting standards and established modern banking institutions. The Negotiable Instruments Act legally recognized promissory notes and bills of exchange, incorporating principles similar to hundis. In post-independence India, the Institute of Chartered Accountants of India standardized accounting education and practices. Despite this shift, indigenous systems did not disappear. Many small traders continued Bahi-Khata methods well into the 20th century, and even today, elements survive in informal sectors.

## 11. Comparative Analysis with Modern Accounting

<u>Dimension</u>	<u>Indigenous System</u>	<u>Modern Accounting</u>
Structure	Narrative or single-entry	Double-entry standardized
Regulation	Community norms	Statutory bodies
Ethics	Dharma-based	Corporate governance codes
Instruments	Hundis Cheques,	digital transfers
Verification	Social trust & local arbitration	Audit & compliance

While modern systems emphasize global uniformity and mathematical precision, indigenous practices prioritized contextual adaptability and moral accountability.

## 12. Epistemological Significance in IKS

Indigenous accounting was not isolated from knowledge traditions. It intersected with:

- a. Mathematics (use of numerals and calculation methods)
- b. Linguistics (commercial scripts)
- c. Law (customary dispute resolution)
- d. Ethics (Dharma-based conduct)

The integration of practical finance within philosophical and ethical discourse distinguishes Indian economic thought from purely technical frameworks.

## 13. Contemporary Relevance

Indigenous financial practices offer insights for:

- a. Microfinance Models – Trust-based lending mechanisms
- b. Financial Inclusion – Community-driven credit systems

- c. Ethical Finance – Dharma-inspired accountability
- d. Decentralized Governance – Guild-style cooperative structures

Digital accounting platforms in India have recently revived the term “Bahi-Khata,” symbolizing continuity between tradition and innovation.

## **14. Conclusion**

Indigenous accounting and financial practices in the Indian Knowledge System represent a sophisticated and contextually grounded tradition of economic management. From the administrative rigor of the Arthashastra to the commercial ingenuity of the hundi system and the practical efficiency of Bahi-Khata ledgers, India developed resilient financial mechanisms long before colonial modernity.

These systems were embedded within ethical norms, community trust, and institutional oversight. Rather than viewing indigenous practices as primitive precursors to Western accounting, they should be understood as parallel knowledge systems shaped by distinct civilizational priorities.

Revisiting these traditions contributes not only to historical scholarship but also to contemporary debates on sustainable finance, ethical governance, and decentralized economic models. Indigenous Indian accounting practices thus form an integral component of the Indian Knowledge System, reflecting a holistic synthesis of economics, ethics, and administration.