

EXHIBIT 2
Effect of SFAS 143 Adoption
Asset Retirement Obligation Previously Capitalized at Full Estimated Cost

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: capitalized \$175,000 of ARO.

	Superseded Method				
	Asset Cost	Accumulated Depreciation	Carrying Value	Liability	Depreciation Expense
12/31/85	\$675,000	\$27,000	\$648,000	\$175,000	\$ 27,000
12/31/86	675,000	54,000	621,000	175,000	27,000
...					
12/31/01	675,000	459,000	216,000	175,000	27,000
12/31/02	675,000	486,000	189,000	175,000	<u>27,000</u>
Total (25-year life)					<u>\$675,000</u>

Annual Accounting Under SFAS 143 (See Exhibit 1)

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

Accumulated Depreciation	\$120,060 ¹	
Liability	100,614 ²	
Asset		166,757 ³
Cumulative Effect of CAP		53,917 ⁴

1. \$486,000 – \$365,940

2. \$175,000 – \$74,386

3. \$675,000 – \$508,243

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

Depreciation Expense: \$27,000 × 18 years		\$486,000
Expenses prior to Jan. 1, 2003 (SFAS 143):		
Depreciation Expense: \$20,330 × 18 years	\$365,940	
Accretion Expense: (\$74,386 – \$8,243)	<u>66,143</u>	<u>432,083</u>
Gain from Cumulative Effect		\$ 53,917