

NEW DELHI MUNICIPAL COUNCIL

SCHEDULE B-21

SIGNIFICANT ACCOUNTING POLICIES (2011-12)

1. Basis of Accounting

The financial statements are prepared on a going concern and under historical cost basis under accrual basis of accounting. The method of accounting is the 'Double Entry Accounting System'.

The transactions in accounts of NDMC are carried out on Double Entry Accounting System through eFinance Applications developed by NDMC. The actual receipts and payments are made after the transactions have entered the eFin Applications. The Accounting Statements and Financial Statements from the financial year 2009-10 onwards are being drawn through the eFin Applications after keeping a strict watch over the cash transactions.

2. Revenue Recognition

The accounts have been prepared on modified accrual basis. Under modified accrual basis, the revenues are recognized at the time of actual raising of the bills whereas the expenses are recognized at the time of passing of the bills or admission of the expense/ liability regardless of when the related cash flow/ occurrence takes place except as stated hereunder:

Revenue Recognition in case of Income-Exceptions

As mentioned above, significant items of revenue of the Council are recognized at the time of raising the bills. However, the under mentioned transactions are accounted for on cash basis:

- i. Revenue in respect of transfer of property, coll, cess collection charges, connection charges for water supply, water tanker charges, road damage recovery charges, assigned revenues, disposal of materials in stores, hospital and dispensary fees etc., rent or hire charges with respect to ambulance, hearse etc., sale of scrap, general grants (revenue nature), connection and reconnection charges for electricity supply, interest & penalties, other fees and user charges etc(in not billed).
- ii. Any other income, which is of an uncertain nature or for which the amount is not ascertainable or where demand is not raised in regular course of operations of the NDMC, is recognised on actual receipt.

Revenue Recognition in case of Expenses-Exceptions

- i. In the following cases the expense is provided for on the basis of actual use of facility i.e. even if the bill is not received the same shall be provided for keeping in view of materiality of the expense and matching of cost with revenue concept:
 - a) Purchase of Water
 - b) Purchase of Electricity
- ii. In the following cases the expense is provided for on actual basis contrary to accrual basis of accounting

Bonus, ex-gratia, overtime allowance, other allowances and reimbursements to the employees are recognised as an expense as and when they are drawn for payment.
- iii. In case of provision against receivables, provisioning norms are applied based on type of income and age of receivables. The Council has adopted NMAM with suitable modifications. The rates of provisioning prescribed under NDMC accounts have been adopted with respect to each category of receivables.

3. Grants

- i. General Grants, which are of revenue nature, are recognised as income on actual receipt to the extent these are utilised. Unutilized portion of grant during the year is recognised as liability.
- ii. Grants, which are re-imburement of specific revenue expenditure are recognized as income in the accounting period in which the corresponding revenue expenditure is charged to the Income and Expenditure Account
- iii. Grant received towards capital expenditure is treated as a liability till such time the fixed asset is constructed or acquired. On construction/ acquisition of fixed asset, the grant corresponding to the value of the asset so constructed/ acquired is treated as a capital receipt and transferred to capital contribution.

4. Prepaid Expenses

Expenses for an amount exceeding Rs. 5,000/- and paid in advance during the year (a proportion of which may relate to a part of the succeeding financial year) are apportioned over the actual period to which such expenditure relates.

5. Establishment Expenses

NDMC is following March to February basis for recognizing salaries for the financial year. Hence, the establishment expenses include employee costs namely; salary, bonuses, employee welfare and other related costs.

Expenses on salaries and other allowances are recognised as and when they are due for payment on drawing of Pay Bill (i.e. at the month end).

6. *I. Fixed Assets*

- i. Assets acquired by way of purchase or constructions are valued at their cost of acquisition or cost of construction on completion. In determining the cost of acquisition, incidental direct costs including borrowing cost are considered for capitalization.
- ii. **Depreciation is provided on Straight Line Method. The Council has followed Depreciation rates followed by Bangalore Mahanagar Palike.**
- iii. The assets acquired on or after 1st October every year are depreciated by applying half the rates.
- iv. In case of assets capitalized during the year out of Capital Work in Progress, depreciation is provided by applying the rates for full year.
- v. All the assets purchased during the year are capitalized under the head "Fixed Assets" in the Balance Sheet. However, the assets purchased during the year costing **Rs. 5000/-** or less are depreciated/ provided for @ 100% at the year end by leaving nominal value of rupee one if the asset is created for the 1st time.

II. *Capital Work in Progress (CWIP)*

Capital expenditure attributable to a particular asset, and incurred in respect of assets which are pending completion or installation, are included in the particular asset or project group under CWIP. All other expenditure, incurred during the completion or construction stage of the asset or project and which are not reasonably attributable to any particular asset, are classified as unallocated CWIP expenditure, and are allocated to the assets on the completion or construction of the asset or project, as the case may be.

7. *Investments*

Investments are stated at cost including the cost incurred in acquiring the same. However, any permanent diminution in the value of long term investment(s) is provided for.

8. *Inventories*

- i. The stock lying at the period-end is valued at cost in accordance with the First in First out method.
- ii. Finished goods related to goods produced for sale or internal use are valued at cost or market value, whichever is lower while Work-In-Progress (unfinished products on which part of process

has already been carried out) is valued at cost. Cost of finished and work-in-progress includes all direct costs and applicable production overheads to bring the goods to the present location and condition.

- iii. Consumable items are treated as expenditure incurred in the year of purchase and balance remaining with respective stores (except general branch from where no information regarding balances has been received) as at 31st March (as intimated by them) is adjusted against the said figure of consumption and reflected as stock in hand at the year end.

NEW DELHI MUNICIPAL COUNCIL

SCHEDULE B-22

NOTES TO ACCOUNTS (2011-12)

1) I. *Fixed Assets*

- i. In considering the assets, particularly fixed assets vested with NDMC, the strict test of legal title has not been always insisted upon. This is in view of certain pending matters relating to transfer of titles, which are being followed up with the authorities concerned. However, since control and possession of assets is effectively with NDMC, the same has been considered as part of the assets of NDMC.
- ii. Although all the information received from the various departments/ accounting units has been included in the above compilation, the process of **periodical** physical verification of all the fixed assets is not yet completed. To the extent of any discrepancy noticed in the course of physical verification, these assets would undergo a change accordingly.
- iii. The details of fixed assets submitted by various accounting units do not tally with the additions shown as per the accounts maintained by the Council under the single entry system. Pending reconciliation, the values of additions to the fixed assets during the year have been captured from the accounts compiled under the single entry system.
- iv. Pending resolution of the Council, the depreciation has been provided in the accounts as per the rates adopted by Bangalore Mahanagar Palike.
- v. NDMC has charged a sum of **₹ 193 Crore** to the Income & Expenditure account on account of transfers to various segments with a corresponding credit to the various segments earmarked for special purposes for administrative reasons.
- vi. In the absence of full particulars and to bring in uniformity, depreciation on all the assets, except those assets which are taken at the nominal value of Re. 1/-, has been provided for the full year.
- vii. During the year, the dates of completion in respects of capital works completed have been provided by each division which represents assets created/ completed in earlier years. Since, the information in respect of such assets created out of Capital work in Progress has been received during the current year, no depreciation has been charged on these assets in respect of earlier years even for those assets completed/created in earlier years but capitalized in the current year.

viii. In respect of assets existing prior to 1.4.2004, for which the information has been received in the current year, have been accounted for by making necessary adjustments both in the fixed assets as well as correspondingly in the capital reserve at the nominal value of Re. 1/-.

II. Identification and Valuation of Opening Fixed Assets

The fixed assets have been identified and compiled based on data/information furnished by the concerned units of NDMC. As per the practice followed in the previous year(s). Broadly, the fixed assets have been classified and verified under 15 heads and have been mapped accordingly under 15 formats. The detailed particulars of which are as under:

| Format No. | Type of assets included in the category | Method of valuation of the assets |
|------------|---|---|
| FA 1 | Land | The land under this head includes land appurtenant/ beneath various assets mentioned below such as buildings, parks/ grounds and infrastructure assets. These have been valued at a nominal value of Rupee one for each class of asset. |
| FA 2 | Built-up-Property | All the buildings belonging to NDMC have been identified and measured by a team comprising of representatives of consultants and the department(s). However, in absence of the complete information from various departments/ divisions regarding the cost of acquisition/ construction or permanent improvement thereto, each building has been kept at a nominal value of Rupee one so as to maintain uniformity in valuation and have better control over number of buildings. |
| FA 3 | Vehicles | The vehicles have been identified as per their make & models for each class of vehicle. However, in the absence of complete information regarding the cost of acquisition from the various departments/ divisions, each vehicle has been kept at a nominal value of Rupee one so as to maintain uniformity in valuation and have better control over number of vehicles. |
| FA 4 | Roads | The roads have been identified as per their name, location & measurement. However, in the absence of complete information regarding the cost of acquisition and cost of improvements thereto from Road Divisions |

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|------|--------------------------------|--|
| | | (R-I to R-V and RIP) each road/ service road has been kept at a nominal value of Rupee one so as to maintain uniformity in valuation and have better control over number of roads. |
| FA 5 | Lamp Posts & Luminary Fittings | The lamp posts and fittings have been identified as per their respective location. However, in the absence of complete information regarding the cost involved in installing the same each lamp post as well as each fitting has separately been valued at a nominal value of Rupee one so as to maintain uniformity in valuation and have better control over number of lamp posts and luminary fittings. |
| FA 6 | Dustbins & Dhalaos | The dustbins & dhalaos have been identified as per their respective location. However, in the absence of complete information regarding the cost involved in installing the same each dustbin/ dhalao has been valued at a nominal value of Rupee one so as to maintain uniformity in valuation and have better control over number of dustbins and dhalaos. |
| | | |
| FA 7 | Drainage | The drains have been identified as per their respective location and numbers. However, in the absence of complete information regarding the cost involved in constructing/ improving the same each drain has been valued at a nominal value of Rupee one so as to maintain uniformity in valuation and have better control over number of drains. |
| FA 8 | Sewerage Lines & Water Lines | The sewerage lines and WRI have been identified as per their respective location. However, in the absence of complete information regarding the cost involved in constructing/ improving the same each sewerage line has been valued at a nominal value of Rupee one so as to maintain uniformity in valuation and have better control over number of sewerage lines & WRLs. |
| FA 9 | Lavatory & Urinals | The lavatories and urinals have been identified as per their respective location. However, in the absence of complete information regarding the cost involved in constructing/ improving the same each lavatory as well as urinal has been valued at a |

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|-------|----------------------------|--|
| | | nominal value of Rupee one so as to maintain uniformity in valuation and have better control over number of lavatories and urinals. |
| FA 10 | Furniture & Fixtures | Each item under the head "Furniture & Fixture" has been identified as to its respective location/ placement. However, in the absence of complete information regarding the cost involved in acquiring the same each item of furniture & fixture has been valued at a nominal value of Rupee one so as to maintain uniformity in valuation and have better control over number of items classified under the head "Furniture & Fixture" head. |
| FA 11 | Plant & Machinery | Each item under the head "Plant & Machinery" has been identified as to its respective location/ installation. However, in the absence of complete information regarding the cost involved in acquiring/ constructing/ improving the same each item under the captioned head has been valued at a nominal value of Rupee one so as to maintain uniformity in valuation and have better control over number of items classified under the head "Plant & Machinery" head. |
| FA 12 | Switchgears & Transformers | Each item under the head "Switchgear & Transformers" has been identified as to its respective location/ installation. However, in the absence of complete information regarding the cost involved in acquiring/ constructing/ improving the same each item under the captioned head has been valued at a nominal value of Rupee one so as to maintain uniformity in valuation and have better control over number of items classified under the head "Switchgear & Transformers" head. |
| FA 13 | Electric Cables | The electrical cables have been identified location-wise and measured. However, in the absence of complete information regarding the cost involved in installing/ improving the same has been valued at a nominal value of Rupee one per meter so as to maintain uniformity in valuation and have better control over quantum of electric cable laid. |
| FA 14 | Bridge Culverts etc. | The bridges and culverts have been identified as per its respective location. However, in the absence of complete information regarding |

| | | |
|-------|----------------|--|
| | | the cost involved in constructing/ improving the same each bridge/ culvert has been valued at a nominal value of Rupee one so as to maintain uniformity in valuation and have better control over number of bridges and culverts. |
| FA 15 | Trees & Plants | The trees and plants have been identified as per their respective location. However, in the absence of complete information regarding the cost involved in planting each tree and cost of bringing to its present status, the same has been valued at a nominal value of Rupee one so as to maintain uniformity in valuation and have better control over number of trees/ plants. |

The aforesaid assets have been valued at a nominal value of Rupee one and have been shown under the head "Fixed Assets" with a corresponding credit to "Capital Reserve". The assets shall continue to be shown at that value till these are revalued. **The same is pending for approval before the Council.**

2) Segmental Funds

For administrative convenience, New Delhi Municipal Fund has been broken segments and sub segments. These segments have been created out of overall New Delhi Municipal Fund. The segments and sub-segments are as follows:

| FUND | SEGMENT FUND | SUB-SEGMENT FUND |
|---------------------------------|--|--|
| NEW DELHI MUNICIPAL FUND (NDMF) | ELECTRICITY (SEGMENT) FUND | REGULATORY RESERVE (SUB-SEGMENT) FUND |
| | | DEPRECIATION RESERVE (ELECT) (SUB-SEGMENT) FUND |
| | WATER SUPPLY AND SEWERAGE SEGMENT FUND | DEPRECIATION RESERVE(W S) (SUB-SEGMENT) FUND |
| | ESTATE SEGMENT FUND | COMMERCIAL MARKET DEVELOPMENT (SUB-SEGMENT) FUND |
| | | TRANSFERRED MARKETS (SUB-SEGMENT) FUND |
| | | DEPRECIATION RESERVE FUND(OTHER BUILDING) |
| | | PUBLIC ART (SUB-SEGMENT) FUND |
| | EMPLOYEE SEGMENT FUND | PENSION (SUB-SEGMENT) FUND |
| | | STAFF WELFARE (SUB-SEGMENT) FUND |
| | GENERAL SEGMENT FUND | GENERAL SEGMENT FUND |

These Segmental Funds are represented by the identified investments/ any other securities as prescribed under the NDMC Act.

3) *Contingent Liabilities*

The complete information regarding Contingent Liabilities as to number of cases pending with various courts and the amount involved therein is not available.

4) *Current Assets*

- i. Cash and Bank balances: The opening balances of bank accounts as per books maintained by NDMC were not in agreement with the balance as shown in the bank statements. **A cash tally account has been drawn separately and is appended with the accounts after General ledger. The balance so reconciled is the base in the bank balances in the eFinance Applications**

The process of reconciliation of earlier years is presently ongoing and entries arising out of the said reconciliation shall be given effect to in the subsequent years as and when the specific items are identified.

There is a difference in cash balance as per Accounts and cash balance as per cash book amounting to ₹.652827792.34

The same is pending for reconciliation. However, the effect of the same has already been considered in New Delhi Municipal Fund Opening Balance and the amount appearing in the e-fin application has been taken after these adjustments. The difference in the receivables will be charged into the NDMC Fund.

- ii. The receivables on account of estate, property-taxes, water charges etc. are taken on the basis of information furnished by the respective departments **in 2004-05 and the current status is to be certified by the various accounting units.**

In absence of year wise breakup, receivables have been allocated to respective year(s) on an estimated basis and provision for doubtful debts has been made as prescribed in the NDMC accounts manual.

- iii. The stock at the year end has been arrived at on the basis of stock balances extracted from the stock register maintained with the Store Divisions. The difference between the closing stock and the summation of opening stock and purchases has been charged to revenue as consumption.

5) *Municipal Fund Account*

The account represents the net surplus of value of opening assets over value of opening liabilities of NDMC and the excess of income over expenditure during the year.

However, certain adjustments shall be made to Municipal Fund during the subsequent year(s) which are as follows:

- i. Since the mapping of fixed assets is in the process of completion and the valuation norms are pending for finalization, the accounts do not reflect full value of fixed assets. Consequently, the Municipal Fund is understated to the extent of value of fixed assets (net).
- ii. Pending acceptance of Actuarial Valuation Report by the Council, contribution towards pension and gratuity are accounted for on the basis of the approval of the Council.
- iii. As past data regarding creation of earmarked segmental funds and their respective utilizations are not presently available, the funds are not represented by corresponding matching contributions. Pending valuation of assets the segmental funds are being maintained on ad-hoc basis.

6) *General*

- a) **NDMC as per provisions of NDMC ACT is to maintain monthly accounts and the annual accounts. Separate General Ledger for annual accounts and for Financial Statements have been drawn and made part of the accounts.**
- b) The year-wise break-up of receivables has been arrived at from figures maintained as per accounts, in absence of availability of such figures from the respective departments. Efforts will be made in the ensuing years to maintain the age-wise break-up figures at the respective department.
- c) The balances outstanding under the various account heads e.g. deposits, creditors, receivables and liabilities are subject to reconciliation/ confirmation **by respective accounting units. These balances are to be maintained at the sub-ledger accounts of the individual creditors/ debtors in the e-Fin application. The financial statements include the**
 - **General Ledger**
 - **Balance-Sheet as on 31.3.2011**
 - **Income Expenditure Statements for the year 2010-2011**
 - **Cash flow / cash tally statement.**
 - **Schedules to the balance sheet**
 - **Schedule to the Income -Expenditure statements.**
- d) The accounts as prepared/ compiled are subject to audit.
- e) In the absence of complete information/ details in respect of claims lodged by the third parties on NDMC, contingent liabilities have not been disclosed.
- f) The financial statements have been compiled as per the formats prescribed by NDMC Accounts Manual based on National Municipal Accounts Manual with suitable modifications.

- g) The opening balance in respect of total deposits as provided by the various departments is the total sum of Earnest Money, Security Deposit and Misc. Deposits.
- h) The balances have been rearranged/ regrouped to match with the double entry accrual system.
- i) Previous year figures have been rearranged/ regrouped wherever considered necessary.