

PRINCIPLES OF DOUBLE-ENTRY BOOKKEEPING

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Principles of double-entry bookkeeping by Charles M. Van Cleve

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CHARLES M. VAN CLEVE

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PREFACE

The purpose of this treatise, as its title implies, is to explain the principles which underlie the art of accounting by the double-entry method. It deals with the interpretation rather than the routine of bookkeeping, and limits the discussion to the three essential forms—the journal entry, the ledger account and the balance sheet. / It does not propose any change in the routine, but it does propose a decided change in the interpretation of accounts and in the method of reporting results.

What I claim for the book is that it solves the problem of placing double-entry bookkeeping upon a rational basis; and to the best of my knowledge and belief it presents the first and only solution of that problem.

It is one of the strangest things in the history of the arts and sciences that this great system of accounting, which, by reason of its compactness and convenience, has come into almost universal use, should have attained so high a degree of development on the practical side, while on the theoretical side it is and always has been in a state of utter confusion. As a rule, the study of a useful art has a certain value as mental discipline; the art of accounting is the one exception to the rule. Aside from the so-called occult sciences, there is nothing which so tends to bewilder the mind and to dull the faculty of reason as the study of double-entry bookkeeping in the form in which it is customary to present it.

I have read a number of works on the subject, including some of the most recent, but I have never seen a text-book which gave any indication whatever that its author had even the remotest conception of the principles upon which the art is based; I have never read a text-book in which there was

any logical argument, any consecutive line of reasoning; in short, I have never read a text-book dealing with the theory of double-entry bookkeeping which was not simply a more or less elaborate attempt to beg the question. With reference to that statement one should keep clearly in mind the distinction between describing a process and explaining it. In their description of double-entry bookkeeping many of the text-books are very successful, and most of them are fairly so; but in their attempts to explain it, all of them, that I have ever read, are absolute failures. They answer the question "how," but so far as my observation goes, there is not one of them that answers the question "why."

What makes double-entry bookkeeping incomprehensible to the people in general is the fact that it is the universal custom in this system of accounting to make statements in a form showing assets and liabilities equal, and losses and gains unequal—a form which the common sense of mankind instinctively rejects. In his attempts to justify his practice the accountant long ago devised the theory that double-entry bookkeeping deals with the assets and liabilities, not of the proprietor, but of the business, and that the assets and liabilities of the business are always equal because the proprietor's net capital is a liability of the business to the proprietor.

The most remarkable thing about that theory is that it has been accepted by the great majority of accountants in spite of the fact that it is self-evidently false. If assets and liabilities are always equal, gains and losses are always equal; for every increase of asset, which is gain, there must be a corresponding increase of liability, which is loss, and for every decrease of asset, which is loss, there must be a corresponding decrease of liability, which is gain.

When the bookkeeper professes to justify his practice by saying that his statement shows the assets and liabilities of the "business," he is simply begging the question. What he is called upon to explain is not merely the fact that he shows

assets and liabilities equal, but the fact that he shows assets and liabilities equal and losses and gains unequal; and that he never can explain, because it is in direct violation of the axiomatic proposition that if two variable quantities are always equal, the changes in those quantities must be equal. Among all professedly rational pursuits, the art of accounting, as it is taught and practiced, has the unique distinction of being based upon the denial of a self-evident truth. The doctrine of equal assets and liabilities is an insult to the human intellect; it is a disgrace to the people who teach it and an outrage upon the people who are taught.

But the accountant is not a logician. He has been trained to believe that it is a sufficient excuse for the form of his statement to say that it shows the assets and liabilities of the "business," and he is satisfied with that. The consequence is that while it is not difficult to explain this system of accounting, it is exceedingly difficult to convince bookkeepers that it needs explanation. For that reason, before presenting the true theory, it is necessary to demonstrate the utter absurdity of the current method of teaching double-entry bookkeeping. Some of the remarks which are made on that subject may be displeasing to the reader, if he is himself an accountant; but I assure him that they are not made in any spirit of fault-finding nor with any intent to give offense. Their only object is to arouse accountants to a realization of the fact that public opinion will never accord to their occupation a rank commensurate with its importance, unless double-entry bookkeeping, both in theory and in practice, is brought into harmony with common sense.

CHARLES M. VAN CLEVE.

New York, August, 1912.

