

ISSUING  
ORG.

ACCOUNTING POLICIES &amp; SYSTEMS DEPARTMENT

ISSUE DATE  
10-11-08REPLACES  
03-23-03

SUBJECT:

ACCOUNTING FOR CASUALTY COSTS

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**CONTENT:** This General Instruction (GI) outlines the corporate financial policies and procedures for the handling of costs associated with casualty losses. The text includes:

1. Glossary
2. Definitions
3. Notification Requirements and Investigation Guidelines
4. Assignment of WBS Numbers for Major Casualty Losses Requiring Facility Replacement
5. Assignment of Internal Order Number for Major Casualty Losses Requiring Facility Replacement
6. Capital Expenditure Budget Item
7. Assignment of Internal Order Number for Casualties not Requiring Facility Replacement
8. Insurance Claim for Casualty Losses
9. Accounting Treatment
10. Write-off of Damaged Assets

The following attachments are an integral part of this instruction:

Attachment A: An Example of JO (WBS) and Phase Number Opening  
Attachment B: An Example of Accounting for a Plant Fire

## 1. **GLOSSARY**

### 1.1 **ABBREVIATIONS & ACRONYMS**

AFE	- Authorization for Expenditure
AM	- Asset Management
BI	- Budget Item
CPFAD	- Capital Programs Forecast & Analysis Division/FAPAD
CPU	- Capital Projects Unit/PFAAD
ER	- Expenditure Request
FAU	- Fixed Assets Unit/PFAAD
FAD	- Financial Accounting Department
FAPAD	- Financial Analysis Performance Advisory Department
FPD	- Facilities Planning Department
GI	- General Instruction
IO	- Internal Order
IPU	- Invoice Processing Unit/PAD
JO	- Job Order
OAD	- Operations Accounting Department
O/T	- Over Time
PCP	- Projects & Capital Planning
PFAAD	- Projects & Fixed Assets Accounting Division/OAD
PAD	- Payables Accounting Division/OAD
PS	- Project System
RMD	- Risk Management Division/Treasury
USD	- US Dollar
WBS	- Work Breakdown Structure

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2 of 11**1.2 REFERENCES**

- AI 152 - Internal Orders
- AI 203 - Incomplete Construction
- AI 206 - Accounting for Disposition of Capital Assets
- GI 006.001 - Notification Requirements for Incidents (Including Fire)
- GI 006.003 - Guide for Committees Investigating Major Incidents and Engineering Reviews of Other Incidents
- GI 020.500 - Expenditure Control - Expenditure Request Forms
- GI 207.050 - Form SA 630 - Capital Assets Change Authorization
- GI 216.965 - Cost Distribution Rates
- GI 270.003 - Labor Costing and Analysis
- AM 300-310 - Accounting Manual/Capital Assets/Capital versus Expense

**2. DEFINITIONS**

- 2.1 Casualty Event – An accidental occurrence involving property damage or bodily injury for which insurance is commonly available. It does not include indirect or time related cost losses such as business interruption. Determination of cost related to such events will be on the same basis as typically interpreted in commercial insurance policies covering such events.
- 2.2 Major, Moderate and Minor Casualty incidents – For guidance on the definitions of major, moderate and minor casualty incidents refer to GI 6.001.
- 2.3 Extraordinary casualty loss - A casualty event with repair and replacement cost forecast of one million USD or more.
- 2.4 Ordinary Casualty loss - A casualty event with repair and replacement cost forecast of less than one million USD.

**3. NOTIFICATION REQUIREMENTS AND INVESTIGATION GUIDELINES**

GI 6.001 and 6.003 cover notification requirements and investigation guidelines for casualty incidents respectively.

**4. ASSIGNMENT OF WBS NUMBERS FOR MAJOR CASUALTY LOSSES REQUIRING FACILITY REPLACEMENT****4.1 WBS Special Project Number and Regular Capital Budget Item**

Each casualty circumstance is unique. A major casualty requires the immediate assignment of a WBS special project number and JO number to accumulate costs in a systematic manner to enable management to identify and control costs, to process insurance claims

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and to segregate capital expenditures in accordance with established accounting guidelines. A major casualty will also require a regular capital BI for facility replacement.

A Major casualty may include expenditures associated with:

- Fire fighting
- Pollution control
- Temporary repairs
- Repair or replacement of damaged facilities

The control of these costs is the responsibility of the designated construction agency responsible for restoring the facility to operation. CPU/PFAAD/OAD, assisted (as necessary) by designated construction agency personnel, will handle the analysis of the costs. Costs must be accumulated in a systematic manner to enable management to identify and control costs, to process insurance claims against the insurers, and to segregate capital expenditures in accordance with established accounting guidelines.

#### 4.2 WBS Special BI Numbers

Several special BI numbers under SAP Project Type prefix 24 will be maintained in an open status by CPFAD. CPFAD will assist proponents in all procedural matters associated with initial setting up of the special BI. The special BI numbers will be assigned to specific events as necessary by CPU/PFAAD/OAD. Project Management and PFAAD/OAD will maintain one special WBS JO number with a standard phase number 100 in an open status in the SAP/PCP/PS to accumulate Emergency type costs directly associated with the casualty. These costs usually occur during the initial clean-up activities of the casualty. The WBS phase number 100 will be routinely provided at the request of the organizations likely to be immediately involved in providing materials or assistance to the containment effort. This is done to minimize potential procedural or administrative delays to any damage containment effort.

These costs will settle to the IO issued by RMD (refer to section 5) and ultimately will be closed to one of the casualty loss cost centers (see section 9.4)

Note: Temporary repairs are considered Business Interruption costs if they do not form part of the permanent repair of damaged items and may not be recoverable from RMD.

#### 4.3 WBS Phase Numbers

Standard WBS phase numbers within the special BI will be assigned to segregate and accumulate costs for financial and control purposes. CPU/PFAAD/OAD determines the WBS phase numbers in conjunction with the parties involved, such as Project Management personnel, RMD personnel, and the insurance claims adjuster (Project Management is responsible for creating the WBS JO number and its phase numbers while CPU/PFAAD/OAD for activating them in SAP/PCP/PS) – Refer to Attachment A.

#### 4.4 Regular BI – Type Prefix 10

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A separate regular BI under Project Type Prefix 10 will be created to rebuild or restore a facility to its condition prior to suffering a casualty. CPFAD and Project Management will determine WBS JO numbers and phase requirements for the BI associated with a rebuild in conjunction with the RMD. The Project Management will create the WBS JO numbers and phases and CPU/PFAAD/OAD will activate them in SAP/PCP/PS.

**5. ASSIGNMENT OF INTERNAL ORDER (IO) NUMBER FOR MAJOR CASUALTY LOSSES REQUIRING FACILITY REPLACEMENT**

RMD will issue an IO under group 67 to accumulate the following:

- Costs and expenses from the special BI discussed in section 4 above
- To record the net book value of the damaged asset to be written-off
- To record salvage value credits, if any
- To record credits from insurance proceeds

**6. CAPITAL EXPENDITURE BUDGET ITEM**

**6.1 Expenditure Request (ER)**

The concerned Proponent, with assistance from FPD and the appropriate construction agency, is required to submit an ER for the restoration or rebuilding of the damaged facilities. CPFAD will assist Proponents in all procedural matters associated with the development of the ER. The ER should be prepared in accordance with GI 20.500. It should detail the expenses in the special BI and the total estimated expenditures required to restore the facility to the condition existing prior to the incident, as well as any required safety enhancements.

**6.2 Costs and expenses**

Labor costs (including overtime) of the Company are not transferred between accounts on a net direct expenditure basis, but as a reallocated cost (refer to GI 270.003, Labor Costing and Analysis). All other charges for material, equipment, repair cost, contractor invoiced cost, etc. should be booked directly to the BI and not to the organization's net direct expenditures consistent with established procedures.

**6.3 Replacement Costs**

Replacement costs will be accounted for under the rules and principles prescribed in the Accounting Manual, Section 300-310.

Costs to repair and/or replace facilities, provided that they are repaired or replaced "in-kind" are generally covered under the Company's insurance program subject to a deductible and a maximum limit. An approved ER is required for all capital replacements.

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## **7. ASSIGNMENT OF IO NUMBER FOR CASUALTIES NOT REQUIRING FACILITY REPLACEMENT**

7.1 RMD will issue an IO under order group 67 to accumulate the following costs and expenses for all casualty costs exceeding \$10,000 not requiring facility replacement:

- Costs and expenses to repair or replace physical damage to or loss of Company property caused by accidental occurrence including fire, explosion, impact theft or robbery.
- Costs or expenses incurred as a result of an oil spill from Saudi Aramco facilities and sources other than known third parties.
- To record the net book value of the damaged assets to be written-off.
- To record salvage value credits, if any.
- To record credits from insurance proceeds.

7.2 Costs and expenses which are not chargeable to the IO include:

- Costs and expenses from non-accidental occurrences such as routine maintenance, normal wear and tear including pinhole leaks due to corrosion, depreciation, faulty design, improper construction and installation. These costs and expenses will be charged to the respective organization's account unless these occurrences caused a fire, explosion, or other casualty event.
- Costs and expenses for improvement and betterment of property other than repair or replacement of property damaged by a casualty event.
- Costs and expenses that are not supported by proper documentation.

## **8. INSURANCE CLAIM FOR CASUALTY LOSSES**

8.1 Complete supporting documentation (reports, invoices, etc.) and justification of all costs related to disaster control, clean-up, dismantling, repair, and replacement are required by the insurers. For major casualty losses requiring facility replacement, the CPU/PFAAD/OAD accountant will coordinate with the proponent and provide the necessary documentation as soon as possible after the event. For all other casualty losses, the proponent will provide all the necessary documentation.

8.2 The CPU/PFAAD/OAD will sort supporting documentation for major casualty losses requiring facility replacement by phase number under the special WBS JO number and file them in separate monthly files. These files will be retained by the Accountant and made available to other Saudi Aramco organizations as necessary.

8.3 Costs associated with facilities enhancement rather than "In-Kind" replacement must be specifically identified for possible negotiation in the settlement of the insurance claim.

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- 8.4 In preparing the claim, the concept of insurance recoverability/non-recoverability must be kept separate and distinct from capital versus expense classifications.
- 8.5 Items classified as expense are part of the casualty gain or loss determination regardless of insurance recoverability.
- 8.6 RMD will submit claims to the insurer's claims adjusters and/or to the Company's Insurance Broker and/or the Protection and Indemnity Club/Insurer. RMD will obtain the necessary Confidentiality Agreement from any outside entity prior to release of any documents or information.

## 9. **ACCOUNTING TREATMENT**

- 9.1 In accordance with International Financial Reporting Standards, a probable loss or a virtually certain gain associated with a casualty event which can be reliably estimated, must be determined and recorded in the period when the event occurred.
- 9.2 For casualty losses that require facility replacement, costs such as labor, materials, equipment usage, etc., used directly to contain the casualty will be charged to Phase 100 of the special WBS JO using the appropriate cost element. Costs are eventually settled from the special WBS JO to the Internal Order at the end of the period.
- 9.3 For all other casualty losses, costs are accumulated in the IO using original cost elements.
- 9.4 Cost accumulated in IO will settle ultimately to one of the following casualty loss cost centers depending on the type of casualty event:

### **Cost Center**

### **Description**

440910	Extraordinary Casualty Gain or Loss (cost > \$1,000,000)
440911	Ordinary Casualty Gain or Loss (cost < \$1,000,000)
440912	Cargo & Personal Effects Losses
440915	Liability Claims – Employee - Extraordinary Loss
440916	Liability Claims – Employee - Ordinary Loss
440917	Liability Claims –3 <sup>rd</sup> Party- Extraordinary Loss
440918	Liability Claims –3 <sup>rd</sup> Party - Ordinary Loss
440919	Oil Spill Clean-up Costs – Extraordinary Loss
440920	Oil Spill Clean-up Costs - Ordinary Loss
440921	Builders Risk Loss – Extraordinary
440922	Builders Risk Loss – Ordinary

- 9.5 Costs (including applicable overheads) of any excess or surplus materials remaining at completion of the project for a major casualty loss are transferred from the special WBS JO standard phase 100, using original cost elements, to phase 077. Any credits received, full or partial, from the sale or other disposal of these materials, are credited to phase 077. At project completion, the net cost remaining in phase 077 is settled to cost center 427450 'Gain/Loss - Surplus/Excess Materials - Construction Projects'.

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- 9.6 Amounts recognized as due from insurance will be recorded in the appropriate receivables account with the offsetting credit to the IO. When money is collected, debit the appropriate cash account and credit the applicable receivable.
- 9.7 Refer to Attachment A of this Instruction for a listing of typical phase assignments during the initial emergency clean-up and temporary repair phases. See Attachment B for an example of the accounting entries for a Major Casualty loss requiring facility replacement.

#### **10. WRITE-OFF OF DAMAGED ASSETS**

- 10.1 FAU/PFAAD/OAD will furnish the proponent with a list of assets of specific plants or locations to assist in preparing the required Form SA 630, "Capital Assets Change Authorization". Refer to GI 207.050 for the write-off of the damaged assets.
- 10.2 The net book value for the totally damaged assets will be charged initially to cost center 440910 or 440911 through SAP/AM (refer to AI 206 Section 5). From the cost center, the amount will be transferred by FAU/PFAAD/OAD to the Internal Order.

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WC 2437**ATTACHMENT A****AN EXAMPLE OF A WBS JOB ORDER AND PHASE NUMBER OPENING**

<b><u>WBS JOB ORDER NUMBER</u></b>	<b><u>WBS PHASE NUMBER</u></b>	<b><u>TYPICAL PHASES OPENED INITIALLY FOR THE SPECIAL BUDGET ITEM</u></b>
24-024XX-XXX1	100	Direct disaster containment activities
	101-299	Specific phases. To be determined by PFAAD Job Accountant and Construction/Project Engineer
	5XX	Expense items
	510	Cleanup and dismantling costs
	520	Temporary repairs and installation to restore operations
	530	Repair costs
	540	Salvage value credits
	550	Pollution control and cleanup
	560	Costs of inspection to ascertain damage
	6XX	Other major expense items
	610	Mobilization and demobilization costs
	620	Expediting expenses (i.e. airfreight or premiums for expeditious delivery by manufacturers)
	621	Contractor overtime (O/T) hours and costs - insurance adjusters may want to know what O/T was paid and why.
	630	Bonus costs
	640	Engineering studies
	650	Outside consulting services
	660	Underwriter survey expenses
	670	Community damages and claims
	999	Accounting clearances only

**NOTE:**

This is an example of WBS JO and phases required during the emergency clean-up and temporary repair phase of the project. The restoration or rebuild effort phases will be established by the construction agency in conjunction with PFAAD and Treasury.



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The following assumptions apply in this example: (USD Millions)

Book value of entire plant before fire	150
Insurance deductible	20
Book value of assets destroyed	25
Replacement cost (Capital USD 55 plus Expense USD 5)	60
Insurance Proceeds (USD 57 recoverable base minus USD 20 deductible)	37

- Special Budget Item 24-024XX used at time of fire
- Regular BI 10-XXXXX approved later for complete rebuild
- An internal order is opened by Treasury for casualty gain/loss determination

**ACCOUNTS**

<b><u>24-024XX-XXX</u></b>		<b><u>10-XXXXX-XXX</u></b>		<b><u>Internal Order 67-XXXXX-XX</u></b>	
A) 5	5 D)	B) 55	55 E)	C) 25	37 F)
				D) 5	
				G) 7	

<b>CASH</b>		<b>NET ASSETS</b>		<b>CASUALTY G/L (440910)</b>	
F) 37	5 A)	Beginning balance 150			7 G) ***
	55 B)	E) 55	25 C)		
	23 **	Ending balance 180			
	*				

+30 Increase

7 Gain

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<b>DR</b>	24-024XX-XXX	Expenses incurred in cleanup and temporary operations	USD 5
<b>CR</b>	1000100XXX	Cash	USD 5

**B - ENTRY**

<b>DR</b>	10-XXXX-XXX	Expended for capital portion of rebuild	USD 55
<b>CR</b>	1000100XXX	Cash	USD 55

**C - ENTRY**

<b>DR</b>	Internal Order 67-XXXXX-XXX	Write-off of book value of assets destroyed (manual entry via cost center 440910/440991)	USD 25
<b>CR</b>	Net Assets	Net Assets	USD 25

**D - ENTRY**

<b>DR</b>	Internal Order 67-XXXXX-XXX	Settle Expenses to Internal Order	USD 5
<b>CR</b>	24-024XX	Expenses	USD 5

**E - ENTRY**

<b>DR</b>	Net Assets	Close Rebuild to Net Assets	USD 55
<b>CR</b>	10-XXXXX	Rebuild	USD 55

**F - ENTRY**

<b>DR</b>	1000100XXX	Cash: Book Insurance Proceeds. recoverable base - 20 deductible = insurance proceeds (this would ordinarily be through a receivable account)	USD 57 USD 37
<b>CR</b>	Internal Order 67-XXXXX-XXX	Off set against loss	USD 37

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**G - ENTRY**

<b>DR</b>	Internal Order Close to Casualty G/L	USD	7
	67-XXXXX-XXX		
<b>CR</b>	00-00440-9xx Casualty G/L	USD	7

This settlement of internal orders occurs continually. It is shown here for illustrative purposes.

**\*\*\* Summary:**

Net Assets have increased USD 30, funded by cash of USD 23 and a casualty gain of USD 7 for this example.

Note: Portions of the cost of replacement are assumed to be unrecoverable from insurance proceeds.

\* CHANGE

\*\* ADDITION

NEW INSTRUCTION ☐

COMPLETE REVISION ☐