HMRC - OT02190 - Underlift And Overlift

The SORP deals with accounting for overlifts and underlifts as follows at paragraph 114:

“Lifting or offtake arrangements for oil and gas produced in jointly owned operations are frequently such that it is not practicable for each participant to receive or sell its precise share of the overall production during the period. Any resulting short term imbalance between cumulative production entitlement and cumulative sales attributable to each participant at a reporting date represents overlift or underlift.”

The SORP recommends that underlifts, as well as overlifts, should be reflected by adjusting cost of sales and working capital balances, usually valuing the under/overlift at market value (see paragraphs 114 to 121).

IFRS 6 does not specifically deal with the issue of accounting for under or overlifts. However industry practice is also relevant in selecting accounting policies under IFRS. It is likely to be appropriate for entities adopting IFRS to account for under/overlifts in a similar manner to SORP.

If companies do adopt different treatments, any difference in the amounts at which under/overlifts are valued are likely to represent relatively short-term timing differences.

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