



# COST CLASSIFICATION IN OIL AND GAS INDUSTRY

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**Course : Oil and Gas  
Accounting**

**Course Code: ACC 404**



# Learning Objective

In this section, students are expected to learn the following:

1. Royalty Cost, Drilling Cost, Acquisition Costs
2. Development Cost
3. Exploration and Appraisal Costs
4. Production Costs
5. Supporting Facilities and Equipment Costs
6. Tangible and Intangible Costs



# Royalty Liability:

## Example 1

During the first quarter of 2022, ERBIL Oil Company Limited produced 50,000 barrels of crude oil from oil field, which is located onshore. 5,000 barrels out of the total production were re-injected into the well to enhance crude oil recovery from an adjoining lease. The power generators used for field operations consumed 1,000 barrels during the quarter and 500 barrels were lost through evaporation. Assuming that posted price for the crude stream is US\$21.00 per barrel and exchange rate of US\$1 to IQD is equal to N1500.

**You are required to**  
compute royalty liability for the quarter, assuming that the applicable rate of royalty is 10 percent.



# Royalty Liability Format

## Royalty Format

Gross production of crude oil		XXX
<b>Less:</b>		
Quantity of crude oil re-injected into the formation	XXX	
Production used for field operations	XXX	
Quantity lost through evaporation	XXX	
		XXX
Net production		XXX
Posted price per barrel		XXX
Chargeable value of crude oil in Dollars		XXX
Conversion to Dinar (\$1=N1500) IQD 1500		XXX
Chargeable value of crude oil in Naira		XXX
Applicable rate of royalty		XXX
Royalty payable		XXX



Solution to Question One  
ERBIL Oil Company Limited

Computation of Royalty Liability for the First Quarter, 2022

Gross production of crude oil		50,000 bbls
<b>Less:</b>		
Quantity of crude oil re-injected into the formation	5,000 bbls	
Production used for field operations	1,000 bbls	
Quantity lost through evaporation	500bbls	
		6,500 bbls
Net production		43,500 bbls
Posted price per barrel		\$21
Chargeable value of crude oil in Dollars		\$ 913,500
Conversion to Dinar (\$1=N1500) IQD 1500		ID 1500
Chargeable value of crude oil in Naira		1, 370, 250,000
Applicable rate of royalty		10%
Royalty payable		ID 137, 025,000