SPECIFIC ITEMS
SECTION 3110
asset retirement obligations

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PURPOSE AND SCOPE

.01 This Section establishes standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs.

.02 This Section applies to legal obligations associated with the retirement of a tangible long-lived asset, including productive biological assets, that result from its acquisition, construction, development or normal operation. This Section covers the obligations of both lessors and lessees in connection with leased assets, whether imposed by a lease agreement or by a party other than the lessor, except for those obligations of a lessee that meet the definition of either minimum lease payments or contingent rentals in LEASES, Section 3065, and are accounted for in accordance with that Section. This Section also covers obligations arising in connection with leasing and other agreements concerning the rights to explore for or exploit natural resources, to which LEASES, Section 3065, does not apply. This Section does not apply to:

(a) obligations that arise solely from a plan to sell or otherwise dispose of a long-lived asset subject to DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475; and

(b) obligations that result from the improper operation of an asset.

DEFINITIONS

.03 The following terms are used in this Section with the meanings specified:

(a) An **asset retirement obligation** is a legal obligation associated with the retirement of a tangible long-lived asset that an entity is required to settle as a result of an existing or enacted law, statute, ordinance or written or oral contract or by legal construction of a contract under the doctrine of promissory estoppel.

(b) **Retirement** of a long-lived asset is its other-than-temporary removal from service, including its sale, abandonment, recycling or disposal in some other manner, but not its temporary idling.

(c) An **asset retirement cost** is the amount that is capitalized and increases the carrying amount of a long-lived asset when a liability for an asset retirement obligation is recognized.

(d) **Accretion expense** is the increase in the carrying amount of an asset retirement obligation due to the passage of time.

.04 Promissory estoppel is the legal principle that a promise or assurance made without consideration may nonetheless be enforced to prevent injustice when:

(a) the promise or assurance was intended to affect a contract or other legal relationship between the promisor and the promisee, and to be acted on; and

(b) the promisee acted on the promise or assurance, or in some way changed its position.

RECOGNITION

.05 *An entity shall recognize a liability for an asset retirement obligation in the period in which it is incurred when a reasonable estimate of the amount of the obligation can be made. If a reasonable estimate of the amount of the* *obligation cannot be made in the period the asset retirement obligation is incurred, the liability shall be recognized when a reasonable estimate of the amount of the obligation can be made.*

.06 FINANCIAL STATEMENT CONCEPTS, Section 1000, defines liabilities as obligations of an entity arising from past transactions or events, the settlement of which may result in the transfer or use of assets, provision of services or other yielding of economic benefits in the future. Liabilities have three essential characteristics:

(a) they embody a duty or responsibility to others that entails settlement by future transfer or use of assets, provision of services or other yielding of economic benefits, at a specified or determinable date, on occurrence of a specified event, or on demand;

(b) the duty or responsibility obligates the entity, leaving it little or no discretion to avoid it; and

(c) the transaction or event obligating the entity has already occurred.

Only a legal obligation associated with the retirement of a tangible long-lived asset, including an obligation created by promissory estoppel, establishes a clear duty or responsibility to another party that justifies recognition of a liability.

.07 Various accounting standards deal with uncertainty in different ways. CONTINGENCIES, Section 3290, deals with uncertainty about whether a loss has been incurred by setting forth criteria to determine when to recognize a loss contingency. This Section provides a measurement technique to deal with uncertainties about the amount and timing of the future cash flows necessary to settle a liability. This Section requires that all asset retirement obligations within its scope be recognized when a reasonable estimate of the amount of the obligation can be made.

.08 When a tangible long-lived asset with an existing asset retirement obligation is acquired, a liability for that obligation is recognized at the asset's acquisition date as if that obligation were incurred on that date.

MEASUREMENT

.09 *The amount recognized as an asset retirement obligation shall be the best estimate of the expenditure required to settle the present obligation at the balance sheet date.*

.10 The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the balance sheet date or to transfer it to a third party at that time. It will often be impossible or prohibitively expensive to settle or transfer an obligation at the balance sheet date. However, the estimate of the amount that an entity would rationally pay to settle or transfer the obligation gives the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

.11 The estimate of the expenditure required to settle the present obligation is determined by the judgment of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts.

.12 Future events that may affect the amount required to settle an obligation are reflected in its measurement when there is sufficient objective evidence that they will occur. Expected future events may be particularly important in measuring an asset retirement obligation. For example, an entity may believe that the cost of cleaning up a site at the end of its life will be reduced by future changes in technology. The amount recognized reflects a reasonable expectation of technically qualified, objective observers, taking account of all available evidence as to the technology that will be available at the time of the clean-up. Thus, it is appropriate to include expected cost reductions associated with increased experience in applying existing technology, or the expected cost of applying existing technology to a larger or more complex cleanup operation than has previously been carried out. However, an entity does not anticipate the development of a completely new technology for cleaning up unless it is supported by sufficient objective evidence.

.13 The effect of possible new legislation is taken into consideration in measuring an existing obligation when sufficient objective evidence exists that the legislation is virtually certain to be enacted. The variety of circumstances that arise in practice makes it impossible to specify a single event that will provide sufficient, objective evidence in every case. Evidence is required both of what legislation will demand and of whether it is virtually certain to be enacted and implemented in due course. In many cases, sufficient objective evidence will not exist until the new legislation is enacted.

.14 A present value technique is often the best available technique with which to estimate the expenditure required to settle the present obligation at the balance sheet date. When a present value technique is used, an entity estimates future cash flows used in that technique on a basis consistent with the objective of measuring the asset retirement obligation. Uncertainties surrounding the amount to be recognized as an asset retirement obligation are incorporated in the best estimate of the expenditure required to settle the obligation. Paragraphs 3110.A23-.A25 provide more detail on the use of a present value technique.

.15 Asset retirement obligations are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Changes in an asset retirement obligation may be due to the passage of time or to revisions to the timing or amount of cash flows, or to the interest rate used in determining the best estimate of the expenditures required to settle the present obligation at the balance sheet date.

RECOGNITION AND ALLOCATION OF AN ASSET RETIREMENT COST

.16 *Upon initial recognition of a liability for an asset retirement obligation, an entity shall recognize an asset retirement cost by increasing the carrying amount of the related long-lived asset by the same amount as the liability. An entity shall subsequently allocate that asset retirement cost to expense using a systematic and rational method over its useful life.*

.17 Application of a systematic and rational allocation method does not preclude an entity from capitalizing an amount of asset retirement cost and allocating an equal amount to expense in the same accounting period. For example, assume an entity acquires a long-lived asset with an estimated life of 10 years. As that asset 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.

.18 Impairment of asset retirement costs is accounted for in accordance with IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063.

.19 *In periods subsequent to initial measurement, an entity shall recognize period-to-period changes in the liability for an asset retirement obligation resulting from:*

(a) the passage of time; and

(b) revisions to either the timing, the amount of the original estimate of undiscounted cash flows or the discount rate.

An entity shall 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 or the amount of estimated cash flows.

.20 An entity measures changes in the liability for an asset retirement obligation due to passage of time by applying an interest method of allocation to the amount of the liability at the beginning of the period. The interest rate used to measure that change is the discount rate applied to measure the liability at the beginning of the period. That amount is recognized as an increase in the carrying amount of the liability and an expense. The expense is classified as an operating item in the income statement, not as interest expense. It is referred to in this Section as "accretion expense", but an entity may use any descriptor as long as it conveys the underlying nature of the expense.

.21 Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows, or revisions to the discount rate, are recognized as an increase or a decrease in the carrying amount of the liability for an asset retirement obligation, and the related asset retirement cost capitalized as part of the carrying amount of the related long-lived asset. When asset retirement costs change as a result of a revision to estimated cash flows, an entity adjusts the amount of asset retirement cost allocated to expense in the period of change if the change affects that period only, or in the period of change and future periods if the change affects more than one period (as required by ACCOUNTING CHANGES, Section 1506, for a change in estimate). Changes in asset retirement costs that affect future periods will result in adjustments of capitalized asset retirement costs and will affect subsequent depreciation of the related asset. Such adjustments are depreciated on a prospective basis.

EFFECTS OF FUNDING AND ASSURANCE PROVISIONS

.22 Providing assurance that an entity will be able to satisfy its asset retirement obligation does not satisfy or extinguish the related liability. Methods of providing assurance include surety bonds, insurance policies, letters of credit, guarantees by other entities, and establishment of trust funds or identification of other assets dedicated to satisfy the asset retirement obligation. Setting assets aside to satisfy an asset retirement obligation does not satisfy the criteria for offsetting the assets and the liability on the balance sheet. For a previously recognized asset retirement obligation, changes in funding and assurance provisions have no effect on the measurement of that liability. Costs associated with complying with funding or assurance provisions are accounted for separately from the asset retirement obligation.

DISCLOSURE

.23 *An entity shall disclose the following information about its asset retirement obligations:*

(a) a general description of the asset retirement obligations and the associated long-lived assets;

(b) the amount of the asset retirement obligation at the end of the year;

(c) the total amount paid towards the liability during the year; and

(d) if readily determinable, the fair value of assets that are legally restricted for purposes of settling asset retirement obligations. If this is not readily determinable, the carrying amount of assets legally restricted for purposes of settling asset retirement obligations.

When a reasonable estimate of the amount of an asset retirement obligation cannot be made, that fact and the reasons therefor shall be disclosed.

.24 Uncertainties affecting the measurement of a liability for asset retirement obligations are disclosed in accordance with MEASUREMENT UNCERTAINTY, Section 1508.

EFFECTIVE DATE

.25 Except as specified in paragraph 3110.26, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

.26 AGRICULTURE, Section 3041, issued in November 2019, amended paragraph 3110.02. An enterprise shall apply this paragraph when it applies Section 3041.

APPENDIX

APPLICATION GUIDANCE

This Appendix is an integral part of this Section.

This Appendix provides additional guidance on the application of certain aspects of the Section. This Appendix discusses generalized situations. The facts and circumstances of each asset retirement obligation need to be considered carefully in applying the Section.

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SCOPE

Legal obligation

A1 This Section applies to legal obligations associated with the retirement of a tangible long-lived asset. For purposes of this Section, a legal obligation can result from:

(a) a government action, such as a law, statute or ordinance;

(b) an agreement between entities, such as a written or oral contract; or

(c) a promise conveyed to a third party that imposes a reasonable expectation of performance upon the promisor under the doctrine of promissory estoppel.

An asset retirement obligation is a requirement to perform certain procedures rather than a promise to pay cash or other financial assets to the party to whom the obligation is owed. Accordingly, an asset retirement obligation is not a financial liability and is not subject to FINANCIAL INSTRUMENTS, Section 3856.

A2 The Supreme Court of Canada has described promissory estoppel as follows.

> The principles of promissory estoppel are well settled. The party relying on the doctrine must establish that the other party has, by words or conduct, made a promise or assurance which was intended to affect their legal relationship and to be acted on. Furthermore, the representee must establish that, in reliance on the representation, he acted on it or in some way changed his position.
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> [Supreme Court of Canada judgment in Maracle v. Travellers Indemnity Company of Canada (1991) 2 S.C.R. 50, page 57]

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".

A3 In most cases involving an asset retirement obligation, the determination of whether a legal obligation exists is unambiguous. However, when no obligation has been assumed previously but an entity makes a promise to a third party about its intention to perform retirement activities, 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. A legal obligation may exist even though no party has taken any formal action. In assessing whether a legal obligation exists, an entity is not permitted to forecast changes in the law or changes in the interpretation of existing laws and regulations. However, entities must recognize that laws differ from one jurisdiction to another and evolve from time to time within individual jurisdictions. Preparers and their legal advisors are required to evaluate current circumstances to determine whether a legal obligation exists.

A4 The following examples explain circumstances in which the doctrine of promissory estoppel may apply.

(a) Assume that a company operates a manufacturing facility on land subject to a 99-year lease. The lease requires the company to restore the land but the obligation is enforceable only if the company ceases to operate the facility before the end of the 25th year of the lease. In the 23rd year of the lease, the company's chief executive officer announces publicly that it plans to retire the facility in five years. In that case, under the terms of the lease, the company would not be required to restore the land. If the announcement also states that the company intends nevertheless to demolish the facility and restore the land, and it is reasonable to expect that the lessor would be aware of the announcement, the Canadian courts might conclude that there has been a promissory estoppel. A promissory estoppel may exist even though no one had relied on the announcement to their detriment. The promissory estoppel would prevent the company later from standing on the letter of the lease by which its obligation would have expired at the end of the 25th year of the lease.

(b) The doctrine of promissory estoppel may apply differently in other legal jurisdictions. For example, assume a company operates a manufacturing facility in the United States and has plans to retire it within five years. Members of the local press have begun to publicize the fact that when the company ceases operations at the plant, it plans to abandon the site without demolishing the building and restoring the underlying land. Due to the significant negative publicity and demands by the public that the company commit to dismantling the plant upon retirement, the company's chief executive officer holds a press conference at city hall to announce that the company will demolish the building and restore the underlying land when the company ceases operations at the plant. Although no law, statute, ordinance, or written contract exists requiring the company to perform any demolition or restoration activities and there is no pre-existing legal relationship between the company and the public at large, the promise made by the company's chief executive officer may have created a legal obligation under the doctrine of promissory estoppel.

In each of these circumstances, the company's management (and legal counsel, if necessary) would have to evaluate the particular facts and circumstances to determine whether a legal obligation exists.

A5 Contracts between entities may contain an option or a provision that requires one party to the contract to perform retirement activities when an asset is retired. The other party may decide in the future not to exercise the option or to waive the provision to perform retirement activities, or that party may have a history of waiving similar provisions in other contracts. Even when there is an expectation of a waiver or non-enforcement, the contract still imposes a legal obligation. That obligation is included in the scope of this Section. The likelihood of a waiver or non-enforcement will affect the measurement of the liability.

A6 In some circumstances, an entity may have doubts as to the existence of an asset retirement obligation because of uncertainty as to the meaning or application of a law, regulation or contract. These circumstances do not involve conditional obligations of the type discussed in paragraphs 3110.A19-.A20 and 3110.A27-.A28. They may arise when, for example, an entity is uncertain whether it has assumed an obligation through the operation of the doctrine of promissory estoppel. The existence of any liability in such cases is contingent on a future determination by a court, a regulator or some other competent authority, or a future determination by the entity that it would be held liable. Any such future determination by the entity would be based on future events or new information coming to light that would remove the current uncertainty, such as the receipt of an opinion from legal counsel. In these circumstances, the guidance in CONTINGENCIES, Section 3290, applies in determining whether to recognize an asset retirement obligation.

Issues associated with the retirement of a tangible long-lived asset

A7 In this Section, the term "retirement" is defined as the other-than-temporary removal of a long-lived asset from service. As used in this Section, that term encompasses sale, abandonment, or disposal in some other manner. However, it does not encompass the temporary idling of a long-lived asset. After an entity retires an asset, that asset is no longer under the control of that entity, no longer in existence, or no longer capable of being used in the manner for which the asset was originally acquired, constructed, or developed. Activities necessary to prepare an asset for an alternative use are not associated with the retirement of the asset and are not within the scope of this Section.

A8 Typically, settlement of an asset retirement obligation is not required until the associated asset is retired. However, certain circumstances may exist in which partial settlement of an asset retirement obligation is required or performed before the asset is fully retired. The fact that partial settlement of an obligation is required or performed prior to full retirement of an asset does not remove that obligation from the scope of this Section.

A9 Consider an entity that owns and operates a landfill, for example. Regulations require that the entity perform capping, closure and post-closure activities. Capping activities involve covering the land with topsoil and planting vegetation. Closure activities include drainage, engineering and demolition and must be performed prior to commencing the post-closure activities. Post-closure activities, the final retirement activities, include maintaining the landfill once final certification of closure has been received and monitoring the ground and surface water, gas emissions and air quality. Closure and post-closure activities are performed after the entire landfill ceases receiving waste (i.e., after the landfill is retired). However, capping activities are performed as sections of the landfill become full and are effectively retired. The fact that some of the capping activities are performed while the landfill continues to accept waste does not remove the obligation to perform those intermediate capping activities from the scope of this Section.

A10 Obligations associated with maintenance, rather than retirement, of a long-lived asset are excluded from the scope of this Section. The cost of a replacement part that is a component of a long-lived asset is not within the scope of this Section. Any legal obligations that require disposal of the replaced part are within the scope of this Section.

Obligations resulting from the acquisition, construction, development or normal operation of an asset

A11 Paragraph 3110.02 limits the scope of this Section to those legal obligations that result from the acquisition, construction, development or normal operation of a long-lived asset.

A12 In most circumstances, whether an obligation results from the acquisition, construction, or development of a long-lived asset is clear. For example, if an entity acquires a landfill that is already in operation, an obligation to perform capping, closure and post-closure activities results from the acquisition and assumption of obligations related to past normal operations of the landfill. Additional obligations will likely be incurred as a result of future operations of the landfill.

A13 Whether an obligation results from the normal operation of a long-lived asset may require judgment. Obligations that result from the normal operation of an asset are predictable and likely to occur. For example, consider a company that owns and operates a nuclear power plant. That company has a legal obligation to perform decontamination activities when the plant ceases operations. Contamination, which gives rise to the obligation, is predictable and likely to occur and is unavoidable as a result of operating the plant. Therefore, the obligation to perform decontamination activities at that plant results from the normal operation of the plant.

A14 An environmental remediation liability that results from the improper operation of a long-lived asset does not fall within the scope of this Section. Obligations resulting from improper operations do not represent costs that are an integral part of the tangible long-lived asset and, therefore, are not accounted for as part of the cost basis of the asset. For example, a certain amount of spillage may be inherent in the normal operations of a fuel storage facility, but a catastrophic accident caused by non-compliance with a company's safety procedures is not. The obligation to clean up after the catastrophic accident does not result from the normal operation of the facility and is not within the scope of this Section. An environmental remediation liability that results from the normal operation of a long-lived asset, and is associated with the retirement of that asset, is accounted for under the provisions of this Section.

Asset retirement obligations with indeterminate settlement dates

A15 An asset retirement obligation may result from the acquisition, construction, development or normal operation of a long-lived asset that has an indeterminate useful life and thereby an indeterminate settlement date for the asset retirement obligation. Uncertainty about the timing of settlement of the asset retirement obligation does not remove that obligation from the scope of this Section but will affect the measurement of a liability for that obligation and possibly the timing of recognition of the liability (see paragraph 3110.A18).

Asset retirement obligations related to component parts of larger systems

A16 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 an aluminum smelter that owns and operates several kilns lined with a special type of brick. The kilns have a long useful life, but the bricks wear out after approximately five years of use and are replaced on a periodic basis to maintain optimal efficiency of the kilns. Because the bricks become contaminated with hazardous chemicals while in the kiln, a law requires that when the bricks are removed, they must be disposed of at a special hazardous waste site. The obligation to dispose of those bricks is within the scope of this Section. The cost of the replacement bricks and their installation are not part of that obligation.

Obligations associated with an unrecognized tangible long-lived asset

A17 An asset retirement obligation may arise in connection with a tangible long-lived asset that is not recognized on an entity's balance sheet. For example, a lessee that has acquired a plant under an operating lease may, by statute or regulation or by the terms of its contract with the lessor, incur an obligation to dispose of hazardous waste and remediate any environmental damage upon the termination of the lease. That obligation is within the scope of this Section. Accordingly, the obligation and related asset retirement cost are recognized even though the asset itself is not recognized.

LIABILITY RECOGNITION

Asset retirement obligations with indeterminate settlement dates

A18 Instances may occur in which sufficient information to estimate the amount of an asset retirement obligation is not available. For example, when an asset has an indeterminate useful life, sufficient information to estimate a range of potential settlement dates for the obligation might not be available. In such cases, the liability is initially recognized in the period in which sufficient information exists to estimate a range of potential settlement dates that is needed to employ a present value technique to estimate the amount of the obligation.

Conditional obligations

A19 A conditional obligation to perform a retirement activity is within the scope of this Section. For example, if a government unit retains the right (an option) to decide whether to require a retirement activity, there is some uncertainty about whether that retirement activity will be required or waived. Regardless of the uncertainty attributable to the option, a legal obligation to stand ready to perform a retirement activity still exists, and the governmental unit might require it to be performed. Uncertainty about whether performance will be required does not defer the recognition of a retirement obligation; rather, that uncertainty is factored into the measurement of the amount of the asset retirement obligation through assignment of probabilities to cash flows. Uncertainty about performance of conditional obligations does not prevent the determination of a reasonable estimate of the amount of the obligation.

A20 A past history of non-enforcement of an unambiguous obligation does not defer recognition of a liability, but its measurement is affected by the uncertainty over the requirement to perform retirement activities. Uncertainty about the requirement to perform retirement activities does not prevent the determination of a reasonable estimate of the amount of the asset retirement obligation.

Obligations created by new statutory or regulatory requirements

A21 A newly enacted statute or new regulation may impose a new asset retirement obligation on an entity as a result of its past activities. In such circumstances, the liability and related asset retirement cost are recognized when the obligation is first imposed, and the financial statements of prior periods presented for comparative purposes are not restated.

Recoveries of asset retirement costs

A22 An entity may be entitled to recover asset retirement costs from another party. In such circumstances, the asset retirement obligation is accounted for without regard to the recovery.

MEASUREMENT OF A LIABILITY FOR AN ASSET RETIREMENT OBLIGATION

A23 A present value technique is often the best available technique for estimating the expenditure required to settle the present obligation at the balance sheet date. It can be determined using the following elements:

(a) an estimate of the future cash outflows expected with regard to the obligation;

(b) expectations about possible variations in the amount or timing of those cash outflows; and

(c) the time value of money, represented by the current market risk-free rate of interest, for maturity dates that coincide with the expected cash flows.

A24 In determining the best estimate of the expenditures required to settle the present asset retirement obligation at the balance sheet date, an entity begins by estimating the future cash outflows that reflect an assessment of the cost and timing of performing the required retirement activities. Considerations in estimating those cash outflows include developing and incorporating explicit assumptions, to the extent possible, about:

(a) the costs that will be incurred in performing the tasks necessary to retire the asset; and

(b) other amounts, such as inflation, overhead, equipment charges, and the effects of advances in technology.

A25 There are two approaches to computing present value. Under the traditional approach, adjustments for uncertainties as to the amount and timing of cash outflows are embedded in the discount rate. Under the expected cash flow approach, uncertainties as to the amount and timing of cash outflows are reflected in risk-adjusted cash flows. Uncertainties about the amount and timing of future cash flows can usually be accommodated in the present value calculation and, therefore, will not prevent the determination of a reasonable estimate of the amount of the asset retirement obligation.

A26 When assets with asset retirement obligations are components of a larger group of assets (for example, a number of oil wells that make up an entire oil field operation), aggregation techniques may be necessary to derive a collective asset retirement obligation. This Section does not preclude the use of estimates and computational shortcuts that are consistent with the measurement objective when computing an aggregate asset retirement obligation for assets that are components of a larger group of assets.

A27 This Section requires recognition of the best estimate of a conditional asset retirement obligation before the event that either requires or waives performance occurs. Uncertainty surrounding conditional performance of the retirement obligation is factored into its measurement by assessing the likelihood that performance will be required. When the conditional aspect has only two outcomes and there is no information about which outcome is more probable, a 50 percent likelihood for each outcome is used until additional information is available. As the time for notification approaches, more information and a better perspective about the ultimate outcome will likely be obtained. Consequently, reassessment of the timing, amount and probabilities associated with the expected cash flows may change the amount of the liability recognized. When, as time progresses, it becomes apparent that retirement activities will not be required, the liability and the remaining unamortized asset retirement cost are reduced to zero.

A28 In summary, an unambiguous requirement that gives rise to an asset retirement obligation coupled with a low likelihood of required performance still requires recognition of a liability. Uncertainty about the conditional outcome of the obligation is incorporated into the measurement of the amount of that liability, not the recognition decision.

SUBSEQUENT RECOGNITION AND MEASUREMENT

A29 In periods subsequent to initial measurement, an entity recognizes the effect of the passage of time on the amount of a liability for an asset retirement obligation. A period-to-period increase in the carrying amount of the liability is recognized as an operating item (accretion expense) in the income statement. An equivalent amount is added to the carrying amount of the liability. To calculate accretion expense, an entity multiplies the beginning of the period liability balance by the discount rate used to measure the liability at the beginning of the period. The liability is adjusted for accretion prior to adjusting for revisions in estimated cash flows.

A30 Revisions to a previously recognized asset retirement obligation will result from changes in the assumptions used to estimate the cash flows required to settle the obligation, including changes in estimated probabilities, amounts and timing of settlement, as well as changes in the legal requirements of the obligation and changes in the discount rate.

A31 Revisions to the asset retirement obligation result in adjustments of capitalized asset retirement costs and will affect subsequent depreciation of the related asset. Such adjustments are depreciated on a prospective basis.

PRESENTATION OF CASH FLOWS — SETTLEMENT OF A LIABILITY

A32 Cash payments made to settle an asset retirement obligation are classified in the statement of cash flows as an operating cash flow.
