Andhra Pradesh

Municipal Asset Valuation Methodology Manual

May, 2010

Government of Andhra Pradesh
Municipal Administration &
Urban Development Department

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Preface

As part of ongoing municipal reforms process, Government of Andhra Pradesh has decided to take a number of measures including introduction of accrual based accounting in Urban Local Bodies (ULBs) which is one of the mandatory reforms for ULBs under Jawaharlal Nehru National Urban Renewal Mission (JNNURM) also. Based on National Municipal Accounts Manual (NMAM), Centre for Good Governance (CGG) developed state specific Andhra Pradesh Municipal Accounts Manual (APMAM).

Under the accrual based accounting system, the ULB would bring out two financial statements at the end of the year, viz. (a) Income and Expenditure Statement and (b) Balance Sheet, i.e. Statement of Assets and Liabilities. One of the important steps a ULB needs to take before it migrates to the accrual based accounting system is to identify all assets and liabilities. In addition to fixed assets for which values have to be determined, there would be current assets like bank balances, receivables, investments and advances etc and liabilities like dues to contractors, borrowings and advances etc. The ULB has to fairly estimate/value its assets and liabilities for the first or opening balance sheet. As valuation is a complex process, ULBs need detailed guidelines in identifying and valuing assets and liabilities and in preparing opening balance sheet. Government of India (GoI) have prepared a model National Municipal Asset Valuation Methodology Manual (January, 2009) and suggested that the state governments develop state specific asset valuation methodology manual based on the model national manual. Accordingly, it was decided to develop a state specific manual on the lines of model manual developed by GoI with the title 'Andhra Pradesh Municipal Asset Valuation Methodology Manual'

The Andhra Pradesh Municipal Asset Valuation Methodology Manual contains detailed guidance on valuation of fixed assets. The preparation of opening balance sheet also requires identification of current assets and liabilities and the accounting and disclosure aspects. For the convenience of ULBs, guidelines in respect of these are incorporated in the Manual as an annexure.

The Manual has been developed from the model national manual by a team consisting of Mr. M. Brahmaiah, Director (FMRG), Mr. DV Rao and Mr. SN Murthy, Consultants, Mr. N. Manmadha Rao, Internal Auditor and Ms. Y. Rajeswari, Programmer under the overall guidance of Mr. A. Srinivas Kumar, Deputy Executive Director.

It is hoped that the ULBs would find this manual useful. Any suggestions to further improve its content are welcome.

Rajiv Sharma
Director General

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Abbreviations

ALCM	Asset Life Cycle Management
AMU	Asset Management Unit
APMAM	Andhra Pradesh Municipal Accounts Manual
AS	Accounting Standard
CGG	Centre for Good Governance
CII	Cost of Inflation Index
CSC	Current Standard Cost
CWIP	Capital Work in Progress
DSC	Deflated Standard Cost
ERP	Enterprise Resource Planning
FAR	Fixed Asset Register
GASB	Governmental Accounting Standards Board of USA
GoI	Government of India
HP	Hire Purchase
IASB	International Accounting Standards Board
ICAI	Institute of Chartered Accountants of India
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
JNNURM	Jawaharlal Nehru National Urban Renewal Mission
IT	Information Technology
IVSC	International Valuation Standards Committee
MIS	Management Information System
NIUA	National Institute of Urban Affairs
NMAM	National Municipal Accounts Manual
SLM	Straight Line Method
ULB	Urban Local Body
WDV	Written Down Value

Chapter 1
Using This Manual

1.1 Purpose of the Manual

1.1 The Andhra Pradesh Municipal Asset Valuation Methodology Manual (henceforth referred to as 'Manual') has been designed for use by the staff of urban local bodies (ULBs) to facilitate bringing on record the value of municipal assets determined during the course of preparation of Opening Balance Sheet. In particular, it will help to:

i) determine the appropriate value, useful life and depreciation of municipal fixed assets and their reporting in the financial statements;

ii) increase the effectiveness of control over municipal fixed assets; and

iii) assist ULBs to present its true and fair financial position, facilitate budgetary planning and control over resources.

1.2 Methodology

1.2.1 The Manual has been developed based on the Accounting Principles Framework provided by the Andhra Pradesh Municipal Accounting Manual (APMAM) published by the Government of Andhra Pradesh and Accounting Standards issued by Institute of Chartered Accountants of India (ICAI). It seeks to complement the APMAM by providing specific guidance in the area of fixed asset valuation, treatment and reporting. In particular, it proposes to address (i) valuation of assets for the purpose of Opening Balance Sheet and (ii) the determination of depreciation rates for annual depreciation.

1.2.2 The proposed methodology has been prepared after:

i) review and analysis of existing methodologies and bases used across India for determining the value of municipal assets[1];

ii) review and analysis of the valuation methodology and basis recommended by the International Valuation Standards developed by the International Valuation Standards Committee (IVSC);

iii) review and analysis of current best practices in good asset management and asset lifecycle management, including the maintenance of asset registers;

[1] In this context, methodology used by the Income Tax Department, Central Public Works department for buildings, and the valuation methodology used by the Municipal Corporation of Delhi, Kolkata Municipal Corporation and state policies for West Bengal, Tamil Nadu and Karnataka have been considered.

iv) review and analysis of the available information on typology of municipal assets (such as buildings, land, plant and machinery, sewer lines, etc.) used in different size/ classes of ULBs; and

v) review and analysis of existing forms and formats and other documentation regarding asset identification, location and use, etc.

1.3 Structure of the Manual

1.3.1 There are several important steps in fixed assets management so far as ULBs are concerned. The first step is identification and categorization, the second step is location, the third step is valuation, the fourth step is recording, the fifth, updating, the sixth, accounting, and the seventh, presentation.

1.3.2 This Manual is structured according to these steps. Additional guidance has been provided to help municipal staff to deal with some of the very common problems of ULBs. Such problems may commonly include:

i) the non-availability of records pertaining to the various fixed assets - including sometimes their original cost, date of acquisition or construction etc.;

ii) the difficulty of locating a fixed asset - for instance, a road roller which had been purchased and appears on the books, but was physically scrapped a long time ago and no record of its disposal remains; and

iii) the lack of data on current condition and remaining useful life.

1.3..3 These problems are not necessarily typical to ULBs only, but so far as ULBs are concerned, given that there is now a mandate to change over to the accrual system of accounting, it is important to address these problems and to put in place a Fixed Assets Management System that will become more and more accurate over a period of time.

1.4 Use by ULBs

1.4.1 Users of this Manual will find it useful to first study the whole Manual and perhaps undergo a familiarization program with respect to this Manual. Once the system is in place, specific chapters of the Manual can be referred to for dealing with specific kinds of problems.

1.4.2 It should be remembered that no Manual can by itself either anticipate or presume to answer all possible questions that may arise in practice. For that purpose, it is useful to refer to external guidance, including referrals to experts as well as to authoritative texts.

Chapter 2
Definition and Categorization of Assets

2.1 Definition of Fixed Assets

2.1.1 There are several definitions of assets that are commonly used in various parts of the world, as different accounting standards exist in different countries. Accounting Standard 10 on `Accounting for Fixed Assets', promulgated by the Institute of Chartered Accountants of India (ICAI), defines a fixed asset as:

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

2.1.2 The context of ULBs is different from commercial bodies to whom these accounting standards generally apply. Hence, a set of Accounting Standards for Public Sector Bodies have been developed by the International Public Sector Accounting Standards Board (IPSASB), a constituent of the International Federation of Accountants (IFAC). The IPSASB considers the International Financial Reporting Standards (IFRS) released by the International Accounting Standards Board (IASB) and following a due process of consultation, adapts them to the public sector context for use by government.[2]

2.1.3 The definition of Assets as per the IPSASB is:

Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.[3]

2.2 Concept of Control

2.2.1 The concept of control of an asset's economic benefit is a key issue in determining whether that asset should be reported in the financial statements of a ULB. This concept of control is what leads to non-owned assets like hire purchase assets, leasehold property, which are otherwise controlled to be recognized as assets. This concept is important because governments are required to maintain control over public property in a fiduciary capacity and hence any loss of control is not only a financial but also a fiduciary loss.

2.2.2 To determine whether a ULB should be reporting an asset, it is necessary to look to the indicators of control. According to AS 26, 'control' is identified when the enterprise has the power to obtain future economic benefits flowing from the underlying resource and also can restrict the access of others to those benefits.

[2] In India, the ICAI has set up a 'Committee on Accounting Standards for Local Bodies' to prescribe standards for local bodies. Adherence to these standards would be needed once they are developed and accepted by the Government.

[3] International Public Sector Accounting Standard (IPSAS) 1—Presentation Of Financial Statements; Para 7 – Definitions

2.2.3 Where the control of the asset has been affected, say where municipal land has been encroached, the 'Technical Guide for Accounting by ULBs' issued by ICAI provides that a provision equal to virtually the entire carrying amount of land shall be provided. Even in such cases, the right to take possession remains with the ULB.

2.3 Accounting Standards for Assets

2.3.1 The Indian accounting standards issued by the ICAI which have a bearing for the purpose of accounting and valuation of assets are:

i) Accounting Standard 10 - Fixed Assets

ii) Accounting Standard 6 - Depreciation

iii) Accounting Standard 16 - Borrowing Costs

iv) Accounting Standard 28 - Impairment of Assets

v) Accounting Standard 19 - Leases

2.3.2 Although they do not apply in the Indian context, the IPSAS are a useful source of information for public sector accounting. The major IPSAS for Fixed Assets include:

i) IPSAS 17 - Property, Plant & Equipment

ii) IPSAS 16 - Investment Property

iii) IPSAS 13 - Leases

iv) IPSAS 5 - Borrowing Costs

v) IPSAS 21 - Impairment of Non-Cash Generating Assets

vi) IPSAS 26 - Impairment of Cash-Generating Assets

2.3.3 The other source is the Statements issued by the Governmental Accounting Standards Board (GASB) of USA. Specifically, GASB Statement No. 34 deals with the accounting, valuation and treatment of Fixed Assets in Local Bodies of USA. However, except for Delhi, Bangalore and some other ULBs, the GASB model is hardly used in India.

2.4 Classification of Assets

2.4.1 The classification of fixed assets can be done in several ways -'function-wise' for example water works and sewerage and drainage or 'nature-wise' such as plant and machinery, etc. The APMAM provides a structure for fixed assets classification based on a mix of 'function' and 'nature'.

2.4.2 Since this Manual intends to supplement APMAM, it is proposed that the APMAM classification of assets should be extended for use in this Manual.

2.5 Infrastructure Assets

2.5.1 APMAM prescribes fixed assets to be divided into two main categories[4]:

i) Infrastructure Assets; and

ii) Other Assets

2.5.2 'Infrastructure assets' are long-lived capital assets associated with governmental activities that are normally stationary in nature and can be preserved for significantly greater number of years than other capital assets (e.g. roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems)[5]. Buildings are excluded from the definition of infrastructure assets, unless they are an ancillary part of a network of infrastructure.

2.5.3 As per IPSAS, 'infrastructure assets' usually display some or all of the following characteristics:

i) They are part of a system or network;

ii) They are specialized in nature and do not have alternative uses;

iii) They are immovable; and

iv) They may be subject to constraints on disposal.

2.6 Existing classification by ULBs

2.6.1 Apart from this, several ULBs may have their own classification systems based on local laws (accounting rules) or practices. In some cases, the maintenance of fixed asset registers is done as per these classifications i.e. Tools Register, Plant & Equipment Register, etc.

2.7 Asset Classification as per APMAM

2.7.1 However, the account coding structure prescribed in APMAM does not maintain this distinction and classifies assets into 11 major groups, all under the broad head of 'Fixed Assets'[6]: The classification of Fixed Asset as per APMAM code of accounts into 11 categories is as follows:

i) Land

ii) Buildings

iii) Roads & Bridges

iv) Sewerage and Drainage

v) Water Works

vi) Public Lighting

[4] Andhra Pradesh Municipal Accounts Manual, 2008, Chapter 8 - Assets (Para 8.6)
[5] Similar definition has been used in the United Kingdom in the context of resource accounting
[6] Andhra Pradesh Municipal Accounts Manual, 2008, Chapter 3- Codification Structure – Account Codes - Assets

vii) Plant & Machinery

viii) Vehicles

ix) Office & Other Equipments

x) Furniture, Fixtures, Fittings and Electrical Appliances

xi) Other Fixed Assets

2.7.2 Among these, items (iii), (iv), (v) and (vi) can be classified as 'infrastructure assets'.

2.7.3 **Land:** Land includes parks, playgrounds, agricultural land, dhobighat, dumping ground, cart / rickshaw / taxi (other than underground taxi stands) / cycle stand, parking places (other than those which are covered) and any vacant site on which no construction has taken place. Where assets such as buildings, roads, bridges, etc. are constructed on land, all land (including covered land) should be shown under this head.

2.7.4 **Buildings (including Structures):** Buildings include office-buildings, school-buildings, public-conveniences, hospitals, dispensaries, maternity and child welfare centers, shopping-complexes, town hall buildings, community centers, staff quarters, rest-houses, workshop buildings, stores buildings, covered taxi stands, covered parking areas, lavatory blocks, urinals, garbage collection points, etc.

Structures include public fountains and others which cannot be classified as buildings, but are nevertheless of a permanent nature.

Land under buildings should be separated and shown distinctly under 'Land'.

2.7.5 **Roads & Bridges:** This includes several types of assets including roads, pavements, footpaths, bridges, subways, over bridges, flyovers, culverts, and causeways.

2.7.6 **Sewerage and Drainage:** This includes items like roadside drains, underground drains, sewerage network etc. Plant and machinery for pumping stations including pumps would be classified under this head. If land and buildings for sewerage are already classified under 'Land' and 'Building' earlier, they should not be included here.

2.7.7 **Water Works:** This includes all items related to water works such as bore wells, treatment plants, reservoir, overhead tanks, pipelines, plant and machinery for water works etc. If land and buildings for Water Works are already classified under 'Land' and 'Building' earlier, they should not be shown here.

2.7.8 **Public Lighting:** This covers all assets related to lighting and includes electrical installations like transformers, cables, lamps, fittings and poles. Any electrical installations other than for public lighting would be covered under the head 'Furniture, Fixtures, Fittings & Electrical Appliances'.

2.7.9 **Plant and Machinery:** Plant and machinery include all engineering equipments like road rollers, bull dozers etc. medical equipments used in hospitals, dispensaries and maternity centers, scientific equipments, generators etc. This will not include plant and machinery used specifically in water works, pumping stations, sewerage treatment plants etc. which are already classified under those heads. However, plant and machinery used for other purposes should be included under this head.

2.7.10 **Vehicles:** Vehicles include all types of trucks, water tankers, buses, jeeps, cars, two-wheelers, three-wheelers and loaders, etc. Mobile machinery such as Road Rollers and Bulldozers would not be classified as vehicles, as their primary purpose is not transportation.

2.7.11 **Office & Other Equipments:** All items of office use such as computers, peripherals, photocopy machines, type-writers, communication and telecom equipments would be recorded under this head. Other equipment (which may not be used in office) should also be recorded under this head.

2.7.12 **Furniture, Fixtures, Fittings & Electrical Appliances:** They include metal as well as wooden chairs, tables, racks, cupboards, water coolers, fans, air-conditioners, refrigerators, TVs, etc. Items which can be classified as Office and Other Equipment should be first classified under that head, else, should be included here.

It would also include all types of installation cables, lamp posts, mercury vapor lamps, sodium vapor lamps, light fittings, power points, etc. used in the buildings and other premises used by the ULB (other than those used for street-lighting as they are included under the heading 'Public Lighting').

2.7.13 **Other Fixed Assets:** This will include all other assets not specifically covered in any of the earlier heads. It will include for instance, intangible assets such as software, rights etc.

Specific assets with different valuation or re-use norms (such as heritage assets, works of arts etc.) may also be classified as separate sub-groups under this head.

2.8 Issues in classification

There are a few fixed assets where classification, at times, may lead to confusion. The following may be adopted for such assets:

2.8.1 **Traffic signals:** Traffic signals, if any, are to be classified as part of 'Other Fixed Assets'.

2.8.2 **Network of pipes:** There is sometimes a question of whether the network of pipes within the total land of a water works is to be taken as part of 'Sewerage & Drainage', or as part of 'Water works'. Whatever falls within the identified area of the 'water works' is to be taken as a part of it.

2.8.3 **Fountains and decorative structures:** To be taken under 'Buildings' which includes all civil structures.

2.8.4 **Road over-bridge:** To be taken under 'Roads and Bridges'

2.8.5 **Mobile generators:** It should be taken as part of 'Plant & Machinery'.

2.8.6 **Earth moving equipments:** It should be included under 'Plant & Machinery'.

2.8.7 **Statues and Monuments:** Where the valuation and re-use policy is substantially different from other buildings, this should be shown as a separate sub-group under 'Other Assets'.

2.8.8 **Works of Art and History:** Assets like paintings, manuscripts etc. should be taken under 'Other Assets'. Heritage Buildings and structures, if they are different in nature from 'Buildings' may also be classified in 'Other Assets'.

2.8.9 **Minor Movable Assets:** Like office phones, calculators, tools etc. If these are below the threshold for capitalization as per the accounting policies (see next chapter), they should not be capitalized. If they are beyond the threshold, they should be grouped appropriately under 'Office Equipment', 'Plant & Machinery' or 'Other Assets'.

2.8.10 **Stand-by equipment and servicing equipment:** Machinery spares which are not specific to a particular item of fixed asset but can be used generally for various items of fixed assets should be treated as inventories for the purpose of AS 2 and such machinery spares should be charged to the statement of income and expenditure as and when issued for consumption in the ordinary course of operations; otherwise it shall be capitalized as per AS 10. Stand-by equipment such as generator or a water pump is a fixed asset by itself and should be treated as such.

2.8.11 **Major Spare Parts:** AS 10 states that if some spare parts can be used only in connection with a specific item of fixed assets and their use is expected to be irregular, then, they should be capitalized separately at the time of their purchase. So far as classification is concerned, such spares should be tagged to the item of equipment to which they refer.

2.9 Capital Work in Progress

2.9.1 In addition to the above categories, one more category is important 'Capital Works in Progress'. This includes costs of constructing fixed assets before construction is substantially complete. The identification of an item of construction as 'Capital Work in Progress ' means that the item is intended to be capitalized once it is complete / put into use.

2.9.2 Capital Work in Progress (CWIP) is included in the 'Fixed Assets' group of assets but is only an interim account, until the asset is put into use. In particular

i) CWIP is not recorded in any of the 'asset' registers. Instead, a separate CWIP Register is maintained to record progressive bills for construction;

ii) Any amount paid for purchase / construction of an asset which has not been completed / put to use should be shown as CWIP and recorded in CWIP Register;

iii) No depreciation is charged on CWIP since the asset has not been put to use;

iv) The asset should be transferred from CWIP to Fixed Asset Register when it is put into use. Hence, CWIP register should be reviewed regularly for such items.

2.10 Suggested coding of Assets

2.10.1 A proper classification of fixed assets should employ a code for each asset. By using the code, a ULB becomes ready for computerization of its Fixed Assets Management System. Further, with such a code, it is easy to cross-classify data and to roll up categories to have the possibility of making a wide variety of reports. The classification code is for the group of fixed assets:

Group	Minor Head Code[7]
i) Land	10
ii) Buildings	20
iii) Roads & Bridges	30
iv) Sewerage and drainage	31
v) Water Works	32
vi) Public Lighting	33
vii) Plant and Machinery	40
viii) Vehicles	50
ix) Office & other equipments	60
x) Furniture, fixtures, fittings and Electrical appliances	70
xi) Other Fixed Assets	80

[7] This classification and coding is as per the minor head codes prescribed in Chart of Accounts under APMAM – Chapter 3 – Account Codes – Assets.

2.10.2 Further classification to group heads can be made based on the need of the ULB, and should be aligned to the Accounting Manual and Fixed Asset Registers. The suggested structure of coding is as follows[8]:

i) Major Head Code ……. xxx
ii) Minor Head Code xx
iii) Detailed Head Code xx
iv) Ward Location Code..... xxx
v) Serial Number Code xxx

2.10.3 The minor head code and detailed head code for the group of assets are provided in the APMAM. The ward location code is the location of asset with 3 digits and the last level would be the serial number of the asset with 3 digits.

2.10.4 Examples for coding of Fixed Assets.

Example 1: Coding System - Office Building
An office building is owned by the municipality. This should be coded as 410-20-01-054-001. The first 410 refers Fixed Assets. Next '20' refers to Building, the next '01' refers the Office Building, the next '054' refers to ward number and `001' refers to the serial number of the office building.

Example 2: Coding System - Concrete Road
A Concrete Road should be coded as 410-30-01-076-009. The first 410 refers Fixed Assets. Next '30' refers to Roads & Bridges, the next '01'refers the Concrete Road, the next '076' refers to ward number and finally `009' refers to the serial number of the concrete road

2.10.5 Fixed Asset codification is essentially a control tool for ULB level management. Hence the structure of the Fixed Asset Code should be such that it enables the ULB to know enough details and maintain sufficient control over its assets.

2.10.6 The purpose of the coding system is to group the assets so that the total value of the group can be calculated, where necessary, high value and low value assets within a group can be identified for asset management purposes.

2.10.7 If a gram panchayat or a municipality which is maintaining code numbers to assets is merged in a municipality or a municipal corporation, the code numbers given by the former local body should be revised as per the suggested code structure by the latter local body

[8] APMAM has already determined major, minor and detailed head codes for fixed assets and that classification is used. Chapter 3 – Codification Structure - Account Codes – Assets

Chapter 3
Valuation of Assets - General Principles

In general, there are two models for valuation of fixed assets:

- The Cost Model; and
- The Revaluation Model

3.1 Cost Model

3.1.1 The Cost Model requires that:

After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.[9]

3.1.2 This is the traditional 'historical cost' model based on which assets are generally valued for financial reporting purposes in India.

3.2 Revaluation Model

3.2.1 Under the revaluation model, the valuation of assets is continually reviewed to reflect the fair market value as far as possible. The model is described below:

After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.[10]

3.2.2 The fair value of items of assets is usually determined from market-based evidence by appraisal. However, many ULBs have assets for which it may be difficult to establish market value because of the absence of market for these assets. In such cases, the fair value of the item may be established by reference to other items with similar characteristics, in similar circumstances and location.

3.3 Accounting Principles for Fixed Assets

Under the APMAM, principles for fixed asset accounting/valuation are[11]:

a. All Fixed Assets shall be carried at cost less accumulated depreciation. The cost of fixed assets shall include cost incurred/money spent in acquiring or installing or constructing fixed asset and other incidental and indirect expenses incurred upto that date.

[9] International Public Sector Accounting Standard (IPSAS) 17—Property, Plant & Equipment; Para 43
[10] Ibid - para 44
[11] Andhra Pradesh Municipal Accounts Manual, Chapter 8 – Assets – Accounting Principles (Para 8.9)

b. Any Fixed Asset, which has been acquired free of cost or in respect of which no payment has been made, shall be recorded at nominal value of Rupee One.

c. All assets costing less than Rs.5,000 (Rupees Five thousands) would be expensed / charged to Income & Expenditure Account in the year of purchase.

d. Interest on borrowings directly attributable to acquisition or construction of qualifying fixed assets upto the date of commissioning of the assets shall be capitalized.

3.4 Choice of Model

The recommended valuation model for fixed assets is that:

a. Assets should be valued at initial (historical) cost paid to acquire them;

b. Depreciation should be charged periodically to reflect the net value of the asset;

c. Revaluation would be permitted, with some restrictions.

3.5 Recognition of Fixed Assets

3.5.1 The principle for determining capitalization is given below:

The cost of an item shall be recognized as a fixed asset if:

a. the asset is held for producing or providing goods or services and is not held for sale in the normal course of business;

b. the future economic benefits or service potential associated are expected to flow to the entity;

c. The estimated useful life of the asset is beyond one year; and

d. The cost / value is above the minimum threshold limit for recognition as fixed asset.

3.5.2 The APMAM accounting principles provide a cut-off for recognizing assets in the financial statements. As per this, assets below Rs.5,000 should be charged off to the Income & Expenditure Account. Hence, any asset beyond this value should be recognized as a Fixed Asset in the financial statements as well as in the supporting records.

3.5.3 The threshold of Rs.5,000 is based on the principle of materiality and is to be applied on the historical cost of the asset (not the depreciated value). Hence, any asset whose original cost is estimated to be below Rs.5,000 should be

a. Charged to Income & Expenditure Account, if it occurs during the year;

b. Omitted while considering the assets being collated / valued for the Opening Balance Sheet.

3.5.4 In case an asset is being constructed and the construction takes time, the asset should be recognized as specific fixed asset i.e. building etc. only when the construction is complete. Until then, the amounts paid should be kept under 'Capital Work in Progress'.

3.5.5 There are many instances where the nature of a transaction makes it difficult to distinguish whether it is revenue expenditure or a capital expenditure. Guidance in this regard is provided in Chapter 4 (Valuation of Assets for Opening Balance Sheet).

3.6 Historical Cost

3.6.1 This is the bedrock of the valuation principle. Fixed Assets are to be reported at Historical Cost. The cost of a fixed asset includes not only its purchase price or construction cost but also related charges necessary to place the asset in its intended location and condition for use. Since the historical cost of donated / gifted assets is NIL, they are to be valued at a nominal cost of Rupee One.

The rationale of valuation at Rupee One.

It may appear that a Rupee One valuation is of no significance in the overall fixed asset block of the ULB which may run into crores of rupees. Hence, it would perhaps make no difference if the asset was valued at NIL. This is erroneous. The reason for valuing assets at Rupee One is to ensure that the asset is identified and tracked in the fixed asset system. Non-recognition of the asset or NIL valuation would not allow the asset to appear in the Fixed Asset Register.

Hence municipal officers and auditors should particularly pay attention to the transaction of assets which are valued at Rupee One for technical reasons, but may be worth more than many other assets.

3.6.2 The cost of a fixed asset includes:

a. purchase price, less trade discounts and rebates, if any;
b. import duties;
c. other taxes or levies which are non-refundable in nature;
d. transportation cost, if charged separately from the purchase price;
e. cost of inspection, if paid separately;
f. handling costs;
g. cost of site preparation;
h. installation cost, including cost of such permanent or temporary structures that are considered necessary for installation;
i. professional fees for engineers or architects or inspectors, etc.; and
j. any other cost incurred to put the asset at its location and use.

3.6.3 Any expenditure that is made by the ULB on test runs or experimental production is to be capitalized and added to the cost of the asset. For example, the oil and bitumen necessary for the test run of an asphalt plant is to be added to the cost of the plant.

3.6.4 Cost of the asset should include all costs incurred to bring the asset to a working condition. For example, if a large pump is to be installed at a water treatment plant, not only the cost of pump but also the transportation cost, where charged separately, should be included.

3.7 Self constructed assets

3.7.1 In cases where a ULB constructs the asset itself (school building, dispensary, shopping complex etc.), the cost of construction of that building and other costs which are directly attributable should be taken into consideration in arriving at the value of the building. This means that all the material costs of construction, payments made to various contractors, etc. should be included. For example, if the ULB appoints an Assistant Engineer whose only work is to look after the construction of the building, then the salary of the Assistant Engineer for the construction period should also be added.

3.7.2 As per AS 10, administration and general overhead are excluded from cost of fixed asset as they do not relate to specific fixed asset. However, if such expenses are related to construction or acquisition of a particular fixed asset, then it should be capitalized.

3.8 Assets acquired under exchange

3.8.1 Sometimes, a ULB may acquire some fixed assets in exchange for some other fixed assets. This can happen, for instance, when old office machinery is exchanged for a newer model. Where the assets exchanged are similar, the net book value of the asset (the office machinery) which is exchanged should be taken, and to it the extra amount that is paid, if any, is added. If instead of an extra payment, a refund is involved, the necessary adjustment will have to be made. In case of dissimilar assets, the assets acquired should be recognized at their fair value.

3.8.2 In certain special cases, a ULB may acquire constructed floor area in a building for the construction of which the ULB has given development rights to a developer. In such a case, the constructed floor area will be recorded at the fair market value of the property.

Fair Market Value

As per AS 10, Fair Market Value is the price that would be agreed to in an open and unrestricted market between knowledgeable and willing parties dealing at arm's length who are fully informed and are not under any compulsion to transact.

3.8.3 It is pertinent to note that this use of Fair Market Value does not vitiate the Historical Cost Concept as it merely determines what would have been the historical cost paid for the property, but for the exchange transaction.

3.9 Borrowing Cost

3.9.1 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.

3.9.2 A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. As per AS for ULBs issued by ICAI on 'Borrowing

Cost' it is specified that a time period of 12 months is a substantial period of time unless shorter time period can be justified on the basis of facts and circumstances of the case.

3.9.3 In case any borrowing costs i.e. interest on loan etc. can be identified with the asset, they can be capitalized. The general test for determining whether a loan can be identified with an asset is to ask the question, "Would these borrowing costs have been avoided if the outlays on the qualifying asset had not been made?" If yes, then the borrowing cost can be capitalized, else not.

3.9.4 The capitalization of borrowing costs should commence when:

a. Outlays for the asset are being incurred;

b. Borrowing costs are being incurred; and

c. Activities that are necessary to prepare the asset for its intended use or sale are in progress

3.9.5 Capitalization of borrowing costs should be suspended during extended periods in which active development is interrupted, and expensed. Capitalization of borrowing costs should cease when substantially all activities necessary to prepare the asset for its intended use or sale are complete.

3.9.6 The capitalization of interest cost is applicable only for new assets being developed / constructed by a ULB. ‘This principle should not be applied for valuation of existing assets for the purpose of preparing the First Balance Sheet.

3.10 Depreciation

3.10.1 'Depreciation' is the charge of a fair proportion of the depreciable amount in each accounting period during the expected useful life of the asset.[12]

3.10.2 'Depreciable amount' of an asset is its historical cost, or other amount substituted for historical cost in the financial statements, less the estimated residual value.[13]

3.10.3 The 'residual value' of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.[14]

3.10.4 'Useful life' is:

a. The period over which an asset is expected to be available for use by an entity; or

b. The number of production or similar units expected to be obtained from the use of the asset by an entity.

[12] ICAI Accounting Standard 6 - Depreciation Accounting - para 3.1
[13] Ibid - para 3.4
[14] International Public Sector Accounting Standard (IPSAS) 17—Property, Plant & Equipment; Para 13

3.10.5 The value of an asset in future years (after recognition in financial statements) is the Book Value, which is calculated by deducting Accumulated Depreciation from the Historical Cost of the asset.

3.11 Process of Valuation

3.11.1 The process of valuation of assets is required:

a. When the first (opening balance sheet) is being prepared; and

b. At the time of preparing annual financial statements

3.11.2 This is discussed, in the background of these principles, in the following chapters.

Chapter 4
Valuation of Assets for Opening Balance Sheet

4.1 Process for Preparation of Opening Balance Sheet

4.1.1 The following steps need to be followed for preparation of Opening Balance Sheet:

a. Identification of Assets - Using various sources of data, and compiled in the forms provided in Chapter 10 of the APMAM;

b. Verification of Assets - This is prescribed to be carried out as current identification initiatives may either miss out existing assets or take in assets which do not belong to the ULB. Hence some test checks or verification with records and physical inspection are recommended;

c. Identification of Assets that require Valuation - This shortlists the assets which need to be valued in accordance with the following procedures and have not outlived their useful life in which case a summary valuation of Rupee One can be made;

d. Valuation of Assets - This is the subject matter of this Manual. Although accounting norms / policies for these are provided, ULBs lack guidance in practical matters of asset valuation. This requires determination of appropriate Book Value (using historical cost) for incorporation in the Opening Balance Sheet;

e. Passing of opening entries - This is the process for preparation of First (Opening) Balance Sheet. Taking cognizance of the assets value in the accounting records brings it within the purview of the new accrual based double entry accounting system.

f. Maintenance and updating of fixed asset records - The details of assets are also recorded in appropriate Fixed Asset Registers and a system has to be developed through which these registers are continually updated with any addition, modification or disposal of these assets.

4.1.2 This chapter deals with the bases for valuation of assets in the Opening Balance Sheet of a ULB.

4.2 Basic Premises

4.2.1 The basic premises proposed for the valuation methodology are:

a. Considering the current practices in asset record maintenance, most ULBs do not have readily available records about existing assets;

b. The purpose of valuation is not to determine the 'correct value' of an asset. It is to get a reasonable estimate of the book value for the purpose of including in a statement which reflects the 'true and fair' financial position of the ULB;

c. Unlike other entities where valuation of assets affects share prices and / or prospective takeovers based on valuation of the company, this concern is not relevant to ULBs;

d. Some assets present problems in terms of identification because of their nature – for example, underground drains cannot be easily verified while preparing asset list;

e. Many assets of ULBs present problems in terms of resale or reuse. For example, roads which have been constructed cannot generally be disposed off, sold, nor reused.

f. Even valuation at a nominal price of Rupee One is recommended for maintaining the asset on the fixed asset register. Hence, the value is not as important as the identification and correct recording of the nature of the asset.

4.2.2 Keeping these concerns in mind, the premise for valuation is as follows:

a. Encourage thorough identification of assets - this must be done to ensure that not even one asset, no matter how small, is left out;

b. Simplify valuation - it is sufficient to get a 'reasonable valuation' rather than a 'perfect' one;

c. Ensure updating - Ensure that after the one time exercise on identification and valuation, the assets are recorded in the Asset Register and the register is regularly updated thereafter.

4.3 Valuation principles

4.3.1 The identified assets of the ULB may have been gifted to it or purchased / constructed by it over the years. The valuation process has to be carried out for assets as on a particular date (for example on the last day of the previous financial year, say 31-3-08. All references to valuation should be made with respect to this date. The process of valuation shall be as follows:

4.3.2 If the asset was received as gift:

Value at Rupee One. All particulars of the asset should be recorded in the prescribed forms.

4.3.3 If the asset was purchased / constructed, it will be valued as per the following order of preference:

a. If both the cost and date of purchase/ construction is available / ascertainable:

i. Original cost less depreciation provided from the date of purchase / construction to the date of valuation.

b. If cost is not available /unascertainable, but the date or year of construction/ purchase is ascertainable:

   i) In case of land where the original documents are not available, valuation can be ascertained from relevant records of the Registration Department or transaction value of a similar plot in the similar area around the estimated year of transaction

   ii) If the asset has outlived its estimated useful life, then it will be valued at Rupee One. Estimation of useful life will be based on the list used for estimation of depreciation for ULBs. This is given in the following chapters.

   iii) If the asset has not outlived its useful life, then

   - Valuation will be done based on the Current Standard Cost (CSC) rates prescribed. The ULB will use this per sq. foot rate or area rate and apply it to the quantitative parameter of the asset. This will give the estimated current standard cost of the asset.
   - In order to reflect the cost of the asset in the year in which it was purchased / constructed, the CSC will need to be deflated by an appropriate inflation index (discussed below) to give the Deflated Standard Cost (DSC) of the asset.
   - Thereafter, the value will have to be depreciated based on the recommended rate of depreciation (discussed below) in order to arrive at the Estimated Book Value of the asset, which will be carried to the Opening Balance Sheet as Gross Block.

c. If neither the cost nor the date of purchase/ construction is available:

   i) If the asset is beyond its estimated useful life, it will be valued at Rupee One.

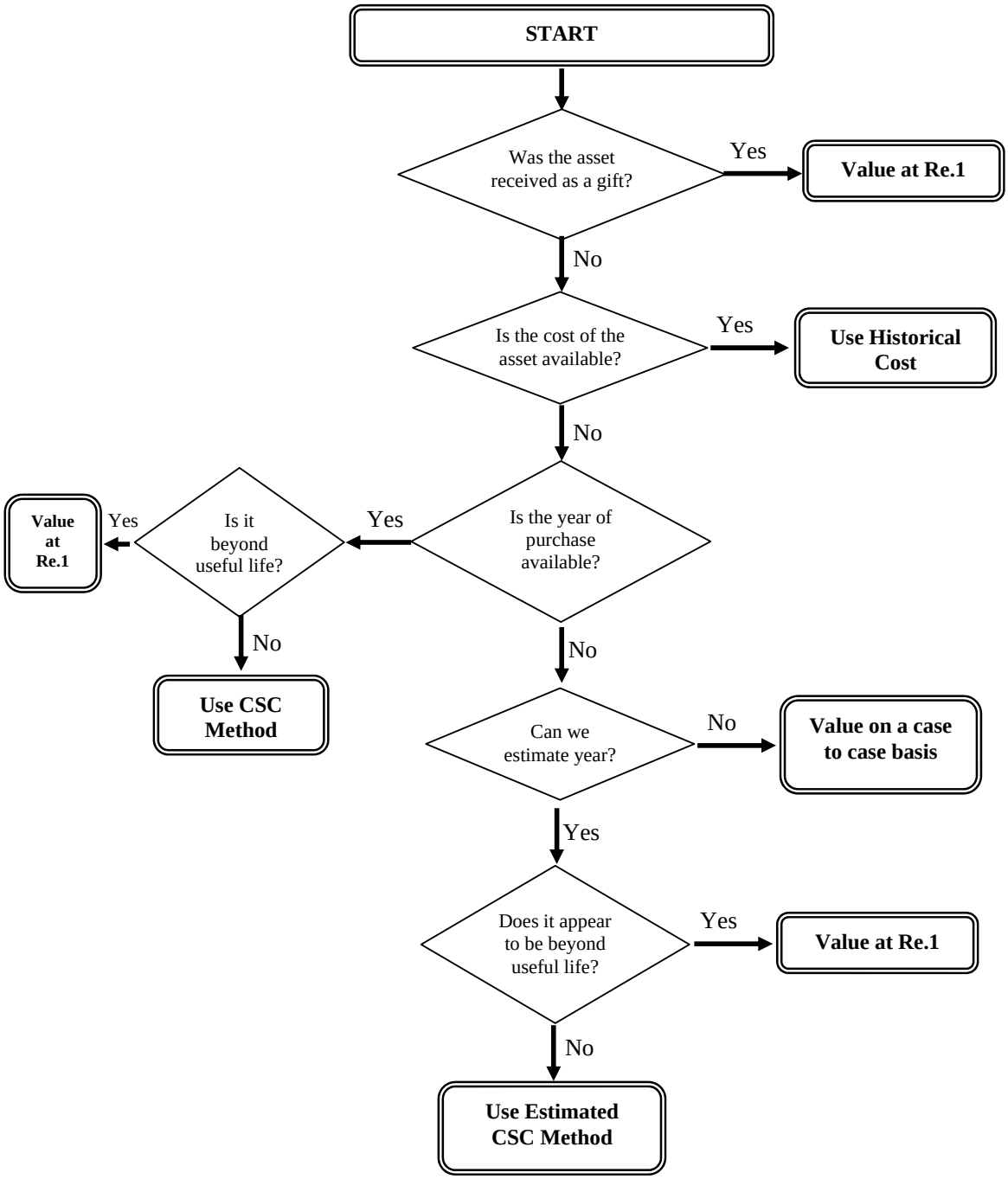
   ii) If the asset is within its useful life, estimation shall be made of its year of purchase / construction and the procedures prescribed in case of b (iii) above shall be applied i.e. its estimated CSC, DSC and Estimated Book Value shall be deduced using the standard rates and the deflation indices.

d. In case it is impossible to assess the year of purchase / construction or the asset is unique in nature, not appearing in the standard list, its valuation will have to be done on a case by case basis after taking into account the condition and obsolescence factor. The ULBs may use specialist valuers to assess the value of such assets in such cases.

4.4 Flowchart of valuation

This decision making and valuation process is explained in the following flowchart:

Flow chart for valuation of Fixed Assets for Opening Balance Sheet



4.5 Asset received as a gift

4.5.1 If evidence exists, or it is known that an asset was received by the ULB as a gift i.e. without any consideration being paid, it should be recognized at Rupee One. This is in line with the basic policy of historical cost reporting i.e. to report an asset at the consideration paid for it.

4.5.2 However, these assets may be of considerable value in the market and hence, their nominal valuation should not take away the importance to maintain and monitor them appropriately.

4.5.3 It is not necessary that there should be a document establishing the gift - mere knowledge would suffice.

4.6 Historical Cost Based

4.6.1 Where the details of purchase are available (this will usually happen in case of assets purchased recently), the amount of purchase cost and date of purchase would be available. In such a case valuation should be done as follows:

Step 1: Take the actual cost as per particulars of purchase (refer previous chapter for details);

Step 2: Determine depreciation till valuation date (this is covered subsequently);

Step 3: Deduct depreciation (b) from historical cost (a) to arrive at the book value on the date of valuation.

4.6.2 This is the closest we can get to the historical cost of the asset. All other methods are improvisations to overcome deficient information about the existing assets.

4.6.3 Although policies for capitalizing assets require inclusion of ancillary expenses such as borrowing cost, these require significant analysis and are elaborate. Unless the amount of such expense is likely to be significant, they can be ignored for valuation of existing assets in the opening Balance Sheet.

Illustration

Use of Historical Cost Method

A ULB determines from available documents that Play equipment in a Park was installed at a cost of Rs.1,50,000/- and started operation on 13-4-2006. The Historical Cost based Valuation on 31-3-2008 would be as follows:

	Rs.
Historical Cost	1,50,000
Less: Depreciation	*60,000
Book Value on 31-3-2008	**90,000**

* Depreciation is calculated on the Original Cost for 2 years (2006-07 and 2007-08) @ 20% p.a. of Historical Cost.

Note: As per Depreciation policy, use of asset beyond six months in a year would lead to full year's depreciation. Hence in this case, full year depreciation is charged for 2006-07.

4.7 Current Standard Cost Method

4.7.1 Where the historical cost is not available, but the date (or year) is known, we can apply appropriate standardized valuation techniques to estimate the Current Book Value of the asset.

4.7.2 Under the Current Standard Cost (CSC) method, we estimate current cost (as on the date of valuation for example 31.3.2008) at which equivalent (new) assets can be purchased or constructed. They are calculated in terms of appropriate 'units of measurement' such as rate per square meter, rate per running foot etc. and then applied to the details of the asset.

4.7.3 Rates are calculated for each asset's 'unit of measurement' such as:

Group	**Unit**
Land	Sq meters
Buildings	Sq meters
Roads of standard width	Per km
Pipelines	Diameter x length
Drains of standard dimensions	Running meters
Pumps	Horse Power

Based on these standard rates, the value of the asset can be determined. For instance, a Building of 1500 sq meters can be valued by multiplying the rate prescribed for one sq.meter by 1500.

4.7.4 A list of Current Standard Cost for various assets is given in Annex 2. The rates are applicable for the financial year 2008-09

4.7.5 The process of valuation would be as follows:

Step 1: Collect appropriate details about the asset (including location, quantitative details such as area, length etc.)

Step 2: Classify to appropriate head in the CSC list. If exact description is not available, use the closest match possible.

Step 3: Check if the useful life is over (refer Depreciation rate list). If so, value at Rupee One. Else, go to Step 4.

Step 4: Calculate CSC by multiplying the quantity with the rate provided. This is the CSC of the asset i.e. the value of purchasing / constructing a new asset as on date.

Step 5: Deflate this index to the year of purchase giving the Deflated Standard Cost (DSC). This is done to estimate the cost in the year of purchase. A standard list of indices from 1981-82 to 2007-08 is given in Annex 4[15]. Any asset known to have been procured before 1981-82 should be deflated using the 1981-82 index.

Step 6: Calculate depreciation from the year of purchase till valuation date, assuming this value (Step 5) was the original cost.

Step 7: Deduct the depreciation (Step 6) from Cost (Step 5) to arrive at the Current Book Value of the asset.

Illustration
Use of CSC Method

A ULB determines that a Civil Structure Building was constructed in 1976 with the following specifications:

Type: RCC framed posh structure

Height: Ground + 2 floors

Area: Ground Floor - 500 sq m, First Floor - 320 sq m, Second Floor -240 sq m The CSC based Valuation on 31.3.2008 would be as follows:

Current Standard Cost*	Rs. 62,36,000 (Value as on 31.3.2008)
Deflated Standard Cost (DSC)**	Rs. 11,31,760 (Estimated Value in 1976)
Less: Depreciation***	Rs. 7,24,327 (Depreciation till 2008)
Book Value on 31.3.2008	**Rs. 4,07,433**

* Ground Floor (500 x 6,200) + First Floor (320 x 5,600)+ Second Floor (240 x 5600) = Rs. 62,36,000. Rates for CSC taken as per Annex 2.

** (62,36,000/551)*100 = 11,31,760. Index for 2007-08 is 551; index for 1981-82 and earlier is 100. Index taken from Annex 4.

*** Depreciation is calculated on the DSC for 32 years (1976 - 2008) @ 2% p.a. (since useful life is 50 years, not yet exhausted)

4.8 Estimated CSC Method

Where the year of purchase / construction cannot be estimated, there will be difficulty in deflating and applying depreciation rates. However, keeping in view the objective of having reasonable valuation principles, it is suggested that Estimated CSC method may be used. This will be done as follows:

[15] There can be several price indices which can be used for this. However, since this related to Capital Assets, we recommend the Cost of Inflation Index (CII)released by the Income Tax Department to calculate Capital Gains Tax.

Step 1: Collect appropriate details about the asset (including location, quantity details such as area, length etc.)

Step 2: Classify to appropriate head in the CSC list. If exact nomenclature is not available, use the closest specification possible.

Step 3: Estimate year of purchase. This becomes subjective but is possible to be carried out by the ULB itself. This process is simpler and faster than a valuation appraisal. The years may be estimated even within ranges for e.g. 10-15 years old. In this case, the maximum life can be taken i.e. 15 years.

Step 4: Check if the useful life is over (refer Depreciation rate list). If so, value at Rupee One. Else, go to Step 5.

Step 5: Calculate CSC by multiplying the quantitative units with the rate provided. This is the CSC of the asset i.e. the value of purchasing / constructing a new asset as on date.

Step 6: Deflate this index to the estimated year of purchase giving the Deflated Standard Cost (DSC). This is done to estimate the historical cost in the estimated year of purchase Use standard list of indices from 1981-82 to 2007-08 given in Annex 4[16]. Any asset known to have been procured before 1981-82 should be deflated using the 1981-82 index.

Step 7: Calculate depreciation from the year of purchase till valuation date, assuming this value (Step 6) was the original historical cost.

Step 8: Deduct the depreciation (Step 7) from Historical Cost (Step 6) to arrive at the Current Book Value of the asset.

Illustration

Use of Estimated CSC Method

A ULB identifies a Civil Structure Building. The year of construction cannot be estimated but it is expected to have been made 25-30 years ago. The specifications are:

Type: RCC framed posh structure

Height: Ground + 2 floors

Area: Ground Floor - 500 sq m, First Floor - 320 sq m, Second Floor - 240 sq m The Estimated CSC based Valuation on 31.3.2008 would be as follows:

Current Standard Cost*	Rs. 62,36,000 (Value as on 31.3.2008)
Estimated DSC**	Rs. 11,31,760 (Estimated Value in 78)
Less: Depreciation***	Rs. 6,79,056 (Depreciation till 2008)
Book Value on 31.3.2008	**Rs. 4,52,704**

[16] There can be several price indices which can be used for this. However, since this related to Capital Assets, we recommend the Cost of Inflation Index (CII)released by the Income Tax Department to calculate Capital Gains Tax.

* Ground Floor (500 x 6,200)+ First (320 x 5,600)+ Second (240 x 5600) = Rs. 62,36,000. Rates for CSC taken as per Annex 2.

** (62,36,000/551)*100 = 11,31,760. Index for 2007-08 is 551; index for 1981-82 and earlier is 100. Index taken from Annex 4.

*** Depreciation is calculated on the DSC for 30 years estimated @ 2% p.a. (since useful life is 50 years, not yet exhausted)

4.9 Case by Case determination

In case the cost as well as the year is not determinable, a case by case determination of value has to be taken. However it should be remembered that the purpose is to determine the Book Value rather than the Fair Market Value as on date. Hence, the following order of process has to be followed:

Step1: Is the asset's useful life over? (Refer Annex 3 for Useful life). If so, value at Rupee One. Else go to Step 2.

Step2: If the asset is within its useful life, determine book value by reference to other assets with same characteristics or properties. Assumptions can be made in this case - the objective is to have a reasoned justification for the value.

Step 3: Use the rate of similar asset for calculating the value of this asset.

Important Caveat - Maintenance of Gross Block and Accumulated Depreciation

The above processes are required to provide a Gross Block Value (Historical Cost) and Accumulated Depreciation till date. It is important to maintain both these values; merely using the Net Book Value i.e. Gross Block less depreciation will create problems in charging annual depreciation using Straight Line Method. For e.g. In the last illustration:

Historical Cost (Gross Block) is	Rs. 11,31,760
Accumulated Depreciation is	Rs. 6,79,056 (@ 2% for 30 years)
And Net Book Value is	**Rs. 4,52,704**

Now, if only the Net Book Value is recorded i.e. Rs.4,52,704, annual depreciation will be charged on this i.e. Rs.9,054 (2%) p.a. and the assets value will be extinguished only after another 50 years.

However, using the original historical cost of Rs.11,31,760 results in an annual depreciation of Rs.22,635 (2%) which will ensure that the asset will have been fully depreciated in another 20 years.

4.10 Issues in using CSC

a. The use of CSC and DSC, as well as choice of rates can obviously be debated. The purpose of proposing these rates is in line with the larger objective of 'reasonable' valuation and also to achieve a certain sense of uniformity in asset valuation across ULBs in the state.

b. However, some assets may not have prescribed CSC. In such cases, the valuation can be made as follows:

Items not having CSC prescribed rates	Suggested method
Land	Use 'Market Value' prescribed by the Registration Department for the location and type of land; and date.
Laboratory Equipment	Check if the useful life is over - generally 10 years, then value at Rupee One. If within useful life, use recent purchase cost for similar assets and deflate using index. Depreciate to arrive at current book value.
Vehicles	The year will be available by reference to registration document. If it is beyond useful life, value at Rupee One. Otherwise determine rate of particular car in that year from dealer / manufacturer. Value and depreciate accordingly.
Furniture, fixtures, fittings, electrical appliances	Check if the useful life is over - generally 10 years, then value at Rupee One. If within useful life, use recent purchase cost for similar assets and deflate using index. Depreciate to arrive at current book value.
Office & Other Equipment including Computer, peripherals etc.	Check if the useful life is over - generally 10 years, then value at Rupee One. If within useful life, use recent purchase cost for similar assets and deflate using index. Depreciate to arrive at current book value.

4.11 Valuing Capital Work in Progress

4.11.1 The information with regard to Capital Work in Progress (CWIP) shall have to be prepared on the date of the Opening Balance Sheet from the records such as Bills Register, Measurement Book, Grants Register etc. Since assets represented by the Capital Work in Progress would be under construction on the prescribed date, it should be easier to identify these assets and then to determine its costs.

4.11.2 Amounts are to be booked based on the gross amount of bill received by the ULB pertaining to the work done before the Balance Sheet date. A cut-off date of 2 months beyond the opening Balance Sheet may be taken to include all bills which may have been received afterwards but pertain to work done before the Balance Sheet date. This may be done by carrying out post vouching (i.e. checking of vouchers for at least two months after the Balance Sheet date, to identify payments being made for CWIP).

4.11.3 Borrowing cost for CWIP will also be included if it satisfies the requirements as per Accounting Standards 16 on Borrowing Costs.

Chapter 5
Valuation of Assets – Ongoing

Once the assets have been valued and included in the Balance Sheet, their carrying value needs to be periodically recomputed to provide for depreciation and other transactions. Aspects such as revaluation of assets, depreciation of assets etc. which arise on a regular basis in the ULB are discussed in this chapter.

5.1 Depreciation of Assets

5.1.1 Depreciation has a significant effect on the determination and presentation of the financial position of a ULB. Depreciation is charged in each accounting period by reference to the extent of the depreciable amount.

5.1.2 ULB need to report depreciation accurately in their financial statements for three main reasons.

a. The cost of fixed asset concerned during the period for which accounts are being prepared becomes reduced due to wear and tear and efflux of time.
b. To ensure that an asset depicted in the balance sheet is not over estimated since the value of the asset is much less than its original value.
c. The amount debited towards depreciation in the income & expenditure account would be retained in the ULB because of non-cash expenditure and which can became available for replacement of asset when its life is over.

5.2 Accounting Principles

5.2.1 The basic principles under APMAM with regard to depreciation are:

a. Depreciation shall be provided at the rates prescribed by the government. Depreciation on all fixed assets is to be provided consistently on either Written Down Value or Straight Line Method. The Accounting Standard as well as APMAM allows any of these two methods to be used. It only states that whatever method is used, it should be applied consistently.

b. Depreciation shall be provided at full rates for assets, which are purchased / constructed before October 1 of an Accounting Year. Depreciation shall be provided at half the rates for assets, which are purchased / constructed on or after October 1 of an Accounting Year.

c. Depreciation shall be provided at full rates for assets, which are disposed on or after October 1 of an Accounting Year. Depreciation shall be provided at half the rates for assets, which are disposed before October 1 of an Accounting Year.

5.2.2 **Written Down Value (WDV) Method:** The WDV method is a type of accelerated depreciation because it recognizes a higher depreciation cost earlier in the asset's lifetime. Under this method, each year's depreciation is applied to the opening net book value of the asset rather than original cost of the asset. This process continues until we reach the residual/salvage value or the end of the asset's useful life.

a. Residual or Salvage value is the amount which an enterprise expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

b. It should also be noted that the book value of the asset being depreciated is never brought below its salvage value, regardless of the method used.

c. Where the salvage value is determined at NIL, the asset value should always be retained at a nominal value of Rupee One.

5.2.3 **Straight-Line Method (SLM):** Straight-line depreciation is the simplest and most often used technique, in which the ULB estimates the "salvage value" of the asset after the length of time over which it will be used to generate revenues or provide service (useful life), and will recognize a portion of that original cost in equal increments over its useful life.

5.3 Rate of Depreciation

5.3.1 State governments would be best placed to determine applicable depreciation rates for ULB assets. The important things to remember are:

a. The classification of assets for depreciation should follow the accounting codification structure;

b. The method of depreciation i.e. WDV or SLM should be determined upfront;[17]

c. 'Useful life' and 'residual value' of various assets should be determined in consultation with engineers, valuers and municipal staff. It is important to remember that there is no 'perfect' rate and all depreciation rates are only an estimation;

d. Determine rates for various classes of assets using WDV or SLM;

e. Provide these for use by the ULBs.

5.3.2 This Manual provides an estimation of useful life for various assets and applicable SLM depreciation rates. This is given in Annex 3.

5.4 Closing Book Value

Once these rates have been applied to the assets, the Closing Book Value is determined by reducing the depreciation charge for the year from the Opening Book Value. This is the 'carrying amount' of the assets at the end of the period.

5.5 Amortization

5.5.1 In the case of an intangible asset, the term 'amortization' is generally used instead of depreciation. Both terms have the same meaning.

5.5.2 The period of amortization will depend on the asset. Accounting Standard 26 prescribes for a rebuttable presumption of 10 years for the life of intangible assets. However, in case of items like software where technological advances will result in a quicker obsolescence, a time frame of 3 - 5 years is recommended.

[17] SLM is determined-Annex 3

5.5.3 Intangible assets below Rs.25,000 can be expensed and need not be capitalized. The higher limit (compared to tangible assets) is prescribed to avoid detailed recording and amortization of minor items like software which generally cost below Rs.25,000.

5.6 Impairment of Assets

5.6.1 'Impairment' is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.[18]

5.6.2 In other words, if the carrying amount of an asset is more than the amount that is to be recovered through use or sale of the asset, then the asset is said to be 'impaired'. It basically means that although there may be useful life left of an asset, the productivity of the asset has gone down sharply. For example if by policy of the government, certain items are decided not to be produced by the ULB, the future cash flows would be affected that the existing recoverable value of assets used in the production could go below its carrying amount.

5.6.3 ULBs are required to identify impaired assets at every Balance Sheet date and to disclose the same. However, that application of the Accounting Standard[19] is fairly complex and will require the taking of decisions on case-to-case basis for the calculation of the recoverable amounts, useful lives and so forth. ULBs are advised to take the help of professional accountants for the identification of impaired assets and determination of the extent of impairment.

5.7 Creation / purchase of new assets

5.7.1 The ongoing construction / purchase of fixed assets would be valued at historical cost and as and when the transaction is undertaken. No specific special treatment / process is prescribed in this regard. The process prescribed in APMAM would suffice to record assets as and when they are purchased / constructed.

5.7.2 **Accounting Principles:** Some significant accounting treatments for creation / purchase of assets are:

a. All Fixed Assets shall be carried at cost less accumulated depreciation. The cost of fixed assets shall include cost incurred/money spent in acquiring or installing or constructing fixed asset, interest on borrowings directly attributable to acquisition or construction of qualifying fixed assets upto the date of commissioning of the assets and other incidental and indirect expenses incurred upto that date[20]:

[18] International Public Sector Accounting Standard (IPSAS) 21—Impairment of non-cash generating assets; Para 14.23
[19] AS 28 of Indian Accounting Standard
[20] Andhra Pradesh Municipal Accounts Manual, Chapter 8 – Assets - Para 8.9

b. Assets under erection/installation on existing projects and capital expenditures on new projects (including advances for capital works and project stores) shall be shown as "Capital Work-in-Progress"[21]

c. Any Fixed Asset, which has been acquired free of cost or in respect of which no payment has been made, shall be recorded at nominal value of Rupee One.

d. All assets costing less than Rs.5,000 (Rupees Five thousands) would be expensed / charged to Income & Expenditure Account in the year of purchase

e. Interest on borrowings directly attributable to acquisition or construction of qualifying fixed assets upto the date of commissioning of the assets shall be capitalized.[22]

5.8 Ongoing Lifetime costs

After the asset has been acquired, certain costs are incurred during its lifetime for maintenance, repair and improvement. The treatment of these expenses often cause confusion as some of them may merit capitalization i.e. addition to the value of fixed assets. This section provides guidance on the issues of classification of expenses as revenue or capital.

5.8.1 Maintenance and repairs:

a. The terms 'maintenance' and 'repairs' generally are used interchangeably. However, they are slightly different.

b. Maintenance is defined as 'the keeping of property in operable condition'

c. Repair is defined as 'the restoration of a capital asset to its full productive capacity, or a contribution thereto, after damage, accident, or prolonged use, without increase in the asset's previously estimated service life or productive capacity'.[23]

d. Since ordinary maintenance and repairs expenditures are regarded as operating costs, they are to be charged directly to expense when incurred.

5.8.2 Extraordinary Repairs:

a. Extraordinary repairs are repairs that: '... occur infrequently, involve relatively large amounts of money, and tend to increase the economic usefulness of the asset in the future because of either greater efficiency or longer life, or both. They are represented by major overhauls, complete reconditioning, and major replacements and betterments'.[24]

b. Because expenditures for extraordinary repairs increase the future economic usefulness of an asset, they benefit future periods and are therefore capital expenditures.

[21] Andhra Pradesh Municipal Accounts Manual, Chapter 8 – Assets
[22] Andhra Pradesh Municipal Accounts Manual, Chapter 8 – Assets
[23] Eric Louis Kohler, Kohler's Dictionary for Accountants
[24] Glenn A. Welsch, Robert N. Anthony, and Daniel G. Short, Fundamentals of Financial Accounting

5.8.3 Replacements, Improvements and Additions:

a. Replacements, improvements, and additions are related concepts.

b. Replacement is defined as 'the substitution of one fixed asset for another, particularly of a new asset for an old, or of a new part for an old part.'[25]

c. An improvement (or betterment) is 'an expenditure having the effect of extending the useful life of an existing fixed asset, increasing its normal rate of output, lowering its operating cost, increasing rather than merely maintaining efficiency or otherwise adding to the worth of benefits it can yield.'

d. Improvements ordinarily do not increase the physical size of the productive facility. Such an increase is called an 'addition'.

e. The accounting for replacement, improvement and addition - all three is substantially the same. As per the APMAM, any addition to or improvement to the fixed asset that results in increasing the utility or useful life of the asset shall be capitalized and included in the cost of fixed asset.

f. The cost of existing assets that are replaced, together with their related accumulated depreciation accounts, are required to be eliminated from the accounts.

Illustration

Upgradation of a 10 meters road to 30 meters

This is an 'improvement' and would need to be capitalized in the accounts. However, when the 30 m road is capitalized the existing book value of the 10 m road would need to be eliminated i.e. de-capitalized from the books

5.8.4 **Rehabilitation:** Expenditures to rehabilitate buildings or equipment purchased in a rundown condition with the intention of using them should be capitalized. Normally the acquisition price of a rundown asset is less than that of a comparable new asset, and the rehabilitation expenditures benefit future periods. Such expenditures can therefore be capitalized.

5.9 Disposal of Assets

When an asset is retired from service, it should be treated in accordance with the procedures provided in the APMAM. In particular:

a. No depreciation should be charged after disposal / retirement of the asset;

b. In case the disposal happens before October 1, 50% of the depreciation should be charged. If it is on or after October 1, full depreciation should be charged;

c. The assets which are out of service should be recorded in a separate register;

d. Once an asset is disposed, its movement should be updated in the Fixed Asset Register

[25] Eric Louis Kohler, Kohler's Dictionary for Accountants

5.10 Revaluation of Assets

Here again the treatment is specified in detail under APMAM. The recommended policies are:

a. An increase in net book value arising on revaluation shall be credited to a 'Revaluation Reserve Account' under the Municipal Fund. A decrease in net book value arising on revaluation of fixed assets should be charged to Income and Expenditure Account except to the extent that such a decrease is related to a previous increase in revaluation in which case it should be set off from the Revaluation Reserve Account.

b. If an asset is revalued, the entire class to which that asset belongs shall be revalued. A class is generally a category of similar assets which differs substantively from other similar groups of assets. For example, the category 'Land' would signify a class of asset, different from say 'Buildings' or 'Vehicles'.

c. Revaluation of a class of assets shall not result in the net book value of that class being greater than the recoverable amount of the assets of that class.

d. Revaluation reserve shall be reduced by transfer of equivalent amount of depreciation charged on the revalued portion of the cost of the fixed assets.

Chapter 6
Asset Management

Although this Manual is primarily intended to help in the valuation of fixed assets, a necessary corollary would be the maintenance of proper fixed assets records and good asset management practices. This is encompassed in the term 'Asset Life Cycle Management' and is briefly covered in this chapter.

6.1 Asset Life-cycle

6.1.1 An asset proceeds through a number of sequential phases during its life cycle - acquisition, operation and maintenance, refurbishment or enhancement, and, finally, disposal. The life cycle of an asset begins with a planning process that identifies the need for that asset and determines how and when it is to be procured. The asset is then acquired - either an existing asset is purchased or a new one is created. The asset then enters its operational phase. As the asset ages, it may deteriorate or become obsolete, at which stage a decision is made to either refurbish, enhance or dispose of it. If the need still exists for the service provided by the asset, the cycle recommences.

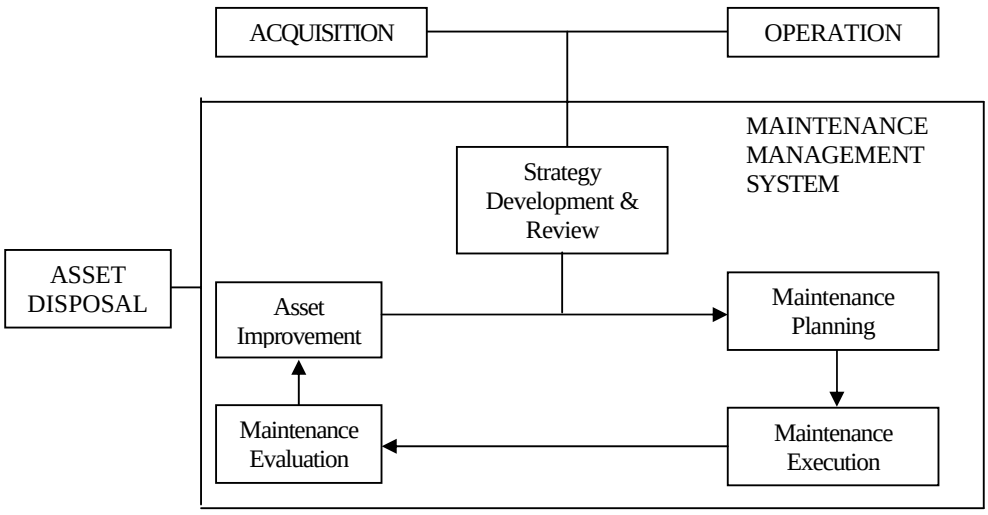
6.1.2 There are essentially three broad stages in the life cycle of an asset:

a. Acquisition;

b. Operation and Maintenance; and

c. Disposal.

6.1.3 These various stages are illustrated below[26]:



[26] Adapted from Maintenance Engineering Society of Australia

6.2 Record Keeping - Fixed Asset Register

6.2.1 Once the assets have been identified, listed and valued by the ULB, their record needs to be maintained and continually updated. This is achieved through the Fixed Asset Register (FAR). If the FAR is not continually updated, the efficacy of the entire asset identification, valuation and management will be greatly reduced.

6.2.2 The FAR will form the basis for further planning and maintenance under the Asset Life Cycle Management (ALCM) strategy for the ULB. Hence, this document will have a record keeping and planning function.

6.2.3 The process of recording and updating of fixed assets data is shown in the Flow chart at Annex 5. The formats of various fixed asset registers are given in Annex 6.

6.3 Asset Life-cycle management strategy

6.3.1 Asset Life Cycle Management (ALCM) is a strategic, integrated approach to maintenance that considers all the elements that affect the productive life of an asset - from design to disposal. It is a proactive process that compliments existing policies by providing strategic focus and perspective.

6.3.2 Asset-intensive organizations including ULBs which successfully adopt asset life cycle management will reduce maintenance costs and improve productivity through superior planning. From design to disposal, an asset's life cycle includes the following stages:

a. Clarify the need or requirement to be satisfied by the asset;

b. Identify the type of asset suitable for the requirement and fulfill the need;

c. Determine the maintenance strategy, cycle and plan for the life of the asset;

d. Purchase the asset;

e. Commission, operate and maintain the asset; and

f. Dispose of the asset at the end of its economical life.

6.3.3 To achieve ALCM, organizations need visibility into three main areas of maintenance planning; short term planning, and long term planning. These planned maintenance strategies improve reliability, overall productivity, the length of an asset’s life, and ultimately reduce the total cost of asset ownership.

6.4 Asset Management Unit (AMU)

6.4.1 (a) It would be clear from the foregoing discussions that ALCM would greatly enhance the productivity and performance of ULBs. However, currently there is no unified department in ULBs which looks at all aspects of asset management. In most ULBs, the acquisition of fixed assets is the responsibility of the Stores and Purchase Department. Similarly, the accounts department normally records

only the financial transaction and is not concerned with the maintenance and management of the asset.

(b) For these reasons, it may be useful for the ULBs to set up an Asset Management Unit (AMU) so that various aspects of asset life cycle are properly managed. This AMU may be centrally located and under the charge of the head of Finance or the Commissioner. The justification for the cell to report directly to the Commissioner arises from the fact that the use of many of the fixed assets such as land and building has policy overtones, and the alternatives in these respects may have to be examined from a larger perspective.

(c) In this connection, it is also to be noted that planning for assets (capital budgeting) is a specialized and time consuming exercise by itself, and most departments of finance and accounts in ULBs do not have the wherewithal in terms of either time or human resources to spare for it. Hence, the AMU can have specialized and dedicated staff for exclusively focusing on these issues.

6.4.2 Structure of AMU: The AMU could consist of the following staff and officers:

a. Head, AMU - preferably a person with Asset Management experience, including MIS and computer systems;

b. Procurement Plan Officer- responsible for purchase planning, scheduling and design;

c. Recording Officer - for review / maintenance of Fixed Asset Registers. Also to keep track of disposed assets, sales and preparation of various reports including depreciation schedules;

d. Maintenance Plan Officer - To oversee all scheduled, planned maintenance, to co-ordinate with relevant departments to ensure all assets are in working condition and serviced in time;

e. Other staff as may be needed

The AMU staff and officers must all be computer literate and reasonably proficient in working with electronic spreadsheets. If capacity building measures are necessary in these regards, the ULB must speedily plan for the same and implement necessary programs.

Attention is to be paid to the qualifications and experience of the officers deputed to the AMU. At the minimum, officers should have formal accounting qualifications, with in-service training or external diplomas or other qualifications in information technology. Head of AMU should have at least ten years of work experience of which at least five years should have been in the area of evaluation of proposals, procurement, MIS, and asset accounting. Officer in charge of asset planning must have procurement as well as materials planning and capital budgeting experience. Staff should be appropriately chosen with regard to experience in accounting, procurement, and MIS.

6.5 Functions of AMU

6.5.1 The functions of the AMU shall be, without any loss of generality, as follow:

i) Procurement Planning

a. To prepare short and medium term asset acquisition plans in consultation with the proposer /user departments and to present the same with due financial impact exercises and alternatives for consideration of Competent Authority;

b. To prepare general Procurement Plan for fixed assets before the beginning of the financial year in terms of the approved asset acquisition plans and to lay out necessary timelines, parameters and benchmarks;

ii) Asset Acquisition

c. To assist and facilitate the Purchase department in the process of acquisition of assets as per Asset Procurement Plan;

d. To assist and facilitate the other execution departments to carry out the Procurement Plan;

iii) Recording and Reporting

e. To develop, update and maintain an asset tracking database with respect to the location, condition, and other parameters with respect to fixed assets;

f. To develop, update and maintain a Capital Works in Progress database and to generate necessary MIS therefrom;

g. To develop, update and maintain the Fixed Assets Register and to record all fixed asset related transactions which add to or subtract from the book-value of the asset;

h. To separately maintain the register of impaired assets and assets scheduled for disposal with due attention to computation of value in use and recovery/salvage values. To also assure that due process is followed in determination of fair values and market prices;

i. To prepare evaluative and analytical reports for the management from time to time; and

j. To prepare depreciation schedules

iv) Maintenance

k. To prepare, in consultation with other departments, planned maintenance schedules and to oversee their implementation;

l. To prepare, in consultation with concerned departments, schedules for conditional assessment and plans for major renovations, repairs, and modifications;

v) Disposal of Assets

m. To prepare and follow through on the annual disposal plan for fixed assets;

n. To prepare Asset renewal plan which would be fed into the capital procurement plan;

6.5.2 A separate list of reports to be prepared by the AMU and submitted to the Management should be drawn up. Such reports may include the following:

a. Annual Procurement Plan;

b. Short term and medium term capital budgets showing construction and acquisition of fixed assets;

c. Review of Annual Procurement Plans with respect to targets and achievements quarterly and half-yearly;

d. Annual Disposal and Salvage Plans and review of progress - quarterly and half-yearly;

e. Fixed Assets Register;

f. Planned Maintenance Schedule

g. Conditional Assessment Schedule and Reports;

h. Report on major repairs and renovations carried out on fixed assets and the effect thereof on remaining useful lives;

i. Depreciation Schedules; and

j. Such others as may deemed necessary from time to time

6.6 Using IT for asset management

6.6.1 Since most ULBs will have a large number of assets, it would be most efficient to use appropriate IT tools for their management. Asset tracking can be done through FARs which can be maintained on databases. Maintenance plans and schedules can be best managed through project management and resource scheduling software. Preparation of various reports should be automated and schedules (such as for depreciation) generated through software.

6.6.2 Most of these functions can be achieved through basic computer applications and minimal programming. It is strongly emphasized that ULBs should not, at the initial stages at least, look to use complex ERP systems which are difficult to implement.

Chapter 7
Issues in Valuation

7.1 Freehold Land

All land ownership of which vests with the ULB should be included in the opening balance sheet.

7.1.1 **Land acquired through purchase:** The land will be recorded at the purchase price paid/payable and other incidental costs such as registration charges incurred to bring the asset to its present location and condition

7.1.2 **Lands acquired through compulsory acquisition:** The land will be recorded at the total compensation paid/ payable for the acquisition of the land.

a. Compensation paid: It shall be valued at compensation actually paid.

b. No Compensation Paid: If the asset was acquired without paying any compensation, then it shall be valued at Rupee One. However, any developmental work done should be capitalized at cost.

c. Compensation in dispute: The amount paid will be recorded as the asset value. Any extra amount that may be payable, if determinable, should be shown as contingent liability. When any further amount is paid to the previous owner, it will be added to the asset in the year of payment.

7.1.3 **Vested government lands:** Vested government lands are those lands which are neither owned by the ULBs nor does any economic benefit accrue to the ULB. The ownership of these lands vest with the State / Central government and the ULB merely acts as a trustee for these lands. As per Technical Guide issued by ICAI for ULBs, vested government land shall not be recorded as asset as neither ownership nor economic benefits is with ULBs. The description of such lands shall form a part of the notes to the balance sheet.

7.1.4 **Land improvement:** Original cost of any improvement to land, such as land development and land filling should be capitalized as an improvement to the land.

7.1.5 **Land acquired through government grants:** If the ULB has purchased land from government grants, then the cost of the land will be shown at gross value i.e. cost paid/ payable or as determined. The grant received should be shown as Capital Reserve in the Balance Sheet.

7.2 Buildings

The valuation of buildings shall be carried out as follows:

7.2.1 **Buildings purchased:** The purchase cost of the building shall include the purchase price cost and incidental costs such as registration charges and other costs incurred to bring the asset to its present location and condition.

7.2.2 **Buildings constructed:** If the building has been constructed, then the cost of construction will be taken as the cost.

7.2.3 **Grants received in respect of buildings**

a. As per Technical Guide on Accounting for ULBs and AS 12 'Accounting for Grants' issued by ICAI, government grants related to specific fixed assets should be presented in the balance sheet by showing the grant as a deduction from the gross value of the assets concerned in arriving at their book value.

b. Alternatively the building can be shown at gross value and the grant recognized as deferred income. Further, the income should be recognized in the income and expenditure account out of the deferred income account in the proportion of depreciation charged on the buildings in view of the requirements of AS 12.

7.2.4 **Heritage Buildings:** Heritage buildings are generally to be valued in the same manner as other buildings. However, they are to be disclosed separately under the Head 'Heritage Assets' under Other Assets. The purpose is to distinguish the assets for their historical, cultural and / or religious significance and to recognize the restrictions on their use or sale.

7.3 Art and Historical items

7.3.1 ULBs should capitalize works of art, historical treasures, and similar assets at their historical cost. These items can be classified under 'Heritage Assets' under 'Other Assets'.

7.3.2 Government should disclose information about their works of art and historical collections. Capitalized collections or individual items that are exhaustible, such as exhibits whose useful lives are diminished by display or educational or research applications, should be depreciated over their estimated useful lives. Depreciation is not required for collections or individual items that are inexhaustible.

7.4 Value of land under Roads

7.4.1 Roads are generally built on property that is owned by the ULB. Hence, apart from the road, the land under the road also needs to be valued and accounted.

7.4.2 Such land is to be kept under 'Land' and not included in 'Roads & Bridges'. The value of such land should be taken at the historical cost i.e. if any amount is paid to acquire it then at the compensation paid etc. If the amount cannot be ascertained, a nominal value of Rupee One should be considered for the land under each road.

7.5 Pipe networks

7.5.1 Networks will normally have trunks, mains, and sub-mains. This is equally valid for water supply as well as sewerage network.

7.5.2 Those parts of network which are relatively stand-alone should be considered separate assets on their own. The criterion to be also used is that failure of the smaller network is not critical to the continued operation of the larger one.

7.5.3 While computing historical costs, original costs of digging an earth work should be included.

7.5.4 Any major cost for improvement of network functioning (for instance, removal of sediments and coating from mains or trunks) should be added to the book value.

7.6 Assets under Hire Purchase / Finance Lease

Hire Purchase / Finance Lease shall be treated as follows[27]:

a. The purchase price shall be capitalized as the cost of fixed assets

b. Hire Purchase (HP) installments shall be apportioned between the finance charge and the reduction of the principal outstanding. The finance charge shall be allocated so as to produce a constant periodic rate of interest on the remaining balance of the liability;

c. The total amount of interest portion out of the 'HP Payable' shall be accounted by debiting to a control account under current assets. This amount will be adjusted on accounting of finance charges

d. The depreciation policy for assets purchased under HP should be consistent with that for owned assets.

7.7 Intangible Assets

7.7.1 Intangible assets in ULBs will generally be in the nature of expenditure on software. The ULB will assess the expenditure made in development or purchase of the intangible asset in the last two years and capitalize it as fixed asset. In case the intangible asset has been provided free of cost, on a sharing basis, it should not be shown in the balance sheet. Expenditure below Rs.25,000/- should be charged to revenue and not capitalized.

7.7.2 The process of valuation of intangible asset would be as follows:

a. If Purchased: The cost of an intangible asset comprises its purchase price, including any import duties and other taxes (excluding recoverable amount from the taxing authorities), and any directly attributable expenditure like professional fees for legal services etc. on making the asset ready for its intended use. Any trade discounts and rebates are deducted in arriving at the cost.

b. If Internally Generated: The cost of internally generated assets[28] such as software should be determined in line with AS 26 'Intangible Assets'. Where the asset meets the criteria for recognition, its cost will comprises all

[27] Andhra Pradesh Municipal Accounts Manual, Chapter 8 – Assets – para 8.143

[28] As per AS 26, an internal intangible asset should be recognised only if there is reasonable evidence of future economic benefit. For instance, no research expenditure is allowed to be capitalized. Further, internally generated brands, mastheads, publishing titles etc. are not permitted to be recognised as intangible assets since they cannot be distinguished from the cost of developing the business as a whole.

expenditure that can be directly attributed or allocated on a reasonable and consistent basis to create the asset / software for its intended use. Costs include (i) expenditure on materials and services used in developing the asset, (ii) salaries, wages and other employment related costs of personnel directly engaged in developing the asset, (iii) any expenditure that is directly attributable to generating the asset. However, it excludes (i) selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to making the asset ready for use; (ii) clearly identified inefficiencies and initial operating losses and (iii) expenditure on training the staff to operate the asset.

c. If Gifted/Donated: If the asset was acquired without paying any price and gifted to ULB (or if it is donated): then it shall be valued at Rupee One.

d. If Acquired though exchange: An intangible asset may be acquired in exchange or part exchange for old intangible asset. Where the assets exchanged are similar, the net book value of the asset which is exchanged should be taken, and to it the extra amount that is paid, if any, is added. If instead of an extra payment, a refund is involved, the necessary adjustment will have to be made. In case of dissimilar assets, the assets acquired should be recognized at its fair value.

7.7.3 The residual value of an intangible asset in ULBs should be assumed to be zero. Hence, the full cost should be 'amortized' over the estimated useful life of the asset.

7.7.4 Subsequent expenditure on intangible assets should be generally recognized as an expense unless it increases the capacity or the life of asset.

Annexure 1

Further Guidelines for Preparation of Opening Balance Sheet

After valuing the fixed assets, the next step in this exercise is identification of investments, current assets and liabilities.

1. Investments

'Investment' means assets held not for operational purposes or for rendering services; and they include financial assets resulting from investments of cash surpluses. ULBs invest surplus funds in instruments like government securities, fixed deposits, debentures etc. The details are available in the Register of Investments (Form 16 under chapter 10 of APMAM). One hundred percent physical verification of the original certificates / instruments has to be made before recording them in the opening balance sheet. Value of investments will include acquisition costs such as fees, brokerage and duties. If any long term investment has any diminution in value, the reduced value should be considered.

2. Current assets include the following and shall be valued at the amount expected to be received by the ULB.

2.1 **Cash on hand:** The cash balance shown on the closing day of the financial year shall be included in the balance sheet. This is reflected in Form 17 under chapter 10 of APMAM. Cheques received, but not deposited in the bank should be shown in the opening balance as 'cheques in hand'.

2.2 **Cash at bank:** Cash at bank consists of balances with different banks in different accounts. The information should be made in Form 18 under chapter 10 of APMAM. The ULB should ensure that all bank accounts are listed and a comprehensive list of balances is prepared.

The bank accounts should be classified appropriately into various major and minor head groups such as 'Municipal Funds – Nationalised Banks' or 'Special Funds – Scheduled Banks' or 'Grant Funds - Cooperative Banks' etc.

Balances as per ULB records shall be taken to the balance sheet. The balances in the ULB records should be reconciled with the bank balances on the date of opening balance sheet.

2.3 **Prepaid expenses:** Expenses that have been paid in advance and relate to a period after the date of opening balance sheet should be recognized as prepaid expense. Such expenses have to be classified as relating to (i) establishment, (ii) administration and (iii) operation and maintenance. No formats have been prescribed under APMAM. ULBs may make suitable records and list out the prepaid expenses. Details of prepaid expenses have to be prepared from the cash/bank books and other records. The prepaid expenses will be recorded as an asset under 'prepaid expenses' schedule (B-16)

2.4 **Loans and advances:** Loans and advances may be advances paid to contractors, suppliers and employees. These advances need be recovered or adjusted against bills. The information would be available in the Register of Advances (Form Gen-16).

Loans paid to staff such as festival loan, marriage loan, motor cycle loan etc. may or may not carry interest. Similarly, the staff are paid advances, viz. TA, TTA, LTC, advance pay etc. The interest on loans and advances should be accounted on accrual basis. While the information in respect of loans and advances to employees is available in the Register of Employee Loans / Advances (Form ES-2), the interest on loans to employees will be available in the Register of interest on loans to employees (Form ES-3).

The information should be consolidated in Form 19 and 20 under chapter 10 of APMAM.

2.5 **Receivables of taxes:** ULB should determine the receivables for the tax income, which are to be recorded as current assets in the opening balance. The amounts receivable from these heads are the balances as per the Demand Registers (Form Gen 20), and Demand Notices (Form Gen-21) etc.

The amounts receivable for these heads of income should be determined year-wise, segregating separately for atleast five years preceding the date of opening balance sheet. All amounts outstanding for a period beyond five years may be recorded under one head. (This arrangement facilitates the provisioning only; and for the purpose of filing prosecutions, suits etc. the period prescribed therefor may be followed).

2.6 **Receivables of fees and rental income:** This will include all receivables other than taxes and cover trade licence fees, rental income from markets, shopping complexes, and other remunerative enterprises which are amenable to accrual and which are entered in demand registers. If the fees or rentals warrant penalty or belated interest, they should also be included in the receivables.

The total amount receivable from these heads of income can be obtained from Demand Register (Form Gen 20) of various items, and Demand Notices (Form Gen-21) etc.

The amounts receivable from these heads of income is to be determined year-wise, segregating separately for atleast three years preceding the date of opening balance sheet. All amounts outstanding for a period beyond three years may be recorded under one head. (This arrangement facilitates the provisioning only; and for the purpose of filing prosecutions or suits etc, the year-wise segregation is different)

Provisions shall be made for all receivables in accordance with the norms prescribed under chapter 5 of APMAM.

2.7 **Interest receivable on investments/bank deposits:** Interest on investments will be accounted on accrual basis. The information could be gathered from Investment Ledger/Register (Form IN-1).

2.8 **Stores and stock in hand:** The ‘stores’ involve activities like procurement, storage, issue, disposal and finally ‘stock in hand’ at the end of the financial year. These activities may either be performed centrally at central stores (municipal store) or individual section-wise stores like public works, water works, street lighting, public health, medical etc.

On delivery of material (from supplier) to ULB, the Stores in-charge will prepare a Material Receipt Note (Form ST-1). On the basis of Material Receipt Note, the Stores in-charge prepares a Stores Ledger (Form ST-2).

After various transactions in the stores like receipt of material (from suppliers), issue of material (to contractors) and return of material (if any from contractors) during the year, a statement of closing stock at the end of the year would be prepared in Form ST-3.

At the end of the financial year, the stock in hand should be physically verified to the extent of 100%. Stores shall be valued at cost. While making valuation, First In First Out (FIFO) method should be followed.

The consolidated stock in hand (inventory) shall be made in Form 23 A under chapter 10 of APMAM

2.9 **Recoverable deposits:** ULB may have kept deposits with third parties like Electricity Department, Telephone Department or any government department to fulfill certain obligations. If such amount can reasonably be classified as a refundable deposit (to the ULB), it should be shown as recoverable and current asset.

3. Liabilities

The liabilities include (i) Loans payable, (ii) Unutilised grants, (iii) Reserve funds, and (iv) current liabilities. (Deposits received and Payables)

3.1 **Loans payable:** ULB borrows funds from various lending agencies, mostly with guarantee of Government. Loans payable have to be recorded in Form 25 under chapter 10 of APMAM.

3.2 **Unutilised grants:** Grants, if they are not utilized for the purpose for which they are given becomes a liability to the ULB. All such details should be recorded in Form 26 under chapter 10 of APMAM.

3.3 **Reserve Funds:** Reserve Fund in the ULB represents amounts set aside and earmarked for meeting specific obligations and commitments. Details of Reserve Fund balances have to be recorded in Form 27 under chapter 10 of APMAM.

4. Current liabilities

Current liabilities comprise of the claims of external parties on ULB on account of any dues or other payables. These details can be gathered in Form 28 (Details of deposits received), and Form 29 (Bills and other payable details) under chapter 10 of APMAM

4.1 **Deposits received:** ULB receives various kinds of deposits from contractors and suppliers in the form of earnest money deposit (EMD) and security deposit. The ULB also receives security deposit from designated municipal officials like Bill Collectors and Cashiers etc. All the deposits need to be refunded to them at the completion of relevant obligation.

4.4 **Bills and other payables:** ULBs, many a times, owe various amounts to various agencies and all the dues (payables) constitute liabilities. Some of the major items of liabilities include

- Dues payable to contractors and suppliers (bills received and payments not made),
- Salaries due to employees,
- Pensionary benefits due to pensioners
- Amounts deducted from payments made (by ULB) to contractors/employees on behalf of other agencies, but not paid like income tax, sales tax, profession tax, insurance

premium, bank loan recovery etc.

- Library cess payable to Library Dept
- Electricity consumption charges payable to AP Transco
- Pensionary contribution payable to Pension Fund (municipalities in Coastal and Rayalaseema regions)
- Pensionary contribution payable to state funds (municipalities in Telangana region)

5. Fund balance

Once the values of all assets and liabilities are arrived, ULB shall record the net value or the balancing figure under the head 'Fund Balance'. It has to be worked out in each of the Funds. The total of various Funds, either the net value or the balancing figure would become that of 'Municipal Fund'.

6. Accounting entries

The entry to be passed for incorporating the opening balances is given below:

Account			Amount (Rs.)		Books to be entered into
Code	**Description**		**Debit**	**Credit**	
410-(b)	Fixed Assets (Specify the name of the assets for e.g. Buildings)	Dr	5,00,000		Journal Book, Ledger
412- (b)	Capital Work in progress	Dr	3,00,000		
420/ 421- (b)	Investments (Specify the name of the relevant fund also)	Dr	1,00,000		
460-40-(a)	Advance to Suppliers	Dr	50,000		
460-(b)	Loans and advances	Dr	30,000		
430-(b)	Stock in hand	Dr	25,000		
431- (b)	Sundry Debtors	Dr	1,00,000		
440- (b)	Prepaid expenses	Dr	10,000		
450-(b)	Cash and Bank Accounts	Dr	60,000		
				3,54,000	
310-10-(a)	To Municipal fund (General fund)			80,000	
311-(b)	To Earmarked funds			1,20,000	
312- (b)	To Reserves			1,00,000	
320- (b)	To Grants			1,50,000	
330/331 – (b)	To Loans payable			25,000	
340-(b)	To Deposits (specify the nature of deposits)				
	To Accumulated depreciation – Fixed assets			3,00,000	
411- (b)	(Specify the name of the asset for e.g. Buildings)				
	To Provision for Sundry Debtors				
432- (b)	To Provision for Loans & Advances			15,000	
461- (b)	To Provision for expenses			2,000	
360-10-(a)	To Other liabilities			8,000	
350-(b)				21,000	
TOTAL			11,75,000	11,75,000	
Narration: Being incorporation of Assets and Liabilities in the Opening Balance Sheet					

a. Insert Detailed Head Codes of Account as applicable
b. Insert Minor and Detailed Head Codes of Account as applicable

Note: The individual accounts within the major account heads listed above shall be debited/credited. A Journal Voucher shall be prepared for incorporation of account balances in the Opening balance sheet.

7. Approval by Standing Committee/Council

After opening balance sheet is prepared, it shall be placed before the Standing Committee, in case of Municipal Corporation; or Council in case of Municipality and get its approval for adoption

8. Revision of Opening Balance Sheet

There may exist possibilities that certain assets and liabilities are identified after preparation of Opening Balance Sheet or even after Balance Sheets have been drawn up. In such case, the original balance sheet cannot be altered, but adjustments can be incorporated through the "Adjustments to Opening Balance Sheet" account in the period when asset or liability is newly identified. The amount of asset or liability should not be routed through the Income and Expenditure Account. An illustrative list of accounting entries required to be passed for incorporation of newly identified assets and liabilities are as under:

8.1 Incorporation of Land (e.g. ground, open market, etc.)

Account		Amount (Rs.)		Books to be entered into
Code	**Description**	**Debit**	**Credit**	
410-10-(a)	Land a/c ..... Dr	1,00,000		Journal Book Ledger
310-10-(a)	To Adjustments to Opening balance sheet		1,00,000	
Narration: Being incorporation of Land in the subsequent Opening Balance Sheet				

(a) Insert Detailed Heads Codes of Account as applicable

8.2 Incorporation of Buildings (e.g. Art Gallery Building, Auditorium Building, etc.)

Account		Amount (Rs.)		Books to be entered into
Code	**Description**	**Debit**	**Credit**	
410-20-(a)	Buildings a/c ..... Dr	10,00,000		Journal Book Ledger
310-10-(a)	To Adjustments to Opening balance Sheet		10,00,000	
Narration: Being incorporation of Buildings in the subsequent Opening Balance Sheet				

(a) Insert Detailed Heads Codes of Account as applicable

8.3 Incorporation of Contractor Bills Payable in respect of maintenance of road

Account		Amount (Rs.)		Books to be entered into
Code	**Description**	**Debit**	**Credit**	
310-10-(a)	Adjustments to Opening balance sheet .....Dr	10,00,000		Journal Book , Ledger
350-10-(a)	To Contractors Control Account		10,00,000	
Narration: Being incorporation of Contractors Bills Payable in the subsequent Opening Balance Sheet				

(a) Insert Detailed Heads Codes of Account as applicable.

This account "Adjustments to Opening Balance Sheet" will be shown as an addition to the Municipal Fund at the time of preparation of the Balance Sheet.

While incorporating the value of newly identified assets and liabilities in the Balance Sheet, it should be ensured that details of these assets and liabilities have also been incorporated in the relevant registers such as Fixed Assets Register, etc.

Annexure 2

Current Standard Cost Rates / Standard Schedule of Rates for Assets in ULBs

1. Buildings

No.	Classification of building	Unit	Cost per unit plinth area of building (in rupees)	
			Ground Floor	First Floor and above
1	2	3	4	5
1	RCC framed - posh structure	Sqm	6,200	5,600
2	RCC framed - ordinary structure	Sqm	5,000	4,400
3	Madras terrace/ Mangalore tiles/ AC sheet roof	Sqm		3,200

Note: Other small civil structures – the standard cost may be arrived at based on standard schedule of rates (SSR) and market rates.

2. Roads, pavements, footpaths and drains

S. No.	Item	Unit	Cost per unit (in rupees)
1	2	3	4
Roads and pavements –CC			
1	CC Road / pavement of carriage width 3.75 m without reinforcement	Km	36.00 lakhs
2	CC Road / pavement of carriage width 3.75 m with nominal reinforcement	Km	45.00 lakhs
Roads and pavements – BT roads – Sub grade			
3	Sub surface of 150 mm thickness gravel with granular sub base (WBM) of 225 mm thickness for carriage width 3.75 m	Km	22.00 lakhs
Roads and pavements – BT roads – Wearing surface			
4	Wearing surface, chip carpet of 20 mm thickness and type 'B' seal coat for carriage width 3.75 m	Km	8.00 lakhs
5	Wearing surface of bituminous macadam (BM) of 50 mm thickness and wearing course of semi dense bituminous concrete of 25 mm thickness with carriage width 3.75 m	Km	13.50 lakhs

S. No.	Item	Unit	Cost per unit (in rupees)
1	2	3	4
Road dividers			
6	RCC median pre-casted concrete blocks as per IRC standard	Km	3.00 lakhs
Foot paths			
7	BS slab footpath of 1 m width with kerb stone of 10 cm thick and 30 cm height	Km	5.90 lakhs
8	CC footpath of 1 m width with kerb stone of 10 cm thick and 30 cm height	Km	7.65 lakhs
9	Footpath of I m width with interlocking cement concrete blocks pavement (cobble stone)	Km	9.00 lakhs

Note

- CC Roads and pavements: The CC roads are considered as rigid pavements for roadways as per ICR-58-2000. The cost is calculated, considering the laying of roads without reinforcement. The unit cost is calculated for a nominal thickness of 0.25 m on a prepared sub surface without reinforcement for a unit width of 3.75 m carriage way and a length of one km.
- Roads with metal sub grade and bituminous wearing surface: The roads have sub base course of gravel, laterite, kankar, brick metal, crushed stone, crushed slag, crushed concrete or combination of these base course of conventional water bound macadam (WBM), wet mix macadam or other equivalent granular construction conforming to IRC, which termed it as flexible pavement as per IRC-37-2001. The unit construction cost of sub-grade for a nominal minimum thickness of 225 mm is worked out for a unit width of 3.75 m carriage way and a length of one km.
- The costs referred above are worked out for standard dimensions specified thereat. Actuals have to be worked out based on site dimensions and pro-rata basis.

3. Culverts, bridges, subways, flyovers and storm water drains

S. No.	Item	Unit	Cost per unit (in rupees)
1	2	3	4
Culverts and causeways			
1	Culvert with hume pipe of 1 m dia for a road with parapet walls	Each	22,000
2	Culvert of size 1 sq. m. of masonry walls with RCC deck slab and parapet wall	Each	30,000
Bridges			
3	Major bridge	Sqm	19,500
4	Minor bridge	Sqm	23,000
5	Small bridge	Sqm	28,000
Flyovers			
6	Flyovers, Grade separators of all types and spans	Sqm	19,000
Subway			
7	RCC pedestrian subway	Sqm	22,500
Storm water drains			
8	Size stone masonry drains of size range upto 1 cum	Rm	2,300
9	Size stone masonry drains of size range of 1 cum to 3 cum	Rm	3,200
10	Size stone masonry drains of size range of 3 cum to 6 cum	Rm	6,100
11	Size stone masonry drains of size range of 6 cum to 10 cum	Rm	9,500
12	Size stone masonry drains of size range of above 10 cum	Rm	11,000
13	Reinforced Cement Concrete (RCC) of size range upto 1cum	Rm	5,300
14	Reinforced Cement Concrete (RCC) of size range of 1cum to 3 cum	Rm	7,000
15	Reinforced Cement Concrete (RCC) of size range of 3cum to 6 cum	Rm	11,600
16	Reinforced Cement Concrete (RCC) of size range of 6 cum to 10 cum	Rm	16,400
17	Reinforced Cement Concrete (RCC) of above 10 cum	Rm	18,300
Road side drains			
10	BS slab (box type) drains of size 0.6 m x 0.6 m	Km	4.30 lakhs
11	Size stone masonry box drain of size 0.6 m x 0.6 m	Km	9.70 lakhs
12	RCC drain of size 0.6 m x 0.6 m	Km	20.00 lakhs

Note

- Classification of culverts and bridges is made as per IRC-SP-13-2004
- Culvert is a cross drainage structure having a total length of 6 m or less between the inner faces of abutment.
- Major bridge is a structure having a total length of more than 60 m between the inner faces of abutment.

- Minor bridge is a structure having a total length of more than 30 m and upto 60 m between the inner faces of abutment.
- Small bridge is a structure having a total length of more than 6 m and upto 30 m between the inner faces of the abutment; and individual span is not more than 10 m.
- Storm water drains are normally designed for maximum flood discharge over a period of time. Normally, they do not have standard cross section. The cost of construction of storm water drains therefore should be calculated based on the cross sectional areas of vents.
- The estimates of standard drain size of 0.6m x 0.6 m are furnished. Linear variations have to be adopted for calculating costs for different sizes of drains.

4. Water supply and sewerage pipelines.

S. No.	Item	Dia size	length	Cost (in rupees)
1	**2**	**3**	**4**	**5**
Water source system				
1	Overhead tank / Ground level reservoir			As per valuation of building
Water transmission system				
1	Channel			Same as storm water drain
Water distribution system				
1	MS steel tanks			15,000 per ton
2	Hand pumps			9,000 each
Water supply lines (main and distribution system)				
1	CI Pipes	10 mm	meter	9.95
2	GI Pipes	10 mm	meter	6.81
3	PVC Pipes	10 mm	meter	2.94
4	RCC Pipes	10 mm	meter	2.57
5	PSC Pipes	10 mm	meter	4.58
6	MS Pipes	10 mm	meter	7.14
7	HDPE	10 mm	meter	6.48
8	AC Pipes	10 mm	meter	6.77
Sewerage lines				
9	SWG Pipes	10 mm	meter	4.20
10	RCC Pipes	10 mm	meter	3.47

Note

- The cost of different pipes are calculated by reference to the pipe material factor given in the table and its length and diameter as below:
  Cost of pipes = Factor x diameter (mm) x length (m). This includes all costs such as supply of pipes, excavation, laying of pipes and refilling trenches

5. Electrical installations

S. No.	Description	Unit	Cost (in rupees)
1	2	3	4
Electrical installation – HT transformer			
1	Structure including cross arm/braces etc. for 25 to 63 KVA	One	15,000
2	Structure including cross arm/braces etc. for 100 to 250 KVA	One	18,00
5	Transformer cost – 25 KVA	One	45,000
6	Transformer cost – 63 KVA	One	60,000
7	Transformer cost – 100 KVA	One	75,000
8	Transformer cost – 250 KVA	One	1,53,000
3	Cost of line material, distribution system, earthing, oils, paintings etc.	One	56,500
Electrical installation – LT transformer			
		10% less than HT transformer costs	
Transformer distribution box			
16	Upto 10 KVA	One	48,000
17	Above 100 KVA upto 250 KVA	One	76,000
Lamp posts – all lengths upto 9 m			
18	RCC poles	One	5,500
19	Tubular steel poles	One	7,500
20	CI poles	One	9,000
Electrical fittings including holders, necessary fixtures and lamp cost			
21	SV lamp fitting – 125 W	One	3,500
22	SV lamp fitting – 250 W	One	6,800
23	SV lamp fitting – 400 W	One	7,100
24	MV lamp fitting – 125 W	One	3,100
25	MV lamp fitting – 250 W	One	6,200
26	MV lamp fitting – 400 W	One	6,300
27	Tube light fitting – Single tube	One	1,700
28	Tube light fitting – Double tube	One	2,000
29	High mast fitting – pole height 12 m / 5 fittings with 5 x 2 lamps	One	3.00 lakhs
30	High mast fitting – pole height 15 m / 8 fittings with 8 x 2 lamps	One	3.75 lakhs
31	High mast fitting – pole height 16 m / 8 fittings with 8 x 2 lamps	One	4.00 lakhs
Electrical installations – cables - HT or LT cables			
32	HT cables	Meter	1,400
33	LT cables	Meter	500

6. Pumps

S. No.	Description	Unit	Cost (in rupees)
1	**2**	**3**	**4**
1	Pumps based on 5 to 10 HP	HP	17,000
2	Pumps based on 10 to 25 HP	HP	13,000
3	Pumps based on 25 to 50 HP	HP	11,000
4	Pumps based on more than 50 HP	HP	10,000

Note

- The above rates are inclusive of all mechanical and electrical equipment

General

1. In respect of assets relating to water supply source and transmission system, the following procedure be adopted
   - For valuation of OHT/GLR, structure to house the plant and machinery and the reservoirs, the current standard cost of rates for civil structures be adopted.
   - For valuation of channels, current standard cost rates of storm water drains are applicable
   - For valuation of conduits (main lines), the current standard cost rates of water supply mains and distribution system be adopted
   - For valuation of plant and machinery, and laboratory equipment under water supply and sewerage shall be valued on case-to-case basis.
2. For valuing heavy vehicles, light vehicles and other vehicles, plant, machinery, equipment, furniture, fixture and office equipment, the current market value has to be applied and deflated with reference to the age of the asset.
3. Wherever, ULB records regarding expenditure incurred on the fixed assets are available, they should be adopted as value of assets. When records are not available, the current standard cost has to be adopted.
4. The actual expenditure incurred by ULB or current standard cost provided in respect of the fixed assets have to be adopted, only when the assets are not outlived their useful life/estimated life. In case, the assets have outlived their useful life/estimated life as prescribed, a nominal value of rupee one has to be adopted.
5. In all cases, where current standard cost rates are not provided, the cost has to be worked out on case-to-case basis; and the cost has to be approved by the Steering Committee/Council of the ULB constituted for the purpose.

Annexure 3

Estimated Useful Life (in Years) of Various Assets in ULBs

S. No	Broad category of Assets	Assets which can be included in the category	Estimated life in years	SLM rate per annum
1	2	3	4	5
Lands				
1	Land	- Vacant land on which no construction is made - Layout open spaces - Roads - Parks and play grounds - Burial grounds	Infinite	Nil
Buildings				
1	Buildings with RCC roof	- Main office building - Circle/ward office buildings - School buildings - Hospitals/dispensaries - Maternity and child welfare centres - Commercial/shopping complexes - Travelers bunglows - Officers quarters - Staff quarters - Town halls/ theatres/ function halls - Stadia etc	50 years	2.0%
2	Buildings with other than RCC roof	- Market sheds - Open air theatres - Bus shelters - Public conveniences - Community halls / anganwadis / balwadis etc	20 years	5.0%
3	Small civil constructions	- Bus shelters - Fountains - Seats in parks - Compound walls	10 years	10.0%
Roads				
1	CC Roads (including lanes)	- CC Roads	10 years	10.0%
2	BT Roads (including lanes)	- BT Roads	5 years	20.0%

S. No	Broad category of Assets	Assets which can be included in the category	Estimated life in years	SLM rate per annum
1	2	3	4	5
3	Stone / metal roads (including lanes)	- Stone / shabad stone/metal roads	3 years	33.3%
4	Pavements/ Footpaths	- Concrete	10 years	10.0%
		- Others	3 years	33.3%
Bridges, culverts and fly-overs				
1	Bridges, culverts and fly-overs		40 years	2.5%
2	Subways, causeways and footbridges		15 years	6.6%
Drains				
1	Storm water drains	- Storm water drains (open or covered of any size)	15 years	6.6%
2	Road side drains	- Open mason drains	10 years	10.0%
Water Supply & Sewerage				
1	Water supply pipelines – main/distribution	- MS/GI/CI	40 years	2.5%
2	Water supply pipelines – main/distribution	- AC/plastic/polythene/PVC	20 years	5.0%
3	Distribution lines	- PVC, MDP/HDPE, Metal pipes	20 years	5.0%
4	Sewerage lines	- MS/GI/CI	30 years	3.3%
5	Water supply	- Summer storage tanks	50 years	2.0%
		- Channels	25 years	4.0%
		- Service reservoirs – Ground level	40 years	2.5%
		- Service reservoirs – Elevated/Overhead	30 years	3.3%
6	Bore wells	- Motor connected - Hand - bore wells	5 years	20.0%

S. No	Broad category of Assets	Assets which can be included in the category	Estimated life in years	SLM rate per annum
1	2	3	4	5
7	Deep borewells	- Ground water well/deep borewells	10 years	10.0%
Street lighting				
1	Street light posts		30 years	3.3%
2	Street lighting installations (mostly central lighting)	- Cables - Transformers	20 years	5.0%
3	Street lights	- MV lamps - SV lamps - Tube lights	2 years	50.0%
4	Street light fittings	- MV lamp fittings - SV lamp fittings - High mast lamp fittings - Tube light fittings	10 years 3 years	10.0% 33.3%
Play equipment				
1	Play equipment in parks/play grounds	- Play equipment - Gym equipment	5 years	20.0%
Plant and machinery				
1	Plant, machinery and equipment (Engineering related)	- Road rollers - Bull dozers - Mechanical sweepers - CC mixers - BT mixers - Civil engineering/town planning equipment - Medical equipment - School equipment etc	10 years	10.0%
2	Water works installations	- Pumps / motors /machinery - Submersible pumps etc	10 years	10.0%
3	Sewerage works installations	- Pumps / motors /machinery	10 years	10.0%
4	Lab equipment		10 years	10.0%

S. No	Broad category of Assets	Assets which can be included in the category	Estimated life in years	SLM rate per annum
1	2	3	4	5
Vehicles				
1	Heavy vehicles	- Lorry - Tractor - Tipper - Water Tanker etc. - Earth moving vehicles	10 years	10.0%
2	Light vehicles	- Car - Jeep - Mini lorry - Auto rickshaw - Motor cycle etc	8 years	12.5%
3	Other vehicles	- Carts - Bicycles - Tricycles etc	5 years	20.0%
4	Wheel borrows	- Wheel borrows (sanitation and engineering sections)	3 years	33.3%
Furniture, fixtures and equipment				
1	Furniture and fixtures	- Steel/wooden chairs - Steel/wooden tables - Steel/wooden racks - Steel/wooden cupboards etc.	10 years	10.0%
2	Office equipment	- Typewriters - Duplicating machines - Photo copying (Xerox) machines - Telephones - Air conditioners - Water coolers - Refrigerators - Ceiling fans - Electric fittings - Radios - TVs - Office equipment - Public address system etc	5 years	20.0%
3	Computers	- Computers - Peripherals like printers, UPS, CDs, mouse etc.	5 years	20.0%

Note:

In case the estimated useful life of the asset need revision or becomes lower than the one specified in column (4), the depreciation shall be calculated by dividing the written down value of the asset as on date with the remaining useful life of the asset

Annexure 4

Index for Deflating Cost for Valuation of Assets

For the purpose of valuating assets, ULBs should determine the standard current cost of assets, and using a deflator, represent its cost in the year of purchase. For the purpose of arriving at its cost in the year of purchase, the following inflation index should be adopted

Financial Year	Inflation Index
1981-82 and earlier	100
1982-83	109
1983-84	116
1984-85	125
1985-86	133
1986-87	140
1987-88	150
1988-89	161
1989-90	172
1990-91	182
1991-92	199
1992-93	223
1993-94	244
1994-95	259
1995-96	281
1996-97	305
1997-98	331
1998-99	351
1999-00	389
2000-01	406
2001-02	426
2002-03	447
2003-04	463
2004-05	480
2005-06	497
2006-07	519
2007-08	551

Illustration

A building belonging to ULB is identified. Using the current standard cost rate, the value is determined in 2007-08 at Rs.5,00,000. The building is known to have been completed in the year 1996-97. Then, the deflated standard cost of the building in the year 1996-97 would be

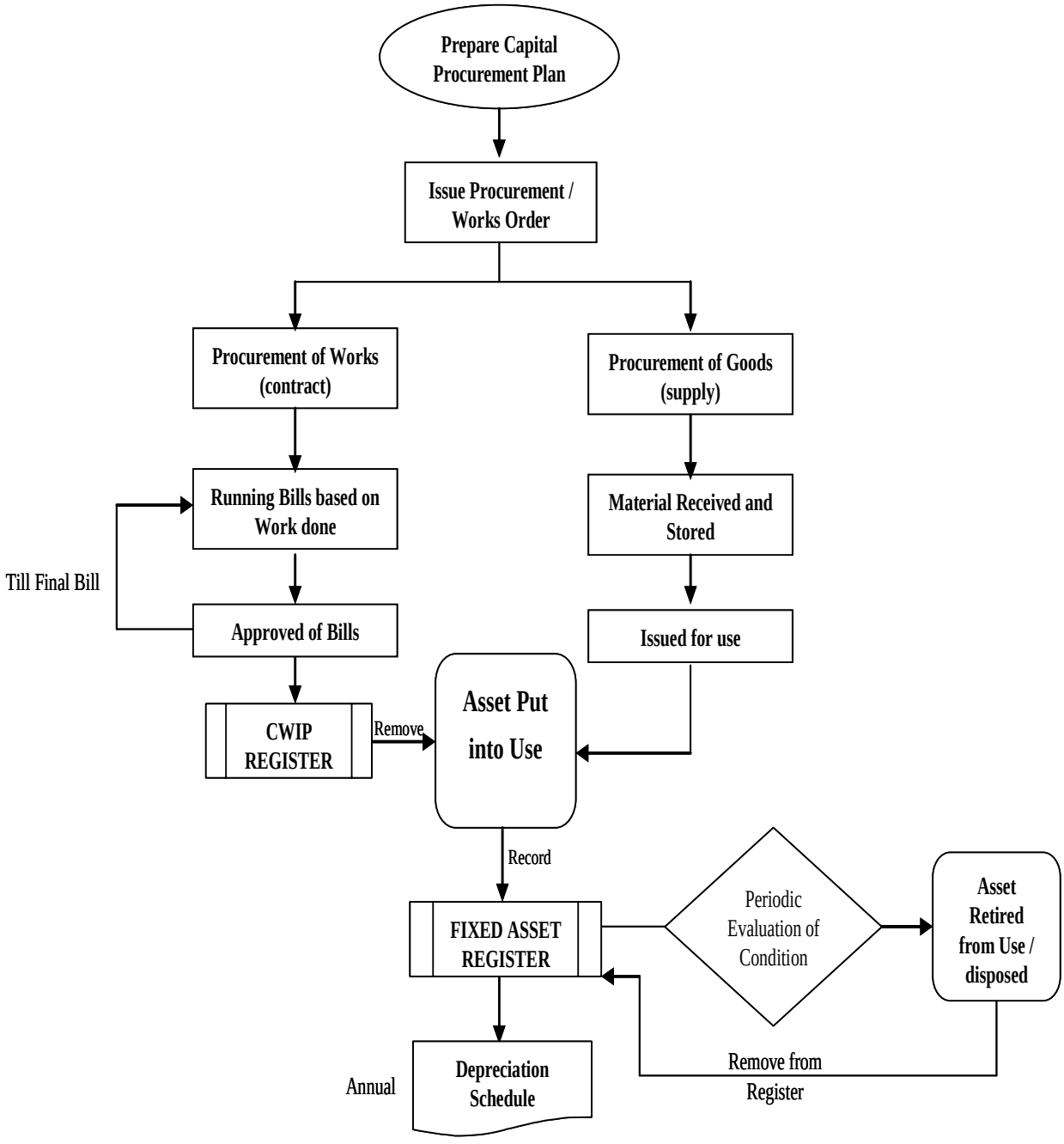
5,00,000 x (305/551)= 2,76,770

This represents the estimated cost of the building, if it was constructed in the year 1996-97, derived from it current standard cost. In order to arrive at its current estimated value, i.e., on 1-4-2008, depreciation should be provided on this for the period from 1996-97 to 2007-08, ie., 12 years. Hence the cost of the building to be included in the balance sheet as on 1-4-2008 would be as follows:

	Rs.
Current standard cost of building	5,00,000
Deflated standard cost in 1996-97	2,76,770
Depreciation till 2007-08 (12 Years) @ 2% per annum	66,425
Estimated current value (for opening balance) (2,76,770 minus, 66,425)	**2,10,345**

Annexure 5

Flow Chart for Maintenance of Fixed Asset Register



Annexure 6

Formats of Fixed Asset Registers

Registers have been prescribed for 11 categories of assets viz.	
I. Register of Land	2. Register of Buildings
3. Register of Roads & Bridges	4. Register of Sewerage and drainage Assets
5. Register of Water Work Assets	6. Register of Public Lighting Assets
7. Register of Plant and Machinery	8. Register of Vehicles
9. Register of Office & other equipments	10. Register of Furniture, fixtures, fittings and Electrical appliances
11. Register of Other Fixed Assets	

General Instructions for use of the Fixed Assets Register:

i. All the assets should be categorized into relevant asset class. Unique asset identification numbers are to be provided for all assets. Separate Registers shall be maintained for each class of structures owned by the ULB.

ii. Each asset shall be recorded on a separate page in the register.

iii. At the end of the accounting year, the 'Closing / depreciated value' in respect on the current year shall be entered as 'Opening Value' of the next year (next row).

iv. In the year in which there is any acquisition / improvement to the asset, show such cost in the current year's 'Opening / acquisition' column.

v. For each entry made, record the Name, Designation and Signature of the person making entry in the register and the person checking the entry.

vi. Totals should be taken at the end of each year in respect of total cost incurred on acquisition / construction / improvement (from the date of acquisition/construction) for each of the assets owned by the ULB.

vii. In Remarks column, indicate whether the ULB has the ownership right to the property or have only utilization rights.

1. REGISTER OF LAND

Name of ULB

Sketch the Boundaries of the Land:

Asset No.:

Description of the Land:

Location of the Land:

Survey No. of the Land:

Area (sq. mtr.):

Title documents available:

Mode of acquisition:

Date of Acquisition / Improvement	Description of Expense	Opening Value /Amount of Acquisition (Rs.)	Entry Ref. in Cash Book	Use of Land	Date of Disposal	To whom disposed	Amount of Disposal (Rs.)	Entry Ref. in Cash Book	Remarks
Total for the year 20**-20**									
Total for the year 20**-20**									
Total for the year 20**-20**									

2. REGISTER OF BUILDINGS

Name of ULB

Asset No.: Description of the Structure:

Location of the Structure: Title documents available:

Survey No. of the land on which Structure is located: Mode of acquisition:

Area of land on which constructed (sq. mtr.): Dimensions of the Structure:

Reference to Land Register: Rate of Depreciation

Date of Acquisition / construction / Improvement	Description of Expense	Opening Value /Amount of acquisition (Rs.)	Entry Ref. in Cash Book	Use of Building	Annual Depreciation (Rs.)	Closing/ Depreciated Value (Rs.)	Date of Disposal	To whom disposed	Amount of Disposal (Rs.)	Entry Ref. in Cash Book	Remarks
Total for the year 20**-20**											
Total for the year 20**-20**											
Total for the year 20**-20**											

3. REGISTER OF ROADS & BRIDGES

Name of ULB

Asset No.:
Description: (Type of Road / Bridge):
Location of the Road / Bridge:
Total area of Road / Bridge (sq m):
Footpath / Flanks: Length: Width:
Carriageway: Length: Width:
Area of land on which constructed (sq. mtr.)
Reference to Land Register:
Rate of Depreciation:

Date of construction / Improvement	Description of Expense	Opening Value /Amount of construction (Rs.)	Entry Ref. in Cash Book	Type of Road/ Bridge	Annual Depreciation (Rs.)	Closing/ Depreciated Value (Rs.)	Date of Disposal / conversion	Details of disposal / conversion	Amount on Disposal (Rs.)	Entry Ref. in Cash Book	Remarks
Total for the year 20**-20**											
Total for the year 20**-20**											
Total for the year 20**-20**											

4. REGISTER OF SEWERAGE & DRAINAGE ASSETS

Name of ULB

Asset No.: Type of Asset:
Location of the Asset: Description of Asset:
Measure of Asset (Length etc. Rate of Depreciation:

Date of construction / acquisition	Description of Expense	Opening Value /Amount of acquisition (Rs.)	Entry Ref. in Cash Book	Use of Asset	Annual Depreciation (Rs.)	Closing/ Depreciated Value (Rs.)	Date of Disposal	Details of disposal	Amount on Disposal (Rs.)	Entry Ref. in Cash Book	Remarks
Total for the year 20**-20**											
Total for the year 20**-20**											
Total for the year 20**-20**											

5. REGISTER OF WATER WORK ASSETS

Name of ULB

Asset No.: Type of Asset:
Location of the Asset: Description of Asset:
Measure of Asset (Length etc. Rate of Depreciation:

Date of construction / acquisition	Description of Expense	Opening Value /Amount of acquisition (Rs.)	Entry Ref. in Cash Book	Use of Asset	Annual Depreciation (Rs.)	Closing/ Depreciated Value (Rs.)	Date of Disposal	Details of disposal	Amount on Disposal (Rs.)	Entry Ref. in Cash Book	Remarks
Total for the year 20**-20**											
Total for the year 20**-20**											
Total for the year 20**-20**											

6. REGISTER OF PUBLIC LIGHTING

Name of ULB

Asset No.: Type of Asset:
Location of the Asset: Description of Streetlight:
Details of Streetlight: Rate of Depreciation:

Date of construction / acquisition	Description of Expense	Opening Value /Amount of acquisition (Rs.)	Entry Ref. in Cash Book	Use of Asset	Annual Depreciation (Rs.)	Closing/ Depreciated Value (Rs.)	Date of Disposal	Details of disposal	Amount on Disposal (Rs.)	Entry Ref. in Cash Book	Remarks
Total for the year 20**-20**											
Total for the year 20**-20**											
Total for the year 20**-20**											

7. REGISTER OF PLANT & MACHINERY

Name of ULB

Asset No.: Type of Asset:
Location of the Asset: Description of Asset:
Technical Specifications Rate of Depreciation:

Date of construction / acquisition	Description of Expense	Opening Value /Amount of acquisition (Rs.)	Entry Ref. in Cash Book	Use of Asset	Annual Depreciation (Rs.)	Closing/ Depreciated Value (Rs.)	Date of Disposal	Details of disposal	Amount on Disposal (Rs.)	Entry Ref. in Cash Book	Remarks
Total for the year 20**-20**											
Total for the year 20**-20**											
Total for the year 20**-20**											

8. REGISTER OF VEHICLES

Name of ULB

Asset No.: Type of Vehicle:
Location Base: Description of Vehicle:
Specification of Vehicle (Regn No.) Rate of Depreciation

Date of purchase/ acquisition	Description of Expense	Opening Value /Amount of acquisition (Rs.)	Entry Ref. in Cash Book	Use of Asset	Annual Depreciation (Rs.)	Closing/ Depreciated Value (Rs.)	Date of Disposal	Details of disposal	Amount on Disposal (Rs.)	Entry Ref. in Cash Book	Remarks
Total for the year 20**-20**											
Total for the year 20**-20**											
Total for the year 20**-20**											

9. REGISTER OF OFFICE & OTHER EQUIPMENT

Name of ULB

Asset No.: Type of Asset:
Location of the Asset: Description of Asset:
Details of Asset (Model No. Serial No. etc.) Rate of Depreciation:

Date of purchase/ acquisition	Description of Expense	Opening Value /Amount of acquisition (Rs.)	Entry Ref. in Cash Book	Use of Asset	Annual Depreciation (Rs.)	Closing/ Depreciated Value (Rs.)	Date of Disposal	Details of disposal	Amount on Disposal (Rs.)	Entry Ref. in Cash Book	Remarks
Total for the year 20**-20**											
Total for the year 20**-20**											
Total for the year 20**-20**											

10. REGISTER OF FURNITURE, FIXTURES, FITTINGS AND ELECTRICAL APPLIANCES

Name of ULB

Asset No.: Type of Asset:
Location of the Asset: Description of Asset:
No. of units: Rate of Depreciation

Date of purchase/ acquisition	Description of Expense	Opening Value /Amount of acquisition (Rs.)	Entry Ref. in Cash Book	Use of Asset	Annual Depreciation (Rs.)	Closing/ Depreciated Value (Rs.)	Date of Disposal	Details of disposal	Amount on Disposal (Rs.)	Entry Ref. in Cash Book	Remarks
Total for the year 20**-20**											
Total for the year 20**-20**											
Total for the year 20**-20**											

11. REGISTER OF OTHER FIXED ASSETS

Name of ULB

Asset No.: Type of Asset:
Location of the Asset: Description of Asset:
No. of units: Rate of Depreciation

Date of purchase/ acquisition	Description of Expense	Opening Value /Amount of acquisition (Rs.)	Entry Ref. in Cash Book	Use of Asset	Annual Depreciation (Rs.)	Closing/ Depreciated Value (Rs.)	Date of Disposal	Details of disposal	Amount on Disposal (Rs.)	Entry Ref. in Cash Book	Remarks
Total for the year 20**-20**											
Total for the year 20**-20**											
Total for the year 20**-20**											

GOVERNMENT OF ANDHRA PRADESH

A B S T R A C T

MA & UD Department – Accounting Reforms – Implementation of Double Entry Accounting System in Urban Local Bodies – Andhra Pradesh Municipal Asset Valuation Methodology Manual – Approved – Orders – Issued.

-x-x-x-x-x-x-x-x-x-x-x-x-x-x-x-x-x-x-x-x-x-x-x-x-x-x-x-x-x-x-x-x-x-x-x-x-x-x-x-x-x-x-x

MUNICIPAL ADMINISTRATION AND URBAN DEVELOPMENT (UBS) DEPARTMENT

G.O.Ms.No. 217 ,MA Dated:18.05.2010

Read the following:

1. From the Managing Director, APUFIDC Limited Lr.No.5676/DEABAS/ 2007 Dated: 02.03.2009.
2. Govt. Memo No.4767/UBS/2009 dated:23.03.2009.
3. From Director General, CGG., Lr.No.RIF No.05-1007-003/2008-09 dated 09.04.2009.
4. From Director General, CGG., Lr.No.CGG/PRG/CON/2405/2009-10 dated 03.02.2010.
5. Govt. Memo No.4767/UBS/2009 dated 06.03.2010.
6. From Director General, CGG., Lr.No.CGG/PRG/CON/2405/2009-10 dated 20.03.2010.

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O R D E R:

The Government has been taking several initiatives towards Good Urban Governance and making Urban Local Bodies (ULBs) self sustaining viable entities of local self governance. Implementation of key municipal reforms including accounting reforms is an important element of these initiatives.

2. The Government of India, Ministry of Urban Development developed a Model National Municipal Asset Valuation Methodology Manual which can be referred by Urban Local Bodies (ULBs) for valuation of their assets and preparation of Financial Statements and this manual is developed to introduce a uniform methodology for asset valuation in the context of implementation of accounting reforms. The Managing Director, Andhra Pradesh Urban Finance and Infrastructure Development Corporation Limited (APUFIDC) has requested to consider adoption of manual for the use of Local Bodies in evaluation of the assets for implementation of opening balance sheet vide reference 1st read above.

3. In the reference 4th read above, the Centre for Good Governance (CGG) has developed Andhra Pradesh Municipal Assets Valuation Methodology Manual and suggested that the manual may be discussed with all stake holders and obtain their views. The Managing Director, Andhra Pradesh Urban Finance and Infrastructure Development Corporation Limited (APUFIDC) has obtained and forwarded the views and suggestions of Expert Management Cell and the Regional Chartered Accountant firms on the draft manual.

4. In the reference 6th read above, the Director General, Centre for Good Governance (CGG) has informed that the remarks of Urban Governance Expert have been incorporated in the manual and submitted final version of Andhra Pradesh Municipal Asset Valuation Methodology Manual for approval of Government.

5. Government after careful examination, hereby approve the "Andhra Pradesh Municipal Asset Valuation Methodology Manual" developed by Centre for Good Governance and direct that this Manual shall be adopted by all the Urban Local Bodies in the State. The Director General, Centre for Good Governance (CGG) will separately send required number of copies of the manual for distribution to the Urban Local Bodies (ULBs) to Commissioner and Director of Municipal Administration, Hyderabad.

Contd…2..

6. The Commissioner and Director of Municipal Administration, Hyderabad and Managing Director, Andhra Pradesh Urban Finance and Infrastructure Development Corporation Limited (APUFIDC) shall take further necessary action in the matter.

(BY ORDER AND IN THE NAME OF THE GOVERNOR OF ANDHRA PRADESH)

T.S.APPA RAO
PRINCIPAL SECRETARY TO GOVERNMENT

To
The Commissioner and Director of Municipal Administration, Hyderabad.
The Managing Director, APUFIDC Limited, Hyderabad.
All Municipal Corporations in the State through C&DMA., Hyderabad.
All Municipalities in the State through C&DMA., Hyderabad.
Copy to:
The Director General, Centre for Good Governance, Road No.25, Jubilee Hills, Hyderabad.
The P.S. to M(MA)
The P.S. to Principal Secretary (UD) to Government, MA & UD Department.
The P.S. to Principal Secretary (MA) to Government, MA & UD Department.
The Law (A) Department.
Sf/Sc

//FORWARDED BY ORDER//

RESEARCH OFFICER