

Asset Retirement Obligations

The Proposal

The Exposure Draft, “Asset Retirement Obligations,” proposes to issue a new Handbook section on asset retirement obligations and withdraw SOLID WASTE LANDFILL CLOSURE AND POST-CLOSURE LIABILITY, Section PS 3270. Responses are requested by June 15, 2017.

Which asset retirement obligations are addressed by these proposals?

The proposals apply to legal obligations associated with the retirement of a tangible capital asset. The tangible capital asset may be in productive or no longer in productive use, and must be controlled by the entity.

What are some examples of asset retirement activities?

Asset retirement activities may include the decommissioning of nuclear reactors, removal of asbestos or retirement of X-ray machines.

When is a liability for an asset retirement obligation incurred?

The existence of an agreement, contract, legislation or another legally enforceable obligation is not the event that creates a liability. It is the acquisition, construction, development or the subsequent use of the tangible capital asset that is the obligating event.

How do you account for asset retirement obligations?

Asset retirement costs associated with a tangible capital asset in productive use increase the carrying amount of the related tangible capital asset and are expensed in a rational and systematic manner. Asset retirement costs associated with an asset no longer in productive use are expensed.

How do you measure a liability for an asset retirement obligation?

Considering the long-term nature of asset retirement obligations, a present value technique is often the best available method to estimate the liability.

How do you account for a change in measurement?

Subsequent measurement of the liability can result in either a change in the carrying amount of the related tangible capital asset or an expense. This depends on the nature of the remeasurement and whether the asset remains in productive use.

Why withdraw Section PS 3270?

The proposals cover obligations of the same nature. Some respondents to the Statement of Principles, “[Retirement Obligations](#),” indicated a preference for one standard covering all asset retirement obligations.

The Public Sector Accounting Board (PSAB) was created to serve the public interest by establishing accounting standards and providing guidance for financial and other performance information reported by the public sector. Final standards are issued in the CPA Canada Public Sector Accounting Handbook.

This proposed Section would require a review of existing agreements, contracts, legislation etc. to identify retirement activities that should be reported.