

Financial aspects and Accounting Treatment of Renewable Energy Certificates (RECs)

At present, there is no specific guideline in respect of Accounting Treatment of Renewable Energy Certificates (RECs). In absence of such specific guideline, the Accounting Principles in respect of Certified Emission Reductions (CERs), prescribed by **The Institute of Chartered Accountants of India** in “**Guidance Note on Accounting for Self-generated Certified Emission Reductions (CERs) (Issued 2012)**” may be followed for the accounting treatment in respect of RECs. As per the same guidance Note, Accounting Treatment in respect of RECs may be as follows:

Whether REC is a ‘asset’

Upto the stage of Issuance of the REC certificate by **National Load Despatch Centre (NLDC)**, it is a ‘**Contingent Asset**’ as per AS29. Accounting in respect of Contingent Asset is not required.

Once the certificate of REC is issued by NLDC to the generating entity, it becomes an ‘**Asset**’ belongs to the generating entity. Now Accounting is required.

What type of assets is a RECs

As per AS 26, RECs is come into the definition of ‘Intangible Asset’ but the purpose of holding it is sale, due to which, AS 2 will be applied on REC’s.

RECs are inventories of the generating entity as they are generated and held for the purpose of sale in the ordinary course of business. Therefore, even though CERs are intangible assets, these should be accounted for as per the requirements of AS 2.

Measurement of RECs

As per AS 2, RECs should be measured at cost or net realisable value, whichever is lower.

Cost of REC's

Various cost are incurred by the generating entity to operate and generate RECs. These may includes the followings :

1. Fees of registering with NLDC, IEX, PXIL and any other authority, if required,
2. Cost incurred for issuance of REC's Certificates,
3. Fee paid to NLDC for validation and verification etc.,
4. Any other operating cost incurred in respect to RECs.

As already mentioned earlier, RECs do not come into existence and, therefore, do not become the assets of the generating entity till the NLDC certifies and credits the same to the generating entity. Accordingly, not all costs can be considered as costs of bring the RECs to existence. A proportionate cost in respect of RECs under certification is required to be deducted from the total costs.

Thus, the costs incurred by the generating entity for certification of RECs are the cost of inventories of RECs.

Net Realisable Value of RECs

Estimates of net realisable value are based on the most reliable evidence available at the time, the estimate are made as to the amount the inventories are expected to realise but after considering a deduction of the expected expense in this regard as Trading Margin to the member of exchange, Fee to Facilitator and any other amount, which is required to execute the transaction.

Income Recognition of RECs

Since RECs are recognised as inventories, the entity should apply AS 9 to recognise revenue in respect of sales of RECs.

Presentation of RECs

An entity should present RECs as part of Inventories, in the Balance Sheet, separately from the other categories of Inventories such as Raw Materials, Work-in-process, Finished goods and others.

Disclosure in respect of RECs

An entity should disclose the basis of valuation of RECs in the Financial Statements.

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