Report on Significant Accounting Policies

After the unbundling from the State Government’s Electricity Department, PETCO (“Puducherry Electricity Transmission Company”) and PESCO (“Puducherry Electricity Supply Company”) needs to follow accounting policy and standards that are applicable to all companies under the Companies Act, 1956. Further Electricity Act 2003 has repealed the Electricity (Supply) Act, 1948 under which detailed accounting policies and standards were laid out.

Under the Companies Act, 1956 all companies unless exempted were to prepare their accounts using the Accounting Standards as notified by the Central Government (under advice from the National Advisory Committee on the Accounting Standards) are applicable for all companies. Moreover, the Companies Act, 1956 also requires the Balance Sheet of the company to be prepared in form as laid out in Schedule VI to the Act. Under this Schedule, the company needs to set out significant accounting policies followed by the company.

The following paragraphs, set out, illustratively the significant accounting policies that are applicable to the companies. Once the companies are formed and start its activities, the Board of Directors of the Companies need to finalise its policies and standards.

Significant Accounting Policies

Accounting Policies of the Company:

The accounts are prepared on historical cost concept based on accrual method of accounting as going concern and consistent with generally accepted accounting principal in accordance with the mandatory accounting standard and disclosure requirements as per the provisions of the Companies Act 1956 except for the following items which are accounted on cash basis considering the principle of prudence: This section would then detail out the areas which are accounted on the cash basis. Some of these could be viz.

- Liquidated damages
- Interest on loans and advances to employees
- Miscellaneous receipts like sale of scrap
- Leave travel concession, education expenses reimbursement and medical reimbursement to employees
- Road Tax, licence fee etc.
- Amounts collected on deposit works
- Terminal Benefits

Fixed Assets

a) All fixed assets are stated at historical cost less depreciation. Historical cost comprises the purchase price and any other applicable costs attributable in bringing the assets to their working condition for their intended use, including specific financing costs till commencement of commercial operations attributable to the fixed assets. All Overhead costs if directly attributable to the Fixed Asset are capitalised to the cost of Fixed Asset.

b) Released assets are accounted at written down value and reissued after repairs at written down value only

c) Gains / losses on sale of fixed assets are credited to / charged to Profit and Loss A/c.

d) Capital spares are treated as capital assets. Capital spares purchased prior to commissioning of assets are capitalized along with the principal asset. Capital spares purchased subsequent to commissioning are capitalized on purchase and depreciated on the balance useful life of the principal asset to which it belongs.

e) In case of commissioned asset where final settlement of bills with contractors is yet to be affected, capitalization is made on provisional basis subject to necessary adjustment in the year of the final settlement.

f) Intangible Assets are recorded at their cost of acquisition

Capital work-in-progress

a) In respect of supply-cum erection contracts, the value of supplies received at site and accepted is treated as capital work-in-progress.
b) Incidental expenditure prior to construction, preliminary project expenditure on identification, survey / feasibility studies of project, etc. is apportioned to capital work-in-progress on basis of accretion thereto. These expenses however are charged to Profit & Loss Account if project is abandoned.
c) Corporate Office expenses, expenses of divisions / offices catering to i.e. O&M as well as capital works are charged as period costs in the financial year to which they pertain.
d) Expenses incurred by construction divisions/subdivisions are capitalised and accounted as cost of capital assets.

Depreciation

Depreciation on fixed asset is provided on gross value on straight line method basis by depreciating x% (usually 90%) of the cost over useful life of the assets. Rates of depreciation being adopted by the Company are lower than the rates of depreciation specified under Schedule XIV of the Companies Act, 1956.

a) Depreciation charge on an asset shall cease from the year following the year in which.
   - The year's depreciation along with the depreciation charged in the previous year(s) becomes equal to or more than ***x%*** of the cost of the asset or
   - The asset permanently ceases to be used by the Company, whichever is earlier.
b) In case of Assets commissioned during the financial year depreciation is charged on pro-rata basis form the date the asset is available for use.
c) Leasehold land is amortized over the period of the lease.
d) Assets procured during the year costing Rs. Y (usually say Rs 5,000) or less are fully written off during the year. This policy has been adopted generally across all categories of assets.
e) On scrapping / obsolescence of an asset, the cost of asset and accumulated depreciation on it is withdrawn and transferred to a separate account.

Borrowing Costs

a) Borrowing costs for funds procured for acquisition / construction / modernization are capitalised to the assets to the extent identifiable to the project for which taken.
b) Other borrowing costs are charged to Profit and loss account.

Investments

a) Long term investments are carried at cost less provision, if any, for diminution in the value of investments which are of a permanent nature.
b) Current investments are carried at lower of cost and fair value.

Accounting for taxes on income

a) Current tax is determined as the amount of Tax payable in respect of taxable income for the year. Deferred tax is recognized on timing difference; being the difference between the taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods.
b) Where there is unabsorbed depreciation or carry forward of losses, deferred tax are recognized only if there is virtual certainty of realization of such assets. Other deferred tax
c) Assets are recognized only to the extent there is reasonable certainty of realization in future.

Inventories

a) Inventories of stores, spares and loose tools are valued at weighted average cost. Cost includes material costs, labour and manufacturing overheads and all other costs in bringing the inventory to its present location and condition.
b) Unserviceable / damaged stores and spares to the extent identifiable are written down based on the rates specified under the technical evaluation.

Accounting for prepaid expenses and prior period items

a) Expenses related to the succeeding period incurred in the current period shall be recorded as pre-paid expenses based on materiality.
b) Prior period items & extraordinary transactions are disclosed separately in the P&L Account in accordance with the requirement of AS-5. For this purpose, prior period items are those items which arise out of errors or omissions.

Significant events occurring after the balance sheet date

a) Contingent losses are to the extent identifiable as devolving on the company have been provided for in the Profit and Loss account based on materiality and probability of occurrence of the contingent event.
b) Events occurring after the balance sheet date are given effect in the financial statements only if they provide further evidence for the estimations of amounts relating to conditions that existed at the balance sheet date.

Revenue Recognition

a) Revenue from core activities (Transmission, Distribution) is accounted based as per Accounting standards or as directed by JERC, if applicable.
b) Adequate provisions in respect of provisional bills raised on distribution companies are made at the end of the year.

Recognition of Revenue surplus

The company follows the method of recognizing the revenue surplus (PAT) for the year based on the Provisions of Electricity Act 2003 and the Tariff Regulations issued by JERC, which is currently at ----RoE. In case of any shortfall to the extent, as arrived at by computing the revenue surplus at ---%, the same shall have to be made good the Government as subsidy from Government of Purucherry.

Foreign Currency Transactions, if any

a) Monetary assets and liabilities related to foreign currency transactions remaining unsettled at the end of the year are translated at the year-end rate and the difference in translation and realised gains and losses on foreign exchange transactions (other than for fixed assets) are recognised in the Profit and Loss Account.
b) In the case of all foreign exchange liabilities and foreign currency loans obtained for acquisition of fixed assets, the variation in the liability arising out of the variation in exchange rates at the year end is adjusted to the cost of the acquisition of fixed assets.

Terminal Benefits

a) In case of existing contributory schemes the estimated future liability which may devolve on the company has been provided by the company in its books and period costs are charged to the profit and loss account in the year to which they pertain
b) In case of non contributory schemes the amounts payable to LIC on the basis of number of employees is charges to P & L Account.
c) Pension and Gratuity are charged to the Profit and Loss Account on accrual basis determined on the basis of report submitted by the actuarial valuation.

Foreign Exchange Transactions, if any

a) Monetary assets and liabilities related to foreign currency transactions remaining unsettled at the balance sheet date are translated at the rate at the balance sheet date and the realized gains and losses on foreign exchange transactions (other than for fixed assets) are recognized in the Profit and Loss Account.
b) In the case of foreign currency loans obtained for acquisition of fixed assets, the variation in the liability arising out of the variation in exchange rates at the year end is adjusted to the cost of acquisition of fixed assets.

Government Grants

a) Grants received for capital expenditure are included in capital reserves and are neither diminished as deferred income nor cost of assets have been reduced to the extend of grants
b) Revenue Subsidies are accounted in the Profit and Loss Account.
c) Contributions received from consumers towards capital items are treated as capital receipts and credited to deposit works.

Accounting for Expenses

a) Expenses related to the succeeding period incurred in the current period are recorded as pre-paid expenses based on materiality.
b) Prior period expenses and extraordinary transactions are accounted based on materiality.

The following attachment sets out the example followed by companies like Power Grid Corporation of India Limited and Reliance Infrastructure Limited (formerly "BSES") for reference.

Provision for Bad and doubtful debts

Provision for bad and doubtful debts is made at----% on the net balance of sundry debtors for sale of power outstanding as the end of the year

Power Grid Corporation of India Limited – Annual Report for 2008-09

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements are prepared under the historical cost convention and in accordance with generally accepted accounting principles and applicable Accounting Standards in India.

2 . RESERVES AND SURPLUS

Self insurance reserve is created @ 0.1% p.a. on Gross Block of Fixed Assets (except for valve halls of HVDC Bi-pole, HVDC equipments, SVC sub stations and series compensators) as at the end of the year by appropriating current year profit towards future losses which may arise from un-insured risks. The same is shown as "Self insurance reserve" under 'Reserves & Surplus'.

3 . GRANTS-IN-AID

3.1 Grants-in-aid received from Central Government or other authorities towards capital expenditure for projects, betterment of transmission systems and specific depreciable assets are shown as "grants-in-aid" till the utilization of grant

3.2 On capitalisation of related assets, grants received for specific depreciable assets are treated as deferred income and recognized in the Profit and Loss Account over the useful period of life and in proportion to which depreciation on these assets is provided.

4 . FIXED ASSETS

4.1 Fixed assets are shown at historical cost comprising of purchase price and any attributable cost of bringing the assets to its working condition for its intended use.

4.2 In the case of commissioned assets, deposit works/cost-plus contracts where final settlement of bills with contractors is yet to be affected, capitalisation is done on provisional basis subject to necessary adjustments in the year of final settlement

4.3 Assets and systems common to more than one transmission system are capitalised on the basis of technical estimates/assessments.

4.4 Transmission system assets are considered 'Ready for intended use', for the purpose of capitalisation, after test charging/successful commissioning of the systems/assets and on completion of stabilization period wherever technically required.

4.5 The cost of land includes provisional deposits, payments/liabilities towards compensation, rehabilitation and other expenses wherever possession of land is taken.

4.6 Expenditure on levelling, clearing and grading of land is capitalised as part of cost of the related buildings.

4.7 Capital expenditure on assets not owned by the company is reflected as a distinct item in capital work-in-progress till completion and thereafter in Fixed Assets.

4.8 Insurance spares, other than mentioned in 4.10 below, which can be used only in connection with an item of fixed asset and whose use is expected to be irregular are capitalised and depreciated over the residual useful life of the related plant & machinery.

4.9 Mandatory spares, other than mentioned in 4.10 below, in the nature of sub-station equipments /capital spares i.e. standby/service/rotational equipment and unit assemblies either procured along with the equipments or subsequently, are capitalised and depreciation is charged in accordance with the relevant accounting standard.

4.10 Items of Insurance / Mandatory spares, covered under 4.8 & 4.9 above, are charged to revenue, if the year of purchase and consumption is same.

5 . CAPITAL WORK IN PROGRESS (CWIP)

5.1 Cost of material consumed, erection charges thereon along with other incidental expenses incurred for the projects are shown as CWIP till capitalisation.

5.2 Interest during construction and incidental expenditure during construction (net) including corporate and regional office expenses (allocated to the projects on prorata basis to their capital expenditure), are apportioned to capital work in progress (CWIP) on the closing balance of specific asset or part of asset being capitalised. Balance, if any, left after such capitalisation is kept as a separate item under the CWIP Schedule.

5.3 Deposit works/cost-plus contracts are accounted for on the basis of statement received from the contractors or technical assessment of work completed.

5.4 Claims for price variation/ exchange rate variation in case of contracts are accounted for on acceptance/ receipt of clams.

6 . CONSTRUCTION STORES

6.1 Construction stores are valued at cost.

7 . ALLOCATION OF COMMON EXPENSES

7.1. The common expenses (net) of corporate office and regional offices are allocated to various diversified activities of the company viz. transmission, telecom, consultancy & accelerated power development and reform program (APDRP) in the ratio of the respective income/reimbursement of each activity.

7.2 The common expenses thus allocated are further allocated to Incidental expenditure during construction (IEDC) and revenue in transmission and telecom activities in the ratio of capital outlay thereof to transmission charges (excluding income tax recovery) and telecom income.

7.3 Expenses of the project, common to operation and construction activities are allocated to revenue and incidental expenditure during construction in the proportion of transmission income (excluding income tax recovery & transmission charges based on tariff orders received upto 15th May of each year) and capital outlay.

8 . BORROWING COST

8.1 All the borrowed funds are earmarked to specific projects. The borrowing costs (including bond issue expenses, interest, front end fee, guarantee fee, management fee etc.) are allocated to the projects in proportion to the funds so earmarked.

8.2 The borrowing costs so allocated are capitalised or charged to revenue, based on whether the project is under construction or in operation.

8.3 Foreign exchange rate variation (FERV) (Unfavorable) on foreign currency borrowings, to the extent it does not exceed the difference between the local currency borrowing cost and foreign currency borrowing cost, is treated as borrowing cost.

9. TRANSACTION IN FOREIGN CURRENCY

9.1 Transactions in foreign currencies are initially recorded at the exchange rate prevailing on the date of transaction. Foreign currency loans, deposits and liabilities are translated or converted with reference to the rates of exchange ruling on the date of the Balance Sheet.

9.2 FERV (except the amount considered as 'borrowing cost' under para 8.3 above) arising on transactions contracted prior to April 1, 2004 is adjusted to carrying cost of capital work-in-progress/fixed assets in case of capital assets. For the transactions contracted on or after April 1, 2004, the same is charged to Profit & Loss Account irrespective of whether the project is under construction or operation.

9.3 FERV (excluding FERV during construction period for the transactions contracted on or after Ist April, 2004), accounted for as per policy no 8.3 & 9.2 is recoverable/payable from the beneficiaries on actual payment basis as per Central electricity regulatory commission (CERC) norms w.e.f 1st April, 2004 or Date of Commercial Operation (DOCO) which ever is later. The above FERV to the extent recoverable or payable as per CERC norms is accounted for as follows:

a) FERV recoverable or payable is apportioned into (i) amount adjusted to carrying cost of fixed assets and (ii) amount recognized as income/expense in profit and loss account in the same proportion in which FERV is apportioned between carrying cost of fixed assets and Profit and Loss Account.

b) FERV recoverable/payable adjusted to carrying cost of fixed assets, as referred in (a) above is accounted for as 'Deferred foreign currency fluctuation asset/liability a/c' with a corresponding credit/debit to 'Deferred income/expenditure from foreign currency fluctuation a/c'.

c) FERV recoverable/payable adjusted in profit and loss referred in (a) above is accounted for as 'Deferred foreign currency fluctuation asset/liability a/c' with a corresponding credit/debit to 'Profit & Loss Account'.

d) 'Deferred income/expenditure from foreign currency fluctuation a/c' is amortized in the proportion in which depreciation is charged on such FERV.

e) The amount recoverable/payable as per CERC norms on year to year basis is adjusted to the 'Deferred foreign currency fluctuation asset/liability a/c' with corresponding credit/debit to the debtors.

9.4 FERV upto the date of commercial operation in respect of transactions contracted on or after Ist April,2004, is included in the capital cost for the purpose of tariff. Such FERV and transmission charges received thereon are accounted for as under:

a) Such FERV is accounted for as 'Deferred foreign currency fluctuation asset/liability a/c' with a corresponding credit/debit to 'Profit & Loss Account'.

b) Depreciation component of transmission charges (being 90% of such FERV) is adjusted against Deferred foreign currency fluctuation asset/liability a/c'.

c) Balance 10% is adjusted against the transmission charges over the tenure of respective loan.

9.5 FERV in respect of current assets is taken to Profit & Loss a/c.

10. INVESTMENTS

10.1 Long term investments are carried at cost less provisions, if any, for permanent diminution in the value of such investments.

11. INVENTORIES

11.1. Inventories are valued at lower of the cost, determined on weighted average basis, and net realizable value.

11.2 Steel scrap and conductor scrap are valued at estimated realizable value or book value, whichever is less.

11.3 Mandatory spares of consumable nature and transmission line items are treated as inventory after commissioning of the system.

11.4 Surplus materials as determined by the management are held for intended use and are included in the inventory.

12. DEFERRED REVENUE EXPENDITURE

12.1 Deferred revenue expenditure created up to March 31, 2003 (prior to the date AS-26 became mandatory) are amortized over a period of 5 years from the year of commercial operation/earning of revenue.

13. REVENUE RECOGNITION

13.1.1 Transmission Income is accounted for based on tariff notified by CERC. In case of transmission projects where tariff rates are yet to be notified, transmission income is accounted for as per tariff norms and other amendments notified by CERC in similar cases. In such cases, the shortage/excess, if any, is adjusted based on issuance of final notification of tariff orders by CERC. Transmission income on account of additional capitalisation, if any, is accounted for on the basis of specific order by the CERC.

13.1.2 Income from short term open access is accounted for on the basis of regulations notified by CERC.

13.1.3 The Transmission system incentive / disincentive is accounted for based on certification of availability by the respective Regional power committees and in accordance with the norms notified / approved by CERC.

13.1.4 Advance against depreciation (AAD), forming part of tariff pertaining to subsequent years, to facilitate repayment of loans, is reduced from transmission income and considered as deferred income to be included in transmission income in subsequent years.

13.2 Surcharge recoverable from debtors is not treated as accrued due to uncertainty of its realization and is, therefore, accounted for on receipt/certainty of receipt.

13.3 Liquidated damages / warranty claims and Interest on advances to suppliers are not accounted for on certainty.

13.4 Telecom income is accounted for on the basis of terms of agreements/ purchase orders from the customers.

13.5.1 Income from sole consultancy contracts are accounted for on technical assessment of progress of services rendered.

13.5.2 In respect of 'Cost-plus-consultancy contracts', involving execution on behalf of the client, income is accounted for (Wherever initial advances received) in phased manner as under:

a. 10% on issue of Notice Inviting Tender for execution
b. 5% on Award of Contracts for execution
c. Balance 85% on the basis of actual progress of work including supplies

13.6 Scrap other than steel scrap & conductor scrap are accounted for as and when sold.

13.7 Dividend income including interim dividend is recognized in the year of declaration.

14. LEASED ASSETS – UNIFIED LOAD DESPATCH CENTRE (ULDC)

14.1 State sector unified load dispatch centre (ULDC) assets leased to the SEBs are considered as Finance Lease. Net investment in such leased assets along with accretion in subsequent years is accounted for as Lease Receivables under Loans & Advances. Wherever grant in-aid is received for construction of State Sector ULDC, lease receivable is accounted for net of such grant.

14.2 Finance income on leased assets are recognised based on a pattern reflecting a constant periodic rate of return on the net investment as per the levellised tariff notified/to be notified by CERC.

14.3 FERV on foreign currency loans relating to leased assets is adjusted to the amount of lease receivables and is amortised over the remaining tenor of lease. FERV recovery (as per CERC norms) from the constituents is recognised net of such amortised amount.

15. DEPRECIATION

15.1.1 Depreciation is provided on straight line method at the rates specified in the norms notified by CERC for the purpose of recovery of tariff on pro-rata basis except for the following assets in respect of which depreciation is charged at the rates mentioned below:

a) Computers & Peripherals 30%
b) Mobile Phones 33.33%
c) Software 33.33%

15.1.2 ULDC assets are depreciated @ 6.67% per annum as determined by CERC for levellized tariff.

15.1.3 Depreciation on assets of telecom and consultancy business, is provided for on straight line method as per rates specified in Schedule XIV of the Companies Act, 1956.

15.1.4 Where the cost of depreciable asset has undergone a change due to increase/decrease in long term liabilities on account of exchange rate fluctuation, price adjustment, change in duties or similar factors, the unamortized balance of such asset is depreciated prospectively over the residual life determined on the basis of the rate of depreciation as specified by the CERC.

15.1.5 Capital expenditure on assets not owned by the company is amortized over a period of four years from the year in which the first line/sub-station of the project comes into commercial operation and, thereafter, from the year in which the relevant assets are completed and become available for use.

15.1.6 Plant and machinery, loose tools and items of scientific appliances, included under different heads of assets, costing Rs. 5000/- or less, or where the written down value is Rs. 5000/- or less as at the beginning of the year, are charged off to revenue.

15.1.7 Assets costing up to Rs. 5,000/- in respect of which rates are not specified in the norms notified by CERC, are fully depreciated in the year of acquisition.

15.1.8 Leasehold land is depreciated over the tenure of the lease.

15.2 In the case of assets of National Thermal Power Corporation limited (NTPC) , National Hydro-Electric Power Corporation Limited (NHPC), North-Eastern Electric Power Corporation Limited (NEEPCO), Neyveli Lignite Corporation Limited (NLC) transferred w.e.f. April 1, 1992, Jammu and Kashmir Lines w.e.f. April 1, 1993, and Tehri Hydro Development Corporation Limited (THDC) w.e.f. August 1, 1993, depreciation is charged based on gross block as indicated in transferor’s books with necessary adjustments so that the life of the assets as laid down in the CERC notification for tariff is maintained.

16. EXPENDITURE

16.1 Pre-paid/prior-period items up to Rs.100000/- are accounted for to natural heads of account.

16.2 Expenditure of research and development, other than Capital Expenditure, are charged to revenue in the year of incurrence.

16.3 Expenditure, except the cost of equipment capitalised, incurred for activating the last mile connectivity of telecom links are amortized over the period of agreement with the customer.

17. IMPAIRMENT OF ASSETS

17.1 Cash generating units as defined in AS-28 on 'Impairment of Assets' are identified at the balance sheet date with respect to carrying amount vis-à-vis. recoverable amount thereof and impairment loss, if any, is recognised in the profit & loss account. Impairment loss, if need to be reversed subsequently, is accounted for in the year of reversal.

18. EMPLOYEE BENEFITS

18.1 The liabilities for retirement benefits of employees in respect of Gratuity, which is ascertained annually on actuarial valuation at the year end, is provided and funded separately.

18.2 The liabilities for compensated absence (both for Earned & Half Pay Leave), leave encashment, leave travel concession, post retirement medical benefits & Settlement Allowance to employees are ascertained annually on actuarial valuation at the year end and provided for.

19. PROVISIONS AND CONTINGENT LIABILITIES

19.1 A provision is recognised when the company has a present obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made based on technical valuation and past experience. Provisions are not discounted to its present value and are determined based on management estimate required to settle the obligation at the Balance Sheet date. No provision is recognized for liabilities whose future outcome cannot be ascertained with reasonable certainties. Such contingent liabilities are not recognised but are disclosed in the schedule of contingent liability on the basis of judgment of the management /independent expert. These are reviewed at each balance sheet date and adjusted to reflect the current management estimate.

Reliance Infrastructure Limited – Annual Report 2008-09

1. Significant Accounting Policies:

(a) Basis of preparation of financial statements:

The financial statements are prepared on an accrual basis of accounting and in accordance with the generally accepted
accounting principles in India, provisions of the Companies Act, 1956 (the Act) and comply in material aspects with the
accounting standards notified under Section 211 (3C) of the Act, read with Companies (Accounting Standards) Rules,
2006. Assets and Liabilities created under applicable electricity laws continue to be depicted under appropriate heads.

(b) Revenue Recognition Policy:

(i) Sale of Electricity: Revenue from Power Supply is accounted for on the basis of billing to consumers and is inclusive of Fuel Adjustment Charges(FAC). Generally all consumers are billed on the basis of recording of consumption of energy by installed meters. Where meters are stopped or are faulty, the billing is done based on past consumption for such period. Revenue from Power Supply also includes (a) revenue gaps (i.e. shortfall in actual returns over assured returns) as determined by the regulator and (b) FAC for the year pending recovery, determined as per formula set out in electricity regulations for which corresponding costs are incurred during the said year and charged to Profit and Loss Account, both of which will be recovered through future tariff determination in accordance with electricity regulations and are carried forward as regulatory assets at the end of the financial year.

(ii) EPC and Contracts Activity: In respect of construction contracts, revenue is recognised on the percentage of completion method based on the stage of completion of a contract upto reporting date. The stage of completion of a contract is determined on the basis of the proportion that progress billings raised upto the reporting date bear to the total contract value. Profit is recognised when the outcome of the contract can be estimated reliably. Profit proportionate to value of work done is arrived at by deducting cost of work done plus cost estimated by the management to complete the work from the agreed contract value, after deduction of contingency. Contract in progress is valued at cost plus proportionate profit less anticipated loss. In respect of operation and maintenance contracts, profit proportionate to value of work done or the period elapsed as the case may be, is recognised.

(iii) Others: Insurance and other claims are recognised as revenue on certainty of receipt on prudent basis. Income on investment is recognized based on the terms of the investment. Income from mutual fund scheme having fixed maturity plans is accounted on declaration of dividend or on maturity of such investments.

(c) Foreign Currency Transactions:

(i) Foreign currency transactions are accounted at the exchange rates prevailing on the date of the transactions. Gains and losses, if any, at the year-end in respect of monetary assets and monetary liabilities not covered by the forward contracts are recognised in the Profit and Loss Account. Premium in respect of forward contracts is accounted over the period of the contract.

(ii) In respect of integral foreign operations of the Company, its fixed assets are translated at the rate on the date of acquisition, monetary assets and monetary liabilities are translated at the rate on the date of the balance sheet and income and expenditure are translated at the average of month-end rates during the year.

(iii) Non-Monetary items denominated in foreign currency are stated at the rate prevailing on the date of the transaction.

(iv) In respect of derivative transactions, gains/losses are recognised in the Profit and Loss Account on settlement. On a reporting date, open derivative contracts are revalued at fair values and resulting losses, if any, is recognised in the Profit and Loss Account.

(d) Fixed Assets:

(i) The gross block of fixed assets is stated at cost of acquisition or construction (except revalued assets), including any cost attributable to bringing the assets to their working condition for their intended use.

(ii) All project related expenditure viz. civil works, machinery under erection, construction and erection materials, pre-operative expenditure incidental / attributable to the construction of project, borrowing cost incurred prior to the date of commercial operations and trial run expenditure are shown under Capital Work-in-Progress (CWIP).

(e) Depreciation / Amortisation:

(i) Electricity Business: Fixed assets are depreciated under the straight line method as per the rates and in the manner prescribed under Schedule XIV of the Companies Act, 1956 relating to license business and other electricity business. The depreciation for the year has been shown after reducing the proportion of the amount of depreciation provided on assets created against the service line contribution received from consumers. Depreciation on revalued assets is charged over the balance residual life of the assets considering the life prescribed under Schedule XIV of the Companies Act, 1956.

(ii) Other Activities: Fixed assets of other activities have been depreciated under the reducing balance method at the rates and in the manner prescribed in Schedule XIV of the Companies Act, 1956.

(iii) Leased Assets: Depreciation on all assets given on lease upto March 31, 2001 is provided on straight line method at the higher of the rates determined with reference to the primary period of the lease and the rates and in the manner prescribed in Schedule XIV of the Companies Act, 1956.

(iv) Intangible Assets: Software are amortised over a period of three years.

(f) Investments:

Long-term investments are carried at cost, less provision for diminution other than temporary, if any, in the value of such investments. Current investments are carried at lower of cost and fair value.

(g) Inventories:

Inventories are stated at lower of cost and net realisable value. In case of fuel, stores and spares "cost" means weighted average cost. Unserviceable/ damaged stores and spares are identified and written down based on technical evaluation.

(h) Allocation of Indirect Expenses:

(i) Electricity Business:
The allocation to capital and revenue is done consistently on the basis of a technical evaluation.

(ii) EPC and Contracts Activities:
Common overheads are absorbed by various jobs in proportion to the prime cost of each job.

(i) Retirement Benefits:

Contributions to defined contribution schemes such as provident fund, superannuation fund etc. are charged to Profit and Loss Account / Capital Work-in-Progress, as applicable. The Company also provides for retirement benefits in the form of gratuity and leave encashment. Such defined benefits are charged to Profit and Loss Account/ Capital Work-in-Progress, as applicable, based on actuarial valuations, as at the balance sheet date, made by independent actuaries.

(j) Borrowing Costs:

Borrowing costs that are attributable to the acquisition or construction of qualifying assets are capitalised as part of the cost of such assets. A qualifying asset is one that necessarily takes substantial period of time to get ready for intended use. All other borrowing costs are charged to revenue.

(k) Accounting for Taxes on Income:

Provision for current tax is made after taking into consideration benefits admissible under the provisions of the Income Tax Act, 1961. Deferred tax resulting from “timing differences” between book and taxable profit is accounted for using the tax rates and laws that have been enacted or substantively enacted as on the balance sheet date. The deferred tax asset is recognised and carried forward only to the extent that there is a reasonable certainty that the assets will be realised in future. However, in respect of unabsorbed depreciation or carry forward loss, the deferred tax asset is recognised and carried forward only to the extent that there is a virtual certainty that the assets will be realised in future.

(l) Provisions:

Provisions are recognised when the Company has a present obligation, as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation.

(m) Impairment of Assets:

If the carrying amount of fixed assets exceeds the recoverable amount on the reporting date, the carrying amount is reduced to the recoverable amount. The recoverable amount is measured as the higher of the net selling price and the value in use determined by the present value of estimated future cash flows.

(n) Accounting for Oil and Gas Activity:

The Company follows “successful efforts method” for accounting of oil and gas exploration activities as set out by the guidance note issued by the Institute of Chartered Accountants of India on ‘Accounting for Oil and Gas Producing Activities’. The cost of survey and prospecting activities conducted in search of oil and gas are expensed out in the year in which the same are incurred.