

Supporting material to *Amendments to PBE Standards: Specific IFRIC Interpretations* relating to PBE IPSAS 19

The NZASB issued the amending standard *Amendments to PBE Standards: Specific IFRIC Interpretations* in June 2026, which is available on the XRB website.

This document sets out amendments to:

- the Basis for Conclusions of PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*; and
- amendments to the Illustrative Examples accompanying PBE IPSAS 19;

resulting from the above amending standard.

The Basis for Conclusions and Illustrative Examples accompany, but are not part of, PBE IPSAS 19.

Amendments to Basis for Conclusions on PBE IPSAS 19

Paragraphs BC8 – BC10 and the related heading are added. New text is underlined.

Amendments to PBE Standards: Specific IFRIC Interpretations

BC8. In November 2024 the IPSASB issued *Amendments to IPSAS Standards: Specific IFRIC Interpretations* which amended IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*. The amendments incorporate into IPSAS 19:

- (a) *IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities*, first issued by the IASB in 2004, and
- (b) *IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*, first issued by the IASB in 2004.

BC9. Those amendments clarify how an entity should account for specific changes in estimates of existing liabilities to dismantle, remove and restore a property, plant and equipment asset and how an entity that is a contributor to a decommissioning fund should account for its obligation to pay decommissioning costs and its related interest in that fund.

BC10. As noted in paragraph BC5, the NZASB had already included the requirements of NZ IFRIC 1 and NZ IFRIC 5 in PBE IPSAS 19 when it issued PBE IPSAS 19. However, following the issuance of the abovementioned IPSASBs' pronouncement, the NZASB decided to:

- (a) amend Appendix A *Changes in Existing Decommissioning, Restoration and Similar Liabilities* to clarify that when there is a change in a decommissioning, restoration or similar liability and the entity measures the related asset using the revaluation model, the entity accounts for the increase or decrease in the liability (through other comprehensive revenue and expense or surplus or deficit, as required by paragraph A6), rather than an increase or decrease in the carrying amount of a class of assets related to the liability;
- (b) introduce two examples illustrating application of Appendix A; and
- (c) amend Appendix B *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* to clarify that the Appendix applies to decommissioning funds that are administered separately and where a contributor's right to access the assets is restricted.

Amendments to PBE IPSAS 19 Illustrative Examples

Paragraphs IE3 – IE14 and the related heading are added. Paragraph IE1 is amended. New text is underlined and deleted text is struck through.

Illustrative Examples

~~This example accompanies~~ These examples accompany, but ~~is~~ are not part of, PBE IPSAS 19.

Present Value of a Provision

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IE1. The expected value of a provision at the end of year 5 is CU2,000¹ ~~currency units~~. This expected value has not been risk-adjusted. An appropriate discount rate that takes account of the risk associated with this cash flow has been estimated at 12%.

...

Changes in Existing Decommissioning, Restoration and Similar Liabilities

IE3. Examples 2 and 3 illustrate how to account for the effect of changes in the measurement of existing decommissioning, restoration and similar liabilities, as presented in Appendix A of PBE IPSAS 19, using the following common facts:

An entity has a geothermal power plant and a related decommissioning liability. The power plant started operating on 1 January 20X0. The plant has a useful life of 40 years. Its initial cost was CU120,000; this included an amount for decommissioning costs of CU10,000, which represented CU70,400 in estimated cash flows payable in 40 years discounted at a risk-adjusted rate of 5 per cent. The entity's financial year ends on December 31.

Example 2: Cost Model

IE4. On 31 December 20X9, the plant is 10 years old. Accumulated depreciation is CU30,000 (CU120,000 × 10/40 years). Because of the unwinding of discount (5 per cent) over the 10 years, the decommissioning liability has grown from CU10,000 to CU16,300.

IE5. On 31 December 20X9, the discount rate has not changed. However, the entity estimates that, as a result of technological advances, the net present value of the decommissioning liability has decreased by CU8,000. Accordingly, the entity adjusts the decommissioning liability from CU16,300 to CU8,300. On this date, the entity makes the following journal entry to reflect the change:

	<u>CU</u>	<u>CU</u>
Dr Decommissioning liability	8,000	
Cr Asset (cost model)		8,000

IE6. Following this adjustment, the carrying amount of the asset is CU82,000 (CU120,000 – CU8,000 – CU30,000), which will be depreciated over the remaining 30 years of the asset's life, giving a depreciation expense for the next year of CU2,733 (CU82,000 ÷ 30). The next year's finance cost for the unwinding of the discount will be CU415 (CU8,300 × 5 per cent).

IE7. If the change in the liability had resulted from a change in the discount rate, instead of a change in the estimated cash flows, the accounting for the change would have been the same but the next year's finance cost would have reflected the new discount rate.

Example 3: Revaluation Model

IE8. The entity adopts the revaluation model in PBE IPSAS 17 whereby the plant is revalued with sufficient regularity that the carrying amount does not differ materially from fair value. The plant is the only asset in its class. The entity's policy is to eliminate accumulated depreciation at the revaluation date against the gross carrying amount of the asset, in accordance with paragraph 50 of PBE IPSAS 17.

¹ In these examples, monetary amounts are denominated in 'currency units' (CU).

IE9. When accounting for revalued assets to which decommissioning liabilities attach, it is important to understand the basis of the valuation obtained. For example:

- (a) If an asset is valued using discounted cash flows, some valuers may value the asset without deducting any allowance for decommissioning costs (a 'gross' valuation), whereas others may value the asset after deducting an allowance for decommissioning costs (a 'net' valuation), because an entity acquiring the asset will generally also assume the decommissioning obligation. For financial reporting purposes, the decommissioning obligation is recognised as a separate liability, and is not deducted from the asset. Accordingly, if the asset is valued on a net basis, it is necessary to adjust the valuation obtained by adding back the allowance for the liability, so that the liability is not counted twice.
- (b) If an asset is valued using depreciated replacement cost, the valuation obtained may not include an amount for the decommissioning component of the asset. If it does not, an appropriate amount will need to be added to the valuation to reflect the depreciated replacement cost of that component.

IE10. Assume that a market-based discounted cash flow valuation of CU115,000 is obtained at 31 December 20X2. It includes an allowance of CU11,600 for decommissioning costs, which represents no change to the original estimate, after the unwinding of three years' discount. The amounts included in the statement of financial position at 31 December 20X2 are therefore:

	<u>CU</u>
<u>Asset (revaluation model) (1)</u>	<u>126,600</u>
<u>Accumulated depreciation</u>	<u>nil</u>
<u>Decommissioning liability</u>	<u>(11,600)</u>
<u>Net assets</u>	<u>115,000</u>
<u>Accumulated comprehensive revenue and expense (2)</u>	<u>(10,600)</u>
<u>Revaluation surplus (3)</u>	<u>15,600</u>

Notes:

1. Valuation obtained of CU115,000 plus decommissioning costs of CU11,600, allowed for in the valuation but recognised as a separate liability = CU126,600.
2. Three years' depreciation on original cost CU120,000 \times 3/40 = CU9,000 plus cumulative discount on CU10,000 at 5 per cent compound = CU1,600; total CU10,600.
3. Revalued amount CU126,600 less previous net book value of CU111,000 (cost CU120,000 less accumulated depreciation CU9,000).

IE11. The depreciation expense for 20X3 is therefore CU3,420 (CU126,600 \times 1/37) and the discount expense for 20X3 is CU600 (5 per cent of CU11,600). On 31 December 20X3, the decommissioning liability (before any adjustment) is CU12,200 and the discount rate has not changed. However, on that date, the entity estimates that, as a result of technological advances, the present value of the decommissioning liability has decreased by CU5,000. Accordingly, the entity adjusts the decommissioning liability from CU12,200 to CU7,200.

IE12. The whole of this adjustment is taken to revaluation surplus, because it does not exceed the carrying amount that would have been recognised had the asset been carried under the cost model. If it had done, the excess would have been taken to surplus or deficit in accordance with paragraph A6(b) of Appendix A of PBE IPSAS 19. The entity makes the following journal entry to reflect the change:

	<u>CU</u>	<u>CU</u>
<u>Dr Decommissioning liability</u>	<u>5,000</u>	
<u> Cr Revaluation surplus²</u>		<u>5,000</u>

IE13. The entity decides that a full valuation of the asset is needed at 31 December 20X3, in order to ensure that the carrying amount does not differ materially from fair value. Suppose that the asset is now valued at CU107,000, which is net of an allowance of CU7,200 for the reduced decommissioning obligation that should be recognised as a separate liability. The valuation of the asset for financial reporting purposes, before deducting this allowance, is therefore CU114,200. The following additional journal entry is needed:

	<u>CU</u>	<u>CU</u>
<u>Dr Accumulated depreciation (1)</u>	<u>3,420</u>	
<u> Cr Asset (revaluation model)</u>		<u>3,420</u>
<u>Dr Revaluation surplus (2)</u>	<u>8,980</u>	
<u> Cr Asset (revaluation model) (3)</u>		<u>8,980</u>

Notes:

1. Eliminating accumulated depreciation of CU3,420 in accordance with the entity's accounting policy.
2. The debit is to revaluation surplus because the deficit arising on the revaluation does not exceed the credit balance existing in the revaluation surplus in respect of the asset.
3. Previous valuation (before allowance for decommissioning costs) CU126,600, less cumulative depreciation of CU3,420, less new valuation (before allowance for decommissioning costs) CU114,200.

IE14. Following this valuation, the amounts included in the statement of financial position are:

	<u>CU</u>
<u>Asset (revaluation model)</u>	<u>114,200</u>
<u>Accumulated depreciation</u>	<u>nil</u>
<u>Decommissioning liability</u>	<u>(7,200)</u>
<u>Net assets</u>	<u>107,000</u>
<u>Accumulated comprehensive revenue and expense (1)</u>	<u>(14,620)</u>
<u>Revaluation surplus (2)</u>	<u>11,620</u>

Notes:

1. CU10,600 at 31 December 20X2 plus 20X3's depreciation expense of CU3,420 and discount expense of CU600 = CU14,620.
2. CU15,600 at 31 December 20X2, plus CU5,000 arising on the decrease in the liability, less CU8,980 deficit on revaluation = CU11,620.

² Throughout this example, changes to the revaluation surplus are recognised through other comprehensive revenue and expense.

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