

ACCOUNTING POLICIES

1. GRANTS-IN-AID

- Grants-in-aid received from the Central Government or other authorities towards capital expenditure as well as consumers' contribution to capital works are treated initially as Capital reserve and subsequently adjusted as income in the same proportion as the depreciation written off on the assets acquired out of the grants.
- Where the ownership of the assets acquired out of the grants vests with the government, the grants are adjusted in the carrying cost of such assets.

2. FIXED ASSETS

- 2.1 Fixed Assets are shown at historical cost.
- 2.2 Capital expenditure on assets not owned by the Company is reflected as a distinct item in Capital Work-in-Progress till the period of completion and thereafter in the Fixed Assets.
- 2.3 Deposits, payments/liabilities made provisionally towards compensation, rehabilitation and other expenses relatable to land in possession are treated as cost of land.
- 2.4 In the case of commissioned assets, where final settlement of bills with contractors is yet to be effected, capitalisation is done on provisional basis subject to necessary adjustment in the year of final settlement.
- 2.5 Assets and systems common to more than one generating unit are capitalised on the basis of engineering estimates/assessments.

3. CAPITAL WORK-IN-PROGRESS

- 3.1 In respect of supply-cum-erection contracts, the value of supplies received at site and accepted is treated as Capital Work-in-Progress.
- 3.2 Incidental Expenditure during Construction (net) including corporate office expenses (allocated to the projects pro-rata to the annual capital expenditure) for the year, is apportioned to Capital Work-in-Progress on the basis of accretions thereto.
- 3.3 Deposit work/cost plus contracts are accounted for on the basis of statements of account received from the contractors.
- 3.4 Claims for price variation/exchange rate variation in case of contracts are accounted for on acceptance.

4. FOREIGN CURRENCY TRANSACTIONS

4.1 TRANSLATION OF FINANCIAL STATEMENTS IN FOREIGN CURRENCIES

- 4.1.1 Items of income and expenditure except depreciation are translated at average rate for the year. Depreciation is converted at the rates adopted for the corresponding fixed assets.
- 4.1.2 Current assets and liabilities are translated at the closing rates, and fixed assets are translated at the rates in force when the transaction took place.
- 4.1.3 All translation differences are recognised as income/expense during the year in which they arise.

4.2 OTHER FOREIGN CURRENCY TRANSACTIONS

- 4.2.1 Foreign currency transactions are initially recorded at the rates of exchange ruling at the date of transaction.
- 4.2.2 Foreign Currency loans/deposits/liabilities are reported with reference to the rates of exchange ruling at the year-end and the difference resulting from such translation as well as due to payment/discharge of liabilities in foreign currency related to Fixed Assets/Capital Work-in-Progress is adjusted in their carrying cost and that related to current assets is recognised as revenue/expenditure during the year.

5. BORROWING COSTS

Borrowing costs attributable to the fixed assets during their construction/renovation and modernisation are capitalised. Such borrowing costs are apportioned on the average balance of capital work-in-progress for the year. Other borrowing costs are recognised as an expense in the period in which they are incurred.

6. INVESTMENTS

Investments are intended for long term and are carried at cost. Provision is made for diminution, other than temporary, in the value of such investments.

7. INVENTORIES

7.1 Inventories, other than scrap, are valued at cost, on weighted average basis.

7.2 Steel scrap is valued at realisable value.

8. PROFIT AND LOSS ACCOUNT

8.1 INCOME RECOGNITION

- a) Sale of energy is accounted for based on tariff rates approved by the Central Electricity Regulatory Commission. In case of power stations where the tariff rates are yet to be approved /agreed with beneficiaries, provisional rates are adopted.
- b) The incentives/disincentives are accounted for based on the norms notified/approved by the Central Electricity Regulatory Commission or agreements with the beneficiaries. In cases of power stations where the same have not been notified/approved/agreed with beneficiaries, incentives/disincentives are accounted for on provisional basis.
- c) Advance against depreciation, forming part of tariff to facilitate repayment of loans, is reduced from sales and considered as deferred revenue to be included in sales in subsequent years.
- d) The surcharge on late payment/ overdue sundry debtors for sale of energy is not treated accrued due to uncertainty of its realisation and is, therefore, accounted for on receipt.
- e) Interest/surcharge recoverable on advances to suppliers as well as warranty claims/liquidated damages are not treated accrued due to uncertainty of realisation/acceptance and are therefore accounted for on receipt/ acceptances.
- f) Income from Consultancy service is accounted for on the basis of actual progress/technical assessment of work executed or costs incurred, in line with the terms of respective consultancy contracts.
- g) Scrap other than steel scrap is accounted for in the accounts as and when sold.
- h) Insurance claims for loss of profit are accounted for in the year of acceptance. Other insurance claims are accounted for based on certainty of realisation.

8.2 EXPENDITURE

- a) Depreciation is charged as per Electricity (Supply) Act, 1948 on straight line method following the rates notified by regulations by the Central Electricity Regulatory Commission (CERC) constituted under the Electricity Regulatory Commissions Act, 1998 (a Central Act). In respect of assets, where rate has not been notified by regulations by the CERC, depreciation is provided on straight line method at the rates corresponding to the rates laid down under the Income Tax Act, 1961.
- b) Depreciation is provided on pro rata basis in the year in which the asset becomes available for use.
- c) Plant and machinery costing Rs. 5,000/- or less and such items with written down value of Rs. 5,000/- or less at the beginning of the year are fully depreciated.

- d) Where the cost of depreciable assets has undergone a change during the year due to increase/decrease in long term liabilities on account of exchange fluctuation, price adjustment, change in duties or similar factors, the unamortised balance of such asset is depreciated prospectively over the residual life determined on the basis of the rate of depreciation.
- e) Machinery spares 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 and machinery.
- f) Capital expenditure referred to in Para 2.2 is amortised over a period of 4 years, from the year in which the first unit of the project comes into commercial operation and thereafter from the year in which the relevant asset becomes available for use. However, such expenditure for community development in case of units fully under operation is charged off to revenue.
- g) Leasehold buildings are amortised over the lease period or 30 years whichever is lower. Leasehold land and buildings, whose lease period is yet to be finalised, are amortised over a period of 30 years.
- h) Expenses on training, recruitment, research and development and ex-gratia payments under Voluntary Retirement Scheme are charged to revenue in the year of incurrence.
- i) Expenditure on Leave Travel Concession to employees is recognized in the year of availment due to uncertainties in accrual.
- j) Expenses common to operation and construction activities are allocated to Profit and Loss Account and Incidental Expenditure during Construction in proportion of sales to annual capital outlay in the case of Corporate Office and sales to accretion to Capital Work-in-Progress in the case of projects.
- k) Net pre-commissioning income/expenditure is adjusted directly in the cost of related assets and systems.
- l) Prepaid expenses and prior period expenses/income of items of Rs.100,000/- and below are charged to natural heads of accounts.
- m) Carpet coal is charged off to coal consumption. However, during pre-commissioning period, carpet coal is retained in inventories and charged off to consumption in the first year of commercial operation. Windage and handling losses of coal as per norms are included in cost of coal.

9. RETIREMENT BENEFITS

- a) The liability for retirement benefits of employees in respect of Provident Fund and Gratuity, which is ascertained annually on actuarial valuation at the year end, are accrued and funded separately.
- b) The liabilities for leave encashment and post retirement medical benefits to employees are accounted for on accrual basis based on actuarial valuation at the year end.

10. FINANCE LEASES

- a) Assets taken on lease are capitalized at fair value or net present value of the minimum lease payments whichever is lower.
- b) Depreciation on the assets taken on lease is charged at the rate applicable to similar type of fixed assets as per Accounting Policy 8.2 (a). If the leased assets are returnable to the lessor on the expiry of the lease period, depreciation is charged over its useful life or lease period, whichever is shorter.
- c) Lease payments made are apportioned between the finance charges and reduction of the outstanding liability in respect of assets taken on lease.