

By Mr. Sommerville:

Q. I am using that to illustrate one kind of service that is charged to the department as part of the departmental cost?—A. Yes. Window display is all included in the advertising; the proportion of advertising represented in window rental is included in the advertising expense.

Q. And then a certain proportion of advertising is charged to the department?—A. The actual advertising of the department.

Q. And a certain proportion of the repair department is charged?—A. That is included in the rent as building maintenance.

Q. Included in the rent?—A. Yes.

Q. Is a certain amount of depreciation on their fixtures charged to the department?—A. That is included in their rent, or prepaid expenses.

Q. I am not talking of rental of space, I am talking now of equipment?—A. Yes, equipment used.

Q. Yes, is that not charged in each department?—A. Yes.

Q. All of these are separate departments, and they are all expected in turn to show a profit?—A. In the case of equipment the actual equipment in the department is written off over a period of time against the department.

Q. Against the department, yes?—A. To proceed:—

- (2) Interest charged to the departments as rent, as window rental (under advertising and display) and the interest charged to the service departments and included on the company's statements under "Services" and "Administrative."
- (3) Interest charged to the departments under "Prepaid Expenses" for special equipment, alterations, etc., used by the departments.

Where details were available the actual interest included in the expenses charged to the departments was eliminated—in other cases a pro-rata basis as between interest and the other expenses included in the rent and other charges made to the departments was used for the purpose of elimination.

#### DEPRECIATION

(a) *On special equipment, alterations, etc.*

The total of the amount eliminated for depreciation on special equipment, alterations, etc., represents the balance of what is known as a "prepaid expense" account after eliminating interest on a *pro rata* basis as set out above.

(b) *On building and equipment—*

This represents the depreciation charged to the departments under the company's headings of advertising (window rent), overhead charges (rent charges for service departments), and rent account proper. These amounts have been eliminated from the departmental expenses on a *pro rata* basis in the same manner as interest.

The charges made to the departments in 1933 for interest and depreciation in total were on the same basis as in previous years, but actually the interest charge was increased and the depreciation charge decreased. This was occasioned by the decision of the company to take depreciation of only two-thirds of the usual rates. In order to show the departmental results on a comparable basis with previous years, however, the interest charge was increased.

Statement No. TT-5 shows that of the 88 departments in the Toronto store 52 showed profits and 36 showed losses.

#### SPECIFIC DEPARTMENTS INQUIRED INTO

Inquiry was made into the operations of certain of the Toronto store departments in order to ascertain the mark-ups obtained on different classes of merchandise, the names of the principal suppliers of the merchandise sold to these