2-16-1972

Accountants Striking Dry Well in Attempts to Significantly Change Oil-Company Rules

Christian Hill

Follow this and additional works at: http://repository.uchastings.edu/publicity

Part of the Judges Commons, and the Legal Ethics and Professional Responsibility Commons

Recommended Citation
Christian Hill, Accountants Striking Dry Well in Attempts to Significantly Change Oil-Company Rules (1972). Available at: http://repository.uchastings.edu/publicity/97

This News Article is brought to you for free and open access by the Judicial Ethics and the National News Council at UC Hastings Scholarship Repository. It has been accepted for inclusion in Publicity & News Clippings by an authorized administrator of UC Hastings Scholarship Repository. For more information, please contact marcusc@uchastings.edu.
Wildcatter Wrangle

Accountants Striking Oil Well in Attempts
To Significantly Change Oil Company Rules

By G. CHRISTIAN HILL

Wall Street Journal

The full-cost method, the decision was clearly a death blow to the companies using the method have considered all of their costs involved in working the whole area, the field to be accounted for before reaching a compromise. (But the companies' arguments persuaded the committee to change course.

Companies members now are drafting their recommendations on oil accounting, for the Accounting Principles Board is considering a proposal made by the Extractive Industries Committee in November on how to use the full-cost method.

The full-cost method gives a boost to current reported earnings of oil companies choosing to use the system because it permits them to stretch out over a period of years such expenses as unsuccessful exploration and drilling expenses. Thus, they can report much higher earnings, the same basic costs may be reflected in shareholder reports in several years. Under the new committee proposals, a reversal of that discovery exactly as it always has, capitalizing all the costs and keeping the reserves found round its total, nationwide pool.

The "full-cost companies," however, wouldn't be allowed to capitalize exploration and drilling expenses in an amount beyond the value of their existing nationwide reserves (currently, there is no such limit). Under new recommendations, oil companies would have to fully disclose expenditures on unsuccessful unexploitation efforts, the amount of capitalization of these expenses, what reserves were discovered in given areas, and the quality of those reserves.

Richard Lemmon, advisor to the Extractive Industries Committee chairman, believes the new recommendations will bring a measure of uniformity to oil accounting. "Actually, we haven't had just two accounting methods right now, but more like 20, because each method has applied with many variations," he says. "I think now we will have one accounting method requiring the same capitalization expenses before discovery but allowing some flexibility afterward.

Others aren't so sure. "None of this speculation makes sense unless you've got a darn good account on your staff," an accountant specializing in oil companies says the Accounting Principles Board has "suffered through some bad times lately with the insurance industry and investment tax credit, but maybe they're trying some compromise there. But any compromise which permits the industry to capitalize exploration and drilling expenses is simply walking away from the problem." The battle of the oil companies and the accountants is very much a battle over a major oil producing company, "Some of these companies are in a really bad way," he says. "It makes sense to keep the guessing game going .."