

BANKING HISTORY

The Events of Nineteen Hundred and Twelve—Mergers—Bank Act Introduced

Among the important events of 1912 should be mentioned the absorption of the Eastern Townships Bank by the Canadian Bank of Commerce, which went into effect March 1st, and the absorption of the Traders Bank of Canada by the Royal Bank of Canada, effective September 3rd. Through the acquisition of the Eastern Townships the Commerce was placed in position for challenging the lead of the Bank of Montreal, which has been for over ninety years the premier Canadian bank in point of amount of total assets, writes Mr. H. M. P. Eckardt, in the Bankers' Magazine. Shortly after the amalgamation the Commerce passed the older bank and retained the lead for several months; but according to the last bank statement published—that for December 31st—the Bank of Montreal was then again in the ascendant by a narrow margin.

Royal Traders Merger.

Through its acquisition of the Traders the Royal Bank became an institution with about \$180,000,000 of assets—the Bank of Montreal and the Canadian Bank of Commerce possessing \$239,000,000 and \$237,000,000 respectively. The Royal also acquired during the year the Bank of British Honduras and now, therefore, possesses a branch at Belize. This move, and the movement of the bank to increase the number of its branches in the West Indies, doubtless represent a part of the plan for taking full advantage of the prospective opening of the Panama Canal.

Two Other Absorptions.

Two other absorptions were announced during the year, to go into effect in 1913. The Bank of Nova Scotia (founded 1832) entered into agreement to absorb the Bank of New Brunswick (founded 1820). Although the Bank of New Brunswick is one of the oldest banks in the Dominion, its operations were confined, until a comparatively recent period, to the city of St. John, and, therefore, its assets did not rise to the large proportions attained by the other old established banks. At the end of the year 1912 the Nova Scotia had total assets of \$12,000,000. Thus the consolidated bank will presumably compete with the Merchants Bank of Canada for fourth place. The absorption of the Internationale by the Home marks the end of a notable venture by French bankers in the Canadian field.

The year 1912 saw the introduction to the Ottawa Parliament of the new bank act.

MACNESIA PRODUCTS, LIMITED

Monetary Times Office,

Montreal, May 8th.

An offering is being made in Montreal of the bonds and stock of the "Magnesia Products, Limited." This concern was formed some time since for the purpose of taking over the plant and mines of the Canadian Magnesite Company, and the undertaking of the Magnesia Products Company, of Newark, N.J. The new company acquires control of a valuable deposit of magnesia, at Calumet, Que., through the purchase of the former company, and through the plant of the latter company it obtains immediate access to markets already established throughout the United States. In addition to this, however, it is expected that the new company will erect a factory near Montreal with a view to taking care of the needs of Canada.

Engineers' reports on the properties at Calumet are to the effect that the company has under its control 100,000 tons of magnesite rock, which is sufficient to last thirty-three years. The valuation placed on the property of the company is as follows:—

Mines and plant near Calumet	\$368,721
Manufacturing plant and site at Newark....	231,530

\$600,251

Against this the company is issuing the following securities:—

Bonds, \$6	\$325,000
Preferred 6 per cent. stock	200,000
Common stock	600,000

Estimated profits are \$140,000 per annum. Bond interest amounts to \$19,500 per annum, and preferred stock dividends to \$12,000, making a total of \$31,500. This, deducted from estimated profits, leaves a balance of \$108,500, or equal to over 18 per cent. on the common stock.

The offering is of \$200,000 of the bonds at 95 per cent. of par, carrying a bonus of 40 per cent. of common stock, and is being made by the National Bond Company.

PROVISION FOR DEPRECIATION

Determining Amount to be Set Aside—Four Methods Discussed

The real work in connection with providing for depreciation consists of estimating the probable life of the property involved, of determining the amount that should be set aside annually to cover such depreciation, and of deciding upon proper methods of recording the same upon the books of the company.

The most complicated and difficult part of this work is, perhaps, that of estimating the probable life of the different classes of property which make up a utility plant, remarked Mr. H. Erickson, member of the railroad commission of Wisconsin. There are many reasons for this. This life varies with the kind or class of property or equipment and with many other conditions. In the case of waterworks some parts of a plant have a life of only five years or less, while other parts again have lives of ten, fifteen, twenty-five, fifty, and even a hundred years. These parts must be classified on the basis of age and dealt with in such age groups.

Four Methods in Use.

Four methods of providing for depreciation and of equalizing it as between the various years in the period covered are often suggested. These methods are: The "straight line," the "sinking fund," the "diminishing value," and the "annuity methods." The first two in order of these methods seem to be the ones that are most generally employed in this country. The last two, or the diminishing value and the annuity methods are mostly suggested by English writers upon this subject.

Under the straight line method, the amount that should be set aside annually to cover depreciation is obtained by dividing the balance between the cost new of the property and its scrap value by its estimated life. The straight line method is much more simple and direct than any of the other methods. It is advocated by the inter-state commerce commission, and for certain purposes also by the Wisconsin and other state commissions.

Assumptions and Determinations.

Under the sinking fund method it is assumed that the amounts set aside for depreciation are invested or used at compound interest, and that the interest so obtained also goes into the depreciation reserve. Since in this case the interest on the sum thus set aside, as well as these sums themselves, becomes a part of the fund, it necessarily follows that the matter need not be as large as would be the case if no interest was allowed thereon.

Under the diminishing value method, a certain percentage is determined which is first applied to the total cost-value for the first year. The depreciation allowance thus obtained is then deducted from the original cost-value of the property. The same percentage is then applied to this reduced value the second year, and to the diminishing values for each year thereafter until the end of the estimated life of the plant, when the balance remaining should agree with the scrap value of the property. In this way the base to which depreciation is applied during this period is continually diminishing and the annual depreciation allowance is constantly decreasing. Under this method the rate for depreciation is high.

In favor of the diminishing value method it may be said that under it the charges are highest during the earlier years, when the cost of repairs are the lowest, and that these charges decrease as the cost of repairs increases. Another argument frequently offered in support of this method is that during the earlier years the new equipment is competing with old equipment, while in the latter years it is competing with more efficient machines of a better type; for these and other reasons the plant is better able to bear a heavy depreciation charge in the earlier years than later on.

High Enough to Write Off Value.

The annuity method is based on the assumption that the depreciation charges should be high enough to write off the value of the property during its life, as well as to cover the interest charges from year to year on the gradually diminishing value of this property. It is also based on the further assumption that interest is allowed on the balances in the depreciation reserve in much the same way as under the sinking fund method. As the annual charge to operating expenses is constant or remains the same throughout the period, and as the proportion of this charge that is required to cover the interest is gradually decreasing, it necessarily follows that the depreciation charges are increasing. These increases in the depreciation charges represent the interest that is allowed on the balances in the depreciation reserve. That part of the annual charges to operating expenses which is represented by interest on the value of the property is also credited to the interest account.