Research Paper
Impact Factor: 3.029
Peer Reviewed & Indexed Journal

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

FINANCIAL ACCOUNTING IN OIL AND GAS IN NIGERIA AND THE TECHNICAL ACCOUNTING ISSUES

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Abstract
The paper examines the financial accounting in oil and gas in Nigeria and the technical accounting issues. Fundamentals issues that were of great influence to the preparation and presentation of financial statement and other related areas on oil and gas were highlighted. The researcher utilizes secondary data such as journals, test books, lecture notes, relevant standards issues by both FRCN and IASB and websites. It was concluded that SAS 14 and 17 which covers Upstream and downstream activities involve the acquisition of mineral interest in properties, exploration, development, and production of oil and gas. The downstream activities involve transportation, refining and marketing of oil and gas and derivatives. It was also observed that IFRS 6 which covers exploration and Evaluation of Assets have one impairment model covering property, plant and equipment. Nigeria and other developing countries stands to benefits economically through adoption of IFRS by receiving a boost on foreign direct investment among others.

Key words: Accounting, Standard, International, Financial, Reporting.

Introduction

Nigeria is endowed with abundant natural resources, especially hydrocarbons and is the third largest producer in Africa and the most highly productive oil producer in Sub-Saharan Africa. The Nigerian economy majorly depends on its oil sector which supplies about 95% of its foreign exchange earnings. Nigeria is a member of OPEC and is about the 12th largest producer. The petroleum industry in Nigeria is regulated by the Ministry of Petroleum Resources. The government retains close control over the industry and the activities of the Nigerian National Petroleum Corporation (NNPC).

Oil and gas producing industry, which is extractive in nature, involves activities relating to acquisition of mineral interests in properties, exploration, development and production of oil and gas, the activities collectively referred to upstream operation, (ICAI, 2003 p.930). These activities involve many technical and theoretical problems and have been subjected to much controversy. Oil and gas accounting is unlike most other industry accounting procedures, it has a history of volatile swings in price, value and demand, high risk, high cost of investment, long time span from when costs are first incurred until benefits are received among others,(Akpan,2011, Akinyele, 2010 & Jennings, 2003)..

The Nigeria accounting standard board (NASB) now Financial Reporting Council of Nigeria (FRCN), a body charged with issuance of Statement of Accounting Standard (SAS), issued SAS 14 (Accounting in the Petroleum Industry: Upstream Activities) through Chief R.U. Uche's Committee. The standard came into effect from January 1, 1994. Similarly, through the effort of the same committee, it issued SAS 17 (Accounting in the Petroleum Industry: Downstream Activities) which came into effect on January 1, 1998, (Amadasum, 2008).

The Federal Government formally announced its adoption and launched the roadmap for its implementation on 2nd September 2010. The approval is seen as a milestone for Nigeria as it becomes a member state among those countries that have adopted IFRS. The roadmap for implementation, which is in three phases, mandates listed and significant public interest entities to prepare their financial statements using applicable IFRSs by December 31, 2012.

However, provision of IFRS and SAS on oil and gas differ significantly in some issues which require comparative analysis, to fully appreciate these differences. Oil and gas being a special area, is not an exception in the application of accounting. The two standards issued by FRCN (upstream and downstream oil and gas activities) , and International Accounting Standard Board (IASB) on its part, has issued IFRS 6 a standard which specifies the financial reporting for the exploration for and evaluation of mineral resources. The upstream and downstream oil and gas activities encompass the umbrella of major activities from searching of oil to final consuming (Gbeji, 2013).

The upstream activity which is the initial stage has exploration and approval, acquisition, development and production activities. Downstream activities include transportation, refining (manufacturing), and distribution and marketing. This sectors are usually very capital intensive and risky, Most oil and gas (O&G) companies have significant international operations, multiple regulatory and capital market considerations, complex organizational structures often including multiple subsidiaries and joint venture relationships, (Akinyele 2010, Deloitte 2008).

The paper examines the Financial Accounting in oil and Gas in Nigeria and the Technical Accounting Issues. In achieving this, the relevant standards were reviewed to discuss the differences in methods, reporting and the technical issues raised in the standards which influences the procedures and preparation of financial statement in this sector.

Literature Review

Characteristics of oil and Gas industries

As already pointed out, the Oil and Gas industry is one of the vital industries in the world, largely because of its strategic role in every economy of a nation in the world. The distinctive features that characterized the industry are derived from the nature of crude oil, its operations and commercial arrangements, (Kabir, 2012),

Some of these characteristics of the oil and gas industry as pointed by (Kabir, 2012), may include **High Level of Risk and Uncertainty**: The level of risk in oil and gas operations can be both substantial in amount and wide in scope, and locating new well sites even in already established field is surrounded with high level of uncertainties. Exploration operations are risky because oil is hidden underground and the only conclusive evidence of its presence in any form, quantity and quality is drilling. There is therefore a geological risk of drilling and hitting a dry hole. In addition, there are market risk (the risk of not finding an outlet for production at a satisfactory price), sovereign/political risk (the risks of nationalization of operations, currency devaluation, licensing and exploration agreements), partner risk (the risk of partner default, distrust, unwillingness, inability or delay in paying due shares of cost of exploration and development), youth militancy risk (the risk of kidnapping of personnel and vandalisation of equipments by militant youths) and tax risk (the risk of unexpected change in tax provisions) . Consequently, the risk of loss of capital is very high.

Dominance of the World Economy: The second feature of oil and gas industry is its dominance of the world economy, in terms of financial figures, unlimited potentials as raw material, global economy development and international politics and touches the lives of people in any more ways, anywhere on earth. Exxon Mobil, Saudi Aramco, Chevron and Shell B.P. are one of the largest companies in the World today in terms of financial figures and profitability.

Long Lead-Time between Investment and Returns: Even in normal circumstances, upstream activities can take several years, thereby complicating the risk further in oil and gas operations. The operations are highly capital intensive, requiring large amounts of capital investment up-front. The lead-time therefore stretches the capital outlay and brought about long gestation period between investment and return from the investment.

Significant Regulation by Government Authorities: The petroleum industry, in any part of the world is subject to involvement, participation, intervention and regulation by various governments and its agencies. This is as a result of the indispensability of oil, its depletable nature and its influence in international politics.

Technical and Operational Complexity: Finding oil has proved to be a difficult task and therefore demands the best technology possible. This results from the complexity of operations, especially in the offshore terrain.

Specialized Accounting Rules for Reporting and Complex Tax Rules: There are fundamental dissimilarity between financial/tax accounting in the oil and gas industry and other industries. This arises from the nature of oil and gas industry, its highly technical operations and specialized activities.

Lack of Correlation between Investment and the Value of Reserves: The amount invested in oil and gas operations usually does not bear any relationship with the value of oil and gas reserve, as a result of the inherent difficulties in estimating the value of reserves and the need for up-front large investments in petroleum exploration and production.

Method of Accounting in the Oil and Gas Industry

Financial Reporting Council of Nigeria (FRCN) through the issuance of Statement of Accounting Standards and IFRS, recommended two methods in oil and gas operation. These are Successful Efforts Method (SEM) and Full Costs Method (FCM).

The Successful Efforts Method (SEM) effectively permits an exploration and production company to capitalize only the costs associated with locating new reserves. All costs associated with a failed find, or dry hole, are charged against the revenue results for that period. This method allows the company to properly accounting for the exploration portion of its activities since the production is the vital element of the overall project. Only intangible assets are charged to the income statement while tangible assets are capitalized and listed on the balance sheet as a long-term asset.

The full cost Method (FCM) allows a company to capitalize all expenses associated with the discovery portion of the operation. All expenses, whether from a wet or dry hole, can be capitalized. The proponents of this method argue that the exploration is just as important and the more dominate activity in the production of oil and gas. Therefore, it should be capitalized regardless of the drilling outcome. All tangible and intangible drilling costs are capitalized and added to the balance sheet as a long-term asset.

Successful Efforts Method (SEM)

1. Wells and related facilities costs are amortized using proved developed reserves.
2. The amortization must be on the basis of unit of production. Unit of revenue method is not permitted.
3. Future development costs are considered in the amortization computation.
4. Costs are accumulated for each cost centre. For the purpose of capitalizing costs and amortization, the "centre" is essentially the individual lease, block, license area, concession or field.

Full Cost Method (FCM)

1. Costs are accumulated separately for each cost centre. For this purpose, each country or continent is considered a separate cost centre.
2. Costs are amortized using proved reserves (i.e. both developed and undeveloped).
3. Costs to be amortized include:
   (a) Capitalized costs (net of previous depreciation, depletion and amortization);
   (b) Future development costs to develop proved reserves are included in amortization base;
   (c) Future dismantlement and restoration cost.
4. Unit of revenue method may be used.
5. A "cost ceiling" based on a standardized measure of underlying value of assets is mandatory.

IFRS 6 Exploration and Evaluation of Mineral Resources provide specific extractive industry guidance in respect of exploration for and evaluation of mineral resources. IFRS 6 was introduced by the International Accounting Standards Board (IASB) as a temporary standard for the extractive industry until a more comprehensive review is completed and an all-encompassing accounting standard for the extractive industry is issued, (Oduware, 2012)

International Financial Reporting Standards 6 and SAS 14

IFRS 6 segregates capital expenditures into three categories or phases: 1) Preexploration; 2) Exploration and evaluation (E&E); and 3) Post-exploration development and production. IFRS 6 only applies to the E&E phase and does not address the recognition and measurement of pre-exploration costs or post exploration development and/or production capital activities. Pre-exploration expenditures are expenditures typically incurred before obtaining the legal rights to explore a specific area. Development expenditures are expenditures incurred after the technical feasibility and commercial viability of extracting mineral resource (i.e., the existence of proved and/or probable reserves).

Most of the integrated super-majors in O&G, as well as some smaller enterprises, use the "successful efforts" method of accounting for exploration and development (E&D). Under this method, the costs associated with locating, purchasing, and developing reserves are capitalized on a field-by field basis. Once the reserves are proven, the capitalized costs can be assigned to the discovery; if discovery is not attained, then the expenditures are charged as an expense, (KPMG,2010 & KPMG, 2011).

However, a successful effort is by no means a universal method. In its place, a number of upstream companies employ the "full cost" method of accounting for E&D. In contrast to the field-by-field approach of successful efforts, full cost is based on the aggregation of fields around geographic cost centers, typically organized on a country or regional basis. Successful Method Under SAS 14, cost incurred prior to acquisition mineral rights and other exploration activities not specifically directed to an identifiable structure should be expensed in the period they are incurred, (NASB, 2003 & Chukwu, 2006).

Under IFRS, Pre-exploration costs are generally expensed as incurred given the inherent uncertainty associated with exploration activity, making it difficult to justify capitalization unless IAS 38 *Intangible asset* definitions are achieved. Post exploration costs incurred, subsequent to the determination of technical feasibility and commercial viability, and costs of replacing parts of property, plant and equipment are recognized as oil and gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. IFRS 6, Exploration for and Evaluation of Mineral Assets, allows for the use of full cost only for exploration and evaluation. After this phase, companies must switch to the successful efforts method. This treatment is currently under

discussion and will likely evolve over time. Companies will need to monitor developments and make adjustments as required, (Deloitte 2009).

Oduware (2012) pointed out that IFRS 6 refers to neither full cost nor successful effort accounting. However, IFRS 6 permits an oil and gas entity to select an accounting policy of either immediately expensing or capitalizing E&E expenditures, provided the policy is applied consistently between periods and to similar items and activities. The policy to expense or capitalize should reflect the extent to which the type of E&E expenditure can be associated with finding specific mineral resources. As such, Nigerian entities following full cost accounting will be able to retain certain aspects of their existing Nigerian accounting policies for eligible E&E expenditures. This will, however, not eliminate the requirement to monitor and allocate costs at a lower level to facilitate depletion calculations upon establishment of proved and/or probable reserves and the performance of impairment tests in the various phases.

Required Practice and Disclosure by SAS 17

NASB (2003), now FRCN the Accounting Standard comprises paragraph 44-59 of this statement covers the provisions as follows:

Accounting policies

All companies engaged in downstream activities in the petroleum industries shall state in their financial statement all significant accounting policies adopted in the preparation of those statements.

The accounting policies should be prominently disclosed under one caption rather than as notes to individual items in the financial statements.

Refining and petrochemicals operations

Catalysts

Costs of short life catalyst should be expensed in the year in which they are incurred while costs of long life catalysts should be capitalized and written off over the life of the refinery. Where long life catalysts are generated, the costs of regeneration should be capitalized and amortized over the life of regeneration.

Turn-Around Maintenance : Turn-around maintenance costs should be capitalized and amortized over the expected period before the next turn around maintenance will be due.

Stand-by Equipment: Stand-by Equipments should be depreciated over the expected useful life of similar equipment in use.

Depreciation of plants and Equipment

The costs of refining or petrochemicals plants and equipments should be depreciated on a straight line basis over the useful life of the assets or, if operating at normal levels of production, on the basis of expected throughput. The method used should be disclosed and consistently applied.

Debottlenecking, Major Plant Rehabilitation and Replacement of Major Components

Where major plant rehabilitation, debottlenecking or replacement of major components result in a significant and identifiable increase in output or betterment of the plant, the cost should be capitalized and amortized over the period over which the benefits is expected to last, provided such costs significantly enhance the output or operating capacity of the plant. In any other case, it should be expensed as incurred.

Required Practice and Disclosure by IFRS 6

Measurement at recognition: at recognition, exploration and evaluation assets should be measured at cost. An entity should determine a policy specifying which expenditures to recognize as exploration and evaluation assets and apply the policy consistently. In an example cited by (Chuhwu, 2006), assets which should be so recognized to include: acquisition rights to explore, topographical studies, exploratory drilling and trenching. Expenditures related to the development of mineral resources should not be recognized as exploration and evaluation assets. Any entity that recognizes after measurement should either apply the cost model or the revaluation model.

Changes in Accounting Policies: an entity may change its accounting policies for exploration and revaluation expenditures, if the change will make the financial statements more relevant.

Classification and Reclassification of Exploration and Evaluation Assets

An entity should classify exploration and evaluation assets as tangible or intangible depending on the nature of the assets acquired. This classification must be applied consistently. However, when the technical feasibility and commercial viability of extracting a mineral are demonstrable, exploration and evaluation assets should no longer be classified as such.

Impairment

Exploration and evaluation assets should be assessed for impairment when facts and circumstances suggest that an assets carrying amount exceed its recoverable amount. Any resulting impairment loss should be accounted for in accordance with IAS 36.

Standard Applicable in Nigeria

All the standards, IAS, IFRS and SAS are applicable in Nigeria except that before first January, 2012, if an IAS/IFRS is inconsistent with an SAS, the IAS/IFRS would be inapplicable to the extent of the inconsistency. This implies that on any matter on which an IAS/IFRS and an SAS make conflicting pronouncements, the SAS shall supersede the IAS/IFRS in Nigeria. However, with effect from first January 2012, when Nigeria adopts IFRS in financial reporting, the reverse is the case. In other words, with effect from first January, 2012, IAS/IFRS will be adopted in Nigeria, and SAS will only be applicable where no IAS or IFRS is issued on the same item. Sequel to this, SAS 14 and 17 are still applicable in Nigeria. (Kabir, 2012).

Technical Accounting Issues for Oil & Gas Companies

Kabir (2012), posited that the nature, complexity, and importance of the petroleum E&P industry have caused the creation of an unusual and complex set of rules and practices for petroleum accounting and financial presentation. The nature of petroleum exploration and production raises numerous Accounting problems as cited in (Delloitte, 2008). Here are a few:

(1) Should the cost of preliminary exploration be recorded as an asset or an expense when no right or lease might be obtained?
(2) Given the low success rates for exploratory wells should the well costs be treated as assets or as expenses? Should the cost of a dry hole be capitalized as a cost of finding oil and gas reserves?
(3) The sales prices of oil and gas can fluctuate widely over time. Hence, the value of rights to produce oil and gas may fluctuate widely. Should such value fluctuations affect the amount of the related assets presented in financial statements?
(4) If production declines over time and productive life varies by property, how should capitalized costs be amortized and depreciated?

Should DR&A costs be recognized when incurred, or should an estimate of future DR&A costs be amortized over the well's estimated productive life?

(5) If the oil company forms a joint venture and sells portions of the lease to its venture partners, should gain or loss be recognized on the sale?

The SAS 14 required that Method of accounting for cost incurred and the manner of disposing capitalized costs, Policy on accounting for restoration and total amount relating to each, Method of accounting use either Full Cost Method or Successful Effort Method, which should be consistently applied and disclosed.

Cost should be classified by nature and function of cost element e.g. mineral interest in proved and unproved properties, wells and related equipment and facilities, wells and equipment in progress etc.

Impairment

Exploration and evaluation assets should be assessed for impairment when facts and circumstances suggest that an assets carrying amount exceed its recoverable amount. Any resulting impairment loss should be accounted for in accordance with IAS36- impairment of Assets, (FRCN, 2011).

IFRS has one impairment model covering property, plant and equipment, goodwill, and intangible assets. Assets are evaluated either individually or grouped in a cash-generating unit (CGU) for impairment testing purposes. A CGU is the smallest group of assets that is largely capable of generating independent cash inflows. A key difference will arise in the level at which goodwill impairment test is conducted. Under IFRS, goodwill is allocated post-acquisition to those CGUs expected to benefit from the combination. Under IFRS, assets are tested and any resulting impairment changes measured, using a one-step test that compares the carrying value of an asset or CGU to its recoverable amount. Recoverable amount is the higher of fair value less cost to sell (a market-based model) and value in use (an entity-specific model). This will lead to increased focus on periodic assessments and financial statement disclosures.

Asset Componentization

Under IFRS, the major components of an asset must be separated and depreciated over their estimated useful lives. Identifying the significant components of refineries, LNG terminals, offshore platforms, and other large assets represents a major challenge. In an upstream environment, for components that typically require replacement during the working life of the overall asset, depreciation would usually be calculated on units of production basis over the proved reserves. Refinery turnarounds present particular accounting challenges, as some of the associated costs may be capitalized while others can be expensed. In general, turnaround costs that do not involve the replacement of components or the installation of new assets should be expensed when incurred. Companies that convert to IFRS can expect a complex and potentially lengthy process to inventory their property, plant, and equipment; identify the applicable components; and to adjust the depreciation calculations of fixed assets.

Inventory: Last In, First Out

Once a barrel of oil is pumped out of the ground, proving that it exists isn't the major issue. It's the accounting method that's controversial. Many oil companies measure the cost of their inventory--the cost of the crude oil sitting on a tanker or in an on land storage facility waiting to be refined--according to the "last in, first out" accounting method. The value of all the oil in storage, regardless of its historical cost, is deemed to be the value of the most recently acquired increment. When crude oil prices are increasing, this means a higher expense and lower reported profits are attributed to inventory than other accounting methods would yield. This method reduces the tax bite. IFRS does not permit the use of LIFO method of stock valuation as May have tax considerations relative to different inventory valuation and related tax deduction amounts. Critics contend that the use of LIFO is a tax loophole, (Bilson, 2010).

Return on Capital

Oil companies often measure their profitability by the Return On Average Capital Employed after tax. This is distinct from such other yardsticks as Return on Equity, for ROACE includes borrowed capital and equity investment as part of the base. ROACE is not a measure recognized by the Generally Accepted Accounting Principles, as the companies acknowledge. The argument exists that ROACE is not an adequate measure of the incremental profitability of new projects. Entrepreneur magazine explained in 2006 that it includes in its base "legacy assets that have low book values but still generate a considerable cash flow." (Faille,--).

For Full Cost companies

(i) initial costs incurred relating to mineral rights acquisition, exploration, appraisal and development activities should be capitalized; (ii) all capitalized costs (on country-wide basis) are to be depreciated on unit of production basis, using proved reserves; (iii) ceiling tests should be conducted (using discounted values for revenue, costs, taxes and future development costs) at least annually at balance sheet date, on a country-wide basis, using proved reserves and price ruling as at the date of the balance sheet; (iv) where accounts are prepared in US Dollars cash flows shall be discounted at 10%, otherwise if Naira is used, the CBN rediscount rate should be used; (v) if net discounted revenue is lower than the capitalized costs, the difference should be written off.

For Successful Effort companies

(i) initial costs incurred prior to acquisition of mineral rights not specifically directed to an identifiable structure should be expensed in the period they are incurred; (ii) all costs incurred relating to mineral rights acquisition, exploration, appraisal and development activities should be capitalized initially on the basis of wells, fields or exploration cost centers, pending determination and written off later if the well is dry; (iii) maximum of 3 years in offshore and 2 years in onshore are allowed as retention period for further appraisal cost pending determination; (iv) capitalized costs should be amortized over the remaining life of the license and the balance should be reviewed annually for impairment on wells basis, and any impairment should be written off; (v) drilling costs are to be amortized using unit-of-production basis using proved developed reserves.

Methods to Adopt in Accounting for Oil and Gas Activities

The two methods used to account for costs in the industry result to a number of inconsistencies: this ensued the debate on which of the methods is most suitable to be used by the oil and gas companies.

Unlike many other industries, costs here are classified based on the nature of operations rather than the nature of a particular cost itself. As such the costs that characterized the operations of the industry are basically incurred at four stages which include (i) the costs incurred in acquiring the mineral interest in property (leasing), (ii) exploring the property (drilling), (iii) developing the proved reserves, and (iv) producing (lifting) the oil and gas.

However, the fundamental accounting issue lies at the exploration stage, i.e. whether to capitalize or expense the exploration cost which do not result to proved reserves. Since all other costs are treated alike by all companies, companies that capitalize only the exploration cost which result to proved reserves are called SE companies, whereas companies that capitalize all exploration costs, even those that do not result to proved reserves, are called FC companies. This is obviously a source of concern, since the two methods used to account for exploration costs differ significantly. Consequently, accounting standard setters are faced with a serious challenge that bedeviled the profession for decades. According to (Kabir, 2012), the choice of either of the methods generated a heated debate amongst stakeholders; including the following;

1. Economic Perspective

The proponent of the FCM argued that because the FC companies are smaller than the SE companies, switching from SEM would reduce their reported earning; increase the possibility for them to default on their loan servicing; making it difficult for them to assess capital which will reduce the companies competitiveness. Also, they contend that the FC companies are most aggressive in exploration activities. Hence, the method offers higher value-relevance than the SEM. On the other hand, the need for the adoption of the SEM is based on the fact that the method better reflects the realities (risk and failures) associated with the industry's operations. Hence, the method would eliminate the inconsistencies bedeviling the industry, offer better means for comparison among the oil and gas companies, and provide reliable economic information to all stakeholders.

2. Accounting Perspective

SEM can be justified based on its adherence to matching and conservatism concepts hence, the debate seems to carry weight on its side compared to FCM which does not adhere to any of the two concepts. Accounting principles are not adhered to in the case of FCM. FC companies have flagrantly ignored the fundamental accounting principles that ought to be observed by all and sundry by matching cost with an income that does not exist. More so, from the asset point of view, asset capitalization under the FC methods is flawed, because the so-called 'asset' capitalized does not possess the features of an asset i.e. there is no future benefit from it; because it (the so-called asset) does not even exist. Hence, the fundamental accounting concepts have been, temporarily, discarded by companies in an attempts to gain investors confidence. Overall, since the controversy centres on either capitalizing or expensing cost and based on the fact that expenditure ought to be capitalized only if it meet the definition of an asset; then the FCM is fundamentally flawed. This is because companies reports should not purport to show the companies value, but rather provide stakeholders with all the necessary information for them to determine the company's performance over a specific period of time and the value of the companies at a particular point in time.

3. Political Perspective

In an attempt to ensure a decision-relevant financial reporting, FASB issued an exposure Draft (ED) in 1977, titled: *Financial Accounting and Reporting by Oil and Gas Producing Companies:* where indicated the need for all companies to use the SEM in their reports. However, the FASB's effort was scuttled by US SEC and other government agencies. Politics and lobbying played a big role in this decision, as different stakeholders responded to the ED in the way it would serve their interest the most. Although, it is difficult to attribute the decision of SEC, for overriding the outcome of the ED, as a single factor, but it is aptly argued that the problem was a consequence of the political clout of oil and gas producers and dissention among accounting standard setters. Indeed, oil and gas industry operations have been influenced by politicking for long and this has been one of the factors for failure to agree on a single acceptable method of accounting in the industry.

Summary/Conclusion

Financial statement prepare in the oil and gas industries are considered to be special for the facts that their activities are unique and require some certain special consideration. The paper being a review text, examined the methods for accounting in oil and gas industries and the technical issues related to accounting for cost in the oil and gas industries. The paper discuss the two methods of accounting for oil and gas as contained in the issuance of Statement of Accounting Standard (SAS 14, Upstream and SAS 17, Downstream Petroleum Industries) by FRCN and IFRS 6 by IASB respectively.

The upstream oil and gas activities cover exploration and approval, acquisition, development and production activities. Downstream activities include transportation, refining (manufacturing), and distribution and marketing. It was observed that IFRS 6 covers exploration and Evaluation Assets has one impairment model covering property, plant and equipment, goodwill, and intangible assets. Assets are evaluated either individually or grouped in a cash-generating unit (CGU) for impairment testing purposes. Under IFRS, assets are tested and any resulting impairment changes measured, using a one-step test that compares the carrying value of an asset or CGU to its recoverable amount. Recoverable amount is the higher of fair value less cost to sell (a market-based model) and value in use (an entity-specific model).

The technical accounting issues were observed on the cost of preliminary expenses, cost of dry hole drilled, method of amortization, impairment, inventory and the effect of fluctuation that could result to high gains losses on the related assets presented in financial statement. These aforementioned are the controversial issues that the regulatory bodies, professionals in the field need to addressed in order for Nigeria and other developing countries to benefits economically through adoption of IFRS by receiving a boost on foreign direct investment among others.

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