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EARLY EXPERIMENT OF DEPRECIATION ACCOUNTING IN 'NATIONAL BANK' 1875-1879

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— 1 —

In the first place, a brief explanation is given on the aspects of the process of creation and establishment of the depreciation accounting in Japan, aspects common to as well as different from that in the advanced countries.

The process of creation and establishment of depreciation accounting is generally expressed by a single-line schematic process as indicated below in accordance with what is widely accepted.

(1) Absolute or relative increase of fixed asset → (2) due recognition of decreased value of fixed asset → (3) creation and establishment of depreciation accounting.

Such indication is considered by no means wrong, but the actual processes could not be comprehensively represented by such single-line schema because it deals only with the factors on the side of "accounting object", while the behavior on the side of "accounting subject" is thereby ignored. The said schema is constructed only with the factors on the side of "asset" and thus it overlooks those on the side of "capital".

Therefore if a schema is to more accurately express the process of creation and establishment of depreciation accounting taking into consideration the factors on the side of "capital" to make up the said shortcoming, the following schema of double-lines can be reasonably thought of.

Popularization of partnership and the appearance of joint-stock company → (1) centralization of capital → (2) maintenance of centralized capital → (3) calculation of profit available for dividend.
↙ (1') absolute and relative increase of fixed asset (2') due recognition of decreased value of fixed asset (3') creation and establishment of depreciation accounting.

In the advanced countries, as partnership got popularized in the development of the enterprise form, the depreciation accounting created and with

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appearance of joint-stock company system, the long term investment in the fixed asset came to completely tie-up with profit measurement. On the other hand, in Japan the creation and establishment of depreciation accounting did not follow the pattern as demonstrated in the advanced countries where it gradually took place in the two different forms of enterprise, viz. partnership and joint-stock company.

Here in our country, the creation and establishment of depreciation accounting did not proceed under the two different forms of enterprise, viz. partnership and joint-stock company, but rapidly grew up within the enterprise that took the form of joint-stock company. This means that the development of depreciation accounting in Japan was not spontaneous as the case in the advanced countries but was pushed ahead rather forcefully under the administrative guidance of the *Meiji* government. As is commonly known, the modernization of the Japanese national economy had suddenly started with *Meiji* Restoration but this incidentally corresponded to the times in the advanced countries when the institution of joint-stock company had just been established, and consequently the depreciation accounting had been on its way of being established. Thus the *Meiji* government lost no time in transplanting the institution of joint-stock company and its accounting as a part of the national program for the modernization of Japanese economy, and it naturally introduced the depreciation accounting close on the heels of such modern institution. It is really worthy of our attention in this regard that the *Meiji* government succeeded to integrate depreciation accounting into the company accounting in such an amazingly short period of time.

Now, if one reviews both general process and that particular to Japan through which the creation and establishment of depreciation accounting took place, one can easily understand why *Kokuritsu-ginko* (national bank)¹⁾ incorporated under the protection and care of the *Meiji* Government, in its effort to establish modern banking institution as an advance-guard organization for the modernization of Japanese economy (immediate reason was for the redemption of inconvertible paper-money), was the first organization in Japan whereto the modern accounting and its depreciation accounting were introduced.

The modern accounting and its depreciation accounting thus introduced into national banks had found their way into a great number of joint-stock

1) *Kokuritsu-ginko* (national bank) was incorporated in accordance with the National Bank Act issued in November of 1872 whose provisions concerning the form of enterprise were the first regulation for the joint-stock company ever enacted in Japan and it was thus the first complete joint-stock company in our country.

companies organized as leaders for the moderization of Japanese industries (diffusion of the accounting system was, in many cases, made through the participation of the personnel who gained experiences of new accounting system in national banks).

In the history of accounting, national banks played a pivotal role for the popularization of the modern accounting and its depreciation accounting.

With this reason, the study on the historical development of depreciation accounting in Japan must start with that of national banks, and thus an observation is made thereon hereunder dividing its development into the first period (from the November of 1872 when the National Bank Act was promulgated to August of 1876 when the Act was revised) and the second period (from the said revision upto 1883 when it was again revised).

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In order to clarify when, for what assets and to what extent national banks in the first period²⁾ had applied depreciation accounting, a study is made just as to the regulation concerning the financial statements of the national banks.

According to the *History of Public Finance during the Meiji Era*, vol. 13, 1905, pp. 630-1, report on the conditions of assets and liabilities of the national bank had to be presented to *Shihei-gashira* (commissioner of the bureau of currency) more than four times a year in conformity with the Article 12³⁾ of the National Bank Act. The Ministry of Finance drafted in December of 1873 the Regulation on Periodical Reports of National Bank, while the draft of the report form was referred to The 1st National Bank of Tokyo. With all the necessary arrangement completed, the Ministry of Finance immediately notified this on Dec. 24 to The 1st National Bank of Tokyo, then on Jan. 22, 1874 to The 4th National Bank of Niigata, and on Jan. 7 to The 5th National Bank of Osaka and to The 2nd National Bank of Yokohama. Thus all the national banks came to be obligated, according to the given form, to make report in details monthly as well as semi-annually to

2) The 1st National Bank of Tokyo opened business on July 20, 1873, The 2nd National Bank of Yokohama on August 15, 1874, The 4th National Bank of Niigata on March 1, 1874, The 5th National Bank of Osaka on December 10, 1873.

3) Article 12 of National Bank Act: the procedure on the reports to be submitted by national bank.

1) National bank shall submit the true and detailed reports on its business and accounting etc. more than four times a year to the Commissioner of the Bureau of Currency. The form of such reports shall conform to the instruction of the Commissioner of the Bureau of Currency. These reports shall be officially sealed by the bank president and directors. These reports shall be made public by the bank concerned either on a newspaper or by other means.

the Ministry of Finance. Besides, for the distribution of semi-annual profit, the approval of the Minister of Finance was to be obtained after the resolution thereof was passed by the stockholders and they further were demanded to make it public together with accounts of assets and liabilities.⁴⁾

The Regulation on Periodical Reports of National Bank was the first regulation on the financial statements⁵⁾ in our country. *Ginko-hanki-jissai-hokoku* (bank semi-annual actual report, report form II) was for the separate entry of the total assets and claims on one side and on the other side the total liabilities and obligations of the bank covering all its head office and branch office.

Before such statement is made therein, the balance sheet of general ledger accounts of the head office must be prepared, while the balance sheet is collected from each branch office, offsetting the debit and credit in between the head office and branch office as well as those between branch office and branch office. Thus the balance of general ledger accounts of the head office and branch office is added and the debtor balance thereof is entered on debtor side of the report, while its creditor balance was to be entered on creditor side. In this case the debtor of this report indicates the assets and claims of the bank, while the creditor means its liabilities and obligations. The regulation further stipulates *Ginko-hanki-riekikin-wariai-hokoku* (bank semi-annual report of profit and its distribution, report form V) where transfer amount to the reserve for undefined purposes out of the semi-annual profit, dividend amount etc. as well as the total profit and loss were to be stated, where profit and loss statement of the head office and each

4) Article 13 of National Bank Act: the procedure on the distribution of bank profit.

1) The president and the directors of national bank shall close the bank accounts twice every year and calculate its net profit, and shall fairly distribute it according to the amount of stock holding.

2) Before the above-said distribution is made, the profit calculation shall be notified to the stockholders and at the same time it shall be made public on the newspapers.

3) Within ten days from the date of its publication and before the distribution to the stockholders, the report of profit and its distribution shall be definitely prepared and be submitted to the Commissioner of the Bureau of Currency.

5) As to the significance, in the accounting history of Japan, of report forms attached to the Regulation on Periodical Reports of National Bank, the *History of Public Finance during the Meiji Era*, vol. 13, p. 631, emphasizes as follows:

“With this, since the first half of 1874 the business vicissitude of the national banks became definitely clear than ever before. It had long been an undesirable custom in our country to keep the financial status secret and not to let the public to have knowledge on its assets and liabilities. For example, *Tsusho-kawase-gaisha* (Commercial Banking Company, they were incorporated in and after May and June of 1869 in Tokyo, Osaka, Kyoto, Yokohama, Kobe, Otsu, Tsuruga and Niigata.), was a public organization and yet it could not overcome such evil practice to the disappointment of the intellectual people. However, now that the financial status of the national banks came to be publicly known, this event brought about a decisive effect upon the abolition of the old business custom.

branch office must be referred to.

As it is well seen above, bank semi-annual actual report (report form II) was nothing but a balance sheet (position statement), while bank semi-annual report of profit and its distribution (report form V) was a combined statement of profit and its appropriation.

Next, in order to clarify how the accounting procedure of national banks came to be uniformed by the report form II and V, some parts of the report made by The 1st,⁶⁾ The 5th and The 4th National Bank are quoted in Table I, II and III from which the following facts are found:

- (1) report form II and V demand the amortization of organization expenses, (there is "organization expenses" under the items of assets and expenses) and actually the organization expenses were amortized during the first fiscal half-year in the case of The 1st and 5th National Bank while it was amortized during the second fiscal half-year in the case of The 4th National Bank.
- (2) According to report form II and V, office furniture were to be written off in full amount during the term of purchase, namely they were considered expense (no "office furniture" under assets, but is found under expenses) and in fact they were treated as expense. (As to The 4th National Bank, there is no data.)
- (3) In report form II and V the depreciation of house and land is not prearranged ("house" and "land" are provided only under assets) and as the matter of fact until the second half of 1874, no depreciation of house was made.
- (4) Apropos, the Regulation on the Periodical Reports of National Bank promulgated in December of 1873 stipulates that the figures in financial statements of 9 different reports shall employ western numerals, but among the national banks of the first period, those who conformed to the said regulation were only The 1st and The 5th National Bank whose financial statements attached to the second business report for the

6) The 1st National Bank held, on Jan. 11, 1874, the general meeting of stockholders whereby the first closing accounts was passed. On that day, for the first time, the 1st semi-annual *Kokajo* (business report) was distributed to each stockholder and a little later, on Jan. 25, the profit and loss account etc. were announced in the newspaper to the attention of the public. These had never been done before.

This 1st report publicly notified in the *Tokyo Nichinichi Sinbun* (Tokyo Daily Press), however, was not supported by sufficient figures and was rather of documentary style itemizing the necessary affairs, it was therefore a published document which presented only rough figures but nevertheless it was significant in that an enterprise organized as joint-stock company announced, for the first time in Japan, its business operating results in the newspaper. The second business report was made on July 22 in the same newspaper and it presented the operating results much more in detail than the previous one, while its form became closer to the contemporary form.

first half of 1874 adopted western numerals. (Though it does not appear in the Table II, the monthly report (June and July of 1873) of the head office of the 5th National Bank uses Arabic figures.)

Then why all these national banks did not make depreciation of house while they amortized organization expenses and depreciated office furniture? It might be reasonable to believe that they did not make depreciation of house in conformity with the report form II and V.

Table I Excerpt of Financial Statements of The 1st National Bank

		Semi-annual Actual Report (report form II) Dr.	Semi-annual Report of Profit and its Distribution (report form V-B) Dr.
1st Business Report	July 20, 1873– Dec. 31, 1873	<i>Organization Expenses</i> — <i>Used in Operation</i> House ¥ 141,500.00 Land	<i>Expenses</i> Organization Expenses ¥ 6,096.35 Repairs & Maintenance — Office Furniture 3,200.00
2nd Business Report	Jan. 1, 1874– June 30, 1874	Semi-annual Actual Report (No. 1) Dr. <i>Organization Expenses</i> — <i>Used in Operation</i> House ¥ 160,553.50 Land	Semi-annual Report of Profit & its Distribution (No. 8) Dr. <i>Expenses</i> Organization Expenses — Repairs & Maintenance ¥ 5,553.28 Office Furniture —
3rd Report	July 1, 1874– Dec. 31, 1874	Debtor & Creditor a/c (a/c belonging to Bank Assets and Claims) Receiver Used in Operation ¥ 162,233.50	Profit and Loss Account. Loss —

Table II Excerpt of Financial Statements of The 5th National Bank

		Semi-annual Actual Report (report form 2) Dr.	Semi-annual Report of Profit & its Distribution (report form 5) Dr.
2nd Business Report	Jan. 5, 1874– June 30, 1874	<i>Organization Expenses</i> — <i>Used in Operation</i> House ¥ 75,740.604 Land 3,625.45	<i>Expenses</i> Organization Expenses — Repair & Maintenance ¥ 371.594 Office Furniture 175.934
2nd Semi-annual Report	July 1, 1874– Dec. 31, 1874	Dr. belonging to Bank Assets and Claims Land & House ¥ 34,398.076	Loss-out of Balance of Profit and Loss —

Table III Excerpt of Financial Statements of The 4th National Bank

2nd Semi-annual Report	July 1, 1874– Dec. 31, 1874	Dr. belonging to Bank Assets and Claims	Profit and Loss Account, out of Profit Balance
		Organization Expenses ¥ 2,113.73 Land, House & Office Furniture 5,355.03	Amortization of Organization Expenses ¥ 2,113.73

However such accounting method had soon come into question. Alexander Allan Shand,⁷⁾ an English accounting adviser to the Japanese Government criticized this in his auditing report on The 1st National Bank. According to the *History of Public Finance during the Meiji Era*, vol. 13, p. 638–9, and to the *History of the 1st Bank*, vol. 1, 1959, pp. 214–5, 229, in 1873 and 1874 the bank business was far from being established, and what was still worse was that most of the directors were nothing but marchants of conventional type having almost no knowledge about the book-keeping method. In 1873 the government had therefore published *Ginkō-boki-seihō* (bank book-keeping method), then formulated the regulation on the financial reports to be submitted. Thus all the books regarding the receipts and disbursements as well as accounts were to conform to the rules provided therein, but the conventional method of entry was still in use and in many cases the old-fashioned books were concurrently employed behind the scene, hence the book-keeping method of various banks had not yet had uniformity which made the auditing extremely difficult. However, as the day passed, since the bank transaction became more and more complicated and a greater confusion was anticipated in the handling of books if some drastic measures were not taken. The Commissioner of the Bureau of Currency presented his views before the Minister of Finance to reform the bank practices by making

7) cf. K. Nishikawa, "The Early History of Double-entry Book-keeping in Japan," A. C. Littleton and B. S. Yamey, *Studies in History of Accounting*, London 1956, pp. 282 f.

Allan Shand audit books of all national banks in November of 1874 when *Ono-gumi* (Ono Partnership), a large stockholder of The 1st National Bank became bankrupt. The Minister of Finance granted his approval to carry out said reform and thus since January of 1875 the auditing had started one national bank after another. It was March of 1875, just four months after the bankruptcy of *Ono-gumi* that Allan Shand audited The 1st National Bank. Shand reported his findings on the result of his auditing covering the period from March 1 to 8, to the Commissioner of the Bureau of Currency. This *The 1st National Bank Audit Report* and its supplement is the first audit report ever made in the history of banks in our country, hence it has now become a historical literature⁸⁾ in which the auditor Shand made a strong advice that the depreciation should be made for house and office furniture in the form of profit-appropriation. He discussed on "operating expenses" as follows :

"In The 2nd National Bank no revaluation is made semi-annually on land, house and office furniture. Besides no reserve is provided for accidents (no reserve for self-insurance) as well as for wear and tear (no reserve for depreciation), whereas banks in various countries make it a rule to reserve funds yearly in preparation for the wear and tear of the house and office furniture. The 1st National Bank should follow this established pattern, for if the house be sold, the money to be received will never be same with the amount originally entered in the book. All properties of the bank should be valued at market price, hence if public bond, doubtful loan, land,

8) In the tentative bill of Income Tax submitted in 1874 by K. Rudolf (German law-consultant) to *Hirobumi Ito* (State Councilor), half year before Shand made his report on The 1st National Bank of Tokyo, it was provided that the depreciation shall be deducted as expense for income tax purpose as follows :

Article 28. The incomes accruing from commercial and industrial operations or from other income-yielding professions (for example, medical practitioners, lawyers, writers etc.) as well as retiring allowance or various incomes other than the income accruing from the movable and immovable properties shall be calculated for tax purpose by the following method :

As to the incomes accruing from commercial and industrial operations or those from other income-yielding professions etc., the income tax shall be computed on the basis of the average income of those of the three previous years in case the business in question had been consecutively operated over three years, while the depreciation for building, tool, furniture and fixture for business operation (since the value of building etc. diminishes every year through usage, an appropriate amount is to be deducted from the original cost in proportion to the decrease of the value) as well as other expenses necessary for business operation shall be deducted therefrom. However, the household expense of the tax-payers or the expenditure regarding the expansion or improvement of business operation shall not be deducted.

The said tentative bill is considered to have followed the Prussian Income Tax Law promulgated in 1851 (revised in 1873) which, starting from the receipt-expenditure accounting, allowed to make deduction as expense only the expenditure necessary for the continuation of business operation on the scale already existent in addition to the ordinary depreciation for building and tool, furniture & fixture. However, since this bill lost the chance to be put into force, it could not play any role in transplanting the depreciation accounting in our country.

house and office furniture do not reflect the real value, a part of the profit should be appropriated thereto so that their book value will correctly reflect the real value."

This report covering such recommendation was notified to The 1st National Bank on June 27, 1875 after being approved by the Minister of Finance and the Vice-minister of Finance on May 25 and The 1st National Bank immediately followed the said recommendation made by A. Shand and ¥ 3,000.- as refunding of capital used in operation (depreciation expense of house construction cost) was deducted for the first half of 1875. In this connection, The 4th business report of The 1st National Bank on the first half of 1875 stated as follows:

"Among the above accounting, the sum deducted is to be appropriated for refunding of the head office and branch office construction cost amounting to ¥ 162,200.-, and though this principal is a immovable property, as months and years pass, it wears and tears, hence its value is to diminish. Therefore as announced in the second general meeting of stockholders, the said sum is hereafter to be deducted from the profit for the decreased value of the principal invested in operation. The board of directors has decided on that policy whereby the refunding (depreciation) is hereafter to be made every fiscal half-year."

The 4th National Bank too had commenced depreciation accounting of house since the first half of 1875. In its 3rd semi-annual report covering Jan. of 1875 upto June, The 4th National Bank counted up ¥ 1,306.98 (as 10 % depreciation of the capital invested in operation) in profit and loss account as against "the capital invested in operation — ¥ 13,221.59" under "debtor belonging to bank assets and claims." As to how such depreciation had brought in practice, it is still remaining unknown, but anyway it was a great progress in comparison with the accounting practice of The 1st National Bank where the round figure of ¥ 3,000.- was refunded as against the invested capital of ¥ 162,000.-.

For reference sake, though The 5th National Bank made an advance notice in its 2nd business report for the first half of 1874 that the depreciation for house will be carried out from the second half of 1874 saying "since this semi-annual profit has been found poor particularly when the branch offices in Tokyo and Kagoshima are still under construction, we are scheduled to start depreciation by the way of refunding the construction cost upon their completion," it was one year and half later than The 1st and 4th National Bank, as mentioned later, that The 5th National Bank started to carry out its depreciation program. The above-mentioned first experiment of depreciation accounting in The 1st and 4th National Bank had soon

spread to many other national banks.

Thus when these sequences are scrutinized, the first runner in the history of depreciation in our country must be The 4th National Bank and not The 1st National Bank so long as the importance is placed on the modern running technics.

However a mere record of "who was running ahead of all others" will not make the history of accounting complete. As the running order as well as the speed are recorded in the sporting event, so the remarkable start-dashing done by the national banks of the first period must be recorded that within a couple of years after they were organized as joint-stock company ("ready-on-your-mark!" was signaled) half of these banks started to make depreciation.

This smartness of quick starting or of introducing the depreciation accounting is something worthy of admiration, even if the leadership exercised by the *Meiji* government who played a role of a coacher, particularly when it is compared with the record of Imperial Bank of Canada⁹⁾ incorporated in 1875 who started to make depreciation only as late as in 1882.

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As mentioned above, the depreciation accounting of house had been made by The 1st and The 4th National Bank since the first half of 1875, and they were the first experiment of depreciation ever made in our country, but up to August of 1876 when the Revised National Bank Act was issued, none of the other national banks of the first period practised depreciation accounting. For instance, it was the second half of 1876 that The 5th National Bank appropriated ¥ 1,500 to the depreciation of the cost of land and house procured for business operation. Thus the depreciation accounting came to be practiced by the 5th National Bank only by one year and

9) If the items concerning the depreciation are chronologically picked up from the reports of Imperial Bank of Canada (Imperial Bank of Canada, *Proceeding of Special and General Meetings, Annual Balance Sheets, Statements of Profits, 1875-1900*, Tronto 1900, pp. 63-129) which was incorporated in 1875, they are as follows:

1882	Applied in reduction of Bank Premises Account	\$ 6,566.99
1883	"	10,000.00
1884	"	4,598.65
1887	Written off Bank Premises and Furniture a/c	3,654.93
1888	"	10,000.00
1889	"	7,231.34
1890	"	2,926.52

All the above depreciations took the form of profit-appropriation. It is to be noted that in the bank accounting in these days depreciation was generally made by profit-appropriation as it was also the case in our national banks.

half after the said two national banks (nothing is known about The 2nd National Bank.) Now, let us briefly observe how the depreciation accounting had been practiced during the period from the first half of 1875 to the second half of 1876 with focus directed to The 1st National Bank, leaving The 4th National Bank later on. (refer to Table IV)

Depreciation of house in The 1st National Bank increased from ¥ 3,000.- for the first half of 1875 to ¥ 13,500.- for the second half of 1875 (since this period the form of balance sheet of national banks had been switched over from general form to English form),¹⁰⁾ ¥ 15,000.- for the first half of 1876 (from this period, the form of "profit and loss account" of each national bank to made public in the newspaper had been changed to that of "statement of profit-appropriation").¹¹⁾ Business report of The 1st National Bank on the first half of 1876 explained the reason for having made increased depreciation as follows:

"While the refunding (depreciation) of capital used in business operation is not to be made once for all but semi-annually by appropriating the reasonable portion out of the profit, since the profit of this period has somewhat exceeded the budget¹²⁾ arranged in January (of 1876), the amount stated above is to be refunded."

At the 8th stockholders meeting held on July 16, 1876, The 1st National Bank had thus revised the Rules on Profit Distribution of The 1st National Bank (June 18, 1873) as stated below and 1/15 of the profit was confirmed to be appropriated as depreciation of house:

10) The form of the abstract of assets and liabilities (balance sheet) of Hong Kong and Shanghai Banking Company presented in *Bank Bookkeeping Method* published by the Bureau of Currency of the Ministry of Finance with translation and supplementation in Dec. of 1873 was the general form (continental or american form) where assets were disclosed in Dr. side, while capital and liabilities in Cr. side. Also the bank semi-annual actual report (balance sheet) in the Regulation on Periodical Reports of National Bank prepared and issued by the Ministry of Finance at the time of publishing the said book adopted the general form whereby the assets of bank were to disclose in Dr. side, while the liabilities of bank in Cr. side.

However the said general form was not used long, and since the second half of 1875 it had been switched over to English form.

11) The income statement for the first half of 1876 published in the newspaper was really "profit appropriation statement" (surplus statement on the profit of the period concerned, the profit brought forward from the previous term, and their appropriation). This was what followed the pattern of profit and loss statement of Hong Kong and Shanghai Banking Company in *Bank Book-keeping Method* and most of the national banks incorporated after the revision of National Bank Act in 1876 published profit and loss account according to the said form.

12) As far as my knowledge goes, the first profit and loss budget for one year ahead ever prepared by The 1st National Bank was that of "Application of Capital and the Estimation of Profit and Loss for the Forthcoming Business Operation of The 1st National Bank" in Aug. 1, 1875. Therefore the profit and loss budget of Jan. of 1876 is considered the second one.

Table IV. Excerpt from Financial Statements of The 1st National Bank

		Bank Semi-annual Actual Report	Bank Semi-annual Report of Profit and its Distribution	Remarks
The 4th Business Report	first half of 1875	(Dr.) <i>Used in Operation</i> House ¥ 159,200.- Land Office Furniture	(Dr.) Refunding of Capital used in Operation ¥ 3,300.-	depreciation of house is deduct- ed by direct method
The 5th Business Report	second half of 1875	(Cr.) <i>Bank Premise</i> Land ¥ 10,090.- House & Storehouse ¥ 139,110.- Office Furniture ¥ 10,000.- (Dr.) Refunding of Capital used in Operation ¥ 13,500.-	(Dr.) Refunding of Capital used in Operation ¥ 13,500.-	balance sheet becomes English form
The 6th Business Report	first half of 1876	(Cr.) <i>Bank Premise</i> Land ¥ 10,090.- House & Storehouse ¥ 125,610.- Office Furniture ¥ 10,000.-	(Dr.) Refunding of Capital used in Operation ¥ 15,000.-	
The 7th Business Report	second half of 1876	(Cr.) <i>Bank Premise</i> Land ¥ 10,090.- House & Storehouse ¥ 110,610.- Office Furniture ¥ 10,000.-	(Dr.) Depreciation of House & Furniture used in Operation ¥ 21,400.-	depreciation of house & storehouse ¥ 11,400.- depreciation of furniture ¥ 10,000.-

According to the rules so far practised, for example, in case the semi-annual profit exceeded 10 percent per annum against capital stock of the bank, 10 percent of the semi-annual profit had been appropriated as the reserve for undefined purpose, while another 17 percent has been appropriated to the officers bonus and paid by classifying it into four groups. However it is now to be abolished and be revised to the following method. For example, in the semi-annual closing of accounts, supposing that the profit be ¥100,000.- after various expenses are deducted (if there is doubtful loan, the reserve for bad debt is deducted), one fifteenth of profit, viz. ¥6,700.- is to be refunded for the expenditure of land and house used for operation, while one tenth of the remaining amount ¥ 93,300.-, namely ¥9,300.- is to be appropriated for the reserve for undefined purpose and the 17 % of its remaining amount ¥84,000.-, namely ¥14,300.- is to be paid as the officers bonus and the balance ¥ 69,700.- shall be distributed to the stockholders as dividend according to the capital stock possessed by them.

On September 12, 1876, following the said revision of the Rules of Profit Distribution of The 1st National Bank, the Revised Articles of Incorporation of The 1st National Bank decided in observance of the Revised National Bank Act issued on August 1, 1876, provided a new article of "Distribution of Profit" which was not found in the original articles of incorporation decided on June 11, 1873, whereby it was reconfirmed that one fifteenth of the profit was to be appropriated as depreciation :

The closing of accounts of this bank shall be made twice a year in June and December where its profit shall be presented by deducting all expenses from all revenue, and it shall be reported at the general meeting of stockholders to be held in January and July, while its profit appropriation shall conform to the following rules :

One fifteenth of the profit: refunding (depreciation) of land and house used in operation.

Such refunding shall be made until it amounts to half of the current price of the land and house.

One tenth of the remaining profit: reserve for undefined purpose.

This reserve shall continue to be made until its amount reaches 20 % of capital stock, and when it comes up to the limit, decision shall be made by a majority of votes as to whether or not the said framework of reserve be increased.

Besides, 17 percent of the remaining profit: officers bonus

This shall be distributed according to the Rules on Distribution of Bonus from Profit

The balance: dividend to all capital stock.

Article 37

Though there may be cases where some part of the reserve for undefined purpose can be appropriated to an extraordinary expenses due to the unforeseen accidents, the ordinary repair and maintenance expenses of house or the purchase cost of all sort of furniture shall be paid as annual expenses of the bank, and the said reserve shall not be consumed.

Thus, for the second half of 1876, they deducted ¥ 10,000.- as depreciation of office furniture while ¥ 10,400.- equal to one fifteenth of the profit amounting to ¥ 172,022.132 as depreciation of house and storehouse from the net profit in accordance with the Revised Articles of Incorporation.

Table V Excerpts of Financial Statements of The 4th National Bank

	Semi-annual Report (B/S)	Profit and Loss Account	Remarks
The 3rd Semi-annual Report of first half of 1875	(Dr.) Used in Operation ¥ 13,221.59	¥ 1,306.98 Depreciation of 1/10 of Capital used in Operation	
The 4th Semi-annual Report of second half of 1875	(Cr.) Used in Operation ¥ 11,343.86	¥ 664.89 Depreciation of Capital used in Head Office and Branch Office	English form B/S was adopted
The 5th Semi-annual Report of first half of 1876	(Cr.) Used in Operation ¥ 10,915.61	¥ 500.- Depreciation of Capital used in Operation	
The 6th Semi-annual Report of second half of 1876	Balance of House and Storehouse ¥ 4,384.593 Balance of Land ¥ 6,500.-	¥ 1,000.- as Depreciation of Capital used in Operation	depreciation of house & storehouse ¥ 500.- depreciation of land ¥ 500.-

As mentioned above, in the 2nd business report for the first half of 1874, The 5th National Bank declared that the depreciation for house will be carried out from the second half of 1874. It is to be noted that this depreciation program was settled ten months in advance of the recommendation on the depreciation to The 1st National Bank of Tokyo made by Allan Shand in March 1875 as quoted before, but The 5th National Bank started to carry out that program as late as for the second half of 1876 when this bank counted up ¥ 1,500.- as depreciation of land and house used in operation under "expenditure" of profit and loss account in the 7th report.

The 4th National Bank started to depreciate on fixed asset from the second half of 1875 as seen in the Table V.

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As already mentioned, the Revised National Bank Act was issued in August of 1876, but soon after that in September 1876, the Ministry of Finance laid down the Regulation on National Bank Report which was delivered in June of 1877 with slight modification to each national bank.¹³⁾

13) The 1st National Bank of Tokyo, The 2nd National Bank of Yokohama, The 3rd National Bank of Tokyo, The 4th National Bank of Niigata, The 5th National Bank of Osaka, The 6th National Bank of Fukushima, The 7th National Bank of Kochi, The 8th National Bank of Toyohashi, The 10th National Bank of Yamanashi, The 11th National Bank of Nagoya, The 13th National Bank of Osaka, The 15th National Bank of Tokyo; — these 12 national banks were licensed to open business from July 1, 1876 upto June 30, 1887, among which The 1st, 2nd, 4th and 5th National Bank were those relicensed under the Revised National Bank Act.

Thus the Ministry of Finance demanded these national banks to conform to the said regulation and it, at the same time, delivered them the pattern of report form, The said regulation explained on the semi-annual report of profit and its distribution (combined statement of profit and its appropriation) as follows :

“This report is intended to clarify the profit and loss of the bank, hence in preparing it, the accounts belonging to the profit shall be registered under the titles concerned on debtor side of the report sheet, while those belonging to the loss shall be registered under the titles concerned on creditor side. Moreover, the profit brought forward from the previous term and the bad debt reserve brought forward from the previous term etc., if there is any, shall be registered under each such title on debtor side while the bank premise depreciation, the officers bonus as well as the bad debt reserve carried forward to the following term, etc., if there is any, shall be each entered under the corresponding title on creditor side. The balance thus obtained shall be semi-annual net profit during the term in question from which the reserve and the dividend shall be withdrawn and the remainder, if there is any, shall be registered as the profit carried forward to the following term under its title.”¹⁴⁾

According to the said semi-annual report of profit and its distribution, the profit is to be registered on debtor side while the loss comes to creditor side, hence the place-side of profit and loss is reversed, while the profit brought forward from the previous term is moved from above of the profit to lower part. Apart from these two, it is identical with the semi-annual report of profit and its distribution of The 1st National Bank for the second

14) The Ministry of Finance revised Regulations on National Bank Report in November of 1880 which was notified to each national bank in December of 1880. Since then, for 18 or 19 years the said regulation had been kept valid without being revised even once till the national banks were terminated. The provision on the “report of profit and its distribution” of the Revised Regulation is as stated below and the point that differs from the “semi-annual report of profit and its distribution” before the revision of the regulation is found only in the addition of new item of “bank tax.”

“This report form is intended to clarify the profit and loss and to disclose the profit distribution of the bank. The describing method shall be that all the accounts belonging to the profit register on debtor side, while those belonging to the loss on creditor side. (for instance, the creditor balance of interest account of general ledger shall register under the title of interest on debtor side of the report, while the debtor balance of the same account shall be registered under the title of interest on creditor side.)

Moreover, the profit brought forward from the previous term and the bad debt reserve brought forward from the previous term, if there is any, shall be registered on debtor side, while the bank tax, the depreciation of bank premise, the officers bonus as well as the bad debt reserve carried forward to the following term, if there is any, shall be registered on creditor side. The balance thus obtained shall be the semi-annual net profit during the term in question from which the reserve and the dividend shall be withdrawn, and the remainder shall be registered as the profit carried forward to the following term.”

half of 1876. (refer to Table VI, VII.)

Table VI Semi-annual Report of Profit and its Distribution in the Regulation on National Bank Report

Dr.	Cr.
Profit	Loss
Profit brought forward from the previous Term	Bank Premise Depreciation
Bad-debt Reserve brought forward from the previous Term	Officers Bonus
	Bad-debt Reserve carried forward to the following Term
	Net Profit
	{ Reserve
	{ Dividend
	{ Profit carried forward to the following Term

Table VII Semi-annual Report of Profit and its Distribution of The 1st National Bank for the second half of 1876

Dr.	Cr.
Loss of Head Office and Branch Office	Profit brought forward from the previous Term
Various Expenses of Head Office and Branch Office	Profit of Head Office and Branch Office
Depreciation for House and Furniture used in Operation	
Various Reserve (Bad-debt Reserve)	Bad-debt Reserve brought forward from the previous Term
Bonus	
Net Profit	
{ Reserve for undefined Purpose	
{ Dividend	
{ Profit carried forward to the following Term	

At the first glance, this might give an impression that the former was prepared by slightly modifying the form of the latter. But the opposit interpretation is more reasonable, for there had been four month's period since the Regulation on National Bank Report was prepared in September of 1876 till the accounts of the second half of 1876 was closed and it is well presumable that The 1st National Bank acquired, during the said period, the the Regulation on National Bank Report before it was slightly modified in June of 1877 and prepared the semi-annual report of profit and its distribution for the second half of 1876 in accordance with such regulation. If it was so, we can safely judge that it was all because of the influence of the said regulation that The 5th National Bank started depreciation only since the second half of 1876.

Table VIII. Depreciation Accounting in The 1st National Bank.

period	Business Report	Bank Premise	Premise Depreciation
first half of 1877	8 th	Land House & Storehouse ¥ 10,090 99,210	¥ 10,200
second half of 1877	9 th	Land House & Storehouse 10,090 89,010	10,600
first half of 1878	10 th	Land House & Storehouse 10,090 78,410	29,700
second half of 1878	11 th	Land House & Storehouse 10,090 50,444.542	18,344.542

Table IX. Depreciation Accounting in The 4th National Bank

period	Business Report	Bank Premise	Premise Depreciation	Depreciation of Org. Expenses
first half of 1877	7 th	Land House & Storehouse ¥ 6,500 4,384.593 Furniture 254.80	¥ 500 380.593	¥ 300
second half of 1877	8 th	Land House & Storehouse 6,000 4,004 Furniture 254.80	500 504 54.80	313,621
first half of 1878	9 th	Land House & Storehouse 5,500 3,500 Furniture 200	300 200 118.07	300
second half of 1878	10 th	Land House & Storehouse 5,200 6,448.418 Furniture 228.45	} 3,076.868	300

As can be understood from above, the Regulation on National Bank Report produced a great effect upon the accounting of the 1st, 4th and 5th National Bank. But the more important problem for our study is the influence exercised by the said regulation on the other national banks. As the matter of fact, under the said regulation, the depreciation accounting was forced to be made by The 3rd and The 6th through The 153th National Bank established after the promulgation of the Revised National Bank Act in August of 1876 (national bank established during the second period).

Then what was the reaction shown by these national banks established during the second period, to the enforcement of depreciation as seen above?

In order to clarify this specific aspect, two tables indicating the actual practice of depreciation accounting is prepared from the 1st and 2nd published report of these national banks as well as from their reports for the first half of 1879.¹⁵⁾

From such table we find there are two types of reaction on the side of

national banks. (refer to Table X and Table XI)

Banks belonging to the first type are those like The 4th National Bank as referred to in the Table VI who actually carried out depreciation of the fixed assets together with amortization of organization expenses.

Banks belonging to the second type are those like The 81st National Bank who amortized only the organization expenses and deferred the depreciation of bank premise till the amortization of organization expenses will have been completed.

As seen above, no national banks established during the second period evaded depreciation of the fixed assets and since they sooner or later carried out premise depreciation, it is safe to say that the above mentioned enforcement of depreciation was almost perfectly executed. However it is to be noted that the local national banks were not voluntarily accepted the enforcement of depreciation, for most of the national banks established during the second period had not only deferred it to the later terms, but also their depreciation rate was generally lower than that of the national banks established during the first period. This shows how reluctant they were in introducing the depreciation enforced by the Government when they simply wanted to make inproportionately bigger dividend out of the net profit.

Though the national banks newly established in rocal cities of Japan in accordance with the Revised National Bank Act issued in August of 1876 once showed resistance against the enforcement of depreciation either by deferring the depreciation or by reducing the depreciation rate, but they, without daring to repules it, repeatedly practised depreciation, Thus the depreciation accounting finally came to be established as an integral part of bank accounting, also as a beach-head from which it spread into many industries.

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15) Since the second half of 1876, growing number of national banks had come to be established and during the fiscal year of 1878 (from July of 1878 to June of 1879) number of national banks reached as many as 148.

Table X. Depreciation Accounting in National Banks during from the first half of 1877 to the second half of 1878.

period	National Bank	Report	Title of Fixed Asset	Book-value before Depreciation	Title of Depreciation	Amount of Depreciation	Remarks
first half of 1877	The 3rd of Tokyo	2nd			Depr. of Furniture	¥ 493.186	
	The 10th of Yamanashi	1st			Depr. of Furniture used in Operation	618.978	
first half of 1878	The 2nd of Yokohama	8th	Land, House & Furniture used in Operation	¥ 24,950.000	Depr. of Land, House & Furniture used in Operation	2,000.000	
	The 14th of Matsumoto	2nd	House & Storhouse Furniture	175.659 381.872	(Officers Bonus & Depr. of Premise)	604.761	reserve for construction of house ¥ 139,333
	The 15th of Tokyo	3rd	Bank Premise	34,005.302	—	0	depr. of organization expenses 15,000.000
	The 19th of Ueda	2nd	Price of House, Storehouse & Furniture	2,362.055	—	0	" 134.000
	The 20th of Tokyo	2nd	—	0	—	0	" 375.000
	The 21st of Yokohama	2nd	Furniture used in Operation	611.673	Depr. of Premise	30.584	" 40.783
	The 22nd of Okayama	2nd	Land, House & Storehouse Furniture	3,920.570 1,216,624	Depr. of Land & House	180.000	" 180.000
	The 23rd of Tokyo	1st	Premise	209.851	Depr. of Premise	25.000	" 225.000
second half of 1878	The 50th of Tsuchiura	1st	Furniture used in Operation	17.761	Depr. of Bank Premise	888	" 133.000
	The 74th of Yokohama	1st	House, Land & Furniture used in Operation	10,289.354	Amortization of Land, House & Organizational Expenses	330.000	
	The 95th of Tokyo	1st	Bank Premise	3,100.000	Depr. of Premise	124.000	" 96.000

Table XI Depreciation Accounting in National Banks for the second half of 1879

National Bank	Date of Opening Business	Title of Fixed Asset	Book-value before Depreciation	Title of Depreciation	Amount of Depreciation	Remarks
1st Tokyo	Jul. 20 1873	Land & House for Operation	¥32,299.390		0	
7th Kochi	Mar. 15 1877	Price of House & Furniture	2,318.951	Depr. of Land, House & Furniture	¥ 337.000	
15th Tokyo	Sep. 27 1877	Price of Land Price of House & Storehouse Furniture	3,000,000 26,697.965 5,707.264	Depreciation of Premise	0	amortization of organization expenses
9th Kumamoto	Dec. 15 1877	Price of Land, House, Storehouse & Furniture	6,500.151	"	150,000	"
16th Gifu	Oct. 1 1877	Furniture	89,666	"	20,000	"
18th Nagasaki	Dec. 20 1877	Furniture House & Storehouse	615,792 825,877	"	525,877	"
19th Ueda	Dec. 8 1877	House & Storehouse Furniture	1,904,000 655,203	"	400,000	"
34th Osaka	Apr. 13 1878	Bank Premise	3,107.082	"	257.082	"
64th Otsu	Jul. 20 1878	Land House & Storehouse Furniture	722,000 2,110,000 997,259	"	222,346	"
39th Maebashi	Nov. 9 1878	—	0	—	0	"
40th Tatebayashi	Nov. 5 1878	—	0	—	0	"
46th Tajimi	Feb. 14 1879	Price of House, Storehouse & Furniture	1,889.069	Amortization of Organization Expenses & Premise	200,000	
50th Tsuchiura	Sep. 9 1878	Furniture used in Operation	92.221	Amortization of Organization Expenses & Furniture	145,000	
62th Mito	Oct. 25 1878	Furniture	14.481	Depr. of Premise	14,481	"
68th Koriyama	Jan. 11 1879	Bank Premise	936.928	"	33,928	"
75th Kanazawa	Jan. 25 1879	Bank Premise	1,148,357	—	0	"
79th Matsue	Nov. 23 1878	Furniture used in Operation House	343,590 209,686	Amortization of Organization Expenses & Premise	350,000	
82nd Tottori	Nov. 24 1875	Furniture used in Operation	898.247	Depr. of Furniture used in Operation	89,725	"

National Bank	Date of Opening Business	Title of Fixed Asset	Book-value before Depreciation	Title of Depreciation	Amount of Depreciation	Remarks
84 th Daishoji	Jan. 4 1879	Land, House & Furniture used in Operation	¥ 707,690	Depr. of Premise	¥ 61,761	amortization of organization expenses
85 th Kawagoe	Dec. 17 1878	Price of Premise	2,461,992	"	461,992	
87 th Ohashi	Dec. 5 1878	House & Storehouse Furniture	465,569 134,166	"	43,362	"
88 th Ichinoseki	Dec. 13 1878	Furniture used in Operation	98,930	—	0	"
90 th Morioka	Dec. 2 1878	"	73,418	—	0	"
92 nd Fukui	Dec. 2 1878	Land, House, Storehouse, Furniture, & Organization Expenses	4,546,024	Amortization of Premise & Organization Expenses	150,000	
97 th O	Mar. 25 1878	Price of Premise	604,268	Depr. of Premise	91,827	"
99 th Hirado	Feb. 15. 1879	"	810,000	"	50,000	"
104 th Mito	Oct. 22 1878	Furniture in Possession	681,738	"	34,087	"
105 th Tsu	Mar. 11 1879	House & Storehouse	1,078,605	"		"
106 th Saga	Apr. 1 1879	Bank Furniture House & Storehouse	927,517 1,329,636	—	0	"
102 nd Tokyo	Oct. 8 1878	House used in Operation	2,160,000	Depr. of Premise	240,000	"
104th Takamatsu	Nov. 6 1878	Bank Premise	31,200	—	0	
107 th Iiida	Jan. 15 1879	Furniture	220,540	Amortization of Furniture & Organization Expenses	70,813	
133 rd Hikone	Apr. 1 1879	Furniture used in Operation	701,807	Depreciation of Premise	160,000	"
137 th Sasayama	Jun. 15 1879	Furniture used in Bank Operation	133,824	"	6,691	"
138 th Futamata	Mar. 1 1879	Furniture used in Operation	100,702	"	12,116	"
150 th Hachinoe	May 2 1879	Land House & Storehouse Furniture	110,640 4,889,360 198,250	—	0	"
147th Kagoshima	Oct. 6 1879	Land House & Storehouse Furniture	2,234,048 5,621,032 1,096,415	Amortization of Organization Expenses & Premise	856,149	