HMRC - OT02195 - Decommissioning

The SORP at paragraph 88 states:

“Decommissioning describes the process of plugging and abandoning wells, of dismantlement of wellhead, production and transport facilities and of restoration of producing areas in accordance with licence requirements and the relevant legislation”.

At paragraph 89 it states:

“FRS12 Provisions, contingent liabilities and contingent assets requires provisions to be made for a present obligation whether that obligation is legal or obstructive. FRS 12 specifically relates this concept to oil installations by examples, requiring provision for decommissioning costs’ to the extent that the entity is obliged to rectify damage already caused”.

FRS12 and IAS 37 Provisions, contingent liabilities and contingent assets require provisions to be recorded at the present value of the expenditure expected to be required to settle the obligation. Decommissioning provisions will typically be discounted.

When a provision, or a change in a provision is recognised, an asset should also be recognised when, and only when, the incurring or the present obligation recognised as a provision gives access to future economic benefits. Where no future economic benefits are identified, the setting up of the provision should be charged immediately to the profit and loss account.

Further information on provisions can be found in FRS12 and IAS 37, and paragraphs 90 to 98 of the SORP.

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