SIGNIFICANT ACCOUNTING POLICIES

(1) BASIS OF ACCOUNTING:

(i) The company is engaged in the business of electricity distribution in Western Gujarat area and is governed by the provisions of the Electricity Act, 2003 and Gujarat Electricity Industry (Reorganization & Regulation) Act 2003. The provisions of these Acts read with the rules made there-under prevail wherever the same are inconsistent with the provisions of the Companies Act, 1956.

(ii) The company prepares its financial statements under historical cost basis in accordance with Generally Acceptable Accounting Principles (GAAP) and the Accounting Standards notified under the Companies Accounting Standards Rules, 2006.

(iii) All expenses are recognized and accounted for on accrual basis. Claims of suppliers/contractors for price variation are accounted for on its acceptance.

(2) USE OF ESTIMATES:

The preparation of financial statements requires the management to make estimates and assumptions that effect the reported amounts of assets and liabilities (including contingent liabilities) as of the date of financial statements and the reported income and expenses during the reporting period. The management believes that the estimates used in preparation of the financial statements are prudent and reasonable. Future result could differ from these estimates.

(3) REVENUE RECOGNITION:

(i) Revenue from sale of power:

Revenue from sale of power (including unscheduled interchange) are recognized on accrual basis for in accordance with the tariff orders awarded by Gujarat Electricity Regulatory Commission (GERC) as applicable.

(ii) Miscellaneous revenue from consumers :

(a) Bills raised for theft of energy on consumer are recognized in full as soon as assessment order is received from the competent authority of the Company.

(b) Recoveries of Meter rent and wheeling charges are recognized on accrual basis.

(c) Miscellaneous charges from consumers are recognized on cash basis when ultimate realization of such income is uncertain.

(iii) Other income:

(a) Income from sale of scrap, insurance claims are accounted for on the basis of actual realization.

(b) Income in respect of delayed payment charges is accounted for in the subsequent bill, upon realization of the delayed payment made by the consumer against outstanding energy bills.

(c) Income except otherwise mentioned above is recognized on accrual basis except when ultimate realization of such income is uncertain.

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(iv) Amount in respect of unclaimed / undisputed Security Deposit, Earnest Money Deposit, Deposit of temporary consumers and Miscellaneous Deposit of suppliers and contractors which is pending for more than three years and which as per the policy of management is not payable, is considered as income.

(4) FIXED ASSETS:

(i) Fixed assets are stated at cost including all attributable charges properly incurred in erecting and bringing the asset into beneficial use.

The gross block, accumulated depreciation and net block of fixed assets include value of assets vested in the Company in terms of the transfer scheme as notified by Govt. of Gujarat vide notification no. GHU-2006-91-GUV-1106-590-K dated 3rd October, 2006.

(ii) The fixed assets not in use i.e obsolete/scrapped assets are stated at a value lower of Net Realisable Value and their written down value (Cost less Accumulated Depreciation).

(iii) Full cost of all small and low value assets except office equipments and Furniture & fixtures & electric fan installations, each costing ₹ 5000 or less are fully charged to Profit & Loss Account in the year in which the assets are purchased.

(iv) As the frequency and the movement of the replacement of failed transformers is high and the same being regular ongoing process in distribution network, the cost of replaced transformer is not capitalized and simultaneously the cost of failed transformer is not withdrawn from the asset account as per the policy followed since the time of erstwhile GEB. The same is included under the head Inventories in Current Assets.

(v) Capital work -in - progress includes the cost incurred on fixed assets that are not ready for the intended use and are capitalized whenever ready for use. All expenditures of administrative units are allocated to the projects on pro rata basis to the accretion made to respective project. However, indirect expenditure is allocated to Capital work – in – progress on the basis of evaluation done by management.

(5) DEPRECIATION:

(i) Depreciation is provided on Straight Line Method at the rates prescribed in Schedule XIV to the Companies Act, 1956.

(ii) The depreciation on the addition and withdrawal of the Fixed assets during the year is provided on daily basis from the date when asset is put to use, in case of addition and till the date of withdrawal in case of withdrawal.

(6) INVENTORIES:

The Inventories of the Company have been valued on the following basis:

(a) Capital Inventory, Material, Consumable Stores and Spares	At Cost - Cost is arrived on weighted average method.
(b) Scrap	➢ At net realizable value determined by the company on the basis of realization made in the past period.

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	➢ Stock of Burnt Transformers, lying with various repairing agencies at the year end and declared as Scrap are valued at Cost or net realizable value which is lower.

(7) EMPLOYEE BENEFITS:

(i) Defined Contribution Plan: The Company's contribution paid/ payable during the year to Provident Fund, Superannuation Fund and other welfare funds are considered as defined contribution plans. The Contribution paid/payable under these plans are recognized during the period in which the employee renders the services.

(ii) Post employment benefits in the nature of Defined Benefit Plan and other long term benefits are recognized as an expense in the Profit and Loss Account for the year in which employee has rendered services. The expense is recognized at the present value of the amount payable determined on the basis of actuarial valuation using Projected Unit Credit Method

(iii) Actuarial gains and losses in respect of past employment and other long term benefit are charged to the Profit and Loss accounts.

(8) BORROWING COSTS:

(i) Borrowing Cost specifically identified to the acquisition or construction of qualifying assets has been fully capitalized as part of such asset.

(ii) In respect of general borrowing cost, not directly attributable to qualifying assets, general weighted average of interest cost is capitalized and apportioned on the average balance of capital work in progress for the year.

(iii) Other borrowing cost is recognized as expense in the period in which they are incurred.

(9) TAXATION:

(i) Tax expense comprises of current tax and deferred tax. They are included in determining the net profit for the year.

(ii) Provision is made for the current tax based on the tax liability computed in accordance with relevant tax rates and tax laws.

(iii) Deferred tax is measured based on tax rates and tax laws enacted or substantively enacted at the Balance-sheet date. Deferred tax on the depreciation on the opening balances of the assets vested by the Government of Gujarat under various notifications and Restructuring Plan have not been recognized considering the permanent difference. Further consequential difference between the amount of depreciation for accounting purpose and tax purpose in respect of such assets in subsequent years would also be considered as permanent difference. \

(iv) The company recognizes MAT credit available as an asset only to the extent there is convincing evidence that the company will pay normal income tax during the specified period, i.e., the period for which MAT credit is allowed to be carried forward. In the year in which the company recognizes MAT credit as an asset in accordance with the Guidance Note on Accounting for Credit Available in respect of

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Minimum Alternate Tax under the Income-Tax Act, 1961, the said asset is created by way of credit to the statement of profit and loss and shown as "MAT Credit Entitlement". The company reviews the "MAT credit entitlement" asset at each reporting date and writes down the asset to the extent the company does not have convincing evidence that it will pay normal tax during the specified period.

(10) PROVISIONS AND CONTINGENT LIABILITIES:

(i) The company recognizes a provision when there is a present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is a possible obligation or a present obligation that the likelihood of outflow of resources is remote, no provision or disclosure is made.

(ii) Provisioning for Bad & Doubtful debts is made by class/group wise debtors based on periodic review of Debtors as well as considering decisions of Lok Adalats held during the year.

(11) CONSUMER CONTRIBUTIONS, CAPITAL GRANTS & SUBSIDIES:

(i) Contribution, grants and subsidies towards cost of capital assets are not reduced from cost of assets and are treated as deferred revenue and 10% of the year end balances of such contributions, grants and subsidies are transferred to profit & loss account.

(ii) Revenue Subsidies as allocated by GUVNL (Holding Company) are accounted on accrual basis and credited to Profit & Loss account.

(12) IMPAIRMENT OF ASSETS:

Consideration is given at each Balance Sheet date to determine whether there is any indication of impairment of the carrying amount of the Company's fixed assets. If any indication exists, asset's recoverable amount is estimated. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognized in the Profit & Loss Account. If at the Balance Sheet date, there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount.

(13) LEASES:

Leases are classified as operating leases where the lessor effectively retains substantially all the risk and benefits of the ownership of the leased assets. Operating Lease payments are recognised as expenses in the Profit and Loss Account as and when paid.

(14) PRIOR PERIOD ITEMS:

All identifiable items of income and expenditure pertaining to prior period are accounted through net prior period (income)/expenditure.

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(15) **EARNINGS PER SHARE:**

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period.

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

(16) **EVENTS OCCURRING AFTER THE DATE OF BALANCE SHEET DATE**

Material adjusting events (that provides evidence of condition that existed at the balance sheet date) occurring after the balance sheet date are recognized in the financial statements. Non adjusting events (that are indicative of conditions that arose subsequent to the balance sheet date) occurring after the balance sheet date that represents material change and commitment affecting the financial position are disclosed in the reports of the Board of Directors.

(17) **GENERAL:**

Accounting policies not specifically referred to are consistent with generally accepted accounting practice.

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