



6.2 Cost of surveys and prospecting activities conducted in search of oil and gas are expensed off in the year in which these are incurred.

6.3 All acquisition costs are initially capitalized as 'Exploratory Wells-in-Progress' under Capital Work-in-Progress.

## **7. DEVELOPMENT OF COAL MINES**

Expenditure on exploration of new coal deposits is capitalized as 'Development of coal mines' under Capital Work-in-Progress till the mines project is brought to revenue account.

## **8. FOREIGN CURRENCY TRANSACTIONS**

8.1 Foreign currency transactions are initially recorded at the rates of exchange ruling at the date of transaction.

8.2 At the balance sheet date, foreign currency monetary items are reported using the closing rate. Non-monetary items denominated in foreign currency are reported at the exchange rate ruling at the date of transaction.

8.3 Exchange differences (loss), arising from translation of foreign currency loans relating to fixed assets/capital work-in-progress to the extent regarded as an adjustment to interest cost are treated as borrowing cost.

8.4 Exchange differences arising from settlement / translation of foreign currency loans (other than regarded as borrowing cost), deposits / liabilities relating to fixed assets / capital work-in-progress in respect of transactions entered prior to 01.04.2004, are adjusted in the carrying cost of related assets. Such exchange differences arising from settlement / translation of long term foreign currency monetary items in respect of transactions entered on or after 01.04.2004 are adjusted in the carrying cost of related assets.

8.5 Other exchange differences are recognized as income or expense in the period in which they arise.

## **9. BORROWING COSTS**

Borrowing costs attributable to the fixed assets during 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.

## **10. INVESTMENTS**

10.1 Current Investments are valued at lower of cost and fair value determined on an individual investment basis.

10.2 Long term investments are carried at cost. Provision is made for diminution, other than temporary, in the value of such investments.

10.3 Premium paid on long term investments is amortised over the period remaining to maturity.

## **11. INVENTORIES**

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

11.2 The diminution in the value of obsolete, unserviceable and surplus stores and spares is ascertained on review and provided for.

## **12. PROFIT AND LOSS ACCOUNT**

### **12.1 INCOME RECOGNITION**

12.1.1 Sale of energy is accounted for based on tariff rates approved by the Central Electricity Regulatory Commission (CERC). In case of power stations where the tariff rates are yet to be approved/agreed, provisional rates are adopted.

12.1.2 The incentives/disincentives are accounted for based on the norms notified/approved by the CERC. In cases of power stations where the same have not been notified/ approved, incentives/ disincentives are accounted for on provisional basis.

12.1.3 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.

- 12.1.4 Exchange differences on account of translation of foreign currency borrowings recoverable from or payable to the beneficiaries in subsequent periods as per CERC Tariff Regulations are accounted as 'Deferred Foreign Currency Fluctuation Asset/Liability'. The increase or decrease in depreciation or interest and finance charges for the year due to the accounting of such exchange differences as per accounting policy no. 8 is adjusted in sales.
- 12.1.5 Exchange differences arising from translation/settlement of monetary items denominated in foreign currency to the extent recoverable from or payable to the beneficiaries in subsequent periods as per CERC Tariff Regulations are accounted as 'Deferred Foreign Currency Fluctuation Asset/Liability' during construction period and adjusted in the year in which the same becomes recoverable/payable.
- 12.1.6 The surcharge on late payment/overdue sundry debtors for sale of energy is recognized when no significant uncertainty as to measurability or collectability exists.
- 12.1.7 Interest/surcharge recoverable on advances to suppliers as well as warranty claims/liquidated damages are not treated as accrued due to uncertainty of realisation/acceptance and are therefore accounted for on receipt/acceptance.
- 12.1.8.1 Income from consultancy services is accounted for on the basis of actual progress/technical assessment of work executed, in line with the terms of respective consultancy contracts.
- 12.1.8.2 Claims for reimbursement of expenditure are recognized as other income, as per the terms of consultancy service contracts.
- 12.1.9 Scrap other than steel scrap is accounted for as and when sold.
- 12.1.10 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.

## 12.2 EXPENDITURE

- 12.2.1 Depreciation is charged on straight line method at the rates specified in Schedule XIV of the Companies Act, 1956 except for the following assets at the rates mentioned below:

a)	Kutch Roads	47.50 %
b)	Enabling works	
	- residential buildings including their internal electrification.	06.33 %
	- non-residential buildings including their internal electrification, water supply, sewerage & drainage works, railway sidings, aerodromes, helipads and airstrips.	19.00 %
c)	Personal computers and Laptops including peripherals	19.00 %
d)	Photocopiers and Fax Machines	19.00 %
e)	Air conditioners, Water coolers and Refrigerators	08.00 %

- 12.2.2 Depreciation on additions to/deductions from fixed assets during the year is charged on pro-rata basis from/up to the month in which the asset is available for use/disposal.
- 12.2.3 Assets costing up to Rs.5000/- are fully depreciated in the year of acquisition.
- 12.2.4 Cost of software recognized as intangible asset, is amortised on straight line method over a period of legal right to use or 3 years, whichever is earlier.
- 12.2.5 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 charged prospectively over the residual life determined on the basis of the rate of depreciation.



- 12.2.6 Where the life and/or efficiency of an asset is increased due to renovation and modernization, the expenditure thereon along-with its unamortized depreciable amount is charged prospectively over the revised useful life determined by technical assessment.
- 12.2.7 Machinery spares which can be used only in connection with an item of plant and machinery and their use is expected to be irregular, are capitalised and fully depreciated over the residual useful life of the related plant and machinery.
- 12.2.8 Capital expenditure on assets not owned by the company is amortised over a period of 4 years from the year in which the first unit of project concerned 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 stations under operation is charged off to revenue.
- 12.2.9 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.
- 12.2.10 Expenses on ex-gratia payments under voluntary retirement scheme, training & recruitment and research and development are charged to revenue in the year incurred.
- 12.2.11 Preliminary expenses on account of new projects incurred prior to approval of feasibility report are charged to revenue.
- 12.2.12 Actuarial gains/losses in respect of 'Employee Benefit Plans' are recognised in the statement of Profit & Loss Account.
- 12.2.13 Net pre-commissioning income/expenditure is adjusted directly in the cost of related assets and systems.
- 12.2.14 Prepaid expenses and prior period expenses/income of items of Rs.100,000/- and below are charged to natural heads of accounts.
- 12.2.15 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.

### **13. FINANCE LEASES**

- 13.1 Assets taken on lease are capitalized at fair value or net present value of the minimum lease payments, whichever is lower.
- 13.2 Depreciation on the assets taken on lease is charged at the rate applicable to similar type of fixed assets as per accounting policy no. 12.2.1. 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.
- 13.3 Lease payments are apportioned between the finance charges and outstanding liability in respect of assets taken on lease.

### **14. PROVISIONS AND CONTINGENT LIABILITIES**

A provision is recognised when the company has a present obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and in respect of which a reliable estimate can be made. Provisions are determined based on management estimate required to settle the obligation at the balance sheet date and are not discounted to present value. Contingent liabilities are disclosed on the basis of judgment of the management/independent experts. These are reviewed at each balance sheet date and are adjusted to reflect the current management estimate.

### **15. CASH FLOW STATEMENT**

Cash flow statement is prepared in accordance with the indirect method prescribed in Accounting Standard (AS) 3 on 'Cash Flow Statements'.