Standing Timber, Gravel Pits, Surface Leases, etc.
As Sources of Revenue

In some areas it is common for revenue to be received from sources such as sale of standing timber, gravel pits and surface leases. In some cases, the revenue comes from depletion of an asset, and in some cases not. This is likely the most important factor in determining how to report these sources of revenue in ABA.

In the case of standing timber, the sale of the commodity can involve: 1.) the sale of the timber which was an asset, likely at the time of the statement, and 2.) payment for the harvesting/processing/marketing of the commodity. If this is the case, you may want to show the value of the asset separately on the statement date as that asset, and then the portion that is going to be depleted as a sale in the projected period. The portion of the revenue that results from a production, or processing activity, could be shown as operating income in the projected period. Expenses associated with that production or processing activity could then be shown as an operating expense.

Something to consider with timber, is that there is the opportunity for regeneration in the projected period. In a managed woodlot, for example, even though timber is harvested and sold, there may actually be no depletion of the asset, in that timber sales in the projected period may be offset by growth in the balance of the woodlot.

In the case gravel pits, consideration of the gravel pit as a depleting asset is likely less of an issue, in that normally gravel pits have a longer life, and provide a more consistent cash flow. However, the same issues as with standing timber likely applies. The gravel pit may have value as an asset over and above the bare land, and sale of the gravel in the pit over time, may reduce the value of that asset. Gravel pits will not regenerate, so in this case, there would likely always be a depletion of the asset when gravel is sold.

Revenue from surface leases normally does not involve the depletion of an asset, so considering the lease as a separate component of value is likely less important.

When the components of the income stream for these types of revenue are considered, the financial analysis can be structured to better reflect what portions of the revenue are from the sale of a depleting asset and what portions are from a productive, or income generating activity. Having that distinction made and applied should result in an analysis that better shows what the components of value are at the start of the statement, what portions of the revenue are actually from productive activity versus the sale of an asset, and what the value of the assets should be at the end of the projected period.

If you don't have the information necessary to give you the numbers you will need to input into the analysis system at hand, you should be able to access them by contacting the right people.