IFRS Global office
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IFRS in Focus
IFRS Interpretations Committee issues Final Interpretation on Stripping Costs in the Production Phase of a Surface Mine

Contents

The Bottom Line

- The costs from a stripping activity which provide improved access to ore should be recognised as a non-current asset ("stripping activity asset") when certain criteria are met, whereas the costs of normal ongoing operational stripping activities should be accounted for in accordance with the principles of IAS 2 *Inventories*.
- The stripping activity asset should be accounted for as an addition to, or as an enhancement of, an existing asset and classified as tangible or intangible according to the nature of the existing asset of which it forms part.
- The stripping activity asset should be initially measured at cost and subsequently carried at cost or its revalued amount less depreciation or amortisation and impairment losses.
- Entities will need to consider carefully the identification of the ore body or component of ore body to which capitalised costs relate as this will determine how the asset is depreciated.
- The interpretation is effective for annual periods beginning on or after 1 January 2013, with early application permitted.

The new interpretation

On 19 October 2011, the IFRS Interpretations Committee ('the Committee') published IFRIC Interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine* ('IFRIC 20'). IFRIC 20 applies to all types of natural resources that are extracted using the surface mining activity process.

In surface mining operations, entities may need to remove waste materials to access mineral ore deposits. The material removed during the production phase will often be a combination of ore and waste that can vary in grade. The removal of low grade materials may produce usable inventory as well as providing access to deeper levels of higher grade material.

IFRIC 20 addresses the following issues:

- recognition of production stripping costs as an asset;
- initial measurement of the stripping activity asset; and
- subsequent measurement of the stripping activity asset.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

Recognition of production stripping costs as an asset

If the benefit from the stripping activity is realised in the form of inventory produced, the entity should account for the costs of that stripping activity in accordance with the principles of IAS 2 *Inventories*.

If the benefit from the stripping activity is realised in the form of improved access to ore deposits, the entity should recognise these costs as a non-current asset ("stripping activity asset"), if the following criteria are met:

a) it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;

b) the entity can identify the component of the ore body for which access has been improved; and

c) the costs relating to the stripping activity associated with that component can be measured reliably.

The stripping activity asset should be accounted for as an addition to, or as an enhancement of, an existing asset and classified as tangible or intangible according to the nature of the existing asset of which it forms part.

Observation

In developing IFRIC 20, the Committee identified diversity in practice in accounting for production stripping costs, with some entities recognising all stripping costs as an immediate production costs expense and others capitalising stripping costs using approaches such as the 'life-of-mine ratio' or other similar approaches.

IFRIC 20 rules out immediate expensing of all stripping costs and standard cost approaches based on the total expected costs to be incurred over the life of the mine. It requires accounting for the actual costs incurred and a granular approach, which means entities using a standard cost approach will need to consider the extent to which that differs from actual costs incurred and the materiality of using the life of mine approach rather than identified components of the mine.

Stripping costs incurred at the development stage are generally treated as relating to the mine as a whole, and therefore following the introduction of IFRIC 20 the distinction between the development and production phases may become more important, but the Interpretation provides no further guidance on how to determine when the production phase commences.

In addition to the diversity in measurement and recognition of production stripping costs, there is also current diversity in the presentation of any stripping activity asset and this Interpretation is expected to bring more consistency to the classification.

Initial measurement of the stripping activity asset

The stripping activity asset should be initially measured at cost being those "costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs". Costs associated with incidental operations should not be included in the cost of the stripping activity asset.

Observation
The Committee identified the following examples of directly attributable overhead costs which would be included in the stripping activity asset:

- an allocation of salary costs of the mine supervisor overseeing that component of the mine; and

- an allocation of rental costs of any equipment that was hired specifically to perform the stripping activity.

The building of an access road in the area in which the stripping campaign is taking place is provided as an example of an incidental operation, the costs of which would not be included in the stripping activity asset.

If the costs of the stripping activity asset and of the inventory produced are not separately identifiable, those costs should be allocated between the inventory produced and the stripping activity asset by using an allocation basis that is based on a relevant production measure calculated for the identified component of the ore body. This measure should be used as a benchmark to identify the extent to which additional activity of creating a future benefit has taken place. Examples of such a measure include:

- cost of inventory produced compared with expected cost;

- volume of waste extracted compared with expected volume, for a given volume of ore production; and

- mineral content of the ore extracted compared with expected mineral content to be extracted, for a given quantity of ore produced.

Subsequent measurement of the stripping activity asset

The asset should be depreciated or amortised 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 should be applied unless another method is more appropriate. The expected useful life of the identified component of the ore body will differ from the expected useful life of the mine itself and the related life-of-mine assets, unless the stripping activity provides improved access to the whole of the remaining ore body (e.g., "towards the end of a mine's useful life when the identified component represents the final part of the ore body to be extracted").

Observation
An entity will need to consider whether a previous accounting policy for the initial measurement and subsequent depreciation/amortisation of a stripping activity asset is appropriate under IFRIC 20. In doing so, an entity should consider not only the allocation method used to identify the cost of the stripping activity asset and the method used to depreciate/amortise that asset, but also whether this method has been applied to an appropriately identified component of the ore body.

Effective date and transition

IFRIC 20 is effective for annual periods beginning on or after 1 January 2013, with early application permitted.

An entity should apply the Interpretation to production stripping costs incurred on or after the beginning of the earliest period presented. Existing asset balances that resulted from stripping activity as at the date of transition should be reclassified as part of an existing asset to which the stripping activity relates and depreciated or amortised over the remaining expected useful life of the identified component of the ore body to which each existing asset balance relates. When there is no identifiable component of the ore body to which that existing asset balance relates, it should be recognised in opening retained earnings at the beginning of the earliest period presented.

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