# Exposure Draft

# Accounting Standard (AS) 35 (Issued 20XX)
# Exploration for and Evaluation of Mineral Resources
## (Corresponding to IFRS 6)

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***Issued by***

Accounting Standards Board

**The Institute of Chartered Accountants of India**

# Exposure Draft

## Accounting Standard (AS) 35 (Issued 20XX)

## Exploration for and Evaluation of Mineral Resources (Corresponding to IFRS 6)

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# Exposure Draft

## Accounting Standard (AS) 35 (Issued 20XX)

## Exploration for and Evaluation of Mineral Resources (Corresponding to IFRS 6)[1]

*Following is the Exposure Draft of the proposed Accounting Standard (AS) 35 (Issued 20XX), Exploration for and Evaluation of Mineral Resources, issued by the Accounting Standards Board of the Institute of Chartered Accountants of India, for comments. The Board invites comments on any aspect of this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.*

*Comments should be submitted in writing to the Secretary, Accounting Standards Board, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to be received not later than* ***April 07, 2010.*** *Comments can also be sent by e-mail at edcommentsasb@icai.org or asb@icai.org.*

*(This Exposure Draft of the Proposed Accounting Standard includes paragraphs set in* ***bold*** *type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. This Exposure Draft of the Proposed Accounting Standard should be read in the context of its objective and the Preface to the Statements of Accounting Standards[2]).*

## Objective

1 The objective of this Accounting Standard is to specify the financial reporting for the *exploration for and evaluation of mineral resources*.

2 In particular, the Accounting Standard requires:

(a) limited improvements to existing accounting practices for *exploration and evaluation expenditures*.

[1] This Exposure Draft is issued pursuant to the decision to converge with IFRSs in respect of accounting periods commencing on or after April 1, 2011. All existing Accounting Standards and new Accounting Standards which are referred to in this Exposure Draft are also being revised or formulated, as the case may be, to converge with IFRSs from the aforesaid date. References to the other standards may be viewed accordingly.

[2] Attention is specifically drawn to paragraph 4.3 of the Preface, according to which accounting standards are intended to apply only to items which are material.

(b) entities that recognise *exploration and evaluation assets* to assess such assets for impairment in accordance with this Accounting Standard and measure any impairment in accordance with AS 28 (Revised 20XX) *Impairment of Assets*.

(c) disclosures that identify and explain the amounts in the entity's financial statements arising from the exploration for and evaluation of mineral resources and help users of those financial statements understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognised.

## Scope

3 An entity shall apply the Accounting Standard to exploration and evaluation expenditures that it incurs.

4 The Accounting Standard does not address other aspects of accounting by entities engaged in the exploration for and evaluation of mineral resources.

5 An entity shall not apply the Accounting Standard 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.

## Recognition of Exploration and Evaluation Assets

### Temporary exemption from AS 5 (Revised 20XX) paragraphs 11 and 12

6 When developing its accounting policies, an entity recognising exploration and evaluation assets shall apply paragraph 10 of AS 5 *(Revised 20XX) Accounting Policies, Changes in Accounting Estimates and Errors*.

7 Paragraphs 11 and 12 of AS 5 (Revised 20XX) specify sources of authoritative requirements and guidance that management is required to consider in developing an accounting policy for an item if no Accounting Standard applies specifically to that item. Subject to paragraphs 9 and 10 below, this Accounting Standard exempts an entity from applying those paragraphs to its accounting policies for the recognition and measurement of exploration and evaluation assets.

## Measurement of Exploration and Evaluation Assets

### Measurement at recognition

**8 Exploration and evaluation assets shall be measured at cost.**

### Elements of cost of exploration and evaluation assets

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.

10 Expenditures related to the development of mineral resources shall not be recognised as exploration and evaluation assets. The Framework *for the Preparation and Presentation of Financial Statements* issued by the Institute of Chartered Accountants of India and AS 26 (Revised 20XX) *Intangible Assets* provide guidance on the recognition of assets arising from development.

11 In accordance with AS 29 (Revised 20XX) *Provisions, Contingent Liabilities and Contingent Assets* an entity recognises any obligations for removal and restoration that are incurred during a particular period as a consequence of having undertaken the exploration for and evaluation of mineral resources.

### Measurement after recognition

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 AS 10 (Revised 20XX) *Property, Plant and Equipment* or the model in AS 26 (Revised 20XX)) it shall be consistent with the classification of the assets (see paragraph 15).

### Changes in accounting policies

**13 An entity may change its accounting policies for exploration and evaluation expenditures if the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs. An entity shall judge relevance and reliability using the criteria in AS 5 (Revised 20XX).**

14 To justify changing its accounting policies for exploration and evaluation expenditures, an entity shall demonstrate that the change brings its financial statements closer to meeting the criteria in AS 5 (Revised 20XX), but the change need not achieve full compliance with those criteria.

## Presentation

### Classification of exploration and evaluation assets

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.

### Reclassification of exploration and evaluation assets

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.

## Impairment

### Recognition and measurement

**18 Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. When facts and**

**circumstances suggest that the carrying amount exceeds the recoverable amount, an entity shall measure, present and disclose any resulting impairment loss in accordance with AS 28 (Revised 20XX), except as provided by paragraph 21 below.**

19 For the purposes of exploration and evaluation assets only, paragraph 20 of this Accounting Standard shall be applied rather than paragraphs 8-17 of AS 28 (Revised 20XX) when identifying an exploration and evaluation asset that may be impaired. Paragraph 20 uses the term 'assets' but applies equally to separate exploration and evaluation assets or a cash-generating unit.

20 One or more of the following facts and circumstances indicate that an entity should test exploration and evaluation assets for impairment (the list is not exhaustive):

(a) 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.

(b) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.

(c) 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.

(d) 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 any such case, or similar cases, the entity shall perform an impairment test in accordance with AS 28 (Revised 20XX). Any impairment loss is recognised as an expense in accordance with AS 28 (Revised 20XX).

## Specifying the level at which exploration and evaluation assets are assessed for impairment

**21 An entity shall determine an accounting policy for allocating exploration and evaluation assets to cash-generating units or groups of cash-generating units for the purpose of assessing such assets for impairment. Each cash-generating unit or group of units to which an exploration and evaluation asset is allocated shall not be larger than an operating segment determined in accordance with AS 17 (Revised 20XX) *Operating Segments*.**

22 The level identified by the entity for the purposes of testing exploration and evaluation assets for impairment may comprise one or more cash-generating units.

## Disclosure

**23 An entity shall disclose information that identifies and explains the amounts recognised in its financial statements arising from the exploration for and evaluation of mineral resources.**

24 To comply with paragraph 23, an entity shall disclose:

(a) its accounting policies for exploration and evaluation expenditures including the recognition of exploration and evaluation assets.

(b) the amounts of assets, liabilities, income and expense and operating and investing cash flows arising from the exploration for and evaluation of mineral resources.

25 An entity shall treat exploration and evaluation assets as a separate class of assets and make the disclosures required by either AS 10 (Revised 20XX) or AS 26 (Revised 20XX) consistent with how the assets are classified.

## Effective Date

26 An entity to which this Accounting Standard is applicable shall apply it for annual periods beginning on or after the date (to be announced separately) and will be mandatory in nature[3] from that date.

## Transitional Provisions

27 (Deleted)

[3] This implies that, while discharging their attest function, it will be the duty of the members of the Institute to examine whether this Accounting Standard is complied with in the presentation of financial statements covered by their audit. In the event of any deviation from this Accounting Standard, it will be their duty to make adequate disclosures in their audit reports so that the users of financial statements may be aware of such deviations.

# Appendix A

## Defined Terms

*This Appendix is an integral part of Accounting Standard.*

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|---|---|
| **exploration and evaluation assets** | Exploration and evaluation expenditures recognised as assets in accordance with the entity's accounting policy |
| **exploration evaluation expenditures** | Expenditures incurred by an entity in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. |
| **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. |

## *Appendix B*

*Note: This Appendix is not a part of the Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard (AS) 35 (Issued 20XX) and the corresponding International Financial Reporting Standard (IFRS) 6, Exploration for and Evaluation of Mineral Resources.*

## Comparison with IFRS 6, *Exploration for and Evaluation of Mineral Resources*

There is no major difference between the Exposure Draft of AS 35, *Exploration for and Evaluation of Mineral Resources*, and corresponding International Financial Reporting Standard (IFRS) 6 except that the transitional provisions given in IFRS 6 have not been given in the Exposure Draft of AS 35, keeping in view that IFRS 1, *First-time Adoption of International Financial Reporting Standard*, provides that transitional provisions in other IFRSs do not apply to a first-time adopter's transition to IFRSs, unless otherwise permitted in IFRS 1. It is noted that IFRS 1 does not permit use of the transitional provision provided in paragraph 27 of IFRS 6. Accordingly, deleting or retaining the said paragraph would have the same effect.