Comparison of the Successful Efforts Method and the Full Cost Method

The successful efforts method and the full cost method are two different methods of accounting for exploration and development costs in the extractive industries. The successful efforts method expenses exploration and development costs as they are incurred, while the full cost method capitalizes these costs and amortizes them over the life of the reserves.



A Comparison of the Successful Efforts Method and the Full Cost Method of Accounting for Oil and Gas Wells

Operating Costs by Patricia Springer

★★★★★ 4.4 out of 5
Language : English
File size : 870 KB
Text-to-Speech : Enabled
Screen Reader : Supported
Enhanced typesetting: Enabled
Word Wise : Enabled
Print length : 17 pages



: Enabled

Successful Efforts Method

Lending

Under the successful efforts method, exploration and development costs are expensed as incurred. This means that these costs are not included in the cost of the proved reserves and are not amortized over the life of the reserves. The successful efforts method is often used by companies that

are exploring for new reserves, as it allows them to expense these costs immediately and reduce their current income taxes.

Advantages of the Successful Efforts Method

* Reduces current income taxes * Provides a more conservative estimate of proved reserves * Is simpler to apply than the full cost method

Disadvantages of the Successful Efforts Method

* May not provide a true picture of the company's financial position * Can lead to large fluctuations in earnings * May not be in accordance with GAAP

Full Cost Method

Under the full cost method, exploration and development costs are capitalized and amortized over the life of the reserves. This means that these costs are included in the cost of the proved reserves and are gradually expensed as the reserves are produced. The full cost method is often used by companies that have a large number of proved reserves, as it allows them to spread these costs over a longer period of time and reduce their current income taxes.

Advantages of the Full Cost Method

* Provides a more accurate picture of the company's financial position * Reduces fluctuations in earnings * Is in accordance with GAAP

Disadvantages of the Full Cost Method

* Increases current income taxes * Provides a less conservative estimate of proved reserves * Is more complex to apply than the successful efforts

Comparison of the Two Methods

The following table compares the successful efforts method and the full cost method:

I Feature I Successful Efforts Method I Full Cost Method I I---I---I I Exploration and development costs I Expensed as incurred I Capitalized and amortized over the life of the reserves I I Income taxes I Reduced current income taxes I Increased current income taxes I I Estimate of proved reserves I More conservative I Less conservative I I Complexity I Simpler to apply I More complex to apply I I GAAP compliance I May not be in accordance with GAAP I In accordance with GAAP I

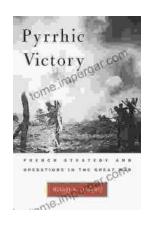
The successful efforts method and the full cost method are two different ways of accounting for exploration and development costs in the extractive industries. Each method has its own advantages and disadvantages, and the choice of which method to use depends on the specific circumstances of the company.



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