



## **"Effect of cost recovery in service contracts for oil licensing tours"**

Preparation

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### **Abstract**

License rounds (service contracts) are a great step to develop the old and new oil fields in terms of increasing production and keeping pace with the scientific development in the oil industry and keeping abreast of the progress in this industry through contracting with international companies with good experience and long in oil extraction operations. The Iraqi cadres through its participation in the process of development and keep pace with the work of these companies to create a scientific basis is able to operate itself in the future through the practical experience .gained from working in these companies

The problem of the research was the different accounting methods used to address the capital and operating costs under the service contracts in the extractive oil companies and the ways of .recovering those costs, and the mechanism in which the process takes place

The aim of the research is to explain and analyze the concept of cost recovery and the mechanism in which the recovery process takes place, and to determine the period of recovery of .costs incurred on oil wells for service contracts

The research also gains its importance by discussing the subject of licensing rounds under oil .service contracts and the mechanism in which these costs are recovered

### ***Introduction***

The oil industry is characterized by multiple characteristics, and it is very different from other manufacturing industries. Oil exploration, exploration, and extraction are mainly related to the search for a natural resource, a resource that is depleted and depleted, and the characteristics of this industry necessitate that the accounting system be designed in accordance with These

characteristics in the extraction of financial statements reflect the fact of activity of the industry. The nature of the oil industry leads to accounting problems that make it different from the accounting treatments of any other project because of uncertainties. One of the problems facing the industry is the problem of recovering the costs of the research and exploration phase. How can these costs be recovered?

### ***Research Methodology***

The methodology of the research is the basis of sound scientific research, as it is clear through which the problem called for the researcher to set a goal to find scientific solutions to it, and the presuppositions of the solutions offered as well as to clarify the importance of research and methodology and methods of practical study, the methodology of research was the first section

#### ***1.1 Search problem***

The extractive industries differ from the rest of the industries due to the different accounting methods used in handling the costs under service contracts in the oil companies. There are different ways to recover capital costs before the operation. The research problem can be summarized as follows:

1. What is the concept of cost recovery? What mechanism does that process take place?
- 2 - Do the service contracts differ in the process of the treatment of other than the other contracts?

#### ***2.1 Importance of Research***

The research gains its importance through:

- 1 - going into the subject of licensing rounds under oil service contracts
- 2 - Highlight the accounting treatment used by oil companies under service contracts, and also through the mechanism in which the cost recovery.

#### ***3.1 Research Objectives***

1. Statement and analysis of the concept of cost recovery and the mechanism by which the recovery process takes place.
- 2 - to reach the amount of the period of recovery of costs incurred on oil wells for service contracts.

#### ***4.1 Research Hypothesis***

The research is based on the premise that "the amount of recovery period for service contracts in oil companies can be reached"

### ***The second topic / cost recovery according to service contracts***

#### ***1.2 Accounting system in oil and gas production companies***

##### ***1.1.2 The nature of the accounting system in oil and gas production companies***

The accounting system in the project is a specific approach to suit the circumstances of each project, which depends on the designations, principles, limitations, determinants, theories and

concepts of accounting which are generally recognized as the conceptual framework of accounting and a set of procedures, rules and methods that regulate the accounting process and achieve Internal control over the project's assets and assets and on a set of documents, books, reports and reports, in a manner that can ultimately extract the results of the project from profit or loss over a specified period of time and determine its financial position at the end of that period (AL-Ramhi, 2008: 8).

Therefore, each project has its own accounting system, which varies according to the nature of its work (industrial, agricultural, commercial, etc.), the size of its activity (multi-operations or few) and its legal form (individual ownership, company or money company).

The accounting systems differ in the oil companies due to the different sizes and nature of the operations they perform. Some of them are the companies that carry out the operations of the oil industry, all of which are extracted from refining, marketing and transporting them, including what they only extract from them, and what they distribute only ... etc. (Abdullah, 2001: 30)

### ***2.1.2 Components of accounting system in oil and gas production companies***

These components are essential elements for the operation of information systems, which are built according to the concepts of the philosophy of modern information systems (based on the computer), whose basic content requires the process of converting inputs from data to information (outputs) that require the availability of specific elements,

1. Documents and supporting documents for the operations that occur in oil production companies
2. The databases in which the financial statements of the financial operations are stored.
3. Applied software used in processing data to convert it to information.
4. Written and written accounting procedures that show the sequence of various financial transactions within the company (ie, the nature of the accounting documentary cycle).
5. Entities that contain all of the above, namely electronic computers and their accessories, and communication technology used within these devices for the purpose of linking them

### ***3.1.2 Accounting system functions in oil and gas production companies***

The modern accounting system of oil and gas production companies has many functions in the same way as the other accounting systems in the various activities in order to achieve the main objective of its use is to produce the appropriate information. The accounting system functions in the oil and gas companies are summarized as follows:

1. The function of collecting, tabulating and indexing accounting data.
2. Function review, introduction and storage of accounting data in the system.
3. The function of processing (processing) accounting data with the help of applied software for the purpose of producing information.
4. Function of transfer or delivery of information to users upon request, including the importance of presentation in appropriate ways, ie, a summary presentation of the information in quantitative or graphical form, and periodic or on-demand reports
5. Data control function, where data is protected from errors, manipulation, threats and various

threats and ensure their accuracy and integrity in general to produce reliable and relevant information.

It is always noted that all functions are concerned with the concept of data in the first place, since modern accounting systems and their philosophy indicate that these systems contain raw data that is not valid for use except as soon as required to be prepared and prepared thereafter, so that appropriate information becomes required (Ramli, 2013: 2).

From the point of view of the researcher that the fifth function of the most important functions of the system must be the first.

## ***2.2 Cost recovery under service contracts***

### ***1.2.2 Cost recovery concept***

Cost recovery is defined as a way of recouping the costs of the work and projects that are performed by the company and often in the form of initial start up costs until reaching or exceeding the break-even point where the costs are equal to the revenue by estimating the return on investment or The cost of capital financed by the economic unit and the cost is recovered through the income earned.

Cost recovery is an important concept for accountants and corporate founders alike. All these parties are interested in finding cost recovery solutions. In terms of economic units, they are interested in capital utilization and the optimal return on investment. (Wilkinson: 2013: 2).

### ***2.2.2 Cost recovery requirements***

#### **1. Approve the cost recovery policy**

For a specific project, the companies that undertake the project and the responsible individuals must obtain the approval of the entity that is covering the costs of that project. Such approval shall reflect:

- Conduct the project on the basis of full or partial recovery of cost, whether the project is new or existing.
- Recover costs of the new project, or introduce the amendment to the existing project.

#### **2. The legal authority for guidance**

Any recovery of costs must be on a legal basis and be supported by specific legislation. The types of legislation required depend on the costs involved.

### ***3.2.2 Principles of cost recovery***

#### **1- Efficiency and effectiveness**

Efficiency refers to the extent to which the goals are achieved and is therefore measured by the relationship between the results achieved and the goals set, while effectiveness is meant to reduce resource utilization without compromising the desired objectives measured by the relationship between the results and the resources used.

Corporate effectiveness involves making the use of available resources (people, funds and other supplies) in a proper and optimal manner to achieve the results of that company's policy. The activities of the shirk should meet the quantity, quality and other objectives, to be reached to the lowest cost, and are conducted in accordance with the policy in force legitimate requirements to

restore the cost of activity. Efficiency relates to whether they are effective to provide a basis for recovery activity

Costs (ie cost recovery management must be commensurate with the expenditure and potential revenue from the activity). Similarly, the effectiveness of cost recovery involves the reliability and accuracy of the cost recovery model and the related processes in measuring those costs (gorton, Edward, 2014: 11)

Transparency and accountability

Transparency means the provision of reliable and timely information regarding the activities, procedures, decisions and policies taken by the company and ensuring access to them.

It is also known as documenting the basic information of activity about openness and communication in two directions and readiness to clarify activities and procedures. That is, it allows proper audit of company activities, decisions and processes that lead to access to information for cost recovery, in an easy way for those who pay expenses and other stakeholders who are interested in the cost recovery model. It also includes ongoing performance reports and access to cost-recovery information and can help stakeholders determine whether cost-recovery activities are carried out efficiently and effectively. (gorton, Edward, 2014: 11)

UNDP has defined accountability as asking officials to provide stakeholders with clarifications about how to use their powers, define their duties, take criticism, meet the requirements and accept some responsibility for failure, incompetence, fraud and fraud. 2010).

#### **4.2.2 Cost recovery methods**

##### ***First: the break point***

The break-even point can be defined as follows:

Is the level of activity in units or amounts in which the total revenue is equal to the total costs ie the company does not make a profit or loss from operating activities (Kinney, Raiborn; 2011; 382)

Which is the volume of sales in which total sales revenue is equal to the total variable and fixed costs.

Or the point at which the margin of contribution (operating profit) equals the total fixed costs (Abu Hashish, 220: 2005).

Managers have been interested in determining the break-even point of their desire to avoid operating losses, because the break-even point tells them the size of the output to be sold to avoid losses. There are three ways to study the parity point, the contribution margin method and the trial and error method (Horngren,1999; 91).

##### **1. Equation method**

The first method to calculate the sales of the draw is carried out according to the following equation:

(= Fixed costs) / (return-to-contribution ratio)

The rate of return of the contribution is calculated according to the following equation:

Rate of return of contribution = ( unit sale price -variable cost of unit) / (unit sale price)

## **2. Method of margin of contribution**

The margin of contribution is the remaining amount of sales revenue after subtracting variable costs. Thus, the amount available to cover the fixed costs and then provide a profit period, and note that the dividend contribution is used first to cover the fixed costs and the remaining revenue goes towards the profits. If the contribution margin does not cover fixed costs, this indicates an operating loss for that period.

Contribution margin = price - variable cost (Garrison; 2012; 185).

## **3. Method of trial and error**

In this way, the break-even point is calculated by trial and error of the available information until reaching the point where the profit is equal to zero (Al-Tikriti, 111: 2010).

Second: the method of capital budgets

Capital budgeting can be considered as an investment concept, because it relates to the allocation of funds in the current period to obtain certain returns in the future. It is worth mentioning that investments related to capital budgets are characterized by two main factors: these investments are linked to the assets that can be depreciated in addition to the long-term returns of these investments.

There are different ways to make capital budget decisions: (Dahir, 151: 2008).

### **1. Discounted cash flow methods**

Discounted cash flow methods are characterized by taking into account the time value of money that reflects the timing of the cash flow of the investment project, since JD today is worth more than JD for the coming year due to several reasons including the most important benefit from JD today to achieve returns during the year.

It is also noted that discounted cash flow methods focus on external and internal inflows in the valuation of investment projects and not on net profit as calculated in traditional accounting methods based on the accrual concept. We will address two methods of discounted cash flow methods:

#### **• Net current value method**

In order to extract the net present value, two types of cash flows must be identified: 1. Flow Out This is the inflow of the cost of obtaining the asset (initial investment). The second inflow is the inflow and is the net operating income after tax, ie, Operating costs of workers' wages and energy for the same period (except for depreciation). The current value of the inward flow and the current value of the outflow are then extracted and the present value of the outflow is subtracted from the present value of the inward inflow we obtain the net present value of the project, ie the net present value equals:

Net Present Value = Current Value of Inward Flow - Current Value of Outflow.

The rule of decision is as follows (Abu Hashish, 535: 2005):

1. If the NPV is greater than zero the project accepts.
2. If the NPV is less than zero the project is neglected

3. If the net present value is equal to zero, the decision is based on other considerations relating to the project and the decision will then be made in the light of those considerations. Net present value is calculated in that cash flows are regular or irregular cash flows

• **Regular cash flows**

When cash flows are equal and regular, the present value is calculated as a single payment and the present value is calculated using the following formula:

$$\text{Current value} = \text{Internal cash flow} \times 1 / (+1 p)^n$$

Where: P = interest rate, n time. (AL- Takriti, 226: 2010).

• **Unusual cash flows**

In the case of irregular cash flows, we can not use the current value tables. We usually resort to extracting the IRR through the so-called trial and error method, ie, we try a discount rate whereby we calculate the current value of the inflows and the current value of the outflows. If the current value of the outflows is less than the current value of the inflows, then the rate we used is low and we try a higher rate and so on until the two values are equal (Ghabban and others: 394: 2016).

**2. Method of redemption period**

The redemption period is defined as the period of time taken by the investment project to recover the amount of the original investment which was disbursed by the business in the form of additional internal cash flows. Some establishments set a specific recovery period to be used as a basis for guiding or rejecting investment projects, Years and thus the project which has a recovery period of four years or less

Is accepted while the project which takes a recovery period of more than four years is rejected. In case there are several investment projects and the decision to choose one of them, the decision to trade between these projects is based on the choice of the project, which takes the shortest period of recovery. The redemption period is calculated for the investment projects which give the length of time necessary to achieve sufficient cash earnings to cover the initial investment in the investment project and there are two cases in the use of the recovery period method.

Case 1: Equivalent to regular annual cash flows:

$$\text{Redemption period} = (\text{initial net investment}) / (\text{future equivalent cash flows})$$

The method of the repayment period highlights liquidity, which is an important factor in the decisions of the investment budget. The management favors the projects with a shorter recovery period (the most liquid projects) for projects whose recovery period is longer and if all other things are equal. The institution has greater flexibility because the funds needed for other projects are available faster and more, and the management is less confident in forecasts of cash flow with a longer or longer time horizon in the future.

The redemption period is a useful measure when the initial differentiation of many proposals is required and necessary, and when the expected cash flows in the project's late years are surrounded by a high degree of uncertainty (Ghabban et al.: 398: 2016).

Case 2: Inequality of regular cash flows:

The calculation of the redemption period takes the aggregate form when the flows are irregular, ie, this situation combines the cash flows year after year until the total is equalized with the initial investment of the project. In the case of choosing between several investment projects we choose the project that achieves the least recovery period.

As for the reversal of the redemption period, it is calculated as follows:

Average recovery period = (average annual cash flow generated by the project) / (original cash investment required for the project)

This method is valid in cases where the productive life of the investment is equal to at least double the recovery period and is only valid in cases where the net internal cash flow is organized annually over the life of the investment (Ghabban et al., 399: 2016).

#### • *Defects of the recovery period method*

Although the method of recovery period is common, it suffers from fundamental defects:

1. The redemption period method ignores the time value of the money. Cash flows during the redemption period are treated with the same treatment, ie they assume the same value for the cash unit received during the first year and the cash unit received during the following years.
2. The method of the redemption period does not give any consideration to the cash generated after the redemption period, whatever its value.
3. This method does not pay attention to profitability.
4. The recovery period method does not take into account the residual value of the asset.
5. Do not distinguish between the sources of cash flows, whether from investment or operation or purchase and sale of equipment or in the recovery of working capital (Ghabban and others, 402: 2016).

### *The third topic / Types of contracts in the oil industry*

#### *Introduction:*

The oil-producing countries resorted to oil service contracts for the purpose of regulating their relations with foreign companies. This form carries a different style than the other types of contracts. The oil service contract is a new contract that represents a new stage, And contracting companies. It contains working rules for regulating oil operations and financial management. It covers all daily production requirements as well as exploration and development services. The contracting relationship is used to build national capacity in fields of field development, oil production and subsequent operations.

#### *3.1 The concept of oil service contracts*

The exploration and production company usually enters into a contractual agreement with the parties that control the internal resources according to the terms of the contracts available according to the conditions of the host country. In Saudi Arabia, Mexico, Venezuela and Iran, for example, the formula of service contracts and participation in production is spread. In the USA, Concession and lease contracts, and in countries such as Indonesia, Nigeria, Azerbaijan, Kazakhstan, Syria and Egypt, the formula for production sharing contracts is widespread. (Radon, 2003: 61).



The oil service contract is a contract whereby the producing country or the national oil company undertakes to a foreign company the task of carrying out the oil operations for its own account in a certain area and a specific meeting.

Or an agreement under which a person performs a specific work within a specified period and at a specified wage and completion of the work and the employer obtains his wage from the employer, the employer's relationship with the project ends.

It is known that the oil service contract is the contract by which a national company for an oil producing country authorizes a foreign project (public or private) to carry out the necessary work for the exploration and exploitation of oil fields for the national company. Or contracts for the rehabilitation and development of oil producing fields and exploratory fields in terms of production of crude oil and gas associated with a field in an ascending manner and for a specified period of up to seven years, reaching the goal of production required and during a period of time from the date of activation to be 450 thousand barrels per day, 13 years coming with the same quantity. For example, contracts involved in the management of production, at the same time are technical service contracts to increase production and development of fields according to the best techniques of the global oil industry, as planned. No bids are awarded after international tenders for foreign oil companies, and companies usually compete for best offers (deegan, 2012: 2).

The researcher has reached the concept of the oil service contract as a contract between the parent company and the foreign company, which the foreign company undertakes to the parent company to carry out the oil operations for a certain fee and within a certain period to be agreed upon under the contract between the two companies. The foreign company with the executed operations or the executed project.

### ***3.1.1 Evaluation of oil service contracts***

The oil service contracts are a real development stage in the contracting methods between the parties in the oil contracts, and there is a somewhat balanced relationship, in contrast to what is the case in the conventional franchise agreements and even in the contracts of participation in which we saw the foreign company's oil operations almost completely, Oil service contracts are a qualitative leap in the contract forms in the oil field, and they represent tangible and clear progress in terms of law, compared to the previous stages.

The oil service contract is characterized by several characteristics and key elements that affect the substance of the contract from the beginning of the ownership. The oil produced is owned by the national company. This type of contract also places the foreign company alone in charge of financing the exploration and its risks, as well as the output of 50% of the oil produced or prepared for production from The Department of Handling shall be a national reserve and shall act as an incentive for the producing State to directly exploit these fields. It shall also provide the National Company with financing methods, such that if the oil is not discovered in commercial quantities that have no obligations and the Company shall not be entitled to compensation. In commercial quantities they become loans without interest.

The pros and cons of oil service contracts can be summarized as follows:

1- Pros:

- Drilling hundreds of wells and the establishment of modern oil facilities and the construction of pipelines and oil depots and export ports to replace the obsolete facilities and absorb the oil production escalating over the next 50 years.
- Establishing logistic support centers, services, equipment, workshops, maintenance plants and backup materials with the standards and regulations of the international oil industry to supply the Iraqi oil industry with the requirements of oil work permanently from a nearby location.
- Achieve a major environmental achievement by removing millions of mines and explosives from oil fields and territorial waters with the latest survey and treatment equipment.
- Stimulate the establishment of Iraqi industry with international standards for demining and explosives based on the experience gained in this field in licensing projects.
- Transferring thousands of secondary contracts in contracting and equipment worth billions of dollars to Iraqi companies that employ thousands of Iraqis.

2. Negatives:

- Lack of success in the expansion of oil storage depots in parallel to the growth in production volumes and the occurrence of large losses of funds as a result of the reduction of production and loss of export of large quantities of oil available for production.
- Burning huge quantities of gas produced with oil because of the lack of serious measures to invest in burned gas, which is estimated at billions of dollars a year in addition to pollution and damage to the local environment.
- Delays in the implementation of the project of sea water for the purpose of injecting water in the oil reservoirs, which will negatively affect the implementation of the second phase of the comprehensive development of the license fields and may lead to damage to some of the reservoirs produced.
- Reducing the budgets of the licensing projects for 2015 and 2016. This resulted in the cancellation of important paragraphs in the plans to increase production and the loss of the momentum of the rush to work on the main and secondary tracks and the trend towards a halt in growth in production and perhaps decline in not long while there is no way to counter the decline in oil prices increase production. (Moses, 2016: 16-1).

### ***3.2 Concept of participation contracts***

Joint venture (Musharaka contract) is an agreement between the Government or the National Petroleum Corporation (KNPC) and the company, the company under the contract of participation bears the costs of the research on its own in the absence of a commercial discovery (Adames, 1994; 49).

The system of participation in the joint venture or joint venture is defined as the system that takes the form of a contract between the oil producing state or its national company on the one hand and the foreign oil company on the other, with the aim of establishing a joint venture usually called the operating company or operations company. Of oil investment operations in the

country produced in a given area and for a specified period.

Through these concepts, we conclude that the system of participation is based on the participation of a foreign company in the exploration and exploitation of oil with the oil producing state or one of its oil companies in an equal manner in obligations and rights. The state is a partner in the project and on the other hand a grantor of concession or license. Obligations of the Company vis-à-vis the State in its capacity in the contract of participation. Therefore, we know that the contracts of participation are for an oil producing country, which means participation in a part of the concessionary company's capital, which invests oil. This means that the state becomes a contributor to this company and has responsibilities and responsibilities in the administration. Managing and directing the organization.

The principle and meaning of participation in this area does not fall within the scope of what is known as the partnership of companies with each other in the detection and exploitation of oil. The most companies operating in the Arab countries are actually composed of multiple companies, and when they share with each other, , And when the oil is discovered, you get the amount of it commensurate with the contribution, if not discovered lost each of them

The participation of the oil producing country with the foreign company in the exploration, exploration and exploitation project, on different terms between the companies in cooperation with each other, in the interests of the producing state. "(Al-najjar, 2009: 29).

There are many forms of participation: they are not confined to one framework, such as the sharing of profits equally, the joint venture or participation in production, some of which are limited to obtaining only part of the profits, others are owners of the capital and have the right to participate in management and supervision On production (Adames, 95:1994).

## ***.2 Concept of production sharing contracts***

Production sharing contracts are defined as those that regulate the relationship of exploration and exploitation of oil between the national company of the producing country and the foreign company to which the contractor is entrusted and which is solely responsible for obtaining a share of production, exempt from taxes and at cost.

Or production-sharing contracts is the agreement on the exploration and exploitation of hydrocarbons, which is generally signed by the national company in the host country and a foreign company, entrusts the latter with the contractor's task and bears sole risk. When the oil is discovered in commercial quantities, Of taxes, at cost.

If we look at production sharing contracts, we find that the foreign company is not a franchisor, nor is it a real partner in the legal relationship, as is the case with participation contracts, but is merely a contractor working for the national company. The production country remains fully under the production sharing contract and is not subject to any concession. The foreign company works as a contractor and assumes the risks alone, and receives the return. This counterpart is a share of production and is deducted at the cost price without taking taxes. The work done by the company Apple wages, and this pay either be in the form of cash or in the form of an eye

through the amount of crude agreed upon.

For the duration of the contract, the foreign party shall remain the working group, as in the joint venture. However, contrary to the case in the participating companies, where the foreign company is an equal partner to the national company, the foreign company in the production sharing contracts is a contractor working for a mixed company, , Deducted at the cost price, and exempted from taxes.

### ***The fourth topic / practical side***

#### ***4.1 Recovery of the costs of petroleum licensing rounds:***

The cost of contracts for oil licensing rounds shall be as follows:

1. The cost of licensed individuals is paid by the extractive companies. Operating costs are considered as salaries and wages. The contractor is not required to pay the service because he will be charged with administrative fees of 1%.
2. All services provided by the extractive company shall be classified as expenses in the records of the extractive companies and according to their doors. The contractor shall not be required for the licensing contracts as he adds 1% administrative loading and is charged with the oil costs due and payable.
3. There are services provided by the extractive companies to the contractor of contracts of oil licensing rounds do not fall within the logistical support, which must be provided without cost, but services provided by the extraction company for easy procedures of disbursement and follow-up, and then the extraction company to recover these costs through city notices demanded by the contractor.
4. The payment for the first licensing rounds shall be based on the increase achieved in production after the arrival of the initial commercial production stage, which after the contractor can increase the production of the field by 10% of the basic production of the field and be the percentage of revenues derived from the amount of increase in production and pay 50% of the amount of increase as cost Oil and margin margin and 10% additional costs.
5. Payment for the second oil licensing rounds shall be based on the arrival of the production of the field to a certain quantity, for example the service contract development of the field Halafaya quantity to be produced to reach the stage of initial commercial production is 70 thousand barrels per day and also be reimbursement 60% of the additional costs after deduction of oil costs And a profit margin of 50% of revenues from production.

#### ***4.2 Refund mechanism for foreign companies***

The contractor shall send the preliminary invoice within the period specified on the day (5-10) of the third month of the separation of the exchange to the extractive company and after its arrival to the financial unit shall do the following:

1. Send a book containing costs and production with the preliminary invoice to the Ministry of Oil Department of Contracts / Oil Marketing Company for the purpose of booking amounts and quantities of oil.
2. Send notes to the relevant bodies and departments (development committee / operating

committee / counters department / audit department) with copies of the preliminary invoice for the purpose of installing the notes and sending them to the financial unit. The notes will be sent by the relevant authorities no later than 20 days from the same the month .

3. The financial unit shall, in turn, notify the contracting companies of the notes affixed to the preliminary invoice.

4. A meeting shall be held on the 25th of the same month between all the relevant parties of the extractive company and the contracting companies in order to discuss the comments affixed to the invoice by the relevant authorities and confirm only the observations that entail deduction in the lifting book to be discussed at the ministerial meeting.

5. The contractor shall send the actual invoice on (5-10) of the first month of the lifting chapter and follow the same mechanism in terms of notes and correspondence except for the book which is sent to the Ministry of Oil Contracts Department / Marketing Company, it includes the observations that the internal meeting did not reach a solution.

#### **4.3 Details of costs by nature**

Costs are divided into

1. Operational costs

2. Capital costs

• **Operational costs include:**

a. Salaries and wages (wages and salaries of workers in production exclusively)

B. Commodity requirements (materials required by the production process only and not included in the assets).

T. (Including profit margin and administrative loading only 1% on operational costs + other service expenses required by productive work and for car rental, communications, etc.).

• In addition, there are costs that appear as follows:

- Stock (materials purchased and entering the warehouse and not included in the work)

- Costs due and unpaid (Contractor's obligations toward third parties which are due to the contractor and not paid in a timely manner).

Below is a detailed breakdown of the operating costs in detail from (salaries, wages, goods, services and profitability) to Petrojina Company for three successive years.

Table (1) is a detailed disclosure of the total operating cost of Petrojina Company (amounts in JD)

2016	2015	2014	Type the expense	The
127,880,191	146,841,532	120,385,926	Salaries	1
17,031,824	26,169,478	16,947,202	Commodity	2
133,730,799	186,239,013	155,317,333	Service	3
120,728,917	123,486,962	78,179,204	Profit organization	4

399,371,731	482,736,985	370,829,665	<b>Total</b>
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**Costs of capital:**

Include all costs

Achieved to create or

buy assets add to all

expenses that carry

around the existing

to create or buy are

divided into:

A. Deferred deferred expenses (research, development, pre-operating expenses, exploration and establishment), as well as 1% administrative loading on each type of asset, as well as 1% of administrative loadings on additional costs and interest.

B. Fixed assets (construction buildings, warehouses, wells, roads, bridges, airports, other facilities).

T. Mobile assets (machinery - equipment - number - cars - furniture).

These costs can be explained by the disclosures of the foreign companies below and Table (2) detailing the total capital cost of Petrojina

2016	2015	2014	Type the expense	The
53,526,183	60,973,231	65,574,875	Serch and explore	1
231,861,605	284,283,719	386,189,409	Wells	2
199,337,694	326,548,992	899,861,347	Facilities productivitiy	3
17,004,766	125,875,125	275,748,836	Baildings and production of its	4
12,908,501	25,444,431	18,861,286	Equipment productivity	5
514,638,748	823,125,499	1,646,235,754		<b>Total</b>

Note that the Company achieved a distributable surplus as in the statement of operations for the three years 2014-2015 and 2016 Table (3): Detection of ongoing operations

2014	2015	2016	The name of the account
771,177,283	977,586,204	1,124,670,454	Revenue of the ongoing:
11,000,000	13,250,000	8,250,000	Revenue the activity of this
771,188,283	977,599,454	1,124,678,704	The benefit and rent and the land
			<b>Total</b>
			expenses of the ongoing
254,014,945	301,598,251	279,855,380	salaries and wages
40,017,695	52,151,203	76,941,752	commodity
324,554,510	437,376,489	360,910,297	service
47,660,311	48,849,778	265,419,755	Depreciation
19,696,000	20,225,100	25,292,000	Tax and fees
666,267,157	839,995,945	983,152,476	<b>Total</b>
			surplus of operations ongoing
104,921,126	137,603,509	141,526,229	add
168,906,650	49,066,280		manufacturing
3,920,204	5,479,556	20,122,913	revenue
		8,024,343	other revenue
4,089,111	5,528,622	8,044,466	<b>total revenue</b>
			less
(22,766,386)	(13,419,692)	(23,537,607)	manufacturing
5,687,609)	3,157,477)	7,308,611)	expenses
(	(	(	other expenses
(28,453,995)	(16,577,168)	(30,846,218)	<b>total expenses</b>
80,556,242	126,554,963	118,724,477	<b>surplus stanless distribution</b>

Table (4) The cost of a sample of wells consists of two wells in the field Bzarkan and seven wells in the field of Abu Gharb

Period of recovery	The cost of the well the actual	Revenue gross year2016	Sale price	Production total 2016	The name of the well
1.24	9,691,427	8,488,984	8194	1036	<b>BU33</b>
1.58	10,306,647	6,637,140		810	<b>BU34</b>
2.09	11,869,228	5,481,786		669	<b>AGCS25</b>
1.8	15,134,045	7,743,330		925	<b>AGCS26</b>
1.77	16,303,030	8,603,700		1050	<b>AGCS27</b>
2.15	15,534,453	6,932,124		846	<b>AGCS28</b>
3.59	14,741,453	3,736,464		456	<b>AGCS29</b>
1.8	12,009,177	7,374,600		900	<b>AGCS30</b>
2.9	14,522,402	5,162,220		630	<b>AGCS34</b>

#### ***Section IV / Conclusions and Recommendations***

##### ***First: Conclusions***

1. The oil companies follow various accounting methods in dealing with the expenses of the survey, exploration and exploration of oil. These methods are based on sound and recognized accounting principles, but are not based on this, but follow the circumstances specific to each company and the nature of its work and its size. And government legislation governing the oil industry.
2. Cost recovery, a way to recover expenses for the work and projects performed by the company and often in the form of initial startup costs until reaching or exceeding the break-even point.
3. The difficulty of conducting feasibility studies for research and exploration areas for the difficulty of estimating both costs and revenues in light of uncertainty and risk.
4. The oil service contract is characterized by several characteristics that affect the substance of the contract from the beginning of the ownership. The oil produced is owned by the national company, and this type of contract places the foreign company alone in charge of financing the exploration and its risks.
5. All the services provided by the extractive company are classified as expenses in the records of the extractive companies and according to their doors. The contractor is not required to hold the licenses in the first and second round by adding 1% administrative loading and calculating the oil costs due and payable.
6. Projects under implementation are to be developed to demonstrate the financial operations related to the petroleum licensing rounds assets which are assets that are utilized by the contractor for the service contract and which are owned by the national company according to the terms of the service contract.

##### ***Second: Recommendations***

1. Companies should recover their costs through the application of customary recovery methods



2. The use of the depletion system instead of the use of extinction when calculating the extinction of producing wells.
3. Maysan Oil Company should reclassify the assets of research, exploration and evaluation in accordance with the International Financial Reporting Standard. The Company shall also adopt one of the methods of processing the exploration and exploration expenses in accordance with the Iraqi environment.
4. Add new treatment to the unified accounting system to cover franchising, especially after the entry of foreign companies.
5. Install all expenses on the opposite accounts of the city and creditors and open more than one account and classified by the type of account and field in question for the purposes of control and exclusivity.
6. Establish a mechanism between the extraction company and the contractor to provide the extractive company with the completed assets first to get rid of the losses realized during use and not to be installed in the records.
7. Since the assets of petroleum licensing rounds are assets exploited by the contractor for a service contract and are owned by the Missan Oil Company pursuant to Article 22.1 of the service contract can not be considered a project under implementation because the amounts allocated within the investment plan should not be centered projects under implementation to prove financial operations Related to them.
8. License contractors should be required to provide all the services provided by the extracting company, which are classified as expenses in the records of the extractive companies and according to their doors, even though it adds 1% administrative loading and is calculated by the petroleum costs due and payable.

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