HK(IFRIC) – Int 20 *Stripping Costs in the Production Phase of a Surface Mine*

HKICPA Standard Setting Department Staff Summary (November 2011)

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The HKICPA Standard Setting Department welcomes your comments and feedback, which should be sent to commentletters@hkicpa.org.hk.

Introduction

1. HK(IFRIC) – Int 20 *Stripping Costs in the Production Phase of a Surface Mine* provides guidance on the accounting for waste removal (stripping) costs incurred in the production phase of a surface mine ('production stripping costs').

2. Entities are required to apply the Interpretation for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

Reasons for issuing HK(IFRIC) – Int 20

3. The objective of the Hong Kong Institute of Certified Public Accountants (HKICPA) in issuing HK(IFRIC) - Int 20 is to maintain international convergence arising from the issuance of IFRIC 20 by the IFRS Interpretations Committee.

4. HK(IFRIC) – Int 20 addresses the following issues:
   a. Recognition of production stripping costs as an asset;
   b. Initial measurement of the stripping activity asset; and
   c. Subsequent measurement of the stripping activity asset.

Main features of the Interpretation

5. The IFRS Interpretations Committee identifies that an entity may create two benefits by undertaking stripping activity (and incurring stripping costs). These benefits are the extraction of the ore in the current period, and improved access to the ore body for a future period. The result of this is that the activity creates an inventory asset and a non-current asset.

6. To the extent that the benefit from the stripping activity is realized in the form of inventory produced, the entity shall account for the costs of that stripping activity in accordance with the principles of HKAS 2 *Inventories*.

7. To the extent that the benefit is the improved access to ore, the entity shall recognise these costs as a non-current asset, if it meets the definition of an asset

contained in the *Conceptual Framework* as well as the entity can specifically identify the component of the ore body for which access has been improved. The identified component of the ore body would typically be a subset of the total ore body of the mine.

8. The stripping cost asset should be recognised as part of an existing asset. 'Part' refers to the addition to, or enhancement of, the existing asset that relates to the stripping activity asset.

9. In relation to the initial measurement of the stripping activity asset, the entity shall measure the stripping activity asset initially at cost.

10. When the costs of the stripping activity asset and the inventory produced are not separately identifiable, the entity shall allocate the production stripping costs between the inventory produced and the stripping activity asset by using an allocation basis that is based on a relevant production measure.

11. The cost of the stripping activity asset should subsequently be depreciated or amortised over the expected useful life of the identified component of the ore body that is made more accessible by the activity, on a basis that best reflects the consumption of economic benefits. The units of production method is commonly used, and would be focused only on the identified component of the ore body, the access to which has been improved by the stripping activity.

12. Because the life of the identified component is expected to be only a part of the entire life of the mine, the stripping activity asset will be depreciated or amortised over a shorter period than the life of the mine, unless the stripping activity provides improved access to the whole of the remaining ore body.

Other references on IFRIC 20

1. Deloitte IFRS in Focus on Final Interpretation on Stripping Costs in the Production Phase of a Surface Mine

   http://www.iasplus.com/iasplus/1110ifric20.pdf

2. Ernst & Young "IFRS developments" on Accounting for waste removal costs

   http://www.ey.com/Publication/vwLUAssets/IFRS_October_2011/$FILE/IFRS-Developments-for-Mining-Metals-Accounting-for-waste-removal-costs.pdf

3. KPMG 'In the headlines' on Changes in accounting for production stripping costs likely

   http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Newsletters/In-the-headlines/Documents/In-the-headlines-O-201110-33.pdf

4. KPMG 'First Impressions' on Production stripping costs

   http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Newsletters/First-Impressions/Documents/First-Impressions-O-1110-Production-stripping-costs.pdf

5. PricewaterhouseCoopers 'Straight away' on IFRIC 20

   https://pwcinform.pwc.com/inform2/show?action=informContent&id=1105212610099440

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