## ACCOUNTS AND THE TIMBER INDUSTRY

One of the most important, indeed the staple industry of British Columbia, is the timber industry. It has been the source of much wealth and has witnessed the formation of many companies. Many of them, honestly and well managed, have pleased the shareholders. Others, badly managed and overshadowed by sharp practices, have caused heavy losses to investors. Reorganizations of several timber companies have been effected during recent years and several concerns had to go out of business entirely. The industry is sufficiently important to justify the improvement of financial methods in connection with it.

According to a report issued by the Vancouver board of trade, the total output of manufactured lumber in the province of British Columbia during the year 1912 was 1,262,000,000 feet. Of this, 902,000,000 feet was sawn by the coast mills, and 360,000,000 feet by the mountain mills in the interior. This, at an average price of $18 per 1,000, which may be taken as a fair average, produced $22,716,000.

Of the total output 394,000,000 feet was sold locally on the coast, 817,000,000 was sold in Alberta, Saskatchewan and Manitoba, and 51,000,000 was exported to foreign countries. It will, therefore, be seen that the settlement of the prairie provinces has been of great benefit to the industry.

In addition to the lumber produced in the province, it is estimated that the mills in the United States sold 300,000,000 feet in our territory.

The competition from the United States has been strongly objected to by the manufacturers, and on several occasions steps have been taken to induce the government to impose a duty, but with no success. At the present time manufactured lumber in the rough comes into this country free of duty, but dressed lumber is subject to a duty varying from 17½ per cent. to 25 per cent.

A valuable paper on the timber industries of British Columbia in their relation particularly with accounting, was presented at the recent chartered accountants' convention at Winnipeg by Mr. W. E. Hodges, of the British Columbia Chartered Accountants' Institute. It is printed in part on another page and should be read not only by those promoting legitimate timber companies, but also by investors interested, or likely to be, in timber companies' bonds or other securities.

Mr. Hodges thinks that it is permissible to capitalize a proportion of the annual charges and outlays in connection with carrying timber limits. The principal expenses in this connection are annual rentals paid to the government, and annual charges enacted for fire protection purposes. The stronger companies in the province carry large areas of standing timber, sufficient to last them for 50 or 75 years at the present rate of manufacture, and as only a small portion of the limits carried are being logged, and the capital value of the remaining stumpage increases year by year, it would be inequitable to charge all the cost of providing for the future to the annual operations.

In support of this argument, Mr. Hodges made the following comparison between two companies. We will suppose that one owns a large area of standing timber, and the other carries practically none. The former would have a large annual charge to its profit and loss account, and the latter, having no assets in the shape of standing timber, will have no such expenditure to be charged, except perhaps indirectly, in the shape of stumpage charges included in the price of logs purchased. Presume, for the sake of argument, that the plants of both concerns are shut down. Provided the rentals were charged to profit and loss, a big debit would result to the company owning the timber, where no actual loss had been made; the other company would have no charge to make, consequently no debit. Discussion has occurred as to whether the natural growth is not sufficient to compensate the expenditure referred to above, but, in arguing this point, it must not be forgotten that in some cases the natural decay may be as much as the natural growth. Mr. Hodges thinks that the correct way to treat these annual outlays is to capitalize them by charging them to the timber limits account and at the end of each year to credit this account with a fixed rate per 1,000 feet for stumpage on the timber cut. The auditor should satisfy himself, after an examination of the cruiser's report, and any other information obtainable, that the rate fixed for stumpage should be sufficient to eliminate the timber limits account from the books when all the standing timber has been cut.

In the case of a company having a bond issue, there should be, and there is usually, a clause in the trust deed providing for the creation of a sinking fund for the redemption of the debentures. It should be provided that a specified sum per 1,000 feet on all lumber cut shall be set aside and handed to the trustee until all the debentures are redeemed. Where this is done the following entries in the books are usually made. The profit and loss account is charged and the trustee for the debenture holders is credited with the amount to be set aside. When the money is paid over to the trustee, and provided the bonds have been redeemed by him out of the proceeds, another entry should be made in the books debiting the bond issue account and crediting the timber limits with the nominal amount of bonds purchased. These remarks deal with a company having a bond issue carrying a charge on their timber limits. Whether the amount provided in the trust deed to be credited as stumpage is sufficiently large depends upon the circumstances of each particular case.

In the case of a company having no bond issue, the timber limits account should be credited with an amount sufficient to eliminate the capital account from the books when the timber is all cut, and, in arriving at this amount, allowances must be made for reasonable additions to capital in future years. It might be legitimate, and it could be argued that a certain charge for interest on the original cost of the timber limits might be capitalized; but Mr. Hodges does not advocate this.

As the annual charge to the government for carrying a square mile of coast timber is $146.40, and presuming this mile to contain 20,000 feet to the acre (which is a fair average), or a total of 12,800,000 feet, the cost of carrying this timber slightly exceeds 1 cent per 1,000 feet per annum.

While the timber industries are money makers, the value of the chartered accountant in relation to those industries is prominent. The investor must wade out of generalities into specific details before he will be safe in this class of investment. The timber man and the chartered accountant can help with those details.

## BANKING PROBLEMS IN TWO COUNTRIES

That the Glass-Owen currency bill of the United States is a poor imitation of the Canadian Bank Act was the opinion expressed by Professor Joseph French Johnson to *The Monetary Times* the other week. This gentleman is dean of the New York University School of Commerce and Finance. He added that the United States have tried every financial and banking experiment except the one proposed. Professor Johnson is somewhat of an admirer of the Canadian banking system. He examined it on behalf of the national monetary commission of the United States and his opinions probably differ from many of those expressed in a democratic report on the bill being discussed in the United States house of representatives. This report states, according to a Washington dispatch, that Canada with her 27 banks and thousands of branch banks, represents a distinctly different type of banking from that which is exemplified by the national banking