Accounting for Joint Operations and Production Sharing Contracts

Course Price

£2750

Course Description

This course is aimed at accounting professionals wishing to deepen their knowledge of the accounting procedures applied to joint operations and production sharing contracts. We consider this from the perspective of operator, non-operator and national petroleum company. The course assumes IFRS as the accounting framework to be used but references US GAAP to the extent that is it relevant to an IFRS business.

Course Objectives

- Identify the typical features of joint operating agreements and production sharing contracts
- Describe the main clauses contained with joint operating agreements and production sharing contracts.
- Apply the accounting procedures set out in joint operating agreements and production sharing contracts.
- Prepare cash call request, joint billing statements and post cut-back entries
- Analyse how cost recovery works
- Identify how the PSC structure affects the economics of the project
- Analyse the financial consequences of production sharing agreements on economics and reserves.
- Identify differences in accounting treatments of costs for IFRS reporting and cost recovery purposes
- Identify commons sources of contractual disputes.
- Estimate the impact of PSC structure on reported reserves
- Account for the effect of property transactions commonly found between venturers involved in production sharing contracts, such as farm ins and farm outs

Who Should Attend

- Accounting professionals and auditors working within or with joint ventures, particularly those involved with production sharing contracts
- Accounting staff from the oil and gas industry who are new to joint operations or production sharing contracts
Staff from government departments who are working with or auditing oil and gas companies and formulating production sharing contracts.

Participants should already have a working knowledge of financial reporting principles within the upstream oil and gas sector and be conversant with IFRS. Participants may wish to attend our course International Accounting for Oil and Gas before attending this one.

Course Content

- Reap of principles of IFRS applying to upstream business
- Accounting issues posed by oil and gas contracting arrangements
- Types of joint arrangements
- Operator accounting procedures
- Under and overlift
- Accounting by the investor in its joint venture
- Typical terms found in PSCs and JOAs
- Differences between costs recoverable under PSCs and their treatments in the IFRS books
- Calculating production sharing
- Understanding the economics of the PSC
- Accounting for sales, swaps and farm/in farm outs between venturers

Day 1

1. Overview of oil and gas accounting issues

   - Nature of oil and gas entities and commercial arrangements
   - Types of accounts required by upstream oil and gas entities
   - The joint venture agreement
   - Background to and development of production sharing contracts
   - Relevance of IFRS and US GAAP

2. Principles of upstream accounting – refresher

   - Overview of the key accounting principles of financial reporting in E&P
   - Successful efforts vs. full cost capitalisation
   - Exploration, development and production

   CASE STUDY – COMPARISON OF FINANCIAL ACCOUNTING RESULTS UNDER DIFFERING ACCOUNTING POLICIES

3. Joint venture principles

   - The nature of joint ventures and reasons why oil and gas companies participate in them
   - Types of joint venture arrangements and their structure
   - Typical provisions of joint venture agreements
   - Relationship between operator and non-operator participants
4. Accounting by the operator

- Model accounting procedures
- Budgets and approvals
- Cash calls
- Billing statements and reporting of expenditures
- Cost allocation methods, including operator accounting for materials inventory and overheads
- Responsibility of operator to provide sufficient timely information
- Audits and dispute resolution

CASE STUDY – PREPARING CASH CALL REQUESTS AND JOINT BILLING STATEMENTS

Day 2

5. Revenue

- Sales arrangements within joint ventures
- Review of principles of revenue recognition
- Accounting for under and overlift

CASE STUDY – CALCULATING AND DISPOSING OF UNDER AND OVERLIFT

6. Reporting of joint arrangements in the IFRS financial statements

- IFRS 11 joint arrangements and IAS 28 accounting for associates and joint ventures
- Equity methods of accounting
- Treatment of dividends, interest and repayments of principal to Parent Company after commercial production
- Responsibilities for correct IFRS reporting by operator / non-operator
- Accounting for exploration, development and production costs by the operator / non-operator

CASE STUDY – ACCOUNTING BY THE INVESTOR AND INVESTEE FOR CASH AND NON-CASH CONTRIBUTIONS

7. Contracting and partnering arrangements

- Oil and gas contracting arrangements: different types (PSC, risk sharing, tax and royalty), purpose and their impacts upon financial reporting
- The life cycle of a production sharing contract
- Production sharing contacts and key provisions of the agreement
- The accounting procedure within the PSC
- Role of the national petroleum company

CASE STUDY – IDENTIFYING THE KEY ACCOUNTING ISSUES POSED BY DIFFERENT CONTRACTUAL ARRANGEMENTS AND ACCOUNTING FRAMEWORKS

8. The mechanics of production sharing contracts

- Mechanics of cost oil recovery, allocation and profit oil
• Review of recoverable and non-recoverable costs through the oil and gas life-cycle
• Treatment of rehabilitation funds
• Calculating the production share and resulting revenue

CASE STUDY: CALCULATING COST OIL AND PROFIT OIL UNDER PSC’S

Day 3

9. PSC economics and reserves

• What expenditures are cost recoverable?
• The impact of changing prices and volumes on production sharing
• The effects of caps on cost oil recovery
• The impact of mechanisms such as R-factors, capital uplifts and depreciation
• Running reserves under PSCs
• Reporting reserves from PSCs

CASE STUDY – RUNNING SCENARIOS ON VOLUMES AND RESERVES

10. Accounting for the tax treatment of PSCs

• Typical tax treatments under PSCs
• Distinguishing between income and sales type taxes
• Tax barrels and treatment of taxes paid on behalf of

11. Conveyances and business combinations

• Distinguishing acquisitions of assets from acquisitions of businesses
• When is IFRS 3 acquisition accounting applied and what is the business?
• Application of IFRS 3 to acquisitions of businesses
• Nature of conveyance arrangements
• Pooling and unitisations and adjustment of interests
• Accounting for farm-ins and farm-outs and carried interests
• Disposal gains and possible tax consequences

CASE STUDIES: ACCOUNTING FOR UNITISATIONS AND FARM IN / FARM OUT BETWEEN VENTURERS

CPD Unit

Continuing Professional Development

21 HOURS CPD