

PROPOSED CONSENSUS MODIFICATION

Issue No. 04-6

Title: Accounting for Stripping Costs Incurred during Production in the Mining Industry

Date Discussed: June 15–16, 2005

At the March 17, 2005 EITF meeting, the Task Force reached the following consensus on Issue 04-6 that was then ratified by the Board at the March 30, 2005 Board meeting:

The Task Force reached a consensus that stripping costs incurred during the production phase of a mine are variable production costs that should be included in the costs of the *inventory produced* during the period that the stripping costs are incurred. [Emphasis added]

The FASB staff has received a number of questions about the meaning of *inventory produced* from mining entities that historically have characterized capitalized stripping costs as work-in-process inventory in their financial statements. The FASB staff believes that the Task Force intended for "inventory produced" to mean "inventory extracted." That is, stripping costs incurred during a period should be attributed to the inventory that is extracted during that period. The FASB staff notes that in the mining industry, mineral deposits are considered to be reserves until the mineral deposits are extracted. Once extracted, the minerals are characterized as inventory. Accordingly, the FASB staff proposes the following change to the EITF minutes and abstract (change underlined):

The Task Force reached a consensus that stripping costs incurred during the production phase of a mine are variable production costs that should be included in the costs of the inventory produced (that is, extracted) during the period that the stripping costs are incurred.

The FASB staff believes that this clarification will result in consistent application of the consensus regardless of whether an entity previously had characterized capitalized stripping costs as "deferred stripping costs" or "work-in-process inventory."

The effective date of the consensus on Issue 04-6 is the first reporting period in fiscal years beginning after December 15, 2005. The FASB staff believes that this effective date should not be reconsidered as a result of this proposed consensus modification.