By Mr. Tucker:

Q. Have you got it?—A. Yes, Mr. Tucker; I will tell you.

Mr. MARTIN: Can you tell what Mr. Tucker means?

By Mr. Tucker:

Q. Mr. Reid will explain it.—A. I will answer the question the way I think Mr. Tucker means it. I will tell you how I am giving you these figures. I am taking our loans or instalment notes receivable, whatever you want to call them, as at the end of 1935. I am adding to that the same figures, the figures for the same amount as at the end of 1936, and I am averaging them. Now, that is as close as I can get it. In other words the mean assets for the year 1936 would be —that particular asset, the mean for that particular asset for 1936 would be the figures for the instalment notes receivable as at the end of 1935, $2,138,514, to which is added the figures for instalment notes receivable at the end of 1936, $3,115,033, and the average of these two figures is the mean of that amount, $2,625,774.

Q. Now, then, these figures, Mr. Reid, would be after allowing for bad debts written off?—A. No.

Q. That is the gross figure?—A. No, that is the asset. Then, I set up the reserves which are put on the liability side. Then, that is the difference between Mr. Finlayson's figure, the mean assets for that particular time, and mine.

Q. There is one other thing I should like you to explain that I am not clear about. You have, I think, interest earned on promissory notes, service charges, and fees. You deduct these items in advance when you make a loan. These figures that you give in your financial statement, of course, are not items that you deduct in advance?—A. No.

Q. They are not the items you deduct in advance. Now, you do not collect for the bad loans?—A. No, not at all.

Q. I want you to explain how you arrive at these three items, interest earned on promissory notes, service charges and fees. How do you arrive at these items? —A. The method is one that has been approved by the income tax department; and the interest account and the fee account are considered; the discount collected by way of these two media is grouped on the one hand, the unearned interest account, and on the other one the unearned fees account, and then each month a portion of that is taken into earnings. The formula is this: we add the figures from 1 to 12, that is 78, and then we take into earnings 12/78ths, 11/78ths, down to 1/78th. In other words, I think you can appreciate that a greater portion of that interest is earned in the early months of the loan because the balances are larger, you see. That is to say on a $300 loan, twelve multiples of 25, in the first month you earn 12/78ths of the $21—you see what I mean. Then you earn 11/78ths, 10/78ths, 9/78ths until at the end of the twelve-month's period you have 78/78ths. The same process is used in handling the fees account.

Q. You say you get that until you have arrived at the full figure of 78/78ths? —A. That is right.

Q. It is on that basis you take into your earned interest the total amount of your deductions?—A. What is that again?

Q. What I am getting at——A. We do not take that into the interest; we take that into profit and loss.

Q. You do not get my point.—A. We only credit interest earned each month. Earned interest is in the earned interest account.

Q. How much do you allow for these items that I read?—A. Nothing allowed in there at all. You are conflicting revenue and expenses.

Q. We want to be sure about that. There are three items in here, interest, service charges and fees?—A. Is not this what you are getting at. Don't you want me to tell how we bulid up a reserve for bad debts?