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IFRS® Standard 6 Exploration for and Evaluation of Mineral Resources



Why Requirements is Needed for Exploration and Evaluation of Mineral Resources?

What is Main Definition?

Exploration for and evaluation of mineral resources

refers to the search for the mineral resources (i.e. minerals, oil, natural gas, etc.). It starts when a entity receives the legal right to look for the mineral resource in a specific area. It ends when the said entity gets a proof that it is technically and commercially viable to explore a mineral resource.

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refer to the costs of prospecting works for discovering mineral resources.

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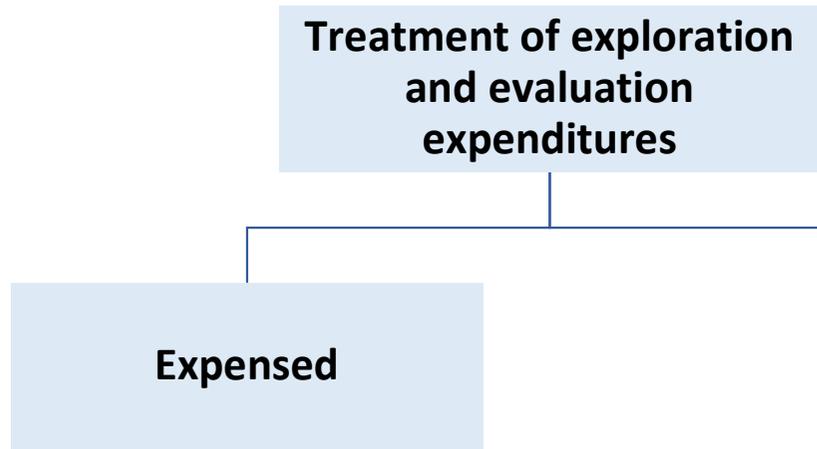
Evaluation expenditures

refer to the costs suffered for obtaining proofs that it is technically and commercially viable to explore a mineral resource.

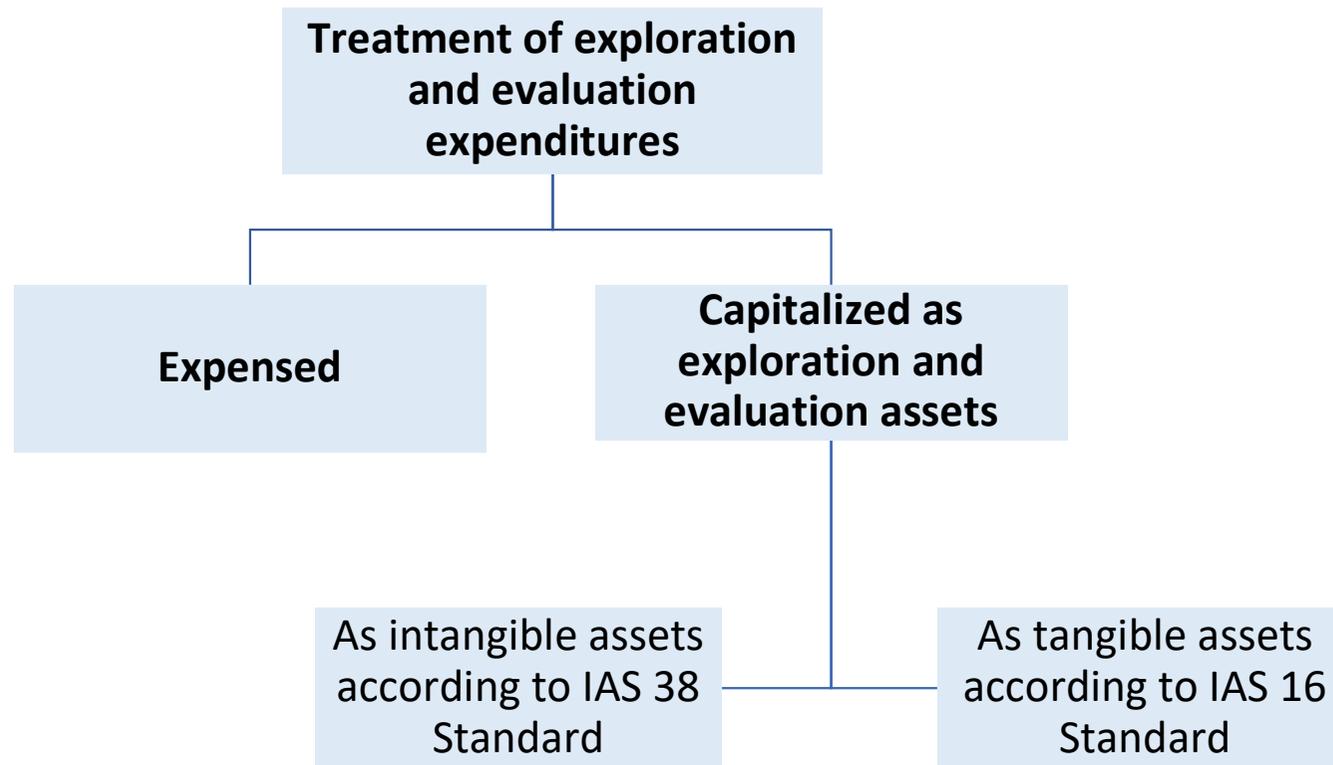
Exploration and evaluation assets

refer to the costs that incurred during the period of searching for the mineral resources recognized as assets in accordance with the entity's accounting policy.

Approach to Exploration and Evaluation Expenditures



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Exploration Cost Measurement

- For the first time, exploration and evaluation assets must be accounted **at their purchase cost.**

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- For the first time, exploration and evaluation assets must be accounted **at their purchase cost.**
- The entity must describe in its accounting policy which costs are accounted as exploration and evaluation assets. Then the entity should also consider at what degree it is possible to associate expenditures with finding specific mineral resources.

Examples of Exploration Cost Measurement

Types of costs	Examples
Tangible Assets	The entity purchased exploration equipment for CU10,000 to develop possible wells of shale gas. Depreciation of equipment over the period is calculated at CU2,000, which is included in intangible assets.

Examples of Exploration Cost Measurement

Types of costs	Examples
Tangible Assets	The entity purchased exploration equipment for CU10,000 to develop possible wells of shale gas. Depreciation of equipment over the period is calculated at CU2,000, which is included in intangible assets.
Intangible Assets	The entity acquired a license to explore mineral resources for a period of 2 years and paid CU5,000 for the license. This will be classified as an intangible asset.

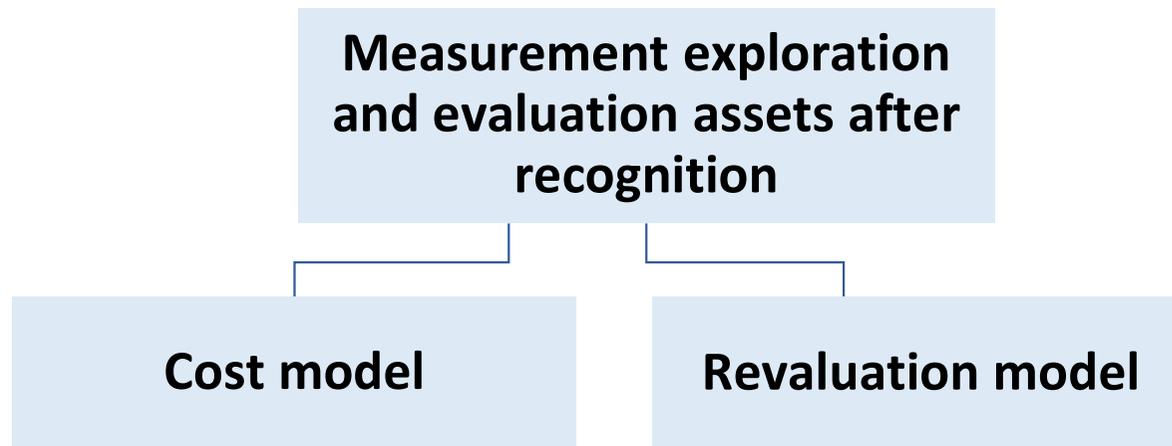
Examples of Exploration Cost Measurement

Types of costs	Examples
Tangible Assets	The entity purchased exploration equipment for CU10,000 to develop possible places of shale gas. Depreciation of equipment over the period is calculated at CU2,000, which is included in intangible assets.
Intangible Assets	The entity acquired a license to explore mineral resources for a period of 2 years and paid CU5,000 for the license. This will be classified as an intangible asset.
Remuneration of Explorers	During the two-year shale gas exploration period, employees were paid CU40,000. This will be classified as an intangible asset.

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Tangible Assets	The entity purchased exploration equipment for CU10,000 to develop possible places of shale gas. Depreciation of equipment over the period is calculated at CU2,000, which is included in intangible assets.
Intangible Assets	The entity acquired a license to explore mineral resources for a period of 2 years and paid CU5,000 for the license. This will be classified as an intangible asset.
Remuneration of researchers	During the two-year shale gas exploration period, employees were paid CU40,000. This will be classified as an intangible asset.
Total Exploration Cost	The total cost for over two years is CU49,000 (2-year depreciation CU4,000 + license CU5,000 + labour costs CU40,000). For the first time, these exploration costs will be recognized as exploration and evaluation assets in the statement of financial position.

Measurement of Exploration and Evaluation Assets after Recognition



Examples of Application Cost or Revaluation Models after Recognition of Exploration and Evaluation Assets

Cost model

- For the initial exploration and evaluation, assets were recorded at CU49,000. The entity has chosen to apply the cost method in its accounting policies. After the exploration, a permit was obtained for the extraction of mineral resources for a period of 5 years.
- Therefore, exploration and evaluation assets will be depreciated in 5 years. Depreciation for one year will be CU9,800 and the value of the assets in the statement of financial position will be CU39,200.

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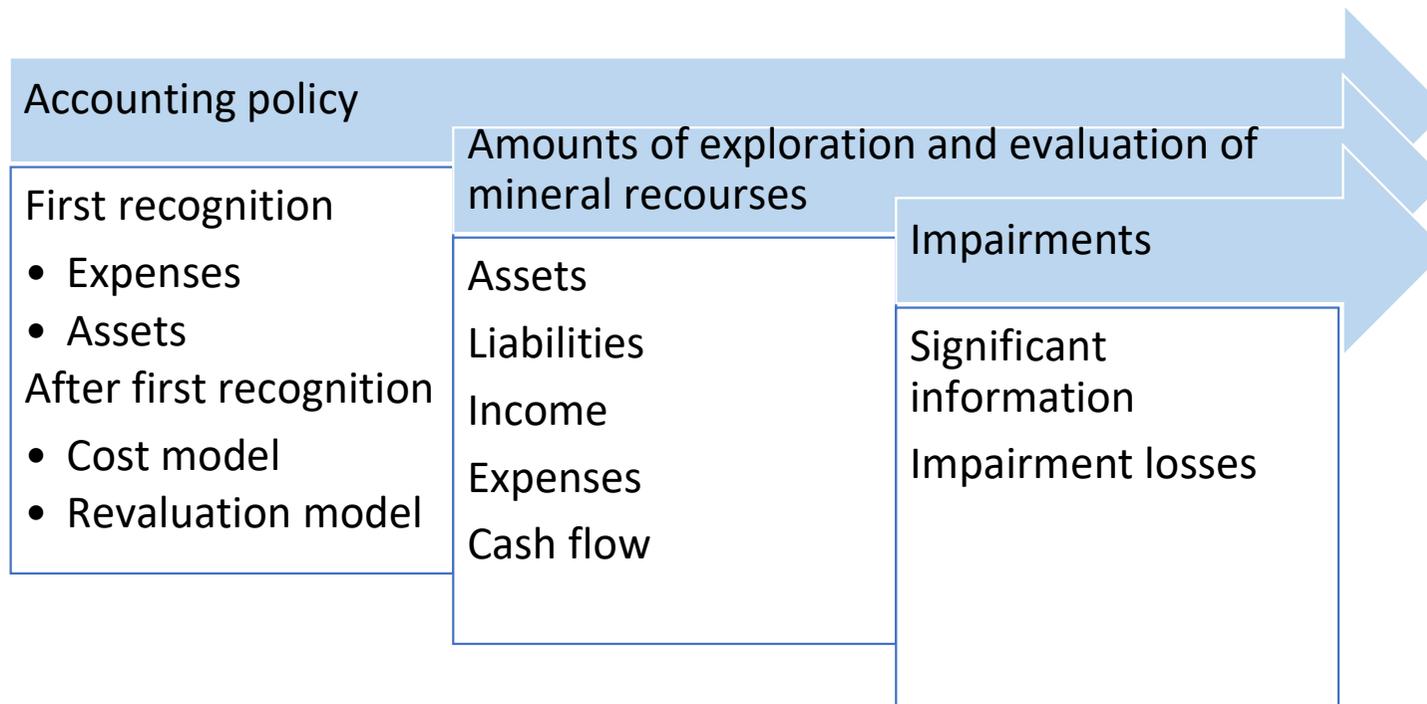
- For the initial exploration and evaluation, assets were recorded at CU49,000. Following the revaluation of the exploration and evaluation of mineral resources assets, it was found that similar studies could be carried out at a lower cost (changes in market) during this period.
- It has been established that such exploration for mineral resources can be carried out for CU38,000. This value (CU38,000) will be presented in the statement of financial position.

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- For the initial exploration and evaluation, assets were recorded at CU49,000. Following the revaluation of the exploration and evaluation of mineral resources assets, it was found that similar studies could be carried out at a lower cost (changes in market) during this period.
- **It has been established that such exploration for mineral resources can be carried out for CU38,000. This value (CU38,000) will be presented in the statement of financial position.**

Requirements for Disclosure in the Financial Reporting



Practical Example

Entity X is involved in oil refinery and is constantly looking for new areas for exploration.

This entity has new plans to start oil exploration in Africa.

The following economic events are related to the search for a new oil area:

Practical Example

- In April 20x1, Entity X received legal rights to start the exploration from Angola government. The license for exploration of a certain area has cost CU20,000, and is valid for 4 years.

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Record in April 20x1 for license

Dr. Intangible assets CU20,000

Cr. Cash CU20,000

Practical Example

- In April 20x1, Entity X received legal rights to start the exploration from Angola government. The license for exploration of a certain area has cost CU20,000, and is valid for 4 years.

Record in April 20x1 for license

Dr. Intangible assets CU20,000

Cr. Cash CU20,000

Record in May – December 20x1 for amortization of intangible assets (CU20,000 / 4 years / 12 months x 8 months)

Dr. Exploration and evaluation assets CU3,333

Cr. Intangible assets CU3,333

Practical Example

Record in January – December 20x2 for amortization of intangible assets (CU20,000 / 4 years)

Dr. Exploration and evaluation assets CU5,000

Cr. Intangible assets CU5,000

Practical Example

Record in January – December 20x2 for amortization of intangible assets (CU20,000 / 4 years)

Dr. Exploration and evaluation assets CU5,000

Cr. Intangible assets CU5,000

Record in January – December 20x3 for amortization of intangible assets (CU20,000 / 4 years)

Dr. Exploration and evaluation assets CU5,000

Cr. Intangible assets CU5,000

Practical Example

Record in January – December 20x2 for amortization of intangible assets (CU20,000 / 4 years)

Dr. Exploration and evaluation assets CU5,000

Cr. Intangible assets CU5,000

Record in January – December 20x3 for amortization of intangible assets (CU20,000 / 4 years)

Dr. Exploration and evaluation assets CU5,000

Cr. Intangible assets CU5,000

Record in January – December 20x4 for amortization of intangible assets (CU20,000 / 4 years)

Dr. Exploration and evaluation assets CU5,000

Cr. Intangible assets CU5,000

Practical Example

Record in January – December 20x2 for amortization of intangible assets (CU20,000 / 4 years)

Dr. Exploration and evaluation assets CU5,000

Cr. Intangible assets CU5,000

Record in January – December 20x3 for amortization of intangible assets (CU20,000 / 4 years)

Dr. Exploration and evaluation assets CU5,000

Cr. Intangible assets CU5,000

Record in January – December 20x4 for amortization of intangible assets (CU20,000 / 4 years)

Dr. Exploration and evaluation assets CU5,000

Cr. Intangible assets CU5,000

Record in January – April 20x5 for amortization of intangible assets (CU20,000 / 4 years / 12 months x 4 months)

Dr. Exploration and evaluation assets CU1,667

Cr. Intangible assets CU1,667

Practical Example

- In May 20x1, Entity X purchased the necessary exploiting equipment (A) for CU50,000. The depreciation period for equipment is 5 years.

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- In May 20x1, Entity X purchased the necessary exploiting equipment (A) for CU50,000. The depreciation period for equipment is 5 years.

Record in May 20x1 for equipment (A)

Dr. Tangible assets CU50,000

Cr. Cash CU50,000

Practical Example

- In May 20x1, Entity X purchased the necessary exploiting equipment (A) for CU50,000. The depreciation period for equipment is 5 years.

Record in May 20x1 for equipment (A)

Dr. Tangible assets CU50,000

Cr. Cash CU50,000

Record in June – December 20x1 for depreciation of tangible assets A (CU50,000 / 5 years / 12 months x 7 months)

Dr. Exploration and evaluation assets CU5,833

Cr. Tangible assets CU5,833

Practical Example

Record in January – December 20x2 for depreciation of tangible assets A (CU50,000 / 5 years)

Dr. Exploration and evaluation assets CU10,000

Cr. Tangible assets CU10,000

Practical Example

Record in January – December 20x2 for depreciation of tangible assets A (CU50,000 / 5 years)

Dr. Exploration and evaluation assets CU10,000

Cr. Tangible assets CU10,000

Record in January – December 20x3 for depreciation of tangible assets A (CU50,000 / 5 years)

Dr. Exploration and evaluation assets CU10,000

Cr. Tangible assets CU10,000

Practical Example

Record in January – December 20x2 for depreciation of tangible assets A (CU50,000 / 5 years)

Dr. Exploration and evaluation assets CU10,000

Cr. Tangible assets CU10,000

Record in January – December 20x3 for depreciation of tangible assets A (CU50,000 / 5 years)

Dr. Exploration and evaluation assets CU10,000

Cr. Tangible assets CU10,000

Record in January – December 20x4 for depreciation of tangible assets A (CU50,000 / 5 years)

Dr. Exploration and evaluation assets CU10,000

Cr. Tangible assets CU10,000

Practical Example

Record in January – December 20x2 for depreciation of tangible assets A (CU50,000 / 5 years)

Dr. Exploration and evaluation assets CU10,000

Cr. Tangible assets CU10,000

Record in January – December 20x3 for depreciation of tangible assets A (CU50,000 / 5 years)

Dr. Exploration and evaluation assets CU10,000

Cr. Tangible assets CU10,000

Record in January – December 20x4 for depreciation of tangible assets A (CU50,000 / 5 years)

Dr. Exploration and evaluation assets CU10,000

Cr. Tangible assets CU10,000

Record in January – May 20x5 on depreciation of tangible assets A (CU50,000 / 5 years / 12 months x 5 months)

Dr. Exploration and evaluation assets CU4,167

Cr. Tangible assets CU4,167

Practical Example

- In May 20x1, employees for work on the exploration and evaluation project in entity X were hired. Their yearly labour costs amounts to CU20,000. The employee worked until February 20x5.

Practical Example

- In May 20x1, employees for work on the exploration and evaluation project in entity X were hired. Their yearly labour costs CU20,000. The employee worked until February 20x5.

Record in May – December 20x1 for labour costs (CU20,000 / 12 months x 8 months)

Dr. Exploration and evaluation assets CU13,333

Cr. Cash CU13,333

Practical Example

- In May 20x1, employees for work on the exploration and evaluation project in entity X were hired. Their yearly labour costs CU20,000. The employee worked until February 20x5.

Record in May – December 20x1 for labour costs (CU20,000 / 12 months x 8 months)

Dr. Exploration and evaluation assets CU13,333

Cr. Cash CU13,333

Record in January – December 20x2 for labour costs

Dr. Exploration and evaluation assets CU20,000

Cr. Cash CU20,000

Practical Example

Record in January – December 20x3 for labour costs

Dr. Exploration and evaluation assets CU20,000

Cr. Cash CU20,000

Practical Example

Record in January – December 20x3 for labour costs

Dr. Exploration and evaluation assets CU20,000

Cr. Cash CU20,000

Record in January – December 20x4 for labour costs

Dr. Exploration and evaluation assets CU20,000

Cr. Cash CU20,000

Practical Example

Record in January – December 20x3 for labour costs

Dr. Exploration and evaluation assets CU20,000

Cr. Cash CU20,000

Record in January – December 20x4 for labour costs

Dr. Exploration and evaluation assets CU20,000

Cr. Cash CU20,000

Record in January – February 20x5 for labour costs (CU20,000 / 12 months x 2 months)

Dr. Exploration and evaluation assets CU3,333

Cr. Cash CU3,333

Practical Example

- In July 20x3, Entity X has purchased additional exploring works from contractors for the cost of CU15,000.

Practical Example

- In July 20x3, additional exploring works entity X were purchased from contractors for the cost of CU15,000.

Record in July 20x3 for exploring works purchase

Dr. Exploration and evaluation assets CU15,000

Cr. Cash CU15,000

Practical Example

- In March 20x4, the additional exploiting equipment (B) for CU150,000 was purchased in Entity X. The depreciation period for equipment is 5 years.

Practical Example

- In March 20x4, the additional exploiting equipment (B) for CU150,000 was purchased in entity X. The depreciation period for equipment is 5 years.

Record in March 20x4 for equipment (B)

Dr. Tangible assets CU150,000

Cr. Cash CU150,000

Practical Example

- In March 20x4, the additional exploiting equipment (B) for CU150,000 was purchased in entity X. The depreciation period for equipment is 5 years.

Record in March 20x4 for equipment (B)

Dr. Tangible assets CU150,000

Cr. Cash CU150,000

Record in January – December 20x4 for depreciation of tangible assets B (CU150,000 / 5 years)

Dr. Exploration and evaluation assets CU22,500

Cr. Tangible assets CU22,500

Practical Example

- In February 20x5, the evidence of successful exploration has been obtained proving that large quantities of oil can be extracted from the wells explored.
- In May 20x5, Entity X sells all rights to explore for CU320,000 to the Entity Y.

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- In February 20x5, the evidence of successful exploration has been obtained proving that large quantities of oil can be extracted from the wells explored.
- In May 20x5, Entity X sells all rights to explore for CU320,000 to the Entity Y.

Record in January – May 20x5 for depreciation of tangible assets B (CU150,000 / 5 years / 12 months x 5 months)

Dr. Exploration and evaluation assets	CU12,500
Cr. Tangible assets	CU12,500

Record in May 20x5 for the sales of rights to explore

Dr. Cash	CU320,000
Cr. Revenue	CU133,334
Cr. Exploration and evaluation assets	CU186,666

Practical Example

Entity X indicated in its accounting policy that all exploration and evaluation costs will be fully capitalized.

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Entity X indicated in its accounting policy that all exploration and evaluation costs will be fully capitalized.

It should be noted that if a license is accounted for as an intangible asset, it is thus amortized. Accordingly, fixed tangible assets (those of equipment's) are depreciated over their estimated useful lives.

Practical Example

Capitalized costs	April – December 20x1, CU	January – December 20x2, CU	January – December 20x3, CU	January – December 20x4, CU	January – May 20x5, CU	Total, CU
License amortization	3,333	5,000	5,000	5,000	1,667	20,000
Equipment (A) depreciation	5,833	10,000	10,000	10,000	4,167	40,000
Equipment (B) depreciation				22,500	12,500	35,000
Labour	13,333	20,000	20,000	20,000	3,333	76,666
Exploring works			15,000			15,000
Total Value of exploration and evaluation assets	22,499	35,000	50,000	57,500	21,667	186,666



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