

Query No. 25

Subject: *Recognition as inventories of de-silted sub-grade iron ore fines.*¹

A. Facts of the Case

1. A Company (hereinafter referred to as ‘the Company’) is a Maharatna Public Sector Undertaking (PSU) and is the leading steel-making company in India having five integrated steel plants and three special steel plants. 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. 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 located in the various states.

2. Iron ore, when extracted from the earth, contains various impurities. In order to enrich the ore (i.e. to reduce the impurities and thereby increase the iron content), the ore is crushed and washed in a plant. While washing, the impurities are removed and the process water is accumulated in a pond – usually called a Tailing Pond. Along with impurities, some amounts of iron ore fines also get washed away and get accumulated in the pond.

3. As the silt in the pond increases, the water level rises and poses a threat to the environment. Periodically, the pond is desilted and the material is stacked at a location. These de-silted sub-grade iron ore fines have low iron content (around 55%) mixed with alumina, silica and other materials. Due to poor quality, the iron ore is not fit for consumption in the steel plant and, by virtue of an earlier order of the Government dated 19th September, 2012, not saleable in the market. The de-silted sub-grade iron ore fines therefore, had no economic value to the Company and were not valued in the books upto financial year 2018-19.

4. With technological advancement in the mining sector and steps taken by the Government for optimal utilisation of natural resources, the Company decided to install a beneficiation unit where the de-silted sub-grade iron ore fines can be processed for an output of high grade fines with rich iron content of more than 64%. Accordingly, a contract was awarded on 13.12.2017 for installation and operation of 1.2 metric tonnes (MT) per annum through-put localised beneficiation unit for treating the de-silted sub-grade iron ore fines on a conversion cost basis.

5. The conversion/production commenced on 08.11.2019 and despatch of the converted iron ore fines to the steel plant started on the same day. Till 31.03.2020, a quantity of 1,65,600tonnes of high-grade iron ore fines has been produced. The beneficiated fines received at the steel plant are being regularly consumed.

6. A technical analysis on usability of iron ore fines produced/beneficiated from de-silted sub-grade iron ore fines was done by the Research and Development Centre of the Company. The steel plant officials also confirmed the usability of such iron ore fines in the production process.

7. The Company is of the view that establishment of a beneficiation plant and operation thereof in the financial year 2019-20 resulted in conversion of de-silted sub-grade iron ore fines into a productive material which imparted economic value to the desilted materials. Such

¹Opinion finalised by the Committee on 18.1.2021 to 20.1.2021.

enriched iron ore fines can also be sold in the market at a good price. Accordingly, the Company decided to recognise the inventory of de-silted sub-grade iron ore fines in its books of account during the financial year 2019-20 with a suitable note given in this regard in Notes on accounts appended with the financial statements.

8. A surveyor was engaged for assessment of the de-silted materials. The survey was conducted through drone and as per the survey report, the quantity of the de-silted sub-grade iron ore fines was derived at 5.87 million tonnes through volume-weight calculation. Considering yield of enriched fines from de-silted sub-grade iron ore fines at 57% as per contract terms, the quantity of fines (Fe>64%) was derived as 3.347 million tonnes and valued in the books as 'Inventory'.

9. The low-grade iron ore fines contained in the de-silted sub-grade iron ore fines was recognised as inventory in accordance with paragraphs 6(a) and 6(c) of Indian Accounting Standard (Ind AS) AS 2, 'Inventories' which state that:

“Inventories are assets:

- (a) held for sale in the ordinary course of business;**
- (b) in the process of production for such sale; or**
- (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.”**

10. The Joint Statutory Auditors accepted such recognition of inventory in the financial statements for the financial year 2019-20 after giving due consideration to above-referred paragraphs. Further, the Joint Statutory Auditors in their Independent Auditors' Report on the financial statements of the Company for the financial year 2019-20 had drawn attention on the above-mentioned recognition under 'Emphasis of Matter (EOM)', the valuation having been considered for the first time in the Company's books of account.

11. However, the Comptroller and Auditor General of India (C&AG), while conducting the supplementary audit for the financial year 2019-20, commented that "Valuation of iron ore fines embedded in the slime is not justified because slime, in its present form, can neither be sold nor used for consumption in production process. Therefore, it does not fall under the definition of inventory in terms of para 6 of Ind AS 2".

B. Query

12. In view of above, the opinion of the Expert Advisory Committee of the Institute is sought as to whether the de-silted sub-grade iron ore fines meet the definition of inventories as per Ind AS 2.

C. Points considered by the Committee

13. The Committee notes that the basic issue raised in the query relates to recognition of de-silted sub-grade iron ore fines as 'inventory' in the financial statements of the Company. The Committee, has therefore, considered only this issue and has not examined any other issue that may arise from the Facts of the Case, such as, classification of inventory as by-product, co-product or joint product, revenue recognition in respect of sale of iron ore fines, appropriateness of accounting for the accumulated de-silted sub-grade iron ore fines at the time of their origination, accounting treatment of any other product such as beneficiated fines, appropriateness of valuation and methodologies used for determining cost and net realisable value of the de-silted sub-grade iron ore fines, etc. The Committee has also not examined the appropriateness/accuracy of various reports and documents furnished by the querist, such as,

Research and Development report, Survey and Measurement report, application of the requirements of Ind AS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' (if any applicable in the extant case), etc. The Opinion expressed hereinafter is purely from accounting perspective and not from legal perspective including legal interpretation of Orders by Central Government dated 19th September, 2012. Further, the accounting Standards referred hereinafter are Indian Accounting Standards, notified under the Companies (Indian Accounting Standards) Rules, 2015, as amended/revised from time to time.

14. With regard to the issue raised, the Committee notes the definition of 'inventories' as per Indian Accounting Standard (Ind AS) 2, 'Inventories':

“Inventories are assets:

- (a) held for sale in the ordinary course of business;**
- (b) in the process of production for such sale; or**
- (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.”**

From the above, the Committee notes that inventories are assets which are held for sale in the ordinary course of business or in the production process of such sale or to be consumed in the production process. The Committee notes from the Facts of the Case that earlier due to the Government Order of 2012 and due to lack of advanced techniques and facilities, the de-silted sub-grade iron ore fines (slime) could neither be lawfully sold nor was fit for captive consumption by the Company till 2018-19. Therefore, the de-silted sub-grade iron ore fines had no economic value to the Company and were not valued in the books upto 2018-19. However, from the financial year 2019-20 onwards, due to establishment of beneficiation plant resulting into conversion of de-silted sub-grade iron ore fines into a productive material, the stock of de-silted sub-grade iron ore fines have become useable which has imparted economic value to the de-silted material. The beneficiated fines are being regularly consumed at the steel plant and such enriched iron fines can also be sold in the market at good price. This implies that the desilted sub-grade iron ore fines are being used as input in beneficiation plant and such beneficiated fines produced are capable of being sold and fit for captive consumption as well. Therefore, the Committee is of the view that desilted iron ore fines have economic benefits resulting into inflow of resources to the Company and can be considered as an 'asset' for the Company. As far as the nature of such asset, the Committee is of the view that although the de-silted iron ore fines embedded in the slime in their present condition can neither be sold nor used (as also commented by CAG); however, since the sub-grade iron ore fines generated in the original process of production of steel would be further used as input in the beneficiation plant, these can be considered to be in the process of production for sale and therefore, these should be considered as 'inventories' as per paragraph 6(b) of Ind AS 2.

D. Opinion

15. On the basis of above, the Committee is of the opinion that the de-silted sub-grade iron ore fines meet the definition of inventories as per Ind AS 2, as discussed in paragraph 14 above.