

# Briefing Sheet

Draft Interpretation DI/2010/1 *Stripping Costs in the Production Phase of a Surface Mine*

August 2010, **Issue 207**

This Briefing Sheet summarises Draft Interpretation DI/2010/1 *Stripping Costs in the Production Phase of a Surface Mine*, which was published by the IASB<sup>1</sup> on 26 August 2010. Comments are due to the IFRS Interpretations Committee by 30 November 2010.

The draft interpretation in effect proposes component accounting for production stripping costs. The key proposals are:

- Production stripping costs that meet certain criteria would be capitalised as a component of the larger asset to which they relate.
- Subsequent to initial recognition, the component would be recognised at cost less depreciation/amortisation and less any impairment losses.
- The period of depreciation/amortisation would be based on the expected useful life of the specific section of ore body that becomes directly accessible as a result of the stripping activities.

**Our forthcoming publication *New on the Horizon: Production stripping costs* will provide more detail about the draft interpretation and discuss application issues. Speak to your usual KPMG contact if you would like a copy of this publication.**

## Background

During the production phase of surface mining, waste removal activities are undertaken. The costs incurred in these activities commonly are known as "stripping" costs. The IFRS Interpretations Committee noted that there is diversity in practice in how entities account for production stripping costs, including expensing all production stripping costs as incurred, and capitalising some or all production stripping costs and amortising them based on a life-of-mine calculation.

## Summary of the proposals

The draft interpretation proposes that production stripping costs incurred as part of a stripping campaign be capitalised as a component of an existing asset when the definition of an asset is met; a *stripping campaign* is a systematic effort to gain access to a specific section of ore body.

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The stripping campaign component would be classified as tangible or intangible, consistent with the classification of the larger asset to which the component relates. The component would be recognised initially based on the costs incurred, including an allocation of directly attributable costs. The cost of incidental operations, i.e. those not necessary for the stripping campaign to continue as planned, would be expensed as incurred.

Subsequent to initial recognition, the stripping campaign component would be recognised at cost less depreciation/amortisation (usually based on the unit-of-production method) and less any impairment losses (determined in accordance with IAS 36 *Impairment of Assets*).

The period of depreciation/amortisation would be based on the expected useful life of the specific section of ore body that becomes directly accessible as a result of the stripping campaign. The basis for conclusions includes a comment to the effect that the IFRS Interpretations Committee does not expect depreciation/amortisation to be based on a life-of-mine calculation;

this is because the principle in the draft interpretation is to allocate the stripping component to an appropriate section of ore body.

Routine production stripping costs, i.e. costs that are not part of a stripping campaign, would be included in current period production costs.

### Prospective application

It is proposed that the final interpretation apply prospectively from an effective date still to be decided; early adoption would be permitted.

Any existing asset balance related to production stripping at the effective date would be reclassified as a component of the larger asset to which it relates, and accounted for in accordance with the proposals prospectively; if the component cannot be associated with an identifiable section of ore body, then the asset would be recognised in profit or loss at the beginning of the earliest period presented. Any existing liability balance related to production stripping at the effective date would be recognised in profit or loss at the beginning of the earliest period presented.

### Relief for first-time adopters of IFRSs

The draft interpretation proposes to give first-time adopters of IFRSs the option to apply the transition requirements for existing users of IFRSs at the later of the effective date of the final interpretation and the date of transition to IFRSs.

If you would like further information on any of the matters discussed in this issue of *Briefing Sheet*, please talk to your usual local KPMG contact or call any of KPMG firms' offices.

## Abbreviations

- 1 IASB: International Accounting Standards Board

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