108 OG No. 34, 4296 (August 20, 2012)

[PRC RESOLUTION NO. 73 SERIES OF 2012, June 05, 2012]

BOARD OF ACCOUNTANCY

ADOPTION OF THE PRONOUNCEMENT OF FINANCIAL REPORTING STANDARD COUNCIL (FRSC)

WHEREAS, the Financial Reporting Standards Council has approved and submitted the hereunder pronouncements to the Board for approval:

1. Philippine Interpretation IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine;

2. PIC Q and A 2011-01 Requirements for a Third Statement of Financial Position;

3. PIC Q and A 2011-02 Common Control Business Combinations;

4. PIC Q and A 2011-03 Accounting for Inter-company Loans;

5. Mandatory Effective Date of PFRS 9 and Transition Disclosures (Amendments to PFRS 9 and PFRS 7);

6. Offsetting Financial Assets and Financial Liabilities (Amendments to PAS 32); and

7. Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to PFRS 7)

WHEREAS, after a study and review of the provisions of the above-stated pronouncements as adopted by the FRSC, the Board finds them to be well-taken and instructive for compliance by practicing Certified Public Accountants:

WHEREAS, the Board resolves, as it is hereby resolved, to adopt the above-stated pronouncements as part of the Philippine Accounting Standards;

RESOLVED, FURTHER, that this Resolution and the above-stated pronouncement shall take effect after fifteen (15) days following their publication in the *Official Gazette* or any newspaper of general circulation in the Philippines, whichever is earlier.

Done, in the City of Manila, Philippines this 5th day of June, 2012.

(Sgd.) EUGENE T. MATEO
Chairman

(Sgd.) RUFO R. MENDOZA
Vice Chairman

(Sgd.) LUIS A. CAÑETE
Member

(Sgd.) JOSE S. TAYAG, JR.
Member

(Vacant)
Member

(Vacant)
Member

(Vacant)
Member

Attested by:

(Sgd.) CARLOS G. ALMELOR
Secretary
Professional Regulatory Boards

Approved:

(Sgd.) TERESITA R. MANZALA
Chairperson

(Sgd.) ALFREDO Y. PO
Commissioner

(Sgd.) JENNIFER JARDIN-MANALILI
Commissioner

FRSC PREFACE TO PHILIPPINE INTERPRETATION IFRIC 20, STRIPPING COSTS IN THE PRODUCTION PHASE OF A SURFACE MINE

1. The Financial Reporting Standards Council (FRSC) has approved in November 2011, the adoption of IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, issued by the International Accounting Standards Board (IASB) in October 2011 as Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine.*

2. This Interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ('production stripping costs') and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset.

Effective date

3. An entity shall apply this Interpretation for annual periods beginning on or after January 1, 2013 prospectively. Earlier application is permitted.

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FRSC Members

(Sgd.) DAVID L. BALANGUE
Chairman

(Sgd.) JUNE CHERLY A. CABAL

(Sgd.) GREGORIO S. NAVARRO

(Sgd.) BLESILDA A. PESTANO

(Sgd.) ESTER F. LEDESMA

(Sgd.) MA. GRACIA F. CASALS-DIAZ

(Sgd.) VICTOR O. MACHACON

(Sgd.) MA. DOLORES B. YUVIENCO

IFRIC INTERPRETATION 20
STRIPPING COSTS IN THE PRODUCTION PHASE OF A SURFACE MINE

CONTENTS

THE DOCUMENT LISTED BELOW IS NOT INCLUDED HEREIN. THIS MAY BE REFERRED TO IN THE IFRS HANDBOOK PUBLISHED BY THE IASB.

References

- Conceptual Framework for Financial Reporting
- IAS 1 Presentation of Financial Statements
- IAS 2 Inventories
- IAS 16 Property, Plant and Equipment
- IAS 38 Intangible Assets

Background

1. -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'.

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

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

4. 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.

5. This Interpretation 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

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

Issues

7. This Interpretation 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.

Consensus

Recognition of production stripping costs as an asset

8. To the extent that the benefit from the stripping activity is realised in the form of inventory produced, the entity shall account for the costs of that stripping activity in accordance with the principles of IAS 2 *Inventories*. To the extent the benefit is improved access to ore, the entity shall recognise these costs as a non-current asset, if the criteria in paragraph 9 below are met. This Interpretation refers to the non-current asset as the 'stripping activity asset'.

9. An entity shall recognise a stripping activity asset if, and only of 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.

10. 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.

11. 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

12. 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.

13. 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