
American Institute of Certified Public Accountants. Technical Information Division
Lois Wolfteich
Disclosure Supplement for Oil and Gas Producing Companies

A FINANCIAL REPORTING PRACTICE AID

To be used in conjunction with Disclosure Checklists for Corporations

Edited by:
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The checklists included in this booklet have been developed by the staff of the Technical Information Division of the AICPA as non-authoritative technical practice aids. Readers should be aware of the following:

- The checklists are to be used in conjunction with the "Disclosure Checklists for Corporations," and have been updated to include relevant SEC Regulations, FASB Statements, Statements on Auditing Standards, the Audit and Accounting Guide entitled Audits of Entities With Oil and Gas Producing Activities, and nonfinancial disclosures for SEC registrants that are prescribed by "SEC Guide 2." The checklists should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.

- The checklists are "tools" and in no way represent official positions or pronouncements of the AICPA.

- The checklists should be used by or under the supervision of persons having adequate technical training and proficiency in the application of generally accepted accounting principles and generally accepted auditing standards.

- The checklists do not represent minimum requirements and do not purport to be all-inclusive. The referenced standards should be reviewed if clarification is desired as to whether the disclosures indicated are required or suggested and to what extent each disclosure is relevant to the statements.

Users of these checklists are urged to refer directly to applicable authoritative pronouncements when appropriate. If you have further questions, call the AICPA Technical Hotline (see back cover).

John Graves
Director
Technical Information Division
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Disclosure Supplement for
Oil and Gas Producing Companies

This checklist has been developed by the staff of the Technical
Information Division of the AICPA as a nonauthoritative practice aid, and is to be used in conjunction with the "Disclosure Checklists for Corporations." Accordingly, the notice on page 1 is incorporated herein by reference.

Explanation of references:

SAS = Statement on Auditing Standards
(AU) = Reference to section number in
AICPA Professional Standards
(vol. 1) of SAS cited
SFAS = Statement of Financial Accounting
Standards
(AC) = Reference to section number in
FASB Accounting Standards Current Text
SECSK = Securities and Exchange Commission
Regulation S-K
SECSX = Securities and Exchange Commission
Regulation S-X
SEC SAB = Securities and Exchange Commission Staff
Accounting Bulletin
AAG = AICPA Audit and Accounting Guide, Audits of
Entities With Oil and Gas Producing Activities

Checklist Questionnaire

Auditors' Reports Checklist for
Oil and Gas Producing Companies

Note: This checklist is to be used in conjunction with
section 8200 of the "Disclosure Checklists for Corporations."

Yes  No  N/A

1. If an entity includes with the supplementary information an indication that the auditor performed any procedures regarding the information without also indicating that the auditor does not express an opinion on the information presented, has the auditor's report been expanded to include a disclaimer of opinion on the supplementary information? [SAS 27, par. 9 (AU 553.09)]
2. If the auditor is unable to make additional inquiries, because of the nature of the estimates of oil and gas reserve information, have these limitations been included in the auditor's report? [SAS 45, par. 3 (AU 557.05)]

3. Has the auditor's report of a public company been expanded to include the following deficiencies:
   a) Omission of supplementary information?
   b) Supplementary information departs materially from generally accepted accounting principles?
   c) The auditor is unable to complete the prescribed procedures because of the unavailability of the necessary information? [AAG, Ch. 5, p. 83]

Yes  No  N/A

__________________
Financial Statements and
Notes Checklist for Oil and
Gas Producing Companies

Note: This checklist is to be used in conjunction with section 8400 of the "Disclosure Checklists for Corporations."

Yes  No  N/A

A. Disclosure of Costs Excluded From Amortization

1. For a public oil and gas producing company using the full cost method of accounting:

   a) Have capitalized costs of unproved properties and major development projects that are excluded from capitalized costs being amortized been presented separately on the face of the balance sheet?  

   b) Has a description of the current status of the properties or projects involved, including the anticipated timing of the inclusion of the costs in the amortization computation, been disclosed?  

   c) Has a table been presented in the notes to the financial statements that shows, by category of cost:

      (1) The total costs excluded as of the end of the most recent fiscal year?  

      and

      (2) The amounts of such excluded costs incurred in each of the three most recent fiscal years and in the aggregate for any earlier fiscal years in which the costs were incurred?  

      [SECSX 210.4-10I(7)]

2. If unamortized costs capitalized within a cost center, less related deferred income taxes, exceed the cost center "ceiling" at year end, has the excess been charged to expense and separately disclosed during the period in which the excess occurs?  

   [SECSX 210.4-10I(7)]
3. If the cost excess, indicated in no. 2, above, is not charged to expense because of subsequent events before the auditor's report, has the excess been disclosed with an explanation as to why it was not charged against earnings?  
[SEC SAB 12D3]  

B. Disclosure of Accounting Policies

1. For all oil and gas producing companies has the method of accounting for the following been disclosed:

a) Costs incurred in oil and gas producing activities?  

b) The manner of disposing of capitalized costs from oil and gas producing activities?  
[FAS 69, pars. 1-2 and 6]

2. Have Canadian registrants following a method of accounting other than one of the prescribed methods contained in SEC SX210.4-10 disclosed the differences in a footnote and included a reconciliation showing the net income that would otherwise be reported under SEC Rules?  
[SEC SAB 12A4]

3. For royalty trusts, have the following been disclosed in the notes to financial statements being filed with the SEC:

a) The method used in determining distributable income?  

b) A description of how distributable income as reported differs from income determined on the basis of generally accepted accounting principles?  
[SEC SAB 12E]

C. Interim Financial Statements of Publicly Traded Entities

o Although the disclosures included in this checklist are not required for interim financial statements, do interim financial reports include information about a major discovery or other favorable or adverse
events that cause a significant change from the information presented in the most recent annual financial report concerning oil and gas reserve quantities?  
[FAS 69, par. 9 (AC I73.149)]  

D. Annual Reports on Form 10-K  

- For registrants with significant oil and gas operations, are the disclosures required by SEC Industry Guide 2 presented in the annual report on Form 10-K?  
[SEC Industry Guide 2]
Supplemental Disclosures for Oil and Gas Producing Companies

Note: The supplemental disclosures are required for publicly traded enterprises only. [Fas 69, par. 1]

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A. General

1. Has the supplementary information required by the FASB been presented:

a) Outside of the audited financial statements? ___ ___ ___

b) Is it separately identifiable from other information outside the financial statements that is not required by the FASB? ___ ___ ___

[SAS 27, par. 10 (AU 553.10)]

2. If the required supplementary information is not presented outside of the basic financial statements, is the information clearly marked as unaudited? ___ ___ ___

[SAS 27, par. 10 (AU 553.10)]

3. Have SEC registrants presented information about oil and gas producing activities (as defined by SEC Regulation SX 210.4-10(a)) in accordance with SFAS 69 [AC Oi5] disclosures:

a) That relate to annual periods been presented for each annual period for which an income statement is required? ___ ___ ___

b) Required as of the end of an annual period been presented as of the date of each audited balance sheet required? ___ ___ ___

c) Required as of the beginning of an annual period been presented as of the beginning of each annual period for which an income statement is required? ___ ___ ___

[SECSK 229.302(c)]

4. Have the following been included with the complete set of annual financial statements of a publicly traded entity with significant oil and gas producing activities:

a) Disclosures of proved oil and gas reserve quantities? ___ ___ ___
b) Changes in reserve quantities? ___ ___ ___

c) Capitalized costs related to oil and gas producing activities? ___ ___ ___

d) Costs incurred for property acquisition, exploration, and development activities? ___ ___ ___

e) Results of operations for oil and gas producing activities? ___ ___ ___

f) A standardized measure of discounted future net cash flows relating to reserve quantities? ___ ___ ___

g) Changes in the standardized measure? [SAS 45, par. 3 (AU 557.01); FAS 69, par. 7 (AC Oi5.157)] ___ ___ ___

B. Disclosure of Proved Oil and Gas Quantities

1. For each year a complete set of financial statements is presented:

   a) Have net quantities of proved reserves and proved developed reserves of crude oil (including condensate and natural gas liquids) and natural gas been disclosed as of the beginning and the end of each fiscal year for which an income statement is required? ___ ___ ___

   b) Has the reporting entity's related share of oil and gas produced for those royalty interests been disclosed? ___ ___ ___

   c) Has the unavailability of information relating to royalty interests been disclosed, if appropriate? [FAS 69, par. 10 (AC Oi5.160)] ___ ___ ___

2. Have changes in the net quantity of proved reserves been disclosed for each fiscal year an income statement is presented? ___ ___ ___

3. Have changes resulting from the following been disclosed separately, with an appropriate explanation of significant changes:

   a) Revisions of previous estimates? ___ ___ ___
b) Improved recovery? __  __  __
c) Purchases of minerals-in-place? __  __  __
d) Extensions, discoveries, and other additions? __  __  __
e) Production? __  __  __
f) Sales of minerals-in-place? __  __  __

[FAS 69, par. 11 (AC Oi5.161)]

4. If all proved oil and gas reserves are located entirely within the entity's home country, has that fact been disclosed? __  __  __

[FAS 69, par. 12 (AC Oi5.162)]

5. If some or all of an entity's reserves are located in foreign countries, have disclosures of net quantities of oil and gas reserves and the related changes in them been disclosed separately for:

a) The entity's home country (if significant reserves are located there)? __  __  __

b) Each foreign geographic area in which reserves are located? __  __  __

[FAS 69, par. 12 (AC Oi5.162)]

6. If the entity participates in the operation of properties or otherwise serves as the "producer" of oil and gas reserves subject to purchase under long-term supply, purchase, or similar agreements and contracts, have:

a) Such oil and gas reserves been disclosed separately? __  __  __

b) The net quantities of oil and gas received under the agreements for the year been disclosed? __  __  __

[FAS 69, par. 13 (AC Oi5.163)]

7. If applicable, have the following been included in the reserve quantities disclosed:

a) For entities issuing consolidated financial statements, have 100 percent of the net reserve quantities attributable to the parent and 100
percent of the net reserve quantities attributable to the consolidated subsidiaries been included?
[FAS 69, par. 14(A) (AC Oi5.164(A))]

b) Has the existence of significant minority interests and the approximate portion of reserve quantities applicable to such minority interests been disclosed?
[FAS 69, par. 14(A) (AC Oi5.164(A))]

c) For entities with proportionately consolidated investments, has a proportionate share of the investee's net oil and gas reserves been included in reserve quantities?
[FAS 69, par. 14(B) (AC Oi5.164(B))]

d) For entities with investments accounted for by the equity method, have the investee's net proved oil and gas reserves been omitted from the consolidated reserve quantity disclosures?
[FAS 69, pars. 14(C) (AC Oi5.164(C))]

e) For entities with investments accounted for by the equity method, has the reporting entity's share of the investee's net proved oil and gas reserves been disclosed separately, in the aggregate and for each geographic area as of the end of each full fiscal year for which an income statement is required?
[FAS 69, pars. 14(C) (AC Oi5.164(C))]

8. Because oil and gas reserve estimates change over time, has the imprecise nature of the reserve estimates been explained?
[SAS 45, par. 3 (AU 557.02)]

9. Have explanations of economic factors or significant uncertainties affecting components of proved reserves been disclosed?
[FAS 69, par. 16 (AC Oi5.166)]

10. Have oil reserve quantities (including condensate and natural gas liquids) been reported in barrels?

o If significant, have natural gas liquids been disclosed separately?
[FAS 69, par. 15 (AC Oi5.165)]
11. Have gas reserve quantities been reported in cubic feet?
   [FAS 69, par. 15 (AC 0i5.165)]
   ___ __ __

12. If any government restricts the disclosure of estimated reserves for properties under its governmental authority, amounts under long-term supply, purchase, or similar agreements, or requires the disclosure of reserves other than proved, have the following disclosures been made:

   a) The applicable country?
   ___ __ __

   b) An indication that the reserve estimates or amounts do not include figures for the named country or that reserve estimates include reserves other than proved?
   ___ __ __
   [FAS 69, par. 17 (AC 0i5.167)]

C. Disclosure of Capitalized Costs

1. Has the aggregate amount of capitalized costs relating to oil and gas producing activities and the aggregate amount of the related accumulated depreciation, depletion, amortization, and valuation allowances been reported as of the end of each period for which a complete set of annual or interim financial statements is presented?
   [FAS 69, par. 18 (AC 0i5.168)]
   ___ __ __

2. If appropriate, has separate disclosure of capitalized costs been presented for the following asset categories:

   a) Mineral interests in properties?
   ___ __ __

   b) Wells and related equipment and facilities?
   ___ __ __

   c) Support equipment and facilities?
   ___ __ __

   d) Uncompleted wells, equipment, and facilities?
   [FAS 69, par. 18 (AC 0i5.168)]
   ___ __ __

3. If significant, have capitalized costs of unproved properties been separately disclosed?
   [FAS 69, pars. 18-19 (AC 0i5.168-.169)]
   ___ __ __
4. Have capitalized costs of support equipment and facilities been disclosed, either separately or included, as appropriate, with capitalized costs of proved and unproved properties? [FAS 69, pars. 18-19 (AC Oi5.168-.169)]

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5. If the entity's financial statements include investments that are accounted for by the equity method, is the entity's share of the investees' net capitalized costs relating to oil and gas producing activities disclosed separately? [FAS 69, par. 20 (AC Oi5.170)]

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6. For clients that follow the SEC's full cost method of accounting, has total amortization expense for each geographic area been disclosed by cost center for each year an income statement is required? [SECSX 210.4-10 (i)(7)(i)]

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D. Disclosure of Costs Incurred by Publicly Traded Entities in Acquisition, Exploration, and Development Activities

1. Have the amounts of each of the following costs, whether capitalized or expensed, been disclosed for each year an income statement is required:

   a) Property acquisition costs?

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   b) Exploration costs?

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   c) Development costs? [FAS 69, par. 21 (AC Oi5.171)]

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2. If significant, have costs incurred to acquire mineral interests that have proved reserves been disclosed separately from the costs of acquiring unproved properties? [FAS 69, par 22 (AC Oi5.172)]

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3. Have the amounts been disclosed separately for each geographic area for which reserve quantities are shown? [FAS 69, par. 22 (AC Oi5.172)]

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4. If an enterprise's financial statements are accounted for by the equity method, has the enterprise's share of the investees' property acquisition, exploration, and development costs in oil and gas producing activities:

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E. Disclosure of Results of Operations for Publicly Traded Entities

1. Have the results of operations for oil and gas producing activities been disclosed for the year:
   a) In the aggregate? __ __ __
   b) For each geographic area for which reserve quantities are disclosed? __ __ __
      [FAS 69, par. 24 (AC 015.174)]

2. Has the following been presented, in relation to the results of operations of oil and gas producing activities:
   a) Revenues? __ __ __
   b) Production (lifting) costs? __ __ __
   c) Exploration expenses (for entities utilizing the successful efforts method of accounting)? __ __ __
   d) Depreciation, depletion, amortization, and valuation provisions? __ __ __
   e) Income tax expenses? __ __ __
   f) Results of operations (excluding corporate overhead and interest costs)? __ __ __
      [FAS 69, par. 24 (AC 015.174)]

3. Have sales to unaffiliated entities and sales or transfers to the enterprise's other operations been disclosed separately? __ __ __
   [FAS 69, par. 25 (AC 015.175)]

4. Do revenues include sales to unaffiliated enterprises attributable to:
   a) Net working interests? __ __ __
b) Royalty interests? __  __  ___
c) Oil payment interests? __  __  ___
d) Net profits interests of the reporting enterprise?

[FAS 69, par. 25 (AC 0i5.175)]

5. Have sales and transfers to unconsolidated affiliated persons and to other operations (refineries, chemical plants, etc.) been disclosed and accounted for at either:

a) Estimated market prices, based on the prices of comparable products using posted field prices? __  __  ___

or

b) Amounts estimated to represent prices equivalent to those that could be obtained in a competitive arm's-length market environment?

[FAS 69, par. 25 (AC 0i5.175)]

6. Have production and severance taxes been included as part of production costs? __  __  ___

[FAS 69, par. 25 (AC 0i5.175)]

7. Are income taxes computed using the statutory tax rate, reflecting permanent differences, tax credits and allowances?

[FAS 69, par. 26 (AC 0i5.176)]

8. Are general corporate overhead and interest costs excluded from the computation of the results of operations? __  __  ___

(Note: Certain operating overhead, as distinct from general corporate overhead, should not be excluded from the results of operations calculation)

[FAS 69, par. 27 (AC 0i5.177)]

9. Do the results of operations include amounts related to an enterprise's interests in oil and gas reserves subject to purchase under long-term supply, purchase, or similar agreements in which the enterprise participates in the operation of the properties on which the oil or gas is located or otherwise serves as the producer of these reserves?

[FAS 69, par. 28 (AC 0i5.178)]
10. If the enterprise's financial statements include investments accounted for by the equity method, are the investees' results of operations from oil and gas producing activities:

a) Excluded from the enterprise's results of operations from oil and gas producing activities? ____ ____ ____

b) Separately disclosed for the investor's share of such results, in the aggregate and by each geographic area for which reserve quantities are disclosed? ____ ____ ____

[FAS 69, par. 29 (AC Oi5.179)]

Note - If oil and gas producing activities represent substantially all of the business activities of the reporting enterprise and those oil and gas activities are located substantially in a single geographic area, the information required by the questions in this section need not be disclosed if that information is provided elsewhere in the financial statements. If oil and gas producing activities constitute a business segment, as defined by FAS 14, par. 10 (a) [AC S20.406], and the business segment activities are located substantially in a single geographic area, the results of operations information required by the questions in this section may be included with segment information disclosed elsewhere in the financial report.

F. Disclosure of Standardized Measure of Discounted Future Net Cash Flows

1. Has a standardized measure of discounted future net cash flows relating to an enterprise's interests in the following been disclosed as of year end:

a) Proved oil and gas reserves? ____ ____ ____

b) Oil and gas subject to purchase under long-term supply, purchase, or similar agreements and contracts in which the enterprise participates in the operation of the properties on which the oil and gas is located or otherwise serves as the producer of those reserves? ____ ____ ____

[FAS 69, par. 30 (AC Oi5.180)]
2. Has the following been disclosed:
   a) In the aggregate?  
and
   b) For each geographic area?  
   c) For which reserve quantities are disclosed in (a) and (b) above:
      (1) Future cash inflows?  
      (2) Future development and production costs?  
      (3) Future income tax expenses?  
      (4) Future net cash flows?  
      (5) Discount?  
      (6) Standardized measure of discounted net cash flows?  
      [FAS 69, par. 30 (AC Oi5.180)]

3. If appropriate, has the significant portion of the economic interest in the consolidated standardized measure of discounted future net cash flows attributable to a consolidated subsidiary in which there is significant minority interest been disclosed?  
   [FAS 69, par. 31 (AC Oi5.181)]  
   
4. Has the enterprise's share of the investee's standardized measure of discounted future net cash flows been separately disclosed for the year:
   a) In the aggregate?  
   b) By geographic area for which quantities are disclosed?  
   [FAS 69, par. 32 (AC Oi5.182)]

5. Has the change in standardized measure of discounted future net cash flows been disclosed in the aggregate for the year?  
   [FAS 69, par. 33 (AC Oi5.183)]

6. If any change in the standardized measure of discounted future net cash flows is
individually significant, have the following sources of change been presented separately:

a) Net change in sales and transfer prices?

b) Net change in production (lifting) costs related to future production?

c) Changes in estimated future development costs?

d) Sales and transfers of oil and gas produced during the period?

e) Net change due to:

(1) Extensions?

(2) Discoveries?

(3) Improved recovery?

(4) Purchases?

(5) Sales of minerals-in-place?

(6) Revisions in quantity estimates?

f) Previously estimated development costs incurred during the period?

g) Accretion of discount?

h) Other—unspecified?

i) Net changes in income taxes?

[FAS 69, par. 33 (AC Oi5.183)]

7. Have all changes in the standardized measure of discounted future net cash flows, except income taxes, been presented as pretax?

[FAS 69, par. 33 (AC Oi5.183)]

8. Has additional information necessary to prevent misleading disclosure of the standardized measure of discounted future net cash flows, and the related changes been disclosed?

[FAS 69, par. 34 (AC Oi5.184)]
G. Disclosure of Current Cost Information

Note: The following disclosures were required of current cost information by FAS 69, pars. 35-36. FAS 89 supersedes FAS 69, pars. 35-38 and makes the supplementary disclosure of current cost/constant purchasing power information voluntary for financial reports issued after December 31, 1986.

[FAS 89]

1. Has supplementary information been presented on the current cost basis? (This disclosure is only applicable if the entity has significant holdings of inventory, and property, plant, and equipment, apart from oil and gas producing activities and other specialized assets.)

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2. When information is presented on a current cost basis, has the enterprise disclosed:

   a) Oil and gas mineral resource assets and related expenses at either:

   (1) Historical cost/constant dollar amounts?

   (2) Current cost or lower recoverable amounts?

   b) Mining mineral resource assets and related expenses at their current cost or lower recoverable amounts?
TECHNICAL HOTLINE

The AICPA Technical Information Service answers inquiries about specific audit or accounting problems.

Call Toll Free

(800) 223-4158 (Except New York)
(800) 522-5430 (New York Only)

This service is free to AICPA members.