Resource Management Guide No. 114

Accounting for decommissioning, restoration and similar provisions (‘make good’)

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This guide contains material that has been prepared to assist Commonwealth entities and companies to apply the principles and requirements of the Public Governance, Performance and Accountability Act 2013 and associated rules, and any applicable policies. In this guide the: mandatory principles or requirements are set out as things entities and officials ‘must’ do; and actions, or practices, that entities and officials are expected to take into account to give effect to those principles and/or requirements are set out as things entities and officials ‘should consider’ doing.
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**Key points**

- **Purpose:** To provide guidance on the accounting and disclosure requirements for initial recognition of make good provisions and subsequent accounting, including the unwinding of the discount and changes made to the provision.

- **Scope:** Whilst the focus is on accounting for make good provisions, limited guidance is also provided on accounting for the related asset as support. In principle, the discounting guidance can also apply to other AASB 137 provisions.

- **Aim:** To provide non-mandatory explanation and examples relating to the interpretation and application of Australian Accounting Standards and the PGPA Financial Reporting Rule (FRR) to the above entities.

- **Reference previous guidance:** This guide replaces Accounting Guidance Note No. 2010/1.

**Resources**


**Applicable accounting pronouncements**

- **AASB 116 Property, Plant and Equipment**

- **AASB 137 Provisions, Contingent Liabilities and Contingent Assets**

- **Interpretation 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities**

**Contact information**

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**Guidance**

1. Many entities have obligations to dismantle, remove and restore items of “property, plant and equipment (PP&E)” (see ‘Definitions used’ below) (often referred to as ‘make good’), e.g., entities that lease premises may be required to restore the premises to its original condition at the conclusion of the lease.

2. Accounting standards require these obligations to be recorded as “liabilities” (see ‘Definitions used’ below, see also “provisions”) in certain circumstances, as set out in this Guide. They are also required to be recorded as liabilities for budget purposes (see ‘Budget implications’ below) although funding would not normally be provided to entities until such time as payments are required to be made.
### Initial recognition

3. The cost of an item of PP&E includes (as per AASB 116 paragraph 16):

<table>
<thead>
<tr>
<th>Purchase price (incl duties &amp; taxes)</th>
<th>Directly attributable costs (see AASB 116.17)</th>
<th>Make good costs (see paragraphs 4-7 below)</th>
</tr>
</thead>
</table>

#### Practical guidance

- The following journal illustrates the initial recognition of an asset and the associated provision for make good:

  Dr. PP&E* XX
  Cr. Cash/Accounts payable/Appropriations (as appropriate) XX
  Cr. Cash/Accounts payable etc (directly attributable costs)^ XX
  Cr. Provision for make good XX

  *Even though the above journal entry does not separate the make good proportion of the asset, entities may find it useful to show this separately in the asset register/ledger. This will assist entities when applying revaluations and impairment requirements on the separate assets.

  ^This entry to ‘cash/accounts payable etc (directly attributable costs)’ follows the requirement that entities assess costs when they are incurred (AASB 116.10). It is therefore inappropriate for entities to be initially expensing directly attributable costs at the time they were incurred and then reversing (crediting) the expense at the time of asset recognition because the assessment was not timely.

4. Make good costs include the initially estimated costs involved in dismantling, removing and restoration, where the obligation was incurred either when the item was acquired or as a consequence of having used the item in accordance with part (c) of AASB 116 paragraph 16.

#### Practical guidance

- Examples of make good costs:
  - **Dismantling**: the cost of taking apart a piece of machinery to allow for its removal from the site.
  - **Removing**: the cost of transporting an aircraft to a disposal facility due to a condition of purchase that it must be disposed of in a particular manner.
  - **Restoration**: the cost of returning a mine site to its original condition.

5. The resulting provision for make good is only recognised when the criteria in AASB 137 paragraph 14 is satisfied.

### Initial measurement

6. The initial measurement of the provision is the best estimate of the expenditure required to settle the present obligation at the end of the financial reporting period in accordance with AASB 137 paragraphs 36 – 52 (including consideration of paragraph 7 below). The result is the amount recognised as the make good component of the asset in the journal entry at paragraph 3 above.

#### Practical guidance

- A common method of estimating the expenditure required to settle the obligation is to obtain a reasonable estimate of the expenditure required to make good the asset in the present day (i.e. through quotes/based on past experience in similar situations) and then adjusting this using inflationary measures such as the Consumer Price Index (CPI) or Building Price Indices to obtain the expenditure required in a future reporting period.
7. Where the time value of money (TVOM) is material, the provision is discounted to reflect the present value of the estimated expenditures (using a pre-tax rate, such as the government bond rate) (see practical guidance to paragraph 8 below). In other words, if the TVOM is not material then discounting would not be required.

Subsequent accounting

FIRST: Unwinding of the discount (where TVOM is material)

8. The periodic unwinding of the discount increases the carrying amount of the provision to make good and is recognised in profit or loss (P&L) as a 'finance cost' as it occurs; Interpretation 1 disallows capitalisation. The unwinding of the provision should be recognised before revising the provision at year end.

Consider Appendix 1 Illustrative example 1 – $50,000 is to be paid in five years time (year 20X5) to make good a premises and a 10% discount rate applies. The value of the $50,000 in today’s terms (year 20X0) would only be $31,046 (i.e. if you were to invest at a rate of 10%, the $31,046 would be worth $50,000 in 20X5) (relevant to paragraph 7 above).

The unwinding of the discount effectively increases the provision each year to reflect the passage of time. After one year has passed, the $31,046 is no longer sufficient to settle the $50,000 liability in four years time. The value of the $50,000 after one year would now be $34,151 (i.e. if you were to invest at a rate of 10%, the $34,151 would be worth $50,000 in 20X5). Therefore the entity must increase the provision by $3,105 (the difference between year 20X1’s present value of $34,151 and year 20X0’s $31,046).

SECOND: Changes in the measurement of an existing provision to make good

9. Entities are required to review the provision at each reporting date and make adjustments to reflect the provision’s current best estimate. If it is no longer probable that the entity will be required to settle the obligation, the provision is reversed.

10. Changes in the measurement of a make good provision may result from changes in the estimated timing or amount required to settle the obligation; or the discount rate.

Practical guidance

For examples, see below (timing), Appendix 1 Illustrative examples 2 and 3 (amount) and Appendix 1 Supplementary application (discount rate).

Consider Appendix 1 Illustrative example 1 – at the end of the lease term the entity instead extends its lease and hence does not make good the property at this point in time. Rather than derecognising the provision, the entity would be required to revalue the provision to take into consideration this delay. As the leasehold asset is fully depreciated, there would be no further depreciation over this new period.

1 For other AASB 137 provisions, this would instead be a ‘borrowing cost’ per AASB 137 paragraph 60 and thus be subject to section 15 of the FRR.
11. Entities must account for changes in the measurement of the existing provision in accordance with Interpretation 1. Accounting for such changes is dependent on the measurement of the related asset subsequent to initial recognition (either the cost model or the revaluation model as limited by the requirements of section 17 of the FRR). Both models are discussed below in relation to the provision to make good and its' related asset.

Cost model

Related asset

12. Related assets are accounted for as per the cost model within AASB 116. The impact of a change in the associated make good provision on the related asset is as follows:

An ↑ (↓) in the provision is added to (deducted from*) the cost of the asset.

An increase in the asset’s cost might indicate that the asset is not fully recoverable. Therefore, AASB 136 Impairment of Assets testing for impairment would be considered.

*See paragraph 15 below for exception.

Changes in the provision to make good

13. Similar to the initial recognition of the make good provision in paragraph 3 above, an increase in the provision leads to an increase in the cost of the related asset, as demonstrated:

Dr. PP&E XX
Cr. Provision for make good XX

Practical guidance ⇒ See Appendix 1 Supplementary application – application to the cost model.

14. A decrease in the provision leads to a reduction in the cost of the related asset, as demonstrated (subject to paragraph 15 below):

Dr. Provision for make good XX
Cr. PP&E XX

Practical guidance ⇒ See Interpretation 1 Illustrative example 1, which illustrates a decrease under the cost model.

15. However, the amount of the reduction is not permitted to exceed the carrying amount of the asset. Any excess is taken immediately to P&L.

Practical guidance ⇒ For example, an entity which has revised its initial estimate of make good provision downwards by $75,000. The related asset cost $600,000 on initial recognition and as it is nearing its useful life, has accumulated depreciation of $550,000. As the amount of the deduction ($75,000) exceeds the carrying amount of the asset ($50,000), the entity deducts $50,000 from the asset, and the excess $25,000 is recognised in P&L.
Related asset

16. Related assets are accounted for as per the revaluation model within AASB 116. Entities should be aware of the following:

- For not-for-profit (NFP) entities, PP&E revaluations apply to a class of assets.
- For all entities, the basis of a valuation obtained for such assets (i.e. whether an allowance for make good has been included/excluded in the valuation) affects the procedures that may be required to avoid double counting.

**Practical guidance**

- Interpretation 1 Illustrative example 2 paragraph IE7 provides information on the treatment where entities have used either the discounted cash flows (DCF) or the depreciated replacement cost (DRC) valuation method. The Illustrative example also provides further guidance for the DCF method’s ‘net’ valuation approach.

- **DRC method example:** Three years into its useful life of ten years, an asset is revalued using DRC to $1,000. The valuer determined that the present value of the make good liability was now $100. The valuer informed the entity that the $1,000 valuation was exclusive of the make good component. Therefore, the entity determined that $100, less accumulated depreciation of $30, should be added to the DRC valuation amount. The asset was therefore revalued to $1,070.

17. To understand changes in make good provisions under the revaluation model, it is first important for entities to understand the treatment of previous asset revaluations (if any), and the balance of the asset revaluation reserve (ARR). As this is required for all PP&E under the revaluation model, it is only discussed very briefly in paragraphs 18 and 19 below.

18. **An increase in the carrying amount of an asset** due to a revaluation must be taken to the ARR. However, to the extent of the increase reversing a previous decrease of the same asset previously recognised in P&L, the increase should be credited directly to P&L.

**Practical guidance**

- The following journal illustrates an increase in the carrying amount of an asset where there has been a previous revaluation decrease recognised in P&L:

  \[
  \begin{align*}
  \text{Dr.} & \quad \text{PP&E} & \quad XX \\
  \text{Cr.} & \quad \text{Revaluation expense}^* & \quad XX \\
  \text{Cr.} & \quad \text{ARR (excess, if any)} & \quad XX \\
  \end{align*}
  \]

  \*Where there has been no previous revaluation decrements recognised in P&L, this account is excluded.

19. **A decrease in the carrying amount of an asset** will be recognised in P&L. However, to the extent of any credit balance existing in the ARR in respect of that asset, the decrease should be debited directly to the ARR.

**Practical guidance**

- The following journal illustrates a decrease in the carrying amount of an asset where there is an existing balance in the ARR relating to that asset:

  \[
  \begin{align*}
  \text{Dr.} & \quad \text{ARR}^* & \quad XX \\
  \text{Dr.} & \quad \text{Revaluation expense (excess, if any)} & \quad XX \\
  \text{Cr.} & \quad \text{PP&E} & \quad XX \\
  \end{align*}
  \]

  \*Where there is no existing balance in the ARR, this account is excluded.
20. The impact of a change in the associated make good provision on the related asset is as follows:

An ↑ (↓) in the provision is recognised in P&L* (other comprehensive income (OCI) and increases the ARR^).

A change in the provision might indicate that the related asset (including the make good asset) should be revalued. Any such revaluation is taken into account in determining the amounts to be recognised in P&L or OCI. If a revaluation is necessary, all assets of that class are required to be revalued.

*See paragraph 22 below for exception.

^See paragraphs 23 and 24 below for exceptions.

**Changes in the provision to make good**

21. Changes in make good provisions under the revaluation model are the reverse of revaluations of the related asset, the only difference being the account affected (asset or provision). Again, for NFP entities the requirements are applied in relation to a class of assets consistent with that for the revaluation model.

22. An increase in the provision (similar to a revaluation decrease of the related asset in paragraph 19) is recognised in P&L and, to the extent of any credit balance existing in the ARR in respect of the related asset, the increase is debited directly to the ARR.

The following journal illustrates an increase in the provision where there is an existing balance in the ARR in respect of the related asset:

Dr. ARR* XX
Dr. Revaluation expense (excess, if any) XX
Cr. Provision for make good XX

*Where there is no existing balance in the ARR in respect of the related asset, this account is excluded.

Appendix 1 Illustrative examples show the accounting for increases in the provision where there is (Illustrative example 3)/is not (Illustrative example 2) an existing credit balance in the ARR.

23. A decrease in the provision (similar to a revaluation increase of the related asset in paragraph 18) is taken to the ARR and, to the extent of the decrease reversing a previous revaluation decrease of the related asset that was previously recognised in P&L, the decrease is credited to P&L as a reversal. This is subject to paragraph 24 below.

The following journal illustrates a decrease in the provision where there has been a previous revaluation decrease in the related asset recognised in P&L:

Dr. Provision for make good XX
Cr. Reversal of previous asset write down (income: gain)* XX
Cr. ARR (excess, if any) XX

*Where there have been no previous revaluation decrements of the related asset recognised in P&L, this account is excluded.
24. If the decrease in the provision exceeds the amount that the asset would have been carried under the cost model (i.e. its depreciated cost), the excess is taken to P&L. This means that the maximum an asset can be reduced is the same under both models.

Derecognising provisions

25. The adjusted depreciable amount of the asset is depreciated over its useful life (under both the cost and revaluation models). Where the related asset is at the end of its useful life, all subsequent changes to the provision are recognised in P&L as they occur.

Practical guidance  For example, consider Appendix 1 Illustrative example 1 – the provision has been fully derecognised at 1 July 20X5 as the premises is made good. If the estimates were incorrect and the full provision was not derecognised when the entity vacated, a provision reversal would be recognised in P&L.

26. Derecognition of the related asset is carried out in accordance with AASB 116’s derecognition requirements (paragraphs 67 – 72). Additionally, assets carried under the revaluation model have an option through AASB 116 paragraph 41 which provides entities with the choice upon derecognition to transfer the ARR that specifically relates to that asset directly to retained earnings, and such transfers are not made through P&L.

Practical guidance  For NFP entities there are practical issues associated with the above option. Given that the balance in the ARR is for a particular class of assets (not an individual asset), it may be difficult to determine the appropriate amount to transfer. Additionally, if the ARR is reduced when assets are disposed of, this reduces the reserve available for future revaluations. However, where the relevant portion of the ARR can be separately identified in relation to the disposed assets, it can be transferred (directly) to retained earnings. Otherwise, the amount can remain within the ARR.

Disclosure requirements

27. Make good provisions are a separate class of provisions to be disclosed as per the requirements of the Provisions Note in PRIMA and AASB 137. Comparative information of the AASB 137 paragraph 84 ‘movement schedule’ is not required (as stated in AASB 137).

Practical guidance  Appendix 1 Illustrative examples 1 and 2 demonstrate the practical application of disclosures required under the ‘movement schedule’.

28. In accordance with AASB 101 Presentation of Financial Statements paragraph 85 and PRIMA, the changes in the ARR resulting from changes in make good provisions may be a separate line item in OCI, where entities consider it is relevant to an understanding of the entity’s financial performance.
Budget implications

29. The following table illustrates the impact on budget aggregates of transactions at different stages in the lifecycle of a make good provision:

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Fiscal Balance</th>
<th>Underlying Cash Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Recognise provision</td>
<td>Worsen (due to movement in non-financial assets (NFAs))</td>
<td>Nil impact (no cash inflow/outflow)</td>
</tr>
<tr>
<td>2. Unwinding of the discount</td>
<td>Worsen (interest expense reduces net operating balance)</td>
<td>Nil impact (no cash inflow/outflow)</td>
</tr>
<tr>
<td>3. Changes in the provision</td>
<td>Nil impact (no impact on net operating balance from operations or NFAs)</td>
<td>Nil impact (no cash inflow/outflow)</td>
</tr>
<tr>
<td>(recognised in ARR)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Changes in the provision</td>
<td>Nil impact (as increase/decrease in provision recognised as ‘other economic flow’ there is no impact on net operating balance or NFAs)</td>
<td>Nil impact (no cash inflow/outflow)</td>
</tr>
<tr>
<td>(recognised in P&amp;L)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Derecognition of provision</td>
<td>Nil impact (no impact on net operating balance from operations or NFAs)</td>
<td>Worsen (decrease in cash resulting from restoration/decommissioning)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: The ABS Government Finance Statistics would only record a provision where there was a legal obligation to identified counterparties or groups of counterparties.

Definitions used

- A **liability** is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits (AASB 137.10).

- **Property, plant and equipment** are tangible items that:
  
  (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
  
  (b) are expected to be used during more than one period (AASB 116.6).

- A **provision** is a liability of uncertain timing or amount (AASB 137.10).
Illustrative examples

The following examples provide practical application of the accounting for make good:

Illustrative example 1: Recognition and subsequent accounting of make good provision (including disclosure);

Illustrative example 2: Recognising an increase in make good provisions where there is no credit balance in the asset revaluation reserve (ARR) (including disclosure); and

Illustrative example 3: Recognising an increase in make good provisions where there is a credit balance in the ARR.

Supplementary application of Illustrative examples 2 and 3

While Illustrative examples 2 and 3 illustrate changes in a provision resulting from a revision in the estimated amount required to settle the obligation, the same accounting requirements would be applied if the change in the provision was the result of a revision to the discount rate.

Additionally, although the examples illustrate changes in a provision where the related asset is measured using the revaluation model, the same accounting requirements would be applied under the cost model except that changes in the provision would be added to/deducted from the carrying amount of the related asset, rather than recognised in the ARR/profit or loss (P&L).

Illustrative example 1: Recognition and subsequent accounting of make good provision (including disclosure)

Information:

An entity enters into an operating lease for an office block on 1 July 20X0 for a period of 5 years and makes $200,000 worth of leasehold improvements. The contract specifies that the entity must make good the premises at the end of the lease term.

The $200,000 cost of the asset (leasehold improvements) will include an estimate of the cost of making good the premises at the end of the lease. The entity estimates that at 1 July 20X0 it would cost approximately $40,000 to return the building to its original condition. This estimate is based on obtaining quotes for the estimated level of work required and past experience.

Assume the entity depreciates PP&E on a straight-line basis, the time value of money is material, a discount rate of 10% applies, and inflation is 4.564% at 1 July 20X0.
**Answer:**

**Initial accounting**

To determine the expenditure required at the end of the lease (30 June 20X5), the entity projects the current value of the $40,000 using an inflationary measure of 4.564% as follows:

\[
\text{Future value (FV)} = \text{Present Value} \times (1 + \text{inflation rate})^{\text{Time period}}
\]

\[
= $40,000 \times (1.04564)^5 = $50,000
\]

As the time value of money is material, the $50,000 provision is discounted to its present value (PV) (see the practical guidance to paragraph 8 of this Guide for further explanation as it relates to this Illustrative example). The following formula shows the process that was applied in calculating the PV:

\[
\text{Present value (PV)} = \frac{FV}{(1 + \text{discount rate})^{\text{Time period remaining}}}
\]

\[
= \frac{$50,000}{(1.10)^5} = $31,046
\]

At 1 July 20X0, the following journal is posted to recognise the asset and its associated provision:

<table>
<thead>
<tr>
<th>Dr.</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leasehold improvements (asset)</td>
<td>$231,046</td>
</tr>
<tr>
<td>Cash</td>
<td>$200,000</td>
</tr>
<tr>
<td>Provision for make good</td>
<td>$31,046</td>
</tr>
</tbody>
</table>

**Subsequent accounting**

Over the life of the lease term, the discount is unwound to the full $50,000 (as per above, see the practical guidance to paragraph 8 of this Guide as it relates to this Illustrative example). The following formula is repeated in this process through to the end of the lease term:

\[
\text{Increase in provision} = (\text{PV for current year}) - (\text{PV for prior year})
\]

\[
E.g. \text{ for } 30/06/X1 = \left(\frac{$50,000}{(1.10)^4}\right) - $31,046 = $3,105 \text{ etc...}
\]

<table>
<thead>
<tr>
<th>30/06/X1</th>
<th>30/06/X2</th>
<th>30/06/X3</th>
<th>30/06/X4</th>
<th>30/06/X5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr. Interest expense</td>
<td>$3,105</td>
<td>$3,415</td>
<td>$3,756</td>
<td>$4,133</td>
</tr>
<tr>
<td>Cr. Provision for make good</td>
<td>$3,105</td>
<td>$3,415</td>
<td>$3,756</td>
<td>$4,133</td>
</tr>
</tbody>
</table>

**Unwinding of the discount**

**Total provision** (i.e. 31046 + 3105 etc…)

<table>
<thead>
<tr>
<th>30/06/X1</th>
<th>30/06/X2</th>
<th>30/06/X3</th>
<th>30/06/X4</th>
<th>30/06/X5</th>
</tr>
</thead>
<tbody>
<tr>
<td>$34,151</td>
<td>$37,566</td>
<td>$41,322</td>
<td>$45,455</td>
<td>$50,000</td>
</tr>
</tbody>
</table>

The entity will also recognise depreciation expense of $6,209 for years 1-5 in relation to make good. This is derived from the cost of restoration included in the cost of the asset of $31,046 depreciated on a straight-line basis over the term of the lease (5 years).

<table>
<thead>
<tr>
<th>Debit $</th>
<th>Credit $</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 July 20X1 – 20X5 (this journal is repeated)</td>
<td></td>
</tr>
<tr>
<td>$6,209</td>
<td>$6,209</td>
</tr>
</tbody>
</table>

| Dr. Depreciation expense (leasehold improvements) |
| Cr. Accumulated depreciation (leasehold improvements) |

<table>
<thead>
<tr>
<th>Dr. Depreciation expense (make good asset)</th>
<th>Credit $</th>
</tr>
</thead>
</table>

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At the end of the lease the provision is derecognised as the premises is made good.

<table>
<thead>
<tr>
<th>1 July 20X5</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr. Provision for make good</td>
<td>50,000</td>
</tr>
<tr>
<td>Cr. Cash/Accounts payable (as appropriate)</td>
<td>50,000</td>
</tr>
<tr>
<td>To derecognise provision as premises is made good</td>
<td></td>
</tr>
</tbody>
</table>

**Disclosure**

The movement schedule disclosures that are required for each year are as follows:

<table>
<thead>
<tr>
<th>Note X: Other Provisions [extracts for 20X1 – 20X5]</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>20X1</strong></td>
</tr>
<tr>
<td>$'000</td>
</tr>
<tr>
<td>As at 1 July 20XX</td>
</tr>
<tr>
<td>Additional provisions made</td>
</tr>
<tr>
<td>Amounts used</td>
</tr>
<tr>
<td>Unwinding of discount or change in discount rate</td>
</tr>
<tr>
<td><strong>Total as at 30 June 20XX</strong></td>
</tr>
</tbody>
</table>

**Illustrative example 2: Recognising an increase in make good provisions where there is no credit balance in the ARR (including disclosure)**

**Information:**

Assume the same information as Illustrative example 1, however assume that at 1 July 20X2 the entity makes changes to the building, creating a small number of new offices/meeting rooms, which leads to an increase of $20,000 in the expected cost to make good the premises, as the entity will now need to remove the internal structures upon vacating the premises.

In accordance with the FRR, the entity measures PP&E under the revaluation model and no credit balance exists in the ARR in respect to leasehold improvements.

**Answer:**

Up until 30 June 20X2 (inclusive), the same accounting treatment as in Illustrative example 1 applies.

At 1 July 20X2 the entity must increase the provision to reflect the increase of $20,000 in expected cost to make good the premises. As the balance of the provision at 30 June 20X2 is $37,566 (calculated in Illustrative example 1), the entity must recognise the difference, that being:

\[
\text{Increase in provision} = \frac{70,000}{(1.10)^3} - 37,566 = 15,026
\]

\[
\begin{align*}
\text{Dr.} & \quad \text{Revaluation expense} & \quad 15,026 \\
\text{Cr.} & \quad \text{Provision for make good} & \quad 15,026 \\
\end{align*}
\]

To recognise the increase in the provision in P&L (now $52,592)
The entity would be required (as in Illustrative example 1) to recognise the unwinding of the discount in P&L as a finance cost as it occurs. The periodic unwinding of the discount will now be recognised in respect of the increased amount ($70,000), as follows:

<table>
<thead>
<tr>
<th></th>
<th>30/06/X3</th>
<th>30/06/X4</th>
<th>30/06/X5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr. Interest expense</td>
<td>5,259</td>
<td>5,785</td>
<td>6,364</td>
</tr>
<tr>
<td>Cr. Provision for make good*</td>
<td>5,259</td>
<td>5,785</td>
<td>6,364</td>
</tr>
<tr>
<td>Unwinding of the discount</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total provision (i.e. 52592 + 5259)</td>
<td>57,851</td>
<td>63,636</td>
<td>70,000</td>
</tr>
</tbody>
</table>

*See Illustrative example 1 for further details on the periodic unwinding of the discount. For example, the calculation to increase the provision at 30/06/X3 = ($70,000 / (1.10)^2) − $52,592 = $5,259 etc.

The entity would also be required to depreciate the make good included in the cost of the asset (leasehold improvements) over the term of the lease (as in Illustrative example 1 but adjusted from the 20X2-X3 reporting period (see the Illustrative examples in Interpretation 1 for guidance)).

As the premises is made good at the end of the lease, a journal entry similar to that in Illustrative example 1, but for $70,000, is required.

### Note:
As discussed in paragraph 20 of this Guide, a change in the provision may be an indication that the asset (leasehold improvements and the make good asset) should to be revalued. When conducting a regular revaluation entities must comply with the requirements of AASB 116. Essentially, entities would determine whether the asset’s carrying amount is materially different from its fair value at reporting date. Where the asset is revalued this will require changes in the provision for make good.

### Disclosure
The movement schedule disclosures required for the remaining three years are now as follows:

#### Note X: Other Provisions [extracts for 20X3 – 20X5]

<table>
<thead>
<tr>
<th></th>
<th>20X3</th>
<th>20X4</th>
<th>20X5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
</tr>
<tr>
<td>As at 1 July 20XX</td>
<td>38</td>
<td>58</td>
<td>64</td>
</tr>
<tr>
<td>Additional provisions made</td>
<td>15</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Amounts used</td>
<td>-</td>
<td>-</td>
<td>(70)</td>
</tr>
<tr>
<td>Unwinding of discount or change in discount rate</td>
<td>5</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Total as at 30 June 20XX</td>
<td>58</td>
<td>64</td>
<td>-</td>
</tr>
</tbody>
</table>
Illustrative example 3: Recognising an increase in make good provisions where there is a credit balance in the ARR

**Information:**

Assume the same information as Illustrative example 2, except that there is a credit balance of $5,026 existing in the ARR at 1 July 20X2 in respect of the leasehold improvements.

**Answer:**

Excluding the journal entry at 1 July 20X2, the same accounting treatment as in Illustrative example 2 applies.

At 1 July 20X2, to the extent of the credit balance that exists in the ARR in respect of the leasehold improvements ($5,026), the entity would be required to recognise the increase in liability in the ARR. The remaining amount will be recognised in P&L.

- **Dr. Asset revaluation reserve** $5,026
- **Dr. Revaluation expense ($15,026 – $5,026)** $10,000
- **Cr. Provision for make good** $15,026

To recognise the increase in the provision in ARR with the excess going to P&L.