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# Lumber Freight

BY EDMUND M. MEYER

There is no uniform method employed in the lumber industry for recording "sales freight" and "milling-in-transit freight." Both of these items are of considerable importance and should receive careful attention and consideration in the accounts and balance-sheet.

## MILLING-IN-TRANSIT FREIGHT

Many classes of industry enjoy "transit" privileges from the railroads. These privileges permit the shipper to mill, clean or perform some work on the rough product while en route to final destination of the finished product. Freight on the finished product is based upon the through rate from source of origin of rough product to destination of finished product; plus an arbitrary charge for the "stop-over" privilege.

Transit privileges are granted on lumber, grain, minerals, cotton, petroleum, sugar, cotton-seed products and a number of other commodities. This discussion of milling-in-transit freight will be restricted to the lumber industry. The same principles apply to all industries enjoying transit privileges.

In order to simplify this discussion, let us assume the following three points on a railroad:

- A Source of origin of logs.
- B Sawmill.
- C Destination of lumber.

At the time the company ships its logs from A to B for milling into lumber, it is required to pay the regular published tariff rates on the logs. When the lumber is shipped from B to C the through freight on the lumber from A to C is paid, plus in most instances an arbitrary charge for the stop-over at the mill. The shipper receives credit or refund for the proportionate part of the freight paid from A to B. As the weight of the logs exceeds the weight of the lumber produced, the shipper receives credit only for the tonnage of lumber shipped at the rate paid on the logs from A to B.

Different roads have different methods of handling the billing of freight on the shipment of the lumber; but the principle is the same, i. e., the company pays freight on the shipment of lumber

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only from A to C, plus in most cases a stop-over charge of approximately \$5.00 a car.

Assume that a car of logs weighing 50,000 pounds was shipped from A to B and the rate 20 cents per hundred pounds; total freight \$100.00. The company has to allow for shrinkage in weight due to sawing and drying and is only able to apply, say, 45,000 pounds of the transit freight against the shipment of lumber. Let the rate from A to C on lumber be 45 cents. The amount of freight paid by the company would be:

On logs .....		\$100.00
On lumber:		
45,000 lbs. at 45 cents.....		\$202.50
Less transit credit:		
45,000 lbs. at 20 cents .....	90.00	112.50
Total .....		\$212.50

The shipper is required to present the in-bound-freight bill to the railroad in order to receive credit for the amount paid on the logs. If the entire weight shown on the freight bill is not used, the shipper receives a credit slip, which can be applied to future shipments. Some railroads give credit for the in-bound freight on the out-bound-freight bill, others require that claims for refund be filed.

Now the question arises as to how milling-in-transit freight should be handled in the accounts. The usual practice is to charge milling-in-transit freight and credit cash or accounts payable when the freight is paid on the logs. When a refund is received from the railroad, cash is charged and milling-in-transit freight is credited. If credit is received on a freight bill for lumber shipped, milling-in-transit freight is credited and freight is debited. The total debit balance of freight account is applied as a deduction from sales. In neither of these methods is the cost of production charged with any freight for transporting the logs from the camp A to the sawmill B.

It is a well established accounting principle that in-bound freight is part of the cost of production. Roy B. Kester very neatly expresses this point in his *Accounting Theory and Practice*, vol. II, p. 230:

\* \* \* All costs, therefore, up to the point where the goods are ready to create income are proper charges against stock in trade. Customary costs of this kind are freight, drayage \* \* \*

If teams, flumes, chutes, river floating or lake towage were used as a means of transporting the logs, no one would deny the propriety of including the transportation charges as part of the cost of manufacturing the lumber. If this is true, why should the status of the transportation charge be changed when the logs are shipped over the railroad?

The proper method of recording the amount of freight paid would be to charge in-bound freight (part of the cost of production) with the amount of freight paid for transporting the logs to the mill; and the net amount of the freight paid on the lumber shipped to sales freight. This can more readily be understood by showing the journal entries necessary to record the example previously given.

When the logs are shipped to the sawmill, the required entries for recording the freight paid are:

(Dr) Milling-in-transit freight ..	\$100.00	X
(Cr) Cash .....		\$100.00
(Dr) In-bound freight .....	\$100.00	Y
(Cr) Deferred freight credits		\$100.00 Z

- X An asset
- Y Part of production cost
- Z Deferred credit to future operations

If the company receives a refund for the proportionate part of the freight paid on the logs at the time the lumber is shipped, the following entries are required:

(Dr) Sales freight .....	\$202.50	
(Cr) Cash .....		\$202.50

To record the amount of freight paid on the lumber shipped.

(Dr) Cash .....	\$ 90.00	
(Cr) Milling-in-transit freight		\$ 90.00

To record refund.

(Dr) Deferred freight credits .....	\$100.00	
(Cr) Milling-in-transit freight		\$ 10.00
Sales freight .....		90.00

To adjust the above accounts.

If the company received credit for milling-in-transit freight on the freight bills of lumber shipments, the last two journal entries shown above would not be required, but the following one would.

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(Dr) Deferred freight credits . . . . .	\$100.00
(Cr) Milling-in-transit freight	\$100.00
To adjust transit credits used.	

The company would have paid only \$112.50 freight on the lumber, instead of \$202.50, where claims for refund must be filed.

Milling-in-transit freight may be considered an asset, because it is subject to refund or to being applied as a deduction against future liabilities. Deferred freight credits is a deferred credit to future operations, for it acts as a reduction of the amount of sales freight, to be paid when the lumber is shipped.

Unless a reserve is provided in amount equal to the milling-in-transit freight, future operations will unjustly be charged with the in-bound freight on logs, when the lumber is sold locally. In case the amount of milling-in-transit freight is large and differs in amount at the close of each year, a true statement of income cannot be obtained; and the amount of income taxes paid will be either excessive or insufficient.

The argument may be presented that milling-in-transit freight is an asset and should so be shown in the books without setting up a reserve of an equal amount. It may or may not be an asset—at best it is only a contingent asset, for if the lumber is sold locally or f. o. b. mill no refund will be received.

### SALES FREIGHT

The majority of lumber sold by a manufacturer is invoiced freight allowed or f. o. b. destination. This freight represents a large portion of the total invoice price and requires special attention and expression in the accounts.

When the invoice is rendered freight allowed, the amount of freight is estimated by the seller and should be shown on the invoice. The purchaser, however, deducts the actual amount of freight paid. There will often be differences between the amount of estimated freight shown on the invoice and the amount deducted by the purchaser, due to errors or shrinkage in the weight. The method of handling these adjustments will be taken up later.

When lumber is sold f. o. b. destination, the amount of freight is paid by the seller, and the purchaser pays the total amount of the invoice without deducting freight.

After an invoice is prepared, it is entered in a sales journal or register (form 1); and the total amounts of the invoice, estimated freight and lumber sales are entered in the appropriate columns.

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At the end of the month the following entry is made:

(Dr) Accounts receivable .....	\$5,120.52	
(Cr) Estimated freight ..		\$2,076.71
Lumber sales .....		3,043.81

When the seller receives the freight bill from the purchaser it is entered in the freight journal (form 2), which acts as the posting medium for crediting the customer's account. The amount of estimated freight as shown in the sales journal is entered in the estimated freight column, and any adjustments are entered in the adjustment column. At the end of the month, the following entry is made:

(Dr) Estimated freight .....	\$1,295.67	
Freight adjustments .....	11.42	
(Cr) Accounts receivable		\$1,287.09

The actual freight is entered in the sales journal opposite each individual car. The total of the open items of estimated freight must equal the balance in the estimated freight account in the general ledger.

In offices that have an experienced traffic clerk, who estimates the freight from the tariffs published by the railroads, the amount of freight adjustments during the year would be comparatively small.

There will always be a number of freight bills outstanding at the end of the accounting year. It is true that any adjustments between these freight bills and the amount of estimated freight affect the net income of the previous year. However, they will be comparatively small in amount and the usual practice is to include them with the adjustments for the year in which the freight bills are received.

There seems to be considerable difference of opinion as to how the balance of estimated freight should be shown in the balance-sheet. Many accountants show the accounts receivable gross and the estimated freight as a liability. This method is wrong. To whom does the company owe the freight? No one. Neither will the company receive the total amount charged to accounts receivable. The proper method of showing the estimated freight in the balance-sheet is:

Accounts receivable .....	xxxxx	
Less estimated freight .....	xxxxx	xxxxx

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SALES JOURNAL

MONTH OF 192

Day	Customer	Destination	Order No. Our	Order No. Their	Car No. Init.	Car No. Number	Total invoice	Freight		Credits		Lumber Sales Feet	Lumber Sales Amount
								Estimated	Actual	Estimated	Actual		
1	A. B. Lumber Co.	Milwaukee	1421	....	Wab.	66858	\$ 891.85	\$ 367.60	\$367.60	17,887	\$ 524.25		
1	Pine Lumber Co.	Hamilton, O.	1422	....	I. C.	48231	1,191.84	506.07	518.19	24,313	685.77		
2	John Smith	Chicago	1428	....	L&N.	9284	981.68	392.16	.....	20,685	589.52		
5	W. Black & Co.	St. Paul	1424	....	A.T.&S.F.	34043	963.70	408.88	.....	19,274	554.82		
7	Wilson Bros.	Detroit	1417	....	N.Y.C.	1921	1,091.45	402.00	401.30	20,212	689.45		
							\$5,120.52	\$2,076.71		102,321	\$3,043.81		

FREIGHT JOURNAL

Day	Customer	Order Number	Car No.	Freight		Freight Adjustments		Freight Claims		Disposition Paid	Rejected Date
				Actual Cr. A/R v	Estimated Dr.	Cr.	Dr.	Filing Data R.R.	Memo. Amount		
19	A. B. Lbr. Co.	1421	Wab. 66858	\$367.60	.....	.....	.....	.....	.....	.....	.....
22	Pine Lbr. Co.	1422	I.C. 48231	518.19	506.07	12.12	.....	.....	.....	.....	.....
22	Wilson Bros.	1417	N.Y.C. 1921	401.30	402.00	.....	.70	.....	.....	.....	.....
				\$1,287.09	\$1,275.67	12.12	.70				