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Selected Issues of Financial Accounting and Reporting for Timber

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by David A. Dietzler and Charles A. Neyhart, Jr.

INTRODUCTION

The available literature on accounting for the forest products industry, particularly in the area of *resource accounting,* is limited, and it is confined generally to matters of cost accounting and control. The lack of information about accounting for timber and timber-related issues can be explained in part by the fact that critical shifts in supply and demand relationships for timber are relatively new. Recent years have seen significant increases in the dollar amounts bid for the available timber supply from both public and private sources. As demand for timber has continued to increase relative to a static or even decreasing supply, accounting for the timber resource base has taken on an increased importance.

The purpose of this monograph is to evaluate several key issues of financial accounting and reporting for timber, reviewing present practice in these areas to determine whether there are inadequacies and recommending improvements where appropriate.

The issues we have selected to examine are: (1) timber cutting contracts, (2) the related matter of advance deposits on these contracts, and (3) timber depletion, i.e., the manner in which the cost of timber is allocated to production. These topics were suggested from a review of annual reports of forest products companies and from discussions with interested parties both within and outside the forest products industry.

The selection of topics and their evaluation in this monograph have been influenced by changes occurring in the financial accounting environment. These changes have indicated an increased emphasis on the needs of financial statement users, including their need for information necessary to assess the prospective risks and returns of their investments. Evidence of such changes can be seen in recent Congressional hearings, the continuing disclosure program instituted by the SEC, and the FASB's conceptual framework project.

The data base for our analysis was drawn from a review of the annual reports of a sample of companies in the forest products industry. Our purpose in using data from annual reports was principally to define present practice in the areas under evaluation. A list of sample companies is presented in the exhibit below.

COMPANIES IN THE SAMPLE

Alpine International Corporation
Bohemia, Inc.
Boise Cascade Corporation
Brooks-Scanlon, Inc.
Consolidated Papers, Inc.
Crown Zellerbach Corporation
Dant and Russell, Inc.
Diamond International Corporation
Federal Paperboard Company, Inc.
Fibreboard Corporation
Georgia-Pacific Corporation
Great Northern Nekoosa Corporation
Edward Hines Lumber Co.
Hoerner Waldorf Corporation
International Paper Company
Louisiana-Pacific Corporation
The Mead Corporation
Medford Corporation
Olinkraft, Inc.
Pope and Talbot, Inc.
Potlatch Corporation
St. Regis Paper Company
Scott Paper Company
Southwest Forest Industries, Inc.
Union Camp Corporation
Weyerhaeuser Company
Williamette Industries, Inc.

COMMITMENTS UNDER TIMBER CUTTING CONTRACTS

As a major alternative to the outright ownership of timber and related timberland, forest products companies secure rights to timber by entering into formal cutting contract agreements with public or private suppliers. A cutting contract is defined, for the purpose of this discussion, as a contractual agreement giving a company the right to cut specific timber at a designated price (with or without escalation adjustments), within a specified time period. The term cutting contract is interpreted broadly herein to mean a commitment characterized by varying financing arrangements, and by various risks, legal, and ownership features. The ensuing analysis deals primarily with evaluating cutting contracts as a form of commitment. The major purpose of the analysis is to set forth procedures that will result in sound financial accounting and reporting for these contracts.

Evaluation of Present Practice

The subject of commitment accounting is an important, although unresolved, issue in financial accounting. Failure to establish consistent accounting standards in this area is explained in part by the absence of clear-cut criteria for distinguishing substantive differences among the various types of commitments. Commitments arising from cutting contracts can be classified as (1) commitments that have been formally admitted to the accounts as liabilities in accordance with conventional recognition criteria (with the related timber capitalized as timber owned), and (2) commitments of an executory nature for which evaluations must be made in order to judge whether they should be recognized in the accounts or otherwise disclosed in another form in the financial statements.

The initial accounting for the first type of commitment, which is based principally on the strict legal test of passage of title, is rather well established and will not be evaluated here. Rather, attention will be directed to the analysis of the second type of commitment, since these commitments appear to engender more questions about their treatment in the financial statements.

Exchanges in which reciprocal promises represent the form of consideration have posed critical problems in financial accounting and reporting. As a class, transactions in which the only flows of consideration on the date of the transaction consist of exchanges of promises have been referred to loosely as *executory contracts* in the accounting literature. Executory contracts, for example, include forms of long-term noncancellable leases, employment contracts, purchase and sales commitments, and certain stock option and pension plans. Logically, timber commitments of the second type identified above should be included within this heading. Accounting for the various forms of executory contracts has been considered in isolation; inconsistency has thereby resulted. Because the substance of the overall subject matter of accounting for executory contracts remains relatively obscure, it has not been demonstrated unequivocally in the authoritative accounting literature that all of the various forms can and should be accommodated by a unified theoretical structure.

Hendricksen[1] has cogently summarized the conventional accounting framework against which executory contracts, including certain cutting contracts, are currently evaluated:

> The traditional position regarding executory contracts and other agreements, both sides of which are equally unperformed, is that neither the liability nor the asset should be recorded . . . One of the main reasons for this treatment is that there is no effect on income until the services are received, and there is no effect on ownership equities because the rights under the contract are exactly offset by the obligations. But it is also thought that the rights under the contract do not represent assets in their usual definition and that the obligations do not represent normal liabilities. Also it is thought that there is an unconditional right of offset; if one party does not provide the goods or services, the other party does not have the obligation to make payment. And in case of default, the rights are generally limited to the damages sustained by the party not in default.

An exception to the above practice is made when the price of the commitment or its cost exceeds the value of the goods to be acquired. Chapter 4 of *Accounting Research Bulletin No. 43*[2] requires that material accrued losses on firm purchase commitments be recognized in the accounts and separately disclosed in the income statement.

Paragraph 181 of *Accounting Principles Board Statement No. 4*[3] highlights the present inconsistencies in accounting for executory contracts:

[1] Eldon S. Hendriksen, *Accounting Theory,* rev. ed. (Irwin, 1970), p. 477.

[2] American Institute of Certified Public Accountants, Committee on Accounting Procedure, "Restatement and Revision of Accounting Research Bulletins," *Accounting Research Bulletin No. 43* (1953), Chapter 4, par. 17.

[3] American Institute of Certified Public Accountants, Accounting Principles Board, "Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises," *Accounting Principles Board Statement No. 4* (1970), par. 181.

> S-1E. *Commitments.* Agreements for the exchange of resources in the future that at present are unfulfilled commitments on both sides are not recorded until one of the parties at least partially fulfills its commitment, *except that* (1) *some leases and* (2) *losses on firm commitments are recorded.*
> *Discussion.* An exception to the general rule for recording exchanges is made for most executory contracts. *An exchange of promises between the contracting parties is an exchange of something of value, but the usual view in accounting is that the promises are offsetting and nothing need be recorded until one or both parties at least partially perform(s) under the contract.* The effects of some executory contracts, however, are recorded, for example, long-term leases that are recorded as assets by the lessee with a corresponding liability . . . (Emphasis added.)

This excerpt leaves little doubt that accounting procedures for executory contracts differ from those employed to account for exchange transactions in general. For timber cutting contracts, the acquisition of property rights and the promise, on the part of the buyer, to transfer something of value in the future represent the reciprocal flows of consideration. The fact that an ownership equity in the property may not be transferred to the buyer is a matter of form; what is most important is the underlying fact that property rights are exchanged. That is, the property rights represent the substance of the exchange. Irving Fisher[4] has clarified the notion of property rights as follows:

> A property right is the right to the *chance* of obtaining some or all of the *future services* of one or more articles of wealth . . . The *services* of an instrument of wealth are the desirable changes effected (or undesirable changes prevented) by means of that instrument.

It can be concluded that the services of wealth are secured by property rights. In the absence of an outright purchase, the latter can be exchanged only through the mechanism of promises. An exchange of promises that results in the transfer of property rights to future services of wealth (and therefore results in assets and liabilities) is as relevant to financial accounting as the exchange of other forms of consideration.

Failure to record executory contracts appropriately results in a violation of the ban on the offsetting of assets and liabilities in the balance sheet. This ban should not be violated whenever the separate disclosure of assets and liabilities may both facilitate accountability and prove meaningful to users of financial statements.

Moreover, the analysis of present practice reveals an existing reliance on such matters as: (1) the cash basis of accounting, (2) partial performance, (3) the legal form of the transaction, and (4) ownership features, in the initial accounting for timber cutting contracts.

These facts suggest the need to contemplate alternative means for systematically treating executory contracts, including cutting contracts, in the financial statements. One proposal that has received attention is to capitalize executory contracts by extending the recognition criteria (i.e., criteria for admitting data to the accounts) to encompass the recording of these contracts in situations where reasonable assurance exists that the reciprocal terms of the contract will be fulfilled. The major significance of this policy is that it places the exchange of promises into perspective by formally acknowledging that this form of consideration is equivalent to other forms that are currently recognized in financial accounting.

This is not to say, however, that all exchanges of promises should be recorded in the accounts. Careful evaluations need to be undertaken to form judgments for determining when assets and liabilities do in fact result from the commitment. This is true primarily because of the different risks that characterize particular entities and because of variations in the individual character of specific contracts.

If all cutting contracts were capitalized, the following improvements presumably could be expected: (1) enhancement of the quality of financial information generated to disclose the operating performance, financing activities, and financial position of an entity; (2) elimination of the criticism of the financial accounting practice that is described as "off-balance sheet financing," and improvement of the completeness of information about other financial indicators such as profitability and coverage ratios; and (3) provision of data that would clarify management's accountability for their actions and the consequences of those actions.

However, despite the conceptual merits of capitalization, it is unlikely that this approach as applied to timber cutting contracts would serve as a suitable substitute for present practice. We base this conclusion on the following observations:

First, qualitative criteria for forming judgments as to reasonable assurance that the reciprocal terms of the contract will be fulfilled are likely to be subjective and thus open to varying interpreta-

[4] Irving Fisher, *The Nature of Capital and Income* (MacMillin Co., 1906), pp. 19, 22.

tion and application; attempts to formulate uniform quantitative criteria must, due to the nature of the particular decision problem, be arbitrary and expedient. *Second,* the future service potentials or prospective benefits of timber rights arising from cutting contracts are usually characterized by contingencies that suggest uncertainties of such magnitude as to preclude recognition in the accounts. *Third,* cutting contracts typically grant to the purchaser the option of cancelling the contract and incurring only nominal penalties. Such provisions may raise sufficient doubts that the purchaser's financial commitment to the seller, as originally constituted, will ultimately be fulfilled. *Fourth,* the conventional treatment of not capitalizing certain cutting contracts is strongly ingrained in present practice.

Therefore, in recognition of the probable immutability of current accounting practices within the industry, we suggest that forest products companies can nonetheless realize some, if not all, of the improvements associated with capitalization by making several footnote disclosures in the financial statements.

A Recommended Framework for Evaluating Cutting Contracts

We recommend the following footnote disclosures be made in the financial statements:

(1) A description of the cutting contracts, including:
   a. Financing arrangements (price structure).
   b. Ownership features.

(2) Total absolute dollar amount of commitments under contract at the most recent balance sheet date (with a comment as to the existence of future contractual price adjustments, if present).

(3) Duration (relevant time frame) of contracts.

(4) Applicable accounting policies, including an evaluation of the net realizable value of the timber.

A sample footnote, incorporating the proposed disclosure points, is presented below:

Commitments Under Cutting Contracts

The Company has commitments to purchase timber under cutting contracts with public and private suppliers that extend through 1983. The contracts are based on a fixed or variable price per thousand board feet cut, which requires the Company to cut and remove all merchantable timber on the specified tract and to pay for it at the contract rate as cut. Based on the estimated prices applicable at December 31, 1978, the total commitment amounts to $34,000,000. The outstanding cutting contracts are considered purchase commitments and, thus, do not appear in the financial statements until the subject timber is cut. In the opinion of management, the purchase price of timber under contract does not exceed its net realizable value.

When we imposed these disclosure points against the 27 companies in our sample, we found a number of differences with respect to both the amount and quality of information presented. Of the 15 companies that presented information on cutting contracts:

- No companies disclosed all of the recommended items.
- Two companies disclosed (1), (2), and (3).
- One company disclosed (1), (3), and (4).
- Three companies disclosed (1), (2), and (4).
- Three companies disclosed (1) and (4).
- Four companies disclosed only the existence of cutting contracts.
- Two companies disclosed certain elements of cutting contract arrangements in the unaudited portion of the annual report, but omitted any mention of these items in the financial statements.

We believe that the minimum disclosure recommended above will reveal the economic and financial impact of cutting contracts on the status and operations of the entity and will provide a sound basis with which to evaluate commitments under cutting contracts.

DEPOSITS ON CUTTING CONTRACTS

Timber cutting contract agreements normally contain provisions that require the buyer to make advance deposits to the seller. These deposits are often in the form of cash, but they can also take the form of negotiable securities, savings account assignments, or bond instruments. The principal accounting issue with respect to these deposits is their proper classification in the balance sheet. There is little question that advance deposits are an asset that should be admitted to the accounts in accordance with conventional recognition criteria. However, a question exists as to whether these deposits aare current, noncurrent, or possess elements of both.

Our review of present practice indicates that deposits are classified in different ways in the balance sheet. A majority of companies classifie them as a current asset, disclosing them in a separate line in the balance sheet or in an accompanying footnote. A number of companies classified deposits as a separate long-term line item or as a part of timber and timberland (noncurrent asset). Our review revealed that no company split deposits into both current and noncurrent portions. Thus it appears that companies classify the entire amount of deposits as either current or noncurrent.

The differences in classification aas noted above pose no problem insofar as they are warranted by differences in factual circumstances. According to *Accounting Research Bulletin No. 43,* current assets are defined as "cash and other assets or resources commonly identified as those which are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business."[5] Noncurrent assets, by definition, are assets other than current ones. The distinction between current and noncurrent is presumed to provide useful information for credit and management decision purposes.

In attempting to classify deposits on cutting contracts, care must be exercised in distinguishing the substantive differences among the various types of deposits required under contract. Two basic forms of deposits can be identified: (1) advance payment deposits that are applied against the cost of timber as it is cut, and (2) deposits made to ensure that the buyer's performance is in conformity with the terms of the contract. Deposits of the latter type are normally outstanding for the duration of the contract period, and their initial classification as noncurrent is appropriate.

The first type of deposit, however, presents a problem of interpretation. Although these deposits are applied against the cost of timber cut for short periods of time (e.g., 30-60 days, one billing cycle), they are usually required to be fully renewed and applied against subsequent timber cuts. Because of this renewal feature, deposits of this type may be viewed as being outstanding for the entire period of the contract. Under this view, these deposits should initially be classified as noncurrent. On the other hand, deposits of this type can be considered equivalent to other prepayments that are normally afforded current asset status, because if they had not been made in advance, they would require the use of current assets during the operating cycle of the business. This interpretation appears to reflect more accurately the substantive attributes of these deposits. Consequently, it is recommended that these advance payment deposits be classified as current assets.

The practice of classifying deposits as entirely current or noncurrent, when in fact they possess elements of both as discussed above, can be justified only on the basis of expediency. That is, materiality considerations may warrant selection of an accounting treatment for deposits that is made on the basis of what is most economical and convenient. While it is not the intent here to specify criteria for determining materiality in this area, a policy should be formulated and applied uniformly so that the financial and economic consequences associated with deposits, particularly indicators of liquidity, will not be obscured.

Based on the preceding analysis, deposits on cutting contracts should be classified in accordance with the following guidelines:

(1) Material deposits should be classified in accordance with the authoritative criteria cited earlier. The amounts of the current and noncurrent portions should be reported separately in the financial statements, with a description of the purpose and time frame relevant to each class.

(2) For deposits judged to be immaterial as a separate class, the entire amount of deposits may, for practical reasons, be classified according to that class which predominates. For example, if current deposits exceed the amount of noncurrent deposits and the noncurrent portion is immaterial, the entire amount of deposits may be aggregated into current assets and reported as a single amount. However, if the aggregation would cause material distortions, this policy should not be followed.

(3) For deposits judged to be immaterial in the aggregate, they should be treated in the accounts as expediency may suggest.

DEPLETION: COST OF HARVESTED TIMBER

The cost of company-owned (fee) timber and timber included in the financial statements as capitalized timber harvesting rights is periodically charged against income at rates determined in various ways. For purposes of this discussion, these charges will be referred to as timber depletion. Several forest products companies refer to depletion as defined herein as "cost of timber harvested" or "cost of fee timber harvested," whichever is appropriate in the particular case. The cost of timber harvested under cutting contracts that are not capitalized in the financial state-

[5] *Accounting Research Bulletin No. 43,* Chapter 3, par. 4.

ments is usually not segregated in the financial statements but is included in total cost of sales. The objective of this section of the monograph is to review and comment on current *financial reporting* of timber depletion.

Nature of Timber Depletion

The purpose of charging depletion against income is to allocate the cost of timber in a systematic and rational manner as the timber is harvested. While determination of periodic depletion would appear to be a simple mathematical calculation, resulting depletion rates vary in practice depending upon the specific method used. The focus of this discussion is on the total charge against income that results when timber, which is subject to depletion, is cut.

In order to gain a better understanding of how the total depletion charge is determined, it is necessary to review the determination of depletion rates. In practice, several methods of computing depletion rates exist, including the following:

(1) A single weighted average composite rate for all timber tracts owned or capitalized.

(2) Separate composite rates for specific tracts of timber. These tracts may be distinguished by:

—Geographic location, such as regional tracts, operating location tracts, tracts held by subsidiary companies, etc.

—Acquisition cost, such as by major specific acquisition, or grouping by year(s) purchased based on the cost of the particular tract(s) purchased.

(3) Either of the methods described in (1) and (2) above modified by determining rates for the predominant and/or most valuable species.

(4) Other methods not described herein.

The calculation of individual rates under the various methods is usually made by dividing the unrecovered costs of the tract (reduced by the cost of land) by the estimated recoverable volume of timber from the tract. Some companies modify the calculation by dividing the unrecovered costs by the total fiber estimated to be available during the estimated growth cycle. Companies that employ this method and do not expense carrying costs (e.g., fire protection, property taxes, insect control, etc.) as incurred would also include in the numerator the estimated capitalizable costs expected to be incurred during the growth cycle.

Most companies adjust the depletion rate annually or every few years for such things as additional purchases or sales, casualty losses, or the results of a timber cruise which may indicate a variation in the quantity of timber due to changes in the growth rate, rot, insect infestation, or other events.

Disclosure of depletion in the financial statements of most major forest products companies currently consists of:

(1) Total cost of owned timber harvested, which can usually be found in the statement of changes, the income statement, or in a footnote.

(2) A brief statement of how depletion is determined, which for most companies is disclosed in the accounting policies section of the financial statements and is a variation of the following: Cost of timber harvested is computed based on the estimated volume of recoverable timber and the related unamortized costs.

Some companies disclose additional information on the details of the depletion basis, such as was done in this accounting policy disclosure made by Diamond International Corporation:

"Depletion of timber is computed based upon total estimated footages, at average unit rates by area and species:"

Evaluation of Current Practice

Current disclosure of depletion generally does not provide the financial statement reader with an in-depth picture of the following depletion-related factors:

(1) The fact that several depletion rates may be used, such as composite, designated tract, species, etc.

(2) Variation in the average depletion rate from one year to another and the average cost of all timber subject to depletion. The variation in the average rate from year to year is usually a function of decisions made by management as to which timber will be cut. Such decisions can be influenced by market conditions and do affect net income.

(3) The dollar or percentage relationship between the amount of company-owned or capitalized timber cut compared with timber cut under cutting contracts. This relationship may have a significant impact on net income, and failure to disclose the extent of the relationship could omit useful information about the company's ability to maintain levels of profitability in periods of changing market conditions..

The question posed here is, What if anything would be gained by providing additional information in the financial statements on the matters listed above? Further, would such information be consistent with the current accounting literature? The following excerpt from an exposure draft of a proposed FASB Statement of Financial Accounting Concepts[6] provides some overall guidance in specifying criteria against which existing depletion disclosure can be evaluated:

> Financial reporting should provide information that is useful to present and potential investors and creditors in making rational investment and credit decisions. The information should be comprehensible to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence.

Many argue against increased disclosures of any kind on the basis that not many readers understand the information or take the time to study it. A key point in the reference cited above is that financial reporting should provide information that can be used by all who know or are willing to learn about basic business activities and concepts and who are willing to study the information with reasonable diligence.

In the exposure draft cited above, the FASB reaffirmed the primacy of a company's earnings performance in judging the risks and returns associated with a particular investment decision. The earnings performance of a company, in this case, is an abstraction of the company's periodic net income and its trend of earnings over time. Moreover, the exposure draft makes it clear that financial statements cannot separate the performance of management in using and maintaining or increasing resources from the performance of the company in general. Thus, one of the outputs of financial statements is the evaluation of the effectiveness of management in fulfilling its stewardship responsibilities.

A third point against which to evaluate existing depletion disclosure practices is their effect on the comparability of financial statements. The conditions for comparability have been described in APB *Statement No. 4*[7] as follows:

> Comparability means the ability to bring together for the purpose of noting points of likeness and difference. Comparability of financial information generally depends on like events being accounted for in the same manner. Comparable financial accounting information facilitates conclusions concerning relative financial strengths and weaknesses and relative success, both between periods for a single enterprise and between two or more enterprises . . . ideally, differences between enterprises' financial statements should arise from basic differences in the enterprises themselves or from the nature of their transactions and not merely from differences in financial accounting practices and procedures.

As noted previously, several methods of determining depletion rates are being used by companies within the industry. In addition, the depletion charges can vary between periods within a company for reasons involving such factors as the quantity of owned timber cut compared with timber cut under cutting contracts, the quantity of timber cut from various designated tracts, and the quantity of a particular species cut from one period to another. Comparability between companies and between periods within a company can be significantly affected by management decisions with respect to the utilization of its timber resources, through decisions to cut from particular tracts or particular species, or through the option of cutting timber under cutting rights rather than owned timber.

This, then, is clearly an area where management has the opportunity to affect profitability through its ability to select from the various options. Management's proficiency in selecting from these options over time does affect periodic net income and consequently the earnings trend of a company over time. Thus, it seems reasonable to propose disclosure that would enable statement users to evaluate the impact on earnings as a result of variances in timber cost from one period to another.

A Proposed Disclosure Framework

The ensuing proposals call for more disclosure than is currently found in practice, on the premise that increased disclosure would meet the objectives set forth earlier in the discussion. In summary, these objectives are:

(1) To provide information useful in evaluating a company's earning activities—more specifiically, periodic earnings and earnings trends.

(2) To provide information with which to evaluate management's effectiveness in fulfilling its responsibilities.

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[6] Financial Accounting Standards Board, "Objectives of Financial Reporting and Elements of Financial Statements of Business Enterprises," *Proposed Statements of Financial Accounting Concepts* (1977), par. 23.

[7] *Accounting Principles Board Statement No. 4,* pars. 95, 1.

(3) To promote comparability between companies and between periods for an individual company.

In light of the various methods available for determining depletion rates, disclosure should include whether or not multiple depletion rates are used and the general bases for determining depletion rates such as geographic, specific tracts, species, etc. However, while this would tend to increase comparability between the financial statements of different companies, it would not meet the objective of evaluating the impact on earning trends resulting from the use of different rates over several periods.

Therefore, it is further suggested that the financial statements disclose the average depletion rate for the period, including a brief explanation of how it is calculated. The rate would be calculated by dividing total depletion expense for the period by the quantity of timber cut during that period. This disclosure would serve to provide the reader with more insight into the meaning of the information denoting the use of multiple depletion rates, and it should provide additional insights regarding the trend of earnings for comparative periods.

In order to facilitate a better understanding of the impact on earnings of selective harvesting from various tracts of owned timber and the option of cutting timber under cutting contracts, companies should consider disclosing depletion charges resulting from each activity. This disclosure would provide information useful for evaluating management's employment of available timber resources and for providing comparable information over successive periods. Similar user benefits would result from disclosing the percentage of owned timber cut during the reporting period in addition to the percentage of timber cut under cutting contracts.

If management believed that improper inferences about future operating costs might be drawn from the proposed disclosures, additional explanatory comments might be necessary in the financial statements to provide interpretation of the disclosures.

Sample footnotes, incorporating the recommended disclosure points, are presented below:

Cost of Timber Harvested [presented in the accounting policies section]

Depletion of owned timber is provided at rates determined annually by dividing unrecovered costs by the estimated recoverable volume of timber. Several rates are used, as the Company accounts for unrecovered costs by individual tract and significant species within each tract by operating location. In addition, the Company purchases timber under cutting contracts from public and private suppliers which are accounted for as purchase commitments. The cost of timber harvested under cutting contracts is charged to depletion as the subject timber is cut. Because of the wide variances in the cost of timber from these various owned tracts and species, and the varying cost of timber acquired under cutting contracts, the resulting cost of timber harvested can vary significantly depending on which owned tract and species or cutting contracts are harvested.

Cost of Timber Harvested [presented in addition to the accounting policy footnote]

The percentage quantity in board feet and the cost of timber harvested for 1978 and 1977 were as follows:

	1978		1977	
	Quantity	Cost	Quantity	Cost
Fee timber	XX%	$XXXX	XX%	$XXXX
Other capitalized timber	XX%	$XXXX	XX%	$XXXX
Noncapitalized cutting contracts	XX%	$XXXX	XX%	$XXXX
Total	100%	$XXXX	100%	$XXXX
Average depletion rate	$XXX		$XXX	

The quantity of timber harvested from the different sources available to the Company are expressed as a percentage of the total board feet of timber harvested during the period. The average depletion rate shown above is presented for analytical purposes only and was determined by dividing the total cost of timber harvested by the related quantity of timber harvested.

As there are many different methods of determining board feet (e.g., Doyle, Scribner) it may be appropriate to add additional comments on the method used.

Monographs published to date:

"The Rush to LIFO: Is it Always Good for Wood Products Firms?" issued in December 1974 and published in condensed form in the April 1975 issue of *Forest Industries*.

(This monograph was revised and reissued in January 1976.)
"Accounting and Financial Management in the Forest Products Industries: A Guide to the Published Literature," issued in June 1975.

(A supplement to this monograph was issued in March 1977.)
"A Decision Framework for Trading Lumber Futures," issued in October 1975.
"Capital Gains Tax Treatment in the Forest Products Industries," issued June 1976.

"Measurement Difficulties in the Log Conversion Process," issued June 1977.

"Capital Budgeting Practices in the Forest Products Industry," issued March 1978.

"A Reporting and Control System for Wood Products Futures Trading Activities," issued July 1978.

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