# IFRS 6

## Exploration for and Evaluation of Mineral Resources

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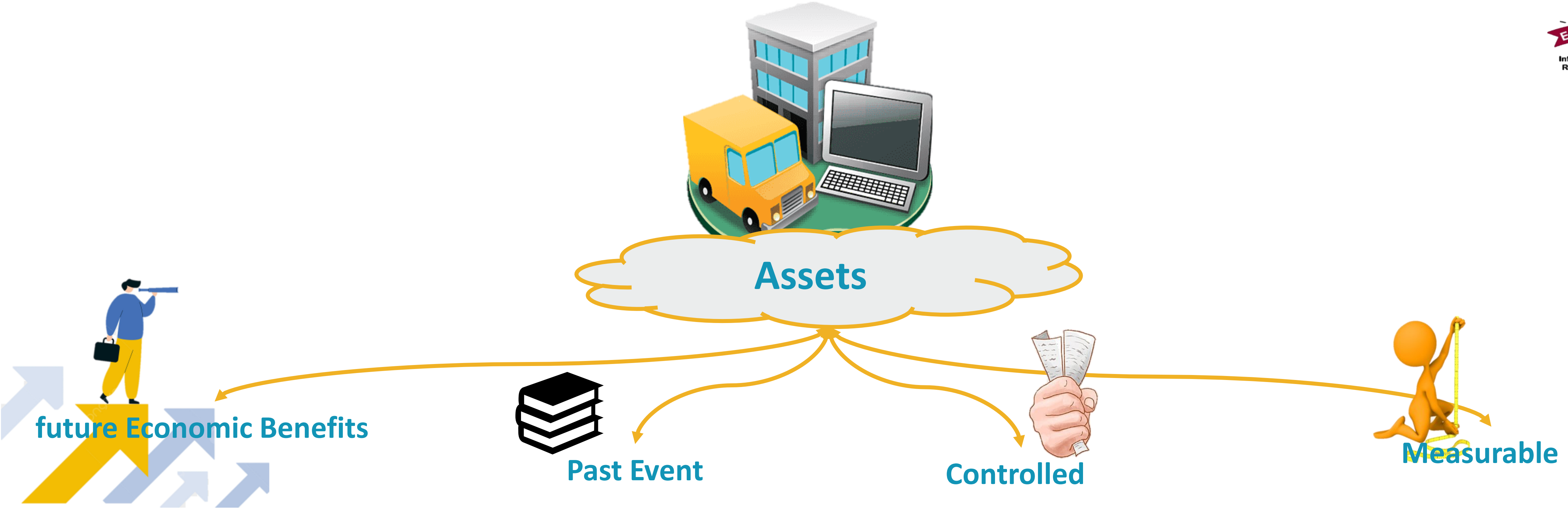
Assets
future Economic Benefits
Past Event
Controlled
Measurable

## Objective

**IFRS 6** is guidance for entities that **recognize assets** used in **the exploration for and evaluation of mineral resources**

**The Key issues are:**

1. ✓ **The initial recognition criteria and measurement basis for these assets,**
2. ✓ **measurement subsequent to recognition, and**
3. ✓ **the test for impairment of such assets in accordance with IAS 36**

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## Exploration for and evaluation of mineral Resources

Is the search for mineral resources as well as the determination for the technical feasibility and commercial viability **of extracting the mineral resources** before the decision is made to develop the mineral resources?

**Are expenditures for exploration and evaluation of mineral resources that are recognized as assets?**

**stage 1** — **Before Right** — Expenses When Incurred

**stage 2** — **After Right**

- Expenses Capitalization
- Which expenses?

Company has right to choose. which expenses want to capitalize according to their policy IAS - 8

**stage 3** — **Production** — Once appear technical Visibility and Commercial viability. Apply IAS - 2

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# Elements of cost of exploration and evaluation assets

- An entity **determines an accounting policy** specifying which **expenditures** are recognized as exploration and evaluation ASSETS.

- The entity should consider the degree to which the expenditures 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:


Acquisition of rights to explore

Exploratory Drilling

Sampling

Trenching

Topographical, Geological, Geochemical and Geophysical studies

Activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource

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## IAS 37 Obligation for Removal and Restoration

Where an entity incurs **OBLIGATIONS** for removal and restoration as a consequence of having undertaken the exploration for and evaluation of mineral resources, those obligations are **recognized** in accordance with the requirements of **IAS 37** Provisions, Contingent Liabilities and Contingent Assets.

## Initial Measurement

When they are **FIRST** recognized in the statement of financial position, exploration and evaluation assets are required to be measured at **COST**.

## Measurement After recognition

COST / REVALUATION

After recognition, an entity must apply **EITHER** the cost model or the revaluation model "**IAS 16** / **IAS 38**" to the exploration and evaluation assets.

## Classification and Reclassification

TANGIBLE / INTANGIBLE

Exploration and evaluation assets are classified as **TANGIBLE** OR **INTANGIBLE** according to the nature of the assets acquired.

- Tangible ---- "vehicles and drilling rigs"
- Intangible ---- "drilling rights"

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# Impairment

Because of the difficulty in obtaining the information necessary to estimate future cash flows from exploration and evaluation assets, IFRS 6 modifies the rules of IAS 36 as regards the circumstances in which such assets are required to be assessed for impairment.

A Detailed impairment test is required in **two** circumstances :

1 When the **TECHNICAL FEASIBILITY** and **COMMERCIAL VIABILITY** of extracting a mineral resource become demonstrable, at which point the asset falls outside the scope of IFRS 6 and is reclassified in the financial statements; and

2 When **FACTS AND CIRCUMSTANCES** suggest that the asset's carrying amount may EXCEED its recoverable amount.

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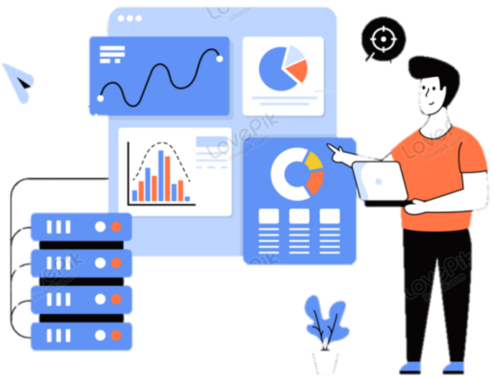
- The period for which the entity has the right to explore in the specific area has **EXPIRED** during the period or **WILL EXPIRE** in the near future and is **NOT** expected to be renewed.

- Exploration for and evaluation of mineral resources in the specific area have **NOT LED** to the discovery of commercially viable quantities of mineral resources and the entity has decided to **DISCONTINUE** such activities in the specific area.

- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is **NEITHER** budgeted **NOR** planned.



- Sufficient data exists to indicate that, although a development in the specific area is **LIKELY TO PROCEED**, the carrying amount of the exploration and evaluation asset is **UNLIKELY TO BE RECOVERED** “**in full**” from successful development or by sale.

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Gold Diggers Co is a mining company currently exploring and evaluating the possibilities for extracting gold from the deserts of South Australia. It has incurred the following costs in the year ended 20X1.

| | |
|---|---|
| Legal expenses relating to acquisition of land in which exploration is to take place | 15,000 |
| Legal expenses relating to acquisition of right to explore land | 12,000 |
| Exploratory drilling costs | 123,000 |
| General administrative overheads allocated to exploration of land in S Australia | 25,000 |
| Costs of extracting gold | 152,000 |

Which of the above costs may be capitalised as exploration and evaluation assets in accordance with IFRS 6?

## Solution

The following costs can be capitalised in accordance with IFRS 6:

| | |
|---|---|
| Legal expenses relating to acquisition of right to explore land | 12,000 |
| Exploratory drilling costs | 123,000 |

The following costs cannot be capitalised in accordance with IFRS 6 and should be expensed:

| | |
|---|---|
| General administrative overheads allocated to exploration of land in S Australia | 25,000 |
| Costs of extracting gold | 152,000 |

The following costs cannot be capitalised in accordance with IFRS 6, but can be capitalised in accordance with other standards:

| | |
|---|---|
| Legal expenses relating to acquisition of land in which exploration is to take place | 15,000 |

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4 You are the financial controller of Omega, a listed company which prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). Your managing director, who is not an accountant, has recently attended a seminar and has raised two questions for you concerning issues discussed at the seminar:

**(a)** One of the delegates at the seminar was a director of an entity which is involved in the exploration for, and evaluation of, mineral resources. This delegate told me that under IFRS rules it is possible for individual entities to develop their own policies for when to recognise the costs of exploration for and evaluation of mineral resources as assets. This seems very strange to me. Surely IFRS requires consistent treatment for all tangible and intangible assets so that financial statements are comparable. Please explain the position to me and outline the relevant requirements of IFRS regarding accounting for exploration and evaluation expenditures. (10 marks)

## Answer December - 2015

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**a)** Expenditure on the exploration for, and evaluation of, mineral resources is **excluded** from the scope of standards which might be expected to provide guidance in this area. Specifically such expenditure is not covered by **IAS 16** – *Property, Plant and Equipment* – or **IAS 38** – *Intangible Assets*.

This has meant that, in the absence of any alternative pronouncements, entities would determine their accounting policies for exploration and evaluation expenditures in accordance with the general requirements of **IAS 8** – *Accounting Policies, Changes in Accounting Estimates and Errors*. This could lead to considerable **divergence** of practice given the diversity of relevant requirements of **other** standard setting bodies.

Given other pressures on its time and resources, the International Accounting Standards Board (IASB) decided in 2002 that it was not able to develop a comprehensive standard in the immediate future.

However, recognising the importance of accounting for extractive industries generally the IASB issued IFRS 6 – *Exploration for and Evaluation of Mineral Resources* – to achieve some level of standardisation of practice in this area.

IFRS 6 requires relevant entities to **determine** a policy specifying which expenditures are recognised as exploration and evaluation assets and apply the policy **consistently**.

When recognising exploration and evaluation assets, entities shall consistently classify them as tangible or intangible according to their nature.

Subsequent to initial recognition, entities should consistently apply the cost model or the revaluation model to exploration and evaluation assets.

If the revaluation model is used, it should be applied according to IAS 16 (for tangible assets) or IAS 38 (for intangible assets).

Where circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount, such assets should be reviewed for impairment. Any impairment loss should basically be measured, presented and disclosed in accordance with IAS 36 – *Impairment of Assets*.

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## . Past Exams:

| Year | Month | Question | Note |
|---|---|---|---|
| 2015 | Dec | 4 | A |
| 2020 | 12 | 4 | 1 |


## Revision Kit:

| Question | Name | Note | Page Pdf |
|---|---|---|---|
| 31 | Omega | 1 | 58 |
| 33 | Okawa | 1 | 61 |
| 44 | Omega | 1 | 74 |

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