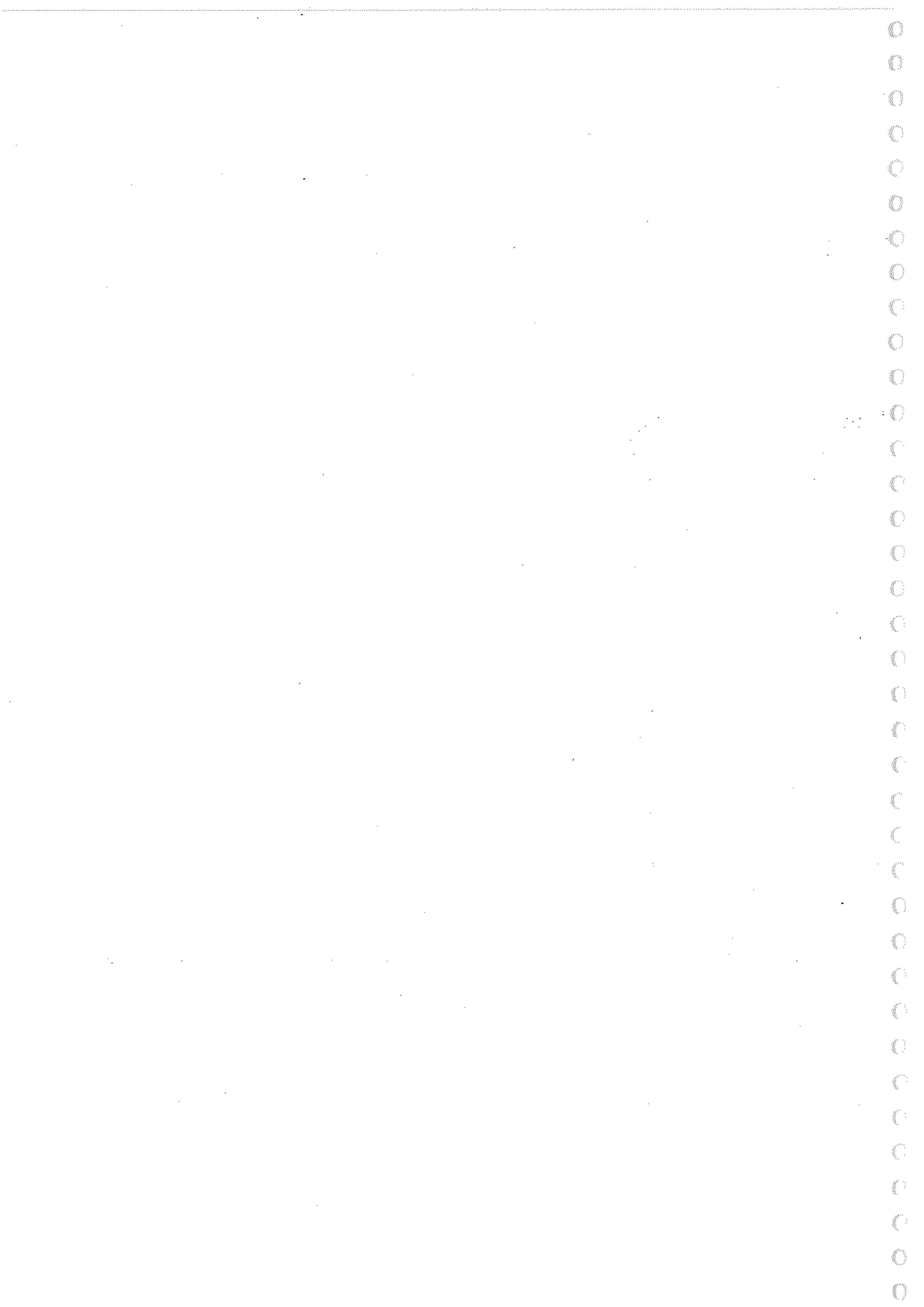
Dedicated Freight Corridor Corporation Of India Ltd.
(A Government of India Undertaking)

ACCOUNTING MANUAL

(for internal circulation only)



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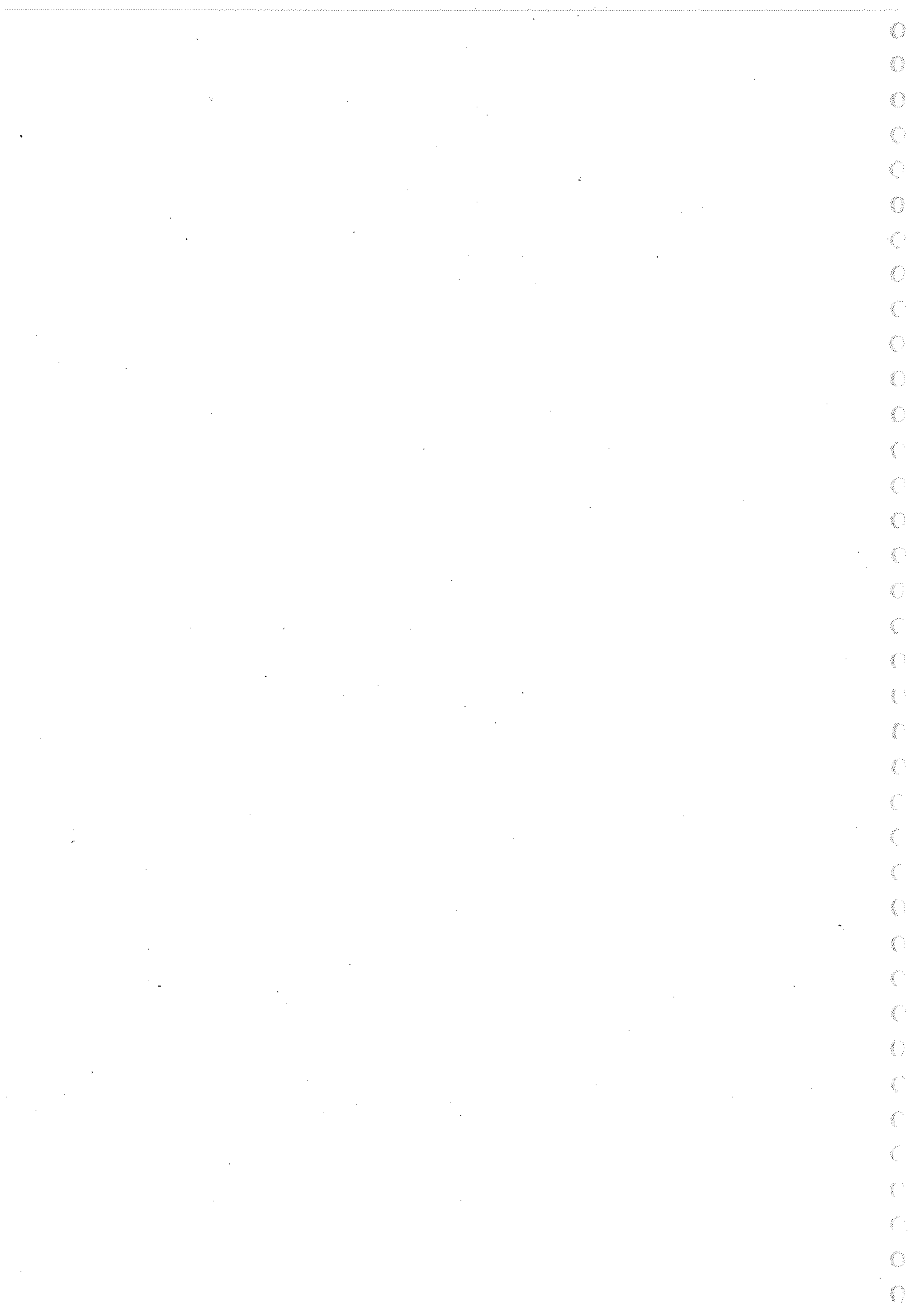


CHAPTER-I
INTRODUCTION

1.1 Introduction

a. The Accounting Manual summarizes the significant accounting policies that must be followed by DFCCIL and provides overall guidance as to its accounting and procedures.

b. While most of DFCCIL's accounting policies are largely prescribed by Generally Accepted Accounting Standards (GAAP Standards) issued by ICAI, the ultimate responsibility for establishing DFCCIL's Accounting Policies rest with Director (Finance) after consultation with the executive team.

c. The Accounting Manual documents DFCCIL's accounting policies and procedures and provides guidance on such matters.

1.2 Applicability

a. This Accounting Manual applies to all DFCCIL personnel, including full time and contracted employees.

b. Any queries concerning the use or interpretation of the Accounting Manual should be directed in writing to the Director (Finance).

1.3 Objective

1. To achieve uniformity in maintaining accounting data.
2. To ensure compliance with statutory requirements in maintaining books of accounts.
3. To ensure integrity in maintenance of accounting data and records.
4. To expedite preparation and finalization of annual accounts.
5. To ensure compliance of various disclosure requirements of annual accounts.
6. To achieve compliance of details required for Tax Audit purpose.

1.4 Scope

The scope of the manual is basically for the present operations, keeping in view the objectives mentioned above. It also includes the procedures for internal controls and checks.

1.5 Accounting manual review procedure

a. Accounting policies change over time and need to be supplemented by new policies, as a result of either change in reporting requirements or new business conditions. The Accounting Manual will be revised periodically to accommodate changes in the way

financial information is processed and to allow for changing or new requirements.

b. Users of the Accounting Manual are encouraged to participate in the revision process by providing constructive comments or suggestions in writing to the Director (Finance).

c. Director (Finance) specifies the main functions, responsibilities and duties of each employee working in the Finance & Accounts Department.

d. In respect of each type of payment the Finance & Accounts section has to ensure that the conditions and supporting documents as prescribed in the rules and sanction order have been complied with.

1.6 Management responsibility for internal control and financial reporting

a. The Board of Directors bears the ultimate responsibility for the fair presentation of DFCCIL's annual financial statement. The Board has delegated the task of preparing the annual financial statements to the Director (Finance) of DFCCIL and his Financial team.

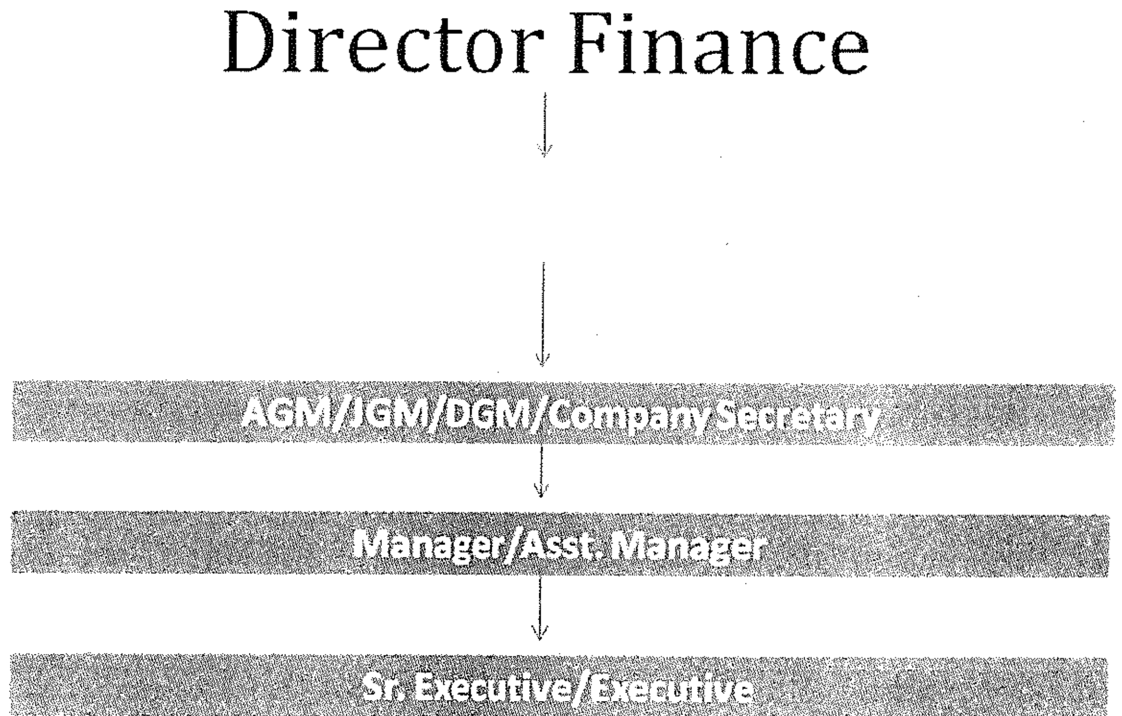
b. Internal control ensures the accuracy and reliability of DFCCIL's Financial and Management Data, as well as assists in guaranteeing that operating objectives are met.

1.7 Organizational set up

Under the present organizational set up the overall responsibility of the Finance and Accounts Department rests with the Group General Managers headed by Director Finance of the Company. All Group General Managers are supposed to ensure compliance of the following aspects with the help of officers and staff allotted to them -

1. Observing uniformity in the maintenance of accounting data and records.
2. Proper maintenance of books of account.
3. To record classify and summarize accounting transactions.
4. To ensure accuracy and propriety of transactions so recorded.
5. To achieve uniformity in presentation of accounting data and information.

6. The diagrammatic representation of hierarchy of accounts and finance set up is as follows:



CHAPTER-II
CLASSIFICATION OF ACCOUNTS

Dedicated Freight Corridor is one of the biggest infrastructure projects undertaken by Govt. of India after independence. Freight corridor concept plan is 10,122 Kms., but to begin with, the construction of two dedicated freight corridors on Eastern Corridor from Ludhiana to Dankuni via Mughalsarai of 1839 Kms. and on Western Corridor from Dadri to JNPT of 1534 Kms. have been approved. For a project of this magnitude, it is vital that progress of the project and expenditure thereon should be closely watched. Thus, it becomes imperative to have field units. In DFCCIL, 14 field units have been established, which are headed by CPMs. These units are identified as Profit Centres.

2.1 Profit Centres:

In other words, Profit Centre is the branch or division of a company that contributes to the overall financial results of a company. DFCCIL is organized as 14 profit centres at CPM level and one at Corporate Office level. Each CPM shall be treated as independent profit centre and held accountable for both revenues, and costs (expenses), and therefore, profits. Profit centre management is equivalent to running an independent business because a profit centre business unit or department is treated as a distinct entity enabling revenues and expenses to be determined and its profitability to be measured. Further 7 profit centres are covered in Eastern Corridor and 7 in Western Corridor. The list of profit centres are as under:

I. Corporate Office- New Delhi

II. Eastern Corridor
   1. CPM Ambala
   2. CPM Meerut
   3. CPM Tundla
   4. CPM Allahabad (E)
   5. CPM Allahabad (W)
   6. CPM Mugalsarai
   7. CPM Kolkata

III. Western Corridor
   1. CPM Noida
   2. CPM Jaipur
   3. CPM Ajmer
   4. CPM Ahemdabad
   5. CPM Vadodara
   6. CPM Surat
   7. CPM Mumbai

2.2. Structure of Accounts: Further, the classification of accounts has been done under various major and minor heads with a view to interpret and understand the allocation of accounts and to simplify preparation of annual accounts.

Financial classification of codes now in use are summarized in a booklet and circulated separately. These codes are created centrally by the specialized Accounting Firm hired for preparation of Accounts of DFCCIL. The list is updated regularly and communicated to all concerned in field as well as in Corporate office. The basis on which the Accounts heads are created are explained below:

The Account head consist of 9 digits. AB-CD-EF-GHI and the same represents the following:

AB- The first two digits will indicate the following;

- Liability Account
- Assets Account
- Indirect Incomes
- Indirect Expenses
- Direct Incomes
- Direct Expenses

- e.g. 30 will indicate Asset Account.

CD – The next two digits will indicate the detail of Minor heads of Account . Some of the examples of Minor Head of Accounts are as under:

- Capital Accounts
- Current Liabilities.
- Fixed Assets.
- Current Assets
- Interest on Bank Deposits.
- Administrative Expenses.
- Staff Welfare.

- e.g. 30-01 - Fixed Assets.

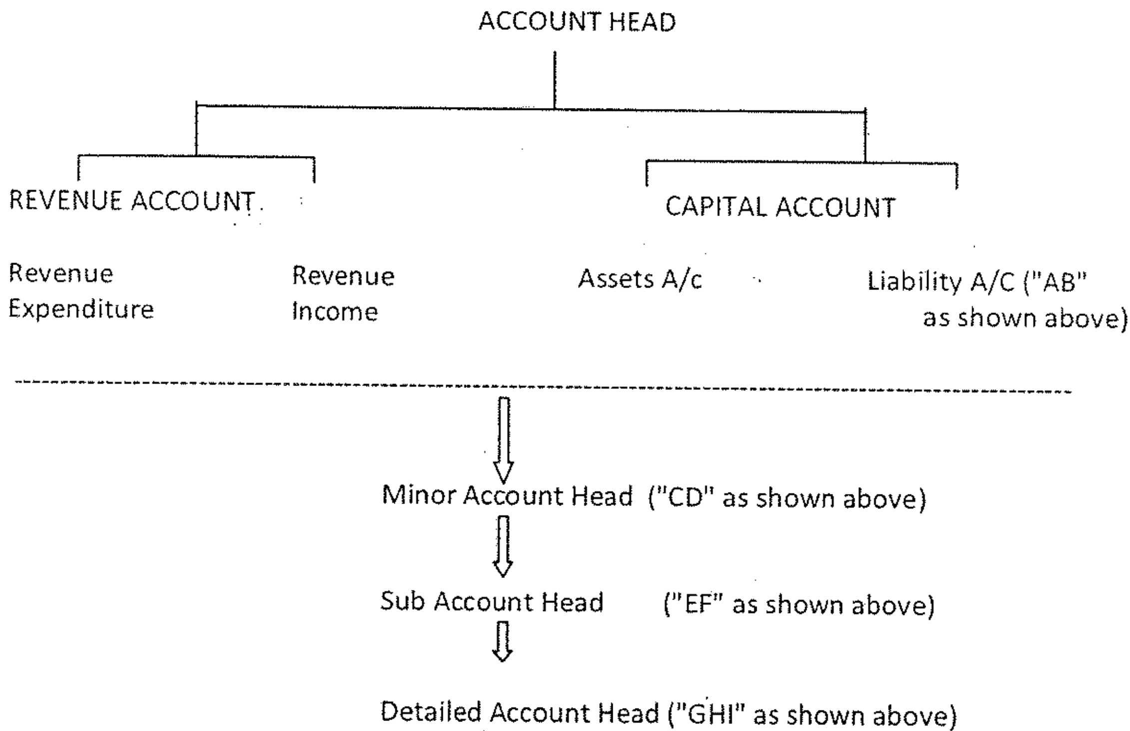
EF – Next two digits will indicate the SUB HEADS of Minor Heads of Accounts. For example:

- 30-01-10- Capital Works in progress (CWIP).

GHI- Last three digits will indicate LEDGER of Sub Heads. For example:

- 30-01-10-002 indicates Preliminary Project Expenditure.
- 40-01-00-002 indicates Share Application.

In other words, the structure of classification of accounts on the basis of above is as follows:



2.3 Since DFCCIL is about to implement ERP called Integrated Accounting System, there is every possibility of change in structure and classification of Accounts Heads. Till the implementation of ERP, the above classifications will be applicable.

2.4 Besides, certain changes in classification of Indirect Income and Indirect Expanses have been envisaged and are under discussion. The same will be inserted on finalization after taking approval of competent authority.

CHAPTER-III
Procedure for Claims Received for Payment

3.1 General Principles of Internal check while processing claims:

Before proceeding to Accounting treatment of expenditure done, it becomes essential that certain norms for passing the bills may be laid down. Thus, following are the general principles that are to be followed to scrutinize all claims received for payment:

1. that the expenditure is incurred by an officer competent to incur it,
2. that the remission of revenue has been sanctioned by competent authority,
3. that all prescribed preliminaries to expenditure have been observed, e.g. that proper estimate have been framed and approved by competent authority for works expenditure,
4. that it is covered by the grant at the disposal of the officer incurring it or by funds re-appropriated by competent authority for the purpose,
5. that the expenditure does not contravene any rules and orders in force, or any general or special orders issued by competent authority,
6. that the expenditure does not involve a breach of canons of financial propriety,
7. that the expenditure sanctioned for a limited period is not admitted beyond that period without further sanction,
8. that in case of recurring charges which are payable on the fulfillment of certain conditions or till the occurrence of a certain event, a certificate is forthcoming from the drawing officer to the effect that the necessary conditions have been fulfilled or the event has not yet occurred,
9. that the expenditure has been properly and fully vouched for and that the payment has been so recorded as to render a second claim on the same account impossible,
10. that the charge has been correctly classified,
11. that if the charge is debit-able to the personal account of a contractor, employee or other individual or is recoverable from him under any rule or order, it is recorded as such in a prescribed account.
12. that they are in prescribed form, and are in original,
13. that they are in English/Hindi or in any other language have been rendered into English/Hindi,
14. that totals are given in words and in figures, that there are no erasures and that any alterations in the totals are attested as many times as they are made,
15. that all including Income Tax deductions, where applicable have been correctly made,

16. that they bear a certificate, wherever necessary, from the departmental officer that the services for which the payment is claimed have been actually rendered,
17. that if the proof of correctness of a claim does not accompany the bill(e.g. the leave account of a subordinate for whom leave salary is drawn), a certificate is furnished that the claim has been checked with the relevant document and found correct,
18. that if the bill is for tools or other articles of equipment for which an inventory is prescribed, it has been certified by the departmental officer that the necessary entries have been made in the relevant Stock Account.

3.2 The procedure for receiving and passing of bills in Finance:

3.2.1 Receipt of Bills

All Bills/Claims for payment by DFCCIL Corporate Office, New Delhi/Field Offices shall be received directly by the bill passing staff only. In case same are received by any other officer/staff, they shall be delivered to the designated staff for making entries in the Bills Receipt Register.

All Bills/Claims received by the designated staff shall be promptly recorded in the Bill Receipt Register and the bills received shall be acknowledged duly indicating the BRR's number and date. The bills/claims are promptly entered in the BRR by recording the information in each column. The format of the Bill Receipt Register shall be as per Form No. 3.2.1. Separate register and separate number shall be allocated to establishment and other then establishment Claims/Bills.

The Bill Receipt number and date shall prominently be stamped on the Claim/Bill by the designated staff before being processed for payment. The concerned staff will also complete the other columns after payment of the bills. The Bill Receipt Register shall be put up periodically i.e once in ten days to DGM/Finance in corporate office or to Officer-in charge in field offices indicating the position of bills received, passed, returned and pending.

Form No. 3.2.1

Bill Receipt Register

Section________

Year______

S.No.	Date	Bill Receipt No.	Bill Amount	Bill No. & Date	Bill Particulars	Party Name

Passed Particulars		Return Particulars		
Passed on	Bill Passing Register No.	Returned on	Reason for Return	Remarks

3.2.2 Passing of Bills

On receipt, the Claim/Bill shall be scrutinized/verified by the concerned staff before allowing the payment. In case the Claim/Bill is not supported by requisite authority/information and can't be passed immediately, effort shall be made to sort out minor discrepancies. However, in case information is not forthcoming the bill/claims should be promptly returned to the concerned official from whom the bill claim has been received for resubmission of the same without any deviation , in correct manner and after providing the requisite information or making the necessary corrections as pointed out by finance. All Claim/Bill shall be returned in original only under a covering note duly indicating the reasons for non-payment. The covering note shall be signed by the Bill/Claim passing staff after obtaining the approval (where ever required) of the competent authority in finance department. On re-receipt of the Claim/Bill in future, a fresh bill receipt register number shall be recorded as per above noted procedure. All claims / bills shall be verified by the bill passing staff and payment be passed only as per SOP authorization issued from time to time. All payments shall be made only through RTGS/ EFT system. Cheques to be issued only in exceptional cases with prior approval.

The Claims/Bills verified and passed shall be recorded in the Bill Passing Register by the concerned staff. The format for the Bill Passing Register shall be as per Form:- 3.2.2. The Bill Passing Register shall be put up periodically i.e once in ten days week to DGM/Finance in Corporate Office or to Officer-in Charge in Field Offices indicating the position of bills received , passed , returned and pending.

Form :- 3.2.2

Bill Passing Register

Section:-________ Year :-________________

S.No	Date	Bill Passing Register No.	Bill receipt Register No. & Date	Bill No. Date	Particulars of Bill	Party Name

Gross Amount	Deductions	Net Amount Passed	Date of handing over to cheque/EFT Dealer	Acknowledgement by EFT/Dealer

CHAPTER-IV
Works Contract Accounting

The bills for work done by contractors are processed and passed in Corporate and Field offices whereas salary is processed in Corporate Office. In other words, the expenditure incurred is booked in Corporate as well as in field units. However, the accounting in DFCCIL is centralized and is done in Corporate Office only through a specialized firm hired for this purpose only. Therefore, it becomes crucial that Vouchers prepared in field offices by DFCCIL staff are sent to Corporate Office in regular flow so that all the accounting entries are made in time and statutory obligations are complied with. In any case, the voucher for the month should reach Corporate Office latest by 2nd/3rd of following month so that Tax Deducted at Source can be deposited in time.

Specimen copy of Voucher to be prepared by bill processing staff in Corporate Finance as well as Field Units is at "Annexure 6" for reference.

4.0 Works Contract Accounting

DFCCIL is in the process of setting up Dedicated Freight Corridors. For this purpose corporation enters/will enter into various contracts for civil works, supply of machinery/material & electric installation and/or erection etc.

The purpose of this chapter is to provide accounting system to be followed for works contract related transaction such as passing of the Regular On Account bills or Interim Payment Certificates (IPCs) of contractor, advance payment to contractor etc.

Procedure related to provisioning at the yearend for work measured but not billed and preparation of capital commitment in respect of incomplete contract at the yearend has been discussed in Chapter 11 i:e "Preparation of Annual Accounts."

The items discussed in this chapter may occur at Corporate or Unit level. The processing of voucher for the same will be done by the concerned to whom the items pertain and accounting will be done centrally in Corporate Office only.

4.1 General Guidelines for Work Contracts

1. A Work In Progress register shall be maintained for each contract to record the amount of total expenditure incurred on a particular work. This includes payments to contractors, debits like Material consumption, Bank charges, Pre-commissioning expenses, allocation of Incidental Expenditure during Construction, Borrowing costs and Exchange Rate Variation etc., if any. This serves as the basic document for capitalization.

2. A Register of Agreements should be maintained containing the details of the contracts such as package wise contract values, period and time of completion and should be updated contract wise with all the amendments issued.

3. As soon as a copy of the contract is received in the Works section of F&A Department, the concerned dealer shall enter the work order details in the CCR, and identify the allocation for the work and the party allocation of the contractor with the help of specialized Accounting Firm hired for preparation of Accounts by DFCCIL.

4. The section-in-charge of Works Section should go through the contract along with its special conditions, technical conditions, and prepare a contract summary indicating the special features of the contract and should ensure that it is recorded in the work order file/register contract-wise.

5. Material issued to contractor should be valued at the store issue rate. In case the material issued to contractor becomes recoverable, then the recoveries should be accounted for at the time of passing the contractors running account (RA) bills. The details of materials issued to contractor and consumption thereof should be furnished along with each RA bill/final bill. The differences in the cost of store issue rates and contract rates should be adjusted.

6. In case of commissioned assets, where final settlement of bills with contractors is yet to be effected, capitalization should be done on a provisional basis subject to adjustment at the time of final settlement.

7. In respect of supply-cum-erection contracts, the value of supplies received and accepted at site should be treated as Capital Work-in-progress.

8. Deposit works should be accounted for on the basis of statement of accounts received/ certification from the executing agency.

9. Claims for price variation should be accounted for on acceptance by the Company.

10. Foreign currency liabilities should be restated at the rates of exchange at RBI reference rate prevailing on the accounts closing dates. However, Tax should be deducted and deposited to Income Tax authorities on as per Income Tax Act.

11. A review of balances of Capital Work in Progress and other Account, which remain constant over a period of more than three months should be done by the section-in charge of the each Works Accounts section.

12. When final RA bills are recommended for payment, it should be ensured that the date of completion of job is recorded by the Engineer-in-charge (EIC) to facilitate initiation of action for capitalization of such completed works.

13. Liability should be created for all the works done and measured but not paid as at the accounts closing date. The un-discharged liability as on Accounts closing Date in respect of bills received and processed should be credited to a control account and discharged through payment in the next accounting period. The estimated liability in respect of work done and measured for which bills have not been received should be credited to a liability account. TDS should be accounted for while crediting the liability account.

4.2 Policy and Accounting for sale of tender document

The process lays down the procedure to be followed to account for sale of tender documents.

On closing of the last day of sale of tender documents (as mentioned in the Notice Inviting Tender), Contact Department prepares a summary of the tender documents sold based on the Sale of Tender Register, attaches the Demand Drafts (DD)/ Pay Orders and forwards the same along with the Statement of Tender documents sold to Finance Department for necessary accounting.

As per DFCCIL's practice, tender fees received should be treated as income in the year in which it is received. The tender fees received are not refundable.

Accounting entry for Sale of Tender Document:

Bank A/c DR
To Sale of Tender Form A/c CR

4.3 Policy and Accounting for Earnest Money Deposit (EMD)

This process lays down the procedure to be followed in respect of accounting of EMDs received in form of Demand Draft (DD)/ Pay Order (PO) and in forms other than DD/PO (i.e. Bank Guarantees and other securities) and adjustment thereof.

The concerned department prepares a statement of EMD received and attaches the Demand Draft (DD)/ Pay Order (PO), Bank Guarantees (in case EMD is received in form other than DD/PO) and forwards the same to Banking/Expenditure Section of Finance Department for necessary accounting/custody. It will be the primary responsibility of the concerned department to ensure that the BGs/FDRs received against EMD are confirmed from the issuing bank and renewed in time to keep them valid during the tenure of the work.

EMD received is refundable and therefore is treated as a liability in the books of account for the EMD received in form of DD/PO. No accounting entry is to be passed for the EMD received in form other than DD/PO.

4.4 Procedure for EMD In Finance Department:

Maintaining an EMD register. The EMD register shall have party wise details of EMDs accounts received, refunded/ forfeited/adjusted, along with details of tender document, contract agreements, and vouchers. Same register is to be used for both the EMD received in DD/PO and other than DD/PO.

Check the EMDs for their correctness and validity:

-In case of EMD received in form of DD/PO check that the DD/PO has been drawn in the name of DFCCIL and is valid.

-In case of EMD received in form of bank guarantees check its validity and that issuing bank confirmation has been received.

Return of EMD to unsuccessful bidders:

-Received the release order from Concerned Department.

-Check the release order with the EMD register and update the EMD register for the release order details.

Forfeiture of EMD/Invocation of guarantees:

-Receive the intimation from Concerned Department duly approved by the Competent Authority, to forfeit the EMD/invoke the guarantee.

-Update the EMD register for the forfeiture details.

Adjustment of EMD towards SD in case of successful bidder (contractor):

In case of successful bidder (the contractor) the EMD is converted in to Security Deposit at the time of processing of the contractor's first RA bill. In case the EMD is submitted in form of BG, the BG is released after the SD is deducted from the Contractor's first RA bill.

Accounting entry for Earnest Money Deposit:

Bank A/c DR

To EMD-Contractor (Name) A/c CR

Earnest Money Refund:

EMD-Contractor (Name) A/c DR

To Bank A/c CR

Forfeiture of Earnest Money:

EMD-Contractor (Name) A/c DR

To Income from EMD A/c CR

Conversion of EMD to Security Deposit:

EMD-Contractor (Name) A/c DR
To Security Deposit-Contractor (Name)A/c CR

4.5 Policy and Accounting for Security Deposit (SD)

This process lays down the procedure to be followed in respect of accounting of SDs received in form of Demand Draft (DD)/Pay Order (PO) and in forms other than DD/OP (i.e. Bank Guarantees and Other Securities) or converted from EMD and adjustment thereof.

The contractor should deposit the Security amount as per the agreement. The concerned department prepares a statement of SD received and attaches the Demand Draft (DD)/Pay Order (PO), Bank Guarantees (in case SD is received in form other than DD/PO) and forwards the same to Expenditure section of Finance Department for necessary accounting/custody. It will be the primary responsibility of the concerned department to ensure that the Bank Guarantee received against SD are renewed in time to keep it valid during the tenure of the work as per the terms of the contract.

SD received is refundable and therefore it is treated as a liability in the books of account for the SD received in form of DD/PO. No accounting entry is to be passed for the SD received in form other than DD/PO.

4.6 Procedure for Security Deposit in Finance Department

Maintain an SD register: The SD register shall have party wise details of SDs accounts received, refunded/ forfeited/adjusted, along with details of tender document, contract agreements, and vouchers. Same register is to be used for both the SD received in DD/PO and other than DD/PO.

Check the SDs for their correctness and validity:

-In case of SD received in form of DD/PO check that the DD/PO has been drawn in the name of DFCCIL and is valid.

-In case of SD received in form of bank guarantees check its validity and that issuing bank confirmation has been received.

Forfeiture of SD/Invocation of guarantees:

-Receive the intimation from Contract Department duly approved by the Competent Authority, to forfeit the SD/invoke the guarantee.

-Update the SD register for the forfeiture details.

Release of Security Deposit (Other than Bank Guarantee) on completion of contract/Part amount of Security Deposit released as per contract:

After the completion of the defect liability period (including maintenance period, if mentioned in the contract) & issue of NO OBJECTION CERTIFICATE (N.O.C.) by Engineer-In-Charge is received in Expenditure section, full or part amount of security deposit (if mentioned in Contract), shall be released to contractor.

Accounting Entry for Receipt of SD:

Bank a/c Dr.
To Security Deposit-Contractor Cr

For refund of SD

Security Deposit-Contractor Dr
To Bank a/c Cr

Forfeiture of SD

Security Deposit Vendor a/c Dr.
To Income from SD Cr

4.7 Accounting for Advance Payment to Contractors.

As a background to the process for making advance payments and to account for such transactions, a brief write up on the nature of advances generally allowed and other related aspects are briefly described below. However, sanction of competent authority is a pre-requisite for any payment:

- Mobilization advance
- Machinery advance
- Secured advance against material
- Advance payments in case of a supply cum erection contract
- Advance against bills

In all other cases which may arise in exceptional circumstances, the sanctioning of Competent Authority authorizing such advances as may be deemed indispensible, taking necessary precautions for securing the DFCCIL against loss and for preventing the system from becoming general or continuing longer than is absolutely essential.

Accounting Entry for Advance Payment prior to the Execution of the Work:

At the time of Processing:

Advance Type-Contractor (Name) A/c DR
To TDS Contractor A/c CR
To Contractor (Name) A/c CR

At the time of releasing advance :
Contractor (Name) A/c DR
To Bank A/c CR

4.8 Procedure for Works Bills

This process provides the procedure to be adopted for processing and accounting of Running Account and Final Bills of the contractors/ Suppliers/ Service providers, which should be as per Contract Agreement or Joint Procedure Orders issued from time to time.

As per normal day to day accounting procedure, a liability for works done by the contractors is recognized only on passing of the contractors' bill by the accounts department. The bill received in the accounts department should be supported by:

-Original Bills of the vendor duly checked and approved by the concerned EIC.

-Other supporting like Excise copy, undertaking for completion of work (up to that stage), Measurement Book reference etc.

-This will be supported by the total amount of contract and amount already paid, advances given to the vendor.

-The same also be supported by quality certificate of EIC.

-The bills shall be subject all the checks prescribed under Para 3.1 and Para 4.1 of this manual.

4.9 Payment Towards Deposit Works to Railways/Govt. Institutions:

Since, Dedicated Freight Corridor is one of the biggest infrastructure projects and the construction of two dedicated freight corridors on Eastern Corridor from Ludhiana to Dankuni via Mughalsarai and on Western Corridor from Dadri to JNPT is around 3400 Kms, there are ample chances of re-location of utilities in large number and DFC has to bear the expenses. The cash out go on this account will be huge. Therefore, it is vital to keep a close watch on this expenditure.

Thus, whenever a request is received from any CPM for transfer of funds to any railway or Govt. Institution, it must be ensured that the same is supported by the approval of competent authority as per the SOP.

The amount so released should be booked as an advance to the concerned department and may be cleared on receipt of documentary details of actual work done and amount spent thereon.

Besides, while booking the expense to final head of Accounts, it must be ensured that the same is booked to correct head as per the company policy.

4.10 Liquidated Damages (LD):

If work is not completed within stipulated date and LD clause is mentioned in the contract, the same shall be deducted from the bills and kept in liability till finalization of contract. Management can waive the LD amount by looking into facts for the delay.

If LD is not waived even after completion of contract, LD amount may be transferred in Income Account or credited to CWIP on case to case basis.

Accounting entry at the time of receiving Bill from Contractor for payment:

CWIP-Concerned Work Head A/c DR
To Statutory A/c CR
To LD CR
To Other Deductions CR
To Contractor (Name) A/c CR

At the time of recovery of Advance:

Contractor (Name) A/c DR
To Advance Type-Contractor (Name) A/c CR

At the time of payment of Bill:

Contractor (Name) A/c DR
To Bank A/c CR

For Waiver of LD:

LD A/c Dr.
To Contractor Cr.

For Transfer of LD to Income Account:

LD A/c Dr.
To Income from LD A/c or CWIP-Concerned Work Head A/c Cr.

CHAPTER-V

Procedure for purchase of Articles, Hiring of services etc.

DFCCIL is in the process of setting up Dedicated Freight Corridors. For this purpose corporation enters/will enter into various large contracts for civil works, supply of machinery/material & electric installation and/or erection etc.

On the other hand, to meet with the daily needs of the organization, procurement of petty nature are done through Purchase Order. In an organization as large as DFCCIL , the amount spent on procurement of these items will be significant. Thus, it becomes essential that the expenses should be regulated to keep it on bare minimum without affecting the working of DFCCIL.

This chapter provides norms to be followed for procurement of this nature and accounting system to be followed:

i. On the basis of request/demand received from the concerned department/officer, a proposal is to be prepared for purchase of goods/work to be executed etc.

ii. The proposal is to be sent to the competent authority as per the provisions of SOP for grant of administrative approval. The estimated cost of work/purchase of article is to be worked out on the basis of Last Accepted Rates (LAR), if any, or market price etc, or price/payment made by any other organization for similar work. The mode of procurement (i.e. through single quotation, quotations, tenders etc) of goods/services is to be given in the proposal and is to be based on estimated cost of purchase in terms of SOP.

iii. Depending on the value of work/cost of purchase, financial concurrence is to be obtained for the proposal, if required as per SOP.

iv. After obtaining financial concurrence and sanction of Competent Authority for purchase of item/work through the mode of procurement as indicated in SOP, Purchase Order/Letter of Acceptance is to be issued.

v. It must be ensured that full particulars like Unit rate, Quantity, Total Amount Due, Delivery Schedule, Terms of Payment (whether part payment of full payment), Inspection requirement, Terms of LD etc. are mentioned on Purchase/Work order.

vi. The contractor, after having completed the work, will submits the bill for payment in accordance with LOA /Purchase Order.

vii. On receipt of goods, the same should invariably be entered into stock register maintained by each department.

viii. The executive will then verify the bill on the basis of work done/supplies and processes for approval of competent authority for payment.

ix. The competent authority then approves the payment and the bill is sent to Finance for payment to the contractor. It must be ensured by the executive department that all the relevant papers required for passing the bill are enclosed with the bill. In no case, incomplete bill will be submitted to Finance for payment.

x. On receipt of the bill, the bill passing section should ensure that all the conditions as per Purchase Order have been full-filled. It must be ensured, wherever required, details of entries made in Stock Register have been mentioned.

xi. All the checks mentioned under para 3.1 of this manual should also be carried out in respect of payment against Purchase orders.

xii. It must be ensured that any advance paid to contractor has been adjusted. In addition, it should be checked that all Statutory Deductions have been made.

xiii. Thereafter, payment against Purchase order be released.

While making the payment, following entry should be made in the books:

At the time of Booking:

Respective Expense Head (G/L) Dr.

	To Advance Recovery (if any)	Cr
	To Statutory Liability	Cr
	To Vendor	Cr

At the time of making payment:

Vendor A/c	Dr.	
	To Bank	Cr.

CHAPTER-VI
Introduction to Bank Accounting

This chapter deals with procedural aspect to be followed for bank transactions and the accounting entries required to be passed for the various transactions.

6.1 Bank Transactions

- The preferred mode of payment would be Online banking, however in exceptional and on need basis the payment could be made through the cheques.
- The bank requisition voucher should be checked with respect to the following –
  - Arithmetical accuracy, authenticity, propriety etc.
  - Adequacy of Supporting
  - Authorization Limits
  - Head of account
  - Cheque number, date and name of drawee bank
  - Crossing of cheque
  - There are no unauthorized manual changes/ amendments to the payment voucher.
  - On receipt of the invoices from the concerned ordering department the banking department should verify them with the purchase order, and subsequently credit the account of the vendor.
- Acknowledgement of payee should be obtained on the Bank voucher before processing/ recording in serial order.
- Approval of the competent authority has to be obtained in case of payment of any liability which is unpaid for more than 3 years.
- On receipt of cheque necessary receipt should be issued before depositing the same.

- Monthly Bank Reconciliation Statement should be prepared after verifying the Bank Statement carefully as to its correctness.

- Cancelled cheques should be defaced and retained for the records.

- In case the cancellation is to be effected on expiry of the validity of the cheques, the same is required to be transferred to Stale Cheque Account.

- Stale Cheque register should be up dated on regular basis. The policy in regard to more than 1/2/3 years old items laying in this account and to be transferred to Misc. Receipts is under process.

- Proper care should be exercised for safe custody of cheques, un-encashed cheques, cancelled cheques etc.

- The bank payment vouchers are reviewed with the supporting documents every month by the banking department.

- At the time of making payment PAN NO of the party should be recorded.

6.2 Issue of EFT/Cheques

All Bills/claims received from the bill passing staff by the cheque/EFT issuing staff shall be recorded in the cheque/EFT requisition for the day after preparation of the EFT/Cheque. The format for the daily cheque/EFT requisition shall be as per Form:- 6.2 given below. One cheque requisition shall be prepared for each day and shall be supported by the original passed claims/bills at the time of the signing the EFT/Cheque.

The Cheque/EFT preparing staff shall ensure prompt dispatch/delivery of the issued EFT/Cheques on daily basis or as per the requirement in case of urgency. In order to have a summarized details of expenditure on daily and monthly basis, the daily EFT/Cheque requisition detail shall be recorded in the EFT/Cheque requisition register. The format of EFT/Cheque register shall be as per Form;- 6.2.1.

The daily EFT/Cheque requisition shall be serially numbered with date and after issue /dispatched of the EFT/Cheques, they shall be kept is safe custody by the cheque/bank dealing staff for record. The Claims/Bills voucher of each requisition shall be promptly delivered by the Cheque/EFT dealing staff to accounts for data entry.

The above referred register/records are very valuable documents and serve as an important managerial tool, as such required to be kept safely under locks and key at the end of each working day.

Form :- 6.2

EFT/Cheque Requisation

Date :- ___________ No. :-___________

Voucher No.	BPR No. and Date	BRR No. & Date	EFT/Cheque No.	Amount		Drawee Bank A/C No.	Payee Particulars
				Cheque	EFT/RTGS		

No. Of cheques_______________ Amount in Rs. ___________
No. of EFTs_______________ Amount in Rs. ___________
Gross Total_______________

Asstt. Manager

Manager/DGM

Form:- 6.2.1

EFT/Cheque Requisition Register
Year :- ___________

S.No.	Date	EFT/Cheque Requisition No.	No. Of Cheques	Cheque Amount	No. of EFTs	EFT Amount

Total No. of Cheques & EFTs	Total Requisition Amount	Cumulative Total For the Month	Cumulative Total up to date for Financial Year	Signatures of Requisition Preparer	Signature of Manager/DGM

6.3 Accounting for Interest/Bank Charges Expenses at DFCCIL's Accounts

Interest on various loans should be recorded as per the agreement entered by DFCCIL. The bank charge expenses would be debited by the bank on frequent intervals as per the agreement. The banking department should verify the bank statement and account for these charges after verification for correctness and ensure that the charges are debited as per the rate agreed with the bank and for the transactions relating to the company.

6.4 Bank Reconciliation Statement

A Bank reconciliation is a process that explains the difference between the bank balance shown in an organization's bank statement, as supplied by the bank, and the corresponding amount shown in the organization's own accounting records at a particular point in time.

Such differences may occur, for example, because a cheque or a list of cheques issued by the organization has not been presented to the bank, a banking transaction, such as a credit received, or a charge made by the bank, has not yet been recorded in the organization's books, or either the bank or the organization itself has made an error. It may be easy to reconcile the difference by looking at very recent transactions.

For this reason, and to minimize the amount of work involved, it is good practice to carry out such reconciliations at reasonably frequent intervals.

BRS shall be prepared monthly for all bank accounts.

Key controls to be exercised in this process are:

a. BRS should be prepared monthly and forwarded to the Banking Section for their perusal.
b. Issue of fresh cheque against Out Dated cheque should be approved by competent authority.

6.5 Procedure: Bank Reconciliation Statement

- Obtain bank statement online or otherwise
- Check all the deposits and payments in the bank statement that these pertain to the company.
- Review the entry for bank charges and get these approved and after approval, account for these entries.
- Note the details of all the cheques and instruments credited by the bank.
- Note all the cheques and payment order issued but not debited by the bank.
- Note all the details of the debit & credit made in the bank statement but details not available.

6.6 Prepare the Bank Reconciliation Statement-as per the following Performa:

Balance as per the Bank Statement.....
Add: Cheques & other documents deposited but not credited by bank.
Less: Cheques & other payment orders issued but not presented in the bank.
Add/Less; Other entries in the bank statement not accounted for in the books of accounts.

The resulting net balance should tally with the amount as per the books of accounts.

BRS should be reviewed and signed by the responsible person.

6.7 Process custody and issue of cheque books and other bank stationery:

The Finance & Account department should ensure the following:

- Responsibilities of Banking Department

a. The cheque stationery that has not been issued is kept in a lock and safe.

b. The cheques received from the bank are counted before the issue/ use of the cheque book immediately on receipt.

c. The stocks are physically verified at month end. In case of any misplacement intimate the bank and get confirmation.

d. All the cheque books drawn from Bank are entered in the stationery register.

e. At the time of closure or transfer of bank account all unused cheques and cheque book requisition forms are always returned to the bank after defacing them as "CANCELLED" and "VOID".

f. No blank cheques from the cheque book are given to anyone.

g. No alterations in the cheque should be done.

h. Protect the amount on the cheque with cellophane tape.

6.8 Policy for Short Term & Long Term Deposit

The company should give standing instruction to its banks to transfer its funds from Current Account to Deposits accounts after keeping requisite amount with the bank. The term of deposit will depend on the future projection of the liquidity requirements of the company.

The deposits of less than one year period shall be considered as Short Term Deposit and more than one year of period as Long Term Deposit. The decision shall be taken only with the approval of the Investment Committee.

Instructions can be issued to the Bank for the transfer of the funds from current Account to deposit account only by the authorized person. Confirmation will be obtained from the bank for transfer of the amount.

6.9 Opening of LC in Foreign Currency:

Prior to opening of LC, the concerned section/unit(requesting for LC) should ensure that the LC application is approved by Competent Authority.

LCs should be opened with the bank as per the request received from the concerned section and as per the terms of the contract.

It should be ensured that all bank advises in respect of LCs are received and accounted for.

6.10 Custody of Bank Guarantees

a. Bank Guarantees/ Performance Bonds are received by DFCCIL as security deposit, or to cover the repayment of the advances or to guarantee the proper performance of the contract as per the requirement of some of the contracts/ supply order.

b. The Bank Guarantees/ performance Bond offered by the Contractors/ Suppliers in pursuance of their agreement remain in the expenditure section of the Corporate Office in the custody of an officer nominated by Head of Finance in respect of Corporate Contracts and in Field Offices in respect of contract being handled in field units.

c. It must be ensured that procedure laid down vide Finance's letter no. HQ/F&AC/OPO/2 dated 08.12.2008 is followed in Toto.

CHAPTER-VII
ACCOUNTING OF SALARY AND BENEFITS

The chapter lays down the procedure to be followed in respect of payment of salary and other Personnel Payments, payment and recovery of loans and advances to employees. In order to streamline the payment of salary as well as other perks and allowances to employees, detailed procedure for submission of claims/sanction/payment/disbursal etc. of salary, perks and allowances has been issued vide HR's letter no HQ/HR/3/Allow.Pol./2 dated 20.01.2009 and two corrigendum nos. HQ/HR/3/Allow.Pol./2 dated 09.02.2009 and 13.02.2009. The role of HR and Finance as per these orders is as follows:

7.1 PAY RELATED ISSUES:

7.1.1 Pay Fixation »

1. HR Department will prepare the proposed pay fixation for every employee and send the same to Salary section of Finance department for vetting.
2. Finance will vet the pay fixation proposed by HR Department and return to HR for issue of pay fixation order.
3. After Finance vetting, HR will issue the pay fixation order.
4. Finance will charge pay based on pay fixation order.
5. The above procedure will be adopted in all cases of pay fixation, including revised pay fixation, if and when necessary.

7.1.2 Payment of FSC & Leave Salary Contribution:-

1. Corporate Office:-

All LAPs will be recommended by concerned controlling authorities for processing for sanction by HR Dept. HR will convey the sanction quarterly based on the leave account of the employee and send the sanction to Finance and concerned zonal Railways.

Finance will prepare the FSC and LSC on the basis of leave record provided by HR and the cheques along with the statement will be sent to respective zonal Railways/Units under advice to HR.

2. CPM Offices:

All LAP requests will be recommended by CPM and sent to HR every month along with the combined statement for all employees under him.

HR will issue the sanction based on the leave account on quarterly basis and send

the sanction to Finance and concerned zonal Railways.

Finance will prepare the FSC and LSC on the basis of leave record provided by HR and the cheques along with the statement will be sent to respective zonal Railways/Units under advice to HR.

7.1.3. Monthly Salary

1. For Corporate Office, HR will give the attendance of the employee to Finance by 15th of every month.
2. For field offices, respective CPMs will send the attendance of all employees under them to HQ Finance by 15th of every month with copy to HR.

Based on the attendance of the employees given by HR Dept. and CPMs, Finance will prepare monthly salary.

7.1.4. Salary of Outsourced Staff

1. HR will prepare, the monthly attendance statement of all hired staff by 20th of every month and send the same to the concern outsourcing agency.
2. For field offices, CPMs shall carry out the above function.
3. The outsourcing agency will prepare the salary bill and send to HR by 25th of every month.
4. HR after verification will submit the same to Finance for payment by the last day of the month.
5. The payment of outsourced staff in field units shall continue to be made as per instructions contained in this office letter no. HQ/F&AC/OPO/1 dated 12.05.2008. However, CPM will apprise the number of outsourced staff to CO every month in PCDO.

Finance shall make payment to the outsourcing agencies based on the bills duly verified by HR.

7.1.5 Issue of LPC

1. HR shall prepare the LPC and send to Finance for vetting.
2. Finance will vet the LPC and return to HR for issue/modification.
3. After Finance vetting, LPC shall be issued by HR.

7.2. ALLOWANCES:

7.2.1. Children Education Allowance.

1. Employee will submit the proof of entitlement for child education allowance (fee receipts) to HR Dept. at the beginning of the academic session (April).

2. HR Dept. will issue the sanction for payment for the entire year.

   Finance will charge CEA based on the sanction letter of HR.

7.2.2. Family Planning Allowance.

1. Employee will submit request along with the necessary medical certificate to HR Dept.
2. Entitlement will be checked by HR and sanction letter will be issued after obtaining the approval of competent authority.

Finance will charge the increments based on the sanction letter of HR.

7.2.3. Transport allowance (The staff/officers who have been provided official vehicle will not given transport allowance)

Sanction letter will be issued by HR for entitlement.

As per the prescribed rates finance will charge through the salary.

7.2.4. Newspaper/magazine allowance

As per the prescribed rates Finance will charge through the salary.

7.2.5. Sumptuary Allowance

It will be charged by the Finance as per the entitlements.

7.2.6. Furnishing allowance

It will be charged by the Finance as per the entitlements.

7.2.7. TADK allowance

It will be will be charged by Finance as per the entitlements.

7.2.8. Medical Reimbursement.

All medical reimbursement, except the regular allowance shall be processed by HR for sanction by competent authority.

A. Outdoor Medical Reimbursement

Outdoor medical re-imbursement:- Outdoor medical allowance to be paid along with salary as per the prescribed entitlement.

B. Indoor Medical Treatment

1. All bills will be submitted to HR by the employees directly in Corporate Office. In field office employees will submit the same to CPM.
2. HR will verify the admissibility and will put up the bills for sanction as per SOP.
3. HR will issue sanction letter.

Finance will make payment as per the sanction letter issued by HR.

7.2.9. Reimbursement towards Telephone/ Broadband

The CPMs of the field unit are delegated the responsibility of Landline + Mobile + Broadband charges based on the bills within the following limits:

Level	Combined Limits
CPM	7500
Dy.CPM	3500
PM/Dy.PM/APM	2000
Sr.Exe./Executive	1250

For employees in Corporate Office, a consolidated amount as per entitlement is paid through salary. However, following procedure is adopted for recovery of bills(CUG) from employees and payment to Operator:

1. Nominated staff in S&T section shall collect the bills of all employees.
2. S&T will send the same to Accounts Department for cheque preparation and deposit the same to the concerned authority.
3. S&T will advise the recovery of CUG bill to Finance for recovery from their salary.

7.2.10. Reimbursement for purchase of items for office at residence

1. The concerned officer shall submit the bills to HR. HR will issue the sanction after checking up entitlement.
2. HR shall maintain a register of the items.
3. The amount to be allowed, when an officer leaves the organization for purchase or for depositing the same shall be indicated by HR.
4. If the officer leaves the organization before the stipulated deputation period, he/she shall deposit the amount due to him on account of purchase of office equipment as per details below:

Vide HR's Letter no. HQ/HR/3/Allow. Pol./2 dated 22.06.2011, partial modifications have been issued in respect of policy circular no. 5 dated 08.11.2007 which is for the purchase of items for office at residence. As per the new guidelines, Competent Authority has decided to allow purchase of following items, irrespective of price of individual items, within the ceiling as indicated in the table below:

Levels	Amount Ceiling (in Rs.)	Items
MD/Directors	75,000	Air Conditioner, Inverter, Multifunctional Printer, Heat Convector, Office Furniture, Television, Curtains, Carpet.
ED/GGM/GM	72,000	

Furthermore, if an officer is leaving the organization, he will be allowed to purchase the items at the following rate:

S. No.	Particulars	Purchase Value
1	If purchased item is less than one year old	60% of purchased cost.
2	If purchased item is more than one year old but less than 2 year old.	40% of purchased cost.
3	If purchased item is more than 2 year old but less than 3 year old.	20% of purchased cost.
4	If purchased item is more than 3 year old but less than 4 year old.	10% of purchased cost.
5	If purchased item is more than 4 year old.	Nil

Finance shall make necessary recovery from the pay of the employee. HR will issue LPC duly vetted by Finance.

7.2.11. Reimbursement of membership/subscription towards clubs/societies.

The claims will be submitted to HR which will issue sanction letter and then payment will be

made by Finance.

7.2.12. Brief case reimbursement

The claims will be submitted to HR which will issue sanction letter and then payment will be made by Finance.

7.2.13. Company Lease accommodation

Self lease accommodation

1. The request for lease accommodation shall be made by all employees to HR, Corporate Office along with all details prescribed in the rule.
2. HR will examine the entitlement, execute the lease deeds, issue sanction letter indicating the amount of lease, security deposit, etc.
3. In- field offices CPM will execute the lease, deed as per entitlement of various employees. A copy of the lease deed shall be forwarded to Corporate Office for record purpose.

Corporate Finance will prepare the cheque in favour of the owner of the property for Corporate Office staff. In field units, the concerned finance department shall prepare cheques for the field staff.

7.2.14 Composite Transfer Grant

1. All claims for CTG shall be forwarded through the Controlling Officer to HR Corporate Office.
2. The claims will be examined by HR and sanction letter will be issued as per policy for payment. A copy of it will be sent to the concerned zonal Railway for verification.

Finance will make payment as per the sanction letter issued by HR.

7.2.15. Birthday gift

List of employees indicating their birthday will be submitting by HR in one month advance to Finance and Admn.

1. Finance will prepare the cheque and handover it to Admn.
2. Admn. will give the cheque along with a card to the concerned employee.
3. In field offices, CPM s will give the cheque along with a greeting card to the concerned employee.

7.2.16 Reimbursement of Electricity charges

It will be charged by the Finance as per the entitlements.

7.2.17 TA/DA reimbursement

Employees will submit the TA/DA bills through controlling authority to HR. HR will check entitlement and send to Finance for payment.

Finance Dept. will make payment as per entitlement.

7.2.18. Joining time

Employee will submit the claim to HR for availing joining time which will be sanctioned as per rule. Based on sanction letter, Finance will charge the salary.

7.2.19 Provision of Laptops to Officers/Staff in lieu of Desktops:

Based on the guidelines issued by Railway board and to rationalize procurement of desktops/laptops, Competent authority has approved the policy and issued it vide letter no. HQ/IT/Policy dated 17.06.2011 and modifications vide letter no. HQ/IT/Policy/01 dated 24.02.2012. As per the same, following are the entitlements:

S. No.	Level	Amount to be Reimbursement
1	GM and above	Rs. 70000/-
2	AGM/JGM	Rs. 55000/-
3.	DGM/MGR/AM	Rs. 35000/-
4.	Sr. Executive/Executive	Rs. 25000/-

The optimum economic life of laptop has been taken as three years. After 3 years, a new laptop may be procured after payment of 10% of the value of the laptop by the officer. The residual value of the laptop calculated as per straight line method is 30% for 1st year, 30% in 2nd year and 30% in the 3rd year. 10% salvage value and will have to be paid by the office when he leaves DFCCIL. Laptop once issued cannot be returned and residual value will have to be paid.

If the officer retires or leaves the organization permanently, then the residual value is to be deposited with the DFCCIL to obtain final clearance from the organization and the officer has to take custody of Laptop. Final clearance on repatriation will be given only after getting NOC from IT/Finance.

The repair and maintenance can be done from Original Equipment Manufacturer or authorized outlets by paying the amount himself/herself, and then claim the reimbursement thereof.

1. **Accounting Entry for payment of Salary:**

(a) **When Payment becomes due:**

Appropriate Salary Head A/c DR
To Statutory Liability A/c CR
To Salary Deductions CR
To Salary Payable (Employee) A/c CR

(b) **When Payment is made:**

To Salary Payable (Employee) A/c DR
To Bank A/c CR

2. **Accounting Entry for Claims received from HR Department other than Salary:**

(a) When Payment becomes due:

Respective Expenses Head A/c DR
To Employee A/c CR

(b) When Payment is made:
Employee A/c DR
To Bank A/c CR

3. **Accounting Entry for Advance to Staff:**

(a) On Payment:
Employee Advances A/c DR
To Bank A/c CR

(a) On Recovery:
Employee A/c DR
To Employee Advances A/c CR

7.3 Provident Fund (P.F)

There are two types of employees working in the Organization i.e. Employees working on deputation from other department and other on regular basis.

The responsibility of maintaining the provident fund ledger account of each deputationist lies with their parent department. Accordingly an amount of 8.33% on "basic pay" is to be deducted from the monthly salary bill and remitted to the parent organization of each

deputations for proper accountal in the P.F. Ledger account of the concerned employee by Salary section of Finance.

In case of regular employee, an amount of 12% of "Basic Pay +DA "(called as" employee's Share") shall be deducted towards provident fund per month from the monthly salary of the employee. The Company will contribute equivalent amount (called as "employer's Share"). The amount so deducted shall be deposited with PF Commissioner in time every month.

On superannuation or on death or on disablement, employee is entitled to pension as per EPF Pension scheme.

7.4 Taxation

Income Tax is computed using the tax effect accounting method, where taxes are accrued in the same period in which the related revenue & expanses arise. A provision is made for income tax annually based on the tax liability computed after considering tax allowances & exemptions applicable as per applicable law.

7.5 Issue of TDS certificates.

1. TDS Certificate on salary in Form No-16.
2. TDS Certificate for Rent, Payment to Contractor, Professional charges in Form No. 16 A.
3. TDS for WCT in Form 43.

CHAPTER-VIII
FIXED ASSET – ACCOUNTING

8.1 Introduction to Fixed Assets Accounting

This chapter provides the accounting system to be followed in respect of fixed assets covering accounting issues and procedures for capitalization, physical verification of assets and depreciation. The chapter also covers the accounting aspects of work in progress.

8.2 Definitions

Fixed Assets is defined as an asset held with the intention of being used for the purpose of producing or providing goods and services and is not held for sale in the normal course of business.

Property, Plant & Equipments are tangible items that:

a. are held for use in the supply of services or for administrative purposes; and
b. are expected to be used during more than one period.

e.g., Signalling & tracking & permanent way etc.

Carrying amount is the amount at which as asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.

The fixed asset costs shall be recorded in the books of account on a historical cost basis, i.e. the cost of acquisition/ construction. The historical cost shall be determined in accordance with the accounting guidelines as described in this manual. Capitalization is recognizing a cost as part of the cost of asset.

8.3 Accounting For Fixed Assets

All Fixed Assets purchased/commissioned during the year should be capitalized in the books of accounts under proper head of account since different rates of depreciation are specified under Schedule XIV of the Companies Act for different classes of assets.

Where the original cost of assets, additions and deductions thereto relates to any fixed assets which has been acquired from a country outside India and in consequence of a change in the rate of exchange at any time after the acquisition of such assets, there has been an increase or reduction in the liability of the company as expressed in Indian currency for making payment towards the whole or a part of the cost of the assets or for repayment of the whole or a part of moneys borrowed by the company from any person, directly or indirectly in any foreign currency specifically for the purpose of acquiring the assets, being in either case the liability existing immediately before the date on which the liability is so increased or reduced during the year, shall be added to, or as the case may be, deducted

from the cost and amount arrived at after such addition or deduction shall be taken to be cost of the fixed assets.

8.3.1 Leasehold Land & Building

Any premium paid or expenses incurred on acquisition of land for a fixed period on leasehold basis and other expenses incurred thereon including land and building development expenses should be debited to this account.

Cost of Building should be capitalized on completion of Building from "Capital Work in progress". Internal Electrical and sanitary fittings shall also form part of respective building.

8.3.2 Plant & Machinery

The cost of acquisition of Plant & Machinery including related expenses like freight, Local Agents commission, custom duty, incidental expenses, erection and commissioning charges etc. shall be debited to the respective account.

8.3.3 Furniture & Fixture

The cost of acquisition of furniture and fixture for offices and other places shall be debited to respective account. The cost of internal partition and other fixtures shall be directly charged off in the year of installation but if the cost is substantially high the same may be charged off in the subsequent years as may be decided by the Management.

8.3.4 Office and other Equipments

The Cost of office equipments such as calculators, computers, other electrical devices, typewriter, photocopy machine, Telephone, and other equipments of same nature shall be debited in the respective account.

8.3.5 Software

Amount paid for licenses for the use of software exceeding more than a year have to be debited to this account. In case software is purchased separately and is not an important tool to operate the computer then it should be included under the heading Software & Intangible Assets. The Intangible assets – web sites cost has to be accounted as per the SIC Interpretation 32 to International Financial Reporting Standards.

8.3.6 Other Fixed Assets

The cost of any other kind of fixed assets should be capitalized in the year of put to use in the respective account and any incidental charges like commission, custom duty, freight etc. shall be debited to the respective accounts.

8.3.7 Other Misc. Equipments

Plant & machinery and small assets costing up to Rs. 5000/- each purchased during the year shall be debited to respective account and depreciation of such items shall be charged @ 100% in the year of purchase on pro-rata basis.

8.3.8 Capital Work in Progress:

When the project is put to use to commercial operation, the total amount of incidental expenditure during construction incurred on the project shall be allocated on the tangible fixed immovable assets excluding land on the basis of cost appearing/adjusted as on date of commencement of commercial production.

Cost of materials issued to contractors free of cost for use in construction work being executed by them shall be debited to this account. On actual consumption as per running account and final bill, relevant construction work in progress shall be debited by credit to this account.

At the close of financial year foreign currency liabilities should be converted at the closing rate. In case of liabilities incurred for acquisition of fixed assets. The gain or loss should be credited/debited to this account. At the time of capitalization of assets the portion of exchange variation shall be added/ subtracted from the cost of such asset by corresponding credit/debit to this account.

When the cost of any asset has undergone a change due to gain or loss in conversion of foreign currency liabilities, the depreciation on the revised unamortized depreciable amount should be provided prospectively over the residual useful life of the assets.

8.4 Capitalization Entries

Normally long term additions to fixed assets or improvement on existing (excluding normal repairs and maintenance) are treated as capital expenditure, in some cases it would be a matter of judgment whether the expense is of capital nature or not. Such marginal cases should always be referred to Corporate Office before passing of capitalization entries by Corporate office. These entries are required to be passed in following cases:

- Purchase and Commissioning of an asset.
- Self built assets.
- Transfer from Capital Work-in-progress on completion.

It should be noted that only initial expenditure like transportation expenses, registration charge, and commissioning expenses is to be capitalized along with the cost of the asset.

8.4.1. Policy in respect of Capitalization of the assets

I. An asset has to be capitalised when it is ready to be put to use.

II. There are a few assets which are commissioned during the construction period itself such as staff quarters office buildings, etc. These can be capitalized as and when these assets are ready to use.

III. However assets which cannot be used in isolation without other assets/ completion of the project shall not be capitalized even if they are fully constructed. Such assets shall be capitalized only when they can be used on completion of the other assets/ project (e.g. bridges/tunnel, etc. are capitalized on commissioning of the project while individually they may be complete prior to commissioning of the project).

IV. All the capital expenditure (in respect of constructed assets) should be accounted for through CWIP account. On commissioning of the project the expenditure should be transferred to the appropriate fixed assets accounts. However, bought out assets should be capitalised directly.

V. Capitalization process will involve the following:

- Completion of all records till the date of capitalization
- Determination of direct cost on works
- Allocation of survey and investigation expenses.
- Allocation of borrowing cost
- Allocation of exchange rate variation
- Based on the above, arrive at the total cost for the works and each fixed asset items, as per the Chart of Account heads.

DFCCIL would maintain one Work in Process control register at all locations. All the costs would be entered in this register project wise, to enable to identify the cost relating to a particular project.

8.4.2 Procedure for Accounting and Capitalization of Work in Process

1. Capitalization would be done on the issue of Assets Completion Certificate with the date of capitalization. The date of capitalization for the project being declared ready for use shall be the date notified by Competent Authority(not below the level of GM/GGM) of DFCCIL by issue of the completion certificate.

2. All records pertaining to the project/ unit to be capitalized should be completed and finalized before the process of determination of costs and allocation of expenses are undertaken.

The finalizing of records/ accounts shall be include the following:

- Creating cost sheet for each and every item to be capitalized.
- Passing of all bills pertaining to contractors, suppliers, others till the date of capitalization.
- Creating provisions for liabilities for services/ supplies/works completed/ received up to the date of capitalization.
- Material issued to contractor account is settled and difference in issue price and cost is accounted for.
- Settlement of all advances and only the amount which is genuinely outstanding and recoverable should appear as advance.
- Restatement of foreign exchange liabilities.
- Updating of all stores records and closing of inventory records.
- Valuation and accounting of material at site.

8.4.3. All direct costs associated with the particular work/ asset head should be identified in CWIP register maintained by Expenditure department. At the time of capitalization, the works section should ensure from the available records and the MB that all the bills have been passed. In case contractor bills have not been received the capitalization should be carried out on a provisional basis, based on the contract/ engineering estimates.

8.4.4. Where a loan has been taken for construction/ acquisition of specific project/asset, the borrowing cost relating to the period till the asset is ready for us should be capitalized as a part of the cost of the asset. Such borrowing cost should be reduced by any income on temporary investment of such borrowing during the period.

8.4.5. Based on the above process the total cost shall be compiled for each asset item. In case any work constitutes more than one asset item (such as a group of buildings covered under one contract), the capitalized value shall be indentified to the respective asset items. Similarly, in some cases the item wise capitalized value shall be arrived at by adding up more than one work.

8.4.6. After the above, necessary accounting entry shall be passed through journal voucher, for creation of asset records. The above exercise should be reviewed and cross checked by another senior officer and approved by Head of Finance and Head of Project.

8.4.7. Once the amount to be capitalized is determined after the reconciliation he will pass the following entry in the books to capitalize the asset.

- Asset A/c Dr
  To Capital Work In Process A/c

(Being amount on completion of the project WBS no transferred to Fixed Assets Account)

Supporting document would be the cost sheet prepared for each contracts.

8.4.8. After capitalizing the same accountant would update the Fixed Assets Register and allot the Asset Identification Number to it. He would also intimate the Asset Control Authority to update the Fixed Asset Control register.

8.5 Capitalization of Bought Out Fixed Assets

This process lays down the procedure to be followed for capitalisation of bought out fixed assets which are ready for use.

The following types of assets may be bought out;

- Land
- Buildings
- Moveable assets

In case the procurement is made through purchase orders then the receipt of the assets shall be accounted for through stores department, as outlined in the manual on stores accounting. The assets identification number is allotted at the time of preparation of the Goods received note (GRN).

8.6 Adjustments to the cost of the assets

The cost of an asset may be subsequently adjusted due to any of the following:

a. Adjustment arising on the corrections & Amendment of the bills/adjustment of bills.

b. Upward or downward revision due to exchange variation on foreign currency liabilities for acquiring/ construction of assets.

c. Incidental / additional expenditure due to renovation and modernization.

d. Technical Consultancy cost incurred for the establishment of any new asset should be held as Capital Work in Process and should be capitalized on the completion of the project.

e. Financial Expenses

The costs relating to deferred credit on acquisition of fixed assets for the period up to the completion of acquisition of fixed assets is to be capitalized along with the asset to which they relate.

8.7 Maintenance of Fixed Assets Register

All assets procured/constructed should be recorded in Fixed Asset Register.

The FAR should contain the particulars of the asset, invoice particulars, purchase price and date of setting up and put to use, location, Estimated life, Asset identification number.

Fixed assets should be verified annually.

Copy of register so maintained in field units should be submitted to Corporate Office through Finance nominee posted at field units. The details provided in the FAR should be verified by Finance department and forwarded to CO for reconciliation with Books of Accounts.

Similarly, the FAR maintained in CO by different departments may also submit the copy of the same to Finance for reconciliation.

Discrepancy noticed during reconciliation should be brought to the notice of all concerned and corrective action may be taken.

A team should also be formed for physical verification of Assets from time to time. Physical verification of assets should be carried out on a fixed periodic basis and necessary remarks should be endorsed.

The depreciation should be worked out individual asset wise for that class of asset and then totaled up to facilitate passing of Depreciation entry.

The cost column of all assets in each class of asset put together should tally with the block of additions for that class in the General Ledger Account.

8.8 Depreciation Accounting

Definition:

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Useful life is the estimated remaining period, from the commencement of enjoying the benefits of the assets, over which the economic benefits embodied in the asset are expected to be consumed by the entity.

Residual Value is the net amount which an entity expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

8.9 Depreciation Entries

As per the provisions of Section 350 of The Companies Act, 1956 and as amended in 1988, the amount of depreciation shall be calculated with reference to the written down value of the assets as shown by the books of the Corporation at the rates specified in Schedule XIV of the Act. It should be noted that calculation of depreciation is to be done on pro rata basis from the date of addition/acquisition/commissioning.

8.10 Policies for Depreciation Accounting

a. Each Asset shall be depreciated on a systematic basis over the use-full life on the asset.

b. Depreciation on assets acquired during the year is to be provided on a proportionate basis.

c. Depreciation on assets begins when it is ready to use, i.e. when it is in location and condition necessary for it to be capable of operating in the manner intended by the management.

e. Items costing Rs 5,000 or less acquired during the year are to be depreciated at 100% on pro rata basis.

f. Structures in the nature of temporary erection are fully depreciated in the year of its construction.

g. Intangible Assets are amortized on Straight-line method over a period of legal right to use or as per company policy.

i. Depreciation in respect of addition to an existing asset which form integral part of main assets capitalized earlier is charged over the remain useful life of those Assets.

h. Depreciation Method; Straight Line Method and Written Down Value Method.

i. Depreciation is provided on written down value method at the rates prescribed under Schedule XIV of the companies Act 1956. However, in case of the following assets, depreciation is provided on Straight Line Method over the estimated useful lives of the assets determined at the following rates.

Description	Annual Depreciation
Laptop	30%
Mobile	90%

j. Intangible Assets and amortization

i) Computer Antivirus Software is amortized over its useful life i:e on pro rata basis.

ii) Other computer software is amortized over three years on pro rata basis.

k. Lease hold Premises Improvements are amortised over the residual period of lease from the month in which such leasehold improvements are put to use.

l. Fixed Assets other than above will be depreciated as per the Companies Act 1956.

CHAPTER-IX
Maintenance Of General Ledger

9.0 Definition

The general ledger is the main accounting record of a business which uses double-entry bookkeeping. It will usually include accounts for such items as current assets, fixed assets, liabilities, revenue and expense items, gains and losses. Each General Ledger is divided into debits and credits sections. The left hand side lists debit transactions and the right hand side lists credit transactions.

The general ledger can be supported by one or more subsidiary ledgers that provide details for accounts in the general ledger. For instance, an accounts receivable subsidiary ledger would contain a separate account for each credit customer, tracking that customer's balance separately. This subsidiary ledger would then be totalled and compared with its controlling account (in this case, Accounts Receivable) to ensure accuracy as part of the process of preparing a trial balance. The extraction of account balances is called a trial balance. Further, the balance sheet and the income statement are both derived from the general ledger.

Since this is the Main record to prepare Balance Sheet of the company, therefore the balances should be scrutinized on monthly basis by Books Section of Finance Department at Corporate Office with the help of firm hired for the purpose of preparation and maintenance of accounts of DFCCIL. The scrutiny to be done, should be done keeping in view the following aspects:

- Whether proper head of account is debited / credited.
- Abnormal debit entries / credit entries appearing in the account are correct and reasoning thereof.
- Distinction between Capital Expenditure and Revenue Expenditure is properly observed while allocation.

It is to be noted that from the General Ledger Trial Balance, the final accounts are prepared keeping in view the provisions of Schedule VI of the Companies Act, 1956; hence the General Ledger plays an important role in preparation of Final Accounts.

The codification procedure discussed in Chapter 3 of the manual and Booklet of codes (issued separately) should always be referred so as to ensure proper allocation of the head of account. The schedule wise/ group wise codification is explained hereunder:

i) **Share Capital:** This group is to be operated only at Corporate Office level hence all other Field Units should ensure that no transactions are recorded through the Account Codes of this group.

ii) **Loans Fund:** This group is to be operated only at Corporate Office.

iii) Fixed Assets: This schedule includes the following:

Buildings: All types of permanent constructions including roads, railway stations etc.

Leasehold improvements: This should basically include the expenditure done on any furnishing done in the leasehold building and amount to written off over the period of lease.

Plant and machinery: This should basically be used for all types of equipments purchased and used for construction of the track.

Office Equipment and peripherals: This includes equipments / machines used in office like computers, type writers, copiers, etc.

Furniture and Fixtures: All types of furniture in offices and Rest Houses along with the fixtures should be included in this group.

Vehicles: Vehicles used for proper administration of the project should be grouped under this head. Care should be taken in deciding whether a particular vehicle should be clubbed under this group or the group of machinery.

Temporary Structures: All type of temporary structures, which are to be dismantled subsequently, should be clubbed under this group. Important point to be noted for this classification is that the rate of depreciation for this group is 100 %.

Note: Under each group the original cost, additions thereto and deductions there from during the year and the total depreciation provided up to the end of the year should be stated.

iv) Expenditure of capital nature on fixed assets which are either to be completed or though completed not put to use. e.g. Building though completed cannot be capitalized unless commercial operations commence. This group also includes materials at sites.

v) Advances and Deposits

The groups under this schedule should include Capital Work Advances/ Deposits given to Contractors/ Suppliers.

vi) Current Assets, Loans and Advances

Under the group Current assets interest accrued on investments, if any, needs to be shown separately for Balance Sheet, Bank balance with Scheduled banks and other banks should be classified separately, for this schedule. Under Loans and advances it should be ensured that

all the advances are recoverable in cash or in kind or for value to be received, e.g. Rates, taxes, insurance, etc.
Balances with Customs, Port Trust etc. should also be classified separately for this schedule.

vii) Current liabilities

This group shall include Sundry Creditors, Interest accrued but not due on loans and other liabilities; whereas provisions shall include provision for taxation. Contingencies, other provisions, etc.

viii) Salaries and Advances

In addition to salaries and allowances, contribution to PF and Staff Welfare expenses should be grouped under this schedule.

ix) Other Administrative Expenses

All types of revenue expenses, recurring expenses other than salaries and benefits should be considered in this schedule, e.g. rent, printing, stationery, traveling, repairs, maintenance etc. The expenses which cannot be classified under any account head due to the nature of expenditure should be clubbed under other/ miscellaneous expenses.
The group of prior period expenses should be operated only in consultation with Corporate Office.

x) Incidental Income

Since-no commercial activities have started at the time of writing this manual any income arising is to be classified under this schedule with major groups such as Interest from banks, Sale of Tender Forms, etc.

9.2 Maintenance of subsidiary ledgers

A subsidiary ledger is a group of similar accounts whose combined balances equal the balance in a specific general ledger account. The basic objectives in maintaining Subsidiary Registers are:

1. To ensure better control over the advances given.
2. To ensure timely and appropriate recovery of Advances, and
3. To facilitate working of details of advances required for finalization of accounts/ audit. For the present operations the following subsidiary registers are required to be maintained to achieve above referred objectives:

    a. Advances to Contractors.
    b. Advances to suppliers.

c. Advances to SLAOs.
d. Other advances such as festival advance, salary advance, T.A. advance, transfer advance, etc..

It should be noted that simultaneous entries should be made in the respective register on payment of advance and on recovery of advance. The advance register should be maintained individual wise and balances in Individual accounts put together should be tallied / reconciled with the Control Accounts in General Ledger on monthly basis. This task should be assigned to a senior person in the division.

CHAPTER-X
ACCOUNTING FOR REVENUE

10.1 Income from Operating Activities

No commercial activity has started at the time of prepation this manual.

10.2 Income from Non Operating Activities

Any income arising from non-operating/non- commercial activities will be classified under this schedule with major groups such as interest from banks, Sale of Tender forms, service charges received etc. will be first shown as other income then will be adjusted in the Capital work in progress.

Interest received from Banks or any financial institutions, income from sale of tender, income from service charges and any miscellaneous income will be booked in the respective account head under head "OTHER INCOME".

Any profit earned from sale of fixed assets shall be credited to PROFIT ON SALE OF FIXED ASSETS account under other income. When the profit on sale of such assets exceeds the amount of accumulated depreciation, such excess amount shall be credited to CAPITAL RESERVE.

10.3 Miscellaneous Receipts

Receipts on accounts of unpaid salaries/wages outstanding for more than three years, un-refunded earnest money/deposits outstanding for more than three years, recovery of training expenses, punitive charges, hire charges, sale of scrap or any disposable items, security deposit or earnest money forfeited, excess cash, amount of claims from suppliers remaining unclaimed for want of claims by them for three years and any other receipts not mentioned elsewhere shall be credited to this account.

CHAPTER-XI
PREPARATION OF ANNUAL ACCOUNTS

11.1 Introduction

Financial Statements prepared at the end of the year include balance sheet, profit and loss account and the schedules to the balance sheet and the profit and loss account.

The contents of financial statement prepared annually are as follows:

1) Annual Accounts-Balance Sheet and Statement of Profit and Loss.
2) Notes forming part of B/Sheet and Statement of Profit and Loss.

11.1.1 Forms of Annual Accounts

-Forms of Balance Sheet and Profit and Loss Account refer to the manner in which assets and liabilities, income and expenses are presented in these financial statements.

-The Annual Accounts of the corporation are required to be prepared keeping in view the following:-

- Disclosure requirements as to Balance Sheet as per part I of Schedule VI of the Companies Act, 1956.
- Disclosure requirements of part II of Schedule VI of the Companies Act, 1956,
- Reporting requirements of the Companies (Auditor's Report) Order 2003.
- Reporting requirements of the Accounting standards issued by The Institute of Chartered Accountants of India.

The various requirements of the above provisions to the extent applicable for present operations of the corporation have been discussed, in brief, hereunder.

11.1.2 Accounting Period

-The accounting period followed for the preparation of Balance Sheet and Profit and Loss Account shall be the financial year (April 1 to March 31).

11.1.3 Denomination

-The amount should be stated as Rupees.

11.1.4 Previous Year Figures

-The previous year's figures should be reclassified, regrouped and rearranged, if required as per current year to facilitate comparison of the previous year with current year figures.

11.2 Opening Entries

This is required only for the accounts appearing in the Balance Sheet of the earlier year. The entry should be passed to carry forward the opening balances of asset and liability accounts the subsequent year. Corporate Office shall communicate the final Division-wise balances, which are to be carried forward to next year.

11.3 Rectification of Heads of Account

The correctness of head of account should be ensured before processing /recording any type of voucher. However, mistakes, if any, noticed subsequently should be rectified only by way of a Journal Voucher.

11.4 Closing Entries

These are required to be passed to close the books of account at the end of the year. The Revenue accounts should be transferred to P&L A/c as per the as per rule. The asset and liability accounts should be transferred to Balance Sheet for carrying forward to the next financial year. The Corporate Office shall communicate subsequent changes made at Corporate Office, if any, to the field Offices.

11.5 Balance Sheet

Balance sheet is a statement of fiscal position as at a given date, which lays down its assets, liabilities, capital, and reserves, and other account balances whether debit or credit at their respective values.

The requirements on this regard are three fold:

a) Balance Sheet drawn is in agreements with the books of account,

b) Balance Sheet drawn is in conformity with the format and disclosure requirements of Schedule VI and the accounting standards issued by ICAI.

c) Balance sheet drawn gives a true and fair view of the state of affairs of the Corporation as on the date of Balance Sheet.

Balance Sheet may be defined as a formal arrangement of facts and figures in an intelligible manner, showing the total values of assets owned and the total amount of liabilities owed on a particular date, so that the net worth can be ascertained for a Balance Sheet to give true and fair view of the state of affairs. Financial Statements are required to be prepared in accordance with the Companies (Accounting Standards) Rules,2006 (Accounting Standards Rules) and Schedule VI to the Companies Act,1956. The Schedule VI has come into force for

the Balance Sheet and Profit and Loss Account to be prepared for the financial year commencing on or after 1-4-2011.

Accounting Standards to override Schedule VI in case of a conflict between AS and Schedule VI, AS shall prevail.The disclosure requirements specified in Part I and Part II of this Schedule are in addition to and not in substitution of the disclosure requirements specified in the Accounting Standards prescribed under the Companies Act, 1956. Additional disclosures specified in the Accounting Standards shall be made in the notes to accounts or by way of additional statement unless required to be disclosed on the face of the financial Statements The format of balance Sheet and Profit & loss Account has been revised. This is applicable to all the companies uniformly for the financial statements to be prepared for the financial year 2010 – 11 and onwards.

Salient Features of the New Schedule VI

(A) **Only two Parts – Part I and Part II** – Old Schedule VI had four parts (Part I, Part II, Part III and Part IV). The New Schedule VI has only two Parts [Part I (balance sheet) and Part II (profit and loss account)]. The New Schedule VI omits Parts III (definitions of "reserve", "provision", "revenue reserve" and "capital reserve") and IV ("Balance Sheet abstract of company's general business profile"). While Part II of the Old Schedule VI contained no format for profit and loss account, Part II of New Schedule VI prescribes a vertical format for profit and loss account.

(B) **No need for Companies to prepare(Balance Sheet abstract of company's general business profile)** – As New Schedule VI omits Part IV of Old Schedule VI ("Balance Sheet abstract of company's general business profile"), companies will not be required to prepare and present "Balance Sheet abstract of company's general business profile" with effect from financial year 2011-12. However, in the annual reports for financial year 2010-11, "Balance Sheet abstract of company's general business profile" will have to be given as old Schedule VI applies for accounts and annual reports of financial year 2010-11.

(C) **New Schedule VI imports concepts from Indian AS (whose effective date is to be notified) while also retaining concepts from existing AS which are omitted in Ind ASs** – The New Schedule VI borrows the concepts of current and non-current classification of assets and liabilities from Indian Accounting Standards (35 Ind ASs) put up by the Ministry of Company Affairs on its website. The effective date for Ind ASs (converged with IFRS) is yet to be notified. Therefore, pending such notification all companies are at present required to apply the Accounting Standards [(AS) 1 to (AS) 29] notified by the Central Government vide the Companies (Accounting Standard) Rules, 2006. The New Schedule VI also uses the terms "business Combination" and "special purpose controlled entities" which are imports from Ind ASs/IFRS. However, the format of profit and loss account prescribed by it in Part II uses the terms "extraordinary items"/"prior period items"/ "discontinuing operations" which are there in Accounting Standards notified vide the 2006 Rules but not recognized by Indian AS.

(D) **Vertical form of balance sheet is compulsory** – The vertical form of balance sheet is compulsory in the new Schedule VI. The old Schedule VI permitted both the vertical and horizontal formats.

(E) Vertical **format of Profit and Loss Account is compulsory** – The New Schedule VI prescribes a vertical form of Profit and Loss Account which is compulsory. The Old Schedule VI did not prescribe any format for profit and loss account. Following is the revised format of Balance Sheet as per schedule VI for Balance Sheet.

Balance Sheet as at ....

Particulars	Figures at the end of current reporting period	Figures at the end of previous reporting period
I. EQUITY AND LIABILITIES		
1) Shareholder's Funds		
(a) Share Capital		
(b) Reserves and Surplus		
(c) Money received against share warrants		
(2) Share application money pending allotment		
(3) Non-Current Liabilities		
(a) Long-term borrowings		
(b) Deferred tax liabilities (Net)		
(c) Other Long term liabilities		
(d) Long term provisions		
(4) Current Liabilities		
(a) Short-term borrowings		
(b) Trade payables		
(c) Other current liabilities		
(d) Short-term provisions		
Total		
II. ASSETS		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets		
(ii) Intangible assets		
(iii) Capital work-in-progress		
(iv) Intangible assets under development		
(b) Non-current investments		
(c) Deferred tax assets (net)		
(d) Long term loans and advances		
(e) Other non-current assets		
(2) Current assets		
(a) Current investments		
(b) Inventories		
(c) Trade receivables		

(d) Cash and cash equivalents
(e) Short-term loans and advances
(f) Other current assets
Total

11.6 Statement of Profit and Loss

Statement of Profit and loss is a statement of all income earned & accrued and expenditure incurred & accrued during the financial year. The profit and loss account shall exhibit the result of the operation during the period covered by the financial statement.

STATEMENT OF PROFIT AND LOSS

Profit and Loss statement for the year ended..................

Particulars	Note No	Figures as at the end of current reporting period	Figures as at the end of previous reporting period
I. Revenue from operations			
II. Other Income			
III. Total Revenue (I+II)			
IV. Expenses:			
Cost of materials consumed			
Purchase of Stock-in-Trade			
Changes in inventories of finished goods, work-in-progress and Stock-in-Trade			
Employee benefit expense			
Financial costs			
Depreciation and amortization expense			
Other expenses			
IV. Total Expenses			
V. Profit before exceptional and extraordinary items and tax(III - IV)			
VI. Exceptional Items			
VII. Profit before extraordinary items and tax (V - VI)			
VIII. Extraordinary Items			
IX. Profit before tax (VII - VIII)			
X. Tax expense:			
(1) Current tax			
(2) Deferred tax			
XI. Profit(Loss) from the period from continuing operations(VII-VIII)			
XII. Profit/(Loss) from discontinuing operations			
XIII. Tax expense of discounting operations			
XIV. Profit/(Loss) from Discontinuing operations (XII - XIII)			

XV. Profit/(Loss) for the period (XI + XIV)
XVI. Earning per equity share:
(1) Basic
(2) Diluted

11.7 Year End Closing of Accounts

This process outlines the activities involved for accounts closing at the year-end. The specific accounting policies that shall be followed by DFCCIL have been laid down in the respective manuals.

The following activities should be carried out for the purpose of year-end closing of accounts.

11.8 Issue of Accounts Closing Circular

The Finance & Accounts Department, under the signature of Director Finance shall issue an Annual Accounts circular in the beginning of March each year. The circular would include the necessary instructions/ guidelines for the purposes of year end closing and preparation of final accounts. This circular also lays down the time period specified for activities such as:'

-Commencement and completion of audit – statutory and government, receipt of draft and audited account at CO, replies to the auditor's comments, etc.

-Cut off date to be considered for closing of accounts.

The following instructions may be disclosed separately in the closing circular which requires for preparation of balance sheet:

The amount of exchange difference charged to Profit and Loss a/c during the year.

The amount of exchange difference adjusted in carrying amount of fixed assets as well as CWIP during the year to be disclosed separately by way of note to the accounts.

Provisions for wage revision etc are to be shown under "Provision for Staff Benefits" in Schedule No. 9 and not merged with "Other liabilities". It may be noted that no provision is to be created on account of LTC during the current year.

Actuarial valuation in respect of retirement benefits.

Liabilities for capital expenditure and goods & services due to Micro & small enterprises should be shown separately in Scheduled of "CURRENT LIABILITIES".

Income/expenditure in foreign currency.

Details regarding the contingent liabilities along with status thereof.

Details pertaining to amounts due to small scale industries Statement of capital commitment report under section 619(3)(a) of Companies Act, 1956

Additional employee related details under section 217(2) of the Companies Act, 1956 etc.

Submission of details pertaining to calculation of actuarial valuation for retirement benefits such as gratuity, leave encashment, post retirement medical benefits, in the prescribed format.

Problems encountered in the consolidation of the previous year should be appropriately addressed.

Additional information required for Comptroller and Auditor General (CAG) review.

Additional information required for reporting to Department of Public enterprises.

Any specific instructions.

11.9 Process for Accounting for Provisioning Required At the Year End and Computation of Capital Commitments

This process provides the procedure to be adopted for creating provisions and ascertaining the capital commitments for disclosure purposes.

As per normal day to day accounting procedure, a liability for works done by the contractors is recognized only on passing of the contractors' bill by the accounts department. However at the year end the status of the bills pertaining to works contracts may be as follows:

- Bills under processing in the accounts department
- Bills under processing with EIC.
- Work done and measured by the engineer but bills are not prepared.
- In case of supply contracts the equipment/ machinery may not have reached DFCCIL but the ownership may have passed on to DFCCIL at the time of dispatch of equipment/ machinery itself, as per the terms of the contract.

In addition, care should be taken to check that the status of the materials-in-transit and materials-inspection as well as the material received at site and accepted but for which the MB is still to be updated should also be reviewed and indicated by the Engineer-In-Charge to the Finance & Banking.

11.9.1 Accounting Entries for Creating Provision at year end

The following Journal Accounting entries should be passed at the year end to account for the expanses and provide for their liability so that financial statement presents a true and fair view:

On Provision for taxation:

Income Tax (P&L) Dr.
Provision for Tax (B/Sheet) Cr.

On Provision for Audit Fees/Gratuity/Consultancy/Expanses at the Yearend:

Audit Fee/Gratuity/Consultancy/Expanses (P&L) Dr.
Provision for Audit Fees/Gratuity/Consultancy/Expanses (B/S) Cr.

11.10 Procedure for Balance Confirmation

The balance sheet of the corporation should give a true and fair view of the state of its affairs. In view of this it is necessary to confirm the advances balances outstanding with the creditors contractors suppliers etc. Necessary request for the same should be given. Balance confirmation letters should be sent to all the creditors' contractors and suppliers.

The same should be prepared in three copies out of which two copies should be sent to the addressee and one copy be retained as office copy. Out of the two copies sent to the addressee one copy shall be returned by him directly to the auditors of the corporation in the addressed stamped envelope which should be sent along with the two copies to the addressee.

On receipt of copies of such replies received by the auditors the same should be scrutinized with reference to confirmation of balance by the addressee, in case of difference the balances should be reconciled and necessary entries should be passed in the books of accounts

11.11 Procedure: Computation of Capital Commitment

Preparation of schedule of the capital commitments at the yearend in respect of each accounts contract containing the following:

-The total value as per the contract/Revised value of contract – as per the Register of Agreements maintained including variance proposed but pending for approval (if any).

-The payments released till date including advance payments – as per the Contract Payment Register.

-The provision created at the year-end.

Forward the statement to the competent authority for approvals and to the Engineer-in-charge concerned for review.The above would form the basis for reporting capital Commitments in the annual report.

11.12 Other process

Review the bills passed in the subsequent year (up to the date of finalization of the accounts) to identify the bills pertaining to the previous year. The cut off date for providing the liability should be taken as April 30th, except for liability of material nature (i.e. more than Rs. One Lakhs) in each case which may be taken into account up to the date the accounts are finalized.

Wherever debit and credit amounts are appearing against a party in respect of same work, purchase order, such amounts should be netted off. Netting off is not to be done where the advance paid is to be recovered in installments.

Liabilities in respect of Capital expenditure in respect of incomplete contracts will be provided on the basis of Engineer's certificate. For cross verification of the estimates last Measurement book recorded can be referred.

There shall be no netting off of individual debit/ credit balances in the same schedule.

Confirmation of balances should be obtained from the parties.

No qualifications/ comment of Statutory auditors or any new notes to accounts is to be taken unless approved by Director (Finance).

Formalities for transfer of title of land in favour of DFCCIL and mutation should be completed. Lease/premium on leasehold land is to be amortized over the period of lease by charging to Profit and Loss.

Position regarding stale cheque should be reviewed and necessary adjustments carried out.

In operational projects value of stores issued but not consumed as on balance sheet date and continuing in Material At Site account is to be shown as material in hand as a part of inventory by withdrawing the same from the expenditure head.

Liquidated damages wherever recovered against acquisition of an asset are to be treated as Miscellaneous Income and not be reduced from the cost of the asset.

Fixed Asset Register along with all its Annexure should be completed in all respects.

Physical verification of fixed assets and stores are complete and any discrepancies are duly accounted for/adjusted in the books of account.

Bank reconciliation is prepared.

The value of work done and measured up to 31st March but not paid up to 31st march should be provided for a liability in the appropriate heads of accounts.

Adverse balances in trial balances are investigated/ reviewed and adjusted.

The claims recoverable like from railways, insurance Co's, and Govt. departments should be reviewed and claims doubtful of recovery should be provided for.

The debtors outstanding and the age-analysis of the debtors should be reviewed and a provision shall be created at the year-end for the doubtful debts, as considered necessary.

All kind of Employee advances should be accounted for as per DFCCIL Rules framed in this Regard.

Material in transit/ under inspection has been accounted for.

Consumption of loose tools has been accounted for as per accounting policy.

CHAPTER-XII
Companies (Auditor's Report) Order, 2003

12. Introduction

In exercise of the powers conferred by sub-section (4A) of Section 227 of the Companies Act, 1956, the Central Government makes the Companies (Auditor'sReport) Order, 2003. It shall apply to every company including a foreign company as defined in section 591 of the Act, except the following :-

(i) a Banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949);
(ii) an insurance company as defined in clause (21) of section 2 of the Act;
(iii) a company licensed to operate under section 25 of the Act; and
(iv) a private limited company with a paid up capital and reserves not more than fifty lakh rupees and has not accepted any public deposit and does not have loan outstanding ten lakh rupees or more from any bank or financial institution and does not have a turnover exceeding five crore rupees. The following points should be taken care of so as to comply with the requirements of Companies (Auditors) Reports Order, 2003.

12.1 Matters to be included in the auditor's report

The auditor's report on the account of a company to which this Order applies shall include a statement on the following matters, namely :-

(i) a) whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;
(i)(b) whether these fixed assets have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account;
(i)(c) if a substantial part of fixed assets have been disposed off during the year, whether it has affected the going concern;

(ii) (a) whether physical verification of inventory has been conducted at reasonable intervals by the management;
(b) are the procedures of physical verification of inventory followed by the management reasonable and adequate in relation to the size of the company and the nature of its business. If not, the inadequacies in such procedures should be reported;
(c) whether the company is maintaining proper records of inventory and whether any material discrepancies were noticed on physical verification and if

so, whether the same have been properly dealt with in the books of account;

(iii) (a) has the company either granted or taken any loans, secured or unsecured to/from companies, firms or other parties covered in the register maintained under section 301 of the Act. If so, give the number of parties and amount involved in the transactions.

(b) whether the rate of interest and other terms and conditions of loans given or taken by the company ,secured or unsecured, are prima facie prejudicial to the interest of the company;

(c) whether payment of the principal amount and interest are also regular;

(d) if overdue amount is more than one lakh, whether reasonable steps have been taken by the company for recovery/payment of the principal and interest;

(iv) is there an adequate internal control procedure commensurate with the size of the company and the nature of its business, for the purchase of inventory and fixed assets and for the sale of goods. Whether there is a continuing failure to correct major weaknesses in internal control;

(v) (a) whether transactions that need to be entered into a register in pursuance of section 301 of the Act have been so entered;

(b) whether each of these transactions have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time;

(This information is required only in case of transactions exceeding the value of five lakh rupees in respect of any party and in any one financial year).

(vi) in case the company has accepted deposits from the public, whether the directives issued by the Reserve Bank of India and the provisions of sections 58A and 58AA of the Act and the rules framed there under, where applicable, have been complied with. If not, the nature of contraventions should be stated; If an order has been passed by Company Law Board whether the same has been complied with or not?

(vii) in the case of listed companies and/or other companies having a paid-up capital and reserves exceeding Rs.50 lakhs as at the commencement of the financial year concerned, or having an average annual turnover exceeding five crore rupees for a period of three consecutive financial years immediately preceding the financial year concerned, whether the company has an internal audit system commensurate with its size and nature of its business;

(viii) where maintenance of cost records has been prescribed by the Central Government under clause (d) of sub-section (1) of section 209 of the Act, whether such accounts and records have been made and maintained;

(ix) (a) is the company regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth Tax, Custom Duty, Excise Duty, cess and any other statutory dues with the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated by the auditor.

(b) in case dues of sales tax/income tax/custom tax/wealth tax/excise duty/cess have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending may please be mentioned.

(A mere representation to the Department shall not constitute the dispute).

(x) whether in case of a company which has been registered for a period not less than five years, its accumulated losses at the end of the financial year are not less than fifty per cent of its net worth and whether it has incurred cash losses in such financial year and in the financial year immediately preceding such financial year also;

(xi) whether the company has defaulted in repayment of dues to a financial institution or bank or debenture holders? If yes, the period and amount of default to be reported;

(xii) whether adequate documents and records are maintained in cases where the company has granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities;

If not, the deficiencies to be pointed out.

(xiii) whether the provisions of any special statute applicable to chit fund have been duly complied with? In respect of nidhi/ mutual benefit fund/societies;

(a) whether the net-owned funds to deposit liability ratio is more than 1:20 as on the date of balance sheet;
(b) whether the company has complied with the prudential norms on income recognition and provisioning against sub-standard/default/loss assets;
(c) whether the company has adequate procedures for appraisal of credit proposals/requests, assessment of credit needs and repayment capacity of the borrowers;
(d) whether the repayment schedule of various loans granted by the nidhi is based on the repayment capacity of the borrower and would be conducive to recovery of the loan amount;

(xiv) if the company is dealing or trading in shares, securities, debentures and other investments, whether proper records have been maintained of the transactions and contracts and whether timely entries have been made therein; also whether the shares, securities, debentures and other securities have been held by the company, in its own name except to the extent of the exemption, if any, granted under section

49of the Act;

(xv) whether the company has given any guarantee for loans taken by others from bank or financial institutions, the terms and conditions whereof are prejudicial to the interest of the company;

(xvi) whether term loans were applied for the purpose for which the loans were obtained;

(xvii) whether the funds raised on short-term basis have been used for long term investment and vice versa;

If yes, the nature and amount is to be indicated;

(xviii) whether the company has made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Act and if so whether the price at which shares have been issued is prejudicial to the interest of the company;

(xix) whether securities have been created in respect of debentures issued?

(xx) whether the management has disclosed on the end use of money raised by public issues and the same has been verified;

(xxi) whether any fraud on or by the company has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated.

5. Reasons to be stated for unfavourable or qualified answers. – Where, in the auditor's report, the answer to any of the questions referred to in paragraph 4 is unfavourable or qualified, the auditor's report shall also state the reasons for such unfavourable or qualified answer, as the case may be. Where the auditor is unable to express any opinion in answer to a particular question, his report shall indicate such fact together with the reasons why it is not possible for him to give an answer to such question.

Thus, it is important that proper care should be taken in respect of above while preparing Annual Accounts of the company.

CHAPTER-XIII
Reporting to International Funding Agency

13. Introduction

DFCCIL has planned mixed funding pattern for this project. This constitute equity from Railways, bilateral debt from JICA for Western Corridor (phase I and Phase II) and World Bank for Eastern Corridor (APL-I, APL-2 & APL-3) in the form of borrowings and construction of some portion through PPP for Sonnagar - Dankuni section.

The procedure for reporting to different agencies has been put in detail in Financial Reporting Manual. DFCCIL's Financial Reporting Manual (FReM) is the technical guide for the preparation of financial statements. This manual lays down the Financial Reporting and Financial Management Information System (FMIS) for the Company. It complements guidance on the reporting of activities undertaken by public funds contributed by Ministry of Railway as Equity, loan from leading Financial Institutions like World Bank , JICA , and receipts from other sources. This also gives guidance on activity based utilization of fund, Control over Expenditure, Budgetary Control, Asset Acquisition, and Project Management with the help of a well-established Financial Management Information System through detailed Management Information Reports. This manual reminds the preparers that the format and content of financial statements to be prepared shall meet with the information needs of various stakeholders of this organization.

However, for the benefit of readers of this manual, the procedure to be adopted for receipts of funds, accounting of funds and the reporting requirements of funding agencies are given below:

13.1 International Bank For Reconstruction And Development (World Bank)

In the first phase of support, World Bank has agreed to lend the amount of Nine Hundred and Seventy Five Million Dollars ($975 million) to assist in financing the Eastern Corridor APL-1(Bhaupur- Khurja section, 343 kms).

As part of the World Bank covenants, Ministry of Railways is required to provide Counterpart Funds in the form of equity infusion.

DFCCIL shall provide all information, duly supported by documents, as may be required by MoR for including the amounts of counterpart funds, as also the World Bank routed through MoR , in their Annual budget as per the time schedule by MoR.

In addition to this, in terms of Clause 8.2 of Subsidiary Loan Agreement, the annual counterpart funds requirement will be released by MOR in four tranches through budget.

Funds Flow and IBRD loan on-lending

Since the main Loan Agreement is between India and IBRD, therefore the IBRD loan will flow from the consolidated fund of India through MOF (CAAA) to MOR. Further, in terms of Clause 2.1 of Subsidiary Loan Agreement, MoR will make available to DFCCIL a loan in Rupee equivalent of USD loan availed from IBRD on back-to-back basis and subject to the conditions of this Agreement. The counterpart funds received by DFCCIL under the project from MoR would be in the form of equity.

Disbursement Procedure

Following different methods are being used by the Bank to disburse loan proceeds:

a. The Bank may ***reimburse*** the Borrower for expenditures eligible for financing pursuant to the Loan Agreement ("eligible expenditures") that the Borrower has pre-financed from its own resources. ***This is the method being used for APL-1 funding.***
b. The Bank may advance loan proceeds into a designated account of the Borrower to finance eligible expenditures as they are incurred and for which supporting documents will be provided at a later date.
c. The Bank may make payments, at the Borrower's request, directly to a third party (e.g., supplier, contractor, and consultant) for eligible expenditures.
d. The Bank may pay amounts to a third party for eligible expenditures under special commitments entered into, in writing, at the Borrower's request and on terms and conditions agreed between the Bank and the Borrower.

Applicable IBRD loan disbursement method for this project is ***Reimbursement.*** Supporting documents for Reimbursement applications would be quarterly Interim Unaudited Financial Reports (IUFRs). The project would seek reimbursement of expenditure as reflected in the IUFR which would also provide details of expenditure incurred till date by category and component/ package. Supporting documentation, including completion reports, certificates and other documentation, will be retained by DFCCIL and made available to the Bank during project supervision. These would also be audited as a part of annual project financial statements audit. Interim Un-audited Financial Report (IUFR) format are available in the FReM (Financial Reporting Manual).

In terms of Clause 4.2 of Subsidiary Loan Agreement, following provisions shall apply with respect to drawings of MoR Loan by DFCCIL:

i. DFCCIL shall submit to the MoR, by the last week of December preceding every financial, annual projections of expected disbursement in the following financial year, to enable budgets for funds to be released to DFCCIL against expected disbursement in the following financial year; and

ii. DFCCIL shall submit to MOR by 10th day of each quarter, estimated fund requirement for that quarter based on the progress of implementation of the project. The estimate for each quarter will indicate details of (a) funds drawn, utilized, and balance available till the end of previous quarter (b) commitment for the quarter,

iii. DFCCIL shall prepare and submit to CAA&A, the Borrower, quarterly IUFRs in the prescribed format as given in the disbursement letter for reimbursement of expenditure to be financed out of the loan,

iv. CAA&A shall forward the IUFR along with the Withdrawal Application signed by the authorized signatory of CAA&A to Bank for disbursement to the designated Government of India account. Funds flow into MoR and are then transferred to DFCCIL.

v. In the event, contractual payments are proposed to be made under "Direct payment procedure" of Bank, DFCCIL shall submit to CAAA an application mentioning complete details of Beneficiaries and its Bankers along with beneficiaries copies of invoice duly verified and certified for payment, for onward transmission to the Bank to facilitate the Bank to make direct payment to the beneficiaries and account such payment to the Loan. In case of "Special Commitments", the procedure as laid down in the Disbursement Handbook of World Bank shall be followed.

vi. In case of Direct payment/Special commitment as explained above by bank, DFCCIL shall deposit the rupee equivalent of such payment in the designated account of GOI (ACC&A's Account). In case of delay in deposit of rupee equivalent in CAA&A's account, the interest will be payable as per Public Notice no. 44 (RE 2000/1997-2002 dated 1.12.2000),

vii. DFCCIL shall endorse to Finance(Foreign Exchange) Section of MoR, a copy of summary sheet of each Withdrawal Application for drawings out of the Loan, either through reimbursement or direct payment, together with a copy of receipted challan of Rupee deposit.

Supporting Documentation Requirements:-

a. The Borrower provides supporting documentation to the Bank to show that loan proceeds have been or are being used to finance eligible expenditures.

b. The Bank requires either copies of the original documents evidencing eligible expenditures ("Records") or summary reports of expenditure ("Summary Reports") in such form and substance as the Bank may specify. Records include such documents as invoices and receipts. A Summary Report may be either:

   i. the Interim Un-audited Financial Report required under the Loan Agreement ("Interim Financial Report")

ii. a statement of expenditure summarizing eligible expenditures paid during a stated period ("Statement of Expenditure"). In all cases, the Borrower is responsible for retaining

iii. the original documents evidencing eligible expenditures and making them available for audit or inspection.

Flow chart in respect of submission of IUFRs to IBRD, fund requirement to Railway Board and release of funds to DFCCIL thereafter are placed at Annexure "1" & "2" at page 106 & 107 respectively.

c. The Bank determines the types of supporting documentation that the Borrower should provide, taking into consideration the disbursement method used. The supporting documentation may be the following:

   i. For applications for reimbursement:
   ii. Interim Un-audited Financial Reports,
   iii. Statements of Expenditure,
   iv. Records, or
   v. Records required by the Bank for specific expenditures and Statements of Expenditure for all other expenditures;

d. If the Borrower fails to provide any of the audited Financial Statements required in accordance with, and within the period of time specified the Bank may decide not to accept applications for withdrawal supported by Summary Reports, even if such reports are accompanied by Records.

Designated Accounts:-

The Borrower may open one or more designated accounts into which the Bank may, at the Borrower's request, deposit amounts withdrawn from the Loan Account for the purpose of paying for eligible expenditures as they are incurred ("Designated Account"). Before the Bank authorizes establishment of a Designated Account, the Borrower must have adequate administrative capability, internal controls, and accounting and auditing procedures to ensure effective use of the Designated Account.

Eligible Expenditure :-

The Borrower and the Project Implementing Entity shall use the proceeds of the loan exclusively to finance expenditure as provided in clause 2.05 of General conditions of the Loan provided in the agreement.

As per existing Loan Agreement following are the eligible expenditure:-

a. Goods, Works, Consultants' services and training under Part-I & II of the project
b. Preparation Advance
c. Front end Fee

13.2 JICA/LOAN

The Japan International Cooperation Agency has agreed to fund Western Corridor (WC) in 2 Phases. This loan is to be used for the purchase of eligible goods and services as per JICA guidelines and Loan Agreement for the implementation of project.

As on date, three Loan Agreements viz. IDP-205, IDP-209 and IDP-212 are in operation. The interest rate and payment terms are defined in Article II of these Loan Agreements. Other than interest and principal, commitment charges have to be borne . These commitment charges are one tenth percent (.1%) per annum on unused balance as indicated in Section 3 of Article II of Loan Agreement.

Also, in terms of Section 4 of Article II of Loan Agreement, in case of insufficient payments during the loan agreement period, DFCCIL has to bear the liability of overdue charges. These overdue charges will be calculated at the rate of 2% per annum over and above the interest rate specified in the Loan Agreement on the overdue amount of principal, interest, or any other charges.

Railway Board vide letter no. 2009/Infra/3/1/26 dated 16.09.2009 has communicated the cabinet decision that the loan will be passed to Ministry of Railway as an Externally Aided Component of Gross Budgetary Support by the Ministry of Finance. Dividend will be paid by MoR to the Ministry of Finance @7% over the period of loan after the moratorium of ten years. This higher rate of interest is to mitigate the currency risk associated with the long term Yen loan. The loan amount will be transferred to DFCCIL on back to back basis on the same terms and conditions.

As per Loan Agreement, following items are ineligible for financing under JICA loan:

I. General Administrative Expenses
II. Taxes and Duties
III. Purchase of Land or Other Real property
IV. Compensation
V. Other indirect items.

Procurement Procedure

The Guidelines for Procurement and for Employment of Consultants are stipulated in Schedule 4 of Loan Agreement. Basic Framework and Requirements under the Guidelines are:

1. Responsibility for procurement lies with the Borrower.
2. JICA may review the Borrower's Procedure, documents and decisions.
3. Short List method shall normally be applied.
4. International Competitive Bidding is normally required (for procurement of Goods and Services).
5. Anti Corruption policy.

6. Neither preferential margins nor domestic preferences are permitted to avoid increase in project cost and/or a downgrading of technical performance and distortion of fair competition among eligible bidders.
7. Disclosure of the estimated price for the contract is normally not permitted.

Reimbursement Procedure

The procedure being followed for Loan Disbursal is Commitment Procedure. Under this procedure JICA issues a Letter of Commitment (L/Com) that guarantees reimbursement made to relevant Letter of Credit (L/C). This L/C is used for Foreign currency payments for import of goods and services. For local currency payment, the Transfer Procedure is adopted. Flow charts for payment in foreign currency are at "Annexure 3 & 4" at page 108 and 109 of manual. Similarly, Flow chart for payment in INR is at "Annexure 5 " at page 110.

Following are pre-requisite for payments as per Schedule 6 of Loan Agreement:

a. Requirement of Authorised Foreign Exchange Bank in Tokyo. In the case of DFCCIL it is Bank of India, Tokyo.
b. Supporting documents evidencing each and every payment are as per detail below: -

   i. Supplier/Consultant/Contractors 's invoice showing quantity supplied / KD delivered / work done with rate and total value ,
   ii. Documentary evidence regarding delivery of the goods listed on the invoices and certificate signed by executing agency on the work performed by the contractor/ consulting agency,
   iii. Documentary evidence regarding the date and amount of payment made to the Supplier/Consultant/Contractors,

Further, in terms of Para 3 a) of Schedule 6 of Loan Agreement, in case of Payment in INR the amount stated in the request for reimbursement either in Japanese Yen or INR, conversion of INR to Yen is on the basis of RBI reference rate quoted by Reserve Bank Of India on the day immediately preceding the day on which the request for reimbursement is made.

Similarly, in terms of Para 3 b), when the currency used for the actual payment is other than INR, the amount stated in the request for reimbursement shall be either in Japanese Yen, converted at the T/T buying rate quoted by authorized foreign exchange bank in India or in the currency other than Japanese Yen or Indian Rupee. In the former case, the amount paid in the currency and the exchange rate used for conversion to Japanese Yen shall be described in the Summary Sheet as per Form JICA-SSP. In the latter case, the amount of reimbursement in Japanese Yen shall be calculated at the T/T selling rate by the authorised foreign bank in Tokyo two days banking business days before the day when reimbursement is made.

Transfer Procedure. :-

As per Schedule 7 of Loan Agreement with JICA, following is the transfer procedure for disbursement to the Suppliers/Contractors/Consultants of Eligible Nationality with respect to the portion of contract stated in the currency of India.

a. As stated above, the authorized foreign exchange Bank for this purpose is Bank of India Tokyo.
b. Request for disbursement must accompany following document with the claim for payment : -
    i. Summery Sheet of Payment
    ii. Transfer Instruction to Bank of India
    iii. Claim of Payment evidencing the amount paid to the suppliers
    iv. Invoice or similar document evidencing shipment, delivery of goods /or service (in case of Supplier/Consultant)
    v. The claim put in by consultant indicating in sufficient details that the services rendered and amount payable to them (in case of consultancy contract)
    vi. The claim , bill of invoice of the contract showing sufficient details, the work performed by the contractor and amount claimed therefore(in case of civil works contract),
    vii. A certificate to the effect that the work performed by the contractor is satisfactory and in accordance with the terms of relevant contract . Such certificate signed by authorized person of the executing agency assigned to the projects .

When JICA finds the request for disbursement in order and in conformity with the provision of Loan Agreement, then JICA shall make disbursement in Japanese Yen in to DFCCIL's Non-resident Yen Account in Bank of India, Tokyo which in turn forward the same amount to Contractor/Supplier/Consultant.

After the completion of transfer procedure as stated above, a communication is received in DFCCIL from Bank of India, Tokyo about release of payment to Contractor/Supplier/Consultant. At this point, following accounting entries are made in books of the DFCCIL:

Project Exp. Dr
To Contractor/Supplier/Consultant

Since, the payment has already been made and this amount is to be paid to CAA&A

byDFCCIL, thus the following two additional entries are made:

Contractor/Supplier/Consultant Dr.
To CAA&A

CAA&A Dr.
To Bank

When amount of loan is received as EAP, the following entry is made:

Bank A/c Dr
To Loan -EAP.

It is very important to make payment of CAA&A on the same day on which Bank of India, Tokyo makes the payment in order to avoid penalty imposition by CAA&A.

13.3 Accounting and Internal controls.

Finance & Accounting is carried out at HQ in accordance with the provisions of the Companies Act and ICAI prescribed accounting standards, using an off-the-shelf accounting package (Tally). Work on implementing Enterprise Resource Planning (ERP) packages is in progress for project management as well as financial accounting. As explained above, the foreign currency is first converted into INR and subsequently expanse is booked in INR in the books of the company. The present centralized accounting in HQ will be de-centralized when the field units are fully operational. The company has been subject to four statutory audits and supplementary audits by the Comptroller and Auditor General (CAG) and the reports are cleared from the observation made by the auditors from time to time.

Thus, it is important that following steps, as detailed in FReM, should be performed stringently:

Fund utilization report in the approved Performa providing all the required information like projects wise, head of expenditure wise and covering for different time period shall be prepared .

The report shall be prepared in finance and account department and may be got certified by a Chartered Accountant or Statutory auditor of the company.

DFCCIL will maintain all details in the manner required by the funding agency.

There shall be timely compliance in preparation, certification and submitting the report to the International Funding Agency.

CHAPTER-XIV
ACCOUNTING STANDARDS (AS)

Introduction

ICAI formulates and issues technical standards to be followed by Chartered Accountants and others. Non-Compliance of these standards by the members will lead to disciplinary action against them. The technical standards issued by ICAI includes, Accounting Standards, Audit and Assurance Standards, Standards on Internal Audit, Corporate Affairs Standard, Accounting Standards for Local Bodies, etc..

As of 2010, the Institute of Chartered Accountants of India has issued 32 Accounting Standards. These are numbered AS-1 to AS-7 and AS-9 to AS-32 (AS-8 is no longer in force since it was merged with AS-26. Compliance with Accounting Standards issued by ICAI has become a statutory requirement for all companies registered under Companies Act 1956 with the notification of Companies (Accounting Standards) Rules, 2006 by the Government of India.

Before the constitution of the National Advisory Committee on Accounting Standards (NACAS), the institute was the sole accounting standard setter in India. However NACAS is not an independent body. It can only consider Accounting Standards recommended by ICAI and advise the Government of India to notify them under the Companies Act, 1956. Accounting Standards 30,31 & 32 have been issued but are yet to be notified by the Government.

Accounting Standards issued by ICAI as on date are reproduced below in summarized form for the benefit of readers. All the Accounting Standards in detail are also available on ICAI website.

AS-1 – Disclosure of Accounting Policies

- The Standard deals with the disclosure of significant accounting policies followed in preparing and presenting financial statements.
- All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.
- The disclosure of the significant accounting policies as such should form part of the financial statements and the significant accounting policies should normally be disclosed in one place.
- Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies, which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the feet should be indicated.
- If the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required if a fundamental accounting assumption is not followed, the fact should be disclosed.

AS- 2 – Valuation of Inventories

The financial statements should disclose:

- the accounting policies adopted in measuring inventories, including the cost formula used; and
- the total carrying amount of inventories and its classification appropriate to the enterprise.

AS- 3 – Cash Flow Statements

- Are the aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business units presented separately and classified as investing activities?

- Has the enterprise disclosed, in aggregate, in respect of both acquisition and disposal of subsidiaries or other business units during the period each of the following:

  - The total purchase or disposal consideration; and
  - The portion of the purchase or disposal consideration discharged by means of cash and cash equivalents.

- Are non-cash investing and financing transactions excluded from cash flow statement?

- Has the enterprise disclosed the components of cash and cash equivalents and presented a reconciliation of the amounts in its cash flow statement with the equivalent items reported in the balance sheet?

- Whether the enterprise has disclosed, together with a Commentary by management, the amount of significant cash and cash equivalent balances held by it that are not available for use by it?

AS-4 Contingencies and events occurring after the balance sheet date Contingencies

- Ensured that any contingency that would eventually lead to a loss or an impairment of an asset and the amount of such loss can be reasonably estimated has been provided for.

- Contingent losses should be disclosed in the financial statements if the above criteria are not met.

- Contingent gains should not be recognized in the financial statements

Events Occurring after the Balance Sheet Date

Ensure that all the assets and liabilities are adjusted for events that provide additional

evidence to assess estimates \conditions prevalent at the balance sheet date or that

AS-5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

- The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact m the current profit or loss can be perceived.
- Changes in Accounting Estimates
- A change in art accounting policy should be made only if the adoption of a different accounting policy is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate presentation of the financial statements of the enterprise.

AS-6 – Depreciation Accounting

- The following information should be disclosed in the financial statements along with the disclosure of other accounting policies:
  - Depreciation methods used; and
  - Depreciation rates or the useful lives of the assets, if they are different from the principal rates specified in the statute governing the enterprise.

AS- 7 – Accounting for Construction Contracts

- There should be disclosure in the financial statements of
  - The amount of construction work-in-progress
  - Progress payments received and advances and retentions on account of contracts included in construction work-in-progress; and
  - The amount receivable m respect of income accrued under cost-plus contracts not included in construction work-in-progress.

- Provision of Loss is to be made when it is identified.
  When it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately.
  The amount of such a loss is determined irrespective of:
  (i) Whether or not work has commenced on the contract
  (ii) The stage of completion of contract activity
  (iii) The amount of profits expected to arise on the contracts, which are not treated as a single construction contract in accordance with Para 8.

Accounting Standard 8: Accounting for Research and Development

Note: In view of operation of AS 26, this Standard stands withdrawn.

AS-9 – Revenue Recognition

Revenue from sales transactions should be recognised when:

- The property in the goods gets transferred to the buyer for a price or
- All significant risks and rewards of ownership are transferred to the buyer and
- The seller retains no effective control of the goods transferred to a degree usually associated with ownership.
- No significant uncertainty exists regarding the amount of consideration that will be derived from such sale.

Revenue from services should be recognised on the basis of the level of performance which can be measured either by:

- Completed service contract method or
- Under the proportionate completion method

Whichever relates to the revenue to the work accomplished? Performance should be regarded as achieved when no significant risk exists regarding the amount of the consideration that will be derived from rendering the service.

Besides the above:

- Interest should be recognized on the basis of time
- Royalties should be recognised on accrual basis in accordance with the terms of the relevant agreement.

Dividends from investments should be recognised when an absolute right to receive the same is established.

AS-10 – Accounting for Fixed Assets

- The cost of a fixed asset should comprise its purchase price and any attributable cost of bringing the asset to its working condition for its intended use Financing costs relating to deferred credit or to borrowed funds attributable to construction or acquisition of fixed assets for the period up to the completion of construction or acquisition of fixed assets should also be included in the gross book value of the asset to which they relate- However, the Financing costs (including interest) on fixed assets purchased on a deferred credit basis or on monies borrowed for construction or acquisition of fixed assets should not be capitalized to the extent that such costs relate to periods after such assets are ready to be put to use.
- The cost of a self-constructed fixed asset should comprise those costs that relate directly to the specific asset and those that are attributable to the construction activity in general and can be allocated to the specific asset.
- When a fixed asset is acquired in exchange or in part exchange for another asset, the cost of the asset acquired should be recorded either at fair market value or at the net book value of the asset given up, adjusted for any balancing payment or receipt of cash or other consideration. For these purposes lair market value may be determined be reference cither

to the asset given up or to the asset acquired, whichever is more clearly evident. Fixed asset acquired in exchange for shares or other securities in the enterprise should be recorded at its fair market value, or the fair market value of the securities issued, whichever is more clearly evident.

- Subsequent expenditures related to an item of fixed asset should be added to its book value only if they increase the future benefits from the existing asset beyond its previously assessed standard of performance.
- Material items retired from active use and held for disposal should be stated at the lower of their net book value and net realizable value and shown separately in the financial statements.
- Fixed asset should be eliminated from the financial statements on disposal or
- When no further benefit is expected from its use and disposal,
- Losses arising from the retirement or gains or losses arising from disposal of fixed asset, which is carried at cost, should be recognized in the profit and loss statement.

The following information should be disclosed in the financial statements.

- Gross and net book values of fixed asses at the beginning and ends of an accounting period showing additions, disposals, acquisitions and other movements.
- Expenditure incurred on account of fixed assets in the course of construction or acquisition; and
- Revalued amounts substituted for historical costs of fixed assets, the methods adopted to compute the revalued amounts, the nature of indices used, the year of any appraisal made, and whether an external valuer was involved, in case where fixed assets are stated at revalued amounts.

AS-11- Accounting for the effect of changes in Foreign Exchange Rates

The salient provisions for this standard are:

- All monetary items denominated in foreign currency should be restated at the closing exchange rate. In case the closing rate is not representative of the actual realisation/ liability the restatement should be done at such representative rate.
- Non-monetary items carried on historical cost other than fixed assets should be reported using the exchange rate at the date of the transaction.
- Non monetary items other than fixed assets carried in terms of fair value or other similar valuation should be reported using the exchange rates that existed when the values were determined.
- Any loss on account of foreign exchange fluctuation for liabilities undertaken to fund fixed assets being carried on historical costs are to be added to the cost of the asset.
- In case of exchange losses for liabilities for revalued assets the fluctuation loss should be loaded on to the value of the assets to the extent that the net book value of the assets should not increase the recoverable amount of the assets. Any excess should be adjusted against the revaluation reserve and in the case of its inadequacy debited to the P & L a/c.
- In case of a forward exchange contract entered into by an enterprise to hedge itself. The difference between the forward contract rate and the exchange rate at the date of the transaction should be recognised in the P & L account over the period of the contract. Except in the case of liabilities for fixed assets where the difference should be loaded on to the carrying

amount of the fixed asset.

- Any profit or loss on the cancellation of forward exchange contracts should be charged to the profit & loss account except for the contracts pertaining to fixed assets in which case the same will be adjusted to the carrying amounts of the assets.

Translation of the financial statements of foreign branches:

- Normally, all the items except opening, closing inventories (to be translated at closing rate) should be translated at the average rate, except where the forex fluctuations are very large, where weighted average rate can be used. And depreciation should be translated at the rate at which the asset has been booked.
- Monetary items should be translated at closing rate except for the cases where the closing rate does not reflect the amount to be realised from the assets In these cases the rate that reflects the recovery rate should be used.
- Non monetary items other than inventories and fixed assets should be valued at the rate at the date of the transaction.
- Fixed asset translation has to be done as per the provisions explained above.
- Balance in head office account whether debit or credit should be reported at the amount of branch account in the books of head office.
- Net exchange difference should be adjusted in the profit & loss account except for that pertaining to liability for fixed assets.

Contingent liabilities should be translated at the closing rate.

AS-12 Accounting for Government Grants

- Government grants should be recognized only if there is reasonable assurance that the enterprise will comply with the conditions attached to it and grants will be received.

- Govt. grants for specific depreciable fixed assets can be presented in two ways:

  Can either be shown as a deduction from the value of fixed assets or can be shown under reserves and surpluses and can be treated as deferred income over the useful life of the asset.

- Grants received for non depreciable assets should be shown under the head capital reserve. However, if a grant requires fulfillment of certain obligations, the grant should be credited to income over the same period in which the costs of fulfilling these obligations are charged.

- Such deferred income should be separately disclosed.

- Govt. grants related to revenue should be recognised as income in the financial statements keeping in mind the matching principle and should be shown under other income.

- Govt. grants in the nature of promoter's contributions should be credited to capital reserve and treated as a part of shareholder's funds.

- Grants in the nature of non-monetary assets should be shown at the acquisition cost and if the same is given free of cost should be shown at nominal value.

- Compensatory grants received for expenses already incurred in the previous years should be shown as per the provisions of AS-5 and recognised as income.

- A contingency relating to a Govt. Grant that has already been accounted for should be treated as per the provisions of AS-4.

- Govt grants that become refundable should be shown as per AS-5.

- Amount becoming refundable on account of revenue grants should be firstly adjusted against any deferred credit available and any balance should be charged to the p&l account. Similarly, for capital grant refunds the amount should at first be adjusted against the unamortised amount and the balance should be adjusted to the carrying amount of fixed assets. (to be depreciated prospectively over the remaining useful life).

- Grants in the nature of promoter's contribution if become refundable should be reduced from the capital reserve.

AS-13 – Accounting for Investment

- An enterprise should disclose current investments and long-term investments distinctly in its financial statements.
- Further classification of current and long-term investments should be as specified in the statute governing the enterprise. In the absence of a statutory requirement, such further classification should disclose, where applicable, investments in:
  - Government or Trust securities
  - Shares, debentures or bonds
  - Investment properties
  - Others-specifying nature.

Investments classified, as long-term investments should be carried in the financial Statements at cost. However, provision for diminution shall be made to recognize a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually.

AS-14 – Accounting for Amalgamations

Amalgamation is in the nature of a merger if all the following conditions are fulfilled and in the nature of purchase if any of these conditions is not fulfilled:

- All assets and liabilities of the transferor company become the assets and liabilities of the transferee company.

- At least holders of 90% of the face value of share capital of the transferor company (other than those already held by the company before the amalgamation) should become the equity shareholders of the transferee company.
- The consideration for the amalgamation is discharged by the issue of shares only except for fractional shares for which cash can be paid.
- The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.
- No adjustment is intended to be made in the book values of assets and liabilities of the transferor company when they are incorporated in the books of Transferee Company except to ensure compliance with accounting policies.

Amalgamation in the nature of merger is to be accounted for as per the pooling of interests method and in the nature of purchase should be accounted for as per the purchase method.

Pooling of interest method:

- All the assets, liabilities and reserves of the transferor company should be recorded at their existing carrying values and in the same form on the date of amalgamation. P&L balance to be either aggregated with under the same account or in the general reserve account.

- The difference between the purchase considerations the net assets transferred should be adjusted in the profit & loss account.

- The accounting policies of both the companies should be in consonance with each other. All adjustments of this type are to be disclosed as per AS-5.

Purchase Method:

- In preparing the transferee company's books the assets and liabilities of the transferee company can either be shown at their carrying amounts or the total consideration can be allocated to individual identifiable assets and liabilities on the basis of fair market values on the date of amalgamation. All the statutory reserves of the transferor company should be disclosed in the financial statements at their carrying amounts by giving a corresponding debit to 'Amalgamation Adjustment Account' (which will be reversed once the legal period for disclosure is over).
- Any difference between the purchase consideration and the net book value of assets is to be treated as either a capital reserve or goodwill as the case may be.
- All non- cash consideration paid should be disclosed at their fair value which could be either be fixed by the statutory authorities or could be determined by the market value of assets given up.
- In case any contingency is attached to the purchase consideration then the amount of purchase consideration should be determined as per the provisions of AS-4.

Disclosure requirements:

For all types of amalgamations:

- Names and general nature of the business of the amalgamating companies;
- Effective date of amalgamation for accounting purposes
- The method of accounting used to reflect the amalgamation and
- Particulars of the scheme sanctioned under the statute.

AS-15 – Accounting for Retirement Benefit in the Financial Statement of Employers.

- This statement applies to retirement benefits in the form of Provident Fund, super-annuation/pension and gratuity provided by an employer to employees, also applies to retirement benefits in the form of leave encashment benefit, health &welfare schemes and other retirement benefits, if the predominant characteristics of these benefits are the same as those of Provident Fund, superannuation/pension or gratuity benefit, i.e. if such a retirement benefit is in the nature of either a defined contribution scheme or a defined benefit scheme as described in this statement. This statement does not apply to those retirement benefits for which the employers obligation cannot be reasonably estimated e.g. ad hoc ex gratia payments made to employees on retirement.

- In respect of retirement benefits in the form of provident fund and other defined contribution schemes, the contribution payable by the employer for a year should be charged to the statement of profit and loss for the year. Thus, besides the amount of contribution paid, a shortfall of the amount of contribution paid compared to the amount payable for the year should also be charged to the statement of profit and loss for the year. On the other hand, if contribution paid is in excess of the amount payable for the year, the excess should be treated as a prepayment.

- in respect of gratuity benefit and other defined benefit-schemes, the accounting treatment will depend on the type of arrangement, which the employer has chosen to make,

(i) If the employer has chosen to make payment for retirement benefits out of his own funds, an appropriate charge to the statement of profit and loss for the year should be made through a provision for the accruing liability, The accruing liability should be calculated according to actuarial valuation. However, those enterprises which employ only a few persons may calculate the accrued liability by reference to any other rational method e.g. a method based on the assumption that such benefits are payable to all employees at the end of the accounting year

(ii) The financial statements should disclose the method by which retirements benefit costs for the period have been determined In case the costs related to gratuity and other defined benefit schemes are based on an actuarial valuation, the financial statements should also disclose whether the actuarial valuation was made at the ends of the period or at an earlier date. In the latter case, the date of the actuarial valuation should be specified and the method by which the accrual for the period has been determined should also be briefly

described, if the same is not based on the report of the actuary.

AS-16 – Borrowing Costs

- Borrowing costs may include:
  - Interest and commitment charges on bank borrowings and other short-term and long-term borrowings;
  - Amortization of discounts or premiums relating to borrowings;
  - Amortization of ancillary costs incurred in connection with the arrangement of borrowings;
  - Finance charges in respect of assets acquired under finance leases or under other similar arrangements; and
  - Exchange difference arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest cost
- Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. The amount of borrowing costs eligible for capitalized should be determined in accordance with statement. Other borrowing costs should be recognised as an expense in the period in which they are incurred.
- Borrowing costs are capitalized as pan of the cost of a qualifying asset when it is probable that they will result in future economic benefits to the enterprise and the costs can be measured reliably. Other borrowing costs are recognised as an expense in the period in which they are incurred.

AS- 17 – Segment Reporting

- Segment information should be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the enterprise as a whole.
- An enterprise should disclose the following for each reportable segment:
  - Segment revenue, classified into segment revenue from sales to external customers and segment revenue from transactions with other segme
  - Segment result
  - Total carrying amount of segment assets;
  - Total amount of segment liabilities;
  - Total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible and intangible assets);
  - Total amount of expense included in the segment result for depreciation and amortization in respect of segment assets for the period; and
  - Total amount of significant non-cash expenses, other than depreciation and amortization in respect of segment assets, that was included in segment expense and, therefore, deducted in measuring segment result,

AS- 18 – Related Party Disclosures

- The objective of this Statement is to establish requirements for disclosure of:
  - Related party relationships; and
  - Transactions between a reporting enterprise and its related parties.
- Name of the related party and nature of the related party relationship where control exists should be disclosed irrespective of whether or not there have been transactions between the related parties.
- If there have been transactions between related parties, during the existence of a related party relationship, the reporting enterprise should disclose the following;
  - The name of the transacting related party;
  - A description of the relationship between the parties
  - A description of the nature of transactions
  - Volume of the transactions either as an amount or as an appropriate proportion,
  - Any other dements of the related party transactions necessary for art understanding of the financial statements
  - The amounts or appropriate proportions of outstanding items pertaining to related parties at the balance sheet date and provisions for doubtful debts due from such parties at that dare; and
  - Amounts written off or written back in the period in respect of debts due from or to related parties.

AS- 19 – Leases

- The lessee should, in addition to the requirements of AS 10- Accounting for Fixed Assets, AS 6- Depreciation Accounting, and the governing statute, make the following disclosures for finance leases:
  - Assets acquired under finance lease as segregated from the assets owned;
  - For each class of assets, the net carrying amount at the balance sheet date;
  - A Reconciliation between the total of minimum lease payments at the balance sheet date and their present value. In addition, an enterprise should disclose the total of minimum lease payment at the balance sheet date, and their present value, for each of the following periods;
    - Not later than one year;
    - Later than one year and not later than five years;
    - Later than five years.
  - Contingent rents recognized as income in the statement of profit and loss for the period;
  - The total of future minimum sublease payments expected to be received under non-cancelable subleases at the balance sheet date: and
  - A general description of the lessee's significant leasing arrangements including, but not limited to the following;
    - The basis on which contingent rent payments are determined;
    - The existence and terms of renewal or purchase options and escalation

clauses; and
  - Restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.

- The lessor should make the following disclosures for finance leases;
  - A reconciliation between the total gross investment in the lease at the balance sheet date, and the present value of minimum lease payments receivable at the balance sheet date. In addition, an enterprise should disclose the total gross investment in the lease and the present value of minimum lease payments receivable at the balance sheet date, for each of the following periods:
    - Not later than one year
    - Later than one year and not later than five years;
    - Later than five years.
  - Unearned finance income.
  - The unguaranteed residual values accruing to the benefit of the lessor;
  - The accumulated provision for uncollectible minimum lease payments receivable.
  - Contingent rents recognised in the statement of profit and loss for the period.
  - A general description of the significant leasing.
  - Accounting policy adopted in respect of initial direct costs.
- The lesser should present an asset given under operating lease m its balance sheet under fixed assets.
- Lease income from operating leases should be recognised in the statement of profit and loss on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefit derived from the use of the leased asset is diminished.
- The depreciation of leased assets should be on a basis consistent with the normal depreciation policy of the lessor for similar assets, and the depreciation charge should be calculated on the basis set out in AS 6_t Depreciation Accounting.
- If a sale and leaseback transaction results in finance lease, any excess or deficiency of sales proceeds over the carrying amount should not be immediately recognised as income or loss in the financial statements of a seller-lessee. Instead, it should be deferred and amortized over the lease term in proportion to the depreciation of the leased asset.
- For operating leases., if the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value should be recognized immediately.

Accounting Standard 20: Earnings Per Share

- Focus is on denominator to be adopted for earnings per share (EPS) calculation.

- In case of enterprises presenting consolidated financial statements EPS to be calculated on the basis of consolidated information.

- Requirement is to present basic and diluted EPS on the face of Profit and Loss statement for each class of equity shares with equal prominence to all periods presented.

- EPS required to be presented even when negative.
- Basic EPS is calculated by dividing net profit or loss for the period attributable to equity shareholders by weighted average of equity shares outstanding during the period. Basic & Diluted EPS to be computed on the basis of earnings excluding extraordinary items (net of tax expense). (Limited Revision w.e.f. 1-4-2004)
- Earnings attributable to equity shareholders are after the preference dividend for the period and the attributable tax.
- The weighted average number of shares for all the periods presented is adjusted for bonus issue, share split and consolidation of shares. In case of rights issue at price lower than fair value, there is an embedded bonus element for which adjustment is made.
- For calculating diluted EPS, net profit or loss attributable to equity shareholders and the weighted average number of shares are adjusted for the effects of dilutive potential equity shares (i.e., assuming conversion into equity of all dilutive potential equity).
- Potential equity shares are treated as dilutive when their conversion into equity would result in a reduction in profit per share from continuing operations.
- Effect of anti-dilutive potential equity share is ignored in calculating diluted EPS.
- In calculating diluted EPS each issue of potential equity share is considered separately and in sequence from the most dilutive to the least dilutive.
- This is determined on the basis of earnings per incremental potential equity.
- If the number of equity shares or potential equity shares outstanding increases or decreases on account of bonus, splitting or consolidation during the year or after the balance sheet date but before the approval of financial statement, basic and diluted EPS are recalculated for all periods presented. The fact is also disclosed.
- Amounts of earnings used as numerator for computing basic and diluted EPS and their reconciliation with Profit and Loss statement are disclosed. Also, the weighted average number of equity shares used in calculating the basic EPS and diluted EPS and the reconciliation between the two EPS is to be disclosed.
- Nominal value of shares is disclosed along with EPS.
- It has been clarified that if an enterprise discloses EPS for complying with requirements of any source or otherwise, should calculate and disclose EPS as per AS 20. Disclosure under Part IV of Schedule VI to the Companies Act, 1956 should be in accordance with AS 20.

Accounting Standard 21: Consolidated Financial Statements

- To be applied in the preparation and presentation of consolidated financial statements (CFS) for a group of enterprises under the control of a parent. Consolidated Financial Statements are recommendatory. However, if consolidated financial statements are presented, these should be prepared in accordance with the standard. For listed companies preparing Consolidated Financial Statements is mandatory as per listing agreement.

- Consolidated financial statements to be presented in addition to separate financial statements.

- Control means the ownership of more than one half of the voting power of an enterprise or control of composition of the Board of Directors or such other governing body.

- All subsidiaries, domestic and foreign to be consolidated except where control is intended to be temporary; i.e., intention at the time of investing is to dispose the relevant investment in the 'near future' or the subsidiary operates under severe long-term restrictions impairing transfer of funds to the parent. 'Near future' generally means not more than twelve months from the date of acquisition of relevant investments (ASI-8 Incorporated in (AS) 21 "Consolidated Financial Statements" as an explanation (b) below para 11. Also incorporated in (AS) 23 "Accounting for Investments in Associates in Consolidated Financial Statements" as an explanation below para 7 and in (AS) 27 "Financial Reporting of Interests in Joint Ventures" as explanation below para 28). Control is to be regarded as temporary when an enterprise holds shares as 'stock-in-trade' and has acquired and held with an intention to dispose them in the near future (ASI-25 Incorporated in (AS) 21 "Consolidated Financial Statements" as an explanation (a) below para II.). Investments in subsidiary should be accounted in accordance.

AS-22 – Accounting for Taxes on Income

- This statement should be applied in accounting for taxes on income This includes the determination of the amount of the expense or saving related to taxes on income in respect of an accounting period and the disclosure of such an amount in the financial statement.
- Tax expense for the period, comprising current tax and deferred tax, should be included in the determination of the net profit or loss for the period.
- Deferred tax should be recognised for all the timing differences, subject to the consideration of prudence in respect of deferred tax assets Deferred tax assets should be recognised and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Where an enterprise has unabsorbed depreciation or carry forward of losses under tax laws, deferred tax assets should be recognised only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realised.

Accounting Standard 23: Accounting for Investments in Associates in Consolidated Financial Statements

- Statement sets out principles and procedures for recognising in Consolidated Financial Statement the effect of investments in associates on the financial position and operating results of the group.

- Associates is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture or the investor.

- Significant influence (ordinarily having 20% or more of the voting power) is termed as power to participate in the financial/operating policy decisions but does not have control over such policies. The potential equity shares held by the investee should not be taken into account for determining the voting power of the investor. (ASI-18 Incorporated in (AS) 23 "Accounting for Investments in Associates in Consolidated Financial Statements" as an explanation below para 4).

- Investment in associates is accounted in CFS as per equity method. The equity method is not applicable where the investment is acquired for temporary period (ASI-8 incorporated in (AS) 21 "Consolidated Financial Statements" as an explanation (b) below para 11). Also incorporated in (AS) 23 "Accounting for Investments in Associates in Consolidated Financial Statements" as an explanation below para 7 and in (AS) 27 "Financial Reporting of Interests in Joint Ventures" as explanation below para 28), i.e., intention at the time of investing is to dispose the relevant investment in the 'near future' or where associates operate under severe long-term restrictions. In these circumstances, the investment should be recognised as per AS 13. The use of equity method to be discontinued from the date when investor ceases to have significant influence in an associate.

Accounting Standard 24: Discontinuing Operations

- The standard requires an enterprise to segregate information about discontinuing operations from continuing one and establishes principles for reporting information about discontinuing operations.

- A discontinuing operation is a component of an enterprise that the enterprise is, in pursuant to a single plan is – (a) disposing substantially in its entirety such as by selling the component in a single transaction or by demerger or spin off of the ownership of the component to the enterprises' shareholders ; (b) disposing of piecemeal, such as by selling of the components assets and settling its liabilities individually or (c) terminating through abandonment and it represents separate line of business or geographical area of operations; can be distinguished operationally and for financial reporting purposes. All these three conditions need to be satisfied simultaneously.

Accounting Standard 25: Interim Financial Reporting

- Interim financial reports (IFR) are financial statements (complete or condensed) for an interim period that is shorter than a full financial year.

- IFR should include at a minimum a condensed balance sheet, condensed profit and loss statement, cash flow and selected explanatory notes.

- IFR should include at least each of the heading and sub headings that were included in the most recent annual financial statements.

- Earnings per share if disclosed is to be calculated and presented as per AS 20.

- Notes to include at least

  – a statement on uniform accounting policies or any change therein.

  – explanatory comments about the seasonality of interim operations.

  – any unusual items (as per AS 5)

  – changes in estimates of amounts reported in prior interim periods/year, if material.

  – issuances, buy-backs repayments and restructuring of debt, equity and potential equity shares.

  – dividend for each class of equity shares.

  – segment reporting if required as per AS 17

  – any changes in composition of the enterprise.

  – material changes in contingent liabilities.

- Interim reports to include

  – Balance sheet as of the end of current interim period and a comparative balance sheet as of the end of the preceding financial year.

  – Statements of Profit & Loss for current interim period and cumulative for current

  - financial year to date and comparative statements of the previous year (current and year to date)

– Cash flow statement cumulatively for the current financial year to date with a comparative statement of previous year (year to date)

- Interim measurements may rely on estimates.
- For final interim period separate report not necessary as annual statements are presented.
- Uniform accounting policies to be applied in interim and annual financial statements.
- Seasonal/occasional revenues and uneven costs to be anticipated or deferred only if appropriate to do so at the end of the financial year.
- Estimates to be measured in such a way that resulting information is reliable and all material information disclosed.
- In case of change of accounting policies, other than one for which transition is specified by an accounting standard, figures of prior interim periods of current financial year to be restated.

Note: The presentation and disclosure requirements contained in AS 25 are not required to be applied in respect of 'Interim financial results' – example, the one presented under Clause 41 of the Listing Agreement, since they do not meet the definition of 'interim financial report'. However, the recognition and measurement principles as per AS 25 should be applied. (ASI-27 Not incorporated in Notified AS).

Accounting Standard 26: Intangible Assets

- Not applicable to intangibles covered by other AS, financial assets, mineral rights/expenditure on exploration, etc. and arising in insurance enterprises from contracts with policy holders. This AS is not applicable to expenditure in respect of termination benefits.
- An intangible asset is an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes. An asset is a resource:

– controlled by an enterprise as a result of past events; and

– from which future economic benefits are expected to flow to the enterprise.

- Useful life is period of time over which an asset is expected to be used or the number of production units expected to be obtained from the asset.

- Impairment loss is the amount by which the carrying amount exceeds its recoverable amount.

- An intangible asset to be recognised only if future economic benefits will flow and the cost of the asset can be measured reliably.

- Probability of future economic benefits to be assessed using reasonable and supportable assumptions.

- An intangible asset should be measured initially at cost.

- Internally generated goodwill, brands, mastheads, publishing titles etc. should not be recognised as an asset.

- No intangible asset arising from research to be recognised and expenditure on research should be recognised as an expense, when incurred.

- An intangible asset arising from development to be recognised, if an enterprise can demonstrate its feasibility to complete, intention and ability to use or sell, generation of future economic benefits, and availability of resources for completion and ability to measure the expenditure.

- Expenditure on an intangible item that cannot be treated as an asset, should be recognised as an expense and treated as goodwill (capital reserve), in case of an amalgamation (AS 14).

- Treatment of expenditure (other than expenditure on VRS) incurred on intangible items, which do not meet the criteria of an 'intangible asset':

    - If incurred after the date of AS 26 becoming mandatory – to be expensed out when incurred;

– The balances of expenditure incurred before the date of AS 26 becoming mandatory and appearing in the balance sheet, should continue to be expensed out over a number of years as originally contemplated;

– If such balances have been adjusted against the opening balances of revenue reserves as on 1-4-2003, it should be rectified and treated on the above lines.

- Expenditure, on an intangible item recognised as an expense should not form part of cost of an intangible asset at a later date.

- Subsequent expenditure to be added to cost only if is probable that the expenditure will generate future benefits in excess of the original estimates.

- An intangible asset should be carried at its cost less any accumulated amortisation and any accumulated impairment losses.
- An intangible asset should be amortised over its useful life on a systematic basis, to reflect the pattern in which the economic benefits are consumed or if the pattern cannot be determined reliably, on the straightline method.
- There is a rebuttable presumption for useful life of an intangible asset – not exceeding ten years from the date it is available for use. In case of intangible assets in form of legal rights, the useful life is not to exceed the period of the legal rights, unless renewable, which is virtually certain.
- Residual value to be taken as zero unless a commitment to purchase the asset or an active market exists.
- The amortisation period and method to be reviewed at each financial year end and any change to be accounted for as per AS 5.
- Any impairment losses to be recognised.
- The recoverable amount of each intangible asset to be estimated at each year end in case of an intangible asset which is not yet available for use and one which is amortised over a period exceeding ten years.
- An intangible asset to be derecognised on disposal or when no future economic benefits are expected from its use and gain or loss recognised.
- Disclosure for each class of intangibles, their useful lives, amortisation, amount and method, carrying amount (gross and net), accumulated amortisation, any additions, retirements, impairment losses recognised or reversed and any other change.
- In case of useful life of an intangible asset exceeding ten years, proper disclosure of the reasons for the same should be given.
- Research and Development expenditure recognised as expense to be disclosed.
- On standard being applicable, adjustment to any intangible asset as required to be made with a corresponding adjustment to the opening revenue reserves.

AS- 27- Financial Reporting of Interests in Joint ventures

- A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control.

In cases, wherein an enterprise by a contractual arrangement establishes joint control over an entity which is a subsidiary (as per AS 21) the entity is to be consolidated under AS 21 and is not to be treated as a joint venture as per this Statement. The other venturer(s) may treat the same as a joint venture. (Limited Revision to AS 27 w.e.f. 1-4-2004)

- Joint control is the contractually agreed sharing of control over an economic activity.

For evaluating joint control, one need to consider whether the contractual arrangement provides protective rights or participating rights to the enterprise. The existence of participating rights would be evidence of joint control. With effect from 1-4-2004 this explanation is removed by Limited Revision to the Standard.

- Control is the power to govern the financial and operating policies of an economic activity so as to obtain benefits from it.
- A venturer is a party to a joint venture and has joint control over that joint venture.
- An investor in a joint venture is a party to a joint venture and does not have joint control over that joint venture.
- Proportionate consolidation is a method of accounting and reporting whereby a venturer's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is reported as separate line items in the venturer's financial statements. The venturer's share in the post acquisition reserves of the jointly controlled entity should be shown separately under the relevant reserves in the consolidated financial statements (ASI 28 incorporated in (AS) 21 "Consolidated Financial Statements" as an explanation below para 13 and in (AS) 27 "Financial Reporting of Interests in Joint Ventures" as an explanation below para 32).
- Venturer to recognize in individual and consolidated financial statements its share of assets, liabilities, incomes and expenses in the jointly controlled operations and also in jointly controlled assets.
- In venturer's separate financial statements any interest in a jointly controlled entity to be accounted as an investment and AS 13 to be followed.

Accounting Standard 28 : Impairment of Assets

- Applied in accounting for the impairment of all assets, other than:

  – inventories (AS 2);

  – assets arising from construction contracts (AS 7);

– financial assets, including investments (AS 13);

– deferred tax assets (AS 22).

- Recoverable amount is the higher of an asset's net selling price and its value in use.
- Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.
- An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.
- Useful life is either:

– the period of time over which an asset is expected to be used; or

– the number of production or similar units expected to be obtained from the asset.

- A cash generating unit is the smallest identifiable group of assets that generates cash inflows largely independent of the cash inflows from other assets.
- Corporate assets are assets other than goodwill that contribute to the future cash flows of both the cash generating unit under review and other cash generating units.
- An active market is a market where:

– the items traded are homogeneous;

– willing buyers and sellers can normally be found at any time; and

– prices are available to the public.

– To assess at each balance sheet date whether there are any indication, external or internal as given in AS, that an asset may be impaired and estimate the recoverable amount of the asset.

- In measuring value in use:

– cash flow projections should be based on assumptions that represent management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset. Greater weight should be given to external evidence;

– cash flow projections should be based on the most recent financial budgets/forecasts (maximum 5 years, unless longer period justified) that have been approved by management.

– cash flow projections beyond the period covered by the most recent budgets/forecasts should be estimated by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate should not exceed the long-term average growth rate for the products, industries, or country or countries in which the enterprise operates, or for the market in which the asset is used, unless a higher rate can be justified.

- Estimates of future cash flows should include:

– projections of cash inflows from the continuing use of the asset;

– projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and that can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and

– net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

- Future cash flows should be estimated for the asset in its current condition. They should not include estimated future cash inflows or outflows that are expected to arise from:

– a future restructuring to which an enterprise is not yet committed; or

– future capital expenditure that will improve or enhance the asset in excess of its originally assessed standard of performance.

- Estimates of future cash flows should not include:

– cash inflows or outflows from financing activities; or

– income tax receipts or payments.

- The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life should be the amount that is expected to be obtained from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

- The discount rate should be a pre tax rate that reflect current market assessments of the time value of money and the risks specific to the asset and should not reflect risks for which future cash flow estimates have been adjusted.

- An impairment loss should be recognised as an expense in the profit and loss account immediately. Impairment loss of a revalued asset should be treated as a revaluation decrease as per AS 10.

AS-29- Provisions, Contingent Liabilities and Contingent Assets

Provisions

A provisions should be recognized when:

- an enterprises has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.
- If these conditions are not met, no provision should be recognised.

Reliable Estimate of the Obligation

The use of estimates is an essential part of the preparation of financial statements and does not undermine their reliability. This is especially true in the case of provision, which by their nature involve a greater degree of estimation than most other items. Except in extremely rare cases, an enterprise will be able to determine a range of possible outcomes and can therefore make an estimate of the obligation that is reliable to use in recognising a provision.

In the extremely rare case where no reliable estimate can be made, a liability exists that cannot be recognised. That liability is disclosed as a contingent liability.

Contingent Liabilities

An enterprise should not recognise a contingent liability. Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

Contingent Assets

An enterprise should not recognise a contingent asset. Contingent assets are not recognised in financial statements since this may result in the recognition of income that may never be realised. However, when the realization of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

A contingent asset is not disclosed in the financial statements. It is usually disclosed in the report of the approving authority (Board of Directors in the case of a company, and, the corresponding approving authority in the case of any other enterprise), where an inflow of economic benefits is probable

Contingent assets are assessed continually and if it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs.

Best Estimate

The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The amount of a provision should not be discounted to its present value.

The risks and uncertainties that inevitably surround many events and circumstances should be taken into account in reaching the best estimate of a provision.

Future events that may affect the amount required to settle an obligation should be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.

Changes in Provisions

Provisions should be reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision should be reversed.

Use of Provisions

A provision should be used only for expenditure for which the provision was originally recognized.

Disclosure

For each class of provision, an enterprise should disclose:

(a) the carrying amount at the beginning and end of the period;
(b) additional provisions made in the period, including increases to existing provisions;
(c) amounts used (i.e. incurred and charged against the provision) during the period; and
(d) unused amounts reversed during the period.

An enterprise should disclose the following for each class of provision:

(a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;
(b) an indication of the uncertainties about those outflows. Where necessary to provide adequate information, an enterprise should disclose the major assumptions made concerning future events; and
(c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

The above ACCOUNTING STANDARDS HAVE BEEN ISSUED BY ICAI FOR CORPORATES and have been notified. However, in addition to above, 3 more Accounting Standards have been issued but they are yet to be notified. The AS-30,31 and 32 are:

Accounting Standard 30 : Financial Instruments: Recognition and Measurement

Introduction

AS 30 Financial Instruments: Recognition and Measurement comes into effect in respect of accounting periods commencing on or after 1-4-2009 and will be recommendatory in nature for an initial period of two years. This Accounting Standard will become mandatory in respect of accounting periods commencing on or after 1-4-2012 for all commercial, industrial and business entities except to a Small and Medium-sized Entity as defined below:

a. Whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
b. which is not a bank (including co-operative bank), financial institution or any entity carrying on insurance business;
c. whose turnover (excluding other income) does not exceed rupees fifty crore in the immediately preceding accounting year;
d. which does not have borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year; and
e. which is not a holding or subsidiary entity of an entity which is not a small and medium-sized entity.

For the above purpose an entity would qualify as a Small and Medium-sized Entity, if the conditions mentioned therein are satisfied as at the end of the relevant accounting period.

From the date of this Standard becoming mandatory for the concerned entities, the following stand withdrawn:

i. Accounting Standard (AS) 4, Contingencies and Events Occurring After the Balance Sheet Date, to the extent it deals with contingencies 3.

ii. Accounting Standard (AS) 11 (revised 2003), The Effects of Changes in Foreign Exchange Rates4, to the extent it deals with the 'forward exchange contracts'.

iii. Accounting Standard (AS) 13, Accounting for Investments, except to the extent it relates to accounting for investment properties.

From the date this Accounting Standard becomes recommendatory in nature, the following Guidance Notes issued by the Institute of Chartered Accountants of India, stand withdrawn:

i. Guidance Note on Guarantees & Counter Guarantees Given by the Companies.
ii. Guidance Note on Accounting for Investments in the Financial Statements of Mutual Funds.
iii. Guidance Note on Accounting for Securitization.
iv. Guidance Note on Accounting for Equity Index and Equity Stock Futures and

AS 30 prescribes principles for recognizing and measuring all types of financial instruments except:

a. those interests in subsidiaries, associates and joint ventures that are accounted for under AS 21, AS 23 or AS 27

b. rights and obligations under leases to which AS 19 applies. however:

- o lease receivables recognised by a lessor are subject to the derecognition and impairment provisions of this standard;
- o finance lease payables recognised by a lessee are subject to the derecognition provisions of this standard; and
- o derivatives that are embedded in leases are subject to the embedded derivatives provisions of this standard

c. employers' rights and obligations under employee benefit plans to which AS 15 applies

d. financial instruments issued by the entity that meet the definition of an equity instrument in AS 31 (including options and warrants). However, the holder of such equity instruments should apply this Standard to those instruments, unless they meet the exception in (a) above

e. rights and obligations under insurance contracts which will be covered by proposed Accounting Standard on Insurance Contract, a contract that is within the scope of Accounting Standard on Insurance Contracts because it contains a discretionary participation feature. However, AS 30 applies to derivatives embedded in such a contract;

f. contracts for contingent consideration in a business combination. This exemption applies only to the acquirer.

g. contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date;

h. loan commitments other than those that are designated as financial liabilities at fair value through profit or loss. An issuer of loan commitments should apply AS 29 to those loan commitments that are not within the scope of this standard. However, all loan commitments are subject to the derecognition provisions of this Standard

i. financial instruments, contracts and obligations under share-based payment transactions, except certain contracts to buy or sell a non-financial item as noted below:

1. Contracts those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments. However, AS 30 does not apply to any such

contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements

2. Contract to buy or sell a non-financial item can be settled net in cash or another financial instrument or by exchanging financial instruments.

3. A written option to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments

4. Paragraphs 68, 69 and 70 of this Standard, which should be applied to treasury shares, purchased, sold, issued or cancelled in connection with employee share option plans, employees share purchase plans, and all other share-based payment arrangements

Recognition and De-recognition

A financial asset or liability is recognised when the entity becomes a party to the instrument contract. A financial liability is derecognised when the liability is extinguished. A financial asset is derecognised when, and only when:

- The contractual rights to the cash flows from the asset expire; or
- The entity transfers substantially all the risks and rewards of ownership of the asset; or
- The entity transfers the asset, while retaining some of the risks and rewards of ownership, but no longer has control of the asset (i.e., the transferee has the ability to sell the asset). The risks and rewards retained are recognized as an asset.

Measurement

Financial assets and liabilities are initially recognized at fair value. Subsequent measurement depends on how the financial instrument is categorized:

At amortized cost using the effective interest method

- Held-to-maturity investments: Non-derivative financial assets with fixed or determinable payments and maturity that the entity has the positive intention and ability to hold to maturity.
- Loans and receivables: Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.
- Financial liabilities that are not held for trading and not designated at fair value through profit or loss.

At fair value

- At fair value through profit or loss: Financial asset or liability that is classified as held for trading, is a derivative or has been designated by the entity at inception as at fair value through profit or loss.

- Available-for-sale financial assets: Non-derivative financial assets that do not fall within any of the other categories. The unrealised movements in fair value are recognized in equity until disposal or sale, at which time, those unrealised movements from prior periods are recognized in profit or loss.

If there is objective evidence that a financial asset is impaired, the carrying amount of the asset is reduced and impairment loss is recognized. A financial asset carried at amortised cost is not carried at more than the present value of estimated future cash flows. An impairment loss on an available-for-sale asset that reduces the carrying amount below acquisition cost is recognised in profit or loss.

Hedge accounting

AS 30 provides for two kinds of hedge accounting, recognising that entities commonly hedge both the possibility of changes in cash flows;(i.e., a cash flow hedge) and the possibility of changes in fair value (i.e., a fair value hedge). Strict conditions must be met before hedge accounting is applied:

- There is formal designation and documentation of a hedge at inception.
- The hedge is expected to be highly effective (i.e., the hedging instrument is expected to almost fully offset changes in fair value or cash flows of the hedged item that are attributable to the hedged risk).
- Any forecast transaction being hedged is highly probable.
- Hedge effectiveness is reliably measurable (i.e., the fair value or cash flows of the hedged item and the fair value of the hedging instrument can be reliably measured).
- The hedge must be assessed on an ongoing basis and be highly effective.

When a fair value hedge exists, the fair value movements on the hedging instrument and the corresponding fair value movements on the hedged item are recognised in profit or loss. When a cash flow hedge exists, the fair value movements, on the part of the hedging instrument that is effective, are recognised in equity until such time as the hedged item affects profit or loss. Any ineffective portion of the fair value movement on the hedging instrument is recognised in profit or loss.

Embedded derivatives

AS 30 requires derivatives that are embedded in non-derivative contracts to be accounted for separately at fair value through profit or loss.

Accounting Standard 31 : Financial Instruments: Presentation

This Standard comes into effect in respect of accounting periods commencing on or after 1-4-2009 and will be recommendatory in nature for an initial period of two years. This Accounting Standard will become mandatory in respect of accounting periods commencing on or after 1-4-2012 for all commercial, industrial and business entities except to a Small and Medium-sized Entity as defined below:

a. Whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;

b. which is not a bank (including co-operative bank), financial institution or any entity carrying on insurance business;

c. whose turnover (excluding other income) does not exceed rupees fifty crore in the immediately preceding accounting year;

d. which does not have borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year; and

e. which is not a holding or subsidiary entity of an entity which is not a small and medium-sized entity.

For the above purpose an entity would qualify as a Small and Medium-sized Entity, if the conditions mentioned therein are satisfied as at the end of the relevant accounting period.

This Standard should be applied by all entities to all types of financial instruments except:

i. accounted for in accordance with AS 21, AS 23, AS 27 However, in some cases, AS 21, AS 23 or AS 27 permits or requires an entity to account for an interest in a subsidiary, associate or joint venture using AS 30, in those cases, entities should apply the disclosure requirements in AS 21, AS 23 or AS 27 in addition to those in this Standard. Entities should also apply this Standard to all derivatives linked to interests in subsidiaries, associates or joint ventures.

ii. Employers' rights and obligations under employee benefit plans, to which AS 15, Employee Benefits, applies.

iii. Contracts for contingent consideration in a business combination. This exemption applies only to the acquirer. The term 'Business combination' means the bringing together of separate entities or businesses into one reporting entity. At present, AS 14, deals with accounting for contingent consideration in an amalgamation, which is a form of business combination.

iv. Rights and obligations under insurance contracts which will be covered by proposed Accounting Standard on Insurance Contract, a contract that is within the scope of Accounting Standard on Insurance Contracts because it contains a discretionary participation feature. However, AS 30 applies to derivatives embedded in such a contract;

v. Certain financial instruments and certain contracts and obligations under share based payments

Financial instruments, contracts and obligations under share-based payment transactions, except certain contracts to buy or sell a non-financial item as noted below:

1. Contracts those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments. However, AS 30 does not apply to any such contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements

2. Contract to buy or sell a non-financial item can be settled net in cash or another financial instrument or by exchanging financial instruments.

3. A written option to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments

4. Paragraphs 68, 69 and 70 of this Standard, which should be applied to treasury shares, purchased, sold, issued or cancelled in connection with employee share option plans, employees share purchase plans, and all other share-based payment arrangements

AS 31 applies to those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments. However, AS 30 does not apply to any such contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements.

Financial instruments are classified, from the perspective of the issuer, as financial assets, financial liabilities and equity instruments. Compound financial instruments may contain both a liability and an equity component.

Interests, dividends, losses and gains relating to financial liabilities are recognized as income or expense in profit or loss. Distributions to holders of equity instruments are debited directly to equity, net of any related income tax benefit.

Financial assets and financial liabilities are offset when and only when there is a legally enforceable right to set off and the entity intend to settle on a net basis.

AS 31 requires disclosure about factors that affect the amount, timing and certainty of an entity's future cash flows relating to financial instruments and the accounting policies applied to those instruments. It also requires disclosure about the nature and extent of an entity's use of financial instruments, the business purposes they serve, the risks associated with them, and management's policies for controlling those risks.

The principles in AS 31 complement the principles for recognizing and measuring financial assets and financial liabilities as given in AS 30.

Accounting Standard (AS) 32, Financial Instruments: Disclosures

The Standard comes into effect in respect of accounting periods commencing on or after 1-4-2009 and will be recommendatory in nature for an initial period of two years. This Accounting Standard will become mandatory in respect of accounting periods commencing on or after 1-4-2012 for all commercial, industrial and business entities except to a Small and Medium-sized Entity, as defined below:

i. Whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;

ii. which is not a bank (including a co-operative bank), financial institution or any entity carrying on insurance business;

iii. whose turnover (excluding other income) does not exceed rupees fifty crore in the immediately preceding accounting year;

iv. which does not have borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year; and

v. which is not a holding or subsidiary entity of an entity which is not a small and medium-sized entity.

For the above purpose an entity would qualify as a Small and Medium-sized Entity, if the conditions mentioned therein are satisfied as at the end of the relevant accounting period.

Scope

This Accounting Standard should be applied by all entities to all types of financial instruments, except:

a. those interests in subsidiaries, associates and joint ventures that are accounted for in accordance with AS 21, Consolidated Financial Statements and Accounting for Investment in Subsidiaries in Separate Financial Statements, AS 23, Accounting for Investments in Associates3, or AS 27, Financial Reporting of Interests in Joint Ventures. However, in some cases, AS 21,AS 23 or AS 27 permits or requires an entity to account for an interest in a subsidiary, associate or joint

venture using Accounting Standard (AS) 30, Financial Instruments: Recognition and Measurement; in those cases, entities should apply the disclosure requirements in AS 21, AS 23 or AS 27 in addition to those in this Accounting Standard. Entities should also apply this Accounting Standard to all derivatives linked to interests in subsidiaries, associates or joint ventures unless the derivative meets the definition of an equity instrument in AS 31.

b. employers' rights and obligations arising from employee benefit plans, to which AS 15, Employee Benefits, applies.

c. contracts for contingent consideration in a business combination. This exemption applies only to the acquirer.

d. insurance contracts as defined in Accounting Standard on Insurance Contracts. However, this Accounting Standard applies to derivatives that are embedded in insurance contracts if Accounting Standard (AS) 30, Financial Instruments: Recognition and Measurement, requires the entity to account for them separately. Moreover, an issuer should apply this Accounting Standard to financial guarantee contracts if the issuer applies AS 30 in recognising and measuring the contracts, but should apply the Accounting Standard on Insurance Contracts if the issuer elects, in accordance with the Accounting Standard on Insurance Contracts, to apply that Accounting Standard in recognising and measuring them.

e. financial instruments, contracts and obligations under share-based payment transactions except that this Accounting Standard applies to contracts within the scope of paragraphs 4 to 6 of AS 30.

This Accounting Standard applies to recognized and unrecognized financial instruments. Recognised financial instruments include financial assets and financial liabilities that are within the scope of AS 30. Unrecognized financial instruments include some financial instruments that, although outside the scope of AS 30, are within the scope of this Accounting Standard (such as some loan commitments).

This Accounting Standard applies to contracts to buy or sell a non-financial item that are within the scope of AS 30

The Standard requires the entities to provide disclosures in their financial statements that enable users to evaluate:

i. the significance of financial instruments for the entity's financial position and performance; and

ii. the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the reporting date, and how the entity manages those risks.

The principles in this Accounting Standard complement the principles for recognising, measuring and presenting financial assets and financial liabilities in Accounting Standard (AS) 30, Financial Instruments: Recognition and Measurement and Accounting Standard (AS) 31, Financial Instruments: Presentation

Disclosure

An entity should disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the reporting date.

Qualitative disclosures

For each type of risk arising from financial instruments, an entity should disclose:

a. the exposures to risk and how they arise;
b. its objectives, policies and processes for managing the risk and the methods used to measure the risk; and
c. any changes in (a) or (b) from the previous period.

Quantitative disclosures

For each type of risk arising from financial instruments, an entity should disclose:

a. summary quantitative data about its exposure to that risk at the reporting date. This disclosure should be based on the information provided internally to key management personnel of the entity (as defined in AS 18 Related Party Disclosures), for example the entity's board of directors or chief executive officer.
b. the disclosures required under as mentioned in subsequent clauses, to the extent not provided in (a), unless the risk is not material
c. Concentrations of risk if not apparent from (a) and (b).

If the quantitative data disclosed as at the reporting date are unrepresentative of an entity's exposure to risk during the period, an entity should provide further information that is representative

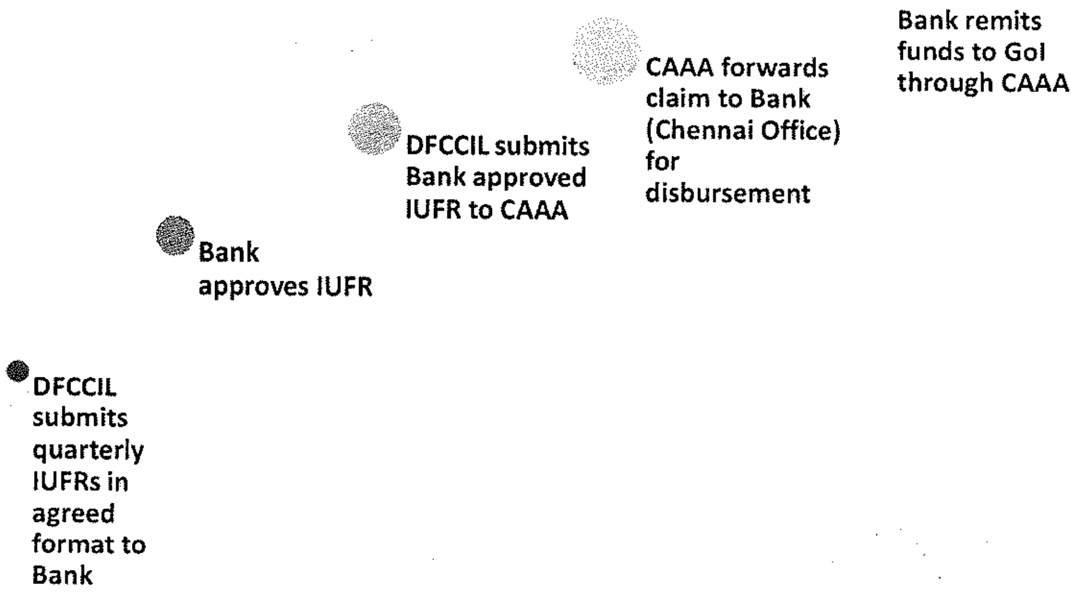
ABBREVIATIONS

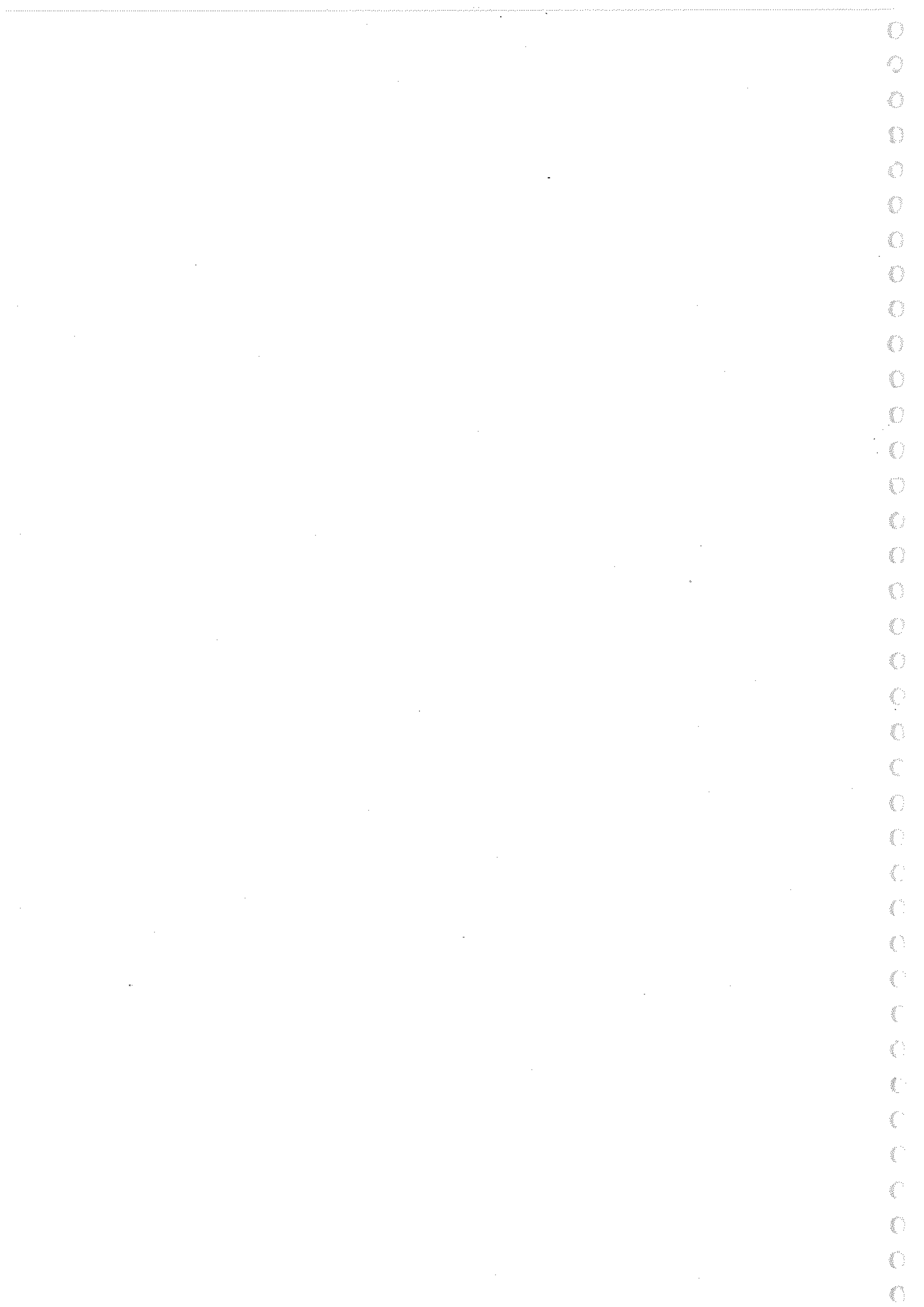
AS	:	Accounting Standards
BG	:	Bank Guarantee
BPR	:	Bill Passing Register
BRR	:	Bill Receipt Register
CARO	:	Companies (Auditors) Reports Order, 2003
CAAA	:	Controller of Aid Accounts & Audit Division
CCA	:	Children Education Allowance
CCR	:	Contractor Control Register
CO	:	Corporate Office
CPM	:	Chief Project Manager
CWIP	:	Capital Work in Progress
DFCCIL	:	Dedicated Freight Corridor Corporation of India Limited.
EDFC	:	Eastern Dedicated Freight Corridor
EFT	:	Electronic Fund Transfer
EIC	:	Engineer in Charge
EMD	:	Earnest Money Deposit
EPS	:	Earning Per Share
FC	:	Foreign Currency
Fin.	:	Finance
FSC	:	Foreign Service Contribution
GAAP	:	Generally Accepted Accounting Standards.
GRN	:	Goods Receipt Note
HR	:	Human Resource
IBRD	:	International Bank for Restructuring and Development
ICAI	:	Institute of Chartered Accountant of India
IT	:	Information Technology
IUFR	:	Interim Un-Audited Financial Report
JICA	:	Japan International Corporation Agency
JV	:	Journal Voucher
LAP	:	Leave on Average Pay
LC	:	Letter of Credit
LD	:	Liquidated Damages
LPC	:	Last pay Certificate
LSC	:	Leave Service Contribution
MB	:	Measurement Book
P&L	:	Profit and Loss
P.O.	:	Purchase Order
PF	:	Provident Fund

RM	:	Risk Management
SD	:	Security Deposit
TA	:	Travelling Allowance
TDS	:	Tax Deducted at Source
TT	:	Telegraphic Transfer
WB	:	World Bank
WCT	:	Works Contract Tax
WDFC	:	Western Dedicated Freight Corridor

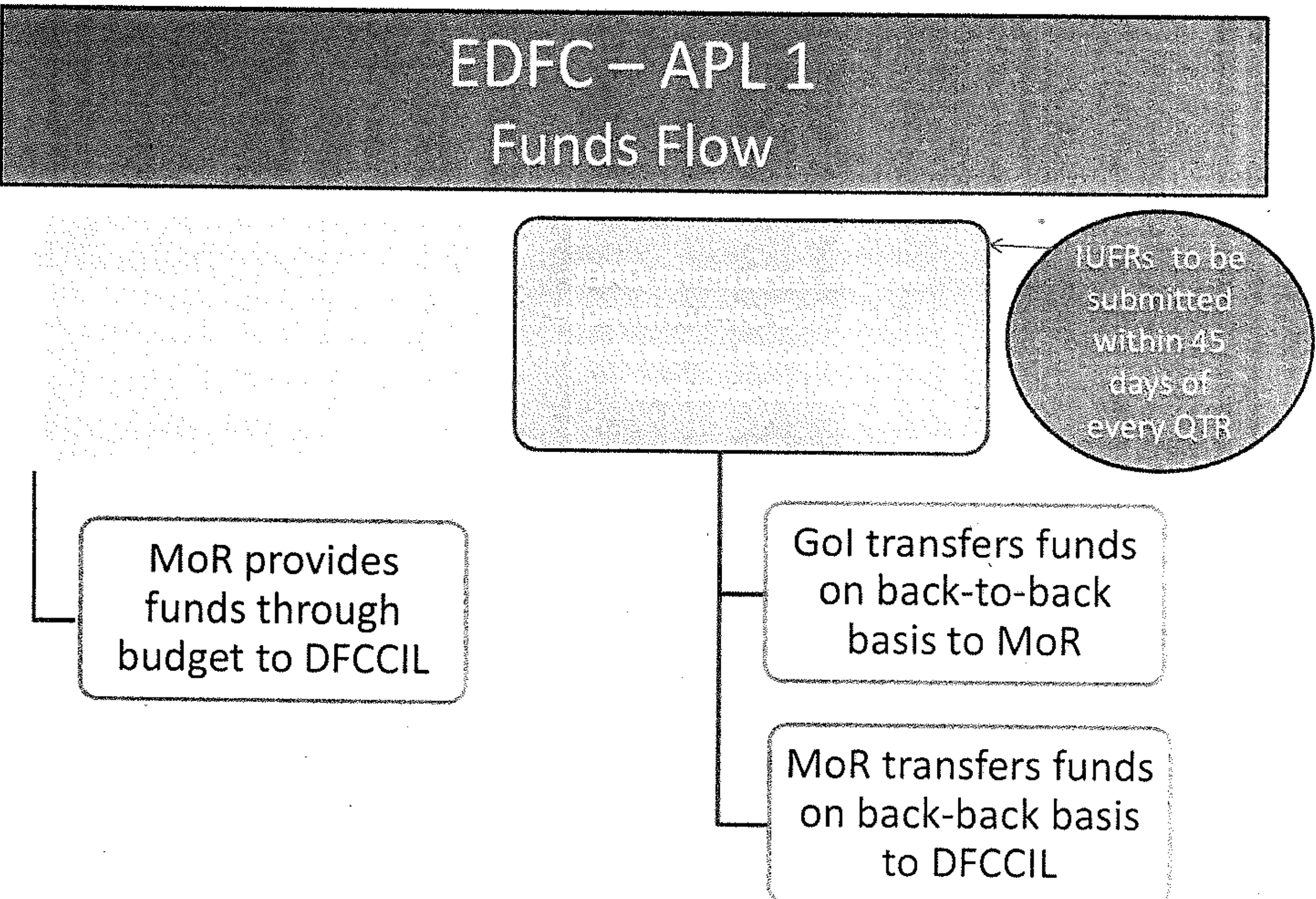
Annexure-1

EDFC – APL 1
Disbursement: Reimbursement

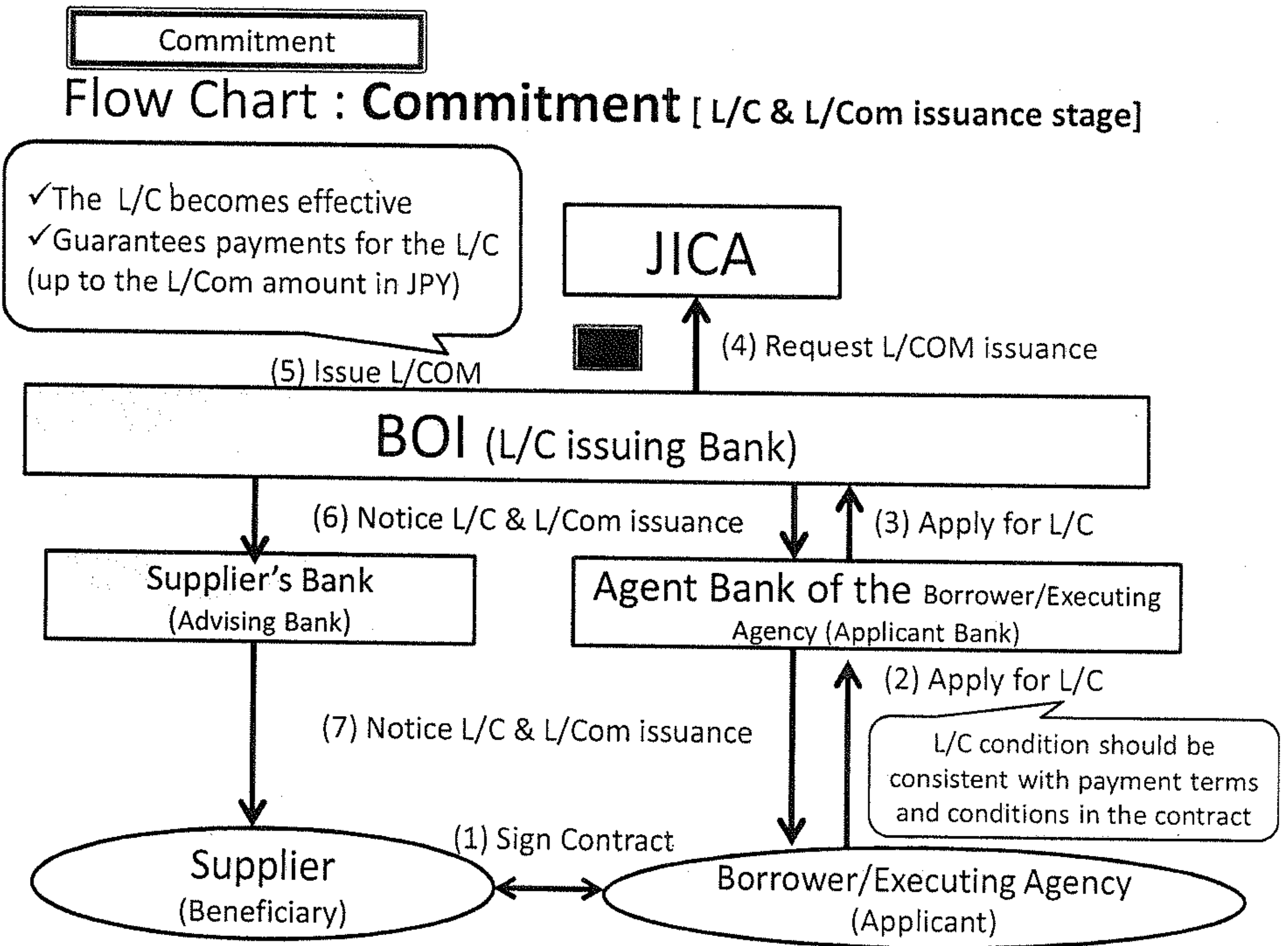


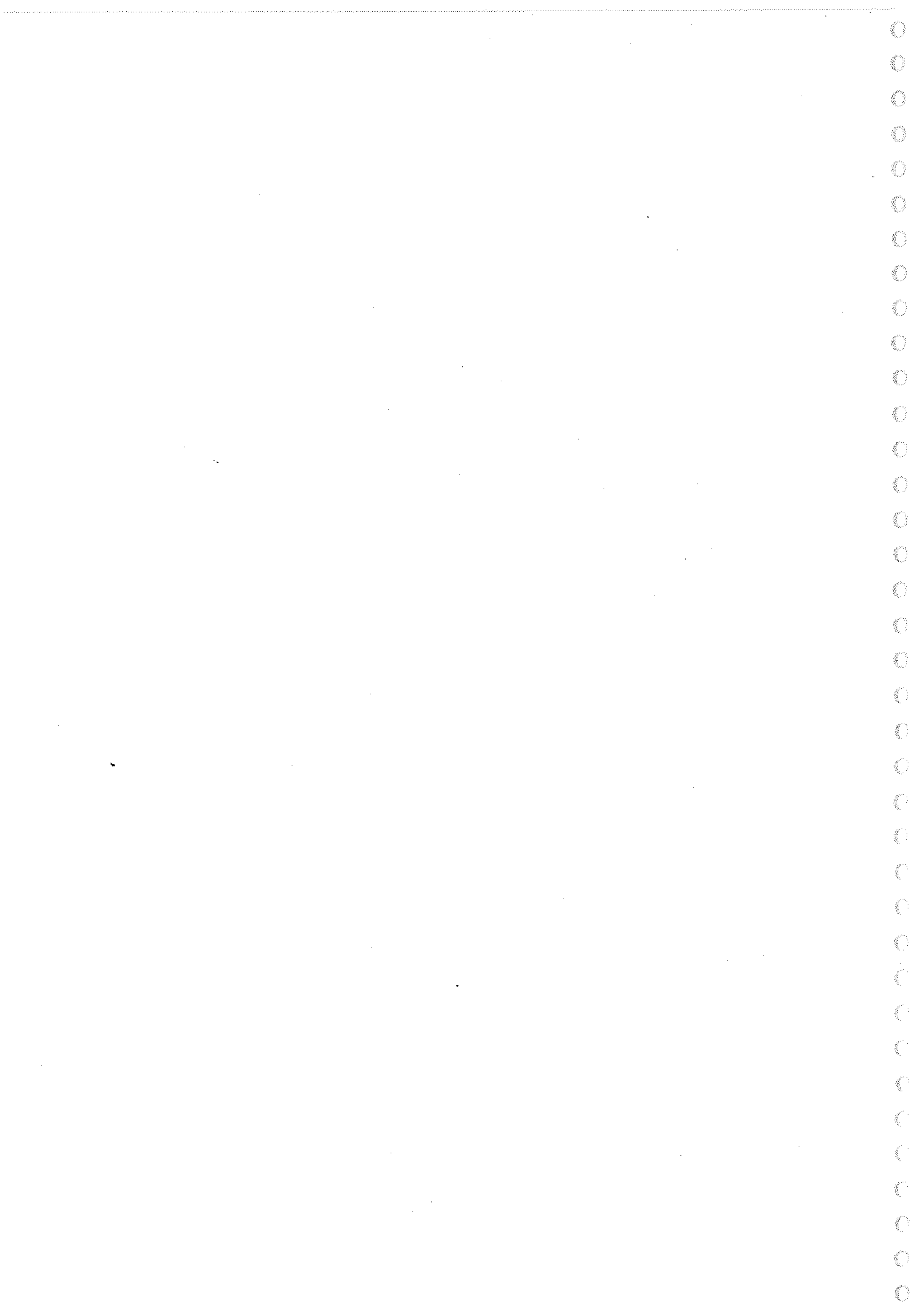


Annexure-2



Annexure-3





Annexure 4

Commitment

Flow Chart : **Commitment** [Disbursement stage]

Documents
Money

JICA

(5) Disbursement

(4) Request for Disbursement

BOI (L/C issuing Bank)

(6) Payments

(3) Required Documents

(6)' Required Documents

Supplier's Bank
(Advising Bank)

Agent Bank of the Borrower/Executing Agency (Applicant Bank)

(7) Payments

(2) Required Documents

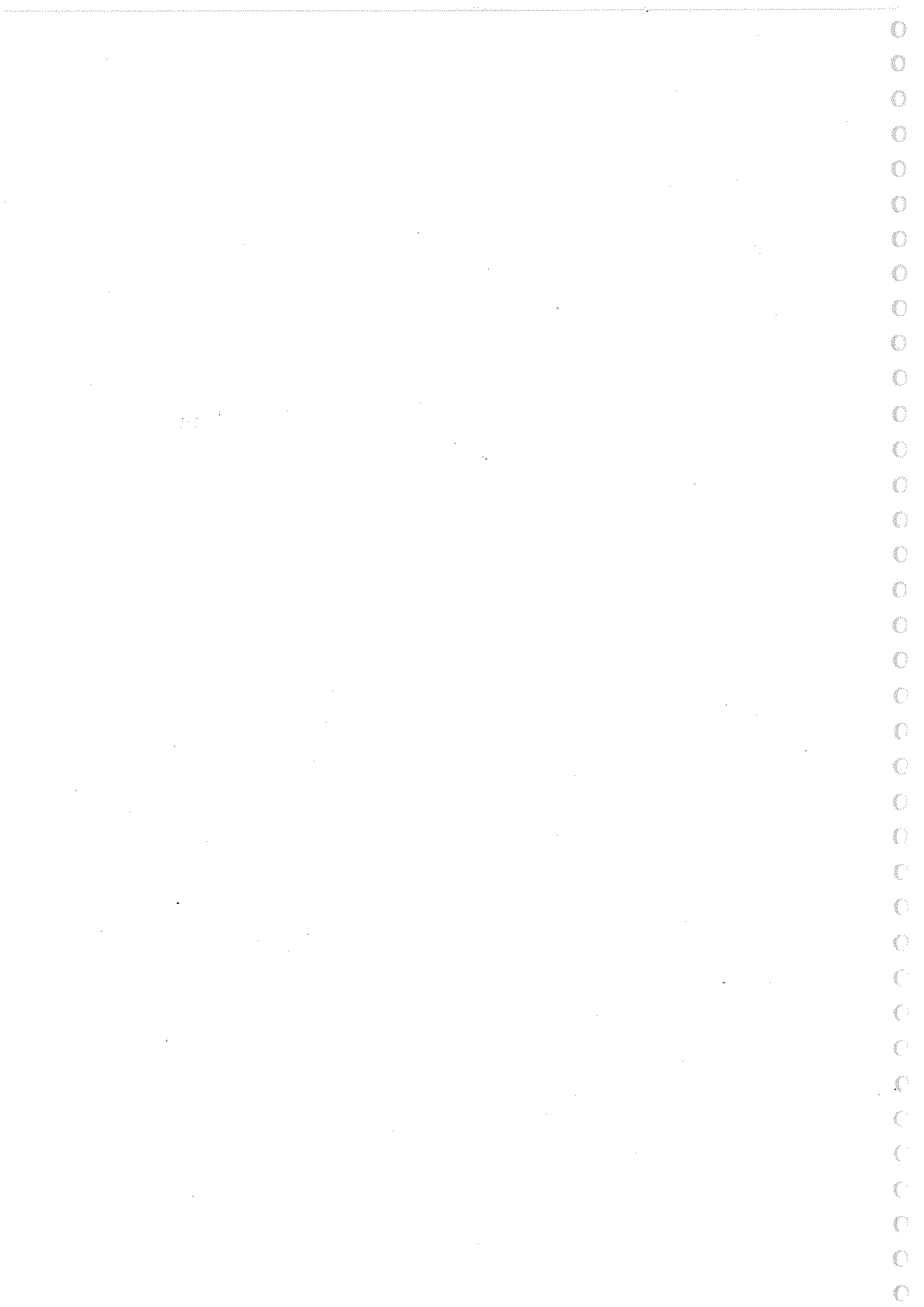
(6)'' Required Documents

Supplier
(Beneficiary)

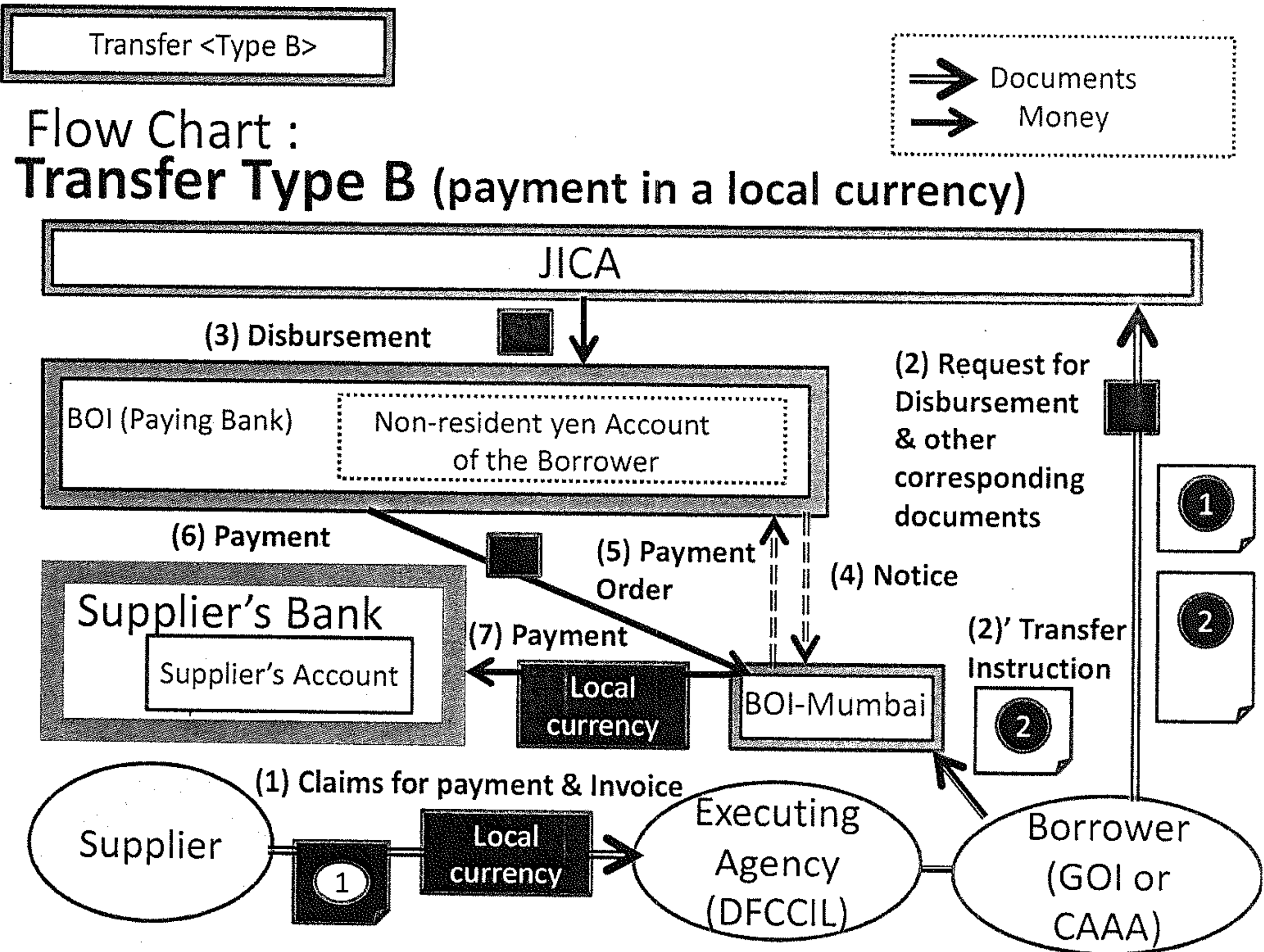
Borrower/Executing Agency
(Applicant)

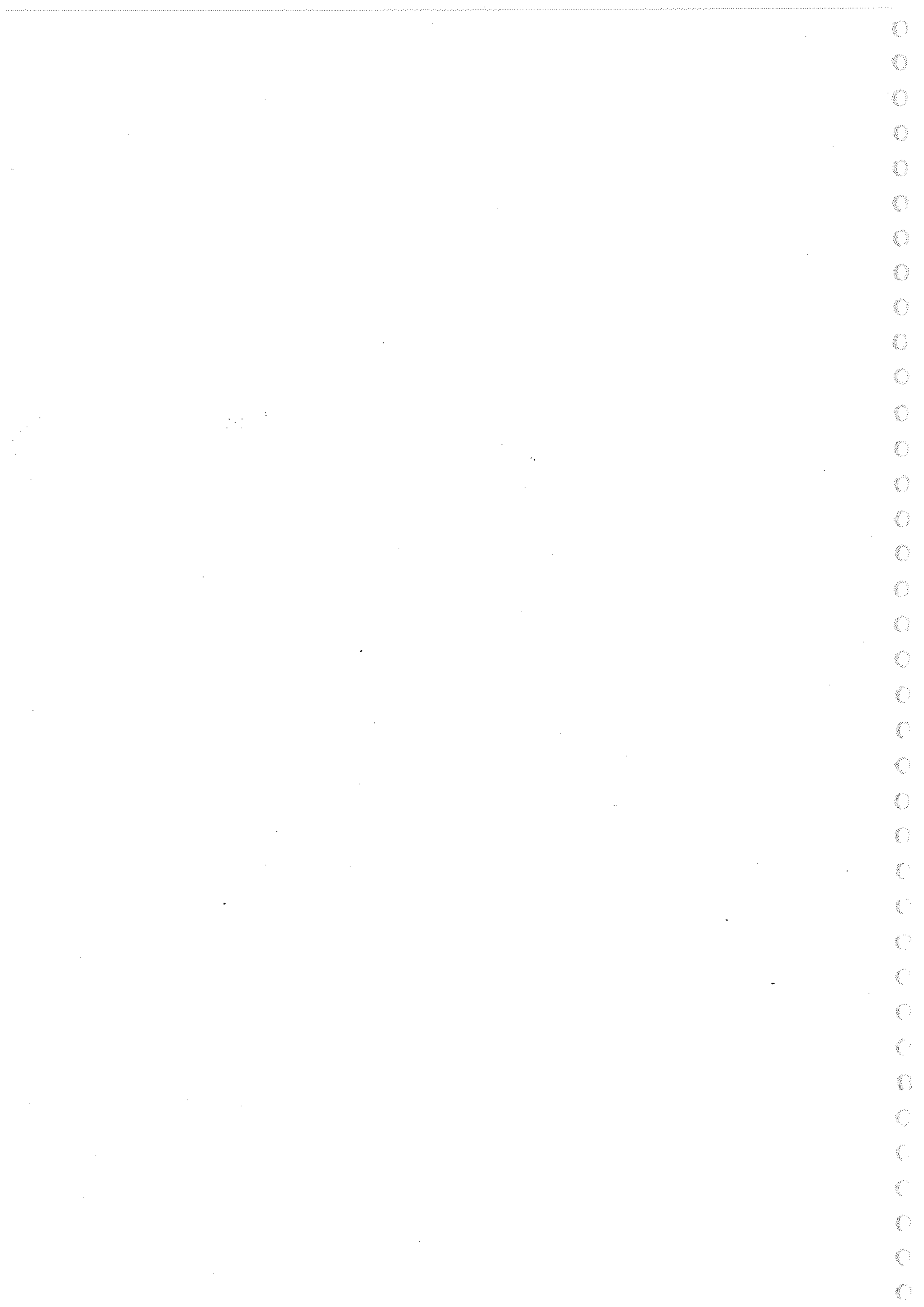
(1) Perform obligation

(*) In some cases, the Negotiating BK may make payment to Beneficiary before receiving payment from JICA



Annexure 5





DEDICATED FREIGHT CORRIDOR CORPORATION OF INDIA LTD.

Voucher No. 14376

SPECIMEN

PAYEE'S NAME AND ADDRESS:			
Dr/Cr	**PARTICULARS OF BILLS**	**ALLOCATION**	**Rupees**
Debit	Bill No. .... Rs.	Stationery	
		Office Expenses	
	Bill No. .... Bill Amt.Rs.	Entertainment	
		Misc. Expenses	
	Bill No. ....Date..........................& Bill Amt	Adv. of TA/Conveyance	
Credit	Bill No. .... & Date..................... Bill Amt.Rs.	TDS	
		WCT	
	Bill No. .... & Bill Amt.Rs.	Others	
		Others	
	Bill No. .... & Bill Amt.Rs.	Others	
		Others	
	NET PAYMENT	UBI	
	TOTAL CREDIT		

NARRATION:

REFERENCE OF

Cheque No.		Gross Amount	
Date		Deduction Rs.	
Bank	UBI	Net Amount Rs.	

Amount in Words:

Rs.

Sr. Executive | Asstt. Manager | DGM/F&A | Sign of Receiver