Statement of Financial Accounting Standards No. 9

Note: This Statement has been completely superseded

FAS9 Status Page
FAS9 Summary

Accounting for Income Taxes—Oil and Gas Producing Companies

an amendment of APB Opinions No. 11 and 23

October 1975

Financial Accounting Standards Board
of the Financial Accounting Foundation
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INTRODUCTION AND BACKGROUND INFORMATION

1. *APB Opinion No. 11,* "Accounting for Income Taxes," issued in 1967, has not required interperiod income tax allocation with respect to "intangible development costs" incurred by oil and gas producing companies. Paragraph 40 of the Opinion states:

> Intangible development costs in the oil and gas industry are commonly deducted in the determination of taxable income in the period in which the costs are incurred. Usually the costs are capitalized for financial accounting purposes and are amortized over the productive periods of the related wells. A question exists as to whether the tax effects of the current deduction of these costs for tax purposes should be deferred and amortized over the productive periods of the wells to which the costs relate. Other items have a similar, or opposite, effect because of the interaction with "percentage" depletion for income tax purposes. The Board [APB] has decided to defer any conclusion on these questions until the accounting research study on extractive industries is completed and an Opinion is issued on that subject.

2. Paragraph 33 of *APB Opinion No. 11* cites as an example of a permanent difference (defined in paragraph 13(f) of that Opinion) "the excess of statutory depletion over cost depletion."

3. *APB Opinion No. 23,* "Accounting for Income Taxes—Special Areas," issued in 1972, amended *APB Opinion No. 11* in certain respects but did not modify paragraph 40 of *APB Opinion No. 11*. Paragraph 2 of *APB Opinion No. 23* states: "The Board [APB] continues to defer conclusions on intangible development costs in the oil and gas industry pending the issuance of an Opinion on extractive industries."

4. Prior to the effective date of *APB Opinion No. 11,* some oil and gas producing companies had allocated income taxes with respect to intangible drilling and development costs and some other costs associated with the exploration for and development of oil and gas reserves that entered into the determination of taxable income and pretax accounting income in different periods. Those companies generally have continued that practice since the issuance of *APB Opinion No. 11*.

5. On the other hand, both before and after the effective date of *APB Opinion No. 11*, many oil and gas producing companies have not allocated income taxes with respect to those costs. The fact that percentage depletion over the life of oil and gas properties was expected to exceed costs of that type that are capitalized and amortized in the determination of pretax accounting income (i.e., the interaction with percentage depletion described in the citation in paragraph 1 of this Statement) has generally been cited as the conceptual basis for not allocating income taxes.

6. The Tax Reduction Act of 1975 (hereinafter sometimes referred to as the Act) substantially reduced or eliminated percentage depletion as a Federal income tax deduction for many oil and gas producing companies as of January 1, 1975.

7. The Board has, among other things, (a) examined the provisions of the Act relating to percentage depletion for oil and gas production, (b) reviewed a report dated April 11, 1975 of an American Petroleum Institute survey of 25 oil and gas producing companies on interperiod tax allocation relating to the elimination of percentage depletion, and (c) reviewed the financial statements of a number of oil and gas producing companies.

8. The Board originally concluded not to hold a public hearing on the specific issue of interperiod tax allocation related to intangible drilling and development costs and other costs associated with the exploration for and development of oil and gas reserves. An Exposure Draft of a proposed Statement on "Accounting for Income Taxes—Oil and Gas Producing Companies" was issued on April 25, 1975. Ninety-eight letters were received in response to the request for comments. Most of the respondents objected to the method of transition set forth in paragraph 15 of the Exposure Draft, but they held widely divergent views about other methods of transition. On June 26, 1975 the Board announced that it would hold a public hearing. A Notice of Public Hearing was issued on July 10, 1975 stating that the purpose of the public hearing was to provide an opportunity for the Board to receive additional information from, and to hear the views of, interested persons and groups with respect to the accounting problems and issues associated with this matter, in particular those issues discussed in paragraphs 11-17 and Appendix A of the Exposure Draft and those issues and questions set forth in Appendix 1 of the Notice of Public Hearing. The Board received 54 position papers, letters of comment, and outlines of oral presentations in response to the Notice of Public Hearing. Twenty-seven presentations were made at the public hearing.

9. The basis for the Board's conclusions, as well as alternatives considered and reasons for their rejection, are discussed in Appendix A to this Statement.

10. This Statement applies to regulated enterprises in accordance with the provisions of the Addendum to *APB Opinion No. 2*, "Accounting for the 'Investment Credit.'"

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Interperiod Tax Allocation

11. Commencing January 1, 1975, interperiod tax allocation is required [1] for intangible drilling and development costs [2] and other costs [3] associated with the exploration for and development of oil and gas reserves that enter into the determination of taxable income and pretax accounting income in different periods (hereinafter referred to as *IDC financial accounting/tax differences*) pursuant to the provisions of *APB Opinion No. 11*.

12. An oil or gas producing company that heretofore has not allocated income taxes related to IDC financial accounting/tax differences shall, as of January 1, 1975, begin allocating income taxes on the difference (hereinafter referred to as the *net change*) between (i) IDC financial accounting/tax differences originating in the period and (ii) the reversal of similar differences during the period. *APB Opinion No. 11*, particularly paragraphs 36-37 thereof, specifies the method for computing the income tax effect [4] relating to the net change. In any period during which reversals exceed originating timing differences, the resulting income tax effect shall reduce previously deferred income taxes attributable only to the costs described in paragraph 11 and footnotes 2 and 3. If deferred income taxes have not been provided or if previously deferred income taxes are eliminated, deferred tax credits attributable to other items shall not be reduced, and the excess income tax effect shall be charged to income tax expense in the period in which the excess arises.

13. In making the computation of deferred income tax expense as set forth in the first sentence of paragraph 12, an oil or gas producing company with excess statutory depletion [5] may elect, but is not required, to recognize interaction with percentage depletion. If this election is made, income taxes shall be deferred on the amount by which originating timing differences exceed reversals during the period, except that the amount on which income taxes are deferred in that period shall be limited to the excess of cumulative IDC financial accounting/tax differences at the end of the period over the sum of (a) excess statutory depletion and (b) cumulative IDC financial accounting/tax differences with respect to which income taxes have been allocated. In periods in which reversals exceed originating timing differences, previously deferred income taxes attributable only to the costs described in paragraph 11 and footnotes 2 and 3 shall be reduced.[6] If at the end of the period the sum of (a) excess statutory depletion and (b) cumulative IDC financial accounting/tax differences with respect to which income taxes have been allocated is equal to or greater than cumulative IDC financial accounting/tax differences, income taxes shall not be allocated on the amount by which originating timing differences exceed reversals during the period. Previously deferred income taxes attributable to the costs described in paragraph 11 and footnotes 2 and 3 shall not be reduced unless reversals exceed originating timing differences during the period.[7] See Appendix B for examples of the application of this paragraph.

14. Prior to January 1, 1975, certain oil and gas producing companies allocated income taxes in accordance with the provisions of *APB Opinion No. 11* with respect to IDC financial accounting/tax differences without recognizing interaction with percentage depletion. This method of income tax allocation shall continue as an accepted method. Accordingly, an oil or gas producing company may change to that method of accounting and, if it does, shall apply the method retroactively by restating financial statements and financial summaries or other data derived therefrom presented for prior periods (see paragraphs 18, 26, and 27 of *APB Opinion No. 9*, "Reporting the Results of Operations"). If records are not available to make the detailed year-by-year "with and without" computations under this method (see paragraph 36 of *APB Opinion No. 11*), reasonable

approximations shall be made. Considering the unique circumstance of the question at hand, the requirement of paragraphs 15-17 of *APB Opinion No. 20*, "Accounting Changes," for justification of a change in accounting principle need not be met in connection with a change made in accordance with this paragraph.

Disclosure

15. Because different methods of accounting are permitted in paragraphs 12-14 of this Statement and because of the uncertainties involved in estimating future statutory depletion, a company that allocates income taxes in accordance with paragraph 12 or 13 shall disclose in its financial statements the amount of cumulative IDC financial accounting/tax differences at the end of the period with respect to which income taxes have not been allocated. In addition, when it becomes probable that future reversals of IDC financial accounting/tax differences will exceed future originating differences of a similar nature and that the excess income tax effect (referred to in paragraphs 12 and 13) will be charged to income tax expense, the company shall disclose that probability.

Amendments to Existing Pronouncements

16. *APB Opinion No. 11* exempted "intangible development costs" from the requirement for interperiod tax allocation pending further study of the question of interaction with percentage depletion, and that exemption was continued in *APB Opinion No. 23*. The Board has not considered, and therefore does not in this Statement address, the question of whether interperiod tax allocation should or should not be affected by that interaction. In light of the substantial reduction in or elimination of percentage depletion for many companies resulting from the Tax Reduction Act of 1975, however, the exemption in *APB Opinions No. 11* and *23* of intangible development costs from the requirement for interperiod tax allocation is removed by this Statement. Accordingly, this Statement supersedes paragraph 40 of *APB Opinion No. 11* and the second sentence of paragraph 2 of *APB Opinion No. 23*.

Effective Date

17. This Statement shall be effective with respect to financial statements issued on or after December 1, 1975, although earlier application is encouraged.

18. If financial statements for the fiscal year that includes January 1, 1975 have been issued prior to December 1, 1975, when those financial statements or financial summaries or other data derived therefrom are subsequently presented, they shall be restated to reflect the requirements of this Statement. Interim financial reports issued prior to December 1, 1975 that include results of operations subsequent to December 31, 1974 also shall be restated to reflect the requirements of this Statement.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by the affirmative votes of five members of the Financial Accounting

Standards Board. Mr. Kirk and Mr. Sprouse dissented.

Mr. Kirk and Mr. Sprouse dissent for two reasons:

First, they dissent because this Statement provides free choice to companies in similar circumstances to adopt either of two significantly different methods of implementation. Allowing companies to choose either the retroactive restatement method or the prospective net method insures that in similar circumstances significant differences in accounting for income taxes will exist indefinitely in the financial statements of oil and gas producing companies. Mr. Kirk and Mr. Sprouse hold that accounting for similar circumstances similarly and for different circumstances differently is a desirable objective that could have been achieved in this Statement. They consider the result of the Statement to be unacceptable.

Second, they dissent because in their opinion the prospective net method is based on a fiction and is not in conformity with the intention of *APB Opinion No. 11*. Under the prospective net method, income tax expense will be determined as if provisions for deferred income taxes had been made prior to 1975 when in fact the provisions had not been made. As a result, over a period of years enterprises electing the prospective net method will reflect in determining net income two tax benefits for one pre-1975 tax deduction. (Of the implementation methods considered by the Board, only the direct charge to retained earnings without restatement has similar results.) The first tax benefit was reflected in net income prior to 1975 when certain costs were deducted for income tax purposes and capitalized for financial statement purposes but no provision was made in the financial statements for related deferred income taxes. The second tax benefit will be reflected in net income when costs capitalized prior to 1975 are amortized, because under the prospective net method as those costs are amortized the provision for income taxes will be reduced as if the amortization caused a reversal of pre-1975 deferred income taxes even though no provision for those deferred income taxes was made. The Statement seems to recognize the impropriety of this result by precluding recognition of the second benefit to the extent that recognition would result in a "debit balance" to be reported among the assets (paragraph 12) and by requiring disclosure when it is probable that situation will occur in the future (paragraph 15). However, the Statement condones recognition of the second benefit as long as the debit is accounted for as a reduction in an existing deferred credit. Messrs. Kirk and Sprouse consider the prospective net method to be without merit. They do, however, support retroactive restatement, an alternative provided for in paragraph 14.

Mr. Kirk dissents for two additional reasons:

First, this Statement claims in paragraph 16 that "the Board has not considered, and therefore does not in this Statement address, the question of whether interperiod tax allocation should or should not be affected by. . . interaction." Mr. Kirk believes that for this Statement to conclude that it is permissible to recognize interaction, the conceptual basis for interaction had to be considered and accepted. He finds acceptance of the concept irreconcilable with the requirement of this Statement that the provisions of *APB Opinion No. 11* now apply to intangible drilling and development costs.

In particular, Mr. Kirk believes that paragraph 13 conflicts with *APB Opinion No. 11*. That Opinion cites the excess of statutory depletion over cost depletion as an example of a permanent difference and states that "since permanent differences do not affect other periods, interperiod tax allocation is not appropriate to account for such differences." In Mr. Kirk's view, *APB Opinion No. 11* therefore requires that the tax benefits of excess statutory depletion be accounted for in the year in which that excess is deducted for income tax purposes. Under paragraph 13 of this Statement, however, estimates of those benefits can be anticipated and included in net income for accounting purposes many years before the benefit is realized by income tax deduction of that excess.

Second, Mr. Kirk believes that the *anticipation* of the estimated tax benefits relating to a future permanent difference and the *offsetting* of that questionable asset, allowed by paragraph 13 of this Statement, against a deferred credit, required by *APB Opinion No. 11*, conflicts with the bases for conclusions in *FASB Statements No. 2, 5,* and *8* regarding asset recognition, matching and offsetting (i.e., the cover approach), respectively.

Members of the Financial Accounting Standards Board:

Marshall S. Armstrong, *Chairman*
Oscar S. Gellein
Donald J. Kirk
Arthur L. Litke
Robert E. May
Walter Schuetze
Robert T. Sprouse

Appendix A: BASIS FOR CONCLUSIONS

19. This Appendix discusses factors deemed significant by members of the Board in reaching the conclusions in this Statement, including various alternatives considered and reasons for accepting some and rejecting others.

20. The scope of this Statement is limited to the question of whether, in light of the Tax Reduction Act of 1975, interperiod tax allocation is now required for IDC financial accounting/tax differences. Although the Board has not considered the question of whether interperiod tax allocation should or should not be affected by interaction with percentage depletion, it has set forth in paragraph 13 the method of computing deferred income taxes when interaction with percentage depletion is recognized.

21. Allocation of income taxes on timing differences is the basic concept of *APB Opinion No. 11*. That Opinion had allowed an exemption for "intangible development costs," however, pending further study of the question of interaction with percentage depletion. Because the Tax Reduction Act of 1975 substantially reduced or eliminated percentage depletion for many companies as of January 1, 1975, the Board concluded that the exemption of intangible drilling and development costs and other costs from the provisions of *APB Opinion No. 11* is no longer appropriate. Accordingly, paragraph 11 of this Statement requires that beginning January 1, 1975 income taxes be deferred on IDC financial accounting/tax differences. Because the Board has not considered whether interperiod tax allocation should or should not be affected by interaction with percentage depletion, paragraph 13 permits, but does not require, companies to recognize interaction with percentage depletion.

22. In the Exposure Draft, the Board set forth five methods of transition that had been considered:

a) *Retroactive restatement.* Record the cumulative income tax effect that had not been deferred prior to January 1, 1975 by restating the financial statements for prior periods. Thereafter, allocate income taxes in accordance with *APB Opinion No. 11*.
b) *Direct charge to retain earnings without restatement.* Record the cumulative income tax effect that had not been deferred prior to January 1, 1975 by a direct charge to retained earnings as of that date, with no restatement of financial statements for prior periods. Thereafter, allocate income taxes in accordance with *APB Opinion No. 11*.
c) *Allocate taxes prospectively—gross method.* Allocate income taxes only with respect to IDC financial accounting/tax differences arising after December 31, 1974.
d) *Allocate taxes prospectively—net method.* Allocate income taxes on the net change in (i) IDC financial accounting/tax differences originating in the period and (ii) the reversal of similar differences during the period.
e) *Charge in the income statement.* Record the cumulative income tax effect that had not been deferred prior to January 1, 1975 by a charge in the income statement, with no restatement of financial statements for prior periods. Thereafter, allocate income taxes in accordance with *APB Opinion No. 11*.

Charge in the Income Statement

23. The method proposed in the Exposure Draft would have required an income statement charge as of January 1, 1975 for the cumulative income tax effect that had not been deferred prior to that date; the charge in the income statement would have been reported between the captions "extraordinary items" and "net income." The Board reasoned that reporting the charge separately between the captions "extraordinary items" and "net income" would have highlighted the fact that passage of the Act was a unique event of considerable impact on oil and gas producing companies and would have segregated the charge in the presentation of results of current operations. Respondents to the Exposure Draft and the Notice of Public Hearing argued that users of financial statements in general would not understand the charge in the income statement. They reasoned that, as a result of the emphasis users place on net income, comparability of financial statements would be weakened since net income for none of the years 1974, 1975, and 1976 would be comparable. They also reasoned that to require a charge now based on a 1975 event, viz., passage of the Act, would be inconsistent with the fact that the effect of the Act is prospective in nature and that the accounting should reflect that fact. The Board took these arguments into consideration in concluding that this method of transition should not be adopted.

Allocate Taxes Prospectively—Net Method

24. The Board originally rejected the prospective net method because it appeared inconsistent with the rationale underlying paragraph 37 of *APB Opinion No. 11*. That paragraph states that the net change method is permitted only "if the applicable deferred taxes have been provided in accordance with this Opinion on the cumulative timing differences as of the beginning of the period." Certain respondents to the Exposure Draft and the Notice of Public Hearing argued that they had provided *applicable* deferred income taxes in prior years with respect to IDC financial accounting/tax differences in accordance with *APB Opinion No. 11*, either on the basis of interaction with percentage depletion or because of the exemption referred to in paragraph 40 of that Opinion,

and that, therefore, use of the net change method on a prospective basis is appropriate and consistent with prior accounting. In addition, certain of those respondents suggested that the prospective net method would result in income statement presentations after 1974 that would facilitate comparisons of results of operations of oil and gas producing companies. Other respondents pointed out that considering the unique circumstance of the question at hand existing accounting pronouncements are ambiguous with respect to the proper method of transition and that conceptual support is not limited to any one method of transition. They concluded that the prospective net method represents a practical solution to a unique and complex problem. The Board took these arguments into consideration in concluding that the prospective net method together with the disclosures required by paragraph 15 represent a practical and reasonable solution to the problem.

Retroactive Restatement

25. One question that arises in connection with retroactive restatement of prior year financial statements concerns the feasibility of making the computations for individual prior years, because of the detailed information that might be required in making the year-by-year "with and without" computations under paragraph 36 of APB Opinion No. 11. Some respondents indicated that the computations would be impossible or extremely difficult because, in certain cases, records are not available or were not kept on a basis suitable for that purpose. Other respondents indicated, however, that the retroactive restatement could be computed on a reasonable basis. The Board notes that some oil and gas producing companies have been allocating income taxes on IDC financial accounting/tax differences, and have been doing so without recognizing interaction with percentage depletion. Some respondents reasoned that this method would result in greater comparability of financial statements of an individual company among years, as well as among oil and gas producing companies in general, than would any of the other methods considered. After considering all of the circumstances, the Board decided that retroactive restatement should not be required but should be permitted. The Board concluded, therefore, that it would be appropriate for a company to change its method of accounting to that of allocating income taxes without recognizing interaction with percentage depletion and, if it does, financial statements presented for prior periods should be restated.

Direct Charge to Retained Earnings without Restatement

26. Direct charges or credits to retained earnings without restatement of prior period financial statements are prohibited by *APB Opinion No. 9.* Consequently, the Board concluded that it would be inappropriate to record the cumulative income tax effect at January 1, 1975 by a direct charge to retained earnings as of that date. To do so would be in conflict with the basic concepts underlying *APB Opinion No. 9.*

Allocate Taxes Prospectively—Gross Method

27. Allocation of income taxes only with respect to IDC financial accounting/tax differences arising after December 31, 1974 would result in substantial variations in the ratio of income tax expense to pretax accounting income reported in financial statements for periods ending after that date. Costs unamortized for financial accounting purposes as of January 1, 1975 but previously deducted for income tax purposes would be amortized in determination of pretax accounting income after December 31, 1974 with no corresponding

reversal of deferred income taxes because none would have been recorded. As a result, a company's effective income tax rate might appear to be abnormally high. Moreover, the degree of "abnormality" could vary significantly among companies depending on the extent of IDC financial accounting/tax differences at January 1, 1975. Further, practical difficulties exist in applying this method because of the need to identify separately certain pre-1975 and post-1974 information. Accordingly, the Board rejected this method.

Other Matters

28. The Exposure Draft proposed disclosure of the amount of additional income taxes paid or payable for the first full fiscal year beginning on or after January 1, 1975 as a result of the reduction or elimination of percentage depletion. Certain respondents argued that this would be a burdensome, hypothetical calculation and that the disclosures required by paragraph 63(c) of *APB Opinion No. 11* will reflect the results of the reduction or elimination of percentage depletion caused by the Act. The Board found merit in these arguments and as a result concluded that this additional disclosure should not be required.

29. The Notice of Public Hearing included a question concerning what difficulties, if any, exist with respect to net operating loss carryforwards, investment tax credit carryforwards, and foreign tax credit carryforwards in the application of the transition method(s) preferred. Those respondents who addressed this point indicated that accounting for those carryforwards could be accommodated by the provisions of *APB Opinion No. 11*.

30. Several respondents commented that the recognition of interaction with percentage depletion should not be permitted. The Board concluded that interaction with percentage depletion should continue to be permitted as set forth by paragraph 13 of this Statement because to do otherwise would require examination of the conceptual basis of interaction. As stated in paragraph 16 of this Statement, the Board has not considered the question of whether interperiod tax allocation should or should not be affected by that interaction.

31. The Board has concluded it advisable that this Statement be effective as set forth in paragraph 17.

Appendix B: EXAMPLES OF APPLICATION OF PARAGRAPH 13

32. The following examples illustrate the computation of deferred income taxes under the election permitted by paragraph 13 of this Statement. It should be recognized that these examples do not comprehend all possible circumstances and do not include the disclosures required by paragraph 15.

General Assumptions

33. The assumptions on which the examples are based are as follows:

a. The company's fiscal year-end is December 31.
b. The rate for deferring income taxes resulting from applying the computation required by paragraph 12 is 48 percent.

c. Excess statutory depletion:

January 1, 1975	$ 505,000
December 31, 1975	400,000
December 31, 1976	650,000
December 31, 1977	860,000
December 31, 1978	1,020,000
December 31, 1979	1,000,000
December 31, 1980	800,000

d. Cumulative IDC financial accounting/tax differences:

January 1, 1975	$ 500,000
December 31, 1975	600,000
December 31, 1976	760,000
December 31, 1977	930,000
December 31, 1978	1,010,000
December 31, 1979	990,000
December 31, 1980	960,000

December 31, 1975

34. At December 31, 1975 cumulative IDC financial accounting/tax differences ($600,000) exceeds by $200,000 the sum of (a) excess statutory depletion ($400,000) and (b) cumulative IDC financial accounting/tax differences with respect to which taxes had been allocated (zero). Therefore, income taxes of $48,000 would be deferred with respect to the $100,000 increase in IDC financial accounting/tax differences during the year.

December 31, 1976

35. At December 31, 1976 cumulative IDC financial accounting/tax differences ($760,000) exceeds by $10,000 the sum of (a) excess statutory depletion ($650,000) and (b) cumulative IDC financial accounting/tax differences with respect to which income taxes had been allocated ($100,000). Although IDC financial accounting/tax differences increased $160,000 during the year, the amount on which income taxes would be deferred is limited to $10,000. Therefore, income taxes of $4,800 would be deferred in the current year.

December 31, 1977

36. At December 31, 1977 the sum of (a) excess statutory depletion ($860,000) and (b) cumulative IDC financial accounting/tax differences with respect to which income taxes had been allocated ($110,000) exceeds cumulative IDC financial accounting/tax differences ($930,000). Therefore, no income taxes would be deferred in the current year. Previously deferred income taxes would not be reduced.

December 31, 1978

37. At December 31, 1978 the sum of (a) excess statutory depletion ($1,020,000) and (b) cumulative IDC financial accounting/tax differences with respect to which income taxes had been allocated ($110,000) exceeds cumulative IDC financial accounting/tax differences ($1,010,000). Therefore, no income taxes would be deferred in the current year. Previously deferred income taxes would not be reduced.

December 31, 1979

38. Reversals exceed originating IDC financial accounting/tax differences during the year by $20,000. Therefore, previously deferred income taxes would be reduced by $9,600 in the current year.

December 31, 1980

39. Reversals exceed originating IDC financial accounting/tax differences during the year by $30,000. Therefore, previously deferred income taxes would be reduced by $14,400 in the current year.

40. The following summarizes the examples in paragraphs 33-39:

	1	2	3	4	5	6	7
		IDC Financial Accounting/Tax Differences					
	Excess Statutory Depletion	Cumulative	Net Change	Memo Amounts*	Portion of Net Change on Which Deferred Tax is Computed	Deferred Tax Expense Dr. (Cr.)	Cumulative Deferred Tax
1/01/75	$ 505,000	$ 500,000	$ N/A	$ 505,000	$ -0-	$ -0-	$ -0-
12/31/75	400,000	600,000	100,000	400,000	100,000	48,000	48,000
12/31/76	650,000	760,000	160,000	750,000	10,000	4,800	52,800
12/31/77	860,000	930,000	170,000	970,000	-0-	-0-	52,800
12/31/78	1,020,000	1,010,000	80,000	1,130,000	-0-	-0-	52,800
12/31/79	1,000,000	990,000	(20,000)	1,110,000	(20,000)	(9,600)	43,200
12/31/80	800,000	960,000	(30,000)	890,000	(30,000)	(14,400)	28,800

Footnotes

FAS9, Footnote 1--See the exception provided by paragraph 13, however.

FAS9, Footnote 2--Intangible drilling and development costs include costs incurred with respect to both producing and nonproducing wells or properties.

FAS9, Footnote 3--These other costs include costs such as geological and geophysical costs, leasehold costs, delay rentals, advance or shut-in royalties, and ad valorem taxes, some of which may be charged to expense for financial accounting purposes before they are deducted for income tax purposes.

FAS9, Footnote 4--The income tax effect referred to in this Statement is determined in the same manner as if income taxes had been allocated on IDC financial accounting/tax differences in the periods of their origination using the net change method as set forth in *APB Opinion No. 11*.

FAS9, Footnote 5--*Excess statutory depletion* is the excess of estimated statutory depletion allowable as an income tax deduction in future years over the amount of cost depletion otherwise allowable as a tax deduction, determined on a total enterprise basis.

FAS9, Footnote 6--If deferred income taxes have not been provided or if previously deferred income taxes are eliminated, deferred tax credits attributable to other items shall not be reduced, and any excess income tax effect shall be charged to income tax expense in the period in which the excess arises.

FAS9, Footnote 7--See footnote 6.

FAS9, Appendix B, Footnote *--Memo amounts represent the sum of (a) excess statutory depletion and (b) cumulative IDC financial accounting/tax differences with respect to which income taxes have been allocated (column 1 plus the cumulative amount in column 5 at the beginning of the period).