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Mr Rowebottom

CANADA

OPERATING RESULTS AND FINANCIAL STRUCTURE
INDEPENDENT RESTAURANTS
1952

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NOTICE

The annual reports prepared by the Industry and Merchandising Division of the Bureau of Statistics are divided into 3 volumes, as follows: **Volume I** — The Primary Industries, including mining, forestry and fisheries; **Volume II** — Manufacturing; **Volume III** — Merchandising and Services.

Volume III consists of the following parts with individual trade reports listed under each:

Part I — Wholesale Statistics

A — Wholesale Trade, 25¢
*B — Operating Results of Food Wholesalers, 25¢
*C — Operating Results of Dry goods, Piece Goods, and Footwear Wholesalers, 25¢
*D — Operating Results of Miscellaneous Wholesalers, (Automotive parts and accessories, drugs, hardware, plumbing and heating equipment), 25¢

Part II — Retail Statistics

E — General Review, 25¢
F — Retail Trade, 50¢
G — Retail Chain Stores, 50¢
*H — Operating Results of Chain Food Stores, 25¢
* I — Operating Results of Chain Clothing Stores, 25¢
* J — Operating Results of Miscellaneous Chain Stores (variety, drug, furniture), 25¢
K — Operating Results of Retail Food Stores, 25¢
L — Operating Results of Retail Clothing Stores, 25¢
M — Operating Results of Retail Hardware, Furniture, Appliance and Radio Stores, 25¢
N — Operating Results of Filling Stations and Garages, 25¢
O — Operating Results of Miscellaneous Retail Stores, 25¢
P — Retail Consumer Credit, 25¢

Part III — Service and Special Fields

Q — Laundries, Cleaners and Dyers, 25¢
R — Motion Picture Theatres, Exhibitors and Distributors, 25¢
S — Hotels, 25¢
T — Sales Financing, 25¢
U — Farm Implement and Equipment Sales, 25¢
V — New Motor Vehicle Sales and Motor Vehicle Financing, 25¢
W — Advertising Agencies (Memorandum), 25¢
X — Motion Picture Production (Memorandum), 10¢

The reports are punched to permit of filing in a ring binder.

* Biennial reports — not issued for 1952.

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Note: "Operating Results and Financial Structure Independent Restaurants" was formerly contained in the bulletin "Operating Results and Financial Structure Miscellaneous Retail Stores".

DEFINITIONS

Profit and Loss

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.

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.

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.

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

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

Depreciation allowances – provision for decrease in the value of fixed store assets.

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.

DEFINITIONS

Balance Sheet

Assets

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 book 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

Current liabilities – obligations which must be paid in the near future 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' withdrawls.

– Incorporated business – net worth is shown in two parts: (1) Capital stocks, which represents the shareholders' investment of fully paid-up subscribed shares, and (2) Surplus, which represents distributable surplus, capital surplus and earned surplus.

DEFINITIONS

Profit and Loss Statement 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 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 Ratios

Current Ratio — Current Assets ÷ 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 — Cash + Accounts Receivable + Government Bonds and Securities ÷ 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 — Net Worth ÷ 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 — Net Sales ÷ 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.

OPERATING RESULTS AND FINANCIAL STRUCTURE

INDEPENDENT RESTAURANTS

1952

INTRODUCTION

The ratios appearing in the operating results bulletins may not constitute an ideal pattern of operations which all retailers should set as a goal, but they do represent a standard by which the retailer may ascertain whether or not his operations are being conducted as effectively, economically and profitably as those of the trade in general. To the merchant whose profits are below average, the operating results summaries may help to disclose the reasons which account for this situation. Reflection and consideration on the part of the merchant make it possible to decide whether his operating methods should be altered or whether the situation is normal in the light of conditions peculiar to the location of his business.

There is growing evidence that independent retail merchant are making more advantageous use of the results shown in the biennial operating results bulletins issued by the Dominion Bureau of Statistics. Many accounting firms whose clientele includes retail merchants have shown much interest in these series.

A number of trade papers and business periodicals have reproduced and interpreted the results of previous studies with the object of illustrating to retail merchants the manner in which operating results can be used as a tool in store management. This is a practice the Bureau is pleased to encourage, since it meets with one of the most important objects in maintaining this series, namely the promotion of improved merchandising on the part of retailers.

Statistics derived from other sources have shown that the mortality rate of business is much higher among new entrants into the field of retailing than among those established for five years or more. There are many reasons for this, some of them associated with the natural incompetence of the initiate retailer which could not be completely overcome by means of operating statement analysis. It seems reasonable to suppose, however, that failure in many cases is the result if inadequate knowledge on the part of new proprietors of the true fiscal requirements involved in operating a business and the proper allocation of costs. Where capital is limited, as is often the case in a newly-established store, it would seem that most careful attention should be given to maintenance of proper records and that provision be made to check against some such standard performance as these publications provide.

Analyses of both profit and loss statements and balance sheets are presented in this report.

Profit and loss data are shown for owned and rented stores separately, and for various sales-size categories.

Balance sheet data, which was introduced in 1948, is continued in this 1952 study. This information is presented by sales-size and kind of occupancy groups for stores with $20,000 or more annual net sales. Where possible, a further differentiation has been made between businesses in operation less than 10 years and 10 years or more. An important change, introduced in 1950, is the segregation of fixed assets and fixed liabilities between those used in the business and those not used in the business. This makes possible a better relationship between assets used in the business and sales than was possible when all fixed assets of the proprietor were reported as one item.

This year, definitions of the ratios presented in this bulletin, for comparison and financial statement analysis, are shown on the opposite page.

INDEPENDENT RESTAURANTS

Results appearing in this report are applicable to the operations of independent restaurants. The term "independent" is used to mean non-chain or single establishment firms. In most cases, operations were not restricted entirely to the provision of meals. Sales of tobacco, candy and other merchandise accounted for part of the total sales, but if these sales represented more than 20 per cent of annual receipts for any one reporting firm, results of this firm were not used in the tabulations.

After careful editing of the questionnaires returned, it was possible to use 279 reports on restaurants for the tabulation of profit and loss averages and ratios. Results of firms operating in owned or rented premises are shown separately. A further differentiation was made within each of these categories to present results within typical sales-size categories.

Balance sheet results are also shown, in the form of averages, for both owned and rented categories, but only for those firms in the annual sales-size groups commencing at $20,000. A sufficient number of firms reported to allow a further segregation of results for restaurants in operation "under 10 years" and "10 years and over".

Operating Results

Although identical firm results are not used, a reasonable year-to-year comparison of operating results may be made. Because profits and expenses for each year are expressed as percentages of their respective sales, it is necessary to take into account the change in sales to make a significant interpretation of changes in ratios. As an example, if average sales increased 10 per cent from $50,000 in 1950 to $55,000 in 1952, and rent showed a proportionate increase from $600 to $660, the rent expense ratio would be identical for both years. However, if rent remained unchanged, or increased less than 10 per cent, the rent expense ratio would decline.

The average gross profit, expressed as a percentage of average net sales, increased slightly from 38.71 per cent in 1950 to 38.90 per cent in 1952. Operating expenses, in total, showed a slight decline from 32.23 per cent to 31.29 per cent for the respective years' operations. This decline was common to all itemized expenses, except store supplies and advertising. The increase in the gross profit ratio and the decrease in the total operating expense ratio each contributed to the greater net operating profit ratio of 7.61 per cent for 1952, compared to 6.48 per cent in 1950. In addition, the average net sales were greater for the reporting stores in 1952. Therefore, restauranteurs realized a greater net profit from 1952 operations than is indicated by direct ratio comparison. That is, in addition to the net operating profit being a larger portion of the average net sales' dollar, the average net sales (or the number of average sales' dollars) also increased.

Generally, inventories were slightly lower in value at the end of 1952 than at the beginning of the year.

The annual rate of stock turnover ranged from 17.69 in the smaller restaurants to 28.31 for firms in the larger sales size categories.

Operating Results of Independent Restaurants 1950 and 1952 Compared

Item	1950	1952
Average net sales per restaurant $	57,963	64,726
Profit and Loss Data (Per cent of net sales)		
Gross profit	**38.71**	**38.90**
Operating expenses:		
Employees' salaries	19.07	18.23
Occupancy	9.21	8.98
Store supplies	0.88	1.02
Advertising	0.37	0.44
All other expenses	2.70	2.62
Total operating expenses	**32.23**	**31.29**
Net operating profit before deduction of proprietors' salaries and income tax	**6.48**	**7.61**

Financial Ratios of Independent Restaurants as at December 31, 1952

Ratio[1]	Owned	Rented
Current ratio	1.43	1.31
Liquidity ratio	0.86	0.75
Working capital to net worth	0.09	0.12
Worth debt ratio	1.83	2.02
Turnover of total capital employed	2.77	5.75

1. Ratio definitions are shown on page 6.

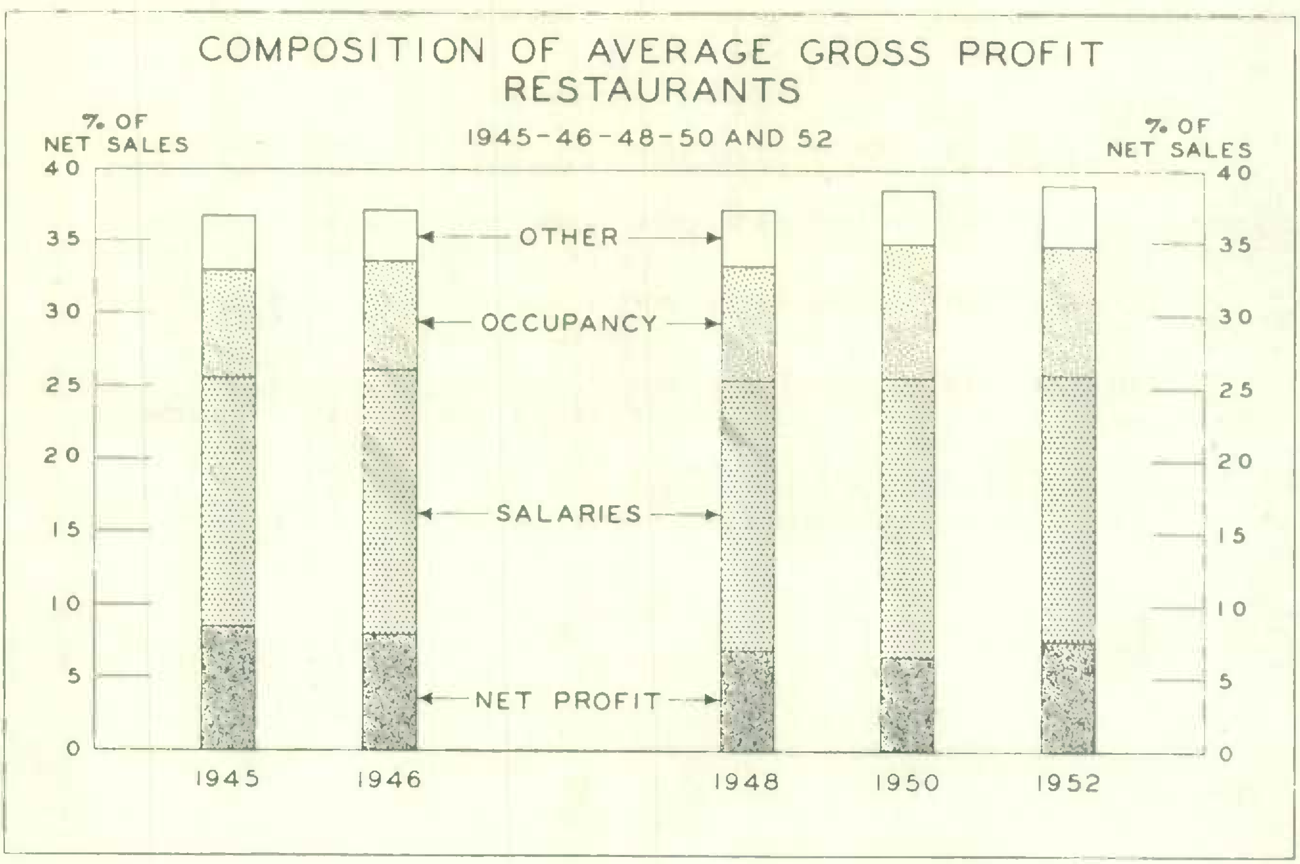

TABLE 1. Independent Restaurants — Operating Results by Annual Sales Volume and Occupancy Basis, 1952

Item		Owned restaurants with annual net sales of				Rented restaurants with annual net sales of			
		$10,000 to $19,999	$20,000 to $49,999	$50,000 to $99,999	$100,000 and over	$10,000 to $19,999	$20,000 to $49,999	$50,000 to $99,999	$100,000 and over
Number of restaurants reporting		18	21	8	15	18	79	68	44
Average net sales per restaurant	$	14,544	31,528	64,803	142,135	15,356	33,625	70,934	151,572
Average cost of goods sold	$	9,830	21,056	38,248	83,424	10,205	21,857	44,538	88,138
Average beginning inventory	$	515	1,197	1,490	3,975	521	780	1,971	4,431
Average inventory, end of year	$	556	1,184	1,506	3,803	543	765	1,865	3,864
Stock turnover (times per year)		18.37	17.69	25.53	21.45	19.18	28.31	23.22	21.25
Profit and Loss Data (Per cent of net sales)									
Gross profit		**32.41**	**33.22**	**40.98**	**41.31**	**33.54**	**35.00**	**37.21**	**41.85**
Operating expenses:									
Employees' salaries and wages		7.76	12.60	20.09	19.13	10.15	13.98	17.63	21.35
Taxes		1.80	1.27	1.07	0.89	0.65	0.45	0.41	0.37
Insurance		0.67	0.60	0.47	0.69	0.49	0.35	0.28	0.38
Rent		—	—	—	—	5.10	3.64	3.01	2.79
Heat, light and power		3.01	2.72	2.39	2.53	3.01	2.68	2.62	2.31
Repairs and maintenance		1.45	1.25	1.17	1.52	1.27	1.13	1.22	1.43
Depreciation allowances		2.77	2.39	1.53	1.72	0.70	1.15	1.43	2.20
Store supplies		0.92	0.67	1.43	1.08	0.59	0.68	0.86	1.28
Advertising		0.21	0.19	0.57	0.53	0.22	0.24	0.43	0.53
Bad debts-written off		0.01	0.03	0.03	—	0.01	0.01	0.01	—
(Less) amount recovered		—	0.01	—	—	—	—	—	—
Net bad debt loss		0.01	0.02	0.03	—	0.01	0.01	0.01	—
All other expenses		3.62	2.34	1.98	2.60	1.81	1.85	2.58	2.99
Total operating expenses		**22.22**	**24.05**	**30.73**	**30.69**	**24.00**	**26.16**	**30.48**	**35.63**
Net operating profit before deduction of proprietors' salaries and income tax		10.19	9.17	10.25	10.62	9.54	8.84	6.73	6.22

TABLE 2. Independent Restaurants — Owned — Financial Structure by Size and Age of Business as at December 31, 1952

Item	Restaurants with annual net sales of					Total all sizes $20,000 and over
	$20,000 to $49,999			$50,000 to $99,999	$100,000 and over	
	Under 10 years	10 years and over	Total			
Assets						
Current assets:						
Cash on hand and in bank	974	1,394	1,109	2,444	5,658	2,732
Accounts and notes receivable (net)	13	207	75	—	262	117
Merchandise inventory	1,028	1,686	1,237	1,270	5,542	2,545
Other current assets	—	42	13	2,081	1,865	958
Total current assets	**2,015**	**3,329**	**2,434**	**5,795**	**13,327**	**6,352**
Fixed assets (net):						
Used in the business	11,750	13,484	12,302	29,253	32,142	21,453
Not used in the business	4,633	1,954	3,780	2,500	5,913	4,187
Total fixed assets (net)	**16,383**	**15,438**	**16,082**	**31,753**	**38,055**	**25,640**
Other assets:						
Investments of a permanent nature	—	471	150	—	—	77
Intangibles	285	714	421	1,296	2,853	1,319
Total other assets	**285**	**1,185**	**571**	**1,296**	**2,853**	**1,396**
Total assets	**18,683**	**19,952**	**19,087**	**38,844**	**54,235**	**33,388**
Liabilities						
Current liabilities — accounts and notes payable	1,711	1,651	1,693	4,912	8,824	4,447
Fixed liabilities — mortgages on fixed assets:						
Used in the business	3,173	1,602	2,673	13,083	4,640	5,204
Not used in the business	2,603	414	1,906	—	1,653	1,475
Other liabilities	1,177	1,429	1,257	258	—	691
Total liabilities	**8,664**	**5,096**	**7,529**	**18,253**	**15,117**	**11,817**
Net worth — proprietor's or partners' equity in the business	10,019	14,856	11,558	20,591	39,118	21,571
Total liabilities and net worth	**18,683**	**19,952**	**19,087**	**38,844**	**54,235**	**33,388**
Number of restaurants reporting	15	7	22	8	13	43
Average net sales of restaurants reporting	32,080	34,020	32,698	70,831	168,580	80,973

TABLE 3. Independent Restaurants – Rented – Financial Structure by Size and Age of Business, as at December 31, 1952

Item	Restaurants with annual net sales of									Total all sizes $20,000 and over
	$20,000 to $49,999			$50,000 to $99,999			$100,000 and over			
	Under 10 years	10 years and over	Total	Under 10 years	10 years and over	Total	Under 10 years	10 years and over	Total	
Assets										
Current assets:										
Cash on hand and in bank	783	1,775	1,024	1,071	2,911	1,991	4,167	3,502	3,897	2,262
Accounts and notes receivable (net)	90	11	71	155	174	164	74	222	134	129
Merchandise inventory	1,068	659	968	1,832	2,018	1,925	3,736	4,750	4,147	2,291
Other current assets	91	–	69	99	454	277	787	3,662	1,953	701
Total current assets	**2,032**	**2,445**	**2,132**	**3,157**	**5,557**	**4,357**	**8,764**	**12,136**	**10,131**	**5,383**
Fixed assets (net):										
Used in the business	3,704	2,041	3,299	6,646	8,357	7,502	20,434	9,249	15,900	8,715
Not used in the business	326	2,824	934	1,026	1,184	1,105	133	7,567	3,147	1,646
Total fixed assets (net)	**4,030**	**4,865**	**4,233**	**7,672**	**9,541**	**8,607**	**20,567**	**16,816**	**19,047**	**10,361**
Other assets:										
Investments of a permanent nature	294	–	222	11	111	61	44	40	42	102
Intangibles	811	–	614	511	583	546	772	12	464	542
Total other assets	**1,105**	**–**	**836**	**522**	**694**	**607**	**816**	**52**	**506**	**644**
Total assets	**7,167**	**7,310**	**7,201**	**11,351**	**15,792**	**13,571**	**30,147**	**29,004**	**29,684**	**16,388**
Liabilities										
Current liabilities – accounts and notes payable	855	283	716	3,205	3,010	3,107	8,407	9,689	8,927	4,096
Fixed liabilities – mortgages on fixed assets:										
Used in the business	140	19	110	374	–	187	2,140	1,492	1,877	653
Not used in the business	148	1,722	531	189	127	158	–	–	–	220
Other liabilities	119	–	90	215	265	250	838	1,574	1,136	461
Total liabilities	**1,262**	**2,024**	**1,447**	**3,983**	**3,422**	**3,702**	**11,385**	**12,755**	**11,940**	**5,432**
Net worth – proprietor's or partners' equity in the business	5,905	5,286	5,754	7,368	12,370	9,869	18.762	16,249	17,744	10,956
Total liabilities and net worth	**7,167**	**7,310**	**7,201**	**11,351**	**15,792**	**13,571**	**30,147**	**29,004**	**29,684**	**16,388**
Number of restaurants reporting	28	9	37	27	27	54	22	15	37	128
Average net sales of restaurants reporting	34,964	29,953	33,746	69,531	72,257	70,892	151,034	162,749	155,785	84,695