JOINT INTEREST ACCOUNTING

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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. Meaning of Joint interest Accounting
2. Types of Joint interest

- ❖Concession
- ❖Joint Venture agreement
- ❖Production sharing Contract
- ❖Service Contract with or Without risk
- ❖Indigenous Contract

Joint Interest Accounting

Introduction:

Oil and gas exploration and production operations are typically high-risk which involve high-cost activities. In order to spread the cost and risk of oil and gas properties, especially those requiring high capital expenditures.

In some instances, companies jointly acquire the working interest from the outset. In other cases, the joint operation may not come about until later. Therefore, Joint interest is a process in which two or more parties combine their resources together to managed oil and gas operations. These includes:

Joint Interest Agreement/Accounting

1.Concession: In a concession agreement, a country grants to an oil company or a group of oil companies the exclusive right to carry out certain types of petroleum operations within a given oil area of its territory for a specified period of time for payment of royalties. This agreement, which was type of agreement in many host nations, has the least advantages to the host government as it relinquishes its sovereignty to operating oil company.

Joint Interest Agreement/Accounting Cont'

Joint Venture (JV):

This is defined as a situation where one or more foreign oil companies enter into agreement with the host government (through its agent) for joint development of jointly held oil mining licenses and facilities. Each partner in the joint venture contributes to the costs and shares the benefits or losses of the operation, in accordance with its proportionate equity interest in the venture.

Joint Interest Agreement/Accounting Cont’

In addition, the Memorandum of Understanding (MOU), governs the manner in which revenues from the venture are allocated between the partners, including payment of taxes, royalties and industry margin. The income derived from the operations is also shared in proportion to the equity interests of the parties to the JV, with each party bearing the cost of its royalty and tax obligations in the same proportion.

Production Sharing Contract (PSC):

In PSC, host government (through its agent) engages a competent contractor to carry out petroleum operations Government’s wholly owned acreage (oil block).

The contractor undertakes the initial exploration risks and recovers his costs only when oil is discovered in commercial quantities. If no oil is found, the company receives no compensation.

Production Sharing Contract Cont’

Under the PSC, royalty oil is a first-charge item assigned to the government free of any exploration, development and production costs. Thereafter, the contractor has the full right to only cost oil (i.e. oil to guarantee return on investment). He can also dispose of the tax oil (oil to defray tax obligations) on Government’s behalf. The residual oil is the profit oil, if any, and the company shares with the concession holder in some agreed percentage.

Service Contract with or without Risk:

Service contract (SC) is an operating arrangement similar to PSC whereby service contractor provides all the funds for exploration, development and production activities, while the title to the oil is owned by the Government. Like in PSC, the initial duration of the contract is usually 5 to 6 years, and the contract terminates automatically if no commercial discovery is made. In the event of such termination both the parties owe each other no further obligation with respect to the contract

Indigenous Contracts

Indigenous Contract is an arrangement whereby concessions oil fields are allocated to indigenous companies to operate. The government only regulate and approve technical aspects of the operations and make no financial contribution to E&D activities. In this contract indigenous companies only pay royalties and petroleum profits tax to the Government. It is a step taken by the Government to encourage local participation in the E&P of oil and gas.

Question 1:

Disina Oil and Gas Company entered into a joint operating agreement with KRG to drill an oil well located in Masif Mountain. Assume that the well is drilled at a cost of $1000,000. Disina Oil Company pays all the drilling and associated costs.

Month	Gross Sales	Sale Price	Operating Expenses
August	1,250 bbl	$80/bbl	$10,000
September	2,250 bbl	$80/bbl	$15,000
October	1,500 bbl	$80/bbl	$25,000

The following details were provided:

1. The royalty interest is 15% of the total revenue, while cost oil remained at 17% of the total drilling cost incurred.
2. The participation rate is 57% for Disina Oil and Gas Company, while KRG retained the remaining 43%.
3. All the figures are in thousands

Required :

1. Use the information available to calculate the total payout attributable to Disina Oil and Gas Company and the Kurdistan Regional Government.