



IFRS AT A GLANCE
**IFRIC 1 *Changes in Existing Decommissioning,
Restoration and Similar Liabilities***



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DEFINITIONS

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 [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 [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. [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

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 IAS 16 or as part of the cost of a right of use asset in accordance with IFRS 16
 Recognised as a liability in accordance with IAS 37.
 For example, a decommissioning, restoration or similar liability may exist for decommissioning a plant or rehabilitating environmental damage, in extractive industries, or the removal of 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 detailed below.

ASSETS 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 [IAS 36 Impairment of Assets](#).

DISCOUNT

- ▶ The periodic unwinding of discount is recognised in profit or loss as a finance cost as it occurs
- ▶ Capitalisation under [IAS 23 Borrowing Costs](#) is not permitted.

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.

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.

Contact

For further information about how BDO can assist you and your organisation, please get in touch with one of our key contacts listed below.

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EUROPE

Anne Catherine Farlay		France	annecatherine.farlay@bdo.fr
Jens Freiberg		Germany	jens.freiberg@bdo.de
Ehud Greenberg		Israel	ehudg@bdo.co.il
Stefano Bianchi		Italy	stefano.bianchi@bdo.it
Roald Beumer		Netherlands	roald.beumer@bdo.nl
Reidar Jensen		Norway	reidar.jensen@bdo.no
David Cabaleiro		Spain	david.cabaleiro@bdo.es
René Füglistner		Switzerland	rene.fueglistner@bdo.ch
Moses Serfaty		United Kingdom	moses.serfaty@bdo.co.uk




SUB SAHARAN AFRICA



Theunis Schoeman		South Africa	tschoeman@bdo.co.za
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NORTH AMERICA &







Jonathan Chasle		Canada	jchasle@bdo.ca
Wendy Hambleton		USA	whambleton@bdo.com


LATIN AMERICA

Marcello Canetti		Argentina	mcanetti@bdoargentina.com
Victor Ramirez		Colombia	vramirez@bdo.com.co
Ernesto Bartesaghi		Uruguay	ebartesaghi@bdo.com.uy

Ayez Qureshi		Bahrain	Ayez.qureshi@bdo.bh
Antoine Gholam		Lebanon	agholam@bdo-lb.com

ASIA PACIFIC

Aletta Boshoff		Australia	aletta.boshoff@bdo.com.au
Hu Jian Fei		China	hu.jianfei@bdo.com.cn
Fanny Hsiang		Hong Kong	fannyhsiang@bdo.com.hk
Pradeep Suresh		India	pradeepsuresh@bdo.in
Khoon Yeow Tan		Malaysia	tanky@bdo.my
Ng Kian Hui		Singapore	kianhui@bdo.com.sg



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