Straight away
IFRS bulletin from PwC

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IFRS IC provides guidance on accounting for stripping costs in production phase of surface mine

What's the issue?

IFRIC 20, 'Stripping costs in the production phase of a surface mine', sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. The interpretation may require mining entities reporting under IFRS to write off existing stripping assets to opening retained earnings if the assets cannot be attributed to an identifiable component of an ore body.

Objective and scope

Stripping costs incurred once a mine is in production often provide benefits for current production and access to future production. The challenge has always been how to allocate the benefits and then determine what period costs are versus an asset that will benefit future periods. The IFRIC was developed to address current diversity in practice. Some entities have judged all stripping costs as a cost of production, and some entities capitalise some or all stripping costs as an asset.

IFRIC 20 applies only to stripping costs that are incurred in surface mining activity during the production phase of the mine. It does not address underground mining activity or oil and natural gas activity. Oil sands, where extraction activity is seen by many as closer to that of mining than traditional oil and gas extraction, are also outside the scope of the interpretation.

The transition requirements of the interpretation may have a significant impact on a mining entity that has been using a general capitalisation ratio to record deferred stripping. Existing asset balances that cannot be attributed to an identifiable component of the ore body will need to be written off to retained earnings.

Key provisions

IFRIC 20 addresses the following issues:

1. Is the definition of an asset met?

Stripping activity may create two types of benefit: (i) inventory produced and (ii) improved access to the ore. An entity should assess whether the benefits of the stripping activity fall within either of those categories. The benefit of improved access to the ore will qualify as a non-current asset only when:

(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 improved access to that component can be measured reliably.

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2. When should the asset be recognised?

Stripping costs that relate to inventory produced should be accounted for as current production cost in accordance with IAS 2, 'Inventories'. Stripping costs that generate a benefit of improved access and meet the above definition of an asset should be accounted for as an addition to or enhancement of an existing asset (stripping activity asset); it is not an asset in its own right. The capitalised costs are classified as tangible or intangible according to the nature of the existing asset.

3. How should the stripping activity asset be measured initially?

The stripping activity asset should initially be measured at the direct costs incurred. These costs include haulage, waste transportation, materials consumed, costs of machinery employed, labour and fuel. An allocation of directly attributable overhead costs may also be made.

It may be difficult to separate the costs incurred that create the future benefit (stripping activity asset) and the costs related to current period inventory production. Entities will allocate total costs between the inventory produced and the stripping activity asset using a relevant production measure. The production measure is calculated for the identified component of the ore body and used to identify the extent to which the additional activity has created an asset. IFRIC 20 provides examples of such measures, including volumes of waste extracted compared with expected volumes for given production levels.

Entities currently using 'stripping ratios' may find the new requirements similar to their existing approach, although the basis of the ratio will be the identified component and not the full life-of-mine.

4. How should the stripping activity asset be measured subsequently?

The stripping activity asset is carried at cost or revalued amount (per IAS 16, 'Property, plant and equipment') less depreciation or amortisation and impairment losses. It is depreciated or amortised in a rational and systematic manner over the useful life of the relevant identified component of the ore body. This is expected to be shorter than the useful life of the mine in most cases. The units-of-production method is applied unless another method is more appropriate.

Am I affected?

All surface mining companies applying IFRS will be affected by the interpretation. The interpretation applies to all stripping activity as of the effective date of 1 January 2013, with early application permitted if disclosed. An entity that has been expensing all production period stripping will begin capitalising from the date of adoption of the interpretation.

Any existing stripping cost asset balances at the date of transition are written off to opening retained earnings unless they relate to an identifiable component of the ore body.

IFRC 20 also amends IFRS 1, 'First-time adoption of IFRS'. First-time adopters would be allowed to apply the transition provisions with effective date at the later of 1 January 2013 or the transition date.

What do I need to do?

IFRIC 20 is applicable for annual periods beginning on or after 1 January 2013. Existing IFRS preparers may be most interested in the transition provisions in the interpretation.

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