Asset Retirement Obligations – Identifying Costs

Background

Upon entering a leased facility, many subsidiaries of Brink's install security equipment such as CCTVs. If the lease agreement requires restoration of the property to its original condition, these CCTVs will need to be removed from the premises upon exiting the lease; however, these costs may or may not qualify as an asset retirement obligation (ARO). Whether the costs should be considered as an ARO depends on the ownership of the equipment and the expected use of the equipment after removal from the building. This Learn Once, Globally provides examples to assist Brink's subsidiaries with determining when these types of removal costs qualify as an asset retirement obligation under the rules of US GAAP.

Guidance

All examples assume that at end of the lease, the lease agreement requires restoration of the premises to the original condition.

Example 1

Brink's owns the CCTVs/Alarm equipment installed in the building. Economic useful life of the equipment is shorter than the remaining lease term.

Assets are disposed or retired at the end of their useful life. Even though the lease may require removal of assets, the assets are disposed based on the end of their useful life, not because of the legal obligation. NOT an ARO.

Example 2

Brink's owns the CCTVs/Alarm equipment installed in the building. Economic useful life of the equipment is equal to or longer than the remaining lease term. When the equipment is uninstalled, it could be used in another Brink's location.

Since equipment has an alternative future use, the decision to retire the assets is not a direct requirement of the lease. Such costs should be expensed when incurred, similar to moving costs. NOT an ARO.

Example 3

Brink's owns the CCTVs/Alarm equipment installed in the building. Economic useful life of the equipment is equal to or longer than the remaining lease term. When the equipment is uninstalled, it will not have an alternative future use (i.e. it will be retired and not used in another location).

Assuming there is no other use for the equipment after it is uninstalled, and the lease requires restoration of the premises to the original condition (legal obligation), the assets have been retired as a direct result of the lease. Accounted for as an ARO.

Example 4

CCTVs/Alarm equipment is leased from a third party. The CCTV/Alarm equipment lease requires Brink's to return the equipment to the lessor at the end of the equipment lease.

The cost of removal of the equipment from the property is associated to the leased asset (equipment), not the leased building. If the cost to remove the equipment and return the equipment to the lessor at the end of the equipment lease can be reasonably estimated, it should be included in the calculation of minimum lease payments related to the equipment lease. In most cases, an estimate of this cost can be determined. The removal costs are included in minimum lease payments of the equipment and recognized as expense on a straight-line basis over the lease term. NOT an ARO; however, a liability will be recorded over the life of the equipment lease for the obligation to remove the equipment and return it to the lessor.