

# **NET WORTH AND THE BALANCE SHEET**

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Net worth and the balance sheet by Herbert G. Stockwell

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**HERBERT G. STOCKWELL**

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# Net Worth and the Balance Sheet

By  
HERBERT G. STOCKWELL, C.P.A.



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### EXPLANATION OF THE BOOK

**S**HREWD business men take pains to learn enough about the accounts on their books to know where they stand at any time and whether the business is going forward or backward, and why.

To such men the knowledge of the vital facts of the business, as shown in their books, provides means by which complete mastery of the business may be obtained.

But these shrewd men are few in number compared with the many who do not take the trouble to solve the meaning of the accounts in which the history of the business is being recorded.

Such men, finding the study of facts expressed in figures unattractive, too often leave the matter of bookkeeping entirely to their clerks, easily yielding to the difficulty of obtaining the correct interpretation of their accounts.

*Gift of Mrs. Geo. H. Harner 11-8-35 3-21-56*

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In many other cases the proprietors, with little or no bookkeeping knowledge, yet dimly seeing the advantages to be gained by greater knowledge, continually struggle in unavailing efforts to comprehend the figures presented to them by their bookkeepers.

Whether the failure to grasp the important facts of a business results from insufficient attempts on the part of the proprietor or follows earnest efforts, ignorance of the true financial conditions has been the cause of many bankruptcies which might have been avoided had impending danger been known in time.

If there is one business law of more importance than any other, it surely rests in the common-sense principle that a business man should know at all times where his business stands in relation to his creditors, and to his partners or shareholders. Within reasonable approximation he should know his "net worth."

In order fully to comprehend all that is involved in his net worth, he must acquire at least sufficient knowledge of the expres-



sion of business facts in figures to enable him to read and understand the meaning of his balance sheet, or statement of assets and liabilities.

In obtaining this knowledge he will find that, as his stock of accounting information increases, along with each new comprehension will come a growing strength and ability to grasp each business condition as it arises.

Besides the additional control over his own business, obtained in the study of his accounts, he will gain the power of analyzing the balance sheets of other concerns in whose financial condition he may, for one or more of many reasons, be interested.

Few indeed are the concerns engaged in banking, manufacturing, or trading to whom credit for money or merchandise is not granted, or who do not grant credit to others upon signed statements or mercantile reports.

Moreover, the investor in the bonds or stocks of corporations would be less dependent upon quotations, rumors, or advice of friends if he could himself understand the balance sheets of the corporations whose

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stocks and bonds are offered to him for investment.

Thus it appears that all men of independent means as well as those in business would find advantages in the possession of a moderate amount of bookkeeping knowledge, sufficient, at least, to enable them to understand the accounts representing assets and liabilities on a balance sheet, and the net worth produced by the proper assembling of those accounts.

The present work is intended to be of assistance to all those whose duty or interest compels either the preparation or inspection of balance sheets of merchants or manufacturers. It endeavors to explain the nature of the items involved, to point out what the balance sheet does or should show; and to furnish such information as will enable those seeking further knowledge of the condition of any concern than is shown by its balance sheet to frame intelligent inquiries of the management, tending to bring out the information desired.

The present volume, as intimated, is con-

fined almost entirely to the ordinary balance sheet of the merchant and manufacturer. To interpret the business conditions shown by the balance sheets of steam and electric railroad corporations, electric light and power corporations, water and gas companies, and, last but not by any means least, national, state, and municipal governments, would require much more elaboration than can be brought within the limits of the present work. The wide and interesting field of accounting methods involved when business and financial facts of these balance sheets are expressed in figures, will well repay investigation and may be the subject of a second volume.

The definitions appearing in italics have been framed in an effort to simplify some of the terms commonly used by business men, bookkeepers, and accountants.

H. G. S.