Final Pronouncement
November 2024

IPSAS®

International Public Sector Accounting Standard®

Stripping Costs in the Production Phase of a Surface Mine (Amendments to IPSAS 12)

IPSASB International Public Sector Accounting Standards Board®

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting and sustainability reporting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances and sustainable development.

In meeting this objective, the IPSASB sets International Public Sector Accounting Standards™ (IPSAS®), IPSASB Sustainability Reporting Standards™ (IPSASB SRS™) and Recommended Practice Guidelines™ (RPG™) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS Accounting Standards relate to the general purpose financial statements (financial statements) and are authoritative. IPSASB SRS Standards relate to sustainability disclosures and are authoritative. RPG Guidelines are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS Accounting Standards and IPSASB SRS Standards, RPG Guidelines do not establish requirements. IPSASB SRS Standards and RPG Guidelines do not provide guidance on the level of assurance (if any) to which information should be subjected.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).

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Amendments to IPSAS 12, *Inventories*

Paragraphs 51K, 52A–52C, and Appendix A are added. The heading above paragraph 51 is amended. The heading above paragraph 52A is added. New text is underlined.

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Effective Date <u>and Transition</u>

Effective Date

…

<u>51K.</u> <u>**Appendix A was added by *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12) issued in November 2024. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2027. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2027, it shall disclose that fact.**</u>

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<u>Transition</u>

<u>52A. An entity shall apply Appendix A to production stripping costs incurred on or after the beginning of the earliest period presented.</u>

<u>52B. As at the beginning of the earliest period presented, any previously recognized asset balance that resulted from stripping activity undertaken during the production phase (‘predecessor stripping asset’) shall be reclassified as a part of an existing asset to which the stripping activity related, to the extent that there remains an identifiable component of the ore body with which the predecessor stripping asset can be associated. Such balances shall be depreciated or amortized over the remaining expected useful life of the identified component of the ore body to which each predecessor stripping asset balance relates.</u>

<u>52C. If there is no identifiable component of the ore body to which that predecessor stripping asset relates, it shall be recognized in opening accumulated surplus or deficit at the beginning of the earliest period presented.</u>

Appendix A

Stripping Costs in the Production Phase of a Surface Mine

This Appendix is an integral part of IPSAS 12.

Introduction

A1. In surface mining operations, entities may find it necessary to remove mine waste materials ('overburden') to gain access to mineral ore deposits. This waste removal activity is known as 'stripping'.

A2. During the development phase of the mine (before production begins), stripping costs are usually capitalized as part of the depreciable cost of building, developing and constructing the mine. Those capitalized costs are depreciated or amortized on a systematic basis, usually by using the units of production method, once production begins.

A3. A mining entity may continue to remove overburden and to incur stripping costs during the production phase of the mine.

A4. The material removed when stripping in the production phase will not necessarily be 100 per cent waste; often it will be a combination of ore and waste. The ratio of ore to waste can range from uneconomic low grade to profitable high grade. Removal of material with a low ratio of ore to waste may produce some usable material, which can be used to produce inventory. This removal might also provide access to deeper levels of material that have a higher ratio of ore to waste. There can therefore be two benefits accruing to the entity from the stripping activity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods.

A5. This Appendix considers when and how to account separately for these two benefits arising from the stripping activity, as well as how to measure these benefits both initially and subsequently.

Scope

A6. This Appendix applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ('production stripping costs').

A7. This Appendix 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.

Application of IPSAS to Stripping Cost in the Production Phase of a Surface Mine

Recognition of production stripping costs as an asset

A8. 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 IPSAS 12, *Inventories*. To the extent the benefit is improved access to ore, the entity shall recognize these costs as a non-current asset, if the criteria in paragraph A9 below are met. This Appendix refers to the non-current asset as the 'stripping activity asset'.

A9. An entity shall recognize a stripping activity asset if, and only if, all of the following are met:

(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 stripping activity associated with that component can be measured reliably.

A10. The stripping activity asset shall be accounted for as an addition to, or as an enhancement of, an existing asset. In other words, the stripping activity asset will be accounted for as part of an existing asset.

A11. The stripping activity asset's classification as a tangible or intangible asset is the same as the existing asset. In other words, the nature of this existing asset will determine whether the entity shall classify the stripping activity asset as tangible or intangible.

Initial measurement of the stripping activity asset

A12. The entity shall initially measure the stripping activity asset at cost, this being the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs. Some incidental operations may take place at the same time as the production stripping activity, but which are not necessary for the production stripping activity to continue as planned. The costs associated with these incidental operations shall not be included in the cost of the stripping activity asset.

A13. 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. This production measure shall be calculated for the identified component of the ore body and shall be used as a benchmark to identify the extent to which the additional activity of creating a future benefit has taken place. Examples of such measures include:

(a) Cost of inventory produced compared with expected cost;

(b) Volume of waste extracted compared with expected volume, for a given volume of ore production; and

(c) Mineral content of the ore extracted compared with expected mineral content to be extracted, for a given quantity of ore produced.

Subsequent measurement of the stripping activity asset

A14. After initial recognition, the stripping activity asset shall be carried, in the same way as the existing asset of which it is a part, at either its:

- Historical cost less any accumulated depreciation or amortization and less any accumulated impairment losses, or
- Its revalued amount, being its fair value at the date of the revaluation, less any subsequent accumulated depreciation or amortization and less any subsequent accumulated impairment losses.

A15. The stripping activity asset shall be depreciated or amortized on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method shall be applied unless another method is more appropriate.

A16. The expected useful life of the identified component of the ore body that is used to depreciate or amortize the stripping activity asset will differ from the expected useful life that is used to depreciate or amortize the mine itself and the related life-of-mine assets. The exception to this are those limited circumstances when the stripping activity provides improved access to the whole of the remaining ore body. For example, this might occur towards the end of a mine's useful life when the identified component represents the final part of the ore body to be extracted.

Appendix B

Amendments to Other IPSAS

Amendments to IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)*

Paragraphs 62F, 62G, and 154Q are added. The heading above paragraph 62H is added. New text is underlined.

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Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Period of Transition

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***Stripping Costs in the Production Phase of a Surface Mine (*Amendments to IPSAS 12)**

62F. **Where a first-time adopter takes advantage of the exemption in paragraph 36 which allows a three-year transitional relief period to not recognize assets, it is not required to apply the requirements related to stripping activity assets until the exemption that provided the relief has expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS (whichever is earlier).**

62G. This IPSAS allows a first-time adopter a period of up to three years from the date of adoption of IPSAS to recognize assets in accordance with IPSAS 45 or IPSAS 31, whichever applies. During this period, a first-time adopter may need to consider the recognition requirements of this IPSAS at the same time as considering the recognition of exploration and evaluation assets in this IPSAS. Where a first-time adopter takes advantage of the exemption in accordance with IPSAS 45 or IPSAS 31, whichever applies, it is not required to recognize stripping activity assets until the exemptions that provided relief have expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS (whichever is earlier).

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Effective Date

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154Q. **Paragraphs 62H and 62I were added by *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12), issued in November 2024. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2027. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2027, it shall disclose that fact.**

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Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 12.

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Revision of IPSAS 12 as a result of *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12)

BC9. This Appendix A clarifies existing guidance on accounting for stripping costs in the production phase of a surface mine and applies to all types of natural resources that are extracted using this process. The IPSASB agreed this guidance is required in accounting for such costs in the public sector.

BC10. The IPSASB did not identify any public sector specific reasons to depart from principles in IFRIC 20 in the development of this revision, except for terminology and other IPSASB-specific formatting and consistency amendments.

BC11. The IPSASB noted a common change made when the new guidance is aligned with IFRS is to include the principle of 'service potential' with 'economic benefit' when evaluating whether an asset can be recognized. In this case The IPSASB agreed not to amend the recognition criteria in paragraph A9 of Appendix A, because it is expected that entities conduct these operations for commercial purposes, and not for service delivery reasons.

BC12. The IPSASB agreed to align with IFRIC 20 and the application of the guidance to operations of a commercial nature. Therefore, stripping activity assets are held for their financial capacity (i.e., commercial purpose), to which the fair value measurement basis applies.

BC13. The IPSASB noted that it does not develop separate interpretative pronouncements. Rather, the IPSASB incorporates interpretive guidance as Appendices in the related IPSAS. The IPSASB considered the placement of the interpretive guidance on stripping costs in either IPSAS 12, Inventories, IPSAS 31, Intangible Assets, or IPSAS 45, *Property, Plant, and Equipment*, and concluded that stripping costs, similar to other costs incurred to produce inventory, ultimately are capitalized, whether directly (e.g., direct labor) or indirectly (e.g., production overheads such as depreciation), in the cost of mineral inventory produced by a surface mine, from which the surface mine will derive benefits through the sale of the mineral inventory. Therefore, due to this relationship between stripping activities and the cost of inventory produced, the IPSASB decided that the guidance aligned with IFRIC 20 be included as Appendix A to IPSAS 12, and not also as an appendix to IPSAS 31 or IPSAS 45, to limit duplication of guidance in IPSAS.

Comparison with IAS 2

IPSAS 12, *Inventories* is drawn primarily from IAS 2 *Inventories* (Revised 2003).

The main differences between IPSAS 12 and IAS 2 are as follows:

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- <u>Principles from IFRIC 20 have been included as an authoritative appendix to IPSAS 12 with relevant public sector terminology changes. The IASB issues IFRIC interpretations as separate pronouncements.</u>

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