

versy, but I have no doubt that some principle is necessary. I should hope that under the new departure the minister is now willing to enunciate those principles, and put them into strict operation on the Intercolonial.

Mr. GRAHAM. I have taken pains to get the decision my hon. friend has spoken of; here it is:

A number of points have been raised by correspondents relative to depreciation that call for the following general statements, all of which bear upon the manner in which depreciation accounts should be treated:—

1. The question of depreciation is fundamentally a question of operating efficiency, or of keeping full the numbers in equipment series.

2. The depreciation rules may be worked either on the basis of the value of individual cars and locomotives, or on the basis of the value of series of cars and locomotives. On this point, accounting officers are at liberty, until advised to the contrary, to follow whichever method seems to them the more appropriate.

3. The basis of accumulation—that is to say, the amount to which the percentage rate is applied—ought, in strict theory, to be the original cost. For the current year, however, accounting officers are at liberty to accept original cost estimated, if not known, record value, or purchase price. The term 'record value' should not be interpreted to mean the value of the equipment as it stands in the capital account unless that account represents the original value of the equipment on hand, but the actual cost or value of all equipment, regardless of where charged when purchased; and in case purchase price be accepted as the basis of the percentage charge to depreciation, the percentage rate should be limited to the rate required to replace the price paid. A second-hand locomotive, for example, is not called upon to provide for its replacement, when abandoned, by a new locomotive. As stated above, it is values and not locomotives with which depreciation charges deal.

4. The application of depreciation charges for the current year and subsequent years must not be influenced by the practice of years past. In case property has been depreciated by excessive charges to operating expenses in years past, the value thus placed on the property must be regarded as a permanent undivided asset to the stockholders. On the other hand, in case property has depreciated on account of insufficient charges to operating expenses in years past, this fact must not be permitted to influence the determination of the depreciation rate for the current year.

5. The monthly charges to operating expenses for 'depreciation' in the several classes of equipment, will, of necessity, create or require corresponding liability accounts to which such depreciation may be credited. To that end, carriers will be required, beginning July 1, 1907, to set up an appropriate liability depreciation account for each of the several classes of equipment upon which depreciation is charged. These accounts should be designated as follows:—

- (a) Locomotives—replacements (including both steam and electric),
- (b) Passenger-train cars—replacement,
- (c) Freight-train cars—replacement,
- (d) Electric equipment of cars—replacement,
- (e) Floating equipment—replacement,
- (f) Work equipment—replacement (except locomotives).

To these replacement accounts should be credited monthly the amount of accrued depreciation on each class of equipment, respectively. Such credits should invariably equal the gross charges to maintenance for depreciation.

To these several replacement accounts under their appropriate heads should be charged, at cost, all equipment purchased, built, or otherwise acquired for purpose of maintaining the value of a carrier's equipment.

The monthly charges to operating expenses for 'renewals' of the several classes of equipment will be similarly treated.

It is not intended that these accounts should be restricted to individual cars or locomotives, or that carriers are not at liberty to renew or replace equipment upon which depreciation has accrued prior to the retirement of such equipment. On the other hand the several amounts standing to the credit of those replacement accounts should be available to carriers for the purpose of replacement of equipment to the extent of such credits; however, all replacements in excess of such credits must be considered as betterments or additions, and charged either to income or capital.

I have also a classification of expenditures for additions and betterments, for steam roads, adapted by the Inter-state Commerce Commission, and which the Intercolonial has adopted as their standard. Then I have a classification of the road and equipment for original construction which we have adopted. I will lay these two statements on the table.

Mr. CROCKET. Is any portion of this amount applied to the payment of the sewer, the contract for which was let to Mr. E. A. Walberg? I understand that there is a claim against the government for something over \$100,000 for the construction of a sewer. The work was let under a purely verbal contract, entered into with the local engineer.

Mr. GRAHAM. That is in the courts yet. The referee gave a certain figure, Mr. Walberg appealed to the Exchequer Court, and got another judgment. I have now under consideration the advisability of appealing from that judgment.

Mr. J. D. REID. Are you giving him any more contracts?

Mr. GRAHAM. I do not think he has any at the present time.

Mr. CROSBY. I want to ask the minister what the department is doing with regard to the Cunard property which they