BLACKBIRD FOR TRAINING

Advanced Accounting and Financial Management in Oil and Gas Companies

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Introduction

The oil and gas industry presents unique accounting, financial management, and cost control challenges due to the capital-intensive nature of exploration and production activities, long project lifecycles, joint venture arrangements, production-sharing agreements, and exposure to fluctuations in commodity prices and foreign exchange rates.

This course provides a practical and industry-focused understanding of accounting and financial management across the oil and gas value chain. It equips participants with the knowledge and tools required to account for exploration, evaluation, development, and production activities, apply IFRS 6 and related standards, manage CAPEX and OPEX, establish effective cost structures, and prepare meaningful financial and management reports.

Through practical exercises, industry examples, case studies, and financial analysis, participants will develop the ability to evaluate investments, manage financial risks, prepare oil and gas budgets, forecast costs and production, and support informed financial decision-making within oil and gas organizations.

Course Objectives

- Understand the accounting principles and financial practices specific to the oil and gas industry.
- Apply IFRS 6 and other relevant IFRS requirements to exploration and evaluation activities.
- Differentiate between the Successful Efforts and Full Cost accounting approaches.
- Classify, manage, and monitor CAPEX and OPEX across oil and gas operations.
- Establish effective cost centers and link costs to fields, projects, and operational units.
- Understand the financial management of joint ventures, production-sharing agreements, and Cash Calls.
- Develop and manage oil and gas budgets and cost forecasts.
- Prepare and interpret financial and management reports relevant to oil and gas operations.
- Analyze cash flows and assess the financial performance of projects and investments.
- Evaluate capital projects and investment opportunities using appropriate financial techniques.
- Identify and manage financial risks arising from oil price and foreign exchange volatility.
- Apply accounting and financial management concepts through practical oil and gas case studies and exercises.

Course Outlines

Day 1: Oil & Gas Accounting Fundamentals

- Overview of accounting and financial management in the oil and gas industry.
- Understanding the oil and gas value chain.
- Exploration, evaluation, development, and production activities.
- Key accounting challenges across the upstream oil and gas lifecycle.
- The relationship between operational activities and financial reporting.
- Major financial and accounting terminology used in oil and gas companies.
- Introduction to oil and gas accounting frameworks.
- Understanding the financial lifecycle of an oil and gas asset.
- Practical exercises on oil and gas accounting fundamentals.

Day 2: Exploration & Evaluation Accounting and IFRS 6

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- Accounting for exploration and evaluation expenditures.
- Scope and application of IFRS 6.
- Recognition, measurement, and classification of exploration and evaluation assets.
- Treatment of exploration-related costs.
- Impairment considerations under IFRS 6.
- Transition from exploration and evaluation to development and production.
- Application of relevant IFRS standards to oil and gas activities.
- Financial reporting considerations for exploration activities.
- Practical application of IFRS 6.
- Case study: Exploration and evaluation accounting.

Day 3: Successful Efforts, Full Cost and Asset Accounting

- Understanding the Successful Efforts accounting method.
- Understanding the Full Cost accounting method.
- Key differences between Successful Efforts and Full Cost approaches.
- Treatment of exploration, development, and production expenditures.
- Capitalization and expensing considerations.
- Accounting implications of unsuccessful exploration activities.
- Depreciation, depletion, and amortization in oil and gas operations.
- Asset recognition and measurement.
- Asset impairment and financial implications.
- Practical exercise: Comparing Successful Efforts and Full Cost approaches.

Day 4: CAPEX, OPEX and Cost Management

- Capital expenditure CAPEX versus operating expenditure OPEX.
- CAPEX classification, recognition, monitoring, and control.
- OPEX classification and operational cost management.
- Identifying direct and indirect costs.
- Establishing cost centers and cost allocation structures.
- Linking costs to fields, projects, assets, and operational units.
- Cost monitoring and control mechanisms.
- Cost reporting for management decision-making.
- Identifying cost variances and corrective actions.
- Practical exercise: CAPEX and OPEX classification and cost allocation.

Day 5: Joint Ventures, Production Sharing Agreements and Cash Calls

- Financial structures of oil and gas joint ventures.
- Accounting considerations for joint venture operations.
- Understanding Production Sharing Agreements PSCs.
- Cost recovery and production allocation mechanisms.
- Partner interests and financial responsibilities.
- Cash Calls: purpose, preparation, approval, and monitoring.
- Partner billing and cost recovery considerations.
- Cost tracking and reconciliation between partners.
- Financial reporting within joint venture arrangements.
- Practical exercise: Preparing and reviewing a simplified Cash Call.

Day 6: Oil & Gas Budgeting and Cost Forecasting

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- Developing oil and gas operating and capital budgets.
- Budgeting for exploration, development, production, and operating activities.
- Linking operational plans to financial budgets.
- Cost forecasting methodologies.
- Production forecasting and linking production assumptions to financial plans.
- Budget assumptions and key financial drivers.
- Budget monitoring and performance tracking.
- Variance analysis and identifying the causes of deviations.
- Forecast updates and corrective actions.
- Practical exercise: Preparing a simplified oil and gas operating and capital budget.

Day 7: Financial Reporting, Management Reporting and Cash Flow Analysis

- Financial reporting requirements in oil and gas organizations.
- Preparing effective financial and management reports.
- Understanding key oil and gas financial statements.
- Key financial performance indicators.
- Management reporting for operational and strategic decisions.
- Cash flow reporting and analysis.
- Operating, investing, and financing cash flows.
- Cash flow forecasting and monitoring.
- Analyzing project cash flows and financial performance.
- Practical exercise: Preparing and interpreting an oil and gas financial report.

Day 8: Investment Evaluation and Project Economics

- Introduction to oil and gas project economics.
- Evaluating capital investment opportunities.
- Understanding project cash flows.
- Net Present Value NPV.
- Internal Rate of Return IRR.
- Payback period.
- Investment decision-making.
- Assessing project economics under different production and cost assumptions.
- Comparing alternative investment scenarios.
- Practical exercise: Evaluating an oil and gas capital investment project.

Day 9: Financial Risk, Oil Price Volatility and Scenario Analysis

- Identifying key financial risks in the oil and gas industry.
- Impact of oil and gas price fluctuations on financial performance.
- Foreign exchange exposure and currency-related risks.
- Financial risks affecting budgets and project economics.
- Sensitivity analysis for oil and gas investments.
- Scenario analysis and uncertainty assessment.
- Managing uncertainty in budgets, forecasts, and project economics.
- Financial risk assessment and mitigation strategies.
- Developing risk-based financial recommendations.
- Practical exercise: Sensitivity and scenario analysis for an oil and gas project.

Day 10: Integrated Oil & Gas Financial Management Case Study

- Integrating accounting, cost management, budgeting, and financial analysis.
- Reviewing the complete financial lifecycle of an oil and gas project.
- Comprehensive oil and gas industry case study.
- Analyzing exploration, development, and production costs.
- Reviewing CAPEX and OPEX classification and allocation.
- Assessing budget performance and cost variances.
- Analyzing project cash flows and investment returns.
- Evaluating the impact of oil price and foreign exchange

Why Attend This Course: Wins & Losses!

- Gain a practical understanding of accounting across the oil and gas lifecycle.
- Strengthen knowledge of IFRS 6 and related financial reporting requirements.
- Understand and compare Successful Efforts and Full Cost accounting methods.
- Improve CAPEX and OPEX classification, monitoring, and cost control.
- Build stronger cost center and cost allocation practices.
- Develop a clearer understanding of joint ventures, PSCs, and Cash Calls.
- Improve oil and gas budgeting, forecasting, and variance analysis skills.
- Strengthen financial and management reporting capabilities.
- Develop practical cash flow analysis and investment evaluation skills.
- Assess the financial impact of oil price and foreign exchange volatility.
- Apply financial concepts through realistic oil and gas scenarios and case studies.
- Support better financial decisions across exploration, development, and production activities.

Practical Questions and Answers

1. What is the difference between the Successful Efforts Method and the Full Cost Method in oil and gas accounting?

- The Successful Efforts Method generally capitalizes costs associated with successful exploration and development activities, while certain costs related to unsuccessful exploration may be charged as expenses. Under the Full Cost Method, exploration and development costs are generally capitalized within a defined cost pool and amortized over the related assets. The selection and application of the accounting approach should be considered within the applicable accounting framework and regulatory policies.

2. What is the difference between CAPEX and OPEX in the oil and gas sector?

- CAPEX represents expenditures that create, acquire, or substantially improve long-term assets, such as drilling infrastructure, production facilities, and major equipment. OPEX represents the ongoing costs required to operate and maintain oil and gas activities, such as maintenance, utilities, personnel, and operational services. Proper classification is essential for accurate financial reporting, budgeting, and cost control.

3. How are joint ventures, production-sharing agreements, and cash calls financially managed?

- Joint ventures and production-sharing agreements require clear allocation and monitoring of costs, revenues, obligations, and partners’ interests. Cash calls are requests made to partners to contribute their agreed share of funding for approved activities. Effective management requires accurate budgeting, cost tracking, proper documentation, reconciliation, and reporting to participating partners.

4. How can fluctuations in oil prices and foreign exchange rates affect an oil and gas project?

- Changes in oil prices can significantly affect revenues, project economics, cash flows, and investment returns. Foreign exchange fluctuations can also affect the cost of imported equipment, services, financing, and other expenses denominated in foreign currencies. Sensitivity analysis, scenario analysis, forecasting, and appropriate risk management techniques can help organizations assess and manage these risks.

5. How can financial analysis support investment decisions in the oil and gas sector?

- Financial analysis helps organizations determine whether a project is economically viable and aligned with strategic objectives. Techniques such as Net Present Value NPV, Internal Rate of Return IRR, payback period, cash flow analysis, sensitivity analysis, and scenario analysis can be used to evaluate expected returns, risks, and the potential impact of changes in costs, production levels, oil prices, and other assumptions.

Conclusion

- This course provides participants with a practical and comprehensive understanding of accounting, financial reporting, investment analysis, and cost management within the oil and gas industry. By combining industry-specific accounting principles with practical financial analysis, cost control techniques, and real-world applications, participants will be better equipped to evaluate financial performance, manage costs, support investment decisions, and address the financial challenges associated with oil and gas operations.

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