



**Australian Government**  
**Australian Accounting**  
**Standards Board**

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22 October 2010

Mr Peter Gibson  
Assistant Secretary  
Accounting Policy Branch  
Department of Finance and Deregulation  
John Gorton Building  
King Edward Terrace  
Parkes ACT 2600

(By e-mail to peter.gibson@finance.gov.au)

Dear Peter

**Revaluation of assets with a 'make good' provision**

Thank you for your letter, dated 21 September 2010, requesting clarification of the accounting treatment of future site restoration or 'make good' components of assets that are revalued to fair value in accordance with AASB 116 *Property, Plant and Equipment*. I was unaware of your September 2007 letter on this matter.

Your most recent letter suggests that the illustrative examples in Interpretation 1 *Changes in Existing Decommissioning Restoration and Similar Liabilities* are inconsistent with the principles in AASB 116 and the illustrative examples in Interpretation 1 may imply that the revaluation of a site restoration component may result in an asset being carried in excess of fair value. You are concerned that if an asset is initially recorded at fair value that fair value would embed an estimate of restoration costs. To then subsequently capitalise the full amount of the provision for restoration costs may lead to an inappropriate amount that would need to be impaired.

The AASB staff advise me that they do not share your concern in this regard and consider Interpretation 1, and the illustrative examples that accompany it, to be consistent with the principles in AASB 116. Accordingly, they do not consider there a need for any amendments through the Annual Improvements process.

Interpretation 1 requires the re-estimation of a restoration liability to be included in the fair value of an asset. In determining the fair value of an asset, the asset valuation basis that is applied may not take into account the re-estimation of the restoration component asset, for example, the net valuation basis. Therefore the fair value of the asset would need to be adjusted, to include an updated fair value of the restoration component, to reflect the total fair value of the asset.

We acknowledge that Example 2: Revaluation Model in the Illustrative Examples could be presented in a way that is clearer about the total fair value of the asset. However, we

consider the example to be consistent with Interpretation 1 and correctly illustrate the principles in AASB 116.

We note assets of this nature would be subject to impairment under AASB 136 *Impairment of Assets*, and the recoverable amount may be lower than the carrying amount resulting in an impairment loss being recorded. However, in the case of not-for-profit entities, paragraph Aus32.1 would require the value in use to be the depreciated replacement cost when the future economic benefits of the asset are not primarily dependant on the asset’s ability to generate net cash inflows. That depreciated replacement cost would be expected to include an updated cost for restoration and therefore no impairment loss would necessarily result.

If you have any queries regarding this letter, please contact me or Mischa Ginns (mginns@aaasb.gov.au).

Yours sincerely,

A handwritten signature in black ink that reads "Regards" followed by a stylized signature that appears to be "Kevin".

Kevin Stevenson  
*Chairman and CEO*