

NAGAR NIGAM AMBIKAPUR

SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

Background:

Urban Local Bodies (ULB) were maintaining its financial statements on cash based single entry system, and accordingly there was a limitation on the flow of information and several objectives of financial and accounting controls were not met.

With a view to bring more transparency in the process and the need for better financial recording and control systems is imperative for modern-day ULBs to function as effective and efficient institutions of public service delivery. Presently, ULBs are following the single entry cash based system of accounting, which leaves a lot to be desired for in this day of need for heightened transparency and accountability in ULB decision making.

The Financial Statements are compiled with schedules and the Significant Policies and Notes on Accounts adopting the formats as per the National Municipal Accounting Manuals and in compliance with the Accounting Standards of the Institute of Chartered Accountants of India, to the extent applicable, feasible and relevant to the Corporation. We have prepared the Books of accounts as per books & other relevant records made available to us by the concerned ULB and attached Financial Statements to the best of our knowledge & information available to us.

A. Significant Accounting Policies :

(a) Fixed Assets

- Fixed Assets are stated at cost of acquisition inclusive of duties taxes, incidental expenses, erection / commissioning expenses and technical know-how fees etc. upto the date the asset is put to use, less accumulated depreciation and impairment losses, if any. Further, costs of improvement are considered in the fixed assets, if such improvement results into increase in the efficiency and original estimated life of the assets.
- Machinery spares which can be used only in connection with an item of fixed asset and whose use as per technical assessment is expected to be irregular, are capitalised and depreciated over the residual useful lives of the respective assets.
- The carrying amounts of assets are reviewed at each balance sheet date to determine if there is any indication of impairment based on external / internal factors. An impairment loss is recognised wherever the carrying amount of an asset exceeds its recoverable amount which represents the greater of the net realizable value and 'Value in use' of the respective assets. The estimated future cash flows considered for determining the value in use are discounted to their present value at the weighted average cost of capital.
- Assets awaiting disposal are valued at lower of written down value and net realisable value and disclosed separately.
- An increase in net book value arising on revaluation is credited to a separate reserve account under the Municipal fund as 'Revaluation Reserve Account'. A decrease in net book value arising on revaluation of fixed assets is charged to Income and Expenditure accounts.
- Expenditure in the nature of repairs and maintenance incurred to maintain the asset and sustain its functioning or the benefit of which is for less than a year, is charged off as Revenue Expenditure.
- Assets recorded in the register but not physically available is written off after a period of five years.
- Lands that are acquired free of cost from the government or provided by individuals or institutions under endowment for specific purposes are priced at a nominal value of Re 1 as a symbolic cost. Where the ownership of the lands has not been transferred in favour of the ULB, but the land is in the permissive possession of the ULB, such lands is included in the Register of Land at nominal value. Cost of developing such vested lands, if any, is booked under the subhead 'land'.
- Parks and Playgrounds is capitalized under two categories: (i) Land pertaining to Parks and Playgrounds including the cost of development of land that is booked under 'Land', and (ii) other amenities to Parks and Playgrounds is capitalized under the sub-head 'Parks and Playgrounds'. However, any building /structures/ plant and machinery etc. constructed/ installed in the Parks and Playgrounds and used for other purposes is booked under the appropriate heads/ sub-heads of assets
- If and when revaluation of asset is carried out, the value assigned upon revaluation of a class of assets does not result in the net book value of that class being greater than the recoverable amount of the assets of that class. Revaluation reserve is reduced by transfer of equivalent amount of depreciation charged on the revalued portion of the cost of the fixed assets.



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- Statues and Heritage Assets - Statues and valuable works of art are valued at the original cost and no depreciation is charged thereon. In case, however, the original cost is not available or the items have been gifted to the ULB by some other person/ authorities, a nominal value of Re 1 is taken. Heritage buildings declared through Gazette Notification is booked under this head and is valued at book value/cost of the material date. No depreciation is charged on such buildings. In case of capital improvements after the building has been so notified, depreciation at the normal rate of buildings is charged. Wherever, the book value /cost is not available or the items have been gifted to the ULB by some other person/ authorities, the value is taken at Re 1. Material date in this case would be the date of Gazette Notification.
 - Intangible assets include computer software, which is valued at cost plus cost of staff time and consultants costs incurred, in implementing the software, if any. It is capitalized, only when the intangible asset is developed, and which is used by ULB over a period of time to derive economic benefits from it. In case it is not so, the entire amount is charged to revenue, in the year in which it is incurred. The intangible assets acquired are depreciated over a period of five years or useful life, whichever is earlier.
- (b) **Depreciation**
- Depreciation on Fixed Assets is provided on Straight Line Method at the rates prescribed for Urban Local Bodies in the National Municipal Assets Valuation Methodology Manual issued by Central Government of India and arrived at on the basis of their useful life of the respective assets, lives.
 - Depreciation includes the amount amortised in respect of leasehold land over the respective lease period.
 - In case of impairment, if any, depreciation is provided on the revised carrying value of the asset over its remaining useful life.
 - All assets costing less than Rs.5,000 (Rupees Five thousands) is expensed/charged to Income & Expenditure Account in the year of purchase.
 - Depreciation is provided at full rates for assets, which are purchased / constructed before October 1 of an Accounting Year. Depreciation is provided at half the rates for assets, which are purchased / constructed on or after October 1 of an Accounting Year.
 - Depreciation is provided at full rates for assets, which are disposed on or after October 1 of an Accounting Year. Depreciation is provided at half the rates for assets, which are disposed before October 1 of an Accounting Year.
 - Depreciation on assets on which government grant has been received, is calculated on the gross value of fixed asset i.e. without deducting the grant amount from asset value. The grant so received is charged to the income and expenditure statement in the same proportion as the depreciation charged on such assets.
- (c) **Deposits**
- The Earnest Money Deposit and Security Deposit received if forfeited is recognized as income when the right for claiming refund of deposit has expired.
 - Deposit received under Deposit works is treated as a liability till such time the projects for which money is received is completed. Upon completion of the projects, the cost incurred against it is reduced from the liability.
- (d) **Provisions**
- A provision is recognised when an enterprise 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.
- (e) **Investments**
- Investments that are readily realisable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long-term investments. Current investments are carried at lower of cost and fair value determined on an individual investment basis. Long-term investments are carried at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the investments.
 - Profit/loss, if any, arising on disposal of investment (net of selling expense such as commission, brokerage, etc.) from the Municipal Fund is recognized in the year when such disposal takes place.
 - Income on investments made from Special Fund and Grants under specific Scheme is recognized and credited to Special Fund and Grants under Specific Scheme respectively, whenever accrued. Profit/loss, if any, arising on disposal of investments (net of selling expense such as commission, brokerage, etc.) made from the Special Fund and Grants under specific Scheme is recognized and credited/debited to Special Fund Account and Grant under specific scheme Account respectively.



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(f) Special Funds

- Special Funds is treated as a liability.
- Income on investments made from Special Fund is recognized and credited to Special Fund, whenever accrued. Profit/loss, if any, arising on disposal of investments made from the Special Fund is recognised and credited/debited to Special Fund Account.
- Any expenditure of a revenue nature, which is incurred specifically on scheme/project for which a Special Fund has been created, is charged to that Special Fund.
- On completion of the construction of a fixed asset and/or on acquisition of a fixed asset out of a Special Fund, the amount equivalent to the cost of such fixed asset is transferred from the respective Special Fund to the Grant against Asset Account. Amount proportionate to depreciation of the asset is credited to the Income and Expenditure Account every year. Depreciation on assets on which government grant has been received, is calculated on the gross value of fixed asset i.e. without deducting the grant amount from asset value. The grant so received is charged to the income and expenditure statement in the same proportion as the depreciation charged on such assets.

(g) Income from the following are booked as and when they become accrue and due for collection

- Property and Other Related Taxes e.g. Integrated tax, sanitation including surcharge
- Water Tax, Water Supply Charges, Meter Rent, Sewerage charge and Disposal charges
- Notice Fee, Warrant Fee and Other Fees
- Solid Waste management fee and charges
- Rents from municipal properties
- Trade License Fees
- Advertisement fee
- Rent of equipment provided to the contractors
- Notice Fee, Warrant Fee and Other Fees
- Interest on investments is recognized as and when due. At period ends, interest is accrued proportionately.
- Any Other income, in respect of which demand is ascertainable

(h) Income from the following are booked on actual receipt basis

- Connection Charges for Water Supply, Water Tanker Charges and Road Damage Recovery Charges, Penalties
- One time Trade License Fees
- Profession Tax on Organisations / entities
- Property Transfer Charges
- Revenue in respect of collection charges or share in collection made by ULB or by any other agency on behalf of State Government is recognized on actual receipt from the state government.
- Revenue in respect of Hospital fees, maternity homes fees, diagnostic centre fees and dispensaries fees, Hospital training fees, Rent and/or hire charges in respect of ambulance, hearse, suction unit, vehicle and road roller, Sale of waste and scrap where applicable is recognized on actual receipt.
- Interest element and Penalties, if any, in demand is reckoned only on receipt.
- Dividend on investments is recognized on actual receipt.
- Other Incomes, which are of an uncertain nature or for which the amount is not ascertainable or where demand is not raised in regular course of operations

(i) Prior Period Income/Other Adjustments

- Refunds, remissions of taxes for the current year is adjusted against the income and if pertain to previous years then it is treated as prior period item.
- Write-offs of taxes is adjusted against the provisions made and to that extent recoverable gets reduced.
- Demands raised with retrospective effect are treated as prior period income to the extent it pertains to earlier years.
- Demand raised arising out of change in self-assessment of properties is treated as 'Change in Demand' and is accounted for as income relating to previous year to the extent it pertains to earlier years.
- Any additional provision for demand outstanding required to be made during the year is recognized as expenditure and any excess provision written back during the year is recognized as income.
- Refunds, remissions of all kind of incomes for the current year is adjusted against the income and if pertain to previous years then it is treated as prior period item.
- Write-offs of Other Incomes is adjusted against the provisions made and to that, extent recoverable is reduced.
- Any subsequent collection or recovery of all kinds of receivables which were already written off is recognized as a 'Prior Period Income'.
- Any additional provision for demand outstanding (net on overall basis) required to be made during the year is recognized as expenditure and any excess provision written back during the year is recognized as income of the ULB.



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- All 'Assigned Revenues' like compensation in lieu of octroi, state finance commission, stamp duty, Surcharge on transfer of Immovable properties, is accounted during the year on actual receipt basis. However, at year-end, if the sanction orders for release of funds were issued and funds actually remitted, such amount will be accrued as income for the year.
- (j) **Revenue Grant**
 - General purpose Grants, mainly from the state government are of a revenue nature and is recognized as incomes on actual receipt basis.
 - Grants received or receivable in respect of specific revenue expenditure is recognized as income in the accounting year in which the corresponding revenue expenditure is charged.
- (k) **Capital Grant**
 - Grants received towards capital expenditure (these are generally from State Government) is accounted on actual receipt basis as a liability. The amount utilized is transferred to the Capital Account.
 - Capital Grants received as a nodal agency or as implementing agency for an intended purpose, which does not, result in creation of assets with ownership rights for the ULB is treated as a liability till such time it is used for the intended purpose.
 - Grants in the form of non-monetary assets are accounted for on the basis of the acquisition cost. In case a non-monetary asset is received free of cost, it is recorded at a nominal value.
 - Income on investments made from 'Specific Grants received in advance' is recognised and credited to the Specific Grant, whenever accrued. Profit/loss, if any, arising on disposal of investments made from the 'Specific Grant received in advance' is also recognised and credited/debited to the Specific Grant.
- (l) **Inventory**
 - Expenditure in respect of material, equipment, etc., procured is recognised on accrual basis, i.e., on admission of bill by the ULB in relation to materials, equipment, etc., delivered. The cost of inventories includes the purchase price including the expenditure incurred to bring the inventories to its present location and condition i.e. freight inward, duties and taxes, etc.
 - The stock as at the close of the year is valued at cost following the valuation method - FIFO 'First in first out'.
 - Value of store, material disposed off/ sold is recognized on actual receipt basis. Inventories of consumable supplies such as stationery, fuel is treated as expenditure and charged to revenue at the time of purchase.
- (m) **Retirement Benefits**
 - Contribution payable to defined contribution scheme (Like Provident Fund) is charged to the Income and Expenditure account for the year.
 - Leave encashment is recognized on actual payment basis.
 - Pension is recognized on actual payment basis where Actuarial valuation is not adopted.
 - Bonus, ex-gratia, overtime allowance, other allowances and reimbursements to the employees is recognized as an expense as and when they are accrued.
 - Contribution due towards Pension and other retirement benefit funds is recognised as an expense and a liability. State Government defines the rate of contribution.
- (n) **Other Revenue Expenditures**
 - Other Revenue Expenditures is treated as expenditures in the period in which they are incurred.
 - Provisions are made at the year-end for all bills received upto a cut-off date.
 - Any expenditure for which the payment has been made in the current period but the benefit and/or service is likely to arise in a future period is treated as expenditure for the period in which its benefit arises and/or services are received.
 - The expenditure for the current period includes the proportionate value of the benefits and/or services arising in the current period even if the payment therefore has been made in the previous period.
 - Interest expenditure on loan is recognized on accrual basis.
- (o) **Borrowing Costs**
 - Borrowing costs that are directly attributable to the acquisition or construction of qualifying assets are capitalised until the time all substantial activities necessary to prepare the qualifying assets for their intended use are complete. A qualifying asset is one that necessarily takes substantial period of time to get ready for its intended use. All other borrowing costs are charged to revenue.



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B. Notes to Accounts

The figures mentioned in the balance sheet are subject to verification & confirmation from the respective documents & departments of the corporation.

Creation of Municipal General Fund

Preparation of Opening Balance Sheet as on 01.04.2008 / 2011 was the starting point for conversion of the accounting system of municipality from cash to accrual basis and from single to double entry system, which required municipality to determine the value as on that date, of all the assets and liabilities belonging to the municipality. Under the accounting system followed by the municipality so far, no formal ledger was maintained and consequently no balances of assets and liabilities were carried over. Moreover, no concept of Equity/Propriety/Municipal Fund was there in existence. But for opening balance sheet purpose municipality identified assets and liabilities as on 01.04.2008 / 2011 and excess or otherwise of opening balances of assets over opening balances of liabilities was recognized as Municipal General Fund as per relevant accounting guidelines provided in NMAM

Cash at Bank

Cash balance represents the physical cash as per the cash books maintained in the Corporation and the cash in transit i.e. cheques issued by the Secretariats Office but not accounted at the Corporation level.

The Bank Balances as appearing in the balance sheet are subject to reconciliation in the cases where Bank statements / confirmations are not available. Also Interest on FDRs are not accounted for as the informations not made available to us.

Bank Reconciliation Statement (BRS) has been prepared for all the bank accounts of the ULB as on 31-03-2015 for which banks passbook / statements were made available to us. Necessary adjustments on account of unadjusted items, if any, will be carried out in the financial statement of subsequent periods.

Contingent Liabilities

As per the information provided by the ULB and on the basis of documents reviewed by us in the preparation of the Opening Balance Sheet we did not come across any such information which needs to be disclosed as a contingent liability.

Other Liabilities (Sundry Creditors)

This represents amounts payable (including Accounts Payables) towards expenses as well as statutory dues remitted after the Balance Sheet date.

Fixed Assets

- The cost of the assets transferred received as a gift has been considered as Rs. 1/-.
- The Assets considered in the financials are mainly the assets in active use provided by the Accounting Units and current year additions.
- Accumulated Depreciation has been provided on the Opening Assets Balance.
- Where cost of acquisition is available but the date of addition is not available, these have been considered as current year addition and in case where only the tear of addition is available, addition has been considered as being made on 1st April of that year and appropriately depreciated.
- Fixed Assets includes assets which have been leased out on 99 years lease by the Corporation.

Stock in Hand (Inventories)

Inventories represent stock of materials lying with the Panchayat as at the end of the financial year.

Tax Revenue

This schedule represents collection of tax levied by the ULB. Income is accounted for on accrual basis for the year.

