

Query No. 32

Subject: *Amortisation of land acquired for mining coal and lignite under Ind AS framework.*¹

A. Facts of the Case

1. A company (hereinafter referred to as ‘the Company’) is a public sector undertaking owned by the Government of India coming under the administrative control of the Ministry of Coal. The Company is engaged in the business of mining of lignite and coal and generation of power. The Company is currently operating 4 open cast integrated lignite mines (30 MTPA), one coal mine (20 MTPA) and 5 pit head thermal stations with capacity of 3640 MW. Further, the Company has commissioned various renewable projects having capacity of 1431.06 MW. In addition to that, raw lignite and coal are being sold in the open market as well as to other power generating companies through agreement.

Accounting for land amortisation

2. Supply of coal/ lignite bearing land is essential for carrying out uninterrupted mining operations and around 250 hectares of land is required per year, where abundant lignite deposits are available. Until 01.01.2014, the Government of Tamil Nadu (GoTN) acquired land under the provisions of the Tamil Nadu Acquisition of Land for Industrial Purpose Act, 1997 (Tamil Nadu Act, 10/99).

3. The querist has stated that from 01.01.2014, the Government of India (GoI) had enacted New Land Acquisition Act, viz., ‘Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013’ (RFCTLARR Act, 2013). During the year 2014, the Government of Tamil Nadu has passed an amendment Act – Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement (Tamil Nadu Amendment) Act - 2014 to exclude the above Act of the State Government from the provisions of the Central Act, except the provisions relating to the determination of the compensation and rehabilitation & resettlement (R&R).

4. The querist has further stated that the Madras High Court vide its order dated July 04, 2019 has declared the amendment made by the Tamil Nadu Government to the Centre’s Land Acquisition Act, exempting three state legislations from its purview, as ‘illegal’. It also made it clear that all land acquisitions made by the State Government under the three state legislations on or after September 27, 2013, were ‘illegal’.

Subsequently, the Government of Tamil Nadu has passed ‘Tamil Nadu Land Acquisition Laws (Revival of Operation, Amendment and Validation) Act, 2019’ with retrospective effect from 26.09.2013 and obtained the President ascent on 02.12.2019 so as to revive the three state legislations including the Tamil Nadu Act, 10/99.

5. The provisions relating to the determination of compensation as specified in the First Schedule, rehabilitation and resettlement as specified in the Second Schedule and infrastructure amenities as specified in the Third Schedule to the ‘Right to Fair Compensation and

¹ Opinion finalised by the Committee on 30.12.2024.

Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013' shall apply to the land acquisition proceedings under the 1999 Act.

6. As stated by the querist, presently the patta lands (private lands) required for the mining activities and ancillary purposes are being acquired under the provisions of the above-mentioned State Act from time to time by the Government of Tamil Nadu (GoTN) on behalf of the Company.

7. The lands belonging to the GoTN were/are handed over to the Company by the GoTN by initiating alienation proposals on payment of determined market value by the Company by necessary Government Orders (GOs).

8. The initial compensation and R&R benefits are determined based on the above provisions of the Act. Hence, the cost of the land comprises of initial compensation, enhanced compensation, R&R benefits and other expenditure incurred for the acquisition of the land. As per the accounting policy of the Company, the mining lands are capitalised when physical possession of the lands has been taken completely.

Paragraph 59 of Indian Accounting Standard (Ind AS) 16, 'Property, Plant and Equipment' reads as "In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits to be derived from it".

9. The Company has acquired lands in various periods since 1956, which are basically covered under two brackets, one is conditional allotment and other being freehold allotment where the Company has absolute ownership. Conditional allotment requires the Company to return the land after the mining operations are completed in the said land.

In this regard, the querist has separately informed that lands for the Company's projects are acquired under the Tamil Nadu Acquisition of Land for Industrial purposes Act-1997, (TN Act 10/99) and interspread Government lands are alienated by the Government through Government Orders. The Company as a Requisitioning Body, places necessary requisitions with District Administration for private as well as government lands. Based on the requisitions, the District Administration under the guidance of GoTN follows the necessary procedure as per TN 10/99 Act and the Land Acquisition Officer (LAO) i.e. District Collector or District Revenue Officer sub-delegated by District Collector passes the award for private lands or alienates the Government lands by issuing Government Order (G.O.) and subsequently hands over the acquired/alienated lands to the Company for utilisation.

10. According to the querist, irrespective of the type of allotment, mining land by nature does not have any economic alternative use after the mining operations are completed. During the course of operations, firstly, overburden soil is removed and the water underneath the lignite is drained out to prevent flooding, then lignite is extracted. After the lignite is extracted fully, the land is reclaimed with the soil and restored back to the same position, however it is not dewatered unless there is some alternate use planned. The alternate use has to be assessed for economic and technical feasibility. The querist has also informed separately in this regard as follows:

- a. As per Clause No. 2.17 of Ministry of Coal (MoC) guidelines for Mining Plan dated 29.05.2020, at the end of mine life, mine owner has to surrender the reclaimed land to the State Government at free of cost.

- b. After the extraction of coal/lignite, the mined-out land is reclaimed and afforestation is being carried out. Even though, the mined-out land is reclaimed and afforested, this land may not be restored to its original state with stability and fertility. Chances are there for subsidence to occur in some part of reclaimed area randomly. Hence, the reclaimed land is not suitable for construction or other commercial use.

11. The querist has stated that since the Company has made full usage of the land for the intended purpose, the condition for return has no bearing and since the mined-out land has limited alternative use and is not likely to appreciate in value as the case of other lands, mined-out land is depreciated regardless of being subjected to return or otherwise. In addition to the above, the Company has referred to the accounting practice of other peer mining companies:

R Ltd. has a policy of depreciating freehold land used for mining purpose based on minerals actually produced during the year to the total estimated mineable reserves.

G Ltd. has a policy of accounting all the land used for mining purpose under mining rights and amortises as per units of production method i.e. minerals extracted to technical estimated mineable reserves with the company.

Guided by the above principles and practice followed by peer companies, the Company had modified its accounting policy with respect to the amortisation of mining land based on the units of production method. The Company restated the accounts in the year of modification pursuant to such change in accounting policy as per the provisions of Indian Accounting Standard (Ind AS) 8, 'Accounting policies, Changes in Accounting Estimates and Errors'. The resulting impact was adjusted with the retained earnings.

12. Mining land is amortised based on the minerals extracted during the year to the total estimated lignite reserves available with the Company. However, there are contrary views on such accounting policy of the Company and hence, for better presentation and disclosure in the financial statements, opinion of the Expert Advisory Committee is requested.

13. Following the principles of Ind AS 16 and going by the nature of the land and accounting practice followed by the peer companies, the Company considers the mining land as depreciable asset and amortises the mining land based on minerals extracted to the total mineral reserves available.

B. Query

14. On the basis of the above, the Company seeks the opinion of the Expert Advisory Committee as to whether such accounting treatment in the given case is correct.

C. Points considered by the Committee

15. The Committee notes that the basic issue raised in the query relates to amortisation of land acquired for mining – freehold and under conditional allotment (presuming the principal condition is use of land for mining purposes). 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 for the rights (other than conditional allotment rights) granted to the Company for extraction of coal/lignite, whether conditional allotment of land can be considered as 'lease'

under Ind AS 116, 'Leases', accounting for extraction and mining of lignite and coal mines and operations of pit head thermal stations, accounting for sale of raw lignite and coal in the open market as well as to other power generating companies, determination of cost of land acquired and accounting for initial compensation, enhanced compensation, R&R benefits and other expenditure incurred for the acquisition of the land, accounting for reclamation cost incurred by the Company (if any), appropriateness of change in accounting policy and its accounting, appropriateness of accounting treatment followed by other mining companies as stated by the querist, conditions other than the condition of use of land for mining purposes, impairment of land, etc. Further, the opinion issued is purely from accounting perspective and not from the perspective of legal interpretation of various legal enactments, such as, Tamil Nadu Acquisition of Land for Industrial Purpose Act, 1997, RFCTLARR Act, 2013 and RFCTLARR (Tamil Nadu Amendment) Act, 2014, Order of Madras High Court, Tamil Nadu Land Acquisition Laws (Revival of Operation, Amendment and Validation) Act, 2019, etc. It is stated that in addition to the compensation paid to the Government (initial and enhanced), the cost of the land comprises R&R benefits and other expenditure incurred for the acquisition of the land. For the purpose of its analysis, the Committee assumes that these are attributable to acquisition of the land and have been correctly capitalised as part its carrying value. Furthermore, the Committee wishes to point out that the Standards referred to in the Opinion are the Indian Accounting Standards notified under the Companies (Indian Accounting Standards) Rules, 2015, as revised or amended from time to time.

16. In the given case, the Company has acquired the freehold land and land under conditional allotment in exchange of consideration, with the sole objective of using it for mining minerals as part of its business model. The Company intends to derive economic benefits from the land by mining it for minerals. Land acquired under the conditional allotment model is required to be returned to the Government after the mining operations are completed. For land acquired under freehold allotment, it appears from the facts supplied that the reclaimed land is not suitable for construction or other commercial use so there is limited, if any, alternative use of land for the Company after the mining operations are completed.

17. With regard to amortisation of these two kinds of land (freehold and land under conditional allotment) in the extant case, the first issue to be examined is the applicable Accounting Standard for such lands. In this regard, the Committee notes the following extracts from Ind AS 106, 'Exploration for and Evaluation of Mineral Resources':

“exploration for and evaluation of mineral resources The search for mineral resources, including minerals, oil, natural gas and similar non-regenerative resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource.”

“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.”

“17 An exploration and evaluation asset shall no longer be classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets shall be assessed for impairment, and any impairment loss recognised, before reclassification.”

The Committee notes from the above-reproduced requirements that at the time of acquiring the land (freehold and under conditional allotment for specific use) in the extant case, the technical feasibility and commercial viability of extracting the minerals appear to have already been established and therefore, the same is not an exploration and evaluation asset under Ind AS 106.

18. With regard to freehold land, the Committee further notes the following requirements of Ind AS 16, ‘Property, Plant and Equipment’:

“3 This Standard does not apply to:

...

- (c) the recognition and measurement of exploration and evaluation assets (see Ind AS 106, *Exploration for and Evaluation of Mineral Resources*).
- (d) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.”

From the above, the Committee notes that in the extant case, although Ind AS 16 scopes out mineral rights and mineral reserves from its scope, it does not scope out freehold land containing minerals. Therefore, freehold land acquired containing minerals, as in the extant case, is within the scope of Ind AS 16.

19. In the context of land acquired under conditional allotment, the Committee notes that the land is required to be returned to the Government after the mining operations are completed and thus, the conditional right to land is equivalent to acquisition of mineral rights by the Company in the extant case. In this regard, the Committee notes the following requirements of Ind AS 38, ‘Intangible Assets’:

“2 **This Standard shall be applied in accounting for intangible assets, except:**

...

- (c) **the recognition and measurement of exploration and evaluation assets (see Ind AS 106, *Exploration for and Evaluation of Mineral Resources*); and**
- (d) **expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources.”**

From the above, the Committee is of the view that the mineral rights under discussion qualify to fall in the scope of Ind AS 38 as the scope exclusions contained in paragraphs 2(c) and 2(d) do not apply to these rights because:

- these rights relate not to a mine in exploration and evaluation stage but to a mine for which the technical feasibility and commercial viability of extracting the minerals has already been determined and hence the present case does not fall under the scope exclusion in paragraph 2(c) of Ind AS 38.
- the payment made (or to be made) by the entity for obtaining the mineral rights is neither expenditure on ‘development’ nor on ‘extraction’ of minerals or other non-regenerative resources and hence does not fall under the scope exclusion in paragraph 2(d) of Ind AS 38.

In view of the above, mineral rights under discussion should be accounted for under Ind AS 38.

20. With regard to the amortisation of freehold land and land acquired under conditional allotment, the Committee notes the following requirements from Ind AS 16 and Ind AS 38:

Ind AS 16

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

“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 asset by an entity.”**

“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. Expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technical or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

- (d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.”

“59 If the cost of land includes the costs of site dismantlement, removal and restoration, that portion of the land asset is depreciated over the period of benefits obtained by incurring those costs. *In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits to be derived from it.*”

“62 A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. Straight –line depreciation results in a constant charge over the useful life if the asset’s residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits.”

(Emphasis supplied by the Committee.)

Ind AS 38

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

“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 asset by an entity.”**

“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).

- 90 Many factors are considered in determining the useful life of an intangible asset, including:
- (a) the expected usage of the asset by the entity and whether the asset could be managed efficiently by another management team;
 - (b) typical product life cycles for the asset and public information on estimates of useful lives of similar assets that are used in a similar way;
 - (c) technical, technological, commercial or other types of obsolescence;
 - (d) the stability of the industry in which the asset operates and changes in the market demand for the products or services output from the asset;
 - (e) expected actions by competitors or potential competitors;
 - (f) the level of maintenance expenditure required to obtain the expected future economic benefits from the asset and the entity's ability and intention to reach such a level;
 - (g) the period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases; and
 - (h) whether the useful life of the asset is dependent on the useful life of other assets of the entity."

"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."

"98 A variety of amortisation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. The method used is selected on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset and is applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future economic benefits."

"98B In choosing an appropriate amortisation method in accordance with paragraph 98, an entity could determine the predominant limiting factor that is inherent in the intangible asset. For example, the contract that sets out the entity's rights over its use of an intangible asset might specify the entity's use of the intangible asset as a predetermined number of years (i.e. time), as a number of units produced or as a fixed total amount of revenue to be generated. Identification of such a predominant limiting factor could serve as the starting point for the identification of the appropriate basis of amortisation, but another basis may be

applied if it more closely reflects the expected pattern of consumption of economic benefits.”

From the above, the Committee notes that useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity. Thus, it is defined in terms of the period of use or the number of units of production. Further, depreciation/amortisation is the systematic allocation of the depreciable amount of an asset over its useful life. Moreover, the Committee notes from paragraph 56 of Ind AS 16 and paragraph 90 of Ind AS 38 that determination of the useful life of a depreciable asset is a matter of estimation and is based on various factors including expected usage of the asset. Furthermore, paragraph 59 states that in some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits to be derived from it.

21. The Committee notes that in the extant case, the querist has stated that irrespective of the type of allotment, mining land by nature does not have any economic alternative use after the mining operations are completed. Therefore, considering the requirements of Ind AS 16, discussed above, the Committee is of the view that in case of freehold land, if it is clearly evident that the extraction of minerals (coal/lignite) is the only economic use of the land for the Company and such land cannot be put to any other use, such land should be considered to have limited useful life, and thus, should be depreciated or amortised in a manner that reflects the benefits to be derived from it over its useful life. Further, since the only economic use of the mining freehold land is the minerals beneath the land, the useful life would be governed by the units of minerals expected to be obtained from the land. The Committee is also of the view that as per the requirements of Ind AS 16, the useful life and residual value of land should 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, as stated in paragraph 51 of Ind AS 16 above.

22. Further, with regard to the method of depreciation, the Committee notes from paragraph 62 of Ind AS 16, as reproduced above that a variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Thus, the Committee notes that Ind AS 16 does not provide specific guidance on any specific method of depreciation to be used; therefore, considering the hierarchy as per paragraph 10 of Ind AS 8, ‘Accounting Policies, Changes in Accounting Estimates and Errors’, the Committee notes the requirements from Guidance Note on Accounting for Oil and Gas Producing Activities (for entities to whom Ind AS is applicable), issued by the ICAI, which contains accounting requirements for similar nature of extractive activities:

“Depreciation (Depletion)

25. Depreciation (Depletion) is calculated, using the unit of production method. The application of this method results in oil and gas assets being written off at the same rate as the quantitative depletion of the related reserve. For the properties or groups of properties containing both oil reserves and gas reserves, the units of oil and gas used to compute depletion are converted to a common unit of measure on the basis of their approximate relative energy content, (general approximation is 1000 cubic meters of

gas is equivalent to 1 metric tonne of oil) without considering their relative sales values. Unit-of-production depletion rates are revised whenever there is an indication of the need for revision but at least once a year. These revisions are accounted for prospectively as changes in accounting estimates, i.e., a change in the estimate affects the current and future periods, but no adjustment is made in the accumulated depletion applicable to prior periods.”

“30. The depreciation method used should reflect the pattern in which the asset’s future economic benefits are expected to be consumed by the entity. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Accordingly, oil and gas assets for the purpose of applying UOP method should not include assets having a different pattern of consumption which is not related to depletion of oil and gas reserves. The depreciation method applied should be reviewed at least at each financial year-end and if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method should be changed to reflect the changed pattern.”

From the above, the Committee notes that depreciation (depletion) is calculated on oil and gas assets, using the unit of production method unless the assets have a different pattern of consumption which is not related to depletion of oil and gas reserves.

In this context, the Committee, considering the requirements of the Guidance Note, is of the view that since in the extant case, as discussed above, the extractable minerals available on the land and extraction thereof would more appropriately reflect the consumption of economic benefits to be derived from the mining land and the same would govern the useful life of the land, units of production method may be appropriate.

23. With regard to acquisition of land under conditional allotment, which should be treated as an acquisition of mineral rights and therefore an intangible asset as per paragraph 19 above, the Committee notes from the requirements of Ind AS 38 (as reproduced in paragraph 20 above) that an intangible asset with finite useful life is to be allocated on a systematic basis over its useful life, which 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 asset by an entity.

In the extant case, the mineral rights (land obtained on conditional allotment) clearly is an intangible asset with finite life for the purposes of Ind AS 38. Further, since the only economic use of the mineral rights is the minerals beneath the land, the useful life would be governed by the units of minerals expected to be obtained from the land.

Ind AS 38 further requires that the amortisation method used shall reflect the pattern in which the asset’s future economic benefits are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method shall be used. Paragraph 98 of the Standard recognises that a variety of amortisation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. The method used is selected on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset and is applied consistently from period to

period, unless there is a change in the expected pattern of consumption of those future economic benefits.

Paragraph 98B of Ind AS 38 requires that in choosing an appropriate amortisation method, an entity could determine the predominant limiting factor that is inherent in the intangible asset. As per the facts supplied by the querist, there is no predetermined number of years (time) which impacts the use of the mineral rights; rather availability of the extractable mineral resources contained in the land is the limiting factor. In this context, the Committee, considering the discussion in paragraph 22 above based on requirements of the Guidance Note, is of the view that since in the extant case, the extractable minerals available in the land and extraction thereof would more appropriately reflect the consumption of economic benefits to be derived from the mineral rights (land under conditional allotment), units of production method may be appropriate for amortisation of the land under conditional allotment in the extant case.

D. Opinion

24. On the basis of the above, the Committee is of the opinion that both the freehold land and land acquired with conditional allotment have finite useful lives and the availability of the extractable mineral resources would be the determining factor for determining the useful life. Therefore, it may be appropriate to amortise the freehold land and land acquired with conditional allotment, using the unit of production method, as discussed in paragraphs 20 to 23 above.
