IASB ISSUES INTERPRETATION ON STRIPPING COSTS

The International Accounting Standards Board (IASB) recently issued IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*.

Background

In surface mining operations, entities may find it necessary to remove mine waste materials (overburden) to gain access to mineral ore deposits. During the development phase of the mine (pre-production), stripping costs are usually capitalised as part of the depreciable cost of the mine, and amortised on a systematic basis once production begins, usually using the units of production method. However, mining entities may continue to remove overburden and incur stripping costs during the production phase of the mine.

The Interpretation applies to waste removal (stripping costs) incurred in surface mining activity during the production phase of the mine, and addresses the following issues:

- Recognising production stripping costs as an asset
- Initial measurement of the stripping activity asset
- Subsequent measurement of stripping activity asset.

Recognising production stripping costs as an asset

If benefits from stripping activity is realised in the form of inventory produced, stripping costs must be accounted for under IAS 2 *Inventories*.

If stripping activity results in improved access to the ore, such stripping costs must be recognised as a non-current asset (stripping activity asset) if **all** of the following criteria are met:

- It is probable that future economic benefits from the stripping activity, in the form of improved access to the ore body, will flow to the entity
- The entity can identify the component of the ore body for which access has been improved
- The costs relating to the stripping activity asset associated with that component can be measured reliably.

The stripping activity asset must be accounted for as an addition to, or enhancement of, an existing asset, with the stripping activity asset being accounted for as part of an existing asset. The stripping activity asset's classification as tangible or intangible is the same as the existing asset of which it forms a part. In other words, if the existing asset is tangible, then the stripping activity asset is classified as a tangible asset, and if the existing asset is intangible, then the stripping activity asset is classified as an intangible asset.

Initial measurement of the stripping activity asset

The stripping activity asset must be initially measured at cost. Cost is the accumulation of costs directly incurred to perform the stripping activity which results in improved access to the identified component of ore, plus directly attributable overhead costs.

Costs associated with incidental operations, which are not necessary for the production stripping activity to continue as planned, cannot be included in the stripping activity asset.

If the costs of the stripping activity asset and inventory produced cannot be separately identified, production stripping costs must be allocated between inventory produced and the stripping activity asset by using an allocation basis that is based on a relevant production measure. The production measure must be calculated for the identified component of the ore body and used as a benchmark to identify the extent to which the stripping activity has created future economic benefits. Examples of such measures include:

- Cost of inventory produced compared with expected cost
- Volume of waste extracted compared with expected volume for given volume of ore production
- For a given quantity of ore produced, mineral content of ore extracted compared with expected mineral content to be extracted.

Subsequent measurement of stripping activity asset

After initial recognition, the stripping activity asset must be carried at cost or revalued amount, less depreciation or amortisation, and less impairment losses. In other words, it must be measured in the same way as the asset of which it forms a part.

The asset must be depreciated on a systematic basis over the expected useful life of the **identified component of the ore body** that becomes more accessible as a result of the stripping activity. The units of production method must be applied unless another method is more appropriate.

Generally, the expected useful life of the identified component of the ore body used to depreciate the stripping activity asset will be **less** than the expected useful life of the mine and related life-of-mine assets. This is because generally the stripping activity asset will only provide improved access to a component of the ore body and not to the whole of the ore body.

Application date

The start date for the Interpretation is for annual periods beginning on or after 1 January 2013 and may be adopted early. The requirements of IFRIC 20 will only need to be applied to stripping costs incurred on or after **the beginning of the earliest period presented**.

Example one:

XYZ Mine Limited has always had a policy of expensing stripping activity costs. XYZ Mine Limited has a December year end.

When IFRIC 20 is first adopted, the earliest period presented will be for the year ended 31 December 2012.

The transitional requirements of IFRIC 20 will apply to stripping costs incurred on or after 1 January 2012. This means that all stripping costs expensed prior to 1 January 2012 do not need to be capitalised retrospectively.

However, all stripping costs expensed for the year ended 31 December 2012 will need to be capitalised if all initial recognition criteria are met.

Example two:

XYZ Mine Limited has always had a policy of capitalising stripping activity costs as a separate asset. XYZ Mine Limited has a December year end.

When IFRIC 20 is first adopted, the earliest period presented will be for the year ended 31 December 2012.

The separate stripping activity asset will need to be reclassified as part of an existing asset to which the stripping activity related on 1 January 2012, and depreciated/amortised over the remaining expected useful life of the identified component of ore body to which the stripping activity asset relates.

If on 1 January 2012 there is no identifiable component of ore body to which the stripping activity asset relates, the separate asset must be recognised in opening retained earnings on that date.