THE VALUE RELEVANCE OF EXPLORATION AND EVALUATION EXPENDITURES (TIMES NEW ROMAN, SIZE 14)

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# ABSTRACT

The International Accounting Standards Board (IASB) issued International Financial Reporting Standards (IFRS) 6 Exploration for the Evaluation of Mineral Resources in 2004, applicable from January 2005. This was subsequently adopted by the Australian Accounting Standards Board (AASB) and issued as AASB 6 Exploration for the Evaluation of Mineral Resources, applicable the same year[3]. The accounting standard represents an interim measure and focuses only on pre-production costs. The attention on pre-production costs is likely to increase corporate focus on measurement and disclosure of activities relating to these phases of operations, thus improving the quality of disclosure. Further, AASB 6 provides greater detail on what should be included in exploration and evaluation expenditure and the subsequent measurement of capitalised exploration and evaluation expenditure. As a result, it could be argued that AASB 6 takes a more “rules-based” approach than was evident in AASB 1022, and we would anticipate an improvement in the disclosure and measurement of exploration and evaluation expenditures, leading to more value-relevant information. Consequently, we examine the relative value relevance pre- and post-adoption of AASB 6.

***Keywords:***Value relevance, IFRS, Extractives, Exploration and evaluation expenditures

# INTRODUCTION (Heading level 1)

This paper aims to investigate the value relevance of the various components of exploration and evaluation expenditures in the Australian extractives industry. Whether exploration and evaluation expenditures is more value

relevant, following the adoption of AASB 6, and whether it differs for firms engaged only in exploration when compared to those also engaged in mining production is also examined.

## Design/methodology/approach (heading level 2 and above)

This paper uses a modified Ohlson model as a benchmark against which to compare an alternative valuation model featuring the disclosed components of exploration and evaluation expenditures. A sample comprising 430 firm-year observations between 2003 and 2009 is utilised.

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