



In the Spotlight

A Mining Industry Focus on COVID-19 Accounting Considerations

Release Date: 3rd April 2020

COVID-19: Top 10 Accounting Issues for Mining Companies

At a Glance

The COVID-19 outbreak has developed rapidly in 2020, with a significant global impact. Measures taken to contain the virus have affected economic activity, which in turn has implications for financial reporting.

Measures to prevent transmission of the virus include limiting the movement of people, restricting flights and other travel, temporarily closing businesses and schools, and cancelling events. This will have an immediate impact on businesses such as tourism, transport, retail and entertainment. It will also begin to affect supply chains and the production of goods throughout the world, and lower economic activity is likely to result in reduced demand for many goods and services.

COVID-19 will impact many areas of accounting and reporting for all industries, as outlined in our publication: https://inform.pwc.com/s/Accounting_implications_of_the_effects_of_coronavirus_PwC_In_depth_INT2020_02/info.rmContent/2033163303178016#ic_2033163303178016.

Many mining entities have been impacted by the outbreak, because of volatility in prices for commodities, decreased demand for certain products, or outbreaks impacting operations. However, the degree to which mining entities are impacted does vary, based on the nature of the commodity and the location of operations.

In this Spotlight we provide our insights into the top 10 issues that mining-related entities might face. While this Spotlight focuses on issues that are likely to be the most frequently encountered, many others are certain to arise. As the situation continues to evolve, so too will the consequential accounting issues. For these reasons, the following is not an exhaustive list of all relevant accounting considerations.

The top 10 issues that we expect to see impacting mining entities are:

- 1. Impairment triggers for goodwill and PP&E, associates and joint ventures, and onerous contracts**

Market prices for certain mined commodities have decreased as a result of the pandemic, and it is probable that there will be impairment triggers for many entities in relation to goodwill and property, plant and equipment ('PP&E') as well as associates and joint ventures. Mining reserves could also be impacted by decreases in economic recoverability.

The [In depth](#) provides helpful tips that would apply to such tests.

In addition, entities should be on the lookout for contracts that have become onerous. Such contracts might include, for example, non-cancellable supply / service contracts that the entity does not expect to be able to use as a result of the virus. To the extent that these contracts meet the definition of a derivative, companies should also consider whether they can no longer apply the 'own use' exemption under IFRS 9. Refer to item 5 below for more information on 'own use'.

2. Impairment considerations for exploration and evaluation ('E&E') assets

E&E assets are assessed for impairment using criteria in paragraph 20 of IFRS 6:

"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):

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

...

(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 particular, entities should consider whether current economic conditions mean that there is not a reasonable expectation that such E&E assets will be developed. An entity might not be able to continue with exploration for a variety of reasons, including factors such as an inability to obtain necessary financing to continue exploration or because forecast pricing would not support recoverability of exploration costs even if minerals are discovered.

Where indicators of impairment exist for E&E assets, they should be tested for impairment in accordance with IFRS 6 and IAS 36.

3. Liquidity considerations

Decreases in pricing or volumes could lead to potentially significant declines in cash flows and therefore impact:

- the going concern assumption;
- liquidity risk disclosures; and
- debt covenants, in particular for reserves-based lending arrangements.

The impacts on these items will need to be carefully monitored. Further details on these implications are discussed in [In Depth 2020-021: Accounting implications of the effects of the Coronavirus](#).

4. Expected credit losses

Spotlight

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

© 2020 PwC. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

IFRS 9 requires entities to use an expected credit loss ('ECL') model to measure impairment of most financial assets. The ECL model requires consideration of both historical and current information, as well as reasonable and supportable forecasts of future conditions (including macroeconomic information).

Many mining entities use the simplified model for trade receivables and measure the ECL for the lifetime expected credit losses. Macroeconomic factors could impact the measurement and result in increased credit losses due to the credit deterioration of customers.

In addition, ECL associated with guarantees (for example, where an entity has provided guarantees in favour of joint venture partner borrowings) might also increase.

5. Provisional pricing and commodity contract considerations

Many mining entities have provisional pricing arrangements for commodity sales arrangements. Depending on how these arrangements are structured, they might be accounted for as variable consideration within the scope of IFRS 15, or they might lead to accounts receivable being carried at fair value through profit or loss.

Volatility in metals prices might have an impact on the amount recorded for variable consideration and on the fair value of receivables. In addition, for receivables carried at fair value through profit or loss, changes to counterparty credit risk might impact fair value measurement.

Mining entities sometimes enter into commodity contracts under long-term, non-cancellable agreements. To the extent that the entity is no longer producing the volumes to be supplied to the customer (for example, where the entity is forced to buy quantities on the market for delivery or net settle in cash with the customer), these contracts might be net settled and no longer be held for the entity's 'own use'. Similarly, it is possible that certain input contracts to the mining process might also need to be net settled.

Where contracts are net settleable in accordance with IFRS 9 (for example, because the underlying is readily convertible to cash or because the contract permits net settlement) and the entity is no longer holding such contracts for 'own use', they might need to be accounted for as derivatives measured at fair value through profit or loss in accordance with IFRS 9.

6. Alternative financing arrangements

Mining entities can have complex metals streaming arrangements which might be recognised as financial instruments, unearned revenue or a combination thereof. Changes in pricing and development plans might have an impact on the amount recorded for such arrangements, and the impact of the current situation on these arrangements should be carefully considered (including the impact on the 'own use' exemption, where applicable).

7. Inventories

Current pricing levels might mean that inventories need to be written down. If production significantly outstrips demand, entities might experience operational issues, leading to higher production costs. In some cases, realisable prices might fall below the marginal cost of production, or inventories of purchased products might have costs that exceed recoverable amounts.

Similarly, in circumstances where the mine is operating below normal capacity, the entity might be required to expense certain overhead costs.

Entities carrying inventory at fair value (for example, commodity broker / dealers) also need to consider the potentially significant impact on the fair value measurement of such inventories.

8. Force majeure clauses

Spotlight

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

© 2020 PwC. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

Entities in the mining sector often have contracts which contain force majeure clauses, which can relieve parties of all or certain obligations in a contract in the case of serious unforeseen circumstances beyond the control of the parties to the contract.

Entities should seek to understand the scope of such clauses in their contracts, and how such clauses might apply in the relevant legal jurisdiction. Such clauses could, for example, impact both contracts for the purchase of goods or services and revenue or lease arrangements. In some cases, significant judgement might be required to interpret such clauses.

Where such clauses are triggered, the impact on revenue, purchase or other arrangements will need to be considered, and entities will need to consider what disclosures are required in such circumstances.

9. Decommissioning obligations

Changes to development plans might trigger changes to the expected timing or costs of decommissioning obligations and impact the measurement of such obligations. In addition, interest rates have been impacted by the current economic situation and this will likely result in changes to the discount rate applied to these obligations.

10. Recoverability of deferred tax assets

Changes to forecasts of taxable income might impact the ability to recover deferred tax assets (for example, the ability to use loss carry-forwards prior to expiry). As such, some deferred tax assets might no longer qualify for recognition.

Conclusion

COVID-19 has given rise to unprecedented challenges that have affected virtually every aspect of modern life. The economic implications of the virus will have a consequent impact on many aspects of accounting and financial reporting. Entities in the mining industry face accounting challenges, and we hope that this Spotlight will help you and your advisors as you navigate the key issues.

Spotlight

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

© 2020 PwC. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.