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Need of Uniform Accounting in the Lumber Industry*

By JOHN G. McINTOSH, C.P.A.

The lumber industry, perhaps, more than any other, needs uniform accounting. One much-to-be-desired result of it would be preparedness to present trustworthy representative statements of costs and realization to various governmental agencies when needed.

Contact between the industry and the government is becoming more and more intimate as time passes. The interstate commerce commission determines what the freight shall be. The vital relation of this governmental function to the lumber business is shown in the fact that the freight from the Pacific-Northwest on probably two-thirds of the lumber exceeds the price received by the mills. Conditions of competition between the different lumber producing sections of the country are such that an increased freight rate from one section narrows that section's market for lumber and reduces the net price for what is sold. Considering the small margin of profit, in those occasional years when there is a profit in manufacturing lumber, it is easily understood that when the railroads ask the interstate commerce commission for an increase in the freight rates the lumbermen are of necessity compelled to go to Washington and combat the proposed advance.

Congress through its committees fixes the duty on lumber and shingles coming from Canada. In a few years, nearly every one hopes and believes, the tariff will be administered by a non-political commission that will make an impartial scientific study of each problem coming before it. In consequence, the lumber business as a whole will have to submit indisputable figures as to the cost and the price received in order to secure the consideration to which it is entitled. Individual statements made up under a miscellaneous lot of segregations are not likely to serve the purpose satisfactorily.

* An address delivered before the Washington Society of Certified Public Accountants at Seattle, 1916.

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The federal trade commission, in a helpful spirit, has been working along the constructive side of the industry in connection with and supplementing a former investigation. At the request of the lumbermen the commission gave them hearings at Chicago, Tacoma and San Francisco last summer and at Washington, D. C., during the past winter. It is hoped that with the aid of the commission some way may be found to relieve the distressful condition of the business. Two suggestions of the lumbermen were that they be permitted to organize for the purpose of developing foreign markets and that they be permitted to coöperate in some plan whereby the volume of lumber produced could be gauged approximately by the volume absorbed by the current market.

Another governmental agency, the forest service in conjunction with the department of commerce, assisted the federal trade commission by supplying statistical and general information, the results of study which the service had made with the coöperation of the lumbermen. The statistical data included the original cost of timber, the cost of carrying it, the cost of logging, manufacturing and selling and the price realized for the product.

As another instance of the relations between the government and the lumber business it might be mentioned, by the way, that the forest service competes to some extent with the manufacturers. It controls large bodies of government-owned timber and from time to time sells parcels of it at prices and on terms that enable operators in that timber to undersell those who own their timber or who obtain their supply from private holdings. Lumbermen are asking that the government discontinue the sale of timber so far as it unfairly injures private enterprise.

You are quite familiar with the treasury department's interest in the lumber as well as in other kinds of business, and you have observed that the government comes to the mill office. In instances above cited the process is reversed and the industry has to go to the government and plead for such freight rates, import duties and other conditions as will permit the making of profit or even the avoidance of bankruptcy.

In these efforts to secure favorable conditions, so far as the government can assist in bringing them about, the industry will

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in all probability find it increasingly necessary to submit analytical exhibits of costs and realization. Prior to the federal trade commission's hearings statistics of this nature have generally been so unsystematic that it is doubtful whether they have on the whole been of much real service or not. Perhaps some of you will recall the testimony of a prominent lumber manufacturer at a freight rate hearing at Washington a few years ago as to a marvelous percentage of profit in his operation. That testimony undoubtedly sank deep and remained long in the minds of officials and the public generally, regardless of whether the figures were correct and if so whether they were not the result of conditions that had no relevancy to the matter under consideration.

Uniform accounting would enable lumbermen to prepare promptly and economically, whenever required in pleas to the government, composite statements that would be representative of the industry, and these would be supported by the identically analyzed constituent statements of individual producers and groups of producers.

There is pressing need of uniformity of accounting within the industry itself. There are many cost segregations in use—some excellent, some otherwise. There's the rub—there is too much diversity in lumber accounting. There are about as many methods of cost keeping and cost reporting as there are producers; individual conception or want of conception governs the accounting in a majority of the operations. Many a mill is spending considerable time and money on a system that provides a comparison of its own figures only, when with uniformity with the same or even less expense, it could multiply the benefit many times in comparing with composite figures of a group of similar operations and with identical statements of other individual operators.

It is rare to find even a small group of producers who can compare costs with each other intelligently. For example, one operator asserts that his manufacturing cost is \$4.00 and another acknowledges that his is \$5.00, while both are in error through the omission of part or all of such costs as depreciation, salaries, insurance and taxes. Another makes a favorable showing in comparing with a competitor by averaging the expenses on a

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mill tally of lumber that exceeds the actual production by 5 per cent. or 10 per cent. or even more. A manager felicitates himself on a labor cost of only \$1.00 in his sawmill against a neighbor's cost of \$1.25 until it is ascertained that with millwrights, power, cleaning up, etc., accounted for, the \$1.25 mill has really the cheaper operation. Another shows a small cost for yard maintenance until it is found that the labor and lumber used in repairing have not been charged. The same difficulty is found in comparing logging costs. More often than not the attempted comparison is not completed, i. e., the differences are not analyzed owing to the difficulty of recasting the cost statements.

Then there is the considerable class of operators who keep practically no cost accounts. Since guessing the cost nearly always means underestimating it, these operators furnish a large part of the cut-throat competition which is so damaging to the business and which finally turns the plant over to the bank. It is felt that the use of a uniform cost statement would be of especial benefit to these men and consequently to the entire industry.

Uniform accounting would not mean immediate adoption of identical forms and books nor that the smallest operator would keep as elaborate a segregation of expense as might be desired by the largest. It would simply require the use of certain general divisions of the total cost, each division embracing exactly the same factors of expense in the statements of every operator, and each division separable also into smaller elements as desired.

In the direct manufacturing cost, for instance, the minimum of cost-detail in a uniform statement might include as major items pond, sawmill, kilns, planers and yard, each divided into labor, supplies and maintenance, with power cost also indicated. If a mill desired more analysis, say, in the yard cost for example, it could show sorting, moving, piling, shipping, etc., and at the same time its total of these minor elements would be comparable with the single item of yard labor cost of the mills not caring for the more elaborate distribution.

The general expense could be treated in the same manner. The least detail to be shown in a uniform statement by any mill would be, say, salaries, sundry expense, casualty expense, fire insurance and taxes; but any statement could subdivide these

items and still retain comparison with the less detailed exhibits. Uniformity of cost accounting would necessarily include uniformity of the finer distributions for the mills wanting them. It would also cover lath and shingle mills, box factories and other subsidiary operations.

Simplicity should rule. It should be kept in mind that few managers and superintendents are familiar with technical accounting and that a majority of them are too busy with the productive side of the operation to give to intricate statements the close study necessary to a thorough understanding of them. It would be well to let elaboration develop by easy stages, following the success of the general plan, not forgetting, however, that the more analytical the statement the more valuable would be the comparison.

On stumpage and depreciation charges operators' views differ so widely and the differences are so often well justified in the variety of conditions that uniformity in treating these costs would be difficult to accomplish. But certainly much improvement on present practice of accounting for them could easily be effected.

Where the log supply is purchased instead of logged by the mill company, the cost of the logs delivered in the pond would probably be compared with the logging cost, with stumpage and freight added, of the concerns getting out their own supply.

Discussion of uniform lumber accounting runs almost entirely to cost accounting and seems to give little or no attention to the need of a uniform analytical comparison of realization for the product. While the necessity of cost accounting to measure efficiency of operation is generally recognized, the want of a trustworthy index of selling ability seems to be overlooked.

Inefficiency in selling the lumber may be as costly as inefficiency in producing it; uniform cost accounting should be supplemented by uniform sales accounting. It should be possible in comparing one mill's figures with another's to determine whether the weak one in manufacturing does not beat the other to, say, fifty cents to a dollar or more in selling, on identical analysis of the mill's entire output which would equalize variations in the quality of the timber.

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A great deal of study, expense and watchfulness may be required to reduce the cost of production twenty-five cents per thousand; while even a little laxity, unnoticed, in the selling end of the business may offset several times the saving.

The objection sometimes made that a change from present cost keeping to uniformity would make impossible the comparing of current costs with those of prior years would be reasonable in only a few instances. Not many mills retain the same cost segregation over a long period of years; even those that do so seldom make comparison with costs more than two or three years old; and, at any rate, if needed for special reasons, the cost statement could be made up on the old basis as well as on the new.

Comparability with the past is of little benefit compared with the advantages that would follow a systematic comparing of one's current costs with those of competitors. Uniform cost accounting would develop a lumber-cost language that would become familiar to managers, superintendents, stockholders, bankers and every one concerned, so that the exact significance of every feature of an operating statement of any mill or logger would be clear to all. A mutual exchange of accurate analytical statements among producers would stimulate rivalry in operation that would bring about surprising results in some cases. This sort of comparison—that is, of analyzed exhibits traceable into and proved by the profit and loss account—would have value that cannot be had in reports and statements that are detached from the general accounting system.