THE MONETARY TIMES, AND TRADE REVIEW.

TORONTO, CAN., FRIDAY DEC. 10 ,1875

MERCANTILE ASSETS AND LIABILITIES.

The past year has been so fruitful in mercantile disasters as to suggest the necessity and desirableness of a thorough revision of the standing and means of nearly every person and firm in the country. Numbers of persons that commenced the year with a high reputation are now floundering in the miseries of the insolvent court. Crowds of traders of a smaller kind have been compelled to succumb to the pressure of the times, and compromise or wind up. The amount of losses suffered by wholesale houses and banking institutions is probably unprecedented since 1857, and there is scarcely a firm that dealt largely on credit, in any line of business, that has as much capital, or stands in as good a position, as it did a year ago. When the books of our mercantile agencies come to be revised it will be necessary to make an immense number of changes, if the actual results of the year are to be fairly tabulated.

We have had no storm, it is true; no general revulsion, nothing of the nature of a panic. Even the suspension of one or two banks has failed to produce anything like this. But we have had a gradual bearing down; a steady drain on our credit business, a perceptible deterioration of the quality of the whole mass of indebtedness, both to institutions and to private firms. The $120,000,000 of debts due from the public to the banks are worth many millions less to-day than they were a year ago. For, even of the multitudes who have not failed, and who may not fail, there are far more who are in a doubtful and weak position than formerly. Out of the innumerable contingencies that attend our widely ramified credit system far more disasters are to be dreaded than was the case a few years since. There can be no doubt of this, and we might as well acknowledge the position at once, and act accordingly.

It is a time, we say, for a thorough revision of mercantile affairs, and for a more close looking into them than has, perhaps, been customary. And no one, after the last year's experience, will dispute our position when we say that it is a time for reducing liabilities, and for paying far more attention to the amount of liabilities in estimating a man's position. Many a man has gone down during the year who had an apparent surplus, and some of them with a surplus of large amount. But there is nothing so deceptive as estimates of wealth, when such wealth consists of surplus of assets over liabilities. A firm with small liabilities, and its affairs, therefore, well in hand, may be better off with a surplus of $20,000 than another with a surplus of $100,000. Let us take a balance sheet or two and compare them, to illustrate our point. Here is one of a trader who is, we will assume, doing a large business, is in high credit, and is rated as worth $100,000. His liabilities are as follows:

Direct Liabilities.		
Bills payable		$150,000
Open Account		100,000
		$250,000
Indirect Liabilities.		
Endorsements on customer's paper		$100,000
Endorsements for other parties		25,000
Assets.		
Stock in Trade		150,000
Book Debts		75,000
Bills receivable on hand		20,000
Real Estate	$75,000	
Less mortgage	30,000	
		45,000
Plant and Machinery		35,000
Interest in firm of A. B. C. & Co.		25,000
		$350,000

Here is a apparent surplus of $100,000; yet experience has shown that firms with a balance sheet like this may not only come to a stand, but may be unable to pay their creditors more than 50 cents on the dollar. For the mass of liability probably comes steadily due during the progress of a few months. If the maturity of this liability is spread over six months it is necessary to provide some $10,000 a week, without cessation, during the whole time. If trade is dull and sales fall off, and if at the same time debts cannot be collected, while discounts are very hard to obtain at the bank; it is easy enough to see how a firm in this position may have to suspend. When the estate comes to be realized it is almost invariably the case that there is an immense falling off in the value of the assets. Thus the actual value will probably be found, instead of the figures above given, as follows:—

Stock in Trade	$100,000
Book Debts	40,000
Bills Receivable	5,000
Real Estate—will not sell for more than mortgage.	
Plant and Machinery sells for a mere trifle apart from the property. Say	5,000
Interest in another firm's business cannot be got at without winding that firm up.	
	$150,000

But besides this depreciation of assets there is a large amount of indirect liability converted into direct by the failure of customers of the firm. Such things always take place when a large house goes down. The result of the whole is that there is, after paying expenses, barely fifty cents on the dollar left; and this from the estate of a house which considered itself, and was considered by others, to be worth $100,000.

Take now another case. Here is a balance sheet of a house that has always made it a rule to do a moderate business, and above all to be careful in incurring liabilities:—

Direct Liabilities.		
Bills payable		$ 12,000
Open accounts		8,000
		$ 20,000
Indirect Liabilities.		
On Customer's notes discounted		5,000
For endorsements		*Nil.*
(Made a point never to endorse.)		
Assets.		
Stock in Trade		20,000
Open accounts due		15,000
Bills Receivable		5,000
Property, viz. Store	$10,000	
" Dwelling	3,000	
		13,000
No encumbrance.		
		$53,000

Here is an apparent surplus of only $33,000, against the $100,000 in the other case. But any one who understands these matters will see at a glance that this $33,000 is worth far more than the $100,000 in reality. This man's position is safe beyond all doubt. He has stock and debts due him for more than double all he owes. Besides which he has his property, good and available to raise money on a pinch, as it is entirely clear of all encumbrance.

And the man who is in this position, we may depend upon it, will aim at being