IFRIC 1
Changes in existing decommissioning, restoration and similar liabilities

REFERENCE

IAS 1	Presentation of financial statements
IAS 8	Accounting methods, changes in accounting estimates and errors
IAS 16	Property, plant and equipment
IAS 23	Borrowing costs
IAS 36	Impairment of assets
IAS 37	Provisions, contingent liabilities and contingent assets
IFRS 16	Leases

ISSUE

This interpretation sets out the rules for accounting for the effect of changes in the measurement of existing decommissioning, restoration and similar liabilities, following the criteria in IAS 37. In addition, and in accordance with IAS 16 and IFRS 16, the cost of an item of plant, property or equipment should include the estimated costs of its decommissioning and of restoring the site on which it is located.

Any event modifying the measurement of the decommissioning or restoration cost must be assessed at the end of each reporting period. These modifications may arise as a result of:
a) change in the estimated outflow of resources required to settle the obligation
b) changes in the current market-based discount rate as specified in IAS 37;
c) an increase in the provision which reflects the passage of time (the 'unwinding of the discount').

POSITION ADOPTED

If the asset is recognized based on the cost model:

a. the changes in liabilities must be recorded as increases or decreases in the related cost of the asset during the current period;

b. the amount deducted from the cost of the asset must not be greater than its carrying amount; if a decrease in the liability exceeds the carrying amount, the excess will be recognized immediately in profit or loss;

c. in the event of the adjustment resulting in an increase in the cost of the asset as a result of a change in estimates related to the decommissioning cost, an impairment test will need to be carried out in accordance with IAS 36.

If the asset is measured using the revaluation model:

a. changes in the measurement of the liability will alter the revaluation surplus or deficit previously recognized in such a way that:

- a decrease in the liability must be recorded directly in other comprehensive income and increase the revaluation surplus within equity, except to the extent that it reverses a revaluation deficit on the asset that was previously recognized in profit or loss;
- Correspondingly, an increase in the liability must be recognized in profit or loss except to the extent that there is a surplus in revaluation reserve relating to this asset;

b. in the event that a decrease in the liability is greater than the value of the asset that would have been recorded under the cost model, the excess must be recorded immediately in profit or loss;

c. a change in the liability is an indication that the asset may have to be revalued so as to ensure that its carrying amount does not differ materially compared with the amount which would have been determined in accordance with the fair value at the reporting date.

The adjusted depreciable amount should be depreciated over its useful life. Consequently, once the asset has been fully depreciated, all subsequent changes in the liability shall then be recognized in profit or loss as they occur. This requirement applies both when using the cost model and when using the revaluation model.