

**KARNATAKA POWER TRANSMISSION CORPORATION LTD.,**

No: KPTCL/B25/3812/2014-15

Encl :



Corporate Office,  
Kaveri Bhavan,  
Bangalore - 560 009.

Dated: - 7 JUL 2014

**Circular**

**Sub:** Revised procedure on valuation of Receipt and Issue of Materials w.e.f. 01.04.2014 as per Accounting Standards-2.

**Ref:** 1. Note No. FA(A&R)/KCO-21/6936/2013-14 ) dt. 26.06.2014 from Financial Adviser (A&R), KPTCL, Bangalore.  
2. Minutes of the 89<sup>th</sup> Meeting of Board of Directors of KPTCL held on 27.05.2014.

At present 'Accounting Policy' prescribed under Electricity Supply (Annual Accounts) Rules, (ESAAR 1985) 1985 are being followed for Material accounting transactions. Detailed procedure for accounting material receipts and issue as prescribed in Para 2.20 of Annexure IV of Accounts Manual Volume-III, are being considered in this behalf.

However, the above said policy is not in line with the provisions of Accounting Standard-2 - 'Valuation of Inventories' prescribed under the Companies Act, 1956/2013. This is being pointed out by the Statutory Auditors also in their Audit Reports.

Further, in one of the Orders of the Appellate Tribunal for Electricity, KERC has directed KPTCL to maintain its Accounts hereafter as per the provisions of Companies Act and Accounting Standards, which has also been re-iterated in the Tariff Order of 06.05.2013.

In the above background, KPTCL needs to switch over to comply with the provisions of Companies Act by adopting Accounting Standards. As a first step, it is proposed to adopt "Accounting Standard -2 (AS-2) Accounting Inventories". To comply with the provisions of the AS-2, the existing Accounting Policy of KPTCL relating to Material Accounting portion requires modification suitably. Accordingly the modified Accounting Policy has been approved by the Board of Directors in the 89<sup>th</sup> Board Meeting held on 27.05.2014. Revised procedure needs to be followed by the Accounting Units in the matter of 'Material Accounting' is narrated in the following paragraphs.

**(a) Existing Procedure (ESAAR 1985):**

Summary of provisions relating to Material Accounting prescribed under ESAAR 1985 and being followed by KPTCL are as under.

- i) Receipt, issue and stock in respect of fast moving materials are being valued at Standard Rates as prescribed in Schedule of Rates book published by KPTCL from time to time and difference between the actual cost and standard rate is accounted as 'Material Cost Variance'.

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- ii) If the materials are not covered under Standard Rate, receipt of materials is valued at actual cost (purchase rate) and issues are valued at weighted average rate.
- iii) The value of slow moving and non-moving materials are continued in the Accounts at Standard Rate or Purchase Cost as the case may be which were valued at the time of receipt till its disposal.

**(b) Provisions as per Companies Act:**

**Accounting Standards -2 Valuation of Inventories –**

**Summary of AS - 2**

- i) The cost of inventories should comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.
- ii) The cost of inventories should be assigned by using the First-In, First-Out (FIFO), or Weighted Average Cost formula. The formula used should reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition.
- iii) Inventories should be valued at the lower of cost and net realisable value.

**(c) Modified Accounting Policy as under to be followed by the Accounting Units to implement AS-2:**

- i) AS-2 to be implemented from 01.04.2014 and onwards
- ii) Value of materials which constitute the Opening Balance for 2014-15 (i.e., as on 01.04.2014) will be retained at the value existed in the books of Accounts as at the end of 31.03.2014.
- iii) According to modified Accounting Policy, all materials at the time of purchase are to be valued at **Purchase Cost** instead of **Standard Rates** prescribed in Schedule of Rates Book.
- iv) Material issues are to be valued at Weighted Average Rate applicable to the closing stock before such issue.
- v) As the purchase of materials is valued at Purchase Cost, there is no need for booking Material Cost Variance.
- vi) Standard Rates prescribed in Schedule of Rates book are to be applied in the preparation of Estimates only.
- vii) As Estimate for a Project / Work is prepared by applying Standard Rate and Material Cost is booked on Purchase / Actual Cost, there may be huge difference between the Estimate Cost and the Actual Cost of the Project / work. As such, Estimates have to be revised considering the actual value of materials used for the project / work.

viii) The Accounting procedures already prescribed for accounting scrap materials vide Circular No: FA (A&R)/KCO- 20/6911/2012 -13 dt. 06.02.2014 shall be continued to be followed without any change.

*Sundha 7/7/14*  
Deputy General Manager (Tech),  
KPTCL, Bangalore.

**To:**

1. All Chief Engineers (Electy.), KPTCL.
2. Financial Adviser (A&R) and (I/A) KPTCL, Kaveri Bhavan, Bangalore-09.
3. All Superintending Engineers (EI), KPTCL.
4. All Controllers of Accounts, Transmission Zones, KPTCL.
- ✓ 5. SEE, IT&MIS, KPTCL, Kaveri Bhavan, Bangalore with a request to arrange to upload the circular in the KPTCL website.
6. Deputy General Manager (Personnel), KPTCL, Kaveri Bhavan, Bangalore-09.
7. All Executive Engineers (EI), KPTCL.
8. All Deputy Controllers of Accounts, KPTCL.
9. All AOs & AAOs, I/A, KPTCL.
10. All Managers, KPTCL, Kaveri Bhavan, Bangalore-09.

**Copy to:**

1. The Resident Audit Officer, KPTCL, Kaveri Bhavan, Bangalore-09.
2. PS to Managing Director /Director (Transmission) /Director (Finance) / Director (A&HR) and Director (RA) & Company Secretary, KPTCL, Kaveri Bhavan, Bangalore-09.