

BACKGROUND AND ISSUE

Many entities have obligations to dismantle, remove and restore items of property, plant and equipment and in this Interpretation such obligations are referred to as “decommissioning, restoration and similar liabilities”. Under NZ IAS 16 *Property, Plant and Equipment*, the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located (a similar guidance is included for the measurement of a right of use asset in NZ IFRS 16 *Leases*), the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* contains requirements on how to measure decommissioning, restoration and similar liabilities. This Interpretation provides guidance on how to account for the effect of subsequent changes in the measurement of existing decommissioning, restoration and similar liabilities.

SCOPE

NZ IFRIC 1 applies to changes in the measurement of any existing decommissioning, restoration or similar liability that is both:

- ▶ Recognised as part of the cost of an item of property, plant and equipment in accordance with NZ IAS 16 or as part of the cost of a right of use asset in accordance with NZ IFRS 16; and
- ▶ Recognised as a liability in accordance with NZ IAS 37.

For example, a decommissioning, restoration or similar liability may exist for decommissioning a plant, rehabilitating environmental damage in extractive industries, or removing equipment.

CONSENSUS

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in the discount rate, are accounted for as below:

ASSET MEASURED USING COST MODEL

- ▶ Changes in the liability are added to, or deducted from, the cost of the related asset in the current period.
- ▶ The amount deducted from the cost of the asset cannot exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in profit or loss.
- ▶ If the adjustment results in an addition to the cost of an asset, the entity considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss, in accordance with NZ IAS 36 *Impairment of Assets*.

RELATED ASSET MEASURED USING REVALUATION MODEL

Changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:

- ▶ A decrease in the liability is recognised in other comprehensive income and increases the revaluation surplus within equity, except that it is recognised in profit or loss to the extent that it reverses a revaluation deficit on the asset that was previously recognised in profit or loss.
- ▶ An increase in the liability is recognised in profit or loss, except that it is recognised in other comprehensive income and reduces the revaluation surplus within equity to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- ▶ In the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in profit or loss.
- ▶ A change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.
- ▶ The change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

DISCOUNT

- ▶ The periodic unwinding of the discount is recognised in profit or loss as a finance cost as it occurs.
- ▶ Capitalisation under NZ IAS 23 *Borrowing Costs* is not permitted.

DEPRECIATION

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability are recognised in profit or loss as they occur. This applies under both the cost model and the revaluation model.

TIER 2 NZ IFRS RDR REPORTERS

NZ IFRS RDR Reporters are required to comply with NZ IFRIC 1 in full.