Grant Thornton

Technical Accounting Alert

IFRIC publishes guidance on production stripping costs in the mining sector

Introduction

The purpose of this alert is to provide a brief summary of the new Interpretation 20 issued by IFRIC providing guidance on accounting for production stripping costs in the mining sector.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

The IFRS Interpretations Committee (IFRIC) published IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* on 20 October 2011. IFRIC 20 sets out authoritative guidance on accounting for costs incurred by mining companies in removing waste materials to gain access to mineral ore deposits ("stripping costs").

Main requirements

The accounting treatment of stripping costs under IFRIC 20 depends on whether the related activity results in inventory production or in improved access to ore deposits. In summary:

- IAS 2 *Inventories* applies if the benefits from the activity are realised through inventory production;
- costs incurred on improving access to ore deposits are recognised as a "stripping activity asset" if certain conditions are met. This asset is treated as an addition to, or as an enhancement of, an existing asset. The stripping activity asset's classification as a tangible or intangible asset is the same as the existing asset; and
- costs incurred on dual purpose activities are allocated by using an allocation basis that is based on a relevant production measure.

IFRIC 20 includes more guidance on the asset recognition conditions, cost allocation and on the initial and subsequent measurement of stripping activity assets.

Effective date

IFRIC 20 applies for annual periods beginning on or after 1 January 2013. Earlier application is permitted. It applies to stripping costs incurred on or after the beginning of the earliest period presented.

Grant Thornton comment

In the absence of a comprehensive IFRS on accounting in the extractive industries sector, various inconsistent accounting practices have emerged. IFRIC 20 should lead to greater consistency on one important but quite specific issue. We have no objection to IFRIC 20, but also we think that issuing guidance on narrow issues such as this does not respond adequately to the need for a broader review of accounting practices in the extractive sector.

Further information

For further information on any of the information included in this TA alert, please contact your local Grant Thornton Australia contact or a member of the National Audit Support team at nationalaudit.support@au.gt.com