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Accounting for waste removal costs

Update on the July 2011 IFRS Interpretations Committee meeting

IFRS developments

Mining & metals

What you need to know

- The IFRS Interpretations Committee deliberated on the near final Interpretation at its July 2011 meeting
- Certain additional changes were considered, such as accounting under a revaluation model
- An effective date of 1 January 2013 was recommended
- The Interpretations Committee confirmed that there was consensus, subject to a final review of drafting changes
- The Interpretation will be submitted to the IASB for ratification at its September 2011 meeting

Background

The IFRS Interpretations Committee (the Interpretations Committee) considered the near final Interpretation on accounting for waste removal costs during the production phase of a surface mine at its July 2011 meeting.

Recap of proposals in the near final Interpretation

- Waste removal (stripping) costs would be capitalised during the production phase of a surface mine, if certain criteria are met
- The criteria are: the stripping activity meets the definition of an asset (i.e., generates future economic benefits and is reliably measurable) and that the entity can identify which component/s of the ore body for which access has been improved
- This asset would be referred to as a stripping activity asset (‘the asset’)
- The asset would initially be recognised at cost plus directly attributable overhead costs
- Costs would either be directly allocated to the asset, or where not possible, a rational and consistent allocation approach would be permitted (using some form of production based metric)
- The asset represents an addition to, or enhancement of, an existing asset
- The asset would subsequently be carried at cost, less depreciation and impairment (refer below for further discussions regarding implications for those entities using the revaluation model)
- The Interpretation is to apply prospectively and there are specific transitional provisions for any stripping costs previously recognised as an asset (or liability) before the effective date of this Interpretation

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In addition to considering the near final Interpretation presented at the meeting, the following matters were discussed and agreed:

- To amend the near final Interpretation to acknowledge the revaluation alternative for subsequent measurement, according to the measurement model used for the entity's mine assets
- To recommend to the Board that the effective date of the Interpretation should be 1 January 2013, with earlier application permitted

The Interpretations Committee also confirmed that there was consensus on the near final Interpretation, subject to its final review of drafting changes. The Interpretation is to be submitted to the International Accounting Standards Board (the Board) for ratification at the Board's September 2011 meeting.

What does this mean for you?

The proposals in the near final Interpretation represent a change from the current life of mine average strip ratio approach used by many mining and metals entities reporting under IFRS.

Depending on the specific facts and circumstances of an entity's mine/s, these changes many impact both the Statement of Financial Position and profit or loss. In addition, changes may also be required to processes, procedures and systems of the reporting entity.

Given this, we encourage entities to ensure they understand the requirements being proposed (and those ultimately finalised) and begin to assess the impact on their business.

Ernst & Young solutions and key contacts

Ernst & Young will issue a more detailed publication once the Interpretation is finalised (this is likely to occur in September 2011) to summarise the main requirements and consider the implications for mining and metals entities.

If you have any questions regarding this matter, please contact:

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