SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies are the basis of accounting that is used to determine how transactions are reported on the financial statements. These financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, whenever applicable.

These Accounting Policies have been prepared considering Governmental Accounting Standards Board (GASB) pronouncements, the various relevant Accounting Standards of the Institute of Chartered Accountants of India (ICAI), the Technical Guide on accounting and financial reporting by Urban Local Bodies issued by the ICAI and Comptroller & Auditor General's report on Urban Local Bodies.

BASIS OF PRESENTAION

Fund Accounting : -

The accounts of the Ahmedabad Municipal Corporation are organized on the bases of funds, each of which is considered a separate accounting entity. The operations of each Fund are accounted for with a separate set of self-balancing accounts that comprise its assets. Government resources are allocated to and accounted for in individual funds based upon the purposes for which resources are to be spent and the means by which spending activities are controlled. The various Funds are grouped in the financial statements in four generic fund types, as follow :

- **General Municipal Fund**

The General Fund, which is the principal fund of the City, accounts for all financial transactions not accounted for in other funds.

- **Capital Projects Fund**

The Capital Projects Fund is used to account for financial resources to be used for the acquisition of major capital facilities. In the context of the AMC, all projects that are in the process of construction are accounted for in this Fund. After completion, they are accounted for as general fixed assets of the city.

- **Special Revenue Funds**

These Funds are used to account for the proceeds of specific Revenue Sources (other than Expendable Trust Funds or major Capital Projects Funds) that are legally restricted for expenditures for specific purposes.

- **Trust and Agency Funds**

These funds are used to account for assets held by the AMC in a trustee capacity or as an agent for individuals, other Governmental Units, and other Funds.

Basis of Accounting : -

Under the **Accrual Basis of Accounting** , most transactions are recorded when they occur, regardless of when cash is received or disbursed. The accrual basis of accounting includes considerations relating to deferral, allocation, depreciation and amortization. **The major difference between accrual accounting and cash accounting is in timing of recognition of Revenues, Expenses, Gains and Losses.**

The accrual basis is the superior method of accounting for the economic resources of any organization. It results in accounting measurement based on the substance of transactions and events, and thus enhances their relevance, neutrality, timeliness, completeness and comparability. **World Wide, the use of accrual basis to the fullest extent practicable is recommended in the government environment**

Under accrual accounting, entries are made on the dates when Revenue or Expenses fall due and not on the date when they are paid or received. Accrual Basis of accounting is a scientific system for reporting income and also for preparation of financial statements. It is based on two basic accounting principles.

1. **Revenue Recognition principle**
2. **Matching Principle**

According to the Revenue Recognition Principle, Revenue is reported in the financial statements in the accounting period in which cash representing that revenue is actually received. According to Matching Principle, all expenses associated with the generation of revenue must be matched against that revenue in the same period in which revenue was actually earned . Consequently under accrual basis of accounting , cash received in advance for services to be rendered in future are not recognized as revenues at all and are treated as deferred revenue and shown as liability in Balance Sheet. Similarly expenses paid in advance are not matched against the revenue of current year and treated as prepaid expenses and shown as asset in Balance Sheet. Likewise, income earned, but not received in cash is taken as accrued income, and is treated as income of current year and shown as asset in Balance Sheet. Expenses incurred but not paid for is provided for and charged against revenue of current years and shown as liability in the Balance Sheet.

The adjustments made on accrual basis ensure better financial statements. Accrual Basis is the most widely accepted basis of accounting. Accrual Basis of accounting is a scientific method. It emphasizes on proper recognition of income & expenses to have a clear picture of receivables and payable without inflating/deflating income or expenses.

Benefits of Accrual Accounting

1. Accrual basis of accounting allows users to

i) Assess the accountability for all resources the entity controls and the deployment of those resources.

ii) Assess the performance, financial position and cash flow of the entity.

iii) Make decisions about providing resources to or doing business with, the entity.

iv) Evaluate a Government's ongoing ability to finance its activities and to meet its liabilities and commitment.

2. Accrual basis of accounting provides information on an entity's overall financial position and current stocks of assets & liabilities and changes in financial position. The AMC needs this information to

i) Make decisions about the feasibility of financing the services it wishes to provide.

ii) Demonstrate accountability to the public for the management of its assets and liabilities.

iii) Plan for future funding requirements of assets maintenance and replacement.

iv) Plan for the repayment of or satisfaction of existing liabilities.

v) Manage its cash position and funding requirement.

vi) Demonstrate its performance in terms of service costs, efficiency and accomplishments.

vii) Assess whether current revenues are sufficient to cover the costs of current programs and services.

viii) Record the total costs, including depreciation of physical assets and amortization of intangible assets for carrying out specific activities

ix) Assess whether it can provide and the extent to which it can afford new programs and services.

3. Accrual Accounting requires maintenance of complete records of assets and liabilities. It facilitates better management of assets, including better maintenance, more appropriate replacement policies, identification & theft or damage.

4. Accrual Accounting provides a consistent framework for the identification of existing liabilities , and contingent liabilities. It provides information on the impact of existing liabilities on future resources.

5. Accrual basis of accounting shows how the Government financed its activities and met its cash requirement.

6. Accrual basis of accounting highlights the impact financing decision on net assets/equity and may lead government to take longer-term view when making financing decisions than is generally possible, when relying on cash reports under the accrual basis of accounting , the financial statement will include a Statement of Financial position , which discloses information about assets and liabilities . Where assets and liabilities are not equal, a residual figure for net assets/equity will be reported. Changes in an entity's net assets/equity between two reporting dates reflect the increase or decrease in its wealth during the accounting period. Information or changes in financial position means that government may be held accountable for the financial impact of its decision of both current and future net assets/equity.

Method of Accounting : -

The method of accounting is the Double-Entry System.

Income/Revenues

In case of Property taxes, Revenue are recorded when earned and therefore recognized on accrual basis. This policy is in line with C&AG's recommendations on accrual accounting for property taxes in India. In the accrual system revenues from property taxes are recognized in the fiscal year for which the taxes are levied are considered measurable and available. Assigned Revenues like Entertainment tax, Duty/Surcharge on transfer of Immovable Properties are accounted upon actual collection. Revenues in respect of Advertisement, Rent from properties shall be accrued based on terms of agreement/contract. Revenue from Trade License Fees, Profession Tax etc shall be accrued in the year to which it pertains. Revenue from Grants and Shared Income are recognized in the fiscal year in which all eligibility requirements have been satisfied and confirmation/sanction received. This again is in line with C & AG's recommendation for accounting for such income.

Adequate provisions are made in respect of income accrued but not received.

Interest on tax receivables are accounted on receipt basis.

Expenditures

Expenditures are recorded when incurred and are recognized on accrual basis.

Cash and Bank

Cash comprises cash in hand and cash at bank as on the Balance Sheet date. Cash-books maintained in Headquarters and in all the Zones. Bank balance is taken as per books which are subject to reconciliation.

Investments

Investments comprise fixed term deposit with Nationalized Banks. Investments are valued at cost and adequate provision is made to recognize any permanent diminution, if any, in value. Interest on investments is accounted for on accrual basis.

Assets

Valuation Policies for Assets : - Generally fixed assets are valued at historical cost. In the absence of information regarding historical cost, the following costs have been used.

Fair Value : - The amount for which an assets could be exchanged between knowledgeable , willing parties in an arm's length transaction. It should be noted that computation of fair value is possible only if an active market for the asset exists. Evidence of isolated offers or transactions should not be taken as an indication of the existence of an open market.

Replacement Cost : - The amount that would cost currently to replace an asset.

Estimated Cost : - For those items for which neither the historical cost is available nor can a fair market price be determined and the replacement cost for all practicable purposes can not be ascertained, a notional value of rupee one has been taken for the asset itself.

Capital Assets : - Capital Assets are broadly classified into Land, Buildings, Equipments, Infrastructure Assets, Plant and Machinery, Furniture and Fixtures and Capital W. I. P. Capital Assets are reported at Historical Cost. The cost of capital assets includes capitalized interest and ancillary charges to place the assets in its intended location and condition for use . In case historical cost is not ascertainable, the rates as mentioned in the SOR(Schedule of Rates) for the year in which the assed is constructed/acquired has been used. However, assets with no commercial usage have been valued at Rs. One.

The assets purchased / constructed from Special Grants or Funds are valued at the cost incurred from Grant Fund towards such assets. Where the grant relates to an asset, the gross value of fixed assets is left undisturbed, the grant is credited to capital reserve. Accounting Policies followed for the valuation of various categories of capital assets are provided below:-

Land

AMC acquires land in a variety of ways such as

- By way of purchase from the landowner, including in a scheme of compulsory acquisition formulated by the government.
- Land gifted to AMC by institutions or individuals , whether with or without any conditions as to their use . This includes open spaces gifted by promoters of colonies, etc.
- Land provided to AMC free of cost , whether with or without any conditions as to their use.

Besides the above, some land may also be vested in AMC in respect of which it acts merely as trustee and has no ownership rights.
The accounting treatment of land acquired through the above modes is as follows :-

Land acquired through purchase : -

Such land is recorded at the aggregate of the purchase price paid / payable and other costs incidental to acquisition such as registration charges. In case of land acquired under a scheme of compulsory acquisition, many a time there is a dispute between the rate of compensation between the AMC and the previous owners whose land has been acquired. In such a case , in determining the cost of land , an appropriate allowance is made for the additional compensation that becomes payable, if the following condition is satisfied. The payment of additional compensation is probable , and the amount so payable can be reasonably estimated .

Land Acquired Free of Cost : -

In many cases, the government provides land free of cost. In some case individuals or institutions also provide land for specific purposes like construction of schools etc as endowments. Promoters of colonies may also provide for construction of parks and similar common facilities. The cost of such land to the AMC is nil . Such land has been accounted for a nominal value. (e.g. rupee one) . However , to maintain proper control , such land must be recorded in the fixed assets register . Any incidental costs of acquisition such as registration charges are added to cost. If the same asset is put for commercial utilization in the future, the asset will be valued at fair market value.

Vested Government Land : -

Such land is neither owned by AMC nor do the economic benefits from the use of such land otherwise flow to the AMC. The ownership remains with the government and AMC merely acts as a trustee in respect of such land. As neither the ownership nor the economic benefits arising from such land vest with the AMC, it is not considered an asset of the AMC.

Land Improvements : -

Cost of any improvements to land such as filling cost, fencing cost, etc. is capitalized as part of the cost of land. In case any super structure has been built on land the cost of such superstructure is capitalized separately under the head “Buildings.”

Land under Encroachment : -

Where there is an encroachment on land belonging to an urban local body, a provision equal to virtually the entire carrying amount of the land should be made (leaving only a nominal amount to facilitate control), except where it can be clearly demonstrated that there is a strong possibility of getting the land evacuated. This is in view of the fact that due to the complex, protracted legal process and other constraints, it is generally not possible to have the land evacuated. It would also be useful to include in the financial statements a description of land under encroachment and, wherever possible, the market value thereof.

In case the land is subsequently got evacuated, the provision made in respect of encroachment should be reversed.

Buildings

The cost of building is taken as the aggregate of the purchase price and incidental costs such as registration charges. In the case of self-constructed buildings, the cost is taken at the rates provided by the estate department based on the age of the building.

Plant and Machinery

The cost of plant and machinery includes, besides purchase price, such costs as site preparation costs, installation costs and professional fees.

Streetlights

All street light, poles and fittings that belong to AMC are recorded as fixed assets of AMC. The assets are valued at the rates mentioned in the SOR(Schedule of Rate) for the year of acquisition.

Other Fixed Assets

The cost of other fixed assets such as vehicles, furniture and fittings, office equipment etc. would comprise the purchase price and incidental costs such as freights, installations charges etc.

Composite Fixed Assets

In some cases, a single asset may comprise several components of different nature. For example, a part may comprise, apart from land, buildings, pumping station machinery, swings etc. Where each of these assets has been purchased/constructed separately , the attributable cost (i.e.purchase price and incidental costs or the cost of construction as the case may be) of each asset is capitalised under the respective account head in the chart of accounts. On the other hand, where the composite asset has been purchase or constructed for a consolidated amount, such amount is apportioned among the various components of the assets on a reasonable basis, e.g., in proportion to their respective market prices on the date of the acquisition.

Non-Cash Consideration

In some cases a fixed asset may be compulsorily acquired from a taxpayer for non-payment of taxes or duties. In such cases, the unpaid amount as appearing in the books constitutes the consideration for the acquisition and the asset acquired should accordingly be recorded at such amount.

Revalution

Where land is acquired by AMC free of cost or at concessional rates, and when such land is intended to be disposed off / sold off by AMC for commercial purposes, such land is required to be revalued by AMC subsequent to its acquisition. The revaluation should be based on market value of similar land (similar with regards to its condition / location) should be considered in revaluation. If such similar land is not available for comparison, appropriate allowances to be made for differences in location and condition. A subjective judgments on revaluation would exist until the promulgation of objective norm on revaluation of land of urban local bodies by state governments.

Work in Progress

Expenditure on Capital Assets which are in the process of Construction or completion are booked under the head ‘Capital Work-in-Progress’ (CWIP). CWIP is taken for all schemes **not** completed as on Balance Sheet date. CWIP is valued at amount of money spent & paid plus amount of bills passed but not paid.

Infrastructure Assets

The initial capitalization amount of infrastructure assets is based on historical cost. In determining the actual historical cost of general infrastructure assets is not practical because of inadequate records, the estimated historical cost for major general infrastructure assets has been calculated.

The estimate of historical cost of general infrastructure asset has been achieved by taking the rates provided in the SOR(Schedule of Rates) of the year of construction of the asset.

Depreciation

Depreciation has been charged under Straight Line Method on the rates ascertained on the basis of the life of the asset.

Straight Line Method of Depreciation (SLM) has been considered which is in line with international best practices for municipal governments.

Under this method, the rates of depreciation have been applied at a fixed percentage on the original cost of the Assets at the end of the year.

The rates of depreciation on various kinds of assets are provided as below:

Group	Assets	Life	Rate of Dep.
Land	Land	Nil	Nil
	Park	Nil	Nil
Buildings	Office Buildings	60 Yrs.	1.65%
	School	60 Yrs	1.65%
	Leasehold Shops Markets	60 Yrs	1.65%
	Underground Car Parking	60 Yrs	1.65%
	Community Centre	60 Yrs	1.65%
	Hospitals/Maternity Homes	60 Yrs	1.65%
	Slaughter House	60 Yrs	1.65%
	Town Hall	60 Yrs	1.65%
	Staff Quarter	60 Yrs	1.65%
	Overhead Water Tanks	60 Yrs	1.65%
Equipment	**Plant & Machinery**		
	Computer & Other	5 Yrs	20%
	Pipelines	60 Yrs	1.65%
	Office Equipment's	15 Yrs	6.67%
	Hospital Equipment	15 Yrs	6.67%

Group	Assets	Life	Rate of Dep.
	School Equipments	15 Yrs	6.67%
Vehicles	Light Vehicles	10 Yrs	10%
	Heavy Vehicles	10 Yrs	10%
	Earth Moving Vehicles	10 Yrs	10%
	Other Vehicles	10 Yrs	10%
Furniture	Steel/Wooden Racks	10 Yrs	10%
	Furniture	10 Yrs	10%
Group	**Assets**	**Life**	**Rate of Dep.**
	Hospitals Furniture		
	Electrical Installations		
	Air Conditioners	15 Yrs	7.00%
	Fountains	15 Yrs	7.00%
	Refrigerator	15 Yrs	7.00%
	Electrical Fittings	15 Yrs	7.00%
	Water Cooler	15 Yrs	7.00%
	Electrical Fittings	15 Yrs	7.00%
	Geysers	15 Yrs	7.00%
	Electric Cable	15 Yrs	7.00%
Infrastructure			
	Bridges/Flyovers	45 Yrs	2.2%
	Street Lights	50 Yrs	2%
	Fountains	60 Yrs	1.65%
	FOBs, RUBs, Subways	60 Yrs	1.65%
	Culverts, Drains, LavBlocks	60 Yrs	1.65%
	Urinal Sewerage System And Street Lights	60 Yrs	1.65%
	Roads		
	Asphaltic Road	20 Yrs	5.00%
	Brick Paved Roads	20 Yrs	5.00%
	Foot Path	20 Yrs	5.00%
	Cement	10 Yrs	10%
Capital WIP	Capital WIP	Nil	Nil

The Assets that are purchased or acquired in a year, full year's depreciation has been provided.

Depreciation charge on Infrastructure Assets

Depreciation on infrastructure assets has been provided for the year.. In case of roads, amount spent by AMC to maintain them in a condition for them to deliver a level of service for which the road has been originally built, has been capitalized. On this capitalised figure, depreciation has been charged. The maintenance expenditure unless incurred for increasing the service levels is charged to expenditure. For the remaining infrastructure assets actual cost or reasonable historical cost have been ascertained and deprecation has been provided from the year of construction and taken to the accumulated depreciation account of the concerned asset.

Grants

The amount is recognized based on the amount due under respective schemes, once all eligibility requirements are met and donor has expressed his intention to provide the grants. In the absence of evidence of these determining criteria, grants are recognized on cash basis.

Inventories

i) Inventories are valued at cost based on information provided.
ii) Inventories of work in progress are valued at cost incurred till the date of Balance Sheet.
iii) Inventories of Central Medical Stores are valued at Weighted Average Cost based on information provided.
iii) Inventories of residential properties (Business type activity) are valued at actual cost based on the information provided.

Capital Fund

As this is the first double entry based financial statements for the AMC the Capital Funds represents the balancing figure between all known assets and known liabilities as reflected in the financial statements.

Long Term Liability

The long-term liability is accounted for on the basis of actual receipt of funds.

Employees Benefit Liabilities

It includes CPF payable, GPF payable, GIS payable, Pension fund and Gratuity. All liabilities except Gratuity is accounted for based on actual deductions made from salary payments to employees. The Gratuity is valued based on actuarial valuation from an independent valuer, till such time it is being accounted for on cash basis.

Revenue Receivables

Property Taxes and Water Sewerage Tax are levied by the AMC at the beginning of the fiscal year. Bills are raised by the property tax departments on owners of premises, and these are generally due within the year. As per the recommendations in the National Accounts Manual provisioning norms are as follows:

Outstanding for more than 2 years but not exceeding 3 years : 25%
Outstanding for more than 3 years but not exceeding 4 years : 50%
Outstanding for more than 4 years but not exceeding 5 years : 75%
Outstanding for more than 5 years : 100%