Digging into IFRS

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Joint arrangements – understanding the changes

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What's the issue?

In May 2011, the IASB issued the much anticipated IFRS 11, *Joint Arrangements*. This standard supersedes IAS 31, *Interest in Joint Ventures* and SIC 13, *Joint Controlled Entities – Non-Monetary Contributions*. IFRS 11 is expected to bring about major changes in the accounting for joint ventures.

In this edition of *Digging into IFRS*, we highlight some of the key considerations that should be made by mining companies when determining the accounting for joint arrangements.

Who does it impact?

IFRS 11 is effective for financial periods beginning on or after 1 January 2013. All mining entities that have interests in joint arrangements will need to reassess the accounting for these arrangements.

What was the reason for issuing IFRS 11?

The standard was issued to address two principal concerns with IAS 31. Firstly, the legal form of the arrangement determined the accounting (i.e. arrangements established in separate entities were required to be accounted for as jointly controlled entities). And secondly, entities had a policy choice in accounting for jointly controlled entities; either equity account or proportionately consolidated. This resulted in inconsistencies in the accounting for similar rights and obligations.

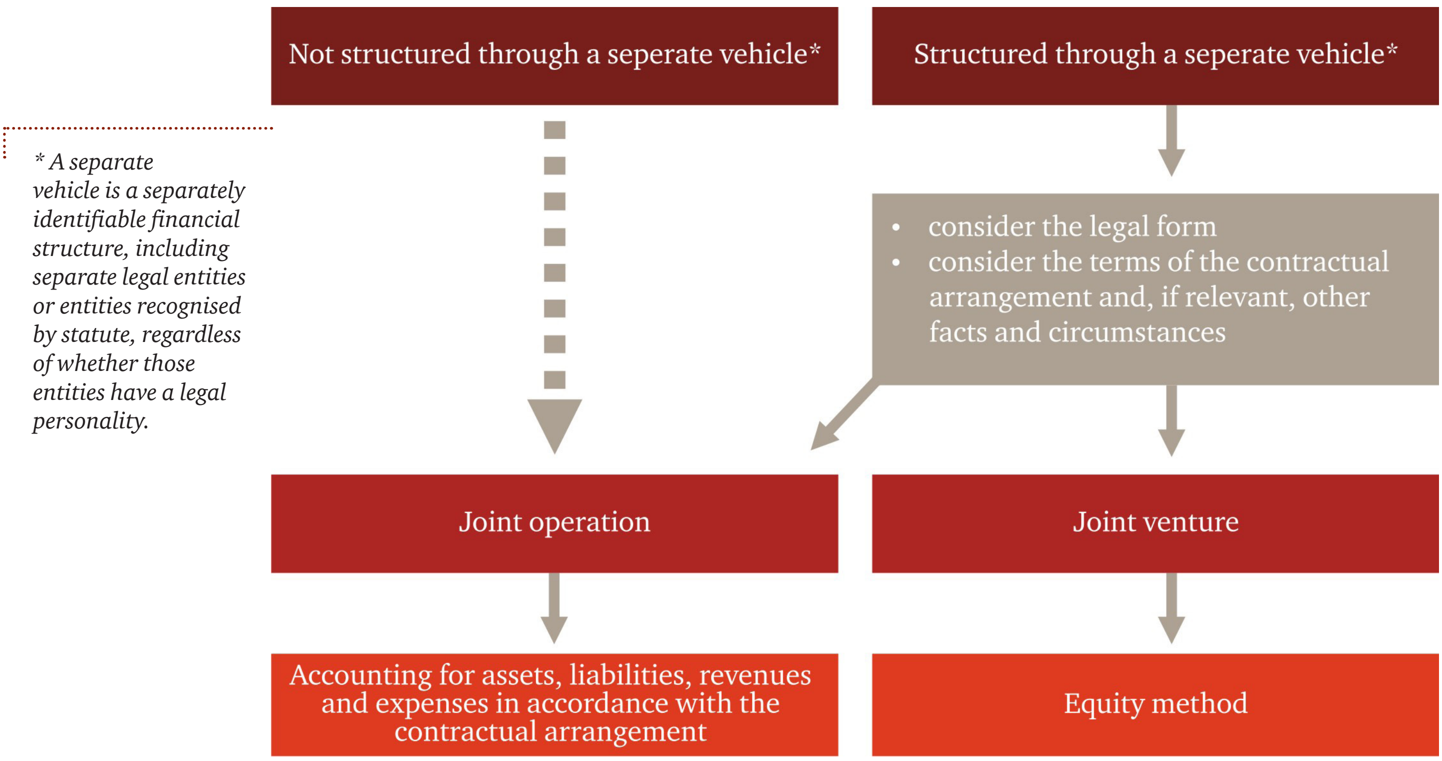
How would the current practice change?

The legal structure will no longer determine the accounting treatment. Instead, the accounting will be determined based on the party's underlying rights and obligations arising from the arrangement.

The application of the principle will result in mining companies having:

- Rights to the assets and obligations for the liabilities relating to the arrangement. These are parties to *joint operations*. A joint operator accounts for assets, liabilities and corresponding revenues and expenses arising from the arrangement; and
- Rights to the net assets of the arrangement. These are parties to *joint ventures*. A joint venturer accounts for an investment in the arrangement using the equity method.

The accounting may be represented as follows:



Accounting issues affecting the energy and resources sector

Most mining companies have historically accounted for their joint arrangements by taking up a share of the underlying assets and liabilities, revenues and expenses. This accounting can only be continued if the arrangement gives the mining company a direct share of the underlying assets and liabilities (which is often the case for unincorporated joint venture arrangements) and may therefore significantly impact revenues, gross margins, gearing and other key financial ratios. Equity-accounted earnings are shown 'further down' the income statement, which may further distort measures such as earnings before interest, tax, depreciation and amortisation (EBITDA).

What are the transitional provisions?

Upon adoption, entities will be required to apply the requirements of IFRS 11 from the beginning of the earliest period presented.

What should be done?

Assess how IFRS 11 will affect the accounting for new and existing joint arrangements. If the standard will have a significant impact, communicate this to stakeholders. Consider restructuring the terms of the arrangement if you would like to retain the current account treatment.

PwC has been providing professional services to energy and resources entities for more than 100 years. Using our insight and experience, we help entities confront the industry's many challenges, including those related to the application of International Financial Reporting Standards.

For more information, please speak to your local PwC contact or one of our specialist resources experts listed below.

Pieter Hough
+27(11) 797 4158
pieter.hough@za.pwc.com

Coenraad Richardson
+27(11) 797 4713
coenraad.richardson@za.pwc.com

Lihor Spazzoli
+ 27 (11) 797 4826
lihor.spazzoli@za.pwc.com

Ashley Schoombee
+27(11) 797 4960
a.schoombee@za.pwc.com

Renshia van Noordwyk
+27 (11) 797 4091
renshia.van.noordwyk@za.pwc.com

Marion East
+27(11) 797 5783
marion.a.east@za.pwc.com

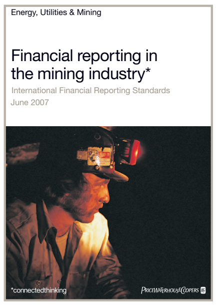
Other publications of interest…

Mine 2011 – The game has changed – is PwC's latest annual review of the performance of the top 40 Mining companies and trends in the global mining industry.

Mine 2011 - Global mining trends

These are interesting times for the mining industry, with increasing scrutiny from governments, customers and other stakeholders. Growing demand for its products, driven by emerging markets, highlights that supply will be the most significant challenge it will face. The shift in balance is a positive one , but it will not be simple and will take some managing.

Financial reporting in the mining industry: International Financial Reporting Standards provides a comprehensive analysis of financial reporting in the global mining industry. It sets out the major accounting practices adopted by the mining industry under IFRS in respect of issues of particular relevance to the mining sector. We are currently updating this publication to address all recent changes and developments in IFRS and industry practice.



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