

BOOKKEEPING FOR THE
SMALL INDEPENDENT LOGGER

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INTRODUCTORY SUMMARY

The seemingly endless stream of reports and applications that bombard the present day business man has given rise to the need of a comprehensive bookkeeping system for even the smallest independent logger.

The day of "keeping the books" on the back of an envelope is past, and each operator must find a way to take care of this newest and yet essential part of his "show". Some operators have wives or other members of the family who can take over with their own systems and do a very good job; others will rely on the expanding and efficient public accounting firms who will do the work for them, at their own place of business, for a few dollars a week. There are others, however, who like to do this work themselves for it gives them a daily check, in black and white, on the condition of the business.

For these latter operators has been evolved a "one book" system of accounting that will serve their purposes with a minimum of time spent on the task and yet give them, at a glance, any and all figures which might conceivably be needed to meet present day requirements.

POSSIBLE BOOKKEEPING METHODS

There are several courses for the small logger who cannot afford the services of a full-time bookkeeper to follow in keeping books and costs of his operation.

Family

One plan is to let someone of the immediate family, familiar with bookkeeping in one form or another do the work. This system works fairly well if there is someone who can do the work or has the time to

do it.

If such a method is utilized, it is often not adapted to the job to be done. It is usually complicated, and yet for its purpose, inadequate. The operator, knowing little or nothing of accounting, has great difficulty in figuring out the plan, and figures and information that he might need are seldom included in such a manner as to be readily available. Oftentimes this results in the establishment of a second set of books by the operator himself, so that he can get the necessary information for his daily business. This action tends to reduce the main set of books to a mere income tax record, and all other business is conducted from the second set of books.

The above example is not always the case, naturally, but it happens often enough for the writer to feel that unless there is a person who can competently set up a set of books to fit the operation, it is advisable for the logger to do the work himself, from the outset.

Accounting Firms

Another course left open to the operator who feels he cannot keep his own books is the employment of an accounting firm specializing in the keeping of accounts for small businesses. It is their practice to come either to the logger's operation and do the bookkeeping, or to do it at their own place of business.

It takes but a few hours a week for them to bring the operator's books in order, and their services and results are heartily recommended. However, there are numerous facts that the operator must know that will be unavailable to him from this service unless he gathers and records the information in the field himself. This service then places him in much the same position as the one listed previously -- practically a

double set of books must be kept if the operator is to be able to obtain figures and facts that he needs, at any time.

Employee

Another plan that might be followed, if a person is fortunate to have an employee capable of keeping books, is to use this employee's services on evenings and weekends. Such men, however, are few and far between on a logging operation, for their presence on the payroll is indeed rare. Their use, if available, has many advantages in the compiling of information that will be of value to the logger. The employee will know the operation and will be able to understand the operator in his desire and need for certain information.

Self Bookkeeping

It is for operators who are not in a position to obtain such services as previously mentioned, or for those who feel that the best way to keep their books is by themselves, that this paper is being written.

Keeping one's own books has many advantages, the main one being that it gives the operator a check in black and white of his business. It is also valuable in that the logger knows the facts and figures that are often needed in the course of his everyday business. These advantages allow the operator to make agreements and commitments on short notice without frantic calls to his accounting firm or a member of the family.

The facts that the operator can obtain from his own books are valuable assets in the conducting of his business, and tend to give his business associates the impression that he knows what he is about. They also allow him to evaluate, swiftly and accurately, any information

or advice that he may receive during the course of his day's work and contacts.

The small business man must be the eyes and ears of his business. He must compile his own local Wall Street Journal and Dunn and Bradstreet and learn to evaluate his business in relation to his competitors. In such a highly competitive field as logging, an efficient bookkeeping system is an invaluable aid.

KEEPING ONE'S OWN BOOKS

Facilities And Equipment

The prime requisite for keeping books in any business is a satisfactory place in which to work. If the work is to be done in the home, a warm well-lighted corner of some room is ideal.

The second consideration is the equipment with which to work. If, as above, the work is to be done in the home, a desk and perhaps a filing cabinet, both with several locking doors or compartments, is almost a must. This equipment, plus a comfortable, morale-building chair that will attract a man after working all day, is about all that is needed to do a satisfactory job of bookkeeping.

If a habit of placing all letters, forms, applications, and various bits of information in the desk or filing cabinet is formed, half the chore of keeping one's own books is done. It takes a rugged man to sit down in the evening at a kitchen table on a hard chair, and do any semblance of a good bookkeeping job. If it becomes necessary to arise every five minutes or so and search throughout the house for various bits of information laid here and there, it becomes almost an impossible task for any man.

It is not the writer's attempt to sell office furniture or tell

an operator how to run his business. These observations are merely opinions gathered from operators who have set up fairly workable book-keeping systems of their own. It is their unanimous opinion that there must be one place set aside for all matters relating only to the logging operation if a reasonably satisfactory job is to be done.

These things vary, of course, with the individual, and in many cases there are pieces of furniture available that will admirably fit the purpose-closets or drawers, close to a good table, where all material may be kept.

Method

It is felt that the best plan is to run the books on a cash basis, unless credit and time payments are large factors in the business. In the usual business, accounts payable, and accounts receivable, can usually be carried in folders and totaled separately whenever they are to be taken into consideration in computing costs.

An ordinary three-hole $8\frac{1}{2}$ " by $11\frac{1}{2}$ " binder will adequately serve as the main account book. Supplemental books should consist of a daily time book with enough columns for a few notes, and a checkbook that also contains enough room for the entry of notes and remarks. These books are all that is necessary for the logger to keep his affairs in good order.

SETTING UP THE ACCOUNTS

Primary Classifications

Before setting up the books, the work on the jobs must be broken down into items on which costs are desired to be kept. Each item in turn must be assigned an account number in order to reduce space and

facilitate bookkeeping. It is a very good idea to write out the list of account numbers and place them where they can be referred to quickly whenever they are needed.

A suggested method of assigning account numbers makes use of both letters and numerals. By using letters for the first breakdown or classification it is possible to get a greater combination of accounts with fewer digits. A typical system of account numbers set up to fill a certain operation is as follows:

<u>Account Number</u>	<u>Operation</u>
A - - - - -	Preliminary Expenses
B - - - - -	Construction Costs
C - - - - -	Logging Costs
D - - - - -	Log Transportation
E - - - - -	Equipment
F - - - - -	Selling Expense
G - - - - -	Miscellaneous Expense

After the assignment of identifying letters to the major accounts on which costs are to be kept, these accounts are in turn further divided.

Secondary Classification

The sub-headings that come under the major accounts are entirely up to the individual and should be done in the easiest and most natural manner.

Under any conditions the further division of accounts might appear as follows:

Preliminary Expenses (A) should include all expenses relative to the purchase of land and timber needed in conducting the business. This heading should also include all surveying and cruising charges as well

as money spent on preliminary logging plans or estimates. These accounts could be set up as follows:

<u>Account Number</u>	<u>Classification</u>
A-1	Timber land and stumpage costs.
A-2	Surveying and cruising expenses.
A-3	Contemplated purchase expenses; preliminary estimates and plans.
A-4	Expenses incurred in meeting conditions of contracts in reference to improvements and reforestation.

All sales of land or salvage stumpage should be deducted from the original purchase price of the land or timber.

Account number A-3 should include all of the expenses that might be incurred in timber inspection or time spent in closing agreements. These amounts would all be deductible under the Federal income tax laws.

Account A-4 should include all charges relative to meeting reforestation standards that might be set up by the selling agency, especially so if the timber is being removed from Forest Service or Oregon and California revested lands. These conditions are always stated in the contract and as such must be considered as part of the purchase price.

Saylor Tract

A-1 A-2 A-3 A-4

X-Y Engineering Co. (cruising)		60.00		
Title search	150.50			
X-Y Engineering Co. (road layout)			50.00	
April stumpage (300 ft)	1800.00			
Snag falling				60.00

Total forward

Construction Costs (B) should include all expenses incurred in relation to the construction and maintenance of all roads and landings.

Road costs should be broken down into the various headings to include right-of-way purchase, right-of-way clearing, grading and excavation costs and maintenance costs. Where applicable, total charges should be charged against the corresponding job. However, where one road will serve several areas, on which costs are desired, the charges should be divided according to the amount of timber removed from each location.

Landing costs should be divided into accounts to take care of grading, erection of spar trees and rigging costs. Supplies that are expended on each area should be entered directly to the account applicable, others should be prorated to various jobs for the length of their life.

A breakdown of construction costs into the various sub-headings would appear as follows:

<u>Account Number</u>	<u>Classification</u>
B-1	Right-of-way purchase.
B-2	Right-of-way clearing.
B-3	Road excavation and grading.
B-4	Road maintenance.
B-5	Landing clearing and grading.
B-6	Landing and loading erection.
B-7	Landing maintenance.

Logging Costs (C) will include felling and bucking, skidding and yarding, and loading costs. Each of these three items should be placed on a separate sheet and in some instances could be placed in separate sections and be assigned individual account letters. These costs are

very important and often it is to the operator's advantage to contract these operations or to do them with his own crew, depending a great deal on local labor supply and economic conditions. These finely divided accounts will often show the most advantageous method to be followed.

In general, felling and bucking costs will include all costs incurred through felling and bucking the timber, and, as such, will be predominately labor. If company-owned power saws are used, these costs should be carried under equipment charges and prorated to the various jobs to which they are applicable.

Skidding and yarding will include all costs in connection with skidding and yarding the logs to the landing. Besides equipment charges, there will be a number of supplies that will be directly chargeable, either in whole or in part, to this account.

Loading costs will include all salaries, equipment and supplies necessary to load logs on the trucks for transportation to the market.

A typical breakdown of the primary account would appear as follows:

<u>Account Number</u>	<u>Description</u>
C-1	Felling
C-2	Bucking
C-3	Skidding and yarding
C-4	Loading

Log Transportation (D) should always be carried as a separate account. Hauling of the logs amounts to a very large per cent of the total cost on any operation and there is, in most operations, room for cost reductions.

In this account separate columns should be kept for each of the

various supplies, for prices paid and grades of supplies purchased play a big part in the final cost of log transportation.

Even if the operator feels that he has his hauling costs to the lowest cost per thousand board feet, a figure evolved from the use of similar products is very valuable in showing how costs will increase or decrease for supplies and maintenance under various conditions. Conditions vary with each area, each road grade, each road-bed, and different times of the year.

Whether it is cheaper to keep grades down or buy more gas and brakes is always a question to the operator. Whether to keep the road-bed in good shape or buy more tires and spend more on equipment maintenance is likewise an ever present question. Answers to these questions and many more are available for the expenditure of a little time used to place all supplies in accounts of their own and to classify them by jobs. Results are often amazing and always enlightening.

Typical account classifications such as listed above would appear as follows:

<u>Account Number</u>	<u>Description</u>
D-1	Repairs to trucks and motors.
D-2	Gas and oil.
D-3	Tires and repairs.
D-4	Brakes
D-5	Batteries, lubrication and miscellaneous

Saylor Tract

D-1 D-2 D-3 D-4 D-5

Overhaul (J.M.C.)	225.00				
Tires (Ford)			600.00		
Gas		200.00			
Transmission (Chev)	80.00				
Brakes (J.M.C.)			125.00		
Lub. Grease					25.00
Battery (Ford)					18.00

Equipment (E) costs should be kept for each piece of equipment and prorated for all the various jobs and sub-headings on which the equipment works.

To each piece of equipment should be charged separately the original purchase price plus any attachments or alterations that might be added later. All supply and maintenance charges, with the exception of trucks, should be kept on the same sheet as the other costs for each piece of equipment.

Under this heading and under the applicable pieces of equipment should also be kept all fees and licenses that are directly chargeable to each piece of equipment.

Typical account classifications would probably be as follows:

<u>Account Number</u>	<u>Description</u>
E-1	Power saws
E-2	Tractors
E-3	Yarding machines
E-4	Loading machines
E-5	Log Trucks
E-6	Crummies, pickups
E-7	Compressors, welding machinery
E-8	Miscellaneous

Tractors

A.C. Int. D-7

Balance forward	6500.00	6365.00	7000.00
Dzer blade			2000.00
Fuel			
5/10 to 5/17		10.00	16.00
Tracks	300.00		

Selling Expense (F) is one account that is placed in the books for the express purpose of preparing income tax reports, and as such should include all expenses in relation to the selling of the various products produced.

These charges will include subscriptions to trade publications and book purchases as well as all expenses incurred on trips in connection with the seeking of better markets. This account would also include entertainment costs as well as charitable and similar contributions -- all these items are an expense to the logger in the fact that they are necessary in order for him to obtain the best prices for his logs as well as to promote good will in the community and local industrial circles.

Money spent in this classification is usually returned many-fold to the operator.

Just one general heading should be sufficient for this type of expense. However, if a new product, for instance, is going to be attempted to be sold or marketed it might be advisable to set up a separate account to keep check if profit on products sold would pay for the cost of developing a market -- this account might include advertising or the use of marketing associations to sell products.

Miscellaneous (G) is given as a title for this section for lack of a better name. It could be broken down into several different headings, but it is the writer's belief that the lumping of the various expenses under one head will simplify the bookkeeping job.

In the first part of the section could be placed all taxes withheld from the employee's wages and that must, in turn, be forwarded to either the State or Federal government. This page or pages

would include Social Security, Unemployment Taxes and Federal and State Income Taxes.

The second part should show the amounts of all taxes that are paid on the basis of total payroll that will come directly from the pocket of the employer. This will include Social Security, Unemployment Taxes and Workmen's Compensation.

Some of the accounts listed above could easily be carried in the checkbook; however, if they are removed to a separate account in the book, it will greatly facilitate the totaling of the amounts due and will give a very satisfactory check on amounts paid previously.

The third part should include all taxes and fees that are, in one sense, applicable to each job and yet are a standard rate and as such can be classed as an overhead or operating expense. In other words, they are costs that cannot be reduced and are applicable to all jobs on which the operator might work. However, the information as to amounts paid and so forth must be totaled from time to time and is much more easily obtained if kept under one head. These amounts will include yield and severance taxes as well as fire protection payments to both associations and county.

In the next section may be placed all insurance and business permits and fees in addition to the ones applicable to individual pieces of equipment or jobs. Whether these amounts are paid on payroll or products sold, they will be in a strictly overhead category.

Under this account heading may be included other studies as might be desired, such as comparisons of the costs of occasional overload fines for logging trucks against the loss of revenue by consistently too-light loading.

Although it should be possible, from this and previous headings, to answer intelligently all queries and applications that may be necessary, new laws and often certain types of operations call for excessive work to be done with certain sets of figures. This is best found out by the operator, and if the situation warrants the setting up of a separate account for the express use of one form or application, this is the section in which it should be added.

Care must be taken, however, that this is not overdone, and all cost determining values of the major part of the system are destroyed.

Additional Classifications

After the assignment of account numbers to all items that the operator feels necessary, it is possible to break down the accounts even further. This is done to take care of different shows or different species of timber logged, for instance. This designation is the one that will show the logger the costs of the various operations and give him comparable figures for estimating the cost of similar contemplated work.

In keeping accounts it is advisable to use separate sheets for each logging operation and as such will not need the third designation or figure. However, this third identifying figure is needed on all time-books and should be entered on all check stubs and bills and receipts that are received.

Examples of this third identifying figure and its value is the instance where number one (1) is assigned to all costs relative to work done in the first operation, the number two (2) to all of the second, and so on. These designations may be as broad or narrow as the logger wishes.

GENERAL USE OF SYSTEM

After the assignment of the account numbers to all the various phases of the operation, it then becomes necessary to use these numbers in the daily course of business and to think of all expenses in terms of the breakdowns wanted. The various identifying account numbers should be placed daily in the time book, and in writing the checks for wages the amount chargeable to each account should be noted on the check stub. This same rule applies to all purchases and other expenses connected with the operation in any way.

It is now time to set up the book in which to keep the various accounts. A many columned worksheet, contained within an ordinary three hole binder, is ideal. These worksheets may be obtained in any number of columns up to thirty with corresponding binders to fit. Special ones may be made up at the local job printer for a nominal fee. However, a six column sheet will probably serve the needs of the majority of the operators. Additional sheets may be used if necessary to obtain enough columns.

Upon the receipt of all bills, queries, agreements, letters, bank statements and any other papers relating to the business, it is advisable for the operator to have a place in which to put them, until such time as it is possible to enter the various amounts and information in the account book.

After entering the various amounts in their proper place, the paper should be checked off and the account number and date noted on the sheet. It should then be filed away in a folder bearing either

the account number alone or a more descriptive title followed by the identifying account number. It is surprising how fast a week's supply of correspondence and receipts will disappear if there is a proper place for each one.

At the time of entering these amounts to the accounts, it is necessary to also have the time book and check book at the desk. It is then possible to bring the books up to date.

Queries and forms to be filled out and sent to various persons and agencies can also be filled out at this time while figures are fresh in the mind, and they can be filed or mailed -- whichever is required.

There has been no attempt to set up a definite style or system of keeping this book or the records -- this is best made up to fit the individual. A "natural" system is by far the easiest to keep by one person, and since there will be no company auditor or others who must also work with the books, there is no reason for complicating things any more than necessary. The only person likely to look at the records is the income tax department, and time can be taken then to explain entries that are not clear.

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CONCLUSION

This system is not intended to be a solution to all cost problems but is merely a method of compiling charges and placing them in their applicable items of expense. Judgment, times, and local conditions must still be taken into consideration. However, these factors when used with a well kept record of previous costs will give accurate and valuable information, placing their owner in a decidedly advantageous position in reference to competitors.

Some operators contend that, regardless of costs, they do the best they know how and must continue logging in face of declining profits, until they go broke. That is a fallacy. If a man knows his costs and sees that it is impossible to reduce them any further, it is time for him to change his course if he cannot compete with others and still show a profit.

His first course in the event of competition reducing his margin is to sit tight until such time as he can obtain an operation that will show a profit. If this is impossible, as it often is, he should look for another outlet for his talent and equipment.

It is understood that the system set up in this paper will by no means fit all jobs and may fit very few but the ones from which it was compiled. However, it is hoped that through the presentation of the plan as it stands, an operator may pick up ideas and plans for an individual system of his own that will fit his operation. If nothing else is accomplished it is hoped a little of the mystery of cost accounting is dispelled for the average logger.

A cost system such as this, besides filling the everyday needs of the operator, will give him an opportunity to experiment on theories and ideas of his own. The chief value in any cost system lies in its ability to serve as a yardstick for improvements and advancements in the operation of a business. Knowledge of conditions that prompted the costs make it possible for the operator to experiment and yet keep a day to day check on comparable costs per unit and in this way give him courage to follow his plan through to the end.

The further costs are broken down, the more possibilities for improvement will show themselves and the more opportunity there will be to try new ideas without changing the entire plan of operation. It may be that one complete system of operation is as expensive as another, but a breakdown of costs may show that a combination of the two methods will result in a substantial overall saving.