

## EITF ABSTRACTS

Issue No. 04-6

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

**Dates Discussed:** June 30–July 1, 2004; September 29–30, 2004; November 17–18, 2004; March 17, 2005; June 15–16, 2005; March 16, 2006

**References:** FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*  
FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*  
FASB Concepts Statement No. 6, *Elements of Financial Statements*  
AICPA Accounting Research Bulletin No. 43, Chapter 4, *Inventory Pricing*  
APB Opinion No. 20, *Accounting Changes*  
Securities Act Industry Guide 7, *Description of Property by Issuers Engaged or to Be Engaged in Significant Mining Operations*  
International Accounting Standards Committee, *An Issues Paper Issued for Comment by the IASC Steering Committee on Extractive Industries*

### ISSUE

1. In the mining industry, companies may be required to remove overburden and other mine waste materials to access mineral deposits. The costs of removing overburden and waste materials are referred to as “stripping costs.” During the development of a mine (before production begins), it is generally accepted in practice that stripping costs are capitalized as part of the depreciable cost of building, developing, and constructing the mine. Those capitalized costs are typically amortized over the productive life of the mine using the units of production method. A mining company may continue to remove overburden and waste materials, and therefore incur stripping costs, during the production phase of the mine. Questions have been raised about the appropriate accounting for stripping costs incurred during the production phase, and diversity in practice exists.

## **Scope**

2. This Issue applies to mining entities. Mining entities include entities involved in finding and removing wasting natural resources, other than oil- and gas-producing entities that are within the scope of Statement 19.

3. This Issue applies to stripping costs incurred in the production phase of a mine. Stripping costs are costs incurred for the removal of overburden or waste materials for the purpose of obtaining access to an ore body that will be commercially produced. The accounting for stripping costs incurred before the production phase is not addressed.

### **Definition of the Production Phase**

4. For purposes of this Issue, the definition of the production phase of a mine is as follows:

The production phase of a mine is deemed to have begun when saleable minerals are extracted (produced) from an ore body, regardless of the level of production. However, the production phase does not commence with the removal of *de minimis* saleable mineral material that occurs in conjunction with the removal of overburden or waste material for the purpose of obtaining access to an ore body.

5. The issue is how stripping costs incurred during the production phase of a mine in the mining industry should be accounted for.

### **EITF DISCUSSION**

6. 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 Task Force noted that the consensus does not address the accounting for stripping costs incurred during the pre-production phase of a mine.

7. The consensus in this Issue is effective for the first reporting period in fiscal years beginning after December 15, 2005, with early adoption permitted. The effect of initially applying this consensus should be accounted for in a manner similar to a cumulative-effect adjustment as described in Opinion 20 with any adjustment recognized in the opening balance of retained earnings (or other appropriate component of equity or net assets) in the year of adoption.<sup>1</sup> Entities that elect to early adopt in an interim period should report the effects of this change in interim financial statements in a manner similar to that required by Statement 3 with any adjustment recognized in the opening balance of retained earnings (or other appropriate component of equity or net assets) in the year of adoption. An entity should disclose the amount of any adjustment to the opening balance of retained earnings (or other appropriate component of equity or net assets). Disclosure of the pro forma effects on net income is not required. Alternatively, an entity may recognize this change in accounting by restatement of its prior-period financial statements through retrospective application of this consensus.

### **Board Ratification**

8. At its March 30, 2005 meeting, the Board ratified the consensus reached by the Task Force in this Issue. At its June 29, 2005 meeting, the Board ratified the modifications to the consensus in paragraphs 6 and 7.

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<sup>1</sup>If an entity adopts this consensus before June 29, 2005, it may apply the consensus in a manner similar to a cumulative-effect adjustment as described in paragraphs 19(a)–19(c) of Opinion 20 with any adjustment recognized in net income of the period of change. If the entity adopts the consensus in an interim period, it should report the effects in accordance with Statement 3. Disclosure of pro forma effects on net income is not required. Alternatively, an entity may recognize this change in accounting by restatement of its prior-period financial statements through retrospective application of this consensus.

## **STATUS**

9. At the March 16, 2006 meeting, an FASB staff member reported that Task Force members did not object to the editorial changes suggested by the FASB staff to clarify the definition of *production phase* of a mine in paragraph 4 of this Issue. At its January 11, 2006 meeting, the Board ratified the editorial changes in paragraph 4.
  
10. No further EITF discussion is planned.

Suggested Index Entries for Issue No. 04-6, “Accounting for Stripping Costs Incurred during Production in the Mining Industry”

**CAPITALIZED COSTS**

Stripping Costs—Mining Industry

. . Accounting for Stripping Costs Incurred during Production in the Mining Industry 04-6

**INVENTORY**

Mining Industry

. . Accounting for Stripping Costs Incurred during Production in the Mining Industry 04-6

**MINING INDUSTRY**

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