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Bookkeeping for an Oil Producing Company

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By H. G. Humphreys

Within the space of this brief article I shall endeavor to outline a thorough bookkeeping system for an oil producing concern and to explain some of the problems that are encountered by the bookkeeper. Perhaps the system may best be presented by describing, in the order given, the following list of records and forms and the general character of entries to be made in them:

Cash record
Ledgers
Voucher, certification and distribution
Journal
Remittance
Partnership and other billing
Investment, income and reserves, summary of
Closing entries
General ledger trial balance

CASH RECORD

Form: Cash record Month of .... 193..

Columnarized as follows:

1. Account and particulars
2. Day of month
   Receipts Dr.
      Personal ledger Cr.
3. Entry number
4. Check mark √
5. Amount
   Disbursements Cr.
      Voucher sundries Dr.
6. Cheque number
7. Voucher number
8. Amount
9. Cash discount Cr.

Letters accompanying cheques received are filed separately, according to entry numbers—one series of numbers being assigned to each fiscal year. Statements (oil runs, etc.) should be filed with the voucher with which the debtor's account is charged. The letters mentioned may be destroyed after a certain number of years. The question of permanency of records and files is an important matter of company policy.

The check mark under receipts is to indicate that each item has been posted to the personal ledger.

The monthly total of disbursements is charged to voucher-sundries account.

If a payment is to be made on a personal-ledger account, a journal voucher is prepared, in which personal ledger is debited and voucher sundries credited.

A remittance statement, later described, is made for each disbursement—original going to payee and duplicate filed alphabetically.

LEDGERS

The ledgers will be described under four heads: (1) general ledger, (2) investment ledger, (3) earnings and expense ledger, (4) personal ledger.

The size of all ledger sheets may be 11 x 11 inches.

For a small concern these ledgers may well be carried in one binder.

The charts of accounts given in the following paragraphs are believed to be self-explanatory, for present purposes. However, the complete system would contain a description of entries (including *lists of materials*, where applicable) to each account of the general ledger and features of the auxiliary ledgers.

GENERAL LEDGER

Chart of accounts:

Cash in banks	Earnings and expense ledger control	Closed to general profit and loss at the end of the year
Oil in lease stock tanks	Interest expense	
Warehouse stocks (by units)	Profit or loss on sale of capital assets	
Suspense purchases		
Prepaid items (classified)	Allowance for income tax	
Voucher sundries	Undeveloped lease amortization	
Uncertified liabilities	Allowance for depletion	
Provision for income taxes	Intangible development expense	
Personal ledger control	Allowance for depreciation	
Investment ledger control	Dry holes	
Earned surplus	Cancelled leases	
General profit and loss	Retirements and abandonments	

(See explanation of entries to general ledger in later paragraphs, particularly those under the head of closing vouchers.)

INVESTMENT LEDGER

The investment ledger is divided into three sections, namely:

Non-producing properties
Wells in progress
Producing properties

Each property has a definitive number and each classification feature of a property is given a separate sheet or a separate column of a sheet. Postings show description, how many, price and amount.

NON-PRODUCING PROPERTIES

Included in non-producing properties are undeveloped leases, non-producing land in fee and royalties, also residual cost of once-productive leases that have become non-productive and are held for further exploitation. Cost of a leasehold represents only the company's cost of its portion of the undivided interest.

The features of this section may consist of:

1a. Bonus, commission, legal and recording fees
1b. Rentals, core drilling and other exploration
51. Reserve for extinguishment of costs
  Column a. Leasehold
  Column b. Intangible development
  Column c. Equipment

Feature 1a may be amortized over the term of the lease through feature 51a. Feature 1b may be reserved against in full, in feature 51b, for the year in which incurred. If a lease becomes productive the two sheets (1 and 51) are transferred to the producing-properties section of the ledger. Feature 1 (a) is thereafter returnable on the unit basis, the amount returnable for any year being cost at end of year less amount returned to the close of previous year. (See further explanations given under the head of summary of investment, income and reserves.)

WELLS IN PROGRESS

The features of wells-in-progress section may consist of:

2 (column) Feature numbers (same as for producing properties)
2a Cost of intangible development
2b Cost of well material

51b Reserve for intangible development
(sheet meanwhile carried in non-producing properties section)

No allowance is permissible for depreciation of 2b for the period during which drilling is in progress. However, feature 2a may, apparently, be reserved against in full for the year in which incurred. Federal and state regulations should be consulted on this point.

In case oil is not found in paying quantity the material is salvaged, at condition value, and the remaining cost of the well, less reserve for intangible development, is charged to profit-and-loss, dry-holes account.

If the well produces in paying quantity the costs are spread in detail over the feature sheets of the lease in the producing-properties section. The cost sheet (columns 2, 2a and 2b) is filed in a transfer binder and the reserve sheet (51a, b and c) is transferred to the producing-properties section.

Instead of carrying the cost of a drilling well as above (2, 2a and 2b) it may be found more convenient if these costs are spread over individual feature sheets, as described later under intangible development cost and equipment cost of the producing-properties section. Should costs be so carried for wells in progress, in the event of a producing well, it would be necessary only to transfer the sheets from wells-in-progress section to the producing-lease section.

PRODUCING PROPERTIES

Leasehold, land in fee or royalty

As already explained, the cost and reserve sheets are brought over from the non-producing-properties section and the net cost thereafter returned on the unit basis.

Intangible development cost

As previously explained, cost sheets are either compiled from the wells-in-progress section or detailed sheets, prepared during drilling, are transferred to this section of the ledger. Subsequent costs are fully reserved against for the year in which incurred.

The features of intangible development cost may consist of:

3. Drilling and other costs under contract
4. Company labor and transportation costs

5. Sundry intangible costs, including cost of irrecoverable articles.
6. Joint-lessee proportion
7. Free well intangible cost
8. Company's monthly total.

Part of these costs may be chargeable to outside interests. Some companies credit the several features with the respective amounts chargeable to outside interests. Such a method synthesizes the record and in the event of a dispute with partners much time may be wasted by both sides. To keep the record clear a bell-wether feature is introduced intitled (6) joint-lessee proportion. The balance of this feature should at all times represent the joint-lessee's aliquot part of the total costs (features 3, 4 and 5).

If a well be drilled by the company free to the outside interest, feature 7 is debited and feature 6 credited. (See remarks under equipment cost.)

Feature 8—company's monthly totals (or cost to the company)—will be found to facilitate the monthly closing. (See remarks under closing vouchers.)

Equipment cost

The original investment sheets are either compiled from the columnar record of wells-in-progress or detailed sheets are prepared during drilling and transferred to this section.

The features of equipment-cost may be as follows:

9 Rigs and rig equipment
10 Tanks
11 Boilers
12 Engines
13 Powers
14 Pumps
15 Buildings
16 Auto equipment
17 Cleaning-out tools
18 Miscellaneous tools
19 Motors, generators and transformers
20 Separators
21 Sucker rods
22 Pipe
23 Tubing
24 Casing
25 Other equipment
26 Losses, depreciation and adjustment
27 Joint-lessee proportion
28 Free well material cost
29 Company's proportion of idle material
30 Company's monthly totals

In case of extensive development, features 22, 23 and 24 may be broken down into sub-sheets, according to sizes of equipment.

Feature 25 is charged with small material, such as pipe and fittings under 2 inch, etc. It is impracticable, as a rule, to reconcile the office record of small items of equipment with the physical property. However, the careful auditor studies the details of feature 25 and in doing so often saves considerable money for his employer, and he learns to know the ratio which the total of feature 25 should bear to the aggregate of features 9 to 24, inclusive.

By way of explaining the feature of losses, depreciation and adjustment (26), let us assume that a tank in feature 10 which cost, say, $100, in which (27) the joint-lessee proportion is 50%, is transferred from a lease at a condition value of $50. The transaction is recorded thus:

Vendor or transferee unit	$50	
Feature 26	50	
Feature 27	25	
Joint-lessee personal account		$25
Feature 10		100

At the end of the year, the company's proportion of feature 26 may, by non-ledger adjustment, be applied in reduction of the depreciation reserve for balance-sheet purposes.

If part of the equipment cost is to be charged to an outside interest, feature 27 is credited, per contra. If a well be drilled by the company free to the outside interest, feature 28 is debited and feature 27 credited, to the end that feature 27 shall at all times represent the joint-lessee proportion of features 9 to 26 inclusive.

The company is not interested in the intangible development cost of a well drilled by the joint-lessee interest free to the company, and it makes no record of such costs; however, the company is vitally interested in the material cost of such a free well, since it comes into a proportionate equity therein, notwithstanding that it made no cash contribution to such cost. Therefore, in accordance with the operating partner's billing, features 9 to 25, inclusive, are charged, respectively, with the gross costs and credit is given to feature 27 for the joint-lessee proportion and to feature 28 for the company's proportion.

Features 9 to 24 inclusive may include some idle material. It is the duty of the field clerk to keep the office informed as to current changes in available idle material. At the close of the year warehouse stocks (the oil property being regarded as a warehouse in this instance) is charged and feature 29 credited at prevailing condition value. At the opening of the succeeding year the entry is reversed. For purposes of monthly financial statements this value is estimated and given effect by non-ledger adjustment. (See remarks under general ledger trial balance.)

Feature 30, which represents the amount of cash outlay by the company, is returnable on the unit basis.

Special transactions

Sometimes the company will sell a part of its interest or will buy a part of the joint-lessee interest. In the case of a sale the computation of depletion and depreciation reserves will be brought down to the date of sale. Let it be understood that the intangible development cost will have been fully reserved against (treated as an expense) and what the company is actually selling is an undivided interest in the estimated remaining oil reserves—represented in leasehold cost—and in the equipment remaining on the property. Assuming the sale to be of ½ of ½ of the interest held by the company, the cost of sale would be determined and recorded as follows:

Profit or loss on sale of capital assets...............	$8,000	
Cost of sale		
Reserve for depletion............................	500	
½ of reserve, say, $500		
Reserve for depreciation.........................	7,500	
½ of reserve, say, $7,500		
Cost of leasehold..............................		$1,000
whereof ½, say, $1,000		
Cost of equipment, feature 27...................		15,000
½ of feature 30, say, $15,000		

In computing its equity for trading purposes the company would not consider the synthetic value represented by feature 30 but would take one-fourth of the aggregate of features 9 to 26, inclusive. There may be considerable value here representing a well (or wells) drilled by outside interests free to the company. In order that feature 27 may bear its proper proportion to features 9 to 26 inclusive, an adjustment may be necessary which should be made, per contra, to feature 28.

Features	9–26	27	28	29	30, balance
Balances before sale.....	$110,000	(55,000)	(25,000)	(1,000)	(29,000)
Reinstate idle equipment				1,000	(1,000)
Cost of sale............		(15,000)			15,000
Adjustment...........		(12,500)	12,500		
Balances after sale.	$110,000	(82,500)	12,500	......	(15,000)

Through the sale, the outside interest is increased from 50% to 75% and the company's interest decreased to 25% ($12,500 free well and $15,000 cash outlay).

In the case of a purchase of, say, ½ of ½ of the undivided working interest held by a joint-lessee, probably the purchase price would be a round sum; say, $100,000. The book entry would be as follows:

Cost of equipment, feature 27....................	$27,500	
½ of feature 27		
Cost of leasehold, feature 1......................	72,500	
balance of purchase price		
Joint-lessee, personal account..................		$100,000

The increased cost of the company's interest (leasehold and equipment) would be returned on the unit basis. The company's proportion of oil reserves would be increased through the purchase (adjusted in summary of investment, income and reserves), the rate per barrel for depletion would be increased and the rate of depreciation would remain unchanged, while the deductions for depletion and depreciation would be increased by reason of the increased production-barrelage now inuring to the company through the purchase.

The foregoing remarks under the head of investment ledger touch upon the chief difficulties encountered in oil accounting, which are the subject of much controversy. If the protection of the proprietary interest is the sine qua non, the answer to the question is supplied by detailed records, it seems to me. Some accountants hold that such records as here presented are too technical and too costly to maintain. The courteous retort is that all the factors mentioned in the foregoing have to be dealt with, that synthetic records cover up figures required in a trade and prevent a check, from the records, of prices, extensions and extravagant buying; also that detailed records (descriptions in feature 25 may be omitted) posted from individual entries, as provided in this system, take less time to maintain than synthetic records posted from synthetic vouchers, the preparation of which involves much waste of time. However, one of the objectives of this article is to throw some light on this vexing question.

EARNINGS AND EXPENSE LEDGER

Producing properties

A separate set of feature sheets is given to each property, as follows:

- 1a Crude oil sales—external
- 1b Crude oil sales—internal
- 2 Inventory fluctuation—internal (company proportion)
- 3a Gas sales—external
- 3b Gas sales—internal
- 4a Miscellaneous earnings—external
- 4b Miscellaneous earnings—internal
- 5a Company's monthly totals—external earnings
- 5b Company's monthly totals—internal earnings
- 9 Maintenance, extra labor
- 10 Maintenance material and supplies
- 11 Operating labor
- 12 Transportation
- 13 Fuel and water
- 14 Camp and district expense
- 15 Taxes
- 16 Insurance
- 17 Unclassified expense
- 18 Company's monthly totals—expense

It is customary to ignore the inventory of oil in lease stock tanks and to take into account only the runs from them. However, the quantity may be considerable and the company's current asset position would be improved by introducing it into the accounts.

It often happens that the company's working interest has been acquired for a sum to be paid out of the company's share of the oil, if, as and when received. The leasehold cost will have been charged with such sum and "liability payable in oil" credited. If the oil applicable to such liability has been run for the company's account, vouchers payable account is credited and liability account is debited. If the oil is run direct to the vendor, liability account is debited and crude oil sales—external is credited. If the property becomes exhausted before the liability account is paid out, of course, the entire record of the matter is closed.

According to some agreements, the vendor retains an equity in the property until the liability is paid (over-riding royalty). In such a case the company keeps only a memorandum account of the value of oil run to the vendor, who pays the production tax on such runs. The company's attorney should be asked to furnish an exhibit defining the manner in which the liability is to be recorded.

Because all expenses (insurance and taxes, for example) may not be chargeable to a joint-lessee interest, expenses so chargeable will be applied in reduction of each expense feature affected.

General and administrative expense

The classification features of general and administrative expenses (numbers from 20 to 70) should be devised to meet the peculiarities of each company's transactions falling under this head. Each feature should be specific, combinations should be avoided, and a separate sheet should be given to each feature, divided (a) general and administrative, (b) production department direct expense.

Non-operating income and non-operating expense

The features may be made up of the following:

81 Discount on purchases
82 Interest earned
83 Rental earnings
84 Miscellaneous non-operating income
85 Monthly totals—income
91 Discount allowed
92 Bank and draft expense
93 Bad debts allowance
94 (Bad debts recovered)
95 Miscellaneous non-operating expense
96 Monthly totals—expense

General

Further explanations with regard to earnings and expenses are given under the head of closing vouchers.

PERSONAL LEDGER

In personal ledger may be carried individual accounts of working funds, notes and accounts receivable and payable, accrued interest, accrued payroll, accrued general taxes, accrued insurance, etc. (See remarks under the head of closing voucher.)

VOUCHER CERTIFICATION AND DISTRIBUTION

Form, obverse side

This side provides blank spaces for headings and description, and blank columns to be used for cash-advance requests and for journal vouchers covering transactions not represented by a dr. or cr. billing, time sheets, etc., such as transfers between personal ledger and voucher sundries, tbd freight claims, inter-company charges, apportionments, various accruals, etc.

Form, reverse side

Certification—	Entry No..............
Order or transfer No..................	Cheque, Bank.....No....
Dis.....%....days. Net......days.....	
F. O. B..............................	Distributed by...........
Freight tbd $.... entry No.............	Reviewed and approved by...........
Bill........copies. Billed by...........	
Prices and terms O. K..................	Posted to ledgers by......
Calculations O. K......................	Posted to remittance form by..................

Distribution—

Item No.	Account	General ledger account No.	Lease No.	Feature No.	√	Amount	Well or job No.

Space to be blocked into five sections for:

Voucher sundries Personal ledger Investment ledger Earnings and expense ledger General ledger	Conforming to the columns of the journal. Debits in black—Credits in red.

This form is attached to the back of each transfer, expenditure invoice and credit memorandum and takes the place of a rubber stamp impression. It has a disciplinary value in that it impresses on the minds of those who make the certification that actually they may be checking against disbursements from the company's funds.

In the oil business the receipt of material in the field or plant is usually evidenced on a signed copy of an office purchase order, field emergency order or transfer, which is attached to this form.

A business that makes a large number of material transfers may have a special transfer form containing spaces for ample certification, including a cross-reference to the transportation ticket, and would record it in a material-transfer register, which would be closed into the journal at the end of the month.

When an item is to be billed (to joint-lessee, for example) a cross is placed in the space provided and also beside the item or items to be billed, as given in the distribution space.

When there are several items in an invoice, the items are numbered and these numbers, or groups of numbers, are entered in the "item" column provided in the distribution spaces, as identification guides for posting details, billing and for later ready reference.

Each certificated invoice or transfer is entered promptly in the journal and passed to the bookkeeping division for further daily attention.

The person who will have reviewed and approved the charge can not transfer the responsibility to a machine operator if the vendor charge, say, $600 for $60 and the error escape notice.

Complete verification of individual transactions is the foundation of internal audit. A record should be kept of all errors discovered.

JOURNAL

Form (debits in black—credits in red):

Journal Month of .... 193..

Columnarized as follows:

Account and particulars
Day of month
Entry number
Voucher number
Voucher sundries
  Amount
Personal ledger
  Check mark ✓
  Amount

Earnings and expense ledger
  Amount
Investment ledger
  Amount
General ledger
  Account number
  Check mark ✓
  Amount

Each expenditure invoice, material transfer or journal voucher is given its entry number when entered in the journal.

The usual procedure is to post any investment and expense auxiliaries after the general books have been closed for the month. Under the system here presented it is compulsory that all auxiliary ledgers be posted in detail and balanced before the journal is closed for the month. (See further remarks under the head of closing voucher.)

REMITTANCE

Original form (to payee):

Company
tenders the enclosed cheque in full payment of items enumerated below:
No receipt is required

To	Date of invoice
Deductions	Our entry number
Date	Remarks
Explanation	Amount
Amount	

Duplicate form (file):

Same as above with the addition of the following:
Cheque signed by
Cheque
Bank and number
Posted to journal by

Each expenditure invoice after being entered in the journal is promptly listed on its respective remittance form.

Precaution is observed so as not to lose any available cash discounts.

Invoices payable monthly, together with remittance statements, are filed alphabetically pending payment date. Vendor's statement is filed with the latest invoice.

On making a payment the last entry number shown on the remittance statement becomes the voucher number to be shown on the cheque. After a voucher has been paid the voucher number is entered in the journal beside each of the entry numbers as listed in the remittance statement. As to material transfers and journal vouchers, the entry number is repeated in the voucher number column. Thus, the open spaces in the voucher number column at the end of the month will represent voucher sundries payable.

After a cheque has been drawn for signature (the cheque number indicating that it has been entered in the cash record) the remittance statement, in duplicate, together with all relative invoices and the cheque are clipped together, so as to give the disbursing officer full information. The remittance copy is then filed alphabetically and the invoices are filed according to entry numbers. Should there be any objection to this practice of filing invoices, they may be "synthesized" and filed according to voucher number. However, such procedure would require later reference to be made from ledger to journal to voucher number to entry number.

PARTNERSHIP AND OTHER BILLING

It is important that the partner receive as promptly as possible after the end of the month the bill of charges against him on any property in which he is interested as a non-operating partner. Accordingly, this billing is compiled daily, concurrently with the posting of auxiliary ledgers and remittance statements. If the journal for the month is closed on the 15th prox. this billing should be compared with the records and mailed immediately after. It is desirable to have billing for each lease divided as between investment and operating items.

Other billing covering charges to associated companies, purchases by employees on company credit, etc., would be billed promptly after the certified charges were entered in the journal.

SUMMARY OF INVESTMENT, INCOME AND RESERVES

(A set of sheets for each property each year)

Sheet 1, Particulars

Well data from inception—

Columns:

- (a) Well number
- (b) Date completed
- (c) Oil and/or gas
- (d) Production, first 24 hours
- (e) Dry well or lease abandoned, date (in red)
- (f) Remarks

Estimate of oil reserves—

(1) At basic date (first producing well)......	Columns—barrels 1. Gross, 8/8ths 2. Company interest—
(2) Add for subsequent wells..............	
(a) to beginning of year.............	
(b) current year....................	
(3) Adjustments (add or deduct)...........	
(a) to beginning of year.............	
(b) current year....................	
(4) Total..............................	
(5) Sold from basic date to beginning of year	
(6) Remainder being divisor...............	

(7) Company production, current year—barrels

Depreciation of equipment—company cost

(8) Gross investment at end of year..................	$
(9) Deduct: idle equipment........................	....
(10) Remainder....................................	

(11)	Returned to close of previous year	....
(12)	Cost returnable	$
(13)	Rate, 12÷by 6–2	....
(14)	Depreciation for the year 13×7	$

Depletion of leasehold—company cost

15	Gross income for the year (sales)	$..........
16	Operating and maintenance expense	
17	Depreciation	
18	Intangible and development expense, 100%	
19	General overhead expense	....
20	Total deductions	$..........
21	Net income before depletion	$
22	50% of net income	$
23	27½% of gross income (federal)	$ *
24	20% of gross income (state)	$ *

*Not in excess of 22.

25	Cost of leasehold	$
26	Returned to close of previous year	....
27	Cost returnable	$
28	Rate, 27÷6–2	....
29	Depletion on cost, 28×7	$
30	Deducted in federal return	$ (23 or 29)
31	Deducted in state return	$ (24)

Sheet 2, Particulars

1	Oil sales, barrels	Columns— 1. Last year-total 2–13. Each month of current year 14. This year-total
2	Oil sales, dollars	
3	Gas sales	
4	Miscellaneous earnings	
5	Gross earnings	
6	Operating and maintenance expense	
7	Net earnings	
8	Per barrel, oil sales	
9	Per barrel, expense	
10	Cost of leasehold	Columns— 1. Cumulative to beginning of year 2–13. Cumulative from inception
11	Cost of intangible development	
12	Cost of equipment	
13	Total investment	
14	Add back: dry holes, written off—	
15	Total investment outlay from inception	
16	Memorandum.	

Sheet 2, Particulars (continued)

17	Oil sales, barrels	Columns— 1. Cumulative to beginning of year 2–13. Cumulative, year to date 14. Cumulative from inception
18	Oil sales, dollars	
19	Gas sales	
20	Miscellaneous earnings	
21	Gross earnings	
22	Operating and maintenance expense	
23	Net earnings (a) year to date	Columns 2–13
	(b) from inception	Columns 1–14
24	Amortization and depletion	Columns— 1. Cumulative to beginning of year 2–12. Blank 13. Year to date 14. Cumulative from inception
25	Exploration and intangible development	
26	Depreciation	
27	Composite interim allowance in lieu of 24, 25 and 26 Non-ledger— (a) for the month (b) year to date	Columns— 2–13
28	Pay-out status— Total investment outlay from inception (15) Less: Net earnings from inception (23b) Balance	Columns— 1. Cumulative to beginning of year 2–13. Cumulative from inception
	Reserve for extinguishment of investment	Columns— 1. Cumulative to beginning of year 2–13. Cumulative from inception
29	Leasehold (amortization and depletion)	
30	Intangible development (including exploration)	
31	Equipment	

Sheet 1, explanations

During the year the recording of well data and of additions and adjustments to reserves should be given prompt attention. The information would be certified by the company's engineer and approved by the superintendent. No further work would be done on this sheet until after the close of the year. It will be seen that item 19 provides for a deduction for general overhead expense; this is an arbitrary amount subject to the approval of the government—first the total amount of apportionable expense is ascertained and this is spread over producing leases in proportion to direct labor. It is advantageous to record on the books the actual deductions as made in the federal income-tax return. In the federal income-tax file (or in a special record) a statement of reconciliation should be kept as between the surplus per books and the surplus per income-tax return. A similar reconcilement should be kept in the state income-tax file, which may include a difference in reserves. In case the company, in its published accounts, should decide to adopt a different basis for capital extinguishments from that of the federal return the difference should be recorded in separate adjustment accounts—for example, adjustment of reserves for capital extinguishments dr. to adjustment of earned surplus. The books for the year should be closed not later than the last day of the next following month. Then the reserves should be completed in time to finish, by the end of the second following month, the entire accounts for the year. The journal for the first month of the new year should be closed and postings to auxiliaries completed soon after the regular scheduled time.

Sheet 2, explanations

Items 24, 25 and 26 are computed for the year only. However, they may be determined to the close of any month, for a given property, if necessary. For purposes of monthly balance-sheets and the preliminary balance-sheet for the year an arbitrary non-ledger allowance is made as to each lease (see item 27) in lieu of items 24, 25 and 26. The information on this sheet, which is compiled for each lease to the close of each month, mainly from the auxiliary ledgers, gives the earnings, expenses and changes in investment accounts from inception to date. The pay-out status is the proof. The practical oil man can visualize his operations by means of this summary sheet and the auditor, by closely scrutinizing it each month, may detect variations to be investigated.

CLOSING ENTRIES

It has been previously explained that all the current month's transactions are recorded in the journal each day as they are certified, and that all such transactions are posted promptly to the respective ledgers, remittance forms and billing.

As each payroll is completed the relative insurance accrual is computed and recorded in the journal. The various internal transactions, including dry holes, cancelled leases and abandonments, are recorded without delay.

At the close of the month, journal vouchers are made for fluctuations of oil stocks, prepayments chargeable to operations, accrued interest, accrued taxes, accrued payroll and relative insurance, miscellaneous lease earnings, etc. On receipt of statements for the month from purchasers of crude oil, gas, etc. they are promptly verified and recorded in the journal. Invoices for the month remaining uncertified are charged to suspense purchases and credited to uncertified liabilities. Expenses of leases that are operated by an outside interest, for which billing will not have been received, are charged arbitrarily (on the basis of previous month's charges) to feature 17 of the lease affected and uncertified-liabilities account is credited. The balance of uncertified-liabilities account is cleared as soon as possible after the month's closing.

Now the monthly totals of the material transfer register (if any) are posted to the journal: then the cash-record totals are closed into the journal (receipts being credited to personal-ledger column and disbursments charged to voucher-sundries column). Finally, the several auxiliary columns of the journal are closed by vouchers, supported by schedules, into the general ledger column, as follows:

Voucher sundries

Schedule of balances—names and amounts

Personal ledger

Schedule of balances, grouped for balance-sheet purposes, giving names and amounts

Investment ledger

Cost			Reserves		
Leasehold	Intangibles	Equipment	Leasehold	Intangibles	Equipment

From the ledger the monthly total of each of the six headings for each property—non-producing properties, wells-in-progress and producing properties—should be compiled. The grand total (net) must agree with the corresponding journal total for the month. (Changes in reserves should be few, except for the last month of the year.)

Earnings and expense ledger

External earnings	Internal earnings (Sales to affiliated companies)	Operating and maintenance expense

From the ledger the monthly total of each of the three headings for each producing property should be compiled.

To the total (net)	$
Add—Total non-operating income for the month	....

Together....................................	....
Deduct—Total general and administrative expense for the month..................................	
Total non-operating expense for the month...........	....
Total deductions..................................	....
Grand total for the month, per journal.................	$

Thus the general ledger column, through supporting vouchers, coördinates all the regimented transactions for the month representing the changes in the accounts as between the beginning and the end of the month. From this the statement of the disposition of funds may readily be confirmed.

GENERAL LEDGER TRIAL BALANCE

The general ledger accounts, together with the accounts composing the three ledger controls, would be listed in accordance with the detailed charts of account prescribed by the American Petroleum Institute. At the foot of the list would be shown the three control accounts mentioned. The money columns (debits in black—credits in red) would be as follows:

1. General ledger trial balance
2. Breakdown of three ledger controls
3. Non-ledger adjustments, consisting of (1) allowance for property extinguishments, (2) idle material, (3) closing losses depreciation and adjustment into reserve, and (4) allowance for income tax. With the exception of 3–3 these items would be placed on the books at the end of the year
4. Profit and loss, balance closed into 5
5. Balance-sheet.

The company's accountant should now be in complete control of the accounts. Any statement that may be called for may be prepared direct from the ledgers, postings to which would give references by individual transactions.