FASB Emerging Issues Task Force

Issue No. 04-6
Title: Accounting for Stripping Costs Incurred during Production in the Mining Industry

Document: Supplement to Working Group Report No. 1
Date Prepared: September 28, 2004

Topic: Clarification of View D

Working Group Report No. 1 includes the following recommendation to address Issue 1:

> *View D: Stripping costs incurred during production are a mine development cost that should be capitalized as an investment in the mine and attributed to proved reserves benefited in a systematic and rational manner.*

Subsequent to distributing the Working Group Report to the Task Force, questions were raised related to the application of this View in practice. The staff believes that the following addresses those questions.

Clarification No. 1
Under View D, the method of attributing stripping costs to reserves extracted is determined based on the individual facts and circumstances associated with the mine and, therefore, differing methods and rates of attribution would be appropriate under differing scenarios. An enterprise is expected to perform a detailed analysis of these facts and circumstances to support its method of attribution. Furthermore, an enterprise must specifically attribute stripping costs incurred during production to reserves that directly benefit from the stripping activities. That is, if the reserves in the mine are distinct and stripping activities can be identified to benefit only a certain section of the mine or specific reserves, the enterprise would be required to attribute the capitalized stripping costs to the specific reserves benefited.

To further illustrate this principle, consider application of this View to two extreme examples. In the first example, assume that the reserves are located in a horizontal (relative to the land surface) seam and the amount of overburden located above the reserve is consistent throughout the entire seam. The waste is removed and the reserves are extracted directly below the waste removed. This process is repeated in a continuous manner until all reserves are extracted. In this fact pattern, the stripping activity associated with removing the overburden can be directly (and solely) attributed to the reserves extracted beneath the overburden. Therefore, the costs of removing the overburden should be attributed to the specific reserves exposed as a result of the stripping activity. Deferral of these costs to future periods would be prohibited.

In the second example, assume that the reserves are located in a vertical (relative to the land surface) seam and the removal of overburden in required to be completed in layers in order to access the full depth of the ore body. That is, the removal of a "layer" of overburden is required to access reserves extracted in the current period, as well as to access reserves extracted in the future. Given this scenario, the stripping activity is directly associated with all the proven and probable reserves within the mine. Therefore, deferral of a component of the stripping costs may be deferred and attributed to future reserves. Given the difficulty associated with determining the component of the stripping costs that is associated with current production and the component attributable to future reserves, application of a stripping ratio as the attribution rate of the stripping costs to reserves extracted may be a systematic and rational manner.

Clarification No. 2

Consistent with the practice of amortizing pre-production stripping costs over proven and probable reserves, the majority of the Working Group believes that, should a consensus be reached on View D, stripping costs incurred during production should also be attributed to proven and probable reserves. The wording of View D in the Working Group Report inadvertently stated that capitalized stripping costs incurred during production should be attributed to proved reserves. As such, View D was intended to be stated as follows:

> *View D: Stripping costs incurred during production are a mine development cost that should be capitalized as an investment in the mine and attributed to proven and probable reserves benefited in a systematic and rational manner.*