Commercial Accounting Systems
Vol. I Part II

Basic Accounting Principles & Policies

PUNJAB STATE ELECTRICITY BOARD
2006

Commercial Accounting Systems

Vol. I, Part-II

Basic Accounting Principles & Policies

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Punjab State Electricity Board

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Introduction

In exercise of the powers conferred by Section 69 of The Electricity (Supply) Act, 1948, the Government of India, Ministry of Energy (Deptt. of Power), in consultation with the Comptroller and Auditor General of India and the State Governments, have made rules, called The Electricity (Supply) (Annual Accounts) Rules, 1985, specifying the manner in which the accounts of Board shall be prepared/published. These Rules have been promulgated under G.S.R. No. 1134 of 31st Oct., 1985 reproduced in the Gazette of India, Part II Section of 3 (i) dated 7-12-1985. These Rules prescribe the new form of Accounts which consist of the following :

(a) Annual statement of accounts containing the forms for the Revenue Statements and Balance sheet (with supporting schedules)

(b) Chart of Accounts and

(c) Basic accounting principles and policies.

(d) The principles to be followed to ensure uniformity in procedural matters in maintenance of accounts.

The Basic Accounting Principles and Policies to ensure uniformity in procedural matters are reproduced in this booklet to serve as a guide in implementation of Commercial Accounting Systems and procedures in the Board. These Rules are mandatory in character and therefore require to be followed in letter and spirit. The Board is required, under rule 9, to adopt commercial accounting system of year-end accruals even in respect of transaction for which no special policy is prescribed. However, Government of India had laid down, in rule 10 of the aforementioned Rules, criteria for departure from the prescribed accounting policies, which is reproduced below :

"(1) A Board may make a departure from the prescribed accounting policies only in the following circumstances, namely :

(a) situations in which, for reasons to be recorded in writting, the prescribed accounting policies are considered impracticable or unnecessary;

(b) by adoption of the prescribed accounting policies, the Board's accounts would fail to give a true and fair view.

(2) Any departure from the prescribed accounting policies or change in respect of the accounting policies adopted by the Board under sub-rule (1) of rule 9 shall be disclosed in a Board's annual accounts for the year of departure or change as also for the first two years immediately thereafter. Such disclosure shall also include the reason for the said departure or change and its effect on the surplus for the year or on capital base to be considered for the purposes of computation of the minimum surplus under section 59 of the Act.

(3) Where the departure from the prescribed accounting policies referred to in subrule (2) above involves deviation from the account heads as prescribed in the Chart of Accounts or introduction of new account heads, the fact shall be reported to the Government of India and the Comptroller and Auditor General of India."

Punjab state Electricity Board has engaged M/s. A.F. Ferguson & Co., New Delhi as consultants for (i) framing accounting Manuals for various functional areas such as Fuel, Materials, Capital expenditure, Sale of Power, Personnel, Cash and bank etc. (ii) implementation of manualised accounting systems & procedures & (iii) imparting training to officers and staff on the new Systems and Procedures at selected places. The consultants are incorporating the relevant rules in the various accounts Manuals and to have a comprehensive view thereof, these have been recorded as a text here.

If any clarification is required, a reference may be made to the CAO, Commercial Accounting Cell, Patiala.

Chief Accounts Officer

PUNJAB STATE ELECTRICITY BOARD
COMMERCIAL ACCOUNTING SYSTEMS

Volume-I, Part-II

Basic Accounting Principles & Policies

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BASIC ACCOUNTING PRINCIPLES

1.1 A Board shall follow the basic accounting principles laid down in the following paragraphs in the preparation of its Annual Accounts.

Entity of a Board for the purpose of Annual Accounts

1.2 Annual Accounts of a Board shall reflect the transactions of the Board and any other body in which the Board has ownership rights as a sole owner, partner or a member of association of persons and in the management of which the Board can exercise and actually exercises significant influence.

1.3 A mere right to receive a part or whole of the power generated by any other body, whether at cost or at a pre-fixed rate shall not be the ground for reflecting the transactions of such body in a Board's accounts.

1.4 Where the transactions of any other body have to be reflected in more than one Board's accounts in accordance with the paragraph 1.2, each Board shall reflect the assets, liabilities, income and expenses of that body in proportion of its ownership share in that body.

1.5 Interest acquired by a Board in any body whose transactions do not require incorporation into a Board's accounts in accordance with the paragraph 1.2 shall be disclosed at cost, in Board's accounts as investment. In such cases the excess or shortfall of Boards share of the net assets of the body over the cost of acquiring the interest in that body shall be disclosed in the Board's accounts by way of a note.

Historical Cost Convention

1.6 In a Board's accounts, Assets, Liabilities, Expenses and Revenue shall be recorded at the amounts at which the transactions took place. This policy implies that no revaluation of assets or liabilities shall be done for adjusting them to replacement cost, current cost etc. Similarly depreciation on replacement cost basis shall also not be permitted.

Going Concern concept

1.7 Financial statements of a Board shall be drawn up on the premise that its business will continue indefinitely.

Consistency Concept

1.8 Uniform accounting policies shall be applied on the same basis from year to year. Even the accounting policies followed in respect of areas not specifically covered hereafter or in cases where departure from the prescribed accounting policy is permitted, shall be followed consistently from year to year.

True and Fair`Presentation

1.9 Accounts of a Board shall present a true and fair view of the financial position and results of operations of the Board. True and fair view implies the disclosure of all information necessary for a reader's understanding of the financial position and results of operations of the Board.

1.10 The objective of prescribing the forms of annual accounts of a Board is to prescribe the minimum and uniform disclosure required by all Boards. Additional information in the accounts or by way of notes may be given if it is necessary to ensure true and fair presentation.

Cash Basis of Accounting only where Prescribed

1.11 The cash basis of accounting i.e. the practice of booking costs, revenues assets and liabilities when money is received or paid and not when accrued shall not be adopted by a Board except in the specific cases where cash basis is prescribed in these rule or in the regulations issued under sub rule (1) of Rule 13. In all other cases, a Board shall follow commercial accounting system which requires recording transaction (s) by which revenues; costs, assets and liabilities are reflected in the accounts for the period in which they accrue.

No Retrospective Adjustments to Prior Period Revenue/Costs

1.12 All prior period revenue or cost arising on account of a difference between an accounting estimate made for accrual and the actual values involved or on account of any other reason shall be accounted for prospectively and no retrospective restating of past years' figures shall be permitted.

Comparative Figures for Previous Year

1.13 Comparative figures for the previous year shall be given in the Annual Accounts. No regrouping of previous year's figures shall be permitted except in case where a different basis for the figures for the same item has been adopted during the current year.

Reserves not to Absorb Charge against Revenue

1.14 Reserves of a Board whether created out of appropriation from surplus of past years or in any other manner shall not be used (except in prescribed circumstances) for absorbing the costs which would otherwise be a charge against the revenue of the current year, past years or future years.

Revenue not to be Directly Credited to Reserves

1.15 No reserves shall be given any credit for any amount which should otherwise be treated as revenue for the current year, past years or future years.

Offsetting of Assets and Liabilities

1.16 In the balance sheet of a Board, assets and liabilities shall be set off against each other only when a legal right of offset exists. Payable (s) to one party shall therefore not be set off against receivables from the same party unless the Board has a legal right to offset the two.

Events Occurring after the Balance Sheet Date

1.17 All events or transactions occuring after the date of balance sheet and before the date of the auditors' report shall be treated in the following manner :-

1. Two types of subsequent events and transactions require consideration by the Board.
2. The first type consists of those events that provide additional evidence with respect to the conditions that existed at the date of the balance sheet and affect the estimates necessary for accrual etc. in the process of preparing Annual Accounts. All information that becomes available prior to the finalisation of the Annual Accounts should be used in evaluating the conditions on which the estimates were based. The Annual Accounts shall be adjusted for any changes in estimates resulting from the use of such evidence, Identifying the events that require adjustment in accounts calls for the exercise of judgement and knowledge of facts. For example, a loss on an uncollectible receivable as a result of a consumer's deteriorating financial condition leading to bankruptcy subsequent to the balance sheet date would be indicative of his poor financial condition existing at the balance sheet date, thereby calling for adjustment of the accounts. On the other hand, a similar loss resulting from a consumer's major casualty such as a fire or flood subsequent to the balance sheet date

would not be indicative of conditions existing, in respect of the consumers at the balance sheet date and adjustment would not be called for.

(3) The second type consists of events that provide evidence with respect to conditions that did not exist at the balance sheet date but arose subsequent to that date. These events should not result in adjustment of the accounts. Some of these events, however, may be of such a nature that the commission of their disclosure may result in misleading statements. Examples of this type of event (which should not result in adjustment to accounts but which do require disclosure) are : takeover of a licensee, loss from fire, flood etc.

No deferment of Loss Write-Off

1.18 The Revenue Account for a Board shall reflect full amount of the loss, if any, to the Board due to any natural calamities like cyclone, flood, etc. non-recurring events like fire or possibly recurring events like receipt of inferior grade of coal. No part of the loss shall be deferred for write-off over future years.

3% Return and the Treatment of Unusual and Extra-Ordinary Gains and Losses and Prior Year Income and Expenses

1.19 In a Board's Revenue Account, all unusual and extra-ordinary losses or gains and prior periods' income and expenses shall be disclosed separately. However, for the purpose of compliance with section-59 requiring minimum surplus of 3% on fixed assets base, such unusual and extra-ordinary losses and gains and prior period credits and charge shall be considered in the same way as other usual and recurring income, expenses, losses or gains for the year. Such a treatment will reflect (and not concealed by ignoring such items) that the Board's operating surplus has been affected during the year on account of such items.

ACCOUNTING POLICIES

2.1 Transactions of a Board shall be accounted for in accordance with the Accounting Policies laid down herein below. The prescribed Accounting Policies are classified under the following sections :-

1) CAPITAL EXPENDITURE AND FIXED ASSETS
2) FUEL AND MATERIALS ACCOUNTING
3) BORROWINGS AND INVESTMENTS
4) OTHER ACCOUNTING AREAS

1. CAPITAL EXPENDITURE AND FIXED ASSETS

Disclosure at Historical Cost and no Revaluation of Fixed Assets

2.2 Fixed Assets of a Board shall be recorded in the books of accounts and disclosed in annual accounts at Historical Cost. This policy implies that no revaluation of fixed assets shall be done for adjusting them to replacement cost, current cost etc. Similarly depreciation on replacement cost shall also not be permitted.

Expenditure on Project Identification Survey and Feasibility Studies

2.3 Expenditure incurred on identification, survey and feasibility studies of a project, before the project is considered for sanction or rejection, shall be accumulated in an account provided for this purpose. Later, if the Project is rejected, the full amount of expenditure shall be charged to Revenue as infructuous capital expenditure in the year in which the project rejected. If the Project is sanctioned, the expenditure shall be charged to capital work-in-progress account for that project. Any expenditure incurred on detailed feasibility studies etc. after a project is sanctioned shall also be charged to the capital work-in-progress account for that project. The aggregate of the expenditure incurred before and after sanction of a project shall be allocated over the 'tangible' assets acquired/constructed under the project, in the same manner as the revenue expenditure chargeable to capital works are to be allocated.

COST OF CAPITAL ASSETS

2.4 Cost of capital assets shall include all 'actual costs' incurred to prepare the asset for use subject to the exceptions and the bases of determining cost prescribed in the following paragraphs :-

Treatment of Materials related Costs

2.5 All material related cost recorded at an accounting unit under which only capital construction activities are carried out shall be charged to capital works.

2.6 At a location under which capital construction as well as O&M activities are being carried out, only the following costs shall be charged to works;

1. Inland freight on imported capital equipment
2. Freight on Local Capital Equipment
3. Testing Charges-Capital Equipment
4. Incidental Stores Expenses-Capital Equipment
5. Octroi on Capital Equipment
6. Advertisement for Tenders etc. for purchase of capital equipment.

Imported Equipments

2.7 Capital Equipment, spares and other materials imported by the Board shall be valued as follows for receipts and issues account:-

1. $\left.\begin{array}{l}\text{Cost}\\ \text{Freight}\\ \text{Insurance}\end{array}\right\}$ C.I.F. Value

PLUS

2. Customs Duty

Outside Labour/Contractor Charges

2.8 All labour charges or contractor charges payable to outsiders for work done by them in respect of capital jobs shall be included in the cost of concerned capital assets.

Employee Costs of Board's Staff

2.9 All employee costs in respect of construction units shall be fully charged as cost of capital assets.

2.10 For an O & M cum capital unit, the procedure for accounting Employee Costs shall be as follows :-

1. Temporary employees-monthly payments such as salaries/ wages, dearness allowance, overtime and other allowances shall be capitalised. Some temporary employees may be entitled to retirement benefits. Monthly contribution to Provident Fund and Family Pension scheme should also be capitalised.

   If, however, any temporary employees are entitled to annual payment like bonus, no part of it should be capitalised because by the time of bonus payment, the relevant capital jobs/project that they worked on might have been completed and closed and the asset cost already determined and transferred to fixed assets. For the sake of uniformity, no capitalisation of such annual payment shall be done even if the jobs are not closed.

2. Additional emoluments (e.g. Project allowance) to O & M staff for working additionally on a capital Project shall be recorded in the separate account on accrual and shall be fully capitalised.

3. A separate pay roll shall be prepared for a group of permanent staff members, if any, deployed exclusively or largely on capital jobs. The costs should be booked under a distinct department codes such as 'construction' or 'Project Section' etc. All monthly payment (salaries, overtime, DA and other allowances) recorded under such departmental codes shall be fully capitalised. However, no part of retirement benefits and annual payment should be capitalised.

4. In respect of other permanent employees who work on both capital and O & M jobs without additional emoluments, no part of the employee costs shall be capitalised.

Expenses Chargeable of Capital Works

2.11 All expenses in respect of construction units shall be fully chargeable as cost of capital assets.

2.12 At an O&M cum capital location (where both capital and O&M work is being carried out) only the following expenses shall be capitalised:-

1. Insurance on assets under construction
2. Legal charges and stamp fees in connection with agreements with capital suppliers/contractors
3. Fees payable to foreign technician for capital projects
4. Expenses incurred for foreign technician for capital projects
5. Technical documentation and design charges.
6. Other consultancy charges-Projects (which includes architectural fees)
7. Power consumed for construction

No part of any other Administration and general expenses shall be charged to capital works.

Capitalisation of Depreciation

2.13 Depreciation on construction facilities (earth-movers, cement mixers etc.) shall be capitalised. Similarly, depreciation on fixed assets used for construction of other assets (e.g. depreciation on vehicles transferred to a project, depreciation on building, furniture & fixtures, vehicles and office equipment (s) at construction divisions or construction circles) shall also be charged to capital works.

No Capitalisation of Losses

2.14 Some losses may be involved in execution of capital projects for example irrecoverable advances to contractors, loss of assets or damage to assets at construction stage and shortage observed upon physical verification of stores at construction divisions. No part of any loss should be capitalised and included in the cost of assets.

No Capitalisation of Income

2.15 No income shall be capitalised and reduced from the cost of any asset. Even in cases where the income is identifiable to one or more specific assets, no capitalisation of such income shall be done. The policy is, however, subject to a different treatment prescribed for revenue during trial stage.

Subsequent Increase/Decrease in Costs

2.16 All subsequent increase or decrease in capital expenditure shall be identified to relevant assets and the cost accounted for earlier for that asset shall be changed accordingly.

Subsequent Increase/Decrease in Staff Costs and other Expenses

2.17 Any subsequent increase or decrease in the staff cost and other expenses which were charged to capital works in the past shall be treated as follows :

1. If the increase or decrease has taken place during the same accounting year (as the year in which the expenses were originally charged to works), the amount of increase or decrease should be added to, or deducted from, the staff costs and expenses chargeable to works *for the period in which the increase/decrease has taken place.*
2. If the increase/decrease has taken place in the accounting years subsequent to the accounting year in which the relevant

staff costs and other expenses were incurred, the amount of increase/ decrease shall be ignored for the purpose of capitalisation of expenses in the subsequent years.

Land and Land Rights

2.18 Land cost shall comprise of the following :

1. Purchase price of land
2. Compensation for acquisition of land
3. Compensation for trees and crops on the acquired land
4. Legal charges stamp duty etc. incurred in order to secure effective title
5. Land revenue and other taxes paid during the stage of land development.
6. Site preparation costs such as cost of levelling hills or filling low spots, cost of clearing trees, etc.
7. Cost of demolishing an unwanted structure if the land is acquired with structure.

2.19 Cost of land improvements having a limited life such as cost of landscaping, gardens, sidewalks, fences and digging for sewage system shall also be added to Cost of Land as "Cost of land Development".

Buildings

2.20 In case of purchase/acquisition of a building, the building costs shall include the following items :

1. Purchase price
2. Compensation for acquisition of Building
3. Payments to tenants to cancel their tenancy rights
4. Expenses such as legal charges, stamp duty etc. incurred for securing an effective title.
5. Repairs, alteration and improvements to put the building in usable condition.
6. Architect's fees for remodelling, alterations, improvements before the building is first put to use.

2.21 Cost of a constructed building shall include the following items :

1. Cost of construction comprising of materials, labour, contractor charges and depreciation on construction machinery.
2. Surveying.
3. Cost of obtaining permits sanctioned plans, occupation certificates from Municipal or other bodies.
4. Architectural fees.
5. Insurance on incompleted structure.
6. Cost of excavation (excavation is not a cost of land development).

ADDITIONS, IMPROVEMENTS, REPLACEMENT AND REPAIRS

2.22 Expenditure on additions, improvements, replacement and repairs and maintenance shall be treated in accordance with the policies prescribed in the following paragraphs :

Repairs before Commissioning of Assets

2.23 Any expenditure on repairs or rehabilitation of an asset purchased by the Board (whether second hand or new) incurred before commissioning the asset 'for putting the asset in usable condition' shall be treated as a cost of that capital asset.

Repairs and Maintenance

2.24 Any expenditure on *restoring an asset back* upto the level of output/efficiency/performance at which it was, when it was first put to use is repairs expenditure. Any expenditure on *maintaining the asset* upto the level of output/efficiency/performance at which it was, when it was first put to use is maintenance expenditure.

2.25 Expenditure on repairs and maintenance shall be charged to revenue in the year in which it is incurred. This shall be done regardless of the amount of any repairs or maintenance expenditure.

Additions

2.26 Additions may bring into existence a new assets or increase the physical size of an asset through expansion, extension etc. All expenditure on addition shall be capitalised.

Improvements

2.27 An expenditure having the effect of extending the useful life an asset or increasing output or capacity or efficiency of an asset or decreasing operating costs of an asset is 'Improvement'. Expenditure on improvement may involve replacement of old (e.g. replacing a transformer by another transformer of higher capacity) or may not involve replacement of old (e.g. expenditure on acid resistance lining in a tank in water treatment plant). All expenditure on improvements shall be capitalised.

Alterations/Renovations

2.28 In case of alterations or renovations of building or plant, the treatment of expenditure shall be similar to that for improvements.

Rearrangement

2.29 All expenditure on rearrangement (of plant layout, office layout etc.) shall be charged to revenue in the year in which the expenditure is incurred.

Replacements

2.30 Replacements can be defined as 'Substitution of one fixed asset by another, particularly of an asset by a new asset, or of an old part by a new part'. Expenditure on minor replacement shall be charged to revenue as Repairs and Maintenance Expenditure. Major replacement expenditure shall be capitalised. However, the cost and accumulated depreciation of the old replaced asset shall be withdrawn when the expenditure on the new replacing asset is capitalised. A broad criteria of distinguishing minor and major shall be that replacement of any asset or part of the asset for which a separate fixed asset record is required shall be considered major replacement.

Piecemeal Rebuilding

2.31 An asset may be rebuilt by replacement of its components over a period of time instead of at one time. The criteria fixed for 'minor' and 'major' replacement shall in such cases be applied to the aggregate of expenditures on replacement in an asset and accounted for accordingly.

Shifting an asset to another place

2.32 Any expenditure incurred on shifting assets from one place to another place shall, regardless of the amount of expenditure, be charged to revenue in the year in which the expenditure is incurred.

CONTRIBUTIONS, GRANTS & SUBSIDIES TOWARDS COST OF CAPITAL ASSETS

2.33 Contributions, Grants and Subsidies towards cost of Capital Assets shall be treated in accordance with the policies laid down in the following paragraphs.

2.34 Amount receivable as Consumer's contribution, subsidy or grant towards capital assets shall be credited to appropriate account set out in Chart of Accounts only if the following conditions are satified :-

1. The amount is not subject to any conditions to be fulfilled by the Board or the conditions attached to the amount have been fulfilled by the Board.
2. No part of the amount is refundable nor is likely to become refundable by the Board.

2.35 Consumer's Contribution, subsidies and grants towards cost of capital assets shall not be treated as a reduction in the 'cost' but as a capital receipt to be credited to capital reserve account.

2.36 Accounting for cost of a capital asset shall be done in the normal course without considering any contribution, subsidy or grants towards the cost of the asset. Depreciation shall also be charged in the normal course on the 'full cost' of the asset.

FULL WRITE-OFF OF SMALL AND LOW VALUE ITEMS

2.37 Full cost of all small and low value assets each costing Rs. 500 or less shall be fully charged to revenue in the year in which the assets are put to use. No part of the cost of such items shall therefore be included in the cost of fixed assets nor shall any depreciation be charged thereon.

Exceptions

2.38 The policy for full write-off stated in paragraph 2.37 above shall not apply to :

1. Items of a type for which a specific classification has been prescribed for the purpose of depreciation under the Electricity (Supply) Act, 1948.
2. Items included under the classifications 'Furniture & Fixture' and 'Office Equipments'.

2.39 The accounting policy for write-off of small and low value assets prescribed in paragraph 2.37 shall not apply to cost of granting each service connection.

Criteria to apply to whole Asset and not to individual components

2.40 In applying the accounting policy for full write-off of small and low value items, the asset as a whole shall be recognised and the individual spare parts or components of the asset shall not be treated separately. The criterion of Rs. 500 should therefore be applied to the aggregate expenditure.

Piecemeal Building of Assets

2.41 Assets may be completely built over a considerable period of time rather than at one time. The cut-off criteria for write-off should in such cases be applied to the aggregate of expenditures and accounted for accordingly.

COMMISSIONING OF ASSETS

2.42 All capital expenditure shall be accounted for through capital work-in-progress accounts. On commissioning of the assets, the expenditure shall be transferred to appropriate fixed assets accounts. Transfer from capital work-in-progress accounts to fixed assets accounts is referred to in this section as 'Capitalisation of Assets'. The accounting policies prescribed for capitalisation of assets are laid down in the following paragraphs.

Capitalisation when Asset is 'first put to use'

2.43 An asset shall be capitalised when it is first put to use.

Assets which are 'commissionable' but actually commissioned

2.44 An asset which is installed/constructed and is in usable/ 'commissionable' condition but is 'not commissioned/put to use' shall not be capitalised until it is actually put to use.

2.45 All costs incurred on capital assets (includding costs incurred on maintaining the assets which are ready but await the actual commissioning) shall be charged as the cost of the assets.

No waiting for Finishing Touches

2.46 Cost of an asset incurred upto the stage of commissioning of the asset should be capitalised when it starts being used without waiting for any finishing touches which may not be significant in work and value. Costs to such finishing touches when completed, should be accounted for and added to the cost of the asset capitalised earlier.

Technical Certificate

2.47 Commissioning of an asset is a technical matter which involves consideration of various factors such as trial, testing to ensure whether the asset is in usable condition etc. Capitalisation of assets shall, therefore, be done on issue of asset commissioning certificate from the relevant Technical Authority of the Board.

Capitalisation regardless of disputes with contractors

2.48 Mere disputes with contractors/suppliers regarding the fulfilment of the terms and conditions of contract with them shall not be permitted to withhold or defer capitalisation of assets concerned. Cost of the asset determined on the basis of the contract should be capitalised by making necessary provision for liability to contractors/suppliers acknowledged by the Board.

Capitalisation regardless of Non-finalisation of Conrtractor's Bills etc.

2.49 Mere non-submission of interim or final bills by suppliers or contractors shall not be permitted to withhold capitalisation of assets. In cases where bills are not received or are received but not passed, a provision should be made for an amount as per the contract. The cost of assets concerned shall be determined accordingly and capitalised when assets are first put to use.

Escalation Claims

2.50 Cost escalation claims made by suppliers and contractors should be provided for to the extent the claims are acknowledged by the Board and cost of assets inclusive of such provision shall be capitalised when the asset is first put to use.

Rural Electrification Schemes

2.51 Cost of assets forming basic infrastructure for an electrification scheme shall be capitalised, when the infrastructure is first put to use and lines are energised. The subsequent expenditure on granting service connections shall be capitalised as and when each service connection is granted. Capitalisation of individual service connections shall not be withheld or deferred until the targeted number of service connections are granted.

Full Capitalisation of Common Facilities.

2.52 Certain assets may constitute common facilities, such as coal handling plant at a power station project which would provide service to say 3 Units. Full cost of such common facilities assets shall be capitalised when the assets are first put to use.

Full Capitalisation of Underutilised Assets

2.53 An asset once put to use, even if underutilised, shall be capitalied for its full cost.

Commissioning of Power Station

2.54 The prescribed accounting policy for capitalisation of power station assets is laid down below :-

1. All costs incurred prior to commencement of trial stage shall be capitalised.
2. All costs and revenue during the trial stage shall be treated in the manner prescribed in paragraph 2.56 titled "Costs and Revenue at trial Stage."
3. At the end of the trial stage, the generating Plant shall be treated as 'Commissioned.'

Commissioning of Transmission Lines and Sub-Stations

2.55 On commissioning of a transmission line, all the assets which are put to use shall be capitalised and the total cost of such assets shall be transferred from capital work-in-progress accounts to Fixed Assts Accounts. All expenses incurred before commissioning of transmission lines and sub-stations shall be included in the cost of the assets.

Cost and Revenue during Trial Stage

2.56 Costs incurred and revenue earned (from sale of power generated by the unit under trial) during the period of trial stage shall be treated as follows :

1. Full period of trial stage or the period of three months from the commencement of trial stage (whichever is shorter) shall be called capitalisable period.
2. Trial stage cost incurred during the capitalisable period shall be treated as capital costs of assets involved.
3. Revenue earned from the sale of power generated (by the unit under trial) during the capitalisable period shall be treated as reduction in capital costs.

4. The excess of costs as per (2) above over the revenue as per (3) above shall be added to the costs of the assets involved at the trial stage. If the amount of revenue is greater than the amount of costs, the excess shall be deducted from the cost of the assets involved at trial stage.

5. All trial stage costs incurred or revenue earned after the end of capitalisable period shall be taken to Revenue Account without Capitalisation of any part of it.

Capitalisation of Capital Spares at Generating Stations

2.57 'Capital Spares at a Generating Station' purchased prior to commissioning of the generating station shall be capitalised upon 'Capitalisation of the Generating Station' for which the spares are purchased.

2.58 Capital spares purchased subsequent to the commissioning of the generation station shall be capitalised upon purchase.

Capitalisation of Spare Units/Service Units

2.59 Assets which are to be classified as Spare Units/Service Units in accordance with the accounting policy recommended under the Section 'Other Accounting Policies' shall be capitalised when they are ' Put into usable condition' regardless of whether they are actually used or not.

Depreciation

2.60 The accounting policies relating to depreciation on fixed assets are laid down in the following paragraphs :-

1. The Board shall charge as depreciation on the fixed assets in use in the beginning of the year, such an amount as is required to write off 90% of the cost of an asset, on a straight line method over the 'estimated useful life of the asset'.

2. Depreciation charge on an asset shall cease from the year following the year in which

   – the year's depreciation alongwith the depreciation charged in the previous year (s) becomes equal to or more than 90% of the cost of the asset or

   – the asset permanently ceases to be used by the Board. whichever is earlier.

3. Depreciation charge on a newly commissioned asset shall commence in the year immediately following the year of commissioning.

Depreciation on Leasehold Assets

2.61 In respect of leasehold assets, the depreciation to be charged every year shall be such an amount as is required to write off 100% (unlike 90% for other assets) of the cost of leasehold asset, on a straight line method.

– Over the estimated useful life of the asset or

– Over the period of the lease

which is shorter.

In considering the period of the lease, the renewal clause, if any, in the lease agreement shall be ignored.

2.62 Expenditure on development/improvement on leasehold assets shall be depreciated in such a way that full amount of such expenditure, can be written-off, on straight line method over :

– the estimated useful life of the asset or

– the balance of the lease period

whichever is shorter

In considering the lease period, the renewal clause, if any, in the lease agreement shall be ignored.

Second Hand Assets

2.63 Second hand assets i.e. assets used by the previous owner (for whatever number of years) and acquired by the Board shall be depreciated over:

– the estimated useful life of those assets ascertained by the State Govt. and

– where no such period is ascertained by the State Government 'Half of the estimated useful life of new assets of that class (as if half the life is expired).

Assets of Common Retirement Date

2.64 Assets which are of use only collectively in a group and an individual asset in that group is of no use in isolation after the other assets of the group are retired/scrapped, are defined as 'Assets of Common Retirement Date'. The 'Period of estimated useful life' adopted for the purpose of charging depreciation shall be 'conmmon' for all the assets in group of 'Assets of Common Retirement Date.'

Retrospective Reworking of Depreciation

2.65 Retrospective reworking of accumulated depreciation owing to change in the amount of cost of an asset shall be made only where the increase/decrease in the amount of cost is more than

- Rs. 50,000/- for an asset *and*
- 20% of the cost booked earlier

In all other cases, the depreciation in the balance life of the asset should be increased or decreased proportionately so that 90% of full cost (or 100% in case of lease-hold assets) is depreciated over the estimated useful life of the asset.

Depreciation on Assets used for Construction

2.66 Assets used for construction are classified as under :

1. Construction Facilities
2. Project Assets
3. Fixed Assets.

2.67 By 'construction facilities' is meant those assets which are intended for use on one or the other Capital Project.

2.68 Depreciation shall be charged on assets classified as construction facilities in the normal manner as it is charged on assets used for O&M except that the amount of depreciation shall be debited not to Depreciation Account but to 'Capital WIP-Revenue Expenses Reclassified Account'.

2.69 Certain assets acquired/constructed as a part of a project may be used for construction of other assets of the same project. Such assets should be capitalised when they are first put to use. capitalisation should not be with held till commissioning of say power plant itself. Depreciation is not chargeable in the first year of commissioning. From the subsequent year, depreciation should be charged in the normal manner. However, the depreciation so charged shall be reclassified and charged to cost of other assets of the project.

2.70 Fixed asstes used for construction means those assets which have been, on their commissioning, transferred to Fixed Assets accounts, and are now deployed on any Project at construction stage.

2.71 Depreciation on such assets shall be charged in the normal manner. The amount of depreciation charged on such assets shall be later reclassified and charged to capital works.

Provisional Depreciation

2.72 Board shall ensure that there is no asset which is in service but not depreciated for reasons such as :

1. Precise cost not known
2. Estimated useful life not known or

3. The responsibility for maintenance and/or accounting of newly constructed/acquired assets not known

Board shall endeavour to remove any such reasons at the earliest and shall in the meantime charge at least provisional depreciation on the assets concerned.

RETIREMENT, SCRAPING OBSOLESCENCE AND SALE OF ASSETS

2.73 The accounting policies relating to retirement, scrapping obsolescence and sale of assets are laid down in the following paragraphs.

Cost of Retirement , Scrapping, Sale of Assets

2.74 All costs incurred on retirement, scrapping and sale of assets shall be charged to Revenue Account in the year in which the costs are incurred. Examples of such costs are :

1. Building/Civil Works demolition costs
2. Plant decommissioning costs
3. Site restoration costs
4. Expenses like Legal Charges and stamps duty for transfer of title to the purchaser.
5. Freight etc. on transfer of assets to any Asset/Scrap Disposal Authority in the Board.
6. Expenditure on freight etc. on delivery of the sold assets/scrap to the purchaser.

Withdrawal of Cost and Depreciation

2.75 On retirement, scrapping, obsolescence of an asset, the cost of the asset and the accumulated depreciation on it shall be withdrawn from the fixed asset base and transferred to a separate account provided for this purpose.

Loss on Scrapping of Assets

2.76 In case of scrapped asset for which no scrap/salvage value is realised, the written down value of such assets shall be charged off as 'Written down value of assets screpped' in the Revenue Account for the year in which the scrapped assets are found unrealisable.

Gain or Loss on Sale of Assets

2.77 Gain or loss arising on sale of capital assets shall be treated as a revenue item. The gain shall, subject to paragraph 2.78, be credited to Revenue Account for the year is which the asset is sold and the loss on sale of a capital asset be debited to the Revenue Account for the year in which the asset is sold.

2.78 The gain on sale of assets shall be treated as a Revenue item only to the extent of total depreciation charged on the sold assets. Gain if any in excess of the accumulated depreciation charged by the Board on the sold asset shall be treated as a capital gain and credited to Capital Reserve.

2.79 For the purpose of computing gain or loss on sale of an asset also the contributions. grants and subsidies towards cost of any capital asset sold shall not be reduced from the cost of the asset sold.

Date of Acquisition not known

2.80 In case of assets scrapped/destroyed/sold for which the date of acquisition is not known, it shall be assumed, for the purpose of with drawl of cost and depreciation, that the asset concerned was the oldest asset of that type in use at that accounting unit.

LOSS OF ASSETS

2.81 In the event of loss/destruction of an asset, the cost and the accumulated depreciation on that asset shall be withdrawn from the fixed assets block and provision for depreciation respectively.

Write-off of loss

2.82 Excess of the written down value of the lost/destroyed asset over the amount of insurance claim granted shall be charged to revenue in the year in which the insurance claim is settled.

OTHER ACCOUNTING POLICIES

2.83 The accounting policies for all matters in relation to capital assets are laid down in the following paragraphs.

Capital pares at Generating Stations

2.84 The accounting policy in respect of Capital spares at generating stations is given below :

1. The capital spares at generating stations should be treated as a capital asset.
2. Accounting shall be done together for the entire 'lot' of the spares and not item by item.
3. The total cost of all spares shall be capitalised.
4. No accounting shall be done at the time of issue of such spares for replacement in the generating plant.
5. However on the other hand, depreciation shall be charged on the total cost of the entire lot of spares.
6. For the purpose of charging depreciation, the estimated useful life of the spares shall be assumed to be equal to the estimated

useful life of the generating plant.

7. On this basis, depreciation equal to 100% (not 90% as in case of other assets) of the cost of spares shall be charged by the time thegenerating plant is to be retired.

8. On expiry of the life the spares will therefore be valueless.

9. The spares remaining unutilised may be sold alongwith the retired generating plant. Entire sale proceeds should be treated as gain on sale of assets since 100% depreciation is charged in the past.

10. In respect of the stock of spares remaining unsold on retirement of the plant, no accounting shall be necessary.

11. If some spares are sold and some are not sold, the accounting is necessary only for spares sold i.e. treat the sale proceeds as gain on sale of asets.

12. If some spares as transferred by the generating station to another generating station requiring them, no accounting is necessary in such case.

Takeover of Licensee

2.85 In respect of the assets taken over from licensee, the amount of compensation payable for an asset shall be treated as and accounted for as the costs of the asset.

2.86 Even where the takeover itself or the compensation determined by the Board for takeover has been disputed by the licensee, the assets shall be provisionally valued at the compensation determined by the Board.

2.87 Depreciation shall also be charged as in the normal course based on the provisional valuation. Estimated useful life shall be as fixed by the State Govt. If State Govt. has not fixed any life half of normal life shall be adopted.

Spare Units Service Units

2.88 The accounting policies prescribed for spare units/service units are given below. The term 'spare units covers both spare units and service units;

1. All spare units shall be capitalised when they are purchased and put into 'usable' condition (ignoring the fact they are not actually being used and lying in stores unutilised).

2. Depreciation on spare units shall be charged in normal course as charged for the same type of assets which are 'in use'.

3. When the original units are removed for repairs or maintenance and the spare units are installed, no accounting adjustments are necessary.

4. Expense on repairs or maintenance on the removed units shall be charged to revenue.

5. No accounting entry will be passed either

   – when the removed unit is put back into usable condition or

   – when it is actually used again in place of some other unit removed for repairs or maintenance or

   – the repaired unit is installed back in its place and the spare unit installed earlier (Step No. 3 above) is removed and brought back to stores.

6. When the removed unit is considered irrepairable, it will be considered to be a retired asset (if the estimated life is over) or scrapped asset (if estimated life is not over) and accordingly the subsequent accounting for retirement, scrapping and sale shall be done.

7. Simultaneously with retirement/scrapping of the original unit, the cost and accumulated depreciation on the spare unit shall be transferred to Fixed Assets account.

8. If one new spare unit is purchased (so as to keep total stock at its position) it will be capitalised and thereafter the above procedure shall again be followed in respect of it.

9. Thus essentially, the capital asset additions shall be recognised when a new unit is purchased and a deduction is recognised when any unit is retired/scrapped. All transfers with in the entire stock of installed units plus spare units would not involve any accounting.

Formation of a New Board

2.89 On formation of a new State Electricity Board, the geographical territories of an existing Board may get transferred to the new Board. The fixed assets of the existing Board may also get transfers at book value (cost less accumulated depreciation) to the new Board. In all cases of transfers, the new Board shall not account for the book value at the net cost but shall incorporate gross cost as well as accumulated depreciation in its books of account. Depreciation on such assets should also continue to be charged on the gross cost in the same manner as the Board holding that asset hitherto would have charged.

Finance Related Costs

2.90 The accounting policies for treatment of costs related to funds utilized for the purpose of construction/acquisition of assets are prescribed in the following paragraphs.

Costs relating to Borrowings

2.91 Guarantee charges, commitment charges, legal charges/ stamp duty for loan agreements/bonds/debentures, advertisement costs in a public issue of bonds, commission on issue of bonds/debentures and such other costs shall be charged to revenue in the year in which the costs are included.

Discount/Commission/Redemption Premium on Bonds/Debentures etc.

2.92 Discounts on issue of bonds/debentures shall be charged to revenue in the year in which bonds/debentures are issued. Premium payable on redemption of bonds/debentures shall be charged to revenue in the year in which the premium becomes payable.

Capitalisation of Interest on Funds utilised at Construction Stage

2.93 No Capitalisation of an imputed interest cost (notional interest) on the Board's own funds and interest free finance shall be permitted.

2.94 Every year, a portion of the interest payable on the interest bearing borrowings which relate to financing of capital assets at construction stage i.e. till the point of commissioning of asets shall be computed in the manner prescribed in the regulations issued under sub rule (1) of Rule 13 and, if so directed by Central Government, be capitalised.

2.95 The amount of interest so computed and capitalised shall be reduced from the amount of interest for the year and only the balance amount shall be chargeable to the Revenue Account for the year.

2.96 No part of interest shall be capitalised in respect of assets which involve no time period or involve insignificant time periods for bringing the asset into useable condition. Examples of such cases are :

- purchase of new vehicles
- purchase of furniture items
- purchase of office equipments

2.97 The amount of interest capitalised shall be included in the cost of the assets which involve significant time periods at construction stage and the same shall, alongwith the basic cost of assets, be depreciated in normal course, over the expected useful life of the assest.

II FUEL AND MATERIALS ACCOUNTING

Fuel Accounting

2.98 The accounting policies for Fuel Accounting are laid down in the following paragraphs :

Basis of valuation of Receipts of Fuel

2.99 Valuation of fuel receipts shall be based on the actual quantity and quality of fuel received as determined in accordance with the regulations issued under sub rule (1) of Rule 13 and shall cover two elements of cost viz. fuel cost and freight for fuel receipts.

2.100 Freight cost for coal shall be booked at a standard freight rate to be fixed for each quarter for each power station on the basis of collierywise expected supplies as per Coal Allotment Programme.

Treatment of Other Costs relating to Fuel

2.101 The costs relating to receipts and stocks of fuel other than the freight cost and fuel cost shall not be added to the value of fuel received, consumed or in stock. These costs when incurred (whether paid or not) shall be charged to revenue through the relevant account provided for these costs.

Accounting for Inferior Grade of Coal

2.102 In respect of the wagons allotted to and received by a Board, in the event of receipt of a grade of coal inferior to the grade billed, the excess if any, of the amount billed over the amount payable for the inferior grade of Coal actually received shall be treated as a loss on inferior grade of coal, if the same is not recoverable from the collieries. Such treatment shall be given, as far as possible, in the year of such receipts.

Accounting for Superior Grade of Coal

2.103 In respect of the wagons allotted to and received by a Board, in the event of receipt of a grade of Coal superior to the grade billed, the excess, if any, of the amount payable for the superior grade of Coal actually received over the amount billed shali be treated as a gain on superior grade of Coal. Such treatment shall, as far as possible, be given in the year of such receipts.

Accounting for Losses or Gains on Settlement of Claims with Railways for Missing Wagons

2.104 No provision shall be made for the losses or credit taken for the gains which are likely to arise on settlement of the claims with Railways which remain unsettled at the year-end.

2.105 Losses or gains on settlement of claims should be booked in the accounts on intimation of the decision by the Railways to the Board of the claims which are settled by them.

Basis of Valuation of Fuel Consumed and Fuel Stock

2.106 The rate adopted for valuation of fuel consumed shall be a weighted average rate computed in the following manner :

Value of Stock at the beginning of the month	PLUS Value of 'Net Receipts' during the month
Quantity of Stock at the beginning of the month	PLUS Quantity of 'Net Receipts' during the month

2.107 The fuel stocks at the end of a month shall also be valued at the above mentioned weighted average rate.

NOTES:
1. Net receipts would means receipts after deducting the transit loss of fuel. Transit loss shall be valued at the average receipt rate for the month.
2. Quantity andd value of all receipts during the month shall, regardless of their grades, be aggregated for this purpose.

Treatment of Excess/Shortage on Physical Verification of Fuel Stocks

2.108 The value of shortage, on physical verification of fuel stocks at the year-end, will be treated as a cost of fuel consumed and the value of excess, as a reduction in cost of fuel consumed.

MATERIALS ACCOUNTING

Accounting for Materials Transactions

2.109 Accounting for all materials transactions shall be in the same period in which the physical event of receipts, issues etc. takes place. Similarly, liability for all materials received and accepted by the Board shall be created in the month in which the materials are accepted.

Accounting for Incidental Expenses

2.110 Incidental expenses incurred shall not be linked to the actual materials receipts/issues and therefore shall not be treated as Materials Cost. These expenses shall be treated as a period cost and shall be charged to the Revenue Account of the period in which these expenses are incurred.

Recognition of Consumption

2.111 Accounting for consumption shall closely follow the physical transactions. Issue of materials in respect of specific works shall be forth with treated as consumption. Where there are lump-sum with drawal of materials, consumption shall be recognised only when the exact end-use is established.

III BORROWINGS AND INVESTMENTS

Interest on Borrowings

2.112 Provision shall be made every year for the interest accrued on all borrowings including State Government loans whether such interest is due or not and whether it is actually paid or not. In the event of interest payment to State Government, not being effected in pursuance of Section-67A of the Act, the same may be considered as deferred liability. The deferred liability in such cases only means deferment of payments and not deferment of the charge to Revenue Account.

2.113 Total interest cost for the year including interest on State Government loans shall, Subject to capitalisation of a portion of interest as per paragraph 2.114 be charged to Revenue Account for the year.

2.114 A portion of the interest on borrowings which relates to financing of capital work-in-progress upto the stage of commissioning shall, if so directed by Central Govt. be capitalised in accordance with paragraph 2.93 to 2.97

Cost Relating to Borrowings

2.115 Guarantee charges, commitment charges and legal charges stamp duty for loan agreements, debenture trust deeds, bonds or debentures shall be charged to revenue in the year in which the costs are incurred. Provision shall be made at the year-end for the above costs for the year, which have accrued but are not paid.

Discount & Redemption Premium on Bonds etc.

2.116 Discount on issue of bonds, debentures or other securities offered by a Board shall be charged to Revenue in the year in which the onds/ debentures are issued.

2.117 Premium, if any payable on redemption of bonds, debentures or other securities shall also be charged to Revenue Account in the year in which premium becomes payable.

Treatment of Income and Investments

2.118 Income from investments shall be credited to the Revenue Account for the year in which the income has accrued. However, if the investments are held as earmarked investments against any Fund such as Pension Fund, Gratuity Fund etc., the income from such investment may be credited directly to the respective Fund.

2.119 Provision shall be made for the income from investments (whether to be credited to Revenue Account or a Fund) which has accrued but not received by the Board.

Investments to be Recorded 'at Cost'

2.120 Investements shall be recorded in the books of accounts at actual cost of acquisition including transfer charges, stamp duty etc. No adjustment shall be made for the excess or shortfall of the cost over the face value of the investments.

Treatment of Loss/Gain relating to Investments

2.121 Gain on sale of investments shall be credited to the net Revenue and Appropriation Account. Similarly if any Redemption premium is received on maturity of securities, the same shall also be credited to Net Revenue and Appropriation Account. Loss on sale of investments shall be debited to Net Revenue and Appropriation Account. In case of investments against a Fund, the credit for the gain or debit for the loss shall not be given to the Revenue Account but to the respective Fund Account itself.

IV. OTHER ACCOUNTING AREAS

Foreign Currency Transactions

2.122 When a foreign currency transaction is being first recorded in a Board's books of accounts, the assets, liabilities, income or expenses arising from the foreign currency transaction shall be translated at the official exchange rate in force on the transaction date.

2.123 All amounts owed to the Board or owed by the Board in foreign currency outstanding at the balance sheet date (including liability in relation to acquisition of fixed assets) shall be translated at the official exchange rate in force as on the balance sheet date. If the amount derived on such translation is different from the amount at which the receivable or liability is appearing in the books of account, the difference shall be recorded in the books as under:

1. Increase in the amount of receivable or decrease in the amount of the liability shall be treated as a gain and be credited to Exchange Variance Reserve.
2. Decrease in the amount of receivable or increase in the amount of liability shall be treated as a loss and shall be debited to Exchange Variance Reserve. If as a result of such debit, the net balance in reserve account is a debit balance, the amount of debit balance shall be charged to revenue for the year as 'Loss on Exchange Rate Variation'.

Gain or loss arising on account of difference between actual amount received/ paid and the amount at which the item is appearing in books shall also be treated in the same manner as above.

2.124 Where any revaluation or devaluation of rupee vis-a-vis the currency in which the liability is to be discharged is more than 10% at one time, the same shall not be treated in accordance with the above-mentioned policy. The policy relating to treatment of such situation shall be as follows :

1. The increase or decrease in the amount of foreign currency liability shall be accounted for as an increase or decrease in the cost of the assets financed by the liability.

2. The depreciation for the past years shall also be reworked for the assets where the conditions laid down in paragraph 2.65 for retrospective reworking of depreciation are fulfilled.

Loss due to Fire, Flood, Cyclone etc.

2.125 All losses on account of flood, cyclone, fire etc. shall be treated as the loss for the year in which the loss was incurred. Such a charge against revenue shall be reduced.

1. By the insurance claim granted by the insurer where assets are insured with an outside insurer.

2. By the amount of reserve created where the Board follows self insurance practice and

3. By subsidy, if any received from Govt. etc., specifically for meeting the loss.

   In the case referred to in sub-point (2) above, the excess amount set aside, if any, in respect of the assets may be written back to Revenue Account.

Income-Tax

2.126 Provision shall be made every year, for the tax payable by the Board on its income or profits in accordance with provisions of the relevant tax law. Such a provision shall be treated as a charge against the revenue before arriving at the Board's profit for the purpose of computing surplus for the year under Section-59.

2.127 Any excess or short-fall of the provision for income-tax as compared to the tax payable shall be treated as prior period credit or prior period charge in the Revenue account for the year in which such excess or shortfull is established.

Timing of Accounting for Revenue

2.128 Revenue from sale of power shall be accounted for on an accrual basis. The accounting for revenue shall thus be totally delinked from the timing and the extent of actual collection of revenue from consumers. Where the sale of energy prior to the end of a year has not been billed, a provision for such unbilled revenue shall be made at the year-end so as to treat the amount as revenue in the year of supply of power.

Treatment of Certain Items Recoverable from Consumers

2.129 The accounting policy on treatment of certain items recoverable from consumers is laid down below with reference to each such item :

1. **Electricity Duty**

   Electricity duty recovered from consumers and forwarded to the Government is neither a cost nor an income to the Board. It should thus be kept out of the Revenue Account altogether. The point of time the liability to pay Electricity duty to the Government arises would differ from State to State-it may arise either on assessment or on collection. In order to reflect the liability truly in either case, the amount of duty assessed but not collected from consumers and the amount of duty collected from consumers but not yet remitted to the Govt. shall be shown separately in the accounts.

2. **Minimum Charges**

   Minimum charges levied in case of consumption below a specific minimum consumption during a billing period or during a year shall, for the sake of working convenience, be treated fully as revenue from sale of power although strictly only a part thereof relates to sale of power.

3. **Treatment of Minimum charge levied on Applicants who have delayed taking of connection**

   Applicants who delay their test Report are at times billed a minimum charge even though no power has been supplied to them. Such income shall be treated as 'Miscellaneous Charges from consumers'. The amount receivable on this account shall also be accounted for in an account separate from 'Sundry

Debtors for Sale of Power'.

4. **Treatment of Discount allowed for Timely payment**

Cash discounts allowed to consumers as an incentive for timely payment by the due date should, when allowed, be treated as a cost and shown separately as such in the Revenue Account.

5. **Treatment of Delayed Payment Charges**

Charges recovered from consumers for delayed payments should not be clubbed with the revenue from sale of power but shown separately since these are more in the nature of a financial charge.

6. **Accounting for bills of Thefts of Energy**

Income arising from the bills raised for Theft of Energy, whether on a consumer or an outsider, shall be treated as income and reported under a separate account head provided for such revenue.

Cheque Received and in Hand to be Regarded as Cash

2.130 Cheques and bank drafts received will be treated as cash until they are deposited in bank, and will be included as 'Cash on Hand' in the accounts. Banking of such cheques and drafts will, therefore, be considered as deposit of cash in the Bank Account.

Subsidies

2.131 Subsidies which are receivable to assist a Board to meet, partly or fully, shortfall of revenue as compared to cost of operations of a specific type or of a specific activity carried out or being carried out by the Board on its own or under the directive of the body from whom subsidy is receivable shall be credited to Revenue Account.

2.132 The subsidies, the receipt whereof is dependent upon the Board satisfying certain conditions shall not be taken credit for to Revenue Account until the Board satisfies all such conditions.

2.133 Where a claim for subsidy of revenue nature is made but no intimation of granting of the claim has so far been received the outstanding amount for the current year and for past years should be shown as a deduction in the Reserve Schedule.

PART-2

PROCEDURAL MATTERS RELATING TO ACCOUNTING TRANSACTIONS

[Annexure V of the Electricity (Supply) (Annual Accounts) Rules, 1985]

PROCEDURAL MATTERS RELATING TO ACCOUNTING TRANSACTIONS

The procedural matters relating to accounting transactions of State Electricity Boards are classified under the following sections :-

Section	Subject
1)	CAPITAL EXPENDITURE AND FIXED ASSETS
2)	FUEL AND MATERIALS ACCOUNTING
3)	BORROWINGS AND INVESTMENTS
4)	OTHER ACCOUNTING AREAS

1. CAPITAL EXPENDITURE AND FIXED ASSETS

1.1 The procedural matters regarding expenditure on construction, acquisition and maintenance of capital assets are laid down in this section.

Cost of Capital Assets-Departure from 'Actual Cost' basis

1.2 Reference is invited to paragraph 2.4 of Annexure III where in it is stated that the cost of a capital asset shall include all actual costs incurred to prepare the assets for use. However a departure from 'Actual Cost' basis of accounting capital assets shall be made in the following cases :-

1. Assets Received as Donation/Grant

An asset received as donation shall be accounted for at its fair market value. The fair market value shall be debited as the cost of the asset and credited to 'Donated Capital Assets Account'. which shall be included under a Redserve and be treated in the same manner as contributions, Grants and subsidies towards cost of capital assets. Donated assets which are subject to certain conditions shall nevertheless be treated as fixed assets but be disclosed by way of a foot note indicating value of such assets. Assets received as grant shall also be accounted for in the same manner as donated assets.

2. Exchange of Assets

Where an assets is exchanged for another assets, the asset surrendered shall be deemed to have been disposed of at its fair market value. Gain or loss based on the fair market value shall be accounted for in the normal course. The cost of the asset acquired in exchange shall be deemed to be the fair market value of the asset surrendered plus any additional consideration given or minus any additional consideration received.

3. **Leasehold Assets**

Lease premium payable on acquiring lease rights for assets shall be treated as the cost of leasehold assets. Depreciation shall be charged on such cost in the manner prescribed for Depreciation on Lease hold Assets. Periodic rental payable on leasehold assets shall be charged to Revenue in the year in which the rentals accrue. If the Board acquires leasehold rights for an asset with no or negligible lease premium, the fair market value of the asset shall be determined and the amount required to state the asset at its fair market value shall be debited to the asset and credited to an account 'Liability for Leasehold Assets'. The fair market value of the leasehold assets shall be depreciated over the lease period. Simultaneously extinguishment of a proportionate amount of liability set up in the books shall also be affected. By the end of the lease period the liability in account would have been fully extinguished and a provision for depreciation equal to the amount of fair market value booked as cost would have been created. On returing the assets to lessor, the provision shall be set off against the amount of cost of asset so as to close the two accounts.

Employee Costs Chargeable to Works

1.3 For the purpose of determining employee costs chargeable to capital works, the following classification of employee costs shall be adopted.

1. Employee costs recorded at construction division/construction circle/construction stores division/construction workshops etc. where no activities relating to O&M are carried out shall include:
   (a) Cost of temporary staff
   (b) Cost of permanent staff deployed at the location throughout the year.
   (c) Cost of permanent staff deployed for part of the year. In such cases it may happen for example that an employee's two month salaries etc. are booked here when he was deployed here but the annual payments like bonus and LTA or earned leave encashment, (Part of which is relating to these two months) is paid and recorded at some other location where he is deployed at the time of such payments. In case of some other employee full year's annual payment like bonus may be paid and recorded at construction unit although he has worked there only for say 4 months. No adjustment need be made for such minor inaccuracies.
2. At accounting units which have both O & M and construction work, employee costs shall include :
   (a) Cost of temporary labour/supervisors retained specifically for one or more capital jobs.

(b) Additional emoluments (such as project allowance) given to O&M staff at a location for also doing the work related to capital projects.

(c) Cost of permanent staff members, deployed exclusively or largely on construction jobs. For example, Project Section, Design Section etc. at Head Office, Project Accounting Staff at a division, construction engineers at a power station where 2 units are in operation and 3rd unit is being set up capital stores staff if such is separate store is set up and so on.

(d) Staff which works on both capital as well as O & M jobs without any additional emolument to them.

Method of allocation of Staff Cost and Expenses over Various Assets

1.4 Staff costs, materials related expenses and other expenses which are chargeable to capital works shall be :

1. Identified to specific capital job wherever possible.
2. Failing which, identified to a specific group of capital jobs wherever possible (and within the group allocated on an advalorem basis).
3. Failing which, identified to a project wherever possible (and allocated on advalorem basis over various jobs within the project.)
4. Failing which, allocated on advalorem basis over various projects and various jobs within each project.

Identification to one or more jobs should be done only if possible to identify without any allocation. In all other cases advalorem allocation shall be adopted.

1.5 By advalorem basis is meant allocation of capitalisable expenses as a percent of the capital expenditure incurred during the period on that job/project (and not as a percent of a total capital expenditure on that job/project including the expenditure incurred in previous periods of allocation).

1.6 For the purpose of allocation, the term capital expenditure would include progress payments on supply-cum-contracted work order which are to be recorded in a separate account.

1.7 No part of the staff costs or other expenses chargeable to capital works shall be allocated over the capital expenditure on furniture, office equipments and vehicles or on capital expenditure for take-over of licensee.

1.8 The work of capitalisation of assets commissioned during the period cannot be expected to be kept, pending merely for determination of total capitalisable expenses incurred during the period. Methods of allocation using fair estimates of such capitalisable expenses may be adopted where necessary.

Cost of Development on leasehold Assets

1.9 The cost of development on lease hold assets shall be accounted for under a separate account and not added to the cost of lease hold assets.

Land as a Future Plant Site

1.10 Land may be purchased or acquired as a future plant site for projects which are yet to be taken up (e.g. land purchased for a project which is sanctioned in principle but detailed survey and investigation is continuing). Cost of such land shall be debited to capital work-in-progress account (Project code 99-not identifiable to any specific project code).

Purchase of a Building along with Land

1.11 When a building is purchased along with the land, the purchase cost shall be allocated between the land and building based upon a technical and commercial appraisal. If a part of the purchase consideration towards land is for lease rights to the land, that part should be appropriately classified as leasehold land.

Assets Awaiting Conveyance in favour of the Board

1.12 In the case of purchased assets, wherein formal conveyance is delayed and the Board has in the meantime put the asset to use, the cost of the asset shall be shown as fixed assets. The fact of pending conveyance of the asset may be disclosed by way of a note to the accounts.

Contributions, grants and subsidies towards Cost of Capital Assets

1.13 Accounting procedures relating to contributions, grants and subsidies towards cost of capital assets are laid down in the following paragraphs.

Consumer Contribution

1.14 Reference is invited to paragraph 2.34 of Annexure III where in it is stated that amount receivable as consumers contribution shall be credited to consumers contribution account if :

1. the amount is not subject to any conditions to be fulfilled by the Board or the conditions attached to the amount have been fulfilled by the Board and
2. no part of the amount is refundable nor is likely to become refundable by the Board.

1.15 Any amount received by a Board as consumers contribution or deposit shall be accounted through "Deposit for Deposit works A/C" until the above two conditions for treating the amount as Consumers' Contribution mentioned above have been met, at which time the amount will be transferred to Consumers' Contribution Account. Amount, if any becoming refundable shall be debited to the 'Deposit for Deposit Works A/C.'

Certain Amounts may not be Grants/Subsidy

1.16 Certain amounts receivable by the Board may be computed with referance to the cost of capital assets or progress on a capital project but in fact are actually in the nature of interest free loans. Such amounts shall not be treated as grants or subsidy towards cost of capital assets.

Treatment of Small and Low Value Items (each costing Rs. 500 or less) for non-accounting purposes

1.17 For the purpose of project cost estimation, for reporting of total project cost, or for deciding competent authority for project approval and execution, the cost of all such small and low value items shall be included in the amount of cost of the project and be treated in the same manner as large value assets which are to be capitalised. Similarly the controls regarding records, custody, numbering and verification of such assets shall remain the same as is presently exercised over those assets.

Commissioning of Power Station

1.18 The various aspects connected with commissioning of power station and therefore related to the accounting policy for capitalisation of Power Station Assets are set out here in below.

1. Activities like flushing of pipes, acid cleaning of boiler, acid cleaning of pipes, steam blowing of lines, moisture drying of generator etc. shall be deemed to be before commissioning.

2. Testing of individual segments of the plant for example testing of protective system, testing of cooling water system etc. shall be deemed to be before commissioning.

3. On the collective testing of the entire plant (which is also known as rolling of the machine when Turbine-Generator is put on trial along with Boiler and all other plants) the 'trial stage' shall be deemed to have commenced.

4. The trial stage shall be deemed to have ended at the end of the month during which the new generating station achieves for the first time an 'Availability Factor' which is equal to or more than the 'Average Availability Factor of all other generating stations of the Board in the previous month'.

For this purpose, Availability Factor shall be computed as follows :

$$\frac{\text{Total Running Hours during the month}}{\text{Total Clock Hours during the month}}$$

(i.e. No. of days in the month X 24 Hours)

Average Availability Factor of all other Generating Stations of the Board shall be worked out as follow :

$$\frac{\text{Aggregate of the total running hours of the other generating stations}}{\text{Total clock hours during the month X Number of other Generating Stations}}$$

5. The end of the trial stage of a new generating station shall be certified by the highest technical authority in the Board.

6. On the receipt of such a certificate, all the assets at the new generating station which are put to use shall be capitalised. Cost of the assets shall be transferred to Fixed Assets Accounts. In this regard full cost of common facilities assets and under-utilised assets shall also be capitalised.

Commissioning of Transmission Lines & Sub-Stations

1.19 Commissioning of transmission lines and substation also involve trial stage. However unlike generating stations, no revenue is generated and the cost incurred are not very large during the trial stage. No trial stage shall therefore be recognised for defining commissionong of transmission lines and sub stations.

1.20 A transmission line shall be deemed to have been commissioned at the end of the month during which it achieves an availability factor which is equal to or more than the 'Average Availability Factor of all other Transmission Lines of the Board'.

1.21 Sub Stations shall also be deemed to have been commissioned on achievement of the availability factor as in case of transmission lines. In both cases, commissioning shall be certified by the highest technical authority of the Board.

Determination of Revenue during Trial Stage of Generating Station

1.22 Revenue during the capitalisable period which is the full period of trial stage or the period of three month from the commencement of trial stage (whichever is shorter) shall be computed as under :

Units generated during the capitalisable period	XX
Less : Auxiliary consumption	X
Net Units sent out	XX
Less T & D Losses computed at a % of T & D Loss in the Board during the previous year	X
Units treated as sold	XX
Multiplied by	
Board's average realisation per unit during previous year.	X

The resultant amount shall be deemed to be the Revenue during the capitalisable period.

Depreciation

1.23 Procedural matters connected with the accounting policy on depreciation on fixed assets are set out in the following paragraphs.

General Frame work for charging Depreciation

1.24 The general frame work for charging depreciation is outlined below:

1. The existing practice of charging depreciation on straight line method shall continue.
2. 90 percent of the cost of a fixed asset shall be depreciated over the 'estimated useful life of the asset'.
3. 'Estimated useful life of the asset' shall be

   – as prescribed by the Central Government in consultation with the Central Electricity Authority.

   – as prescribed by the State Government in respect of assets where the Central Government has not prescribed any period.
4. No depreciation shall be provided on an asset in the year in which it is first put to use by the Board.
5. Depreciation shall be charged on the asset even if during the year, it permanently ceases to be used by the Board.

Periodic Review of Prescribed 'Estimated useful life'

1.25 Central government shall periodically carry out an exercise to assess the need for any change in the 'estimated useful life of assets' prescribed by it, required in view of technological changes in the assets normally used by various Boards of the country Based on the findings of the exercise, such changes shall be made to the schedule of prescribed period of estimated useful life of assets as are considered necessary by the Central Govt. All changes to the schedule of prescribed period of estimated useful life shall be prospective and shall be applicable only for depreciation chargeable in subsequent years.

Assets of Common Retirement Date

1.26 An area where the concept of 'Assets of Common Retirement Date' would become operative is subsequent additions at a generating plant, sub stations or transmission lines, resulting in assets which would be retired along with the assets installed earlier, although as such, the number of years of estimated useful life of the newly added assets would not expire by then. This concept is illustrated below :

Example

1. Estimated life of water circulating system is say 25 years and generating plant also 25 years.
2. A totally new arrangement of water circulating system at a generating plant, felt necessary in say 11th year of the generating plant with balance life 15 years (i.e. 25 years less 10 years expired).
3. The water circulating system would have normally been depreciated over 25 years. However the expenditure on new water circulating system in this case would be required to be depreciated over the balance 15 years since it would not be of any use after the generating plant itself is retired in the 15th year from now.

Subsequent Change in the purpose of use of an asset :

1.27 Any change in the purpose of use of an asset shall be recognised only prospectively for charging depreciation in the years subsequent to such change. For example, Building containing Diesel Generating Sets is to be depreciated over say 30 years, the DG sets are scrapped earlier since they were obsolete in technology and the building is, after some modifications, used for say office purposes (for which estimated life is say 50 years). The change in the estimated useful life of the asset owing to a change in the purpose for which the asset is used, shall be recognised only for future depreciation.

Wear & Tear during Construction Stage

1.28 In a project period of say 4 to 5 years, assets which were constructed in say first year <u>but lying idle until completion of other assets</u> do suffer wear and tear during the following 3 to 4 years. No depreciation shall be charged towards such wear and tear of such idle assets at construction stage.

Assets Transferred to Other Divisions/ Circles

1.29 In respect of the assets transferred between accounting units during the year, the accounting unit which held the assets at the beginning of the year, shall charge full year's depreciation on transferred asset and no depreciation on the assets shall be charged for the year by the transferee location (s).

Retirement, Scrapping, Obsolesence and Sale of Assets

1.30 Procedural matters connected with the accounting policies relating to retirement, scrapping, obsolescence and sale of assets are set out in the following paragraphs.

Sale of Assets for which written down value is not known

1.31 Fixed assets sold by the Board for which written down value is not known, shall be deemed to have been sold without any loss or gain. The written down value shall be deemed to be equal to the sale proceeds.

Provision for Loss-on Obsolescence

1.32 Provisions shall be made for loss, if any, expected to arise from the obsolescence, determined by the Board of any of its capital assets whether in service or removed from service. Similar provision shall be made for loss from obsolescence of capital spares. The provision shall be utilised to meet the loss arising on disposal/scrapping of those assets.

Assets taken over from licensee

1.33 The accounting policy prescribed for assets taken over from licensee requires adoption of provisional valuation in case of disputes. On final valuation of the taken over assets the following procedures should be adopted:-

1. Any increase or decrease from the provisional valuation shall be adjusted to the cost of the assets.
2. Small and low value assets shall be written off.
3. Depreciation on all the balance assets which are capitalised shall be reworked from the date on which the assets were vested in the Board.
4. Difference between the provisional depreciation and the reworked depreciation shall be credited or debited (as the case may be) to the Revenue Account for the year in which final valuation of taken over assets is done. Such debit or credit shall be disclosed in the Revenue Account as prior Period Gain or Charge.

1.34 The reworking of depreciation referred to in the above paragraph shall also incorporate changes, if any, made to the estimates of useful life of the assets which were adopted for charging provisional depreciation. This may be necessary when the State Government has finally fixed the estimated useful life. If however, the final estimate of useful life is made after the reworking of depreciation, then the changes in life shall be recognised only for future depreciation without any retrospective reworking.

Disputed Claims under Warranty for Repairs

1.35 Suppliers/Contractors of capital equipments may have provided warranty of repairs of assets. Boards claims under such warranties may get disputed by suppliers/contractors. Repairs expenditure incurred by the Board for which reimbursement claimed but disputed shall be fully charged to Revenue Account for the year in which the costs are incurred. Reimbursement when granted by the supplier should be credited to Revenue Account in the year of receipt of reimbursed amount.

Excess/Deficits observed on Physical verification

1.36 Any excess observed on physical verification of assets shall be brought into Board's books by valuing each excess item at one rupee each. The credit will be given to miscellaneous income account.

1.37 The written down value of assets not found on physical verification and established after investigation, as deficit shall be written off by transferring the cost and accumulated depreciation on such assets to the Revenue Account.

Certain Disclosures required in Board's Accounts

1.38 Board's accounts shall disclose by way of a note:-

1. Book value of assets, if any, which are likely to require surrender of the assets by the Board to the Suppliers/Lenders since the Board has failed to make certain payments in respect of purchase price of the asset or loans raised on the security of such assets.
2. The Assets in respect of which an effective title is not vested in the Board.

Liability for Capital Supplies/Capital Works

1.39 The accounting procedures relating to providing of liability in respect of Capital Supplies/Capital Works shall be as follows :-

1. Liability to Supplier/Contractor shall be created by the Board on acceptance by the Board of the goods supplied by supplier or works carried out by Contractor.
2. Capital supplies in respect of which, the property in the goods has passed to the Board although the Board has actually not received the goods shall be accounted for at the year end as capital supplies in transit and correspondingly the liability towards the supplier shall be created in the Board's books.

3. At the year end, the capital works completed by contractors in respect of which bills are not received by the Board or received but not passed shall be identified and certified by Board's engineers and provided for in accounts to create liability to contractors as ascertained on the basis of the contracts. This requirement shall not apply to contracts with total contract value of less than Rs. 25 lakhs.

4. In respect of imported capital equipment kept in Bonded warehouse, no provision need be made for the customs duty which will become payable on removal of the equipments from the bonded warehouse.

Cash Discount

1.40 Cash discounts earned by the Board on making timely or early payments to suppliers/contractors shall not be reduced from the cost of the assets but shall be credited to Revenue Accounts as an income for the year in which the cash discount is earned.

Interest on Advances to Suppliers/Contractors

1.41 Interest receivable by the Board on advances to suppliers and contractors for capital supply/works shall not be deducted from the cost of the assets purchased or constructed but shall be credited to Revenue Account as an income for the year in which the interest income accrued.

Capitalisation of Interest on funds utilised during construction Stage

1.42 In computing the interest on funds utilised during construction stage of capital assets, the following factors shall be taken into consideration:

1. The full amount of interest payable for the year would be considered for this purpose.
2. Arrears of interest shall not distort the computation of interest on funds utilised during construction as these arrears are required to be debited to a Restructuring Account and then adjusted to surplus/losses.
3. In view of the difficulties in identifying a source to its use no attempt shall be made for source-use identification.
4. The exercise of computation of capitalisable interest shall be carried out at head office of the Board.
5. This exercise shall be carried out considering rupees in thousands only.

1.43 Interest on funds, utilised during construction stage of capital assets shall for the purpose of capitalisation of such interest be computed as outlined below :

1. The Net Assets shown in the Balance Sheet shall be split into :

a) Assets at construction stage (ACS) (This would be established with reference to Schedule 21 to the Balance Sheet).

b) Balance Net Assets (BNA)

2. The ACS computed under 1 (a) above shall be reduced by excess if any, of Liability for Capital Supply/works over Capital Stores and Advances for Capital Supply/Works.

3. BNA shall be derived after the balance current liabilities are netted off against the current assets.

4. Total Funds as per Balance Sheet will be first classified as under:

a) Borrowing for Working Capital

b) Payments due on Capital Liabilities

c) Loans having an initial period of interest-holiday

d) Other interest free liabilities

e) Reserve Funds

f) Reserves and Surplus

g) Interest bearing capital liabilities

5. Matching of each of the above mentioned different items of funds with the Assets for the purpose of 'determining interest bearing ACS' and 'Interest bearing BNA' shall be carried out as under :

a) Borrowing for Working capital and payments due on capital liabilities shall be deemed to be financing BNA and therefore deducted from BNA.

b) Capital loans which provide an interest free period for the first few years shall be fully appropriated against the ACS on the ground that interest-holiday is specifically to provide interest free finance at construction stage.

c) Interest free capital liability, if any, shall be proportionately divided over ACS and BNA.

d) Reserve Funds shall be set off against the investments made against the funds.

e) Reserves, surplus and the excess of reserve Fund over its investment as per 5 (d) above be added up to determine

'Own Funds'. 'Own Funds' shall be divided proportionately over ACS and BNA.

f) Where the Board has negative 'Own Funds' in its Balance Sheet because of accumulated losses no adjustment of own funds shall be made (meaning that a part of the funds of capital liabilities is sunk by way of losses).

6. Balance ACS and BNA after carrying out the matching as described in (5) above would represent interest bearing ACS' (IB-ACS) and interest-bearing BNA (IB-BNA). The aggregate of the two should be equal to interest-bearing capital liabilities (as reduced by negative own funds (if any).

7. Interest-bearing ACS at the beginning of the year and at the end of the year shall be used to determine 'Average Interest-Bearing ACS'. Similarly 'Average Interest-Bearing BNA' shall be computed.

8. The interest payable for the year on capital liabilities shall be proportionately divided over the average IB-ACS and average IB-BNA.

9. The portion of interest payable allocated to IB-ACS would represent the amount of interest to be capitalised.

2. FUEL AND MATERIALS ACCOUNTING

2.1 The procedural matters regarding Fuel and Materials accounting are laid down in this section.

Quantitative Measurement of Fuel

2.2 The procedures in respect of quantitative measurement of receipts, consumption and stock of fuel are discussed in the following paragraphs.

Need for Measurement

2.3 Proper measurement of quantity of fuel is of critical importance for the following purposes :

1. Computation of cost of fuel consumed
2. Valuation of fuel stocks
3. Facilitating dealings with third parties such as fuel suppliers, transporters, fuel handling contractors.

The method and basis for such measurement needs to be precise because any small inaccuracy in the basis would, when applied to large volumes of fuel, result in a significant inaccuracy in the measurement.

2.4 In view of the need for a precise measurement it is essential that all receipts and consumption of fuel of each type be quantified through actual measurement/ weighment.

2.5 Actual measurement, would require installation and continuous maintenance of facilities like weigh bridges, flow meters, belt scale etc. which would involve expenditure ranging from small to large amounts depending on the adequacy of the existing facilities. Such an expenditure should however be treated as justified in view of the importance or precise measurement of fuel receipt, consumption and stocks Oils.

2.6 Certain physical parameters like specific gravity of oil etc. have to be used to converting readings from oil flow meters and dip measurement in oil storage tanks into quantity of oil. Such parameters shall be established through laboratory analysis periodically.

Gas

2.7 Quantitative measurement of gas also requires use of certain norms and physical parameters for converting readings from gas flow meters into volume of gas. Such norms and parameters shall be used after they are established through periodic analysis in the laboratory.

Coal

2.8 With regard to quantitative measurement of coal however, certain factors need to be considered :

1. Inadequate facilities at the receiving point would slow down the unloading process. Any delay in unloading wagons would result in a liability to pay demurrage apart from increasing the wagon 'turn-around ' time.
2. Quantity of coal to be handled by weighing facilities is relatively high.
3. The weighment facilities in coal handling plant work in quite rugged conditions.
4. Receipt and consumption of coal is a day and night affair.

2.9 On a proper consideration of these factors the procedures requiring 100 per cent measurement in all cases of fuel receipt and consumption has been modified in case of coal. The modified procedure is discussed below.

Receipt of Coal

1. Wherever adequate facilities including spare equipment to meet the requirements during the period of equipment breakdown are available, full quantity of all the receipt of coal should be weighed.
2. Wherever adequate weighing facilities are installed but owing

to a short period of break down of weighing facilities 15 to 20 per cent of the receipts during the month remain unmeasured, the results obtained for the (80 to 85 per cent) receipts during the month which have been weighed should be applied to the unweighed wagons to estimate quantity therein.

3. Where adequate weighing facilities are not existing, such facilities should be installed. In the intervening period coal receipts during each month should be quantified on the basis of a sampling method.

A sample of receipts which are statistically representative of all the receipts during the month must be drawn each month.

The sample of wagons should be weighed and the weighment recorded in a register along with the carrying capacity (including permissible overloading) of the wagon. Total of weighment should be deducted from the toatal of carrying capacity. The resultant figure would give quantity of transit loss of coal.

The transit loss so derived during the month and total carrying capacity for weighed receipts should be considered alongwith transit loss derived in similar manner during, say, each of the preceding two months so as to compute a weighted percentage of transit loss.

Such a weighted percentage of transit loss should be used for estimating the total quantity of coal received in the wagons (whether weighed or not weighed)

Consumption of Coal

1. Where adequate weighment facilities (including spare equipment for use during the period of brealdown) are available to ensure that consumption during full period can be weighed accurately, the total consumption should be quantified through actual measurement/weighment.
2. Where adequate weighment facilities are existing but are facing a breakdown for a short period during the month, the consumption during that period should be worked out on the basis of formulae or norms to be laid down for that power station on the lines described in sub para (4) below.
3. Where facilities for weighment of coal consumption do not exist, such facilities should be installed. In the intervening period, the consumption of coal should be estimated on the basis of formulae or norms to be laid down for that power

station in the manner described in sub para (4) below.

4. The basis for estimation of consumption should be laid down after reviewing plant performance in a representative sample of observation drawn from the current data on consumption.

5. The formula should be fixed after considering all the relevant factors. An illustrative list of the factors to be considered while fixing the formulae/norms is :

   a) Quality of the fuel normally received.

   b) Specification of the fuel required.

   c) Plant design, boiler design etc.

   d) Age of the plant.

   e) Various option of fuel mix.

   f) Plant efficiency.

6. It is vital that the approach/method of fixing formulae or norms, for estimating the consumption of fuel, be uniform for all the power plants of a Board.

7. In this respect, involvement of one or more independent technical/scientific bodies, technical representatives of suppliers etc. would ensure a fair and proper fixation of formulae or norms.

8. Formulae/norms should be operative for a specified period at the end of which a periodic review should be carried out.

Fuel Stocks

2.10 The stock of all types of fuel t the year end shall be physically verified and the quantity of stock determined through appropriate methods such as weighment, volumetric measurement etc.

Determining Quality of Fuel Receipts

2.11 For the purpose of valuation of fuel receipts, the quality of fuel receipts shall be determined by analysing in the laboratory, under established methods, all the samples of fuel receipts drawn under accepted statistical sampling methods.

Accounting for Inferior Grade of Coal

2.12 In the cases where a claim is preferred by the Board on the collieries for reimbursement of the loss on account of receipts of inferior grade of coal, a provision shall be made at the year end to cover the loss expected to arise from the refusal by the collieries of the claims made on them. Such a provision may be of an amount equal to a part whole of the claims remaining unsettled at the year end.

2.13 The quantum of provision shall be in accordance with the provisions of a formal agreement between the Board and the collieries which would govern the sampling techniques and basis of computation of amount payable by either party on grade differences, until such time as a formal agreement in connection with grade differences is entered into between the Board and the collieries, the provision shall be :

1. 100 per cent of the amount of claim remaining unsettled at the year end as reduced by
2. An amount of claims which is in view of the past experience and an appraisal of future, considered likely to be granted by the collieries.

Accounting for Superior Grade of Coal

2.14 In respect of receipts of superior grade of coal a provision for gain shall be made in accordance with a formal agreement between the Board and the collieries dealing with grade differences of coal receipts. Until such time as a formal agreement is entered into the provision for gain shall be made for an amount considered by the Board as not payable in view of past practice and an appraisal of factors likely to govern future decisions.

Accounting for Coal Wagons in transit

2.15 Coal wagons in transit would mean 'Wagons' allotted to a SEB and despatched by the collieries but which are :

— not received by Board by the year end

— not claimed from the Railways as 'missing wagons'.

2.16 Coal wagons in transit at the year end shall, whether or not any payment is made to the collieries for those wagons, be disclosed as coal-in-transit at the amount billed by the collieries.

2.17 Liability in respect of coal wagons in transit which are not paid for by the SEB by the year end would be provided for at the year end at an amount billed by the colliers.

Treatment of Excess/Shortage on Physical Verification of Fuel Stocks

2.18 Fuel stock at the year end shall be physically verified to ascertain the quantity of stock to be considered for valuation and disclosure in financial statements. Fuel stock as per accounting records shall be adjusted for the shortage or excess, if any observed on physical verification of stocks. Valuation of shortage or excess, if any, shall be at the rate to be applied to the closing stocks for the month in which the shortage or excess has been observed.

Basis for valuation of Gas Consumption

2.19 Valuation of gas consumption would be at the purchase order rate applicable to the receipts during the month.

MATERIALS ACCOUNTING

2.20 Accounting procedures relating to materials cost are laid down herein below :-

1. Stores which are exclusively catering to the requirements of construction projects shall be treated as 'Capital Stores'.
2. Stores which are providing materials for both capital and O&M purposes shall book purchase related transactions basically as an O&M stores except that the value of issues on capital jobs shall be booked separately.
3. Fast moving items shall be covered by a standard rate system in which receipts, issues and stocks shall be valued at scientifically determined standard rate and the variance between actual costs and standard rate shall be collected in the separate account called 'material Cost Variance'.
4. In case of items not covered by Standard Rate System, the receipts shall be valued at Basic price plus Excise Duty plus Sales Tax. In such cases, the issues shall be valued at the weighted average rate applicable to the closing stock of the previous month. Where the closing stock of the previous month is nil, the valuation of issues shall be at the rate of first receipt of the month.
5. Subsequent increase/decrease in the cost of receipts shall be adjusted in the issue rate prospectively and no restrospective adjustment shall be made to the value of past issues made out of the concerned receipts or to the assets constructed out of such issues.
6. Freight on materials purchased (whether incurred and billed by supplier or incurred by the Board) shall not be treated as materials cost and shall be recorded in the separate account provided for this purpose.
7. All other incidental costs such as packing charges, Octroi etc. shall also not be treated as materials cost and shall be recorded in separate accounts provided for this purpose.
8. Returns from out of the materials issued in the past shall be valued at the issue rate applicable for the month in which the materials are returned.
9. The prescribed basis of valuation of issues and returns may lead to certain anomalies in stock values. Such anomalies, if

any, shall be removed at the end of every quarter and the amount by which the stock values required adjustment shall be accounted for in a separate account prescribed for this purpose.

10. The liability to be created on the receipt of materials shall be made:

– at the standard rate in case of fast moving items and

– at the purchase order rate in case of other items.

11. Accounting for advance adjusted and recoveries and deductions made from a suppliers bill passed by the Board and recognition of the liability for the net amount due on that bill shall not be deferred till the actual discharge of the net liability.

12. Loss on shortage in materials stock shall be provided for in the period in which the shortages are observed.

Treatment of Materials Cost Variance

2.21 Under the standard rate system referred to above, materials cost variance if any, in respect of receipts at construction locations or at O & M locations shall not be charged to Revenue Account or to Capital Works.

2.22 The balance in the "Materials Cost Variance Account" at the year-end shall be treated as follows :-

1. Credit balance shall be credited to a Reserve Called 'Reserve for Materials Cost Variance'.

2. Debit balance shall be debited to the 'Reserve for Material Cost Variance'. If as a result of such debit, the net balance in this Reserve account is a debit balance, the amount of debit balance shall be charged to Revenue Account for the year.

2.23 Accounting treatment for materials cost variance prescribed above assumes that the standard rates are fixed appropriately and that a system exists for periodic revision of rates whenever significant variance are being observed.

2.24 The amount of materials cost variance recorded by construction divisions and circles and treated on the above lines shall be shown by way of note in the Fixed Assets Schedule in the Board's annual account.

3. BORROWINGS AND INVESTMENTS

3.1 The procedural matters regarding accounts of borrowings and investements are laid down in this section.

Deferred Credit Usance Bills

3.2 Usance bills may be issued by a Board under Deferred Credit Scheme. Such bills may include even the interest for future years. In a balance sheet, such interest portion should be shown as a deduction from the amount of outstanding usance bills.

Debentures issued as Collateral Security

3.3 Debentures or any other debt certificates issued as a collateral security shall not be recorded in the books as a liability but be disclosed by way of a note.

Provision for Depreciation or Appreciation in value of Investment

3.4 No provision need be made for the depreciation in the market value of securities (bonds and debentures or Government promissory notes) held by the board as investments (i.e. market value being lower than the cost of the investments) since it would be a fair assumption in the case of such securities that the securities wuould be held till maturity when full value of the security would be realised. However, there may be securities in respect of which such an assumption about holding till maturity does not hold good. No provision shall be created even in such case for depreciation in the value of investments. Similarly no provision for any appreciation in the market value of investments shall be made by a Board.

4. OTHER ACCOUNTING AREAS

4.1 The procedural matteers relating to other accounting areas are laid down in this section.

Provision for Doubtful Dues from Consumers

4.2 A fixed percentage of dues from consumers (except for a slight variation in the case of large consumers discussed later) shall be maintained as a provision for meeting debts which turn bad. This will eliminate the need for case-wise investigation at the time of creating a provision. Such investigation can be conducted independently and in depth at the time of actually writing off a debt. A detailed study should be conducted periodically to ascertain the appropriate percentage for each Board and to update the percentage so determined. One exception to the above rule is the case of high tension/large supply consumers. In such cases, individual bad debts can sometimes be large enough to affect any overall percentage. Doubtfulness of balance due from such consumers should be reviewed case-wise and if the doubtful amount exceeds the fixed percentage, the amount of such excess should be additionally provided for. However, if the doubtful amount so determined is less than the fixed percentage, the fixed percentage should be nevertheless provided as a measure of conservatism.

Accounting for Write-off Bad Debts

4.3 Any receivables for sale of power to be written off shall be charged to the Revenue Account as bad debts written off, without touching the general provision for doubtful debts directly.

Disclosure of Un-issued Cheques

4.4 Cheques which are prepared under authorised payment vouchers but remain un-issued at the year end (i.e. not yet issued to payee) will, in accordance with the prescribed accounting policy, be debited to relevant liability account on preparation of such cheques. However, since such cheques are not issued to payee and therefore liability not actually discharged, the total amount of such cheques shall be disclosed in Board's Accounts under a separate account "Liability under Un-issued Cheques" . Correspondingly, the bank balance shall be restored to the level existing before debiting such unissued cheques.

Provision for Obsolesence

4.5 Provision shall be made every year to cover the loss arising from technological obsolescence to the extent such loss has been determined, in respect of fixed assets in use, construction stores or operating stores in stock and assets under construction. Such provision shall be treated as a charge against the revenue for the year.

Insurance

4.6 If the Board has not got its assets insured with an outside insurer, the fact shall be disclosed in the Board's account.

4.7 Under the practice of self insurance (where the Board sets aside an amount as an insurance premium, so that the amount so accumulated can be used for meeting loss of assets on account of fire, flood, cyclone etc.) the amount set aside every year shall be treated as a charge against revenue. However, it needs to be ensured that the amount of insurance premium for this purpose is scientifically established.

Research and Development Costs

4.8 Research and development costs incurred by a Board as a result of which no tangible asset is acquired by the Board shall be written off in the year of incurring the costs. This shall be done even in cases where the R & D costs are expected to result in an increease in revenue of future years. The R & D expenditure for acquiring tangible assets shall be treated like expenditure for acquiring any other fixed asset.

Amortisation of Intangible Assets

4.9 Intangible assets of a Board shall be amortised over the period estimated to be benefited. A proportionate amount (calculated with reference to the benefits during the year such as additional revenue arising as a result of the assets) shall be charged to revenue account for each of such year benefited.

Transmission of Power

4.10 If a board receives power from One State for onward transmission to another State under purchase/sale arrangement between the former State and latter State, the intermediary transmitting Board shall show the units so transmitted as a deduction from its gross figures of units purchased and units sold.

Disclosure of Contingent Liabilities

4.11 The amount of contingent liabilities (as on the date of the Balance Sheet) which are material shall be disclosed in the annual accounts of the Board.

4.12 Contigent liability would means an obligation relating to current year or past years which is dependent upon the happening or non happening of event. Example of contingent liabilities are :

1. Claim by the supplier or contractor for a price higher than the one adopted by the Board for booking liability to him in relation to purchases or contract work during the current year or past years. This would include all cost escalation claims for supplies/works.
2. Claim for refund of an increase in tariff made by consumers or by anyone else by contesting it in a court of law.
3. Claim by the lenders for a higher interest or for a penal interest for any default in repayment instalments or in paying interest or for any other reason.
4. Claim against the Board for payment of tax on income or profit of the Board or for excise duty, levies etc. not accepted by the Board.

Refunds of Customs Duty/Port Trust Charges

4.13 Refunds of customs duty or port trust charges shall be credited to revenue unless the amounts are material in which case the portion, if any, relating to import of capital assets shall be deducted from the cost of the assets.

Note :-Annexure I to V wherever refeffed to in the manual may be referred as under :-

Annexure I	Part - 5 of Commercial Accounting Systems Vol. I Part - I - Chart of Accounts.
Annexure II	Part - 1 of Commercial Accounting Systems Vol. I Part - I - Chart of Accounts.
Annexure III	Part - 1 of Commercial Accounting Systems Vol. I Part - II - Basic Accounting Principles and Policies.
Annexure IV	Part - 3 of Commercial Accounting Systems Vol. I Part - II - Basic Accounting Principles and Policies.
Annexure V	Part - 2 of Commercial Accounting Systems Vol. I Part - II - Basic Accounting Principles and Policies.

PART 3

PROCEDURES ON CHANGE-OVER TO THE NEW FORM OF ACCOUNTS

[Annexure IV of The Electricity (Supply) (Annual Accounts) Rules, 1985]

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PROCEDURES ON CHANGE-OVER TO THE NEW FORM OF ACCOUNTS

1. Implementation of the New Form of Accounts shall, inter-alia, involve the following :

1. ADOPTION OF THE PRESCRIBED BASIC ACCOUNTING PRINCIPLES AND POLICIES.
2. ADOPTION OF THE PRESCRIBED CHART OF ACCOUNTS AND
3. COMPLIATION OF THE ANNUAL STATEMENT OF ACCOUNTS IN THE PRESCRIBED FORMATS

1. ADOPTION OF THE PRESCRIBED BASIC ACCOUNTING PRINCIPLES AND POLICIES

2. The prescribed basic accounting principles and policies shall be applied only prospectively, that is to say, only to the transactions which take place after the effective date.

3. The revenue or expense resulting from any transaction relating to prior periods shall be segregated as 'Prior Period Income or Expense'.

4. Policies, like basis of valuation of materials purchase, would apply only to prospective transactions. But the prescribed basis of valuation of issues may be applied for the sake of simplicity and uniformity even to the issues out of the stock on hand as on the effective date, if the stock is valued on a bassis not much different from the prescribed basis. The small differences arising in such cases shall be dealt with appropriately with a disclosure in the annual accounts for the year of change-over to the new form of accounts and the year in which the adjustments are made.

Retrospective adjustments for interest and depreciation

5. In respect of interest and depreciation, however, a restrospective adjustment shall be done. Under Section 67 and 68 of the Act, prior to their amendment by the Electricity (Supply) Amendment Act, 1983, depreciation charge was restricted to the amount of surplus available after appropriations under Section 67. Similarly, interest on State Government loans had lower priority as compared to the creation of Sinking Fund for repayment of loans.

6. As a consequence of these provisions, the Boards have

created Sinking Funds for repayments of loans although huge arrears of interest and depreciation remain to be charged to revenue.

7. Every Board shall reopen its account for the year ending on a date immediately preceding the effective date. The following adjusiment shall be made to these accounts :-

1. Full amount of the reserve or the sinking fund for repayment of loans standing in an account, by whatever name called, shall be credited to a 'Restructuring Account.
2. All arrears of depriciation and arrears of interest shall be debited to the Restructuring Account.
3. The net balance in the Restructuring Account, whether debit or credit, shall be transferred to the Net Revenue and Appropriation Account for the year in which the prescribed accounting policies become effective.
4. Reopening of the said accounts shall be after prior approval of the Board.
5. A note containing the 'Restructuring Account' showing adjustments made to the previous year's accounts shall also be included in the Board's annual accounts for the first year ending after the effective date.

2. ADOPTION OF THE PRESCRIBED CHART OF ACCOUNTS

8. The prescribed Chart of Accounts shall be adopted as under :

1. All revenue, expenses, gains and losses which take place after the effective date shall be accounted for under the prescribed account heads.
2. a) Balances in the Balance Sheet Accounts as on the effective date shall be analysed wherever necessary, and restated to the extent possible under the account heads prescribed for assets, liabilities, reserves and reserve funds.

   b) Where such restating of a balance (or part of a balance) is not possible owing to non-availability of information in respect of the outstanding balance (or, as the case may be, that part of the balance) :

   i) each Board shall introduce necessary account heads and transfer thereto each of such balance or the parts of the balances which could not be so restated and

ii) transactions after the effective date, which clear, in full or in part, the earlier balances shall be accounted for under the accounts so introduced by the Board.

c) All transactions, other than those referred to in claue (ii) above, occurring after the effective date, shall be accounted for under the relevant account heads under the prescribed Chart of Account.

d) After a period of three years from the effective date, the past balances remaining uncleared in the accounts introduced by the Board as aforesaid shall be dealt with depending on the nature of the account head concerned and the materiality of the amounts involved.

3. Balances, if any, in inter-unit accounts, as on the effective date, shall be reconciled as far as possible. The unreconciled portions of such balances shall be dealt with after taking into consideration factors such as the types of inter-unit transactions normally taking place between the accounting units involved, the nature of operations (construction or operations and maintenance) performed at the concerned accounting unit and the materiality of the amounts involved.

3. COMPILATION OF THE ANNUAL STATEMENT OF ACCOUNT IN THE REVISED FORMATS

9. The Annual Statement of Accounts for the accounting year ending immediately after the effective date, as adopted by the Board, shall also include a note containing particulars of :

1. Post balances restated (i.e. the amount restated and the earlier account head from which and the new account head under which the balance has been restated and)

2. Balances transferred (which could not be so restated) to the accounts introduced by the Board as aforesaid.

Such balances shall, as far as possible, be so grouped as to broadly conform to the disclosure requirements under the revised annual accounts formats.

10. For each of the first four years ending immediately after the effective date, the Board shall also include, in its annual accounts, a note containing particulars of :

1. The amount of past balances transferred to each of the acounts introduced by the board in accordance with sub-paragraph 2 (b) (i) of paragraph 8 above.

2. The amount of the aggregate of the amounts of past balance cleared by transactions :-

   — during the year

   — during one or more previous years ended after the effective date in accordance with sub-paragraph 2 (b) (ii) of paragraph 8 above

3. The past balances remaining uncleared at the end of the third year after the effective date and the manner in which they have been dealt with in the fourth year as discused in sub-paragraph (2) (d) of paragraph 8 above and

4. The unreconciled balances in the inter-unit accounts and the manner in which they have been dealt with as discussed in sub-paragraph (3) of paragraph 8 above.

11. The additional notes required to be given as per sub-paragraph (5) of paragraph 7 as also per paragraph 9 and 10 above, during the period of change-over to the prescribed new form of accounts, shall form part of the Annual Statement of Accounts.

12. In the annual accounts for the first three years ending after the effective date, the uncleared portions off the past balances (which could not be restated), outstanding in the accounts introduced by the Board, shall be disclosed separately in the appropriate schedules to the Balance Sheet.

APPENDIX

THE ELECTRICITY (SUPPLY) (ANNUAL ACCOUNTS) RULES, 1985

Government of India

Ministry of Energy

(Department of Power)

New Delhi, the 31st October, 1985

NOTIFICATION

No. GSR 1134. In exercise of the powers conferred by Section 69 of the Electricity (Supply) Act, 1948(54 of 1948), the Central Government, in consulatation with the Comptroller & Auditor General of India & the state governments, hereby makes the following rules, namely :-

CHAPTER 1

INTRODUCTORY

1. **Short title and commencement**

   (1) These rules may be called the Electricity (Supply) (Annual Accounts) Rules, 1985.

   (2) They shall come into force with effect from the date of their publication in the Official Gazette.

2. **Definitions**

   (1) In these rules, unless the context otherwise requires:

   (a) "Act" means the Electricity (Supply) Act, 1948;

   (b) "Annexure" means an annexure appended to these rules;

   (c) "Annual Statement of Accounts" means the annual statement of accounts as defined in sub-rule (1) of Rule 5 and includes the Annual Accounts and the Accounts :

   (d) "Financial Year" means a period of twelve calender months ending on the 31st day of March every year or in the case of the first accounts, a shorter period commencing on the date of constitution of the Board and ending on the 31st day of March immediately following :

(e) "Notes" or "Notes to Accounts" means the Notes to Accounts contained in Statement No. 5 of the Annual Statement of Accounts;

(f) "Schedule" means a Schedule forming part of the Annual Statement of Accounts ;

(g) "Statements" means a Statement forming part of the Annual Statement of Accounts ;

2. Words and expresions used herein and not defined but defined in the Act, shall have the meanings respectively assigned to them in the Act.

CHAPTER II

COMPILATION OF ANNUAL ACCOUNTS

3. Accounting period

The accounting period for which the annual account have to be compiled by a Board shall be a period of twelve calender months ending on the 31st day of March every year or in the case of the first accounts, a shorter period commencing on the date of constitution of the Board and ending on the immediately following 31st day of March.

4. Compilation and submision of annual accounts

(1) Every Board shall, at the end of each financial year, compile its annual accounts for that year and, with in six months from the end of such financial year, submit the said annual accounts and the auditors' report there on to the Central Electricity. Authority and to the concerned State Government.

(2) The accounts when submitted to the Central Electricity Authority and to the State Government shall have the auditors' report at the top followed by Annual Statement of Accounts arranged in the order mentioned in sub-rule (1) of Rule 5.

5. Form and contents of Annual Statement of Accounts

(1) The Annual Statement of Accounts of a Board shall comprise of the following Statements and Schedules arranged in the order given below :

Statement No.	Title
1.	Revenue Account
2.	Net Revenue and Appropriation Account
3.	Balance sheet
	Schedules to the Revenue Account (Schedules 1 to 18)
	Schedules to the Balance Sheet (Schedules 19 to 35)
4.	Statement of Accounting policies
5.	Notes to Accounts
6.	Function-wise Analysis of Revenue and Expenses
7.	Sources and Uses of Funds
8.	Statement of Capital Base and Surplus under section 59 of the Act, and
9.	Statement of Technical Particulars

(2) The annual accounts shall present a true and fair view of the financial position of the Board as at the end of the financial year and of the results of operations of the Board for that year.

6. Chart of Accounts

(1) The Chart of Accounts, as laid down in Annexure II, shall come into force with effect from the date of commencement of these rules. The transactions of a Board which take place after the said date shall, subject to rule 11, be accounted for under the account heads provided in the Chart of Accounts as given in the said Annexure.

(2) A Board may, in accordance with the provisions contained in Annexure II, make additions or modifications to the Chart of Accounts if the local conditions or procedure so warrant.

7. **Basic Accounting Principles and policies**

(1) The transactions of a Board shall be accounted for in accordance with the basic accounting principles and policies laid down in Annexure III.

(2) The said basic accounting principles and policies shall be adopted immediately on the commencement of these rules.

(3) The basic accounting principles and policies shall be applied only prospectively, that is to say, only to the transactions which take place on the commencement of these rules.

8. **Disclosure of Accounting Policies**

A Board shall , in its annual accounts, include a Statement of accounting policies (Statement 4) confirming adherance to the prescribed accounting policies and also stating there in the departures, if any, made there from.

9. **Accounting policies for transactions not covered by Annexure III**

(1) A Board shall adopt commercial accounting system of year-end accruals even in respect of transactions for which no specific policy is prescribed in Annexure III. The accounting policy adopted in such cases shall be stated in the statement of accounting policies, if the amounts involved are significant.

(2) Even the accounting policies other than the prescribed policies applied to a Board's peculiar transactions in accordance with sub-rule (1) above shall be so applied consistently from year to year.

(3) In the event of several or all Boards commencing new activities of the nature not hitherto carried out, the Central Government shall, in consultation with the Comptroller & Auditor General of India and the concerned State Government, upon intimation or knowledge there of, lay down, wherever considered necessary, the accounting policies relating to the transactions arising from the said new set of activities. Appropriate account heads may be specified by Central Government for booking such transactions. Disclosure requirement for reporting of such transactions in Annual Accounts shall also be laid down by

the Central Government in consultation with the Comptroller and Auditior General of India and the concerned State Governments.

10. Criteria for Departure from the prescribed Accounting Policies

(1) A Board may make a departure from the prescribed accounting policies only in the following circumstances, namely :-

(a) Situations in which, for reason to be recorded in wtiting, the prescribed accounting policies are considered impracticable or unnecessary ;

(b) By adoption of the prescribed accounting policies, the Board's accounts would fail to give a true and fair view.

(2) Any departure from the prescribed accounting policies or change in respect of the accounting policies adopted by the Board under sub-rule (1) of rule 9 shall be disclosed in a Board's annual accounts for the year of departure or change as also for the first two years immediately there after. Such disclosure shall also include the reasons for the said departure or change and its effect on the surplus for the year or on capital base to be considered for the purposes of computation of the minimum surplus under section 59 of the Act.

(3) Where the departure from the prescribed accounting policies referred to in sub-rule (2) above involves deviation from the account heads as prescribed in the Chart of Accounts or introduction of new account heads, the fact shall be reported to the Central Government and the Comptroller and Auditor General of India.

11. Process of Change-over to the new form of Accounts

The procedures to be followed on changing over to the new form of Accounts shall be as laid down in Annexure IV.

12. Uniformity in procedural matter

In order to ensure uniformity in procedural matters in maintenance of accounts, a Board shall follow the principles specified in Annexure-V.

13. Adjusting Entries

The Board may make any adjusting entries in its accounts for the financial year ending on the thirtyfirst day of March , 1986, to make such accounts conformable to the provisions of these rules.

CHAPTER III

ADOPTION OF ANNUAL ACCOUNTS

14. Adoption of Annual Accounts by the Board

(1) Annual Accounts of a Board shall be considered and initially adopted by the Board before their submission for audit to the Comptroller and Auditor General of India or to any other person authorised by him in this behalf.

(2) These accounts shall, upon completion of the audit by the aforesaid authority and after incorporating there in any changes necessitated be considered and finally adopted by the Board.