

<b>Simplified Example of Allocation of Purchase Price Process</b>						
<b>Not for citation as an approved methodology</b>						
Total Purchase price =		\$274,750				
Allocate total costs into components based on market or other data						
These would include land, improvements such as roads, fencing, etc., and timber						
<b>Land</b>	Land Descrip.	No. of Acres	Cost/Ac.	Total \$/Allocated	Date Acq'd.	Date of Sale
Note: Land is non-depreciable. Cost is recovered upon sale of the property						
	Tbr. Land	100	\$ 300	\$ 30,000	1/2/2000	
	Brush	15	\$ 50	\$ 750		
	Meadow	10	\$ 100	\$ 1,000		
	<b>Total</b>	<b>125</b>	<b>\$ 254</b>	<b>\$ 31,750</b>		
Ex. 1	Sale of land and adjusted land basis					
	Sale of brush land 15 ac. on 1/2/2010					
	Adj. Basis for Land after sale					
	Tbr. Land	100	\$ 300	\$ 30,000		
	Meadow	10	\$ 100	\$ 1,000		
	Adj. Total Land Basis	110	\$ 282	\$ 31,000		
<b>Roads</b>	Road costs should be further divided into capital and depreciable sub accounts.					
	Note: Rd. construction is capitalized and becomes a subaccount of land, although it is not included as a subacct. in this example.					
	Road construction includes clearing, grubbing, rough and finished grading with culverts and road rock included in a depreciable subaccount.					
	Road	Miles	\$/mile	Total \$/Allocated		
	Capital Portion					
	Existing Rd.	1.5	\$ 12,000	\$ 18,000	1/2/2000	
	Depreciable Portion					
	Road Rock	0.5	\$ 30,000	\$ 15,000		
	Table of Culvert Dia. & Length			\$ 20,000		
	Subtotal Depr. Rd. Assets			\$ 35,000		
	Total Rd. Basis (Costs)			\$ 53,000		
Ex. 2	Depreciation and new Road Construction					
	Depreciation for 10 yrs using St. Line life = 15 yrs.				1/2/2010	
	Depr. For Culver & Rd. Rock			\$ (23,330)		
	Adj. Basis for Depreciable Rd assets			\$ 11,670		
	New Rd Construction with no new culverts or rd. rock					
		0.25	\$ 18,000	\$ 4,500	1/2/2010	
	Adj. Capital Rd Basis	1.75		\$ 22,500		
	Total Adj. Basis for Rds.			\$ 34,170	1/2/2010	

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<b>Timber</b>						
	Timber should be divided into several subaccounts: reproduction, premerchtable tbr., and merchantable timber					
	<b>Reproduction</b>	includes site preparation, seedlings, planting costs, tool costs, vexar etc., and post planting treatments prior to establishment.				
	<b>Premerchanatable timber</b> is not well defined but is usually trees bewteen 1" dbh and merchantable size of say 12"					
	<b>Merchantable timber</b> is commercially sized timber					
	<b>Reproduction</b>	No. of Acres	Cost/Ac.	Total \$/Allocated	Date Acq'd.	
		10	\$300	\$ 3,000	1/2/2000	
	<b>Premerch. Tbr.</b>	Assume 25% of 80 acres value will vary depending upon size and density				
		20	\$600	\$ 12,000	1/2/2000	
	<b>Merch. Tbr.</b>	Assume 75% of 80 ac. and 100% of remainder. Value will vary depending on species, quality, and logging costs. In this example assume all species are of equal value and quality. Volume can be Mbf/Ac or total.				
		Vol. Mbf/Ac.	Total Vol. Mbf	Cost/Mbf	Total \$/Allocated	Date Acq'd.
	All species	10	700	\$250	\$ 175,000	1/2/2000
	Depletion rate at time of purchase			$\$ 175000/700 \text{ Mbf} = \$ 250/\text{Mbf}$		
Ex. 3	Adj. to Reproduction, Premerch Tbr., and Merch. Tbr for growth and other factors					
	<b>Reproduction subaccount</b>					
	Transfer a portion or all costs to the premerch. Tbr. acct depending upon facts and circumstances. Add additional reforestation costs as appropriate.					
	Replace drought killed trees					
	Transfer all 2000 reprod costs to premerch. Acct.					
	<b>Reproduction</b>	No. of Acres	Cost/Ac.	Total \$/Allocated	Date Acq'd.	
		5	\$300	\$ 1,500	1/2/2009	
		-10	\$300	\$ (3,000)	1/2/2010	
	Adj. Reprod. Basis	5		\$ 1,500		
	<b>Premerch timber subaccount</b>					
	Add basis for transfer from reproduction acct.					
	Move portion of premerchtable timber acct. basis to merchantable acct. based on facts and circumstances. Ex. Uses 20 st. line allocation					
		No. of Acres	Cost/Ac.	Total \$/Allocated	Date Acq'd.	
	Beginning Basis	20	\$600	\$ 12,000	1/2/2000	
	Trans. Reprod basis	10	\$300	\$ 3,000	1/2/2010	
	Trans. Premerch to Merch acct.	-10	\$600	\$ (6,000)	1/2/2010	
	use 1/20/yr for 10 yrs.					
	Adj. Premerch basis	20		\$ 9,000		

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	<b>Merch Timber subaccount</b>						
	Add annual vol. growth plus new purchases and subtract volume corrections, losses from casualties, or harvest						
	Add transfers from permerch subaccount						
	Determine new depletion rate						
	<b>Note: Depletion Rate continues to change through time as growth etc. occurs</b>						
		Vol. Mbf/Ac.	Total Vol. Mbf	Cost/Mbf	Total \$/Allocated	Date Acq'd.	
	All species	10	700	\$250	\$ 175,000	1/2/2000	
	Annual Vol growth/yr. assume 10 yrs/3% yr.		240.74	0			
	Trans. Premerch basis est. 1Mbf/Ac		10		\$ 6,000		
	No addl. purchases	0	0	0	\$ -		
	No corrections	0	0	0	\$ -		
	No losses or harvesting	0	0	0	\$ -		
	<b>Adj. Basis Merch Tbr.</b>		950.74		\$ 181,000		
	Depletion rate at 1/2/2010			\$ 181,000/950.74 Mbf =		<b>\$ 190</b>	