HAMILTON

Lease Accounting for the Oil and Gas Industry

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With an ever-changing economy, there are constant developments in pricing, technology, steady competition, and regulation, leading to challenges in the Oil and Gas industries:

The companies in the Oil and Gas industry make widespread use of leased assets in their operations. These assets include land leased to extract resources, leased equipment used in the extraction process, and leased provisions to store and transport these resources/products. The introduction of IFRS 16 & ASC 842 brings most of these leases onto the balance sheets, revealing billions in lease liability. Compliance with these new standards is an uphill task for the accounting professionals in the oil and gas industry.

IFRS 16 & ASC 842 accounting standards bring radical change in the accounting for lease transactions. It is very likely to have a significant impact, not just on accounting, but on the way businesses function.

The new standards don't just require entities to recognize leases on the balance sheet as assets and liabilities — IFRS 16 & ASC 842 significantly change the accounting for leases by lessees, with lessees recognizing lease-related assets and liabilities on their balance sheet. This could have a significant impact on financial reporting and business implications. Companies implementing the standard will have to develop new procedures to track and report on leases, such as:

- Identifying a lease
- Measuring lease-related assets and liabilities
- Recognizing and allocating consideration to lease and non-lease components
- Collecting and present the information necessary for disclosure

There are also other challenges in implementing the new compliance standards. Given the size and magnitude of these lease contracts, identifying and recording all leases will become an uphill task. There are activities that create industry-specific problems for compliance — service arrangements that may contain embedded leases, service contracts that have a lease and non-lease components, joint agreements where assets such as equipment are leased by two separate entities — to name a few.

Compliance with the new standards will be a significant challenge for the entity as well the accounting professionals of the Oil and Gas industry. Organizations will have to collect, identify, analyze, classify, and present lease data on a massive scale while facing several challenges. The lease accounting data is key to achieving compliance.

To achieve compliance, in time, effectively and accurately, companies will need to implement lease management and accounting technologies to automate lease accounting.

The Hamilton Engine that is built to make compliance simple can help entities to achieve compliance and automate lease accounting. Hamilton is the simplest, fastest, and most comprehensive solution to achieve IFRS 16/ASC 842 compliance. Hamilton has built-in functionality that solves both the IFRS 15/ASC 606 and IFRS 16/ASC 842 regulatory needs. The Automated Accounting Framework is designed to adapt to future requirements as well. No matter what regulatory changes arise in the future, Hamilton's flexible, robust, and use-case-driven core technology will always be able to support you and your business.

The mining/oil, gas extraction, and pipeline industries represented 1.5% of new business volume reported by ELFA member companies in 2017, up from 1.4% in 2016

Investment in mining and oilfield machinery decreased at a 36% annualized rate in Q1 2018, and in July 2018 was up 6.9% year over year

The U.S. oil and gas field equipment manufacturing industry includes about 600 companies with combined annual revenue of about $13 billion