CALCULATION OF ROYALTY LIABILITY

Dr. Armayau Alhaji Sani

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 500,000 barrels of crude oil from oil field, which is located onshore. 50,000 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 100,000 barrels during the quarter and 5000 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
Less:		
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

Calculation of Royalty Liability

Oil production			500,000
less			
Oil re-injected		50000	
Power generators		100,000	
Loss through Evaporation		5000	155000
Net Unit Produced			345,000
Posted Price			$21
Chargeable value of crude oil in Dollars			$7,245,000
Chargeable value of crude oil in Dinnar	(7,245,000 x 1500)		$10,867,500,000
Royalty (Qty)	10% * 345,000		34500
Royalty (Value)	10%*345000*21*1500		$1,086,750,000