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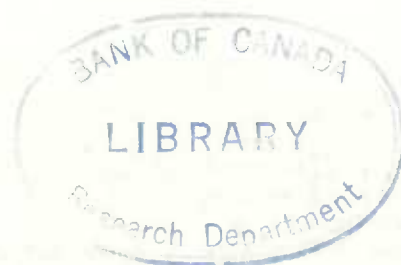
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OPERATING RESULTS AND FINANCIAL STRUCTURE INDEPENDENT DRUG STORES

1959



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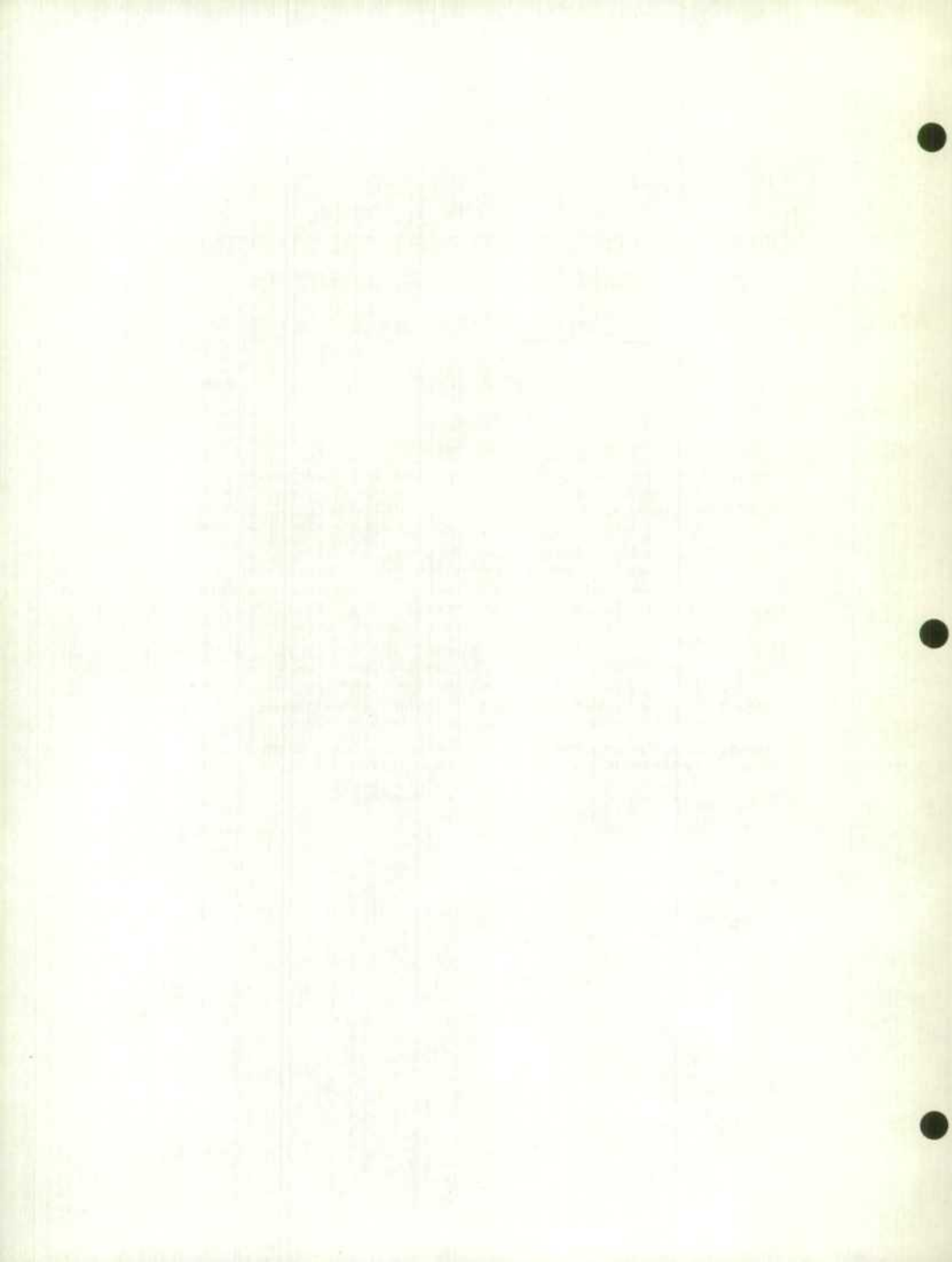
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OPERATING RESULTS AND FINANCIAL STRUCTURE INDEPENDENT DRUG STORES 1959

INTRODUCTION

This report is a continuation of the practice of the Dominion Bureau of Statistics to publish operating results and financial structure for selected trades primarily as a guide for retailers. The averages and ratios that are shown in this report can be used as a standard by which businessmen can compare their own operating experience. The pattern of expense and financial ratios by size and age of business permits direct analysis of operating results for the year. It should be borne in mind, however, that the averages and ratios as published in this report do not represent top performance guides. They are the "average" of a broad range of operational efficiencies.

This survey of independent drug stores covers retail establishments selling mainly prescribed drugs, patent medicines, toilet articles and preparations. Other lines such as tobacco, magazines, novelties etc. are also sold. Stores operating a soda fountain or restaurant in conjunction with the drug store were not included in this study.

Although this report is similar to the previous operating results reports issued for this trade, some slight changes have been made in the presentation and quantity of information in order to increase its value to the user. In Table 1, the historical series of major operating ratios is shown for an increased number of years. It is hoped that this change will enable the users to more readily compare the trends in operating with their own experiences during the years. It should be mentioned that the data in Table 1 as well as the "total" column in Table 3 and Table 6 have been weighted in order to arrive at ratios which are representative of the trade as a whole. Weights are assigned to the ratios in each sales-size category in relation to its position in the sales picture as found in the 1951 Census. Averages and ratios in the tables not indicated as being weighted represent the actual averages and ratios obtained from the reporting panel of firms in each cell.

Note: Profit and loss and balance sheet definitions are shown on pages 10 and 11.

TABLE 1. Operating Results of Independent Drug Stores, 1952 - 59

| Item | Unincorporated | | | | Incorporated | | | |
|---|-----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 1952 | 1954 | 1956 | 1959 | 1952 | 1954 | 1956 | 1959 |
| | per cent of net sales | | | | | | | |
| Gross profit | 28.94 | 29.82 | 30.26 | 31.58 | 33.42 | 32.14 | 32.76 | 32.98 |
| Operating expenses: | | | | | | | | |
| Employees' salaries | 8.68 | 9.20 | 8.62 | 8.84 | 18.74 | 18.53 | 18.37 | 19.00 |
| Occupancy | 4.32 | 4.77 | 5.19 | 5.36 | 5.33 | 5.16 | 5.13 | 5.59 |
| Office and store supplies | 0.59 | 0.62 | 0.56 | 0.44 | 0.67 | 0.64 | 0.57 | 0.44 |
| Advertising | 0.74 | 0.83 | 0.80 | 0.85 | 1.05 | 1.08 | 0.98 | 1.15 |
| All other expenses | 2.66 | 2.81 | 2.97 | 3.39 | 3.04 | 3.09 | 3.25 | 3.68 |
| Total operating expenses | 16.99 | 18.23 | 18.14 | 18.88 | 28.83 | 28.50 | 28.30 | 29.86 |
| Net operating profit before income tax and net non-trading income ¹ | 11.95 | 11.59 | 12.12 | 12.70 | 4.59 | 3.64 | 4.46 | 3.12 |

¹ Before proprietors' salaries in the case of unincorporated firms.

Note: These ratios are "weighted" according to the 1951 Census weights of the different sales sizes for independent stores.

TABLE 2. Independent Drug Stores - Balance Sheet Ratios as at December 31, 1952 - 59

| Item | Unincorporated | | | | Incorporated | | | |
|--|----------------|------|------|------|--------------|------|------|------|
| | 1952 | 1954 | 1956 | 1959 | 1952 | 1954 | 1956 | 1959 |
| Current ratio—Owned | 3.97 | 3.52 | 4.20 | 3.97 | — | 3.98 | 4.04 | 2.81 |
| Rented | 3.68 | 4.36 | 3.78 | 3.44 | 3.85 | 3.32 | 3.50 | 2.85 |
| Liquidity ratio—Owned | 1.36 | 1.06 | 1.47 | 1.19 | — | 1.46 | 1.51 | 0.82 |
| Rented | 1.32 | 1.48 | 1.09 | 1.08 | 1.43 | 1.13 | 1.18 | 0.91 |
| Working capital to net worth ratio—Owned | 0.58 | 0.53 | 0.53 | 0.52 | — | 0.63 | 0.63 | 0.48 |
| Rented | 0.76 | 0.78 | 0.74 | 0.72 | 0.77 | 0.78 | 0.79 | 0.71 |
| Worth debt ratio—Owned | 3.13 | 3.04 | 3.05 | 2.86 | — | 2.09 | 2.27 | 1.74 |
| Rented | 2.68 | 2.91 | 2.17 | 2.04 | 2.99 | 2.00 | 2.15 | 1.70 |
| Turnover of total capital employed—Owned | 1.90 | 1.91 | 1.76 | 1.82 | — | 2.31 | 1.82 | 1.80 |
| Rented | 2.64 | 2.60 | 2.76 | 2.75 | 2.31 | 2.41 | 2.52 | 2.67 |

Note: See page 10 for definitions.

TABLE 3. Independent Drug Stores - Operating Results of Unincorporated Stores by Annual Sales Volume and Occupancy Basis, 1959

| Item | Owned stores with annual net sales of | | | Rented stores with annual net sales of | | | Total ¹ |
|--|---------------------------------------|-----------------|--------------------|--|-----------------|--------------------|--------------------|
| | \$20,000-49,999 | \$50,000-99,999 | \$100,000 and over | \$20,000-49,999 | \$50,000-99,999 | \$100,000 and over | |
| Number of stores reporting | 54 | 50 | 26 | 36 | 113 | 54 | 345 |
| Average net sales per store | \$ 36,110 | 70,182 | 139,168 | 38,110 | 73,049 | 131,062 | 69,256 |
| Average beginning inventory | \$ 9,723 | 15,065 | 24,499 | 8,959 | 13,865 | 24,065 | 13,967 |
| Average inventory, end of year | \$ 10,145 | 15,645 | 25,415 | 9,054 | 14,678 | 24,816 | 14,533 |
| Average cost of goods sold | \$ 25,379 | 48,332 | 94,656 | 26,070 | 49,441 | 89,408 | 47,285 |
| Stock turnover (times per year) | 2.55 | 3.15 | 3.79 | 2.89 | 3.46 | 3.66 | 3.32 |
| Profit and loss data (Per cent of net sales) | | | | | | | |
| Gross profit | 29.72 | 31.13 | 31.98 | 31.59 | 32.32 | 31.78 | 31.58 |
| Operating expenses: | | | | | | | |
| Employees' salaries and wages (except delivery) | 5.07 | 9.23 | 11.68 | 9.12 | 9.23 | 10.44 | 8.84 |
| Delivery | 0.62 | 1.05 | 1.07 | 0.93 | 1.17 | 1.67 | 1.06 |
| Occupancy expenses: | | | | | | | |
| Taxes | 1.02 | 0.86 | 0.61 | 0.38 | 0.34 | 0.27 | 0.56 |
| Insurance | 0.78 | 0.67 | 0.57 | 0.46 | 0.48 | 0.44 | 0.55 |
| Rent | — | — | — | 3.07 | 2.70 | 2.07 | 1.78 |
| Light, heat and power | 1.22 | 0.92 | 0.71 | 0.69 | 0.64 | 0.50 | 0.78 |
| Repairs and maintenance | 0.95 | 0.59 | 0.58 | 0.37 | 0.51 | 0.47 | 0.55 |
| Depreciation allowances | 1.58 | 1.64 | 1.55 | 0.57 | 1.05 | 0.98 | 1.14 |
| Total occupancy expenses | 5.55 | 4.68 | 4.02 | 5.54 | 5.72 | 4.73 | 5.36 |
| Office and store supplies | 0.48 | 0.41 | 0.61 | 0.30 | 0.48 | 0.50 | 0.44 |
| Advertising | 0.69 | 0.89 | 1.13 | 0.65 | 0.76 | 1.07 | 0.85 |
| Net loss on bad debts | 0.07 | 0.09 | — | 0.07 | 0.05 | 0.07 | 0.06 |
| All other expenses | 2.28 | 2.30 | 1.87 | 2.30 | 2.37 | 2.09 | 2.27 |
| Total operating expenses | 14.76 | 18.65 | 20.38 | 18.91 | 19.78 | 20.37 | 18.88 |
| Net operating profit | 14.96 | 12.48 | 11.60 | 12.68 | 12.54 | 11.21 | 12.70 |
| Non-trading income | 1.73 | 1.55 | 0.91 | 1.04 | 0.57 | 0.70 | 1.03 |
| Non-trading expense | 0.18 | 0.12 | 0.19 | 0.26 | 0.18 | 0.03 | 0.16 |
| Net profit before deduction of proprietors' salaries and income tax .. | 16.53 | 13.91 | 12.32 | 13.46 | 12.93 | 11.88 | 13.57 |

¹ Averages and ratios "weighted" according to the 1951 Census weights of the sales sizes for independent stores.

TABLE 4. Independent Drug Stores - Owned - Financial Structure of Unincorporated Stores by Size and Age of Business as at December 31, 1959

| Item | Stores with annual net sales of | | | | | Total all sizes \$20,000 and over |
|---|---------------------------------|----------------------|---------------|---------------------|-----------------------|--|
| | \$20,000 - 49,999 | | | \$50,000- 99,999 | \$100,000 and over | |
| | Under 10 years | 10 years and over | Total | | | |
| Assets | average per store (dollars) | | | | | |
| Current assets: | | | | | | |
| Cash on hand and in bank | 1,259 | 1,871 | 1,741 | 4,919 | 7,486 | 4,117 |
| Accounts and notes receivable (net) | 741 | 426 | 493 | 1,225 | 1,724 | 1,022 |
| Merchandise inventory | 12,593 | 9,136 | 9,867 | 15,835 | 25,773 | 15,344 |
| Other current assets | 1,731 | 1,401 | 1,471 | 865 | 2,543 | 1,448 |
| Total current assets | 16,324 | 12,834 | 13,572 | 22,844 | 37,526 | 21,931 |
| Fixed assets (net): | | | | | | |
| Used in the business | 11,561 | 8,279 | 8,973 | 14,398 | 31,893 | 15,630 |
| Not used in the business | 87 | 2,234 | 1,780 | 1,622 | 4,557 | 2,270 |
| Total fixed assets (net) | 11,648 | 10,513 | 10,753 | 16,020 | 36,450 | 17,900 |
| Other assets: | | | | | | |
| Long term investments | 1,089 | 2,123 | 1,904 | 1,931 | 3,705 | 2,272 |
| Other assets | 107 | 258 | 227 | 586 | 2,374 | 792 |
| Total other assets | 1,196 | 2,381 | 2,131 | 2,517 | 6,079 | 3,064 |
| Total assets | 29,168 | 25,728 | 26,456 | 41,381 | 80,055 | 42,895 |
| Liabilities | | | | | | |
| Current liabilities: | | | | | | |
| Accounts and notes payable | 3,215 | 2,670 | 2,786 | 4,792 | 12,672 | 5,527 |
| Fixed liabilities: | | | | | | |
| Mortgages on fixed assets used in the business | 5,645 | 781 | 1,810 | 1,978 | 10,105 | 3,521 |
| Mortgages on fixed assets not used in the business | — | 185 | 146 | 194 | 1,231 | 380 |
| Total fixed liabilities | 5,645 | 966 | 1,956 | 2,172 | 11,336 | 3,901 |
| Other liabilities | 2,419 | 946 | 1,258 | 2,471 | 1,033 | 1,685 |
| Total liabilities | 11,279 | 4,582 | 6,000 | 9,435 | 25,041 | 11,113 |
| Net worth: Proprietor's or partners' equity in the business | 17,889 | 21,146 | 20,456 | 31,946 | 55,014 | 31,782 |
| Total liabilities and net worth | 29,168 | 25,728 | 26,456 | 41,381 | 80,055 | 42,895 |
| Average net sales of stores reporting | 39,007 | 34,914 | 35,780 | 70,323 | 140,349 | 69,961 |
| Number of stores reporting | 11 | 41 | 52 | 49 | 25 | 126 |

TABLE 5. Independent Drug Stores — Rented — Financial Structure of Unincorporated Stores by Size and Age of Business as at December 31, 1959

| Item | Stores with annual net sales of | | | | | | | Total all sizes \$20,000 and over |
|---|---------------------------------|-----------------------------|----------------------|---------------|--------------------|----------------------|---------------|--|
| | \$20,000- 49,999 | \$50,000-99,999 | | | \$100,000 and over | | | |
| | | Under 10 years | 10 years and over | Total | Under 10 years | 10 years and over | Total | |
| | | average per store (dollars) | | | | | | |
| Assets | | | | | | | | |
| Current assets: | | | | | | | | |
| Cash on hand and in bank..... | 2,897 | 2,902 | 3,822 | 3,428 | 5,365 | 7,394 | 6,830 | 4,301 |
| Accounts and notes receivable (net) | 570 | 755 | 1,113 | 960 | 2,687 | 2,592 | 2,618 | 1,363 |
| Merchandise inventory | 9,439 | 14,437 | 14,857 | 14,677 | 25,461 | 23,975 | 24,388 | 16,545 |
| Other current assets | 987 | 865 | 1,077 | 986 | 529 | 5,643 | 4,222 | 1,901 |
| Total current assets | 13,893 | 18,959 | 20,869 | 20,051 | 34,042 | 39,604 | 38,058 | 24,110 |
| Fixed assets (net): | | | | | | | | |
| Used in the business | 1,758 | 6,000 | 3,770 | 4,725 | 7,873 | 5,783 | 6,364 | 4,692 |
| Not used in the business..... | 3,209 | 1,158 | 4,175 | 2,885 | 2,274 | 6,333 | 5,205 | 3,594 |
| Total fixed assets (net)..... | 4,967 | 7,158 | 7,945 | 7,607 | 10,147 | 12,116 | 11,569 | 8,286 |
| Other assets: | | | | | | | | |
| Long term investments | 1,400 | 735 | 1,967 | 1,439 | 1,373 | 660 | 858 | 1,268 |
| Other assets | 3,122 | 1,367 | 953 | 1,130 | 2,853 | 918 | 1,456 | 1,556 |
| Total other assets | 4,522 | 2,102 | 2,920 | 2,569 | 4,226 | 1,578 | 2,314 | 2,824 |
| Total assets | 23,382 | 28,219 | 31,734 | 30,227 | 48,415 | 53,298 | 51,941 | 35,220 |
| Liabilities | | | | | | | | |
| Current liabilities: | | | | | | | | |
| Accounts and notes payable | 2,667 | 6,704 | 5,598 | 6,072 | 10,951 | 11,565 | 11,394 | 7,007 |
| Fixed liabilities: | | | | | | | | |
| Mortgages on fixed assets used in the business | 393 | 2,454 | 675 | 1,437 | 4,473 | 745 | 1,781 | 1,359 |
| Mortgages on fixed assets not used in the business | 756 | 510 | 1,512 | 1,083 | 466 | 1,778 | 1,413 | 1,122 |
| Total fixed liabilities | 1,149 | 2,964 | 2,187 | 2,520 | 4,939 | 2,523 | 3,194 | 2,481 |
| Other liabilities | 666 | 1,531 | 1,275 | 1,384 | 8,559 | 2,696 | 4,325 | 2,095 |
| Total liabilities | 4,482 | 11,199 | 9,060 | 9,976 | 24,449 | 16,784 | 18,913 | 11,583 |
| Net worth: Proprietor's or partners' equity in the business | 18,900 | 17,020 | 22,674 | 20,251 | 23,966 | 36,514 | 33,028 | 23,637 |
| Total liabilities and net worth | 23,382 | 28,219 | 31,734 | 30,227 | 48,415 | 53,298 | 51,941 | 35,220 |
| Average net sales of stores reporting | 38,223 | 73,229 | 73,241 | 73,236 | 140,490 | 126,150 | 130,133 | 83,456 |
| Number of stores reporting | 32 | 45 | 60 | 105 | 15 | 39 | 54 | 191 |

TABLE 6. Independent Drug Stores — Operating Results of Incorporated Stores by Annual Sales Volume and Occupancy Basis, 1959

| Item | Owned stores with annual net sales of | | Rented stores with annual net sales of | | Total ¹ |
|---|---|---------------------|---|--|--------------------|
| | \$100,000 and over | \$50,000- 99,999 | \$100,000 and over | | |
| Number of stores reporting | 13 | 33 | 50 | | 107 |
| Average net sales per store | \$ 142,734 | 76,819 | 201,754 | | 119,983 |
| Average beginning inventory | \$ 27,732 | 18,337 | 32,700 | | 22,927 |
| Average inventory, end of year | \$ 29,445 | 18,821 | 35,219 | | 24,116 |
| Average cost of goods sold | \$ 95,596 | 51,497 | 134,350 | | 80,189 |
| Stock turnover (times per year) | 3.34 | 2.77 | 3.96 | | 3.41 |
| Profit and loss data (Per cent of net sales) | | | | | |
| Gross profit | 33.03 | 32.96 | 33.41 | | 32.98 |
| Operating expenses: | | | | | |
| Executives and employees' salaries and wages, (except delivery) | 19.04 | 18.57 | 17.36 | | 19.00 |
| Delivery | 0.45 | 0.69 | 1.78 | | 1.00 |
| Occupancy expenses: | | | | | |
| Taxes | 0.79 | 0.40 | 0.27 | | 0.64 |
| Insurance | 0.42 | 0.56 | 0.44 | | 0.51 |
| Rent | — | 3.10 | 2.37 | | 2.25 |
| Light, heat and power | 0.75 | 0.77 | 0.46 | | 0.71 |
| Repairs and maintenance | 0.73 | 0.40 | 0.32 | | 0.44 |
| Depreciation allowances | 1.88 | 0.94 | 0.91 | | 1.04 |
| Total occupancy expenses | 4.57 | 6.17 | 4.77 | | 5.59 |
| Office and store supplies | 0.33 | 0.40 | 0.60 | | 0.44 |
| Advertising | 0.91 | 1.07 | 1.44 | | 1.15 |
| Net loss on bad debts | 0.06 | 0.17 | 0.08 | | 0.12 |
| All other expenses | 2.43 | 2.25 | 2.33 | | 2.56 |
| Total operating expenses | 27.79 | 29.32 | 28.36 | | 29.86 |
| Net operating profit | 5.24 | 3.64 | 5.05 | | 3.12 |
| Non-trading income | 1.84 | 0.66 | 0.56 | | 1.08 |
| Non-trading expense | 0.58 | 0.61 | 0.22 | | 0.35 |
| Net profit before provision for income tax | 6.50 | 3.69 | 5.39 | | 3.80 |

¹ Averages and ratios "weighted" according to the 1951 Census weights of the different sales sizes for independent stores.

**TABLE 7. Independent Drug Stores — Owned — Financial Structure of Incorporated Stores
by Size of Business as at December 31, 1959**

| Item | Stores with annual net sales of | Total all sizes \$20,000 and over |
|--|------------------------------------|--|
| | \$100,000 and over | |
| Assets | | average per store (dollars) |
| Current assets: | | |
| Cash on hand and in bank | 5,118 | 4,684 |
| Accounts and notes receivable (net) | 4,081 | 3,191 |
| Merchandise inventory | 29,445 | 24,368 |
| Other current assets | 3,049 | 2,137 |
| Total current assets | 41,693 | 34,380 |
| Fixed assets (net): | | |
| Used in the business | 32,867 | 27,770 |
| Not used in the business | 4,730 | 3,236 |
| Total fixed assets (net) | 37,597 | 31,006 |
| Other assets: | | |
| Long term investments | 2,402 | 3,355 |
| Other assets | 2,589 | 3,541 |
| Total other assets | 4,991 | 6,896 |
| Total assets | 84,281 | 72,282 |
| Liabilities | | |
| Current liabilities: | | |
| Accounts and notes payable | 13,589 | 12,244 |
| Fixed liabilities: | | |
| Mortgages on fixed assets used in the business | 7,658 | 6,899 |
| Mortgages on fixed assets not used in the business | — | — |
| Total fixed liabilities | 7,658 | 6,899 |
| Other liabilities | 8,075 | 7,264 |
| Total liabilities | 29,322 | 26,407 |
| Net worth: Capital stock | 15,949 | 14,781 |
| Surplus and undivided profits | 39,010 | 31,094 |
| Total net worth | 54,959 | 45,875 |
| Total liabilities and net worth | 84,281 | 72,282 |
| Average net sales of stores reporting | 142,734 | 116,287 |
| Number of stores reporting | 13 | 19 |

**TABLE 8. Independent Drug Stores — Rented — Financial Structure of Incorporated Stores
by Size and Age of Business as at December 31, 1959**

| Item | Stores with annual net sales of | | | | | | Total all sizes \$20,000 and over |
|--|---------------------------------|----------------------|---------------|--------------------|----------------------|---------------|--|
| | \$50,000 — 99,999 | | | \$100,000 and over | | | |
| | Under 10 years | 10 years and over | Total | Under 10 years | 10 years and over | Total | |
| average per store (dollars) | | | | | | | |
| Assets | | | | | | | |
| Current assets: | | | | | | | |
| Cash on hand and in bank | 2,701 | 5,167 | 4,396 | 5,704 | 8,863 | 7,838 | 6,123 |
| Accounts and notes receivable (net) | 2,754 | 2,943 | 2,884 | 6,797 | 7,312 | 7,112 | 5,291 |
| Merchandise inventory | 18,747 | 18,858 | 18,823 | 33,749 | 36,252 | 35,281 | 28,110 |
| Other current assets | 409 | 1,132 | 906 | 1,791 | 2,738 | 2,371 | 1,718 |
| Total current assets | 24,611 | 28,100 | 27,009 | 48,041 | 55,165 | 52,402 | 41,242 |
| Fixed assets (net): | | | | | | | |
| Used in the business | 5,620 | 3,100 | 3,888 | 12,188 | 9,003 | 10,238 | 7,440 |
| Not used in the business | 408 | 258 | 305 | — | 2,655 | 1,625 | 1,052 |
| Total fixed assets (net) | 6,028 | 3,358 | 4,193 | 12,188 | 11,658 | 11,863 | 8,492 |
| Other assets: | | | | | | | |
| Long term investments | 374 | 1,521 | 1,163 | 5,516 | 3,867 | 4,507 | 3,035 |
| Other assets | 1,706 | 2,250 | 2,080 | 11,160 | 9,954 | 10,422 | 6,935 |
| Total other assets | 2,080 | 3,771 | 3,243 | 16,676 | 13,821 | 14,929 | 9,970 |
| Total assets | 32,719 | 35,229 | 34,445 | 76,905 | 80,644 | 79,194 | 59,704 |
| Liabilities | | | | | | | |
| Current liabilities: | | | | | | | |
| Accounts and notes payable | 9,223 | 6,915 | 7,636 | 23,025 | 17,766 | 19,805 | 14,492 |
| Fixed liabilities: | | | | | | | |
| Mortgages on fixed assets used in the business | 105 | — | 33 | 3,430 | 610 | 1,703 | 1,025 |
| Mortgages on fixed assets not used in the business | 45 | — | 14 | — | 1,233 | 755 | 440 |
| Total fixed liabilities | 150 | — | 47 | 3,430 | 1,843 | 2,458 | 1,465 |
| Other liabilities | 5,234 | 5,930 | 5,713 | 10,110 | 4,822 | 6,872 | 5,183 |
| Total liabilities | 14,607 | 12,845 | 13,396 | 36,565 | 24,431 | 29,135 | 22,140 |
| Net worth: Capital stock | 7,166 | 9,482 | 8,758 | 17,891 | 15,796 | 16,609 | 13,261 |
| Surplus and undivided profits | 10,946 | 12,902 | 12,291 | 22,449 | 40,417 | 33,450 | 24,302 |
| Total net worth | 18,112 | 22,384 | 21,049 | 40,340 | 56,213 | 50,059 | 37,564 |
| Total liabilities and net worth | 32,719 | 35,229 | 34,445 | 76,905 | 80,644 | 79,194 | 59,704 |
| Average net sales of stores reporting | 76,916 | 77,151 | 77,078 | 204,415 | 201,071 | 202,368 | 148,273 |
| Number of stores reporting | 10 | 22 | 32 | 19 | 30 | 49 | 85 |

DEFINITIONS

PROFIT AND LOSS

Items

Net sales — the dollar volume of business done. Allowances and discounts granted to customers and value of goods returned by customers are deducted from gross sales, but sales of meals or lunches provided employees and any goods withdrawn by the proprietor for personal use are included.

Purchases — are taken at invoice value less returns and allowances, cash and trade discounts. Added to the cost of merchandise are the following expenses: duty, inward freight, express and trucking, alterations, etc.

Cost of goods sold — determined by adding the beginning inventory to net purchases and deducting the ending inventory.

Gross profit — the difference between "cost of goods sold" and "net sales".

Operating expenses — all costs incurred in the year's operation of a business, except the cost of merchandise. These include:

Salaries and wages (except delivery) — payments to employees before deduction of income tax or unemployment insurance. Proprietors' salaries or withdrawals are included in "net operating profit" in unincorporated store operations.

Delivery — includes salaries paid to delivery men, truck repairs and maintenance, depreciation, licences and insurance on delivery equipment and supplies used in connection with delivery (gas, oil, etc.)

Taxes — business, property and water taxes. Taxes collected for remittance to governmental bodies and income tax are not included.

Insurance — annual proportion of premiums for insurance policies carried to protect the business.

Rent — payments for use of business premises.

Heat, light and power — cost applicable to year's operations.

Repairs and maintenance — costs incurred to keep fixed store assets operating efficiently (excludes capital expenditure).

Store supplies — wrapping paper, office supplies, etc.

Advertising — displays, window dressing and sales promotion.

Net bad debt loss — estimated amount of uncollectable customers' accounts receivable less the amount recovered from former bad debts.

Other expenses — telephone, telegraph, postage, bank charges, legal, auditing and collection fees, etc.

Net operating profit — is the difference between "total operating expenses" and "gross profit" and includes proprietors' salaries and withdrawals before income tax deductions.

Occupancy — the cost of maintaining and occupying a place of business and includes: rent, business and property taxes, insurance, heat, light and power, repairs and maintenance and depreciation.

Non-trading income — interest earned, revenues from rentals, other activities, carrying charges and investments.

Non-trading expense — interest expense, rental expense, any other expenses not pertaining to the business.

Ratios

Stock turnover — the number of times in a year that the average merchandise inventory is sold and replaced. The average of the beginning and ending inventories is divided into the cost of goods sold.

Note: Each of the following ratios are expressed as a percentage of "net sales". Consequently, it is permissible to make direct comparisons between these ratios. Each ratio represents a portion of the average net sales' dollar.

Gross profit ratio — sometimes referred to as the "gross margin ratio" or "mark-up" represents the difference between "cost of goods sold" and "net sales". It is the portion of the average sales' dollar from which the merchant meets his operating expenses and obtains his net operating profit.

Operating expense ratios — each item of expense, as well as "total operating expenses" when expressed as a percentage of "net sales" shows the amounts of the average sales' dollar required to operate the average business.

Net operating profit ratio — the remaining proportion of the average sales' dollar after "cost of goods sold" and "total operating expenses" have been deducted. From this amount, the percentage allowances for both proprietors' salaries and income tax should be deducted, in order to determine the percentage to sales of net returns on capital investment.

BALANCE SHEET

Asset Items

Cash on hand or in bank — the amount of cash in the business at the end of the year.

Net accounts receivable — all customers' notes and accounts owing to the business at the end of the year less any reserve for doubtful accounts.

Merchandise inventory — the cost value of merchandise on hand for resale but does not include store supplies on hand.

Other current assets — includes assets which may be converted into cash, if necessary within a reasonably short time, such as Dominion of Canada Bonds and prepaid insurance.

Fixed assets (net) — the cost value of land, buildings, furniture, fixtures and equipment less any reserves for depreciation. Separate figures are shown for assets used in the business and those not used in the business.

Other assets — investments of a permanent nature not readily converted into cash and intangibles such as goodwill and organization costs.

Liabilities and Net Worth Items

Current liabilities — obligations which must be paid in the near future (usually one year) and represent accounts payable or any item that may be considered as a direct lien against current assets.

Fixed liabilities — mortgages secured by fixed assets and separated, as are fixed assets, between those used and not used in business.

Other liabilities — long term notes payable, accrued expenses such as taxes due but not yet paid, and prepaid or deferred income.

Net worth — Unincorporated business — the amount invested in the business together with any accumulated profits after proprietor's or partners' withdrawals.

— Incorporated business — net worth is shown in two parts:

- (1) Capital stock, which represents the shareholders' investment of fully paid-up subscribed shares, and
- (2) Surplus, which represents distributable surplus, capital surplus and earned surplus.

Ratios

Current ratio — $\text{Current Assets} \div \text{Current Liabilities}$ — indicates to what extent the business is able to meet its current obligations out of "current assets". Care should be taken to

examine the components of current assets because overstocking of inventories and overinvestment in credit sales (accounts receivable) can result in a stronger or more favourable ratio.

Liquidity ratio — $\text{Current Assets less Merchandise Inventory} \div \text{Current Liabilities}$ — sometimes referred to as the "acid test", is similar to the "current ratio" as a test of current credit strength. A ratio of 100% (or 1) is usually considered favourable.

Working capital to net worth ratio — denotes the relationship between "working capital" (current assets less current liabilities) and a proprietor's equity in the business. That is, the proportion of "net worth" that could be realized readily if liquidation were necessary.

Worth-debt ratio — $\text{Net Worth} \div \text{Total Liabilities}$ — if used in conjunction with the "current ratio", would reflect any weakening of the capital structure of a business through large loans which give a high "current ratio".

Interstatement Ratio

Turnover of total capital employed — $\text{Net Sales} \div \text{Total Assets}$ used in the business — provides an indication of the degree of management efficiency. However, this ratio should not be used alone because "profits" and not "sales" are the major criterion of efficiency.

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