Core Concepts in Upstream Finance and Accounting

Course Price

£3050

Course Description

This course will help non-financial managers and staff within the industry improve their knowledge and application of best practices in financial management and accounting within E&P. The course covers the key financial principles in exploration, development and production. It goes on to examine how business decisions impact upon financial statements and financial performance and how by understanding these impacts managers are better placed to evaluate their decisions. We will then look the financial impact of the contractual arrangements found in the industry, in particular how Production Sharing Agreements impact upon results and reserves.

Course Objectives

- Describe the core financial competencies required by non-financial managers in E&P businesses
- Use the basic concepts and terminology for accounting and finance in the oil and gas sector.
- Examine the different financial statements and their roles including profit statement, balance sheet and cashflow.
- Establish how financial and accounting decisions affect earnings, cash flows and operational decisions.
- Apply accepted capitalisation rules and depreciation methods within E&P
- Analyse and interpret the results of E&P businesses including the use of accepted oil and gas reserves-based ratios
- Identify the drivers of corporate value in E&P
- Appraise strategies for enhancing corporate value including capital investment decisions, cost of capital, profitability and working capital management
- Analyse the financial consequences of contractual arrangements such as production sharing agreements.

Who Should Attend

This course is for operational and project managers including engineers and geologists wishing to broaden and deepen their knowledge and application of financial management and accounting practices. It will also be of use to staff in finance roles who wish to refresh their understanding of petroleum accounting concepts and issues.
Course Content

- Demystifying the language of finance and accounting
- The purpose of the primary statements and the relationship between income, cash flow and the balance sheet
- Accounting for the different stages of the upstream life cycle
- Analysing the financial statements of E&P business, including reserves disclosures
- How E&P businesses create value for their shareholders
- Understanding the economics and levers of shareholder value
- The impact of business decisions on financial statements and value
- Managing working capital
- The impact of contractual arrangements on E&P finances

Day 1

1. Getting Started

- Course introduction
- Identifying the financial responsibilities of the non-financial manager
- The language of the Oil and Gas Finance business

2. Core Financial Principles

- Core accounting concepts
- Accounting rules, standards and policies
- Generally Accepted Accounting Principles (GAAP) and other common terms
- The Balance Sheet – what are assets and liabilities?
- The Profit Statement – when do assets become expenses?
- Expenditure; when is this an asset and when is it a cost to the business?
- Concepts – depreciation and accruals
- Overheads and cost allocation
- The Cashflow statement and the difference between Profit and Cashflow

CASE STUDY – REFLECTING TRANSACTIONS IN FINANCIAL STATEMENTS

Day 2

3. Oil and Gas Industry Accounting Principles – overview

- The upstream life-cycle
- Accounting concepts in the Oil and Gas Industry – capitalise or expense?
- Full Cost method
- Successful Effort method

4. Successful efforts accounting principles
CASE STUDY – ACCOUNTING FOR TYPICAL E&P TRANSACTIONS AND PRODUCING FINANCIAL STATEMENTS

Day 3

5. Oil and gas reserves

- Estimating reserves from an accounting perspective
- Accounting for resources and reserves
- The impact of reserves on depletion, depreciation and amortisation
- Acquisitions of reserves through business combinations
- Reserves reporting

CASE STUDY – CALCULATING AND ANALYSING OIL AND GAS RESERVE RATIOS AND FINANCIAL STATEMENTS

6. Corporate Value

- What is corporate value and how is it created?
- What are the levers of value creation in E&P?
- Financing the different stages of the E&P lifecycle
- Understanding the cost of capital

CASE STUDY – ESTIMATING SHAREHOLDER VALUE

Day 4

7. Measuring and Managing Business Performance

- Measures of financial performance and strength
- Return on investment (ROI) and investment appraisal
- How profit margin and net asset turnover drive return on net assets
- Understanding competitive advantage: cost and differentiation advantage
- Key Performance Indicators in the Oil and Gas Sector

CASE STUDY – MODELLING THE ECONOMIC AND ACCOUNTING CONSEQUENCES OF BUSINESS DECISIONS

8. Managing Cash and Working Capital
Components of working capital
The cash collection cycle
Analysing the effects on corporate value of working capital operating decisions

CASE STUDY – EXAMINE HOW DECISIONS THAT AFFECT WORKING CAPITAL IMPACT UPON CORPORATE VALUE

Day 5

9. The Economics of E&P Contractual Arrangements

- Contrasting contractual arrangements in tax and royalty regimes vs. production sharing contracts
- Economics of tax and royalty regimes and their impact on financial results
- Economics of production sharing contracts
- Comparing and contrasting the impact of PSCs and Tax & Royalty regimes upon reserves and value

CASE STUDY – THE FINANCIAL CONSEQUENCE OF CONTRACTUAL ARRANGEMENTS OF E&P BUSINESSES

10. Comprehensive review

CASE STUDY – DEVELOPING FINANCIAL STATEMENTS FOR AN E&P BUSINESS THROUGH ITS LIFECYCLE

CPD Unit
Continuing Professional Development

35 HOURS CPD