

KARNATAKA POWER TRANSMISSION CORPORATION LIMITED

No.B19/345/85-86



Corporate office,
Kaveri Bhavan,
Bangalore - 560 009
Dated.15.03. 2013

CIRCULAR

Sub : Preparation of separate Estimates for New Works and Dismantling works.

Ref : Board Order No. KEB/B19/345/85-86 dated 18/06/1987

The Estimates for carrying out works have to be prepared properly under correct budget head to ensure correct budget sanction as also booking of expenditure under capital and revenue. However, many instances have been reported to the Corporate Office wherein discrepancies with regard to preparation of Estimates, sanction of work under wrong budget head of account and improper booking of expenditure under capital and revenue heads of account are noticed.

Most of the capital works in KPTCL are being executed through turnkey contracts. Estimates are being prepared by various authorities of KPTCL for carrying out the Capital Works. Based on the Estimates, Detailed Project Report is prepared and further action to award the work is taken up through tendering process.

In some cases, the execution of the project may involve dismantling of existing assets, which were already commissioned in earlier years and held as Fixed Assets in the books of KPTCL. Such Works are being awarded to the Turnkey Contractors on the condition that the Turnkey Contractors have to carry out dismantling of the existing assets during the course of execution of the new projects. In such cases, a single estimate is being prepared for execution of the new work as well as dismantling work and total amount is computed and awarded to the Turnkey Contractor. This procedure of awarding work combining both the works has lead to confusion in preparation of estimates and accounting treatment of such transactions. The instructions in the Board Order cited under reference above, to prepare separate Estimates for new work and labour charges for decommissioning of existing assets are not being followed properly.

In the light of above, the issue has been examined again and following procedure is prescribed to overcome the deficiencies in the method of preparing and sanctioning of Estimates.

Case-I-Capital Projects wherever de-commissioning of Assets is not envisaged:- In the cases of execution of Capital Works where the de-commissioning of the existing Asset is not required to be done, the existing procedure of sanctioning, awarding and incurring the cost under relevant Capital Head of Account shall be continued.

Case-II-Capital Projects which envisages De-commissioning of the existing Asset:- In cases where the Capital Work envisages dismantling of existing Asset during the course of execution of the new project, estimates are to be prepared in 3 Parts, i.e., Part-A, Part-B and Part-C.

Part-A- Estimate for executing new Capital Work :- Procedure as explained in Case-I above may be followed.

Part-B- Estimate for de-commissioning of Asset:- Expenditure incurred on dismantling the existing structure i.e., 'labour charges' is a Revenue Expenditure. As such, the estimate may be sanctioned, awarded and incurred under Revenue Expenditure Head of Accounts '77.540-Transmission Lines / Sub-Stations - Decommissioning Cost' or '77.550-Other Decommissioning Cost' as the case may be. The format of the estimate is shown below;

KARNATAKA POWER TRANSMISSION CORPORATION LIMITED					
ESTIMATE FOR DECOMMISSIONING OF ASSET					
Sl.No.	Particulars	Unit	Qty.	Unit rate	Amount
A	Cost of de-commissioning of Asset :				
1	Labour for dismantling as per Schedule of rates of KPTCL/ESCOMS/KP WD or as derived.				
2	Service tax at the applicable rate on sl. no:1 (present rate being 12.36%)				
3	Total				
	<p>Note : (a) If the dismantling work is executed by KPTCL itself through its employees, labour charges noted against sl. no:1 above gets debited to 'Employee Costs' and no further action is required.</p> <p>(b) If the work is carried out through Contractors, the labour charges together with service tax is payable to Contractors which shall be booked under Head of Account 77.5 _ _ 'Asset De-</p>				

commissioning Cost'. (c) Estimate to be sanctioned under Account Head-77.5 Asset De-commissioning cost.
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Part C- Estimate for returning the dismantled Assets to KPTCL Stores – In cases where the assets dismantled by the Turn key contractor are to be returned to the KPTCL Stores as per the Contract, estimate for returning the dismantled Assets to the stores may be prepared and sanctioned under Account Head '16.1..-WDV of obsolete / scrapped Assets' (in case released assets are not in re-usable condition) or '16.2..-WDV of Faulty / Dismantled Assets' (in case released assets are good and can be re-used) as the case may be. The values for the Assets to be dismantled are to be obtained by the concerned Technical Authority from respective Accounting Unit of KPTCL. The format of the estimate is shown below;

KARNATAKA POWER TRANSMISSION CORPORATION LIMITED					
ESTIMATE FOR DECOMMISSIONING OF ASSET					
A	<u>Data to be furnished by field staff:</u> i) Particulars of Asset dismantled. ii) Year of Commission iii) Make or Manufacturer's Name iii) Proposed Month and year of dismantling.				
Sl.No.	Particulars	Unit	Qty.	Unit Rate	Amount
B	<u>Data to be furnished by Accounts Section before sending estimate for sanction:</u> i) Original Cost/assessed value of the assets to be dismantled. ii) Depreciation earned. iii) Written down value of the asset to be dismantled. Report:.....				

The sanction of the Estimate should be for total of Part A and Part B which is also the basis for awarding the work to the contractor. However, the cost of Part A should be sanctioned under appropriate 'Capital' Head of Account and cost of Part-B should be sanctioned under 'Revenue' Head of Account indicated above. The value indicated in Part-C of the Estimate should not be included in the cost of the Estimate considered for sanction and award.

Case-III - De-commissioned Assets to be taken back by Contract Agency on 'Buy-back Scheme' - In cases where the released assets are to be taken over by the Turnkey contractor as per the terms and conditions of the Contact, then in such cases, the estimate under Part -C shall be sanctioned under Head of Account '28.810-Expenses recoverable from Suppliers / Contractors'. Other details under Part-C of the Estimate shall be furnished as above.

Accounting treatment under 'Buy back' arrangement: The Asset decommissioning cost as booked against Estimate Part-B shall be accounted as Revenue Expenditure as per the existing procedure.

After ascertaining from the concerned Technical Authorities about the actual dismantle of existing assets or release of assets by the Turnkey Contractor under Buy back arrangement, the WDV of the dismantled Assets shall be debited to Account code 28.810 and corresponding accumulated depreciation and Original of the Assets shall be removed by passing following Journal entry;

(1)

Particulars	L.F	Debit Amount	Credit Amount
28.810- Expenses recoverable from Suppliers/Contractors		XXXX	
12- series		XXXX	
To 10 Series			XXXX
(Entry passed to withdraw assets dismantled under buy back arrangement)			

The actual amount realised towards value of buy back of assets from the Contractor in Cash or through Adjustment while admitting the Advance or Initial Bills of new Works, shall be booked under Head of Account '46.922-Advance received towards sale of Stores, scrap, etc' and the party-wise details of the transactions shall be recorded in the respective Schedule.

If the amount realised from the Contractor is more than the WDV of the dismantled Assets, following Journal entry shall be passed to account the income

arising out of the buy back arrangement and balance under Account Code 46.922 shall be cleared.

(2)

Particulars	L.F	Debit Amount	Credit Amount
46.922-Advance received towards sale of Stores, scrap, etc.		XXXX	
To 28.810- Expenses recoverable from Suppliers/Contractors			XXXX (amount booked as per JV(1) above)
To 62.340 - Sale of scrap.			XXXX
(Entry passed to account the income arising out of buy back arrangement)			

If the amount realised from the Contractor is less than the WDV of the dismantled Assets, following Journal entry shall be passed to account the loss arising out of the buy back arrangement and balance under Account Code 46.922 shall be cleared.

(3)

Particulars	L.F	Debit Amount	Credit Amount
46.922-Advance received towards sale of Stores, scrap, etc.		XXXX	
79.572-Loss on sale of scrap		XXXX	
To 28.810- Expenses recoverable from Suppliers/Contractors			XXXX (amount booked as per JV(1) above)
(Entry passed to account the Loss arising out of buy back arrangement)			

Under Buy back arrangement, the new work (i.e., Part -A portion) shall be awarded for gross amount and not at net of buy back value.

Case-IV- Dismantling of the existing Assets with buy back of the released materials in cases where no new construction work is envisaged:

In cases where work of dismantling of the existing Assets together with buy back of released materials are also being awarded to the Turnkey contractors, only the estimates as per Part-B and Part-C above (in respect of buy back arrangement) shall be prepared on the above lines. Part-B estimate can be sanctioned and awarded to the Turkey Contractor.

Accounting treatment as explained under 'Accounting treatment under Buy back arrangement' shall be followed in such cases also. However, the buy back value in such cases will be actually received and there will not be any recovery through adjustment.

The above procedure shall be scrupulously followed in future to ensure proper and correct sanction of estimates, award or works and accounting of expenditure under capital and revenue heads of account.

B. Shetty 15.03.12
Deputy General Manager (Tech.),
KPTCL, Bangalore.

To:

All Chief Engineers, Electy., KPTCL.
The Financial Adviser (A&R) / (I/A), KPTCL, Bangalore.
All Superintending Engineers Major Works / Major Works & Maintenance Circles, KPTCL.
All Controller of Accounts, Transmission Zones, KPTCL.
All Executive Engineers, Electy., Major Works/TL&SS Divisions, KPTCL.
All Deputy Controller of Accounts, Major Works / Major Works & Maintenance Circles, KPTCL.

Copy for information to:

PS to Managing Director / Director (Transmission) / Director (Finance), KPTCL to place the Order before the Directors for information.
The Superintending Engineers (Elec.,) IT&MIS with a request to upload the Circular on the KPTCL website for view of the officers of KPTCL.