

Accounting alert

Analysis of the latest accounting developments delivered to you via e-mail

AASB issues standard on exploration and evaluation activities

The Australian Accounting Standards Board (AASB) has released AASB 6 'Exploration for and Evaluation of Mineral Resources' and associated amendments to other accounting standards. This follows the release by the International Accounting Standards Board (IASB) of IFRS 6 'Exploration for and Evaluation of Mineral Resources'.

This Accounting alert provides an overview of these developments.

Overview

Significant changes not expected in Australia

The release of AASB 6 is not expected to cause significant changes to the accounting for capitalised exploration and evaluation expenditure in Australia. Australian specific paragraphs included within the standard have effectively grandfathered current accounting for exploration and evaluation expenditure and the proposed impairment test included in the original exposure draft has been amended such that an area of interest approach to impairment will continue. However changes

may arise with respect to how to account for other extractive industry related activities, such as development, construction, production and restoration.

Option to not include comparative disclosures on first-time adoption

The standard is effective for annual reporting periods beginning on or after 1 January 2005 consistent with all other Australian equivalents to IFRS (A-IFRS). Amendments to AASB 1 will give entities the option of not presenting the disclosures required by AASB 6 for comparative periods.

Significant differences from the original proposals

During the finalisation of the standard the following changes were made to the proposals in ED 130 (see *Accounting alert 2004/05*):

- general and administration costs directly attributable to exploration and evaluation activities are to be capitalised
- the elements of exploration and evaluation assets are to be classified either as tangible or intangible assets according to the nature of the asset acquired. Disclosures related to exploration and evaluation assets classified as tangible assets should be in accordance with AASB 116, whilst those classified as intangible assets should be in accordance with AASB 138, with the exploration and evaluation asset disclosed as a separate class of tangible or intangible assets
- the impairment test was amended to avoid the possible immediate write-off of exploration assets despite the grandfathering of existing accounting policies for exploration and evaluation assets.

Impairment testing

The indicators of impairment in AAASB 136 have been replaced for exploration and evaluation assets with indicators relevant to the extractive industry only requiring an impairment test once an entity has sufficient data to determine technical feasibility and commercial viability. The indicators of impairment include:

- the expiry or expected expiry, without renewal, in the near future of a right to explore in a specific area
- substantive expenditure on further exploration and evaluation in the specific area is neither budgeted nor planned
- exploration and evaluation in the specific area has 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

Impairment test of exploration and evaluation assets required once technical feasibility and commercial viability is determinable sufficient data exist 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.

In applying the impairment test, exploration and evaluation assets should be allocated to a cash generating unit (CGU) or group of CGUs. The standard allows for some flexibility in determining the ultimate level at which impairment testing is performed. However, in Australia, the CGU or group of CGUs must be no larger than the area of interest to which the exploration and evaluation asset relates.

Impairment test to be applied at an area of interest level

Scope differences

Other A-IFRS will apply to other extractive activity operations

As an industry-based Standard, AASB 1022 included requirements with respect to all phases of extractive activity operations. As AASB 6 only relates to exploration and evaluation assets other A-IFRS must be applied to other activities. The following standards will need to be considered when determining appropriate accounting policies for transactions previously accounted for under AASB 1022:

Phase of operation/transaction or event	Relevant standards
Activities that precede exploration for and evaluation of mineral resources	Framework, AASB 116 and AASB 138
Development and construction costs	AASB 116 and AASB 138
Amortisation of capitalised costs	AASB 116
Inventories	AASB 102
Revenue recognition	AASB 118
Restoration costs	AASB 137, AASB 116 and UIG Interpretation 1

Future developments

This standard is the first phase of the IASB's extractive activities project. Further amendments are expected as the current research project on accounting for extractive activities generally moves into an active agenda item. No timetable has yet been established for this phase of the project.

Feedback and assistance

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