

Exposure Draft

Public Sector Accounting Board

Proposed accounting standards

Asset Retirement Obligations, Proposed Section PS 3280

March 2017

**COMMENTS TO PSAB MUST BE RECEIVED BY
JUNE 15, 2017**

A PDF [response form](#) has been posted with this document to assist you in submitting your comments to PSAB. Alternatively, you may send comments via email (in Word format), to: ed.psector@cpacanada.ca addressed to:

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This Exposure Draft reflects proposals made by the Public Sector Accounting Board (PSAB).

Individuals, governments and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Comments are most helpful if they are related to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning. All comments received by PSAB will be available on the website shortly after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

Highlights

The Public Sector Accounting Board (PSAB) proposes, subject to comments received following exposure, to issue a new Section on asset retirement obligations and withdraw SOLID WASTE LANDFILL CLOSURE AND POST-CLOSURE LIABILITY, Section PS 3270. This Section would apply to public sector entities that base their accounting policies on the CPA Canada Public Sector Accounting (PSA) Handbook.

The following documents accompany this Exposure Draft:

- an [“Issues Analysis”](#) that provides information on how significant matters arising from comments received on PSAB’s Statement of Principles, “Retirement Obligations,” have been dealt with; and
- a [“Plain Language Document”](#) that explains the proposals in non-technical language.

Main features of the Exposure Draft

The main features of the Exposure Draft are as follows:

- An asset retirement obligation is a legal obligation associated with the retirement of a tangible capital asset.
- Asset retirement costs associated with a tangible capital asset controlled by the entity increase the carrying amount of the related tangible capital asset (or a component thereof) and are expensed in a rational and systematic manner.
- Asset retirement costs associated with an asset no longer in productive use are expensed.
- Subsequent measurement of the liability can result in either a change in the carrying amount of the related tangible capital asset (or a component thereof), or an expense, depending on the nature of the remeasurement and whether the asset remains in productive use.
- Asset retirement obligations include post-retirement operation, maintenance and monitoring.
- A present value technique is often the best method with which to estimate the liability.

Implications of the proposal

The new Section would apply to fiscal years beginning on or after April 1, 2021. Earlier adoption is permitted.

This Section would enhance comparability of financial statements among public sector entities by establishing uniform criteria for recognition and measurement of asset

retirement obligations, including obligations that may not have previously been reported. This Section also would enhance the decision usefulness of the information provided to financial statement users by requiring disclosures related to asset retirement obligations.

This Section would require a public sector entity to review existing agreements, contracts, legislation, etc., to identify retirement activities associated with its controlled tangible capital assets and those that are no longer in productive use that should be reported. Additionally, a public sector entity would need to review its current accounting for asset retirement obligations.

The withdrawal of Section PS 3270 would likely have the following effects on current accounting practice:

- Obligations would be recognized earlier as the accounting treatment would change from incremental recognition of liability based on usage to recognition on acquisition, construction or development or normal use. The earlier recognition of obligations would result in an earlier increase in net debt.
- The recognized cost of assets would increase because asset retirement costs associated with tangible capital assets in productive use would be added to its carrying amount rather than expensed.
- More professional judgment may have to be used when applying the proposed standard on asset retirement obligations as it applies to various types of asset retirement obligations rather than just to landfill sites.
- Some note disclosure would need to be modified to reflect the change in the accounting treatment.

Consequential amendments

This Exposure Draft includes proposed consequential amendments to TANGIBLE CAPITAL ASSETS, Section PS 3150, LIABILITY FOR CONTAMINATED SITES, Section PS 3260, FINANCIAL INSTRUMENTS, Section PS 3450, and CAPITAL ASSETS HELD BY NON-FOR-PROFIT ORGANIZATIONS, Section PS 4230.

Comments requested

PSAB welcomes comments from individuals, governments and organizations on all aspects of the Exposure Draft.

When comments have been prepared as a result of a consultative process within an organization, it is helpful to identify, generically, the sources of the comments in the response. This will promote an understanding of how the proposals are affecting various aspects of an organization.

Comments are most helpful if they relate to a specific principle, paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning.

Please respond to the following questions:

1. Do you agree that the scope of this proposed Section should be expanded to include asset retirement obligations associated with tangible capital assets no longer in productive use?
2. Bearing in mind the explanations provided in the Scope section of the Issues Analysis, do you agree that asset retirement obligations included in SOLID WASTE CLOSURE AND POST-CLOSURE LIABILITY, Section PS 3270, should be accounted for using the same principles as those proposed by this Section?
3. Do you agree that this proposed Section should be applied to legal obligations only, including obligations created by promissory estoppel, and thereby exclude constructive and equitable obligations? If not, please provide examples of asset retirement obligations that are not legally enforceable?
4. Do you agree with the capitalization of asset retirement obligations associated with fully amortized assets? If not, please provide examples to support your response.
5. Do you agree with expensing asset retirement obligations associated with unrecognized tangible capital assets? If not, please provide examples to support your response.
6. Do you find the decision tree in Appendix A useful in understanding the boundaries between the proposed Section and LIABILITY FOR CONTAMINATED SITES, Section PS 3260?
7. Are there any other tangible capital assets or circumstances that would not be covered by either the proposals in the Exposure Draft or LIABILITY FOR CONTAMINATED SITES, Section PS 3260?
8. Do you agree with the proposed consequential amendments?
9. Do you agree with the transitional provisions?

For your convenience, a PDF [response form](#) has been posted with this document. You can save the form both during and after completion for future reference. You are not restricted by the size of the interactive comment fields in the response form and there is also a general comments section.

Alternatively, you may send written comments by email in Word format to: ed.psector@cpacanada.ca.

Asset Retirement Obligations, Proposed Section PS 3280

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PURPOSE AND SCOPE

.01 This Section establishes standards on how to account for and report a liability for asset retirement obligations. Specifically, it:

- (a) defines which activities would be included in a liability for retirement of a tangible capital asset;

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- (b) establishes when to recognize and how to measure a liability for an asset retirement obligation; and
 - (c) provides the related financial statement presentation and disclosure requirements.
- .02 This Section provides guidance for applying the definition of liabilities set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and the general recognition and disclosure standards in LIABILITIES, Section PS 3200, in accounting for and reporting a liability for asset retirement obligations. It may be useful to read this Section in conjunction with CONTINGENT LIABILITIES, Section PS 3300, CONTRACTUAL OBLIGATIONS, Section PS 3390, and LIABILITY FOR CONTAMINATED SITES, Section PS 3260.
- .03 This Section defines which asset retirement activities would be included in the cost of a tangible capital asset. It may be useful to read this Section in conjunction with TANGIBLE CAPITAL ASSETS, Section PS 3150.
- .04 This Section applies to legal obligations, including an obligation created by promissory estoppel, associated with the retirement of a tangible capital asset that result from its acquisition, construction, development or normal use.
- .05 This Section applies to asset retirement obligations associated with tangible capital assets controlled by a public sector entity that are in productive use and those that are no longer in productive use. Tangible capital assets include leased tangible capital assets reported under PUBLIC SECTOR GUIDELINE, PSG-2, Leased Tangible Capital Assets.
- .06 This Section does not deal with costs:
- (a) to acquire, construct or develop the related tangible capital asset, its replacement and maintenance, which are covered in TANGIBLE CAPITAL ASSETS, Section PS 3150;
 - (b) related to remediation of contaminated sites, which are covered in LIABILITY FOR CONTAMINATED SITES, Section PS 3260;
 - (c) related to the improper use of a tangible capital asset;
 - (d) related to activities necessary to prepare a tangible capital asset for an alternative use;
 - (e) resulting from an unexpected event such as an unexpected contamination;
 - (f) related to obligations created by waste or by-products produced by a tangible capital asset such as sewage waste; and

(g) that arise solely from a plan to sell or otherwise dispose of a tangible capital asset.

.07 This Section does not deal with impairment of tangible capital assets, which is covered in TANGIBLE CAPITAL ASSETS, Section PS 3150.

DEFINITIONS

.08 The following terms are used in this Section with the meaning specified:

- (a) **Accretion expense** is the increase in the carrying amount of a liability for asset retirement obligations due to the passage of time.
- (b) **Asset retirement activities** include all activities related to an asset retirement obligation. These may include, but are not limited to:
 - (i) decommissioning or dismantling a tangible capital asset that was acquired, constructed or developed;
 - (ii) decontamination created by the normal use of the tangible capital asset;
 - (iii) post-retirement activities such as monitoring; and
 - (iv) constructing other tangible capital assets in order to perform post-retirement activities.
- (c) An **asset retirement cost** is the estimated amount of the liability for retirement of a tangible capital asset.
- (d) An **asset retirement obligation** is a legal obligation associated with the retirement of a tangible capital asset.
- (e) **Productive use** means the tangible capital asset is held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets.
- (f) **Promissory estoppel** is defined in *Black's Law Dictionary* as "the principle that a promise made without consideration may nonetheless be enforced to prevent injustice if the promisor should have reasonably expected the promisee to rely on the promise and the promisee did actually rely on the promise to his or her detriment. The Quebec Civil Code does not recognize the doctrine of promissory estoppel but Quebec courts have developed a similar concept known as "la fin de non-recevoir."
- (g) **Retirement of a tangible capital asset** is the permanent removal of a tangible capital asset from service. This term encompasses sale, abandonment or disposal in some other manner but not its temporary idling.

RECOGNITION OF ASSET RETIREMENT OBLIGATIONS

.09 *A liability should be recognized when, as at the financial reporting date:*

- (a) there is a legal obligation to incur retirement costs in relation to a tangible capital asset;*
- (b) the past transaction or event giving rise to the liability has occurred;*
- (c) it is expected that future economic benefits will be given up; and*
- (d) a reasonable estimate of the amount can be made.*

A liability for an asset retirement obligation cannot be recognized unless all of the criteria above are satisfied.

Legal obligations

.10 A legal obligation establishes a clear duty or responsibility to another party that justifies recognition of a liability. For purposes of this Section, a legal obligation can result from:

- (a) agreements or contracts;
- (b) legislation of another government;
- (c) a government's own legislation; or
- (d) a promise conveyed to a third party that imposes a reasonable expectation of performance upon the promisor under the doctrine of promissory estoppel.

.11 An agreement or contract could take the form of a licence governing the operation of a nuclear facility or a particular asset such as a reactor. The licence may contain legally enforceable obligations related to the retirement of the facility or the reactor. The entity, through the licence, agrees to those terms and conditions that may create a liability to incur the costs of retiring that facility or reactor.

.12 In other cases, another government's legislation may create a legally enforceable obligation. For example, a provincial ministry of environment may issue legislation and regulations setting out a stringent environmental approval process for landfill sites. That process may establish activities required when the site stops accepting waste. Under the environmental approval process, the entire footprint may require approval or each phase may require separate approval. A landfill operator must agree to certain obligations prior to receiving environmental approval and accepting any waste. Those obligations include responsibility for closure and post-closure care of the approved site.

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- .13 A government's own legislation can also create a legally enforceable obligation. For example, a province may require its own coal based electricity generating facility to be decommissioned and remediated upon retirement.
- .14 Where a retirement obligation is established by agreement, contract or legislation, the obligation to incur costs to retire the tangible capital asset is legally enforceable and compliance is mandatory. Breaches may be enforced through prosecution, fines, jail and similar penalties, order or loss of permit.
- .15 A public sector entity's promise to a third party may also create a legally enforceable obligation under the doctrine of promissory estoppel. For example, a third party may have purchased a property near a gravel pit relying on the promise of the entity to close and decommission its pit at the end of its productive life. In the case of a promise conveyed to a third party, facts and circumstances need to be considered carefully in determining whether that promise has imposed a legal obligation upon the promisor under the doctrine of promissory estoppel.

Past transaction or event

- .16 A liability for an asset retirement obligation can be incurred due to:
- (a) the acquisition, construction or development of a tangible capital asset; or
 - (b) normal use of a tangible capital asset.
- .17 The existence of an agreement, contract, legislation or another legally enforceable obligation is not the event that creates the liability. It is the acquisition, construction, development or the subsequent use of the tangible capital asset that is the obligating event.
- .18 In most circumstances, whether an obligation results from the acquisition, construction or development of a tangible capital asset is clear. For example, if a public sector entity acquires an x-ray machine, the obligation to retire it in a prescribed manner results from the acquisition of this equipment.
- .19 Similarly, when a public sector entity acquires a building that contains asbestos, regulations require the entity to handle and dispose of it in a prescribed manner when the building undergoes renovations or is demolished. Although timing of the removal of the asbestos is conditional on the building undergoing renovations or being demolished, existing regulations create a legally enforceable obligation for the entity to remove and dispose of the asbestos. The obligating event occurs when the entity acquires the building. The ability to defer settlement does not relieve the entity of the obligation as the asbestos will eventually need to be removed and disposed of.

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- .20 Construction of a tangible capital asset may also result in an obligation to retire the tangible capital asset.
- .21 Normal use of a tangible capital asset may result in an obligation to retire it. In some cases, the entire amount of the obligation may be incurred when the asset is put into production, while in other cases, it may be incurred incrementally with use. Obligations that result from the normal use of a tangible capital asset are predictable, likely to occur and are unavoidable as a result of operations. For example, consider a public sector entity that operates an energy-from-waste facility. As the bricks in the furnace become contaminated, the entity has a legal obligation to remove and dispose of them in a prescribed manner. On the other hand, costs resulting from a catastrophic event such as a flood are considered to be unexpected and are not within the scope of this Section.
- .22 A change in circumstance during the life of the tangible capital asset may give rise to a new liability as a result of a past transaction or event. This could be the case when new legislation requires the public sector entity to dispose of a toxic material that was not previously required to be retired. Only when the change in circumstances occurs and the obligation arises would the costs be accounted for. They are not reported as a prior period adjustment as new legislation is a current period event.
- .23 Obligations that arise solely from a plan to sell or otherwise dispose of a tangible capital asset are not in scope of this Section. For example, if a public sector entity commits to remove a building in connection with selling a parcel of land and it is not otherwise obligated to remove the building, the obligation to remove the building is not within the scope of this Section.

Existence uncertainty

- .24 In some circumstances, a public sector entity may have doubts as to the existence of an asset retirement obligation. For example, a public sector entity may hold tangible capital assets subject to legislation of a different level of government. It may be unclear as to the meaning or application of that legislation regarding the need to incur asset retirement costs by the public sector entity. In these circumstances CONTINGENT LIABILITIES, Section PS 3300, provides additional guidance. If a liability for an asset retirement obligation is recognized, this Section would be applied.

RECOGNITION AND ALLOCATION OF ASSET RETIREMENT COSTS

- .25 *Upon initial recognition of a liability for an asset retirement obligation, a public sector entity should recognize an asset retirement cost by increasing the carrying amount of the related tangible capital asset (or a component thereof) by the same amount as the liability.*
- .26 *The public sector entity should allocate the asset retirement cost to expense in a rational and systematic manner. A rational and systematic manner could include amortization over the remaining useful life of the tangible capital asset (or a component thereof), or some other appropriate period depending on the use of the related asset.*
- .27 Asset retirement costs are necessary and an integral part of owning and operating the related tangible capital asset. These costs, as defined in TANGIBLE CAPITAL ASSETS, Section PS 3150, increase the carrying amount of the related tangible capital asset (or a component thereof).

Allocation of asset retirement costs

- .28 An asset retirement obligation may exist for component parts of a larger system. In some circumstances, the retirement of the component parts may be required before the retirement of the larger system to which the component parts belong. For example, consider a transformer station (network) to be retired after a 50-year period for which its power transformers (component) need to be retired every 25 years. Accounting for asset retirement costs at the network level would allocate the asset retirement costs for the transformer station, including the power transformers, over 50 years. Accounting for retirement costs at the component level would allocate these costs for the power transformers over 25 years.
- .29 Whether a public sector entity records and accounts for its tangible capital assets at the component or the network level will be determined by the usefulness of the resulting information to the public sector entity and the cost versus the benefit of collecting and maintaining it. The allocation of asset retirement costs at the network or the component level shall be consistent with that used for the related tangible capital asset.
- .30 Application of a systematic and rational allocation method does not preclude an entity from capitalizing an asset retirement cost and allocating an equal amount to expense in the same accounting period. For example, assume an entity opens a landfill. As the landfill is operated, the entity incurs additional asset retirement obligations of equal amount each year. Application of a systematic

and rational allocation method would not preclude that entity from capitalizing and then expensing the asset retirement costs incurred each year.

Obligations associated with fully amortized tangible capital assets

- .31 An asset retirement obligation may exist in connection with a fully amortized tangible capital asset that is still in productive use. For example, a public sector entity may control a fully amortized school containing asbestos. Although the tangible capital asset is fully amortized, its historical cost basis exists and the liability for an asset retirement obligation related to the initial acquisition, construction or development of the tangible capital asset would increase the cost basis of that asset. The costs would be amortized over the revised estimate of the remaining useful life.

Obligations associated with unrecognized tangible capital assets

- .32 An asset retirement obligation may arise in connection with a tangible capital asset that is not recognized. In this case, the asset retirement cost would be expensed as there is no historical cost basis of the underlying asset to which the asset retirement costs can be attached. This is consistent with the principle that it is the asset retirement costs together with the cost of the related tangible capital asset that provide the service potential. Asset retirement costs, on their own, do not.

Obligations associated with tangible capital assets no longer in productive use

- .33 An asset retirement obligation may arise for a tangible capital asset no longer in productive use. For example, a new legislation created after the tangible asset has been removed from service, may now require its disposal in a prescribed manner and specific post-retirement activities. Given that there is no longer any period of future benefit associated with the asset retirement costs, these costs would be expensed.

MEASUREMENT

Initial measurement

- .34 *The estimate of a liability should include costs directly attributable to asset retirement activities. Costs would include post-retirement operations, maintenance and monitoring that are an integral part of the retirement of the tangible capital asset. The estimate would include costs of tangible capital assets acquired as part of asset retirement activities to the extent those assets have no alternative use.*
- .35 Directly attributable costs would include, but are not limited to, payroll and benefits, equipment and facilities, materials, legal and other professional fees,

and overhead costs directly attributable to the asset retirement activity. Costs would include only those related to the nature and extent of the asset retirement obligation in accordance with the agreement, contract, legislation or a legally enforceable obligation establishing the liability. On the other hand, costs related to obligations created by waste or by-products produced by a tangible capital asset are not within the scope of this proposed Section as such costs are not associated with the retirement of a tangible capital asset but rather with the cleanup of waste or by-products. For example, the use of a nuclear facility may result in radioactive waste requiring clean up. These costs are not associated with the retirement of a tangible capital asset but rather with the cleanup of waste or by-products.

- .36 Similarly, routine replacement of a tangible capital asset is not a retirement obligation unless there is a particular agreement, contract, legislation or other circumstance that obligates the public sector entity to incur retirement costs. For example, infrastructure assets such as roads, sewer systems and bridges are normally not permanently removed from service (i.e., retired). Rather, they are maintained and, when necessary, replaced at the end of their useful lives.
- .37 In some cases, asset retirement obligations involve ongoing activities such as the operating, maintenance and monitoring of a facility that has been shut down. These are part of the asset retirement activities rather than a separate future obligation. When an ongoing operation, maintenance and monitoring are an integral part of the asset retirement activities, the estimate of the liability would include such post-retirement costs.
- .38 Asset retirement activities may also involve the acquisition of another tangible capital asset. For example, as part of the ongoing monitoring of a retired wastewater treatment facility, additional groundwater monitoring wells may need to be installed. The cost of the asset required for asset retirement activities would be included in the estimate of the liability.
- .39 Additionally, a tangible capital asset acquired as part of asset retirement activities may have an alternative use. For example, as part of the ongoing monitoring of a retired nuclear research facility, a laboratory may need to be constructed and operated to monitor the effects of radiation. The laboratory may also be used to monitor other activities not related to the retirement of the research facility. Only that portion of the asset used for retirement activities would be included in the estimate of the liability.
- .40 *A liability for an asset retirement obligation should be estimated based on information available at the financial statement date.*
- .41 The estimate of the liability would be based on requirements in existing agreements, contracts, legislation or legally enforceable obligations, and

technology expected to be used in asset retirement activities. The effect of new legislation would not be taken into consideration in estimating the liability until such legislation is enacted regardless of effective date.

- .42 The amount of the liability may not necessarily become determinable at a specific point in time. The amount of the liability may become determinable over a continuum of events and activities as information becomes available. For example, new information regarding the eventual costs to be incurred may become available as the public sector entity retires similar tangible capital assets. The estimate of costs may become better known as the public sector entity completes the asset retirement activities. In the interim, the public sector entity would recognize the liability based on management's best estimate of future asset retirement costs.
- .43 If new information becomes available between the financial statement date and the date of completion of the financial statements that would affect the estimates of a liability, this would be accounted for in accordance with SUBSEQUENT EVENTS, Section PS 2400.
- .44 *Measurement of a liability for an asset retirement obligation should result in the best estimate of the amount required to retire a tangible capital asset (or a component thereof).*
- .45 The measurement of a liability for an asset retirement obligation would be based on the best estimate at the financial statement date of the expenditures required to complete the retirement. The estimate of expenditures would require professional judgment and could be supplemented by experience, third-party quotes and, in some cases, reports of independent experts.
- .46 Professional judgment will be required in assessing the appropriate measurement technique that results in the best estimate of the amount required to settle or otherwise extinguish the liability. The appropriate measurement technique depends on such factors as the extent and complexity of the future costs, and time frame over which activities will occur.
- .47 When the cash flows required to settle or otherwise extinguish a liability are expected to occur over extended future periods, a present value technique is often the best available technique with which to estimate the measure of a liability.
- .48 A key input into a present value technique, such as a discounted cash flow calculation, is the discount rate. A discount rate can depend on a number of entity-specific factors as well as the present value technique being used (for example, a traditional or expected cash flow approach). The discount rate would not reflect risks, such as the uncertainties as to the amount and timing of cash outflows, for which future cash flow estimates have been adjusted. When

a public sector entity determines its discount rates by reference to its cost of borrowing, the period to retirement would be consistent with the borrowing duration. In other cases, an average rate or an extrapolated rate might be appropriate.

- .49 The passage of time also impacts the measurement of asset retirement obligations. As the liability for an asset retirement obligation approaches its settlement date, the liability balance increases as the discounting of the future cash flows decreases. This is often referred to as the unwinding of the discount or accretion.

Subsequent measurement

- .50 *The carrying amount of a liability for an asset retirement obligation should be reconsidered at each financial reporting date.*
- .51 A liability for an asset retirement obligation is generally long-term in nature and the measurement of the amount is likely to change as new information becomes available over the useful life of the tangible capital asset.
- .52 When a present value technique is used, a public sector entity makes its best estimate of the appropriate discount rate, the amount of future retirement costs and their timing when initially measuring a liability. As more experience is acquired or as additional information is obtained, those estimates need to be updated. At each financial reporting date, the discount rate used should be reviewed to assess its ongoing appropriateness. A public sector entity would apply a consistent methodology to determine the discount rate.
- .53 A liability for an asset retirement obligation continues to be recognized until it is settled or otherwise extinguished.
- .54 *In periods subsequent to initial measurement, a public sector entity should recognize period-to-period changes in a liability resulting from:*
- (a) revisions to either the timing, the amount of the original estimate of undiscounted cash flows or the discount rate, as part of the cost of the related tangible capital asset; and*
 - (b) the passage of time as an accretion expense.*
- .55 *The revised carrying amount of the related tangible capital asset (or a component thereof) should be amortized in a rational and systematic manner on a go-forward basis.*
- .56 *Once the related tangible capital asset (or a component thereof) is no longer in productive use, all subsequent changes in the estimate of the liability for asset*

retirement obligations should be recognized as an expense in the period they are incurred.

- .57 Asset retirement costs are necessary and an integral part of owning and operating the related tangible capital asset. These costs increase its carrying amount. As asset retirement costs on their initial recording are capitalized and amortized over the period of benefit, changes in their estimate would be accounted for similarly.
- .58 A change in measurement resulting from the passage of time (i.e., accretion expense) results from events of the accounting period. It would be expensed in the period and reported in the statement of operations. An entity will measure and incorporate changes due to the passage of time into the carrying amount of the liability before measuring changes resulting from a revision to either the timing, the amount of the original estimate of undiscounted cash flows or the discount rate.

Measurement uncertainty

- .59 In certain cases, there may be an indeterminate settlement date for the asset retirement obligation. For example, a public sector entity may be uncertain when the cash flows associated with an asset retirement obligation will occur. Uncertainty about the timing and amount of settlement of the asset retirement obligation does not remove that obligation but will affect the measurement of a liability for that obligation.
- .60 Uncertainties affecting the measurement of a liability for an asset retirement obligation are disclosed in accordance with MEASUREMENT UNCERTAINTY, Section PS 2130.

RECOVERIES

- .61 *A recovery related to asset retirement obligation should be recognized when:*
- (a) the recovery can be appropriately measured;*
 - (b) a reasonable estimate of the amount can be made; and*
 - (c) it is expected that future economic benefits will be obtained.*
- A recovery should not be netted against the liability.*
- .62 *A contingent recovery should be disclosed in accordance with CONTINGENT ASSETS, Section PS 3320.*
- .63 Recoveries of asset retirement obligations may result when a public sector entity is able to recover asset retirement costs from a third party by virtue of a claim made under an insurance contract. Accounting for recoveries depends

on whether they meet the definition of an asset or a contingent asset (see ASSETS, Section PS 3210, and CONTINGENT ASSETS, Section PS 3320).

PRESENTATION AND DISCLOSURE

- .64 *A public sector entity should disclose the following information:*
- (a) a general description of the liability for an asset retirement obligation and the associated tangible capital asset (or a component thereof);*
 - (b) the amortization method used for the asset retirement costs;*
 - (c) the basis for the estimate of the liability, including the estimated total undiscounted expenditures, the time period over which the undiscounted expenditures are to be incurred, the estimated timing of settlement of these expenditures and the discount rate used;*
 - (d) a reconciliation of the beginning and ending aggregate carrying amount of the liability showing separately the changes attributable to:*
 - (i) the liability incurred in the current period;*
 - (ii) the liability settled in the current period;*
 - (iii) the change resulting from the passage of time (i.e., accretion expense); and*
 - (iv) revisions in estimated cash flows;*
 - (e) how any funding and assurance provisions associated with asset retirement obligations, if legally required, are being met;*
 - (f) when a reasonable estimate of the amount of an asset retirement obligation cannot be made, that fact and the reasons therefor; and*
 - (g) the estimated recoveries.*
- .65 If a public sector entity is subject to legal requirements to provide funding and assurance for its asset retirement obligations by setting aside assets designated for payment of the asset retirement obligations, the entity would disclose that fact.
- .66 In extremely rare cases, a public sector entity may not be able to make a reasonable estimate of the measurement of the liability. When a reasonable estimate of the measurement of the liability cannot be made, this fact should be disclosed in accordance with LIABILITIES, Section PS 3200.

TRANSITIONAL PROVISIONS

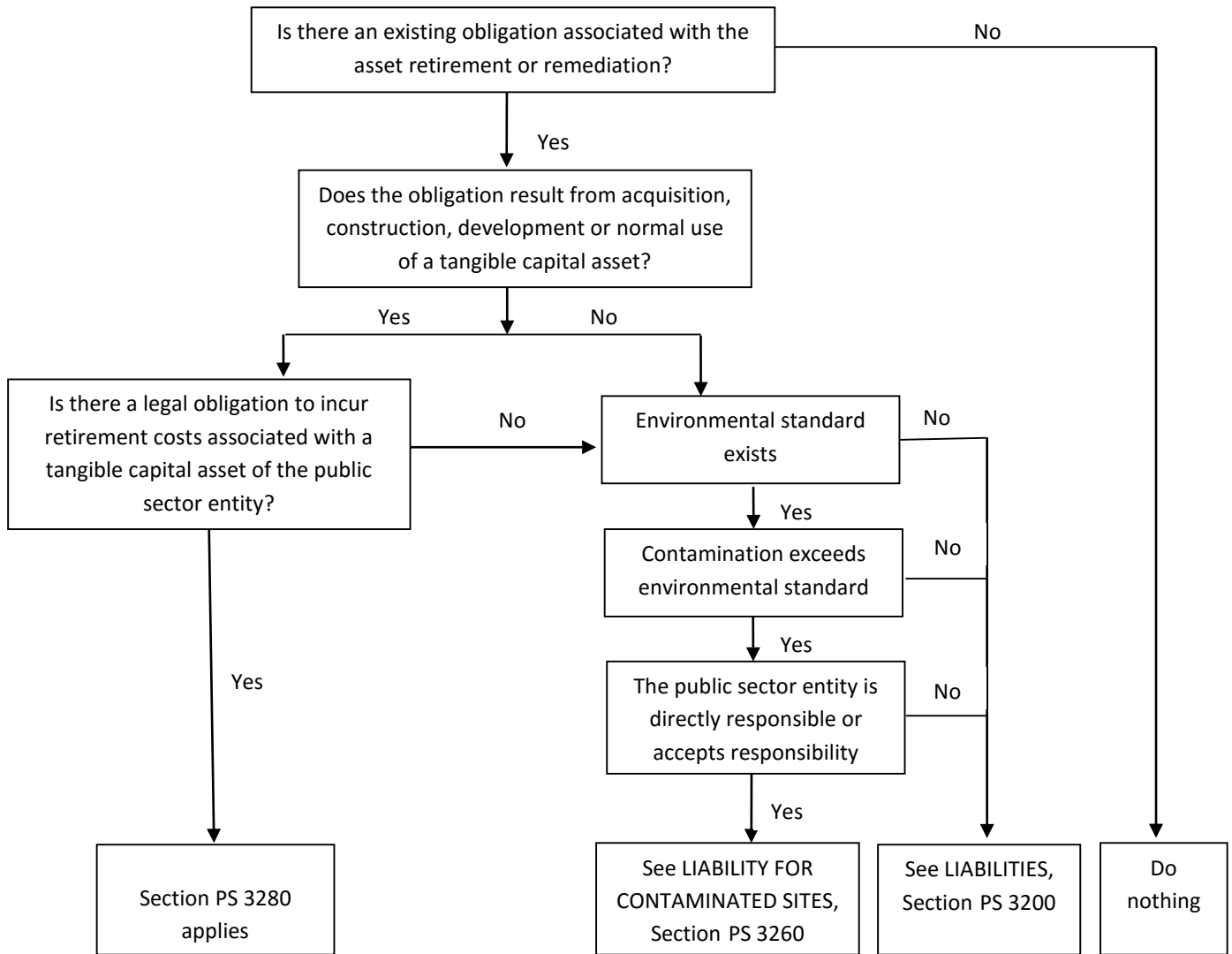
- .67 This Section applies to fiscal years beginning on or after April 1, 2021. Earlier adoption is permitted.

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- .68 This Section may be applied retroactively or prospectively. If retroactive application is selected, the public sector entity may choose to apply the transitional provisions described below.
- .69 As of the beginning of the fiscal year in which a public sector entity first applies this Section, the entity removes from its statement of financial position any liability for an asset retirement obligation and associated asset retirement costs and recognizes:
- (a) a liability for any existing asset retirement obligations, adjusted for accumulated accretion to that date;
 - (b) an asset retirement cost capitalized as an increase to the carrying amount of the related tangible capital assets; and
 - (c) accumulated amortization on that capitalized cost.
- .70 Public sector entities with unrecognized asset retirement obligations associated with assets no longer in productive use should recognize a liability and a corresponding adjustment to the opening accumulated surplus/deficit. There is no longer any period of future benefit associated with such asset retirement costs as the tangible capital asset (or component thereof) is no longer providing a good or service, or generating cash flows.
- .71 Those amounts are measured using information, assumptions and discount rates that are current at the beginning of the fiscal year in which this Section is first applied. The amount recognized as an asset retirement cost is measured as of the date the asset retirement obligation was incurred. Accumulated accretion and amortization are measured for the period from the date the liability would have been recognized had the provisions of this Section been in effect to the date as of which this Section is first applied. The information presented for comparative purposes should be restated unless the necessary financial data are not reasonably determinable. Paragraphs B8-B10 in Appendix B demonstrate the application of the transitional provisions of this Section.

**APPENDIX A
DECISION TREE – SCOPE OF APPLICABILITY**

This material is illustrative only.

The decision tree illustrates the boundaries between this Section and LIABILITY FOR CONTAMINATED SITES, Section PS 3260. Matters of principle relating to particular situations should be decided in the context of this Section.



APPENDIX B ILLUSTRATIVE EXAMPLES

This material is illustrative only.

These examples illustrate how the accounting treatment specified in this Section might be applied in particular situations. Matters of principle relating to particular situations should be decided in the context of this Section.

Unless otherwise stated, the examples assume that it is expected that future economic benefits will be given up and a reasonable estimate of the amount can be made.

The specific facts and circumstances of each situation that may require recognition of a liability for an asset retirement obligation need to be considered carefully in applying the Section.

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RECOGNITION AND MEASUREMENT PROVISIONS

B1 The following two examples illustrate the recognition and measurement provisions. Example 1 illustrates initial measurement of a liability for an asset retirement obligation (ARO liability) and subsequent measurement assuming that there are changes in the estimated cash flows and the discount rate. Example 2 illustrates the recognition and measurement provisions to solid waste landfill closure and post-closure costs.

Example 1 – Purchase of a building containing asbestos

B2 A public sector entity purchases a building containing asbestos for \$6,000,000 on April 1, 2X21.

B3 Significant assumptions in the example are as follows:

- (a) The remaining useful life of the building is 10 years.
- (b) The entity plans to demolish the building at the end of its useful life and the relevant legislation requires that asbestos be removed in a prescribed manner.
- (c) The estimated cost of this removal in 2X31 is \$1,000,000.

- (d) The appropriate discount rate to compute the present value is three percent.
- (e) The public sector entity amortizes the building over its useful life using a straight-line method.
- (f) As at March 31, 2X26, the entity revised the estimated cost of removal to \$1,200,000 and the discount rate to four percent.
- B4 The journal entries and calculations below deal only with the asset retirement costs (i.e., exclude capitalization and amortization of the underlying tangible capital asset).

(\$ thousands)

Initial Measurement of the ARO Liability

Present value of the ARO liability at April 1, 2X21 \$744,094

Subsequent Measurement of the ARO Liability Reflecting Changes in the Estimated Cash Flows and the Discount Rate

Present value of the ARO liability at March 31, 2X26 – before revision \$862,609

Present value of the ARO liability at March 31, 2X26 – after revision \$986,313

Present value of the incremental liability at March 31, 2X26 \$123,704

Interest Method of Allocation

<u>Year</u>	<u>Liability balance April 1</u>	<u>Accretion</u>	<u>Change in estimate</u>	<u>Liability balance Mar. 31</u>
2X21-2X22	\$ 744,094	\$ 22,323	\$ —	\$ 766,417
2X22-2X23	766,417	22,992	—	789,409
2X23-2X24	789,409	23,683	—	813,092
2X24-2X25	813,092	24,392	—	837,484
2X25-2X26	837,484	25,125	123,704	986,313
2X26-2X27	986,313	39,452	—	1,025,765
2X27-2X28	1,025,765	41,031	—	1,066,796
2X28-2X29	1,066,796	42,671	—	1,109,467
2X29-2X30	1,109,467	44,379	—	1,153,846
2X30-2X31	1,153,846	46,154	—	1,200,000

Schedule of Expenses

<u>Year end</u>	<u>Accretion expense</u>	<u>Amortization expense</u>	<u>Total expense</u>
2X22	\$22,323	\$74,409	\$ 96,732
2X23	22,992	74,409	97,401

2X24	23,683	74,409	98,092
2X25	24,392	74,409	98,801
2X26	25,125	74,409	99,534
2X27	39,452	99,150	138,602
2X28	41,031	99,150	140,181
2X29	42,671	99,150	141,821
2X30	44,379	99,150	143,529
2X31	46,154	99,150	145,304

Journal entries

April 1, 2X21:

Dr. Tangible capital asset	744,094	
Cr. ARO liability		744,094

To record the initial ARO liability

March 31, 2X26:

Dr. Tangible capital asset	123,704	
Cr. ARO liability		123,704

To record the subsequent change in ARO liability

March 31, 2X21-2X31:

Dr. Amortization expense	Per schedule	
Cr. Accumulated amortization		Per schedule

To record amortization on the asset retirement cost

Dr. Accretion expense	Per schedule	
Cr. ARO liability		Per schedule

To record accretion expense on the ARO liability

March 31, 2X31:

Dr. ARO liability	1,200,000	
Cr. Cash		1,200,000

To record settlement of the ARO liability

Example 2 – Landfill site opened

- B5 A public sector entity opens a landfill site. Regulations require that the entity perform closure and post-closure activities upon retirement of the landfill site. Closure activities include all activities related to closing the landfill site. These include final cover and vegetation and completing facilities for activities such as monitoring and recovery of gas. Post-closure activities include all activities related to monitoring the site once it can no longer accept waste and include activities such as monitoring ground water and surface water. Only the expenditures relating to those activities required when the site stops accepting waste are included in the closure and post-closure care liability.
- B6 Significant assumptions in the example are as follows:
- (a) The land was purchased on April 1, 2X20 for \$2,000,000.
 - (b) The cost incurred to ready the property for use as a landfill site (land improvements, installation of the leachate collection system, roads etc.), prior to consideration of asset retirement costs, was \$500,000. The landfill site construction started on April 1, 2X21 and was completed on March 31, 2X22.
 - (c) The estimated closure costs related to final cover and vegetation in 2X33 are \$100,000. Environmental approval requires that a final cover and vegetation be put in place irrespective of landfill site use. Liability is incurred on construction.
 - (d) The estimated closure costs in 2X33 related to completion of facilities for monitoring and recovery of gas are \$250,000. The post-closure care period is expected to be 5 years (April 1, 2X33 - March 31, 2X37) at \$10,000 per year. Environmental approval requires the same closure and post-closure activities irrespective of landfill site use (i.e., the cost of these activities does not vary incrementally with use). Liability for closure costs related to facilities and post-closure costs is incurred when the site starts accepting waste.
 - (e) The landfill site starts accepting waste on April 1, 2X22.
 - (f) The estimated useful life of the landfill site is 10 years (April 1, 2X22 - March 31, 2X32). The estimated capacity of the landfill site is 100,000 tons of garbage. The level of usage is expected to be constant over the life of the landfill site.
 - (g) All cash outflows are incurred at the end of the year.
 - (h) The appropriate discount rate to compute the present value is three percent.
- B7 The journal entries and calculations below deal only with the asset retirement costs (i.e., exclude capitalization and amortization of the underlying tangible capital asset).

(\$ thousands)

Payment Schedule

<u>2X33</u>	<u>2X34</u>	<u>2X35</u>	<u>2X36</u>	<u>2X37</u>
\$100,000	\$ —	\$ —	\$ —	\$ —
250,000	—	—	—	—
10,000	10,000	10,000	10,000	10,000
<u>\$360,000</u>	<u>\$10,000</u>	<u>\$10,000</u>	<u>\$10,000</u>	<u>\$10,000</u>

**Interest Method of Allocation — Closure Costs
Related to Final Cover and Vegetation**

<u>Year</u>	<u>Liability balance April 1</u>	<u>Accretion</u>	<u>Liability balance Mar. 31</u>
2X21-2X22	\$ —	\$ —	\$72,242 (a)
2X22-2X23	72,242	2,167	74,409
2X23-2X24	74,409	2,233	76,642
2X24-2X25	76,642	2,299	78,941
2X25-2X26	78,941	2,368	81,309
2X26-2X27	81,309	2,439	83,748
2X27-2X28	83,748	2,513	86,261
2X28-2X29	86,261	2,588	88,849
2X29-2X30	88,849	2,665	91,514
2X30-2X31	91,514	2,746	94,260
2X31-2X32	94,260	2,827	97,087
2X32-2X33	97,087	2,913	— (b)

**Interest Method of Allocation — Closure Costs Related to
Completion of Facilities and Post-closure Costs**

<u>Year</u>	<u>Liability balance April 1</u>	<u>Accretion</u>	<u>Liability balance Mar. 31</u>
2X22-2X23	\$214,683 (c)	\$6,440	\$221,123
2X23-2X24	221,123	6,634	227,757
2X24-2X25	227,757	6,833	234,590
2X25-2X26	234,590	7,037	241,627
2X26-2X27	241,627	7,249	248,876
2X27-2X28	248,876	7,466	256,342
2X28-2X29	256,342	7,691	264,033
2X29-2X30	264,033	7,921	271,954
2X30-2X31	271,954	8,158	280,112
2X31-2X32	280,112	8,404	288,516
2X32-2X33	288,516	8,655	37,171 (d)
2X33-2X34	37,171	1,115	28,286 (d)
2X34-2X35	28,286	849	19,135 (d)
2X35-2X36	19,135	574	9,709 (d)
2X36-2X37	9,709	291	— (d)

**Schedule of Expenses — Closure Costs
Related to Final Cover and Vegetation**

<u>Year end</u>	<u>Accretion expense</u>	<u>Amortization expense</u>	<u>Total expense</u>
2X23	\$2,167	\$7,224 ^(e)	\$ 9,391
2X24	2,233	7,224	9,457
2X25	2,299	7,224	9,523
2X26	2,368	7,224	9,592
2X27	2,439	7,224	9,663
2X28	2,513	7,224	9,737
2X29	2,588	7,224	9,812
2X30	2,665	7,224	9,889
2X31	2,746	7,224	9,970
2X32	2,827	7,224	10,051
2X33	2,913	—	2,913

**Schedule of Expenses — Closure Costs
Related to Completion of Facilities and Post-closure Costs**

<u>Year end</u>	<u>Accretion expense</u>	<u>Amortization expense</u>	<u>Total expense</u>
2X23	\$6,440	\$21,468 ^(f)	\$27,908
2X24	6,634	21,468	28,102
2X25	6,833	21,468	28,301
2X26	7,037	21,468	28,505
2X27	7,249	21,468	28,717
2X28	7,466	21,468	28,934
2X29	7,691	21,468	29,159
2X30	7,921	21,468	29,389
2X31	8,158	21,468	29,626
2X32	8,404	21,468	29,872
2X33	8,655	—	8,655
2X34	1,115	—	1,115
2X35	849	—	849
2X36	574	—	574
2X37	291	—	291

(a) \$72,242 = present value of \$100,000, 3%, 11 years.

(b) Balance reflects settlement of liability.

(c) \$214,683 = present value of \$250,000, 3%, 11 years + present value of \$50,000 payable over five years from 2X33 to 2X37.

(d) Balance reflects settlement of liability.

(e) \$7,224 = [72,242 × (10,000 tons ÷ 100,000 tons)]

(f) \$21,468 = [214,683 × (10,000 tons ÷ 100,000 tons)]

Journal entries

March 31, 2X22:

Dr. Tangible capital asset	72,242	
Cr. ARO liability		72,242

To record the ARO liability related to closure activities (final cover and vegetation)

April 1, 2X22:

Dr. Tangible capital asset	214,683	
Cr. ARO liability		214,683

To record the ARO liability related to closure activities (facilities) and post-closure activities

March 31, 2X23-2X32:

Dr. Amortization expense	Per schedule	
Cr. Accumulated amortization		Per schedule

To record amortization on the asset retirement cost

March 31, 2X23-2X37:

Dr. Accretion expense	Per schedule	
Cr. ARO liability		Per schedule

To record accretion expense on the ARO liability

March 31, 2X33-2X37:

Dr. ARO liability	Per schedule	
Cr. Cash		Per schedule

To record settlement of the ARO liability

TRANSITIONAL PROVISIONS

- B8 This example illustrates the application of the transitional provisions assuming that this Section is adopted on April 1, 2021. Therefore, for measurement purposes, the example uses information and assumptions to derive cash flow estimates related to an asset retirement obligation at April 1, 2021.
- B9 This example depicts a public sector entity that did not recognize an asset retirement obligation in the past.
- B10 Significant assumptions in the example are as follows:
- (a) The tangible capital asset to which the asset retirement obligation relates was acquired on April 1, 2004, and is estimated to have a useful life of 20 years.
 - (b) The entity incurred 100 percent of the asset retirement obligation on acquisition (April 1, 2004).
 - (c) The entity uses straight-line amortization.
 - (d) At April 1, 2021, undiscounted expected cash flows that will be required to satisfy the asset retirement obligation on March 31, 2024 are \$250 million.
 - (e) The April 1, 2021 discount rate is three percent.

(\$ thousands)

Interest Method of Allocation

<u>Year</u>	<u>Liability balance April 1</u>	<u>Accretion</u>	<u>Liability balance Mar. 31</u>	
2020-2021	\$222,121	\$6,664	\$228,785	(a)
2021-2022	228,785	6,864	235,649	
2022-2023	235,649	7,069	242,718	
2023-2024	242,718	7,282	250,000	

(a) \$228,785 = present value of \$250,000, 3%, 3 years.

Transitional Amounts Required by the Provisions of this Section

Asset — April 1, 2021:	
Capitalized April 1, 2004 (Present value of \$250,000, 3.0%, 20 years)	\$ 138,419
Accumulated amortization — April 1, 2020:	
Capitalized April 1, 2020 [$(\$138,419 \div 20) \times 16$]	\$110,735
Amortization expense ($\$138,419 \div 20$)	<u>6,921</u>
Accumulated amortization — March 31, 2021	<u>\$117,656</u>

Journal entry required at transition (April 1, 2021)

Dr. Opening accumulated surplus/(deficit)	208,022	
Dr. Tangible capital asset	138,419	
Cr. Accumulated amortization		117,656
Cr. Liability for an asset retirement obligation		228,785

The March 31, 2021 balance sheet amounts are adjusted as indicated in the journal entry above in providing comparative figures in the March 31, 2022 financial statements. Previously reported March 31, 2021 operating surplus or deficit is reduced by \$6,664 of accretion expense and \$6,921 of additional amortization expense for a net reduction of \$13,585 in operating surplus or deficit. The opening balance of accumulated surplus or deficit as at April 1, 2020 is decreased by \$194,437.

CONSEQUENTIAL AMENDMENTS

Additional text is denoted by underlining, deleted text by strikethrough.

TANGIBLE CAPITAL ASSETS, Section PS 3150

.05 The following definitions have been adopted for the purposes of this Section:

...

- (b) **Cost** is the gross amount of consideration given up to acquire, construct, develop or better a tangible capital asset, and includes all costs directly attributable to acquisition, construction, development or betterment of the tangible capital asset, including installing the asset at the location and in the condition necessary for its intended use. Cost also includes the asset retirement cost accounted for in accordance with ASSET RETIREMENT OBLIGATIONS, Section PS 3280. The cost of a contributed tangible capital asset, including a tangible capital asset in lieu of a developer charge, is considered to be equal to its fair value at the date of contribution. Capital grants would not be netted against the cost of the related tangible capital asset. The cost of a leased tangible capital asset is determined in accordance with PUBLIC SECTOR GUIDELINE PSG-2, Leased Tangible Capital Assets.

...

...

Asset retirement obligations

.39A Obligations associated with the retirement of tangible capital assets are accounted for in accordance with ASSET RETIREMENT OBLIGATIONS, Section PS 3280.

LIABILITY FOR CONTAMINATED SITES, Section PS 3260

.03 This Section provides guidance for applying the definition of liabilities set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and the general recognition and disclosure standards in LIABILITIES, Section PS 3200, in accounting for and reporting a liability for contaminated sites. It may be useful to read this Section in conjunction with ASSET RETIREMENT OBLIGATIONS, Section PS 3280, CONTINGENT LIABILITIES, Section PS 3300, and CONTRACTUAL OBLIGATIONS, Section PS 3390. Nothing in this Section overrides any standard in another Section of the CPA Canada Public Sector Accounting Handbook.

...

.05 For the purposes of this Section, a liability for remediation normally results from items such as:

-
- (a) ~~all or part of an operation of the government or government organization that is no longer in productive use (for example, abandoned military installations);~~
 - (b) all or part of an operation of entities outside the government reporting entity that is no longer in productive use for which the government accepts responsibility (for example, an abandoned gas station);and
 - (c) ~~changes to environmental standards relating to all or part of an operation that is no longer in productive use (for example, new regulations requiring the destruction of stored polychlorinated biphenyls (PCBs)); and~~
 - (d) an unexpected event resulting in contamination (for example, accidental toxic chemical spills or natural disasters).

.06 This Section does not apply to:

...

- (b) liabilities associated with ~~the~~ asset retirement obligations, which are covered in ASSET RETIREMENT OBLIGATIONS, Section PS 3280 ~~of a long-lived tangible capital asset in productive use that result from its acquisition, construction or development and ongoing use (for example, operating a nuclear facility); and~~

...

- ~~(d) liabilities for closure and post-closure care of a solid waste landfill site when the site or a phase stops accepting waste specifically dealt with under SOLID WASTE LANDFILL CLOSURE AND POST-CLOSURE LIABILITY, Section PS 3270.~~

...

MEASUREMENT

...

.59 *The carrying amount of a liability for remediation should be reconsidered reviewed at each financial reporting date. Any revisions to the amount previously recognized should be accounted for in the period in which revisions are made.*

...

~~.62 A liability for remediation of contaminated sites should be reduced by expected net recoveries if the recognition criteria outlined in FINANCIAL STATEMENT CONCEPTS, paragraphs PS 1000.54-56, are satisfied.~~

-
- ~~.63 The amount of a recovery is an element of the liability and would be taken into account in measuring the amount. Recoveries would be recognized when they have an appropriate basis of measurement and a reasonable estimate of the amount involved can be made and it is expected that future economic benefits will be obtained. Recoveries would be net of costs associated with the effort to collect them.~~
- ~~.64 The estimate of a government's liability would include remediation work that the government expects to perform for other parties. However, expected recoveries from those other parties, and insurance recoveries, reduce the measurement of the government's remediation expense when reasonably estimable.~~

RECOVERIES

- .62 A recovery related to a liability for remediation of contaminated sites should be recognized when:
- (a) the recovery can be appropriately measured;
 - (b) a reasonable estimate of the amount can be made; and
 - (c) it is expected that future economic benefits will be obtained.
- A recovery should not be netted against the liability.
- .63 A contingent recovery should be disclosed in accordance with CONTINGENT ASSETS, Section PS 3320.
- .64 Recoveries may result when a public sector entity is able to recover remediation costs from a third party by virtue of a claim made under an insurance contract. Accounting for recoveries depends on whether they meet the definition of an asset or a contingent asset (see ASSETS, Section PS 3210, and CONTINGENT ASSETS, Section PS 3320).

SOLID WASTE LANDFILL CLOSURE AND POST-CLOSURE LIABILITY, Section PS 3270

Section PS 3270 would be withdrawn as a consequence of approving the proposed standard on asset retirement obligations.

FINANCIAL INSTRUMENTS, Section PS 3450

- .003 This Section does not apply to:
- ...
 - (g) liabilities that are accounted for in accordance with ASSET RETIREMENT OBLIGATIONS, Section PS 3280~~SOLID WASTE LANDFILL CLOSURE AND POST-CLOSURE LIABILITY, Section PS 3270~~, and LIABILITY FOR CONTAMINATED SITES, Section PS 3260;
 - ...

CAPITAL ASSETS HELD BY NON-FOR-PROFIT ORGANIZATIONS, Section PS 4230

.05 The definitions that follow have been adopted for purposes of this Section.

- ...
- (d) **Cost** is the amount of consideration given up to acquire, construct, develop, or better a capital asset and includes all costs directly attributable to the acquisition, construction, development or betterment of the capital asset including installing it at the location and in the condition necessary for its intended use. Cost also includes the asset retirement cost accounted for in accordance with ASSET RETIREMENT OBLIGATIONS, Section PS 3280. For a contributed capital asset, cost is considered to be fair value at the date of contribution. ~~Cost includes any asset retirement cost.~~
- ...

RECOGNITION AND MEASUREMENT

...

Disposal

...

Asset retirement obligations

.30A Obligations associated with the retirement of tangible capital assets are accounted for in accordance with ASSET RETIREMENT OBLIGATIONS, Section PS 3280.

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