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CANADA



OPERATING RESULTS AND FINANCIAL STRUCTURE INDEPENDENT RESTAURANTS 1954

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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—1 Operating Results of Automotive Parts and Accessories Wholesalers, 25¢
 - 2 Operating Results of Drug Wholesalers, 25¢
 - 3 Operating Results of Hardware Wholesalers, 25¢
 - 4 Operating Results of Plumbing and Heating Supply Wholesalers, 25¢
 - 5 Operating Results of Household Appliance & Electrical Supply Wholesalers, 25¢

Part II—Retail Statistics

- E—General Review—(Discontinued)
- F—Retail Trade, 50¢
- G—Retail Chain Stores, 50¢
- *H—Operating Results of Food Store Chains, 25¢
- *I—Operating Results of Clothing Store Chains, 25¢
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- M—Operating Results of Independent Hardware, Furniture, Appliance and Radio Stores, 25¢
- N—Operating Results of Filling Stations & Garages, 25¢
- O—1 Operating Results of Independent General Stores, 25¢
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 - 3 Operating Results of Independent Fuel Dealers, 25¢
 - 4 Operating Results of Independent Drug Stores, 25¢
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- P—Retail Consumer Credit, 25¢

Part III—Services and Special Fields

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- T—Sales Financing, 25¢
- U—Farm Implement and Equipment Sales, 25¢
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- X—Motion Picture Production (Memorandum), 10¢

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

*Biennial reports—not issued for 1954.

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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returned by customers are deducted from gross sales, but sales of meals or lunches provided employees and any goods withdrawn by the proprietor for personal use are included.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' 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.

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 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 — $\text{Current Assets} \div \text{Current Liabilities}$ — 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.

OPERATING RESULTS AND FINANCIAL STRUCTURE

INDEPENDENT RESTAURANTS

1954

INTRODUCTION

This report on operating results and financial structure presents information in the form of averages and ratios as a guide to retail store operators for the trades covered. These ratios are the "average" of a broad range of operational efficiency, and as such do not represent top performance guides. However, used with this in mind, they show a standard by which business men can compare their own operating experiences. The pattern of expenses and financial ratios, by size and kind of business, permit direct analysis of operating results for the year.

There is growing evidence that independent retail merchants 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 these series, namely the promotion of improved merchandising on the part of retailers.

The new owner of a retail store or the prospective operator might well study these averages. Not all failures in business, however, come from the

"new-owner" group. It seems reasonable to suppose, however, that failure in many cases is the result of 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.

Analysis of both profit and loss and balance sheet statements are presented in this report.

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

Balance sheet data, which were introduced in 1948, are continued in this 1954 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.

INDEPENDENT RESTAURANTS

Establishments selling mainly prepared meals for consumption on the premises by the public, are covered in this study. Other items such as tobacco and candy may be sold, but the sales of meals should constitute at least 75% of total net sales.

Unincorporated "single establishment" or "independent" firms only are used in this report. After careful editing 297 questionnaires were used in the tabulation of profit and loss data (107 owned and 190 rented restaurants).

Returns for which balance sheet data were properly completed numbered 198. Any change in the actual count from survey to survey may be attributed to changes in classification, restaurants going out of business, the necessity of augmenting the survey list or simply to different non-response in the survey years.

Tabulation of balance sheet data was made for different sales-size classes and, where possible, a further breakdown by number of years in business.

Compilation of profit and loss data was made for different sales-size categories. The response from large stores is generally better than that from smaller ones. For example in response to this survey, independent restaurants between \$10,000 and \$19,999 may represent 5% of the business done by all respondents. According to the 1951 census, they might account for approximately 11% of total restaurant sales. To obtain ratios for total all sizes, the census weights were applied to the various expense and profit ratios of the different sales-size classes.

Summaries showing figures for years prior to 1952 and the chart do not show weighted ratios. For sake of comparability with previous years for which weights are not available, aggregate or unweighted ratios were used.

The average gross profit expressed as a percentage of net sales, increased in 1954 to 37.69 per cent from 36.54 per cent in 1952. A general increase in operating expenses, with the exception of adver-

tising, reversed the gross profit increase to an almost identical decrease in net profit (7.52 per cent for 1954 from 8.60 per cent for 1952).

Inventories at the end of the year were lower than at the beginning for all sizes of owned restaurants and lower also for total all sizes in rented ones. Restaurants in rented premises for sizes \$10,000-\$19,999 and \$100,000 and over each showed an increase.

The rate of stock turnover does not follow any particular pattern, the range being a low of 13.73 times in size \$10,000-\$19,999 for owned, to a high of 28.11 times for size \$20,000-\$49,999 for rented restaurants.

Balance sheet ratios are shown historically, affording valuable comparison for further study.

The following summaries, tables and chart, will give more detail and information on the operating results and financial position of independent restaurants for 1954.

Operating Results of Independent Restaurants 1952 and 1954 Compared

Item	Unincorporated	
	1952	1954
	(per cent of net sales)	
Gross profit	36.54	37.69
Operating expenses:		
Employees' salaries	15.40	16.17
Occupancy	8.92	10.33
Store Supplies	0.87	0.92
Advertising	0.35	0.33
All other expenses	2.40	2.42
Total operating expenses	27.94	30.17
Net operating profit before deduction of income tax ¹	8.60	7.52

1. Proprietors' salaries included for unincorporated stores.

Note: These ratios are "weighted" according to the 1951 Census weights of the different sales sizes for independent stores and are shown here for the first time. They do not agree with ratios shown formerly for 1952 nor with those shown in historical tables.

Financial Ratios of Independent Restaurants as at December 31, 1948-50-52-54

Item	Unincorporated	
	Owne	Rented
Current ratio	1948	1.81
	1950	1.24
	1952	1.31
	1954	1.50
Liquidity ratio	1952	0.75
	1954	0.91
Working capital to net worth ratio	1948	0.24
	1950	0.10
	1952	0.12
	1954	0.14
Worth debt ratio	1948	2.56
	1950	1.92
	1952	2.02
	1954	1.99
Turnover of total capital employed	1952	5.75
	1954	5.39

Note: Ratio definitions are shown on page 6.

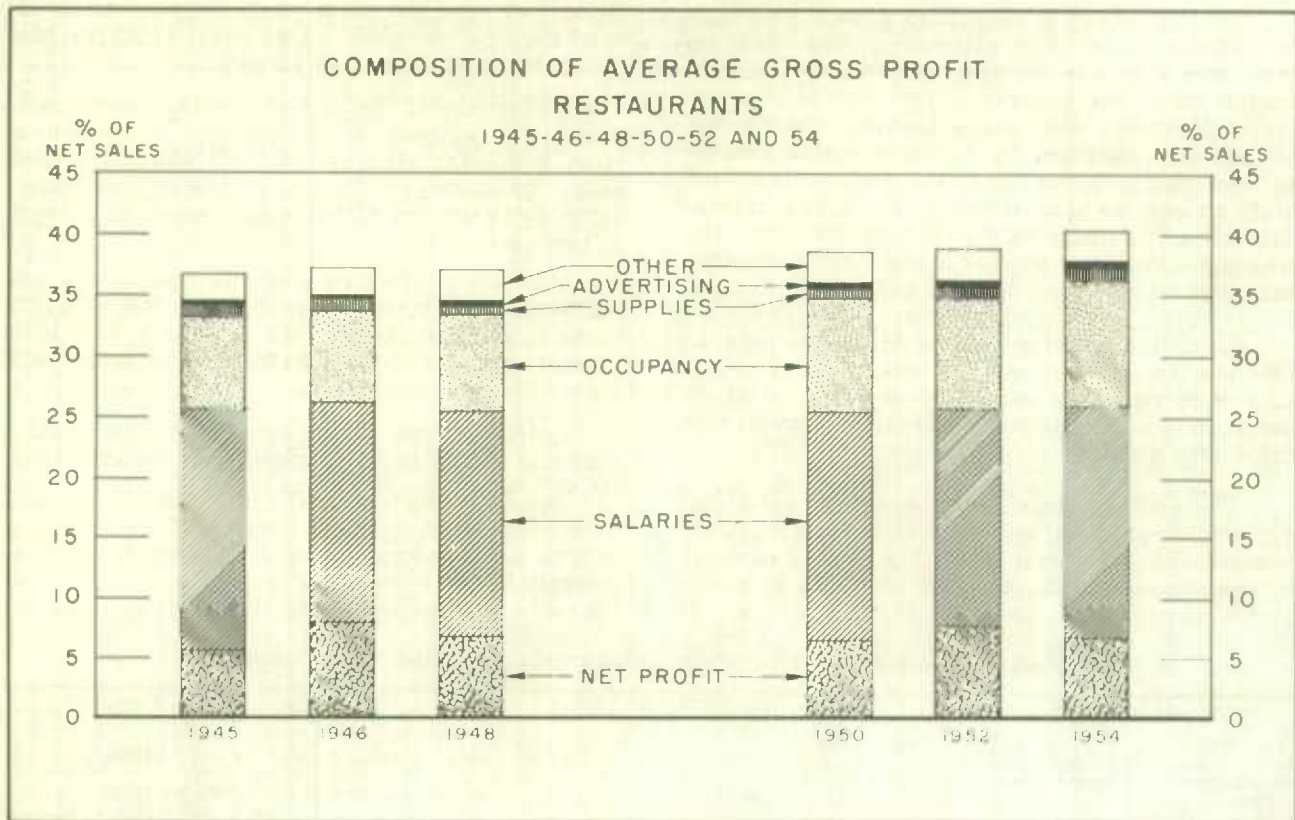


TABLE 1. Independent Restaurants-Operating Results by Annual Sales Volume and Occupancy 1954

Item	Owned restaurants with annual net sales of				Rented restaurants with annual net sales of			
	\$10,000- \$19,999	\$20,000- \$49,999	\$50,000- \$99,999	\$100,000 and over	\$10,000- \$19,999	\$20,000- \$49,999	\$50,000- \$99,999	\$100,000 and over
Number of restaurants reporting.....	15	38	26	22	27	74	58	27
Average net sales per restaurant..... \$	14,632	34,270	73,126	148,191	15,541	34,057	71,576	150,573
Average beginning inventory	801	1,076	2,638	3,757	549	773	1,724	3,482
Average ending inventory, end of year	753	1,054	2,548	3,566	588	746	1,570	3,528
Average cost of goods sold	10,672	22,323	44,860	85,287	10,399	21,347	42,629	83,133
Stock turnover (times per-year)	13.73	20.96	17.30	23.29	18.29	28.11	25.88	23.72
Profit and Loss Data (Per cent of net sales)								
Gross Profit	27.06	34.86	38.65	42.45	33.08	37.32	40.44	44.78
Operating expenses:								
Employees' salaries and wages (except delivery)	6.22	13.80	20.08	22.49	7.27	15.17	19.82	22.07
Occupancy expenses:								
Taxes	2.18	1.52	0.83	1.05	0.55	0.53	0.40	0.45
Insurance	0.74	0.62	0.62	0.45	0.33	0.37	0.34	0.42
Rent	—	—	—	—	5.72	4.01	3.72	3.17
Heat, light and power	3.44	3.66	3.09	2.88	3.18	3.03	2.85	2.63
Repairs and maintenance	1.16	1.63	1.53	1.64	1.39	1.46	1.44	1.84
Depreciation allowances	1.08	2.15	2.55	2.79	1.33	1.50	1.48	3.19
Total occupancy expenses	8.60	9.58	8.62	8.81	12.50	10.90	10.23	11.90
Office or store supplies	0.93	0.74	0.85	1.13	0.63	0.76	0.80	1.84
Advertising	0.17	0.27	0.57	0.69	0.10	0.21	0.32	0.54
Net loss on bad debts	—	0.02	—	—	—	—	0.01	—
All other expenses	2.64	2.34	2.78	2.82	2.93	1.98	2.29	2.82
Total operating expenses	18.56	26.75	32.90	35.94	23.43	29.02	33.47	39.17
Net operating profit before deduction of proprietors' salaries and income tax	8.50	8.11	5.75	6.51	9.65	8.30	6.97	5.61

MERCHANDISING AND SERVICES

TABLE 2. Independent Restaurants-Owned-Financial Structure by Size and Age of Business
as at December 31, 1954

Item	Restaurants 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	Under 10 years	10 years and over	Total	
(average per restaurant)										
Assets										
Current assets:										
Cash on hand and in Bank	810	1,450	1,111	2,660	1,636	2,036	2,203	3,511	2,726	1,807
Accounts and notes receivable (net).....	6	87	44	22	17	19	167	216	187	74
Merchandise inventory	1,042	1,025	1,034	2,454	2,726	2,619	2,696	5,162	3,682	2,195
Other current assets	319	668	483	113	414	297	1,824	363	1,240	624
Total current assets.....	2,177	3,230	2,672	5,249	4,793	4,971	6,890	9,252	7,835	4,700
Fixed assets (net):										
Used in the business.....	12,873	9,479	11,276	21,125	29,374	26,146	43,535	49,431	45,894	24,709
Not used in the business	2,011	3,414	2,672	2,444	1,585	1,922	165	8,008	3,302	2,611
Total fixed assets (net)	14,884	12,893	13,948	23,569	30,959	28,068	43,700	57,439	49,196	27,320
Other assets:										
Long term investments	333	213	277	—	—	—	1,639	—	983	378
Other assets	485	1,406	918	977	801	870	1,395	2,665	1,903	1,159
Total other assets	818	1,619	1,195	977	801	870	3,034	2,665	2,886	1,537
Total assets	17,879	17,742	17,815	29,793	36,553	33,909	53,624	69,356	59,917	33,557
Liabilities										
Current liabilities:										
Accounts and notes payable.....	2,151	1,462	1,828	4,547	2,849	3,514	7,749	2,685	5,724	3,343
Fixed liabilities:										
Mortgages on fixed assets used in business	2,052	1,945	2,001	5,154	8,496	7,188	10,968	18,759	14,084	6,689
Mortgages on fixed assets not used in business	528	2,131	1,282	—	527	321	931	2,200	1,439	1,036
Total fixed liabilities	2,580	4,076	3,283	5,154	9,023	7,509	11,899	20,959	15,523	7,725
Other liabilities	1,274	843	1,071	—	6,209	3,779	845	16,286	7,021	3,425
Total liabilities	6,005	6,381	6,182	9,701	18,081	14,802	20,493	39,930	28,288	14,493
Net worth: proprietor's or partners' equity in business	11,874	11,361	11,633	20,094	18,472	19,107	33,131	29,426	31,649	19,064
Total liabilities and net worth.....	17,879	17,742	17,815	29,793	36,553	33,909	53,624	69,356	59,917	33,557
Average net sales of restaurants reporting ...	33,302	35,027	34,114	73,332	72,544	72,852	134,344	177,307	151,529	76,183
Number of restaurants reporting.....	18	16	34	9	14	23	12	8	20	77

TABLE 3. Independent Restaurants-Rented-Financial Structure by Size and Age of Business
as at December 31, 1954

Item	Restaurants 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	Under 10 years	10 years and over	Total	
(average per restaurant)										
Assets										
Current assets:										
Cash on hand and in bank.....	932	733	864	775	2,124	1,423	2,221	4,812	3,409	1,600
Accounts and notes receivable (net).....	68	—	45	108	526	309	1,914	6	1,039	351
Merchandise inventory.....	961	667	861	1,425	1,673	1,544	3,263	4,030	3,615	1,689
Other current assets	85	478	219	274	239	257	381	4,204	2,133	614
Total current assets	2,046	1,878	1,989	2,582	4,562	3,533	7,779	13,052	10,196	4,254
Fixed assets (net):										
Used in the business	4,024	4,064	4,037	6,276	5,758	7,067	26,520	11,968	19,850	8,426
Not used in the business	1,250	373	952	1,310	2,489	1,876	—	1,372	629	1,270
Total fixed assets (net)	5,274	4,437	4,989	9,586	8,247	8,943	26,520	13,340	20,479	9,696
Other assets:										
Long term investments	—	762	260	—	—	—	2,392	—	1,296	358
Other assets.....	424	—	279	352	134	247	2,904	884	1,978	603
Total other assets	424	762	539	352	134	247	5,296	884	3,274	961
Total assets	7,744	7,077	7,517	12,520	12,943	12,723	39,595	27,276	33,949	14,911

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**TABLE 3. Independent Restaurants-Rented-Financial Structure by Size and Age of Business
as at December 31, 1954 - Concluded**

Item	Restaurants 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	Under 10 years	10 years and over	Total	
	(average per restaurant)									
Liabilities										
Current liabilities:										
Accounts and Notes payable	1,305	468	1,020	2,467	1,990	2,238	6,758	8,597	7,600	2,829
Fixed liabilities:										
Mortgages on fixed assets used in business	271	478	342	1,133	—	589	7,621	210	4,225	1,214
Mortgages on fixed assets not used in business	255	—	168	123	388	250	—	313	143	197
Total fixed liabilities	526	478	510	1,256	388	839	7,621	523	4,368	1,411
Other liabilities	201	340	248	1,113	523	830	2,787	—	1,510	739
Total liabilities	2,032	1,286	1,778	4,836	2,901	3,907	17,166	9,120	13,478	4,979
Net worth: proprietor's or partners' equity in the business	5,712	5,791	5,739	7,684	10,042	8,816	22,429	18,156	20,471	9,932
Total liabilities and net worth	7,744	7,077	7,517	12,520	12,943	12,723	39,595	27,276	33,949	14,911
Average net sales of restaurants reporting	34,995	31,235	33,715	72,719	69,581	71,213	151,793	160,999	156,013	73,467
Number of restaurants reporting.....	31	16	47	26	24	50	13	11	24	121

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