

Query No. 10

Subject: Amortisation of stamp duty and registration charges paid/payable towards execution of mining lease deeds.¹

A. Facts of the Case

1. A Maharatna Public Sector Undertaking (PSU) (hereinafter referred to as ‘the Company’), is the leading steel-making Company in India having five integrated steel plants located at Bhilai, Durgapur, Rourkela, Bokaro and Burnpur; and three special steel plants at Salem, Durgapur and Bhadravati. The Company produces both basic and special steels for domestic construction, engineering, power, railways, automotive and defence industries as well as for sale in export markets.

2. The Company also owns iron ore, flux and coal mines located in various states of the country. The entire iron ore required for the production of steel is sourced from the captive mines of the Company. The mines are located in the states of Jharkhand, Odisha, Chhattisgarh and Madhya Pradesh i.e. close to the steel plants and ensure easy availability of iron ore, limestone, and dolomite to the steel plants.

3. The Company is carrying out mining activities on the leasehold lands for which the mining leases have been granted by the respective State Governments. Most of the leases have been granted way back in 1945, 1947, 1948, 1960 etc. At present, there are 13 leasehold lands in the state of Jharkhand, besides other mining leases in Odisha, Madhya Pradesh and Chhattisgarh.

4. For execution of lease deeds, Stamp duty and registration charges are applicable for renewal/extension of mining leases. It is also to note that there are no other major payments made towards execution of mining lease deeds.

5. As per the relevant Acts and Rules, mere renewal/extension & execution of mining leases does not enable the Company to carry out mining activities. The Company has to obtain approval of mining plan from Indian Bureau of Mines and also to obtain clearances such as forest clearance (if there is forest land involved) & environmental clearance under relevant Act and Rules of Ministry of Environment and Forest (MOEF). Payments towards obtaining these approvals and clearances are treated separately as intangible asset which are booked under ‘Mining Right’.

6. The grant and renewal of such mining leases were earlier governed by Mines and Minerals (Development & Regulation) Act, 1957 (MMDR Act, 1957). There has been a substantial change in the framework of original MMDR Act, 1957 concerning the grant and renewal of mining leases and in this regard, MMDR Amendment Act, 2015 has come into force w.e.f. 12.01.2015(C/1 to C/12). In pursuance to the provisions as stipulated under section 8A(8) of MMDR Amendment Act, 2015 (relevant extracts have been supplied by the querist for the perusal of the Committee), and in exercise of the powers conferred by section 13 of MMDR Act, 1957, the Central Government by Notification dated 03.12.2015 has formulated the Mineral (Mining by Government Company) Rules, 2015. The matters related to extension of periods of mining leases held by Government Companies are being governed by MMGC Rules, 2015(C/13 to C/15). As per Rule 3 of the said Rules, the period of leases granted prior to 2015, are extended as herein under:

“(1) All mining leases for minerals granted to a Government Company or corporation before the date of commencement of the Mines and Minerals

¹ Opinion finalised by the Committee on 4.6.2020.

(Development and Regulation) Amendment Act, 2015 (10 of 2015), namely, the 12th January, 2015 shall be deemed to have been granted for a period of fifty years.

(2) The State Government, upon an application made to it in this behalf by the Government Company or corporation at least twelve months prior to the expiry of the mining lease, may, for reasons to be recorded in writing, extend the period of the mining lease for further periods of upto twenty years at a time.

(3) Subject to sub-rule (1), all applications made by a Government Company or corporation for renewal of mining leases and which were pending as on the date of commencement of the Mines and Minerals (Development and Regulation) Amendment Act, 2015 (10 of 2015) shall be deemed to be applications for extension of the period of the mining lease and shall be disposed of in accordance with the provisions of sub-rule (2).”

7. As per the provisions of MMGC Rules, 2015, the mining leases granted prior to 12th January, 2015 (i.e. date of effect of MMDR Amendment Act, 2015) shall be deemed to have been granted for a period of 50 years. The mining lease periods shall be extended for further period of 20 years at a time provided an application for extension of the lease has been filed at least 12 months before expiry of mining leases.

8. Though the leases are pending for formal extension order, by virtue of the deemed extension clause, as the Company has submitted necessary application and carried out required formalities as per the Act/Rules to obtain further extension, the Company is carrying out mining activities on the leasehold land. As such, execution of mining lease deeds are also pending for the applications submitted for extensions.

9. It is also to note that as per the provisions of MMDR Amendment Act, 2015 & MMGC Rules, 2015, there are all probabilities that the State Government would accord approval for the extension (of the Leases) in favour of the Company.

10. The Company has calculated internally the lease period allowed for extension of the mining leases and accordingly considered in accounts the amount towards stamp duty and registration charges on estimated basis considering best information available with the Company, which might be paid while State Government accord for formal extension of such leases.

11. The querist has stated that due to specific exclusions on applicability of Indian Accounting Standard (Ind AS) 17, ‘Leases’ to leases ‘to explore for or use minerals, oil, natural gas, and similar non-regenerative resources’, the amount of stamp duty and registration charges is estimated and capitalised under leasehold land and amortisation is charged over the remaining useful life of the leasehold land. If any revision of estimation is carried out in a year, the revised gross block less accumulated depreciation till date, is amortised over the remaining lease period. Every year, the Company reviews the estimate and necessary accounting adjustments are carried out as under:

Previous estimated gross amount	=	A
Accumulated amortisation	=	B
Remaining lease period	=	15 years
Revised estimated gross carrying amount	=	X
Amortisation per year	=	(X-B)/15

The reason for revision of estimates is due to change in certain factors viz., changes in monthly royalty rates and frequent changes in the methodology adopted by the

Government Authorities.

The Company has been following the above practice consistently over the years. The querist has further submitted an illustrative example explaining the treatment being followed by the Company and the treatment suggested by the Auditor as Annexure I.

12. The instant matter is related to three mining leases under the state of Jharkhand.

- a) Dhobil mining lease covering an area of 513.036 hectare was initially granted on 8th March, 1948 for a period on 30 years. Further, the State Government renewed the lease for another 20 years period i.e. from 08.03.1978 to 07.03.1998. The lease was due for renewal on 7th March, 1998, and necessary application for renewal of mining lease for another 20 years period upto 07.03.2018 was submitted to the State Government under the provisions of the then Act/Rules. The stamp duty and registration charges were estimated and being amortised considering remaining useful life upto 7th March, 2018. Till 2016-17, no formal renewal/extension order was issued for 1998 to 2018 by the State Government. Meanwhile, the Company also submitted application for further renewal of lease period for another twenty years period upto 07.03.2038 under the provisions of the then Act/Rules. Based on the available information, the Company estimated stamp duty and registration charges amounting to Rs. 3.00 crore and amortised the gross carrying amount upto 7th March, 2018. After promulgation of MMGC Rules, 2015, the Company submitted an application for extension of lease as per the provisions of said rules. On 8th March, 2018, the concerned department under State Govt. of Jharkhand issued necessary Order towards extension of the lease upto 8th March, 2038. The State Govt. has also issued Order towards regularising renewal from 1998 to 2018 on the even date. Subsequent to it, the State Govt. raised demands towards stamp duty and registration charges in the month of April, 2018 and May, 2018 respectively. The demanded amount consists of two periods i.e. from 1998 to 2018 and from 2018 to 2038. The total demand for both the periods amounted to Rs. 12.84 crore. It is to note that while raising the demand for both the periods, Govt. of Jharkhand has considered the latest royalty rate available as on that date.
- b) In case of lease (Ajitaburu), the lease was initially granted on 07.12.1947 for an area of 323.887 Hectare. Considering first grant of lease for fifty years, the extension was due on 6.12.1997 and further extension was due on 7.12.2017 for twenty years. The applications towards extension for two periods were pending with the Govt. The Company has amortised the estimated amount of stamp duty and registration charges for the first 20 years period upto 6.12.2017 and considered a further estimate for stamp duty for the period from 7.12.2017 upto 7.12.2037. In 2018-19, the Company has amortised the total estimated gross carrying amount considering remaining useful life upto 7.12.2037.
- c) In case of lease (Budhaburu), the lease was initially granted on 8.12.1945 for an area of land 823.617 Hectare. Considering the first grant of lease for fifty years, the extension was due on 7.12.1995 and further extension was due on 8.12.2015. The applications towards extension for two periods were pending with the Govt. The Company amortised the estimated amount of stamp duty and registration charges for the first period upto 8.12.2015 and considered a further estimate for stamp duty for the period from 8.12.2015 to 7.12.2035. In 2018-19, the Company has amortised the total estimated gross carrying amount considering remaining useful life upto 7.12.2035.

13. In the financial year 2017-18, for Lease (Dhobil) – Government of Jharkhand passed the Order of extension upto 8th March, 2038. On receipt of Order for extension and further to its demand for stamp duty and registration charges for two periods (i.e. from 08.03.1998 to 07.03.2018 and 08.03.2018 to 08.03.2038), the Company further capitalised the total differential amount under ‘Leasehold Land’ and the revised gross carrying amount (i.e. Rs. 12.84 crore minus already amortised amount Rs. 3 crore) was considered for amortisation over the remaining useful life i.e. upto 08.03.2038.

14. On receipt of demand of stamp duty and registration charges towards mining leasehold land (Dhobil), the present estimate of lease (Ajitaburu) and lease (Budhaburu) have been revised in line with the methodology adopted for Dhobil lease. While revising the estimate, the Company has revised the estimate for the entire forty year period including the previous period as well, i.e. for lease (Ajitaburu) total estimate for the period 1997-2017 and period from 2017 to 2037 have been revised. Similarly, for lease (Budhaburu) total estimate was revised including the previous estimate made for the period 1995 to 2015 and 2015 to 2035. Accordingly, the respective revised gross carrying amount for forty year period as on 31st March, 2018 minus amortisation already done, have been amortised over the remaining useful life i.e. upto year 2037 for lease (Ajitaburu) and upto 2035 for lease (Budhaburu).

15. It may also be noted that while the leases are extended and corresponding demand is raised for the future period, Government has to regularise for past lease period as well and by paying the demand for past as well as future periods, the Company is entitled to the economic benefit accruing over the remaining future useful life i.e. till the future remaining period of lease. It is also to note that these leases are perpetual in nature and the period of lease is extended as per law for 20 years at a time.

16. It is to state that the above accounting treatment is being consistently followed as per the Accounting Policy of the Company as stated below and as per applicable Accounting Standards, viz., Indian Accounting Standard (Ind AS) 16, ‘Property, Plant and Equipment’ and Ind AS 8, ‘Accounting Policies, Changes in Accounting Estimates and Errors’, the relevant clauses of which are as under:

Accounting Policy of the Company states:

“Use of Estimates and Management Judgement

In preparing the financial statements in conformity with Company’s Accounting Policies, management is required to make estimates and assumptions that affect reported amounts of assets and liabilities and the disclosure of contingent liabilities as at the date of the financial statements. ... Actual results could differ from those estimates. Any revision to such estimates is recognised in the period in which the same is determined.” (Para 2.4 on page 39 of the Annual Report)

3.1.2 Depreciation

“... The estimated useful lives and residual values of depreciable/ amortisable assets are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Where the historical cost of a depreciable asset undergoes a change, the depreciation on the revised unamortised depreciable amount is provided over the residual useful life of the asset. ...” (Para 3.1.3 on page 39 of the Annual Report)

Relevant excerpts of Ind AS referred to are as under:

Ind AS 16 – Property, Plant and Equipment

“Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.”

“Depreciable amount and depreciation period

50 The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.

51 The residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with Ind AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.”

“56 The future economic benefits embodied in an asset are consumed by an entity principally through its use. However, other factors, such as technical or commercial obsolescence and wear and tear while an asset remains idle, often result in the diminution of the economic benefits that might have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:

- (a) expected usage of the asset. Usage is assessed by reference to the asset’s expected capacity or physical output.
- (b) expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.
- (c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset. ...
- (d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.”

Ind AS 8 - Accounting Policies, Changes in Accounting Estimates and Errors

“32 As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgements based on the latest available, reliable information. For example, estimates may be required of:

- (a) bad debts;
- (b) inventory obsolescence;
- (c) the fair value of financial assets or financial liabilities;
- (d) the useful lives of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets; and
- (e) warranty obligations.

33 The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

34 An estimate may need revision if changes occur in the circumstances on which

the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.”

“36 The effect of change in an accounting estimate, other than a change to which paragraph 37 applies, shall be recognised prospectively by including it in profit or loss in:

- (a) the period of the change, if the change affects that period only; or**
- (b) the period of the change and future periods, if the change affects both.**

37 To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

38 Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events and conditions from the date of the change in estimate. A change in an accounting estimate may affect only the current period’s profit or loss, or the profit or loss of both the current period and future periods. For example, a change in the estimate of the amount of bad debts affects only the current period’s profit or loss and therefore is recognised in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of the future economic benefits embodied in, a depreciable asset affects depreciation expense for the current period and for each future period during the asset’s remaining useful life. In both cases, the effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.”

B. Query

17. On the basis of above facts, the Company seeks the opinion of the Expert Advisory Committee on the following issues:

- (a) Whether the total payment including differential amount (i.e. actual payment minus estimated amount) for past period can be amortised over the future remaining useful life of lease period. or
- (b) Where the gross block is estimated and amortised, whether the differential gross carrying amount for the past period based on revised estimate, is to be charged fully in the year of revision(s).

C. Points considered by the Committee

18. The Committee notes that the basic issue raised in the query relates to amortisation of the differential amount (i.e. actual payment minus estimated amount) of stamp duty and registration charges for past period, viz., whether the same can be amortised over the future remaining useful life of lease period. The Committee has, therefore, considered only this issue and has not considered any other issue that may arise from the Facts of the Case, such as, accounting treatment of mining rights and various expenditure incurred for and during the mining activities, accounting for any other cost incurred in relation to renewal including any recurring cost, depreciation method to be followed in case of iron

ore reserves, etc. Further, the opinion issued is purely from accounting perspective and not from the perspective of legal interpretation of Mines and Minerals (Development & Regulation) Act, 1957 (MMDR Act, 1957), MMDR Amendment Act, 2015, Mineral (Mining by Government Company) Rules, 2015 etc. At the outset, the Committee wishes to clarify that situations of three different mines have been discussed in the facts, however, the Committee has examined the issue from the broad perspective of accounting principles to be followed and not with respect to each situation separately. Further, the Committee wishes to point out that the Indian Accounting Standards referred to in the Opinion are the Standards notified by the Companies (Indian Accounting Standards) Rules, 2015, as revised or amended from time to time.

19. At the outset, from the perspective of the applicable Accounting Standard for mining leases, the Committee notes that the erstwhile Ind AS 17, 'Leases' and Ind AS 116, 'Leases' (which supersedes Ind AS 17 and is applicable from the accounting periods beginning on or after April 1, 2019) state as follows:

Ind AS 17

“2 This Standard shall be applied in accounting for all leases other than:

(a) leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources; and

...”

Ind AS 116

“3 An entity shall apply this Standard to all leases, including leases of *right-of-use* assets in a *sublease*, except for:

(a) leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources;

...”

The Committee notes from the above that Ind AS 17/116 does not apply to leases to explore for or use minerals and therefore these standards are not applicable in the extant case. The Committee further notes the following paragraphs of Ind AS 106, 'Exploration for and Evaluation of Mineral Reserves':

Ind AS 106

“3 An entity shall apply this Ind AS to exploration and evaluation expenditures that it incurs.”

“5 An entity shall not apply this Ind AS to expenditures incurred:

(a) before the exploration for and evaluation of mineral resources, such as expenditures incurred before the entity has obtained the legal rights to explore a specific area.

(b) after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.”

“9 An entity shall determine an accounting policy specifying which expenditures are recognised as exploration and evaluation assets and apply the policy consistently. In making this determination, an entity considers the degree to which the expenditure can be associated with finding specific mineral resources. The following are examples of expenditures that might be included

in the initial measurement of exploration and evaluation assets (the list is not exhaustive):

- (a) acquisition of rights to explore;
- (b) topographical, geological, geochemical and geophysical studies;
- (c) exploratory drilling;
- (d) trenching;
- (e) sampling; and
- (f) activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.”

“12 After recognition, an entity shall apply either the cost model or the revaluation model to the exploration and evaluation assets. If the revaluation model is applied (either the model in Ind AS 16, *Property, Plant and Equipment* or the model in Ind AS 38) it shall be consistent with the classification of the assets (see paragraph 15).”

“15 An entity shall classify exploration and evaluation assets as tangible or intangible according to the nature of the assets acquired and apply the classification consistently.

16 Some exploration and evaluation assets are treated as intangible (eg drilling rights), whereas others are tangible (eg vehicles and drilling rigs). To the extent that a tangible asset is consumed in developing an intangible asset, the amount reflecting that consumption is part of the cost of the intangible asset. However, using a tangible asset to develop an intangible asset does not change a tangible asset into an intangible asset.”

The Committee notes from the above-reproduced requirements of Ind AS 106 that mining lease in the extant case is an exploration and evaluation asset under Ind AS 106, which should be initially recognised at cost and subsequently in accordance with Ind AS 38, considering that the mining lease is intangible in nature.

20. The Committee further notes the following paragraphs of Ind AS 38, ‘Intangible Assets’:

“88 An entity shall assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

89 The accounting for an intangible asset is based on its useful life. An intangible asset with a finite useful life is amortised (see paragraphs 97–106), and an intangible asset with an indefinite useful life is not (see paragraphs 107–110).”

“94 The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the

intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost. The useful life of a reacquired right recognised as an intangible asset in a business combination is the remaining contractual period of the contract in which the right was granted and shall not include renewal periods.”

“96 Existence of the following factors, among others, indicates that an entity would be able to renew the contractual or other legal rights without significant cost:

- (a) there is evidence, possibly based on experience, that the contractual or other legal rights will be renewed. If renewal is contingent upon the consent of a third party, this includes evidence that the third party will give its consent;
- (b) there is evidence that any conditions necessary to obtain renewal will be satisfied; and
- (c) the cost to the entity of renewal is not significant when compared with the future economic benefits expected to flow to the entity from renewal.

If the cost of renewal is significant when compared with the future economic benefits expected to flow to the entity from renewal, the ‘renewal’ cost represents, in substance, the cost to acquire a new intangible asset at the renewal date.”

The Committee also notes the Basis of Conclusions on International Accounting Standard (IAS 38), ‘Intangible Assets’, issued by the International Accounting Standards Board, which state as follows:

“BC 66 The Board noted that the useful life of an intangible asset that arises from contractual or other legal rights is constrained by the duration of those rights. The useful life of such an asset cannot extend beyond the duration of those rights, and may be shorter. Accordingly, the Board concluded that in determining the useful life of an intangible asset, consideration should be given to the period that the entity expects to use the intangible asset, which is subject to the expiration of the contractual or other legal rights.

BC 67 However, the Board also observed that such rights are often conveyed for limited terms that may be renewed. It therefore considered whether renewals should be assumed in determining the useful life of such an intangible asset. The Board noted that some types of licences are initially issued for finite periods but renewals are routinely granted at little cost, provided that licensees have complied with the applicable rules and regulations. Such licences are traded at prices that reflect more than the remaining term, thereby indicating that renewal at minimal cost is the general expectation. However, renewals are not assured for other types of licences and, even if they are renewed, substantial costs may be incurred to secure their renewal.

BC 68 The Board concluded that because the useful lives of some intangible assets depend, in economic terms, on renewal and on the associated costs of renewal, the useful lives assigned to those assets should reflect renewal when there is evidence to support renewal without significant cost.”

From the above, the Committee notes that an intangible asset with finite useful life is to be allocated on a systematic basis over its useful life. The term ‘useful life’ is defined as:

(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 asset by an entity. The Standard further states that if the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.

The Committee also notes from the above that in case the cost of renewal is significant when compared with the future economic benefits expected to flow to the entity from renewal, the 'renewal' cost represents, in substance, the cost to acquire a new intangible asset at the renewal date. Thus, the Committee is of the view that the accounting for cost of renewal in the extant case would depend upon whether the same is significant when compared with the future economic benefits expected to flow to the entity from renewal. In case it is so, the cost of renewal shall represent the cost to acquire a new intangible asset (mining lease) at the renewal date and accordingly, it should be amortised over its useful life, viz., the renewal period, however, it may be shorter depending on the period over which the entity expects to use the asset. In this context, the Committee notes from the illustrative example provided by the querist in the Annexure I that the Company is considering the estimated cost of renewal of a lease as a new separate asset, which is being amortised over the period of renewal of that lease. From this, it is assumed that the cost of renewal is significant when compared with the future economic benefits expected to flow to the entity from renewal. Therefore, the Committee is of the view that each cost of renewal should be amortised over its useful life, viz., each renewal period (which is normally 20 years in the extant case) or any shorter period depending on the period over which the entity expects to use the asset. Further, as far as difference in the estimated cost and actual cost is concerned, the Committee is of the view that since there was uncertainty with regard to amount of cost to be incurred at the time of renewal of lease, the Company should make a provision for the present obligation in respect of renewal cost at the renewal date, viz., when such leases are renewed (which in the extant case may be assumed to be renewed on the expiry of the initial or earlier renewed period) on the basis of best estimate of the expenditure required to settle the present obligation of renewal cost, viz., stamp duty and registration charges, as per the requirements of Ind AS 37, 'Provisions, Contingent Liabilities and Contingent Assets'; and the same should also be reviewed at each reporting date and adjusted to reflect the current best estimate. Further, the provision being in respect of the intangible asset (mining lease), it should be capitalised as a new intangible asset. If the provision amount is different from the actual expenditure incurred, same should be considered as change in estimates as per the requirements of Ind AS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', which being related to the new intangible asset (mining lease), should be amortised over its remaining useful life, viz., the remaining period of renewal for which such costs were estimated (and not including the period of next renewal period) or the remaining shorter period if expected period of use is shorter.

In case the useful life has already expired, the change in estimates of the amount of stamp duty and registration charges should be recognised as an expense forthwith in the period of such change. In this regard, the Committee also notes that Ind AS 8 provides as follows:

“34 An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is

not the correction of an error.”

“36 The effect of change in an accounting estimate, other than a change to which paragraph 37 applies, shall be recognised prospectively by including it in profit or loss in:

- (a) the period of the change, if the change affects that period only; or**
- (b) the period of the change and future periods, if the change affects both.**

37 To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

38 Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events and conditions from the date of the change in estimate. A change in an accounting estimate may affect only the current period’s profit or loss, or the profit or loss of both the current period and future periods. For example, a change in the estimate of the amount of bad debts affects only the current period’s profit or loss and therefore is recognised in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of the future economic benefits embodied in, a depreciable asset affects depreciation expense for the current period and for each future period during the asset’s remaining useful life. In both cases, the effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.”

From the above, the Committee notes that Ind AS 8 states that a change in accounting estimate is recognised prospectively by including it in profit or loss in the period of change, if the change affects that period only or the period of the change and future periods, if the change affects both. It further states that the effect of a change in an estimate is applied from the date of the change in the estimate and the effect, if any, on future periods is recognised as income or expense in those future periods e.g. change in estimated useful life or the expected pattern of consumption of the future economic benefits. The Committee notes that in the extant case, if at the time of change in estimates, it is determined that the useful life (determined as per the afore-mentioned discussion) has already expired, the change affects only the current period and should be recognised in the period of change only. However, if there is any remaining useful life of the intangible asset at the time of change in estimates, the change in estimates affects both the current and future periods, and accordingly, the intangible asset (mining lease) should be amortised over the remaining useful life of the mining lease.

D. Opinion

21. As discussed in paragraph 20 above, the Committee is of the opinion that since in the extant case, the cost of renewal is significant when compared with the future economic benefits expected to flow to the entity from renewal, each cost of renewal should be amortised over its useful life, viz., each renewal period (which is normally 20 years in the extant case) or any shorter period depending on the period over which the entity expects to use the asset.

The differential amount between the amount provided for in respect of past renewal cost (viz., estimated stamp duty and registration charges) and the actual cost should be considered as a change in estimates as per the requirements of Ind AS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors'; and should be amortised over the remaining useful life of the intangible asset (mining lease), viz., the remaining period of renewal for which such costs were estimated (and not including the period of next renewal period) or the remaining shorter period if expected period of use is shorter, as discussed in paragraph 20 above. In case the useful life has already expired, the change in estimates of the amount of stamp duty and registration charges should be recognised as an expense forthwith in the period of such change.

Annexure I

		Extension granted in Mar 18 for two periods			
Year of Grant		←-----→			
		1st extension	2nd Extension	3rd extension	Next expiry
	30 Yrs →				
	March 1948	20 Yrs →			
		March 1978	20 Yrs →		
			March 1998	20 Yrs →	
				March 2018	March 2038
Lease I					
Stamp duty & Registration charges estimated	Paid & amortised	Paid & amortised	Rs 100	Rs 100	
Amortisation /Yr			100/20 = 5	100/20 = 5	
Amortised upto March 2017				95	
Demand receipt in Mar 18 for two periods			Two periods = Rs 150 + Rs 150		
Amortisation in Accounting Year 2017-18 and onwards adopted			((150 +150) - 95) /21 Yrs		
Amortisation in Accounting Year 2017-18 and onwards as suggested by Audit			(50 +5)	(150) /20 Yrs = 7.5	

		Extension pending for two periods			
Year of Grant		←-----→			
		1st extension	2nd Extension	3rd extension	Next expiry
	30 Yrs →				
	March 1945	20 Yrs →			
		March 1975	20 Yrs →		
			March 1995	20 Yrs →	
				March 2015	March 2035
Lease II					
Stamp duty & Registration charges estimated	Paid & amortised	Paid & amortised	Rs 100	Rs 100	
Amortisation /Yr			100/20 = 5	100/20 = 5	
Amortised upto March 2017			100 + 5 + 5		
Revision of estimates			Two periods = Rs 150 + Rs 150		
Amortisation in Accounting Year 2017-18 and onwards adopted			((150 +150) - 110) /18 Yrs		
Amortisation in Accounting Year 2017-18 and onwards as suggested by Audit			((50 + (7.5-5) +(7.5-5))	((150 - 15)) /18 Yrs	

(The above is an Illustration provided by the querist)