

**EXHIBIT 1**  
Effect of SFAS 143 Adoption  
No Prior Accounting Treatment for Asset Retirement Obligation

**Assumptions**

1. Purchased asset, with a cost of \$500,000, an estimated useful life of 25 years, and a \$175,000 retirement obligation, on January 1, 1985, when the company's credit-adjusted discount rate was 13%.
2. ARO accounting treatment prior to SFAS 143 adoption: none.

	Asset Cost	Accumulated Depreciation	Superseded Method		Depreciation Expense
			Carrying Value	Liability	
12/31/85	\$500,000	\$ 20,000	\$480,000	0	\$ 20,000
12/31/86	500,000	40,000	460,000	0	20,000
...					
12/31/01	500,000	340,000	160,000	0	20,000
12/31/02	500,000	360,000	140,000	0	<u>20,000</u>
Total (25-year life)					<u>\$500,000</u>

	Asset Cost	Accumulated Depreciation	Annual Accounting Under SFAS 143		Depreciation Expense	Accretion Expense
			Carrying Value	Liability		
01/01/85	\$508,243			\$ 8,243		
12/31/85	508,243	\$ 20,330	\$487,913	9,314	\$ 20,330	\$ 1,072
12/31/86	508,243	40,660	467,583	10,525	20,330	1,211
...						
12/31/02	508,243	365,940	142,303	74,386	20,330	8,558
12/31/03	508,243	386,270	121,973	84,056	20,330	9,670
...						
12/31/09	508,243	508,243	0	175,000	<u>20,323</u>	<u>20,133</u>
Total (25-year life)					<u>\$508,243</u>	<u>\$167,757</u>

**Journal Entry Needed for SFAS 143 Adoption (January 1, 2003)**

Asset	\$ 8,243 <sup>1</sup>
Cumulative Effect of CAP	72,083 <sup>2</sup>
Liability	74,386
Accumulated Depreciation	5,940 <sup>3</sup>

1. \$508,243 – \$500,000

2. Expenses prior to Jan. 1, 2003 (existing accounting):

    Depreciation Expense: \$20,000 × 18 years \$360,000

    Expenses prior to Jan. 1, 2003 (SFAS 143):

        Depreciation Expense: \$20,330 × 18 years \$365,940

        Accretion Expense: (\$74,386 – \$8,243) 66,143 432,083

    Loss from Cumulative Effect (\$72,083)

3. \$365,940 – \$360,000