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OPERATING RESULTS AND FINANCIAL STRUCTURE INDEPENDENT TOBACCO STORES 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¢

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S – Hotels, 25¢
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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.

(26/3/54)

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returned by customers are deducted from gross sales, but sales of meals or lunches provided employees and any goods withdrawn by the proprietor for personal use are included.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

—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 – 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 TOBACCO STORES
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 or conditions peculiar to the location of his business.

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 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 TOBACCO STORES

Results appearing in this report are applicable to operations of independent tobacco stores. The term "independent" is used to mean non-chain or single establishment firms. Merchandise other than tobacco and smokers' sundries, such as magazines, newspapers, confectionery and novelties, comprise part of the annual sales of the reporting stores. However, if tobacco and smokers' sundries did not comprise at least 50 per cent of a firm's annual sales, the report of that firm was omitted from the tabulation.

After careful editing of the questionnaires returned, it was possible to use 220 reports of tobacco stores for tabulation of profit and loss averages and ratios. Of these firms, 65 were operated by owner-proprietors and 155 by lessee-proprietors for which separate results are presented. A further differentiation was made within each of these classifications 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 classified in the "rented" category reported to allow a further segregation of results for tobacco stores 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.

Average gross profit, expressed as a percentage of average net sales, decreased from 17.58 per cent in 1950 to 16.49 per cent in 1952. Total operating expenses showed a smaller decline from 10.20 per cent to 9.69 per cent for the respective years. This condition was common to each of the ratios of the itemized expenses, with employees' salaries showing the largest decline from 4.33 per cent to 4.13 per cent. However, the decreased operating expense ratios were insufficient to off-set the decline in gross profit ratios. Consequently the net operating profit decreased from 7.38 per cent in 1950 to 6.80 per cent of average net sales in 1952. Because the average net sales of reporting firms were greater in 1952, the lower net operating profit ratio does not necessarily mean that the tobacco store proprietors realized a smaller net profit. That is, although the net operating profit formed a smaller part of the average sales' dollar, the average net sales (or number of sales' dollars) increased in 1952.

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

Financial Ratios of Tobacco Stores as at December 31, 1952

Ratio[1]	Owned	Rented
Current ratio	3.37	2.09
Liquidity ratio	1.33	0.73
Working capital to net worth	0.38	0.65
Worth debt ratio	2.68	1.17
Turnover of total capital employed	2.82	4.51

1. Ratio definitions are shown on page 6.

Operating Results of Tobacco Stores 1950 and 1952 Compared

Item	1950	1952
Average net sales ... $	37,317	46,082
Profit and Loss Data (Per cent of net sales)		
Gross profit	**17.58**	**16.49**
Operating expenses:		
Employees' salaries	4.33	4.13
Occupancy	4.08	3.91
Store supplies	0.43	0.36
All other expenses	1.36	1.29
Total operating expenses	**10.20**	**9.69**
Net operating profit before deductions of proprietors' salaries and income tax	7.38	6.80

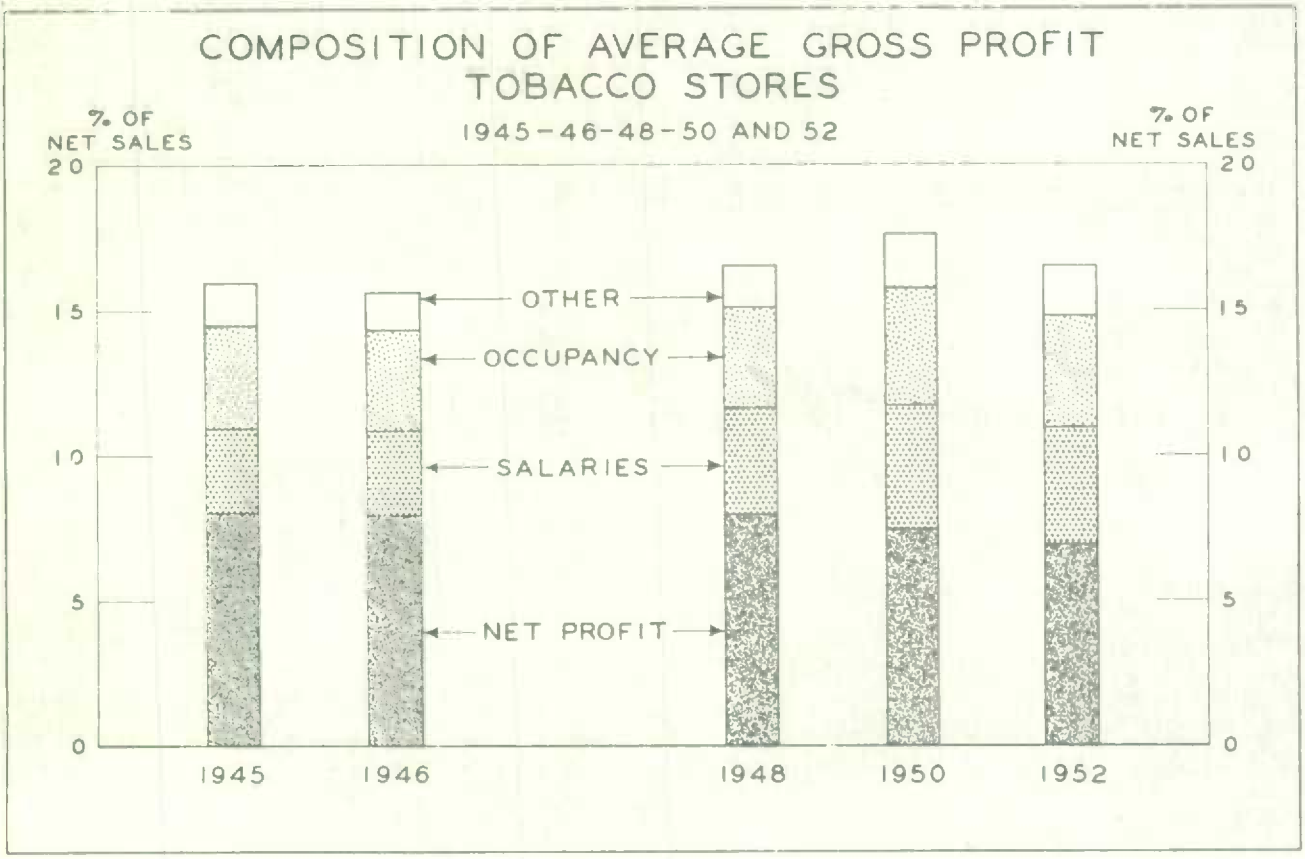

TABLE 1. Independent Tobacco Stores – Operating Results by Annual Sales Volume and Occupancy Basis, 1952

Item	Owned stores with annual net sales of			Rented stores with annual net sales of		
	$10,000 to $19,999	$20,000 to $49,999	$50,000 to $99,999	$10,000 to $19,999	$20,000 to $49,999	$50,000 to $99,999
Number of stores reporting	9	38	12	17	82	50
Average net sales per store ... $	14,445	33,085	63,590	15,948	34,263	71,204
Average cost of goods sold ... $	11,615	27,822	53,152	13,110	28,900	59,257
Average beginning inventory ... $	1,299	2,800	5,787	1,088	3,116	6,484
Average inventory, end of year ... $	1,383	2,631	5,966	1,140	3,084	6,918
Stock turnover (times per year)	8.66	10.25	9.04	11.77	9.[illegible]	[illegible]
Profit and Loss Data (Per cent of net sales)						
Gross profit	**19.59**	**15.90**	**16.41**	**17.78**	**15.65**	**16.77**
Operating expenses:						
Employees' salaries and wages	1.20	2.67	4.41	2.55	2.70	4.98
Taxes	0.97	0.84	0.74	0.33	0.27	0.23
Insurance	0.41	0.39	0.32	0.17	0.20	0.26
Rent	—	—	—	3.32	2.69	2.01
Heat, light and power	1.14	0.85	0.71	0.97	0.51	0.41
Repairs and maintenance	0.54	0.47	0.36	0.49	0.28	0.34
Depreciation allowances	0.25	0.97	0.93	0.06	0.29	0.57
Store supplies	0.40	0.39	0.35	0.37	0.34	0.37
Advertising	0.26	0.08	0.09	0.09	0.11	0.23
Bad debts-written off	—	0.02	—	0.07	0.01	0.01
(Less) amount recovered	—	—	—	0.04	—	—
Net bad debt loss	—	0.02	—	0.03	0.01	0.01
All other expenses	1.16	1.28	0.96	1.37	0.71	1.00
Total operating expenses	**6.33**	**7.96**	**8.87**	**9.75**	**8.11**	**10.41**
Net operating profit before deduction of proprietors' salaries and income tax	**13.26**	**7.94**	**7.54**	**8.03**	**7.54**	**6.36**

TABLE 2. Independent Tobacco Stores – Financial Structure of Unincorporated Stores by Size and Occupancy and Age of business as at December 31, 1952

Item	Owned stores with annual net sales of		Total all sizes $20,000 and over	Rented stores with annual net sales of						Total all sizes $20,000 and over
				$20,000 to $49,999			$50,000 to $99,999			
	$20,000 to $49,999	$50,000 to $99,999		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	2,012	1,809	1,940	1,054	1,891	1,523	2,317	2,698	2,471	2,058
Accounts and notes receivable (net)	446	422	437	68	33	48	683	451	589	525
Merchandise inventory	3,344	6,543	4,480	2,660	4,406	3,638	5,956	8,144	6,842	5,828
Other current assets	429	746	541	94	776	476	106	302	185	586
Total current assets	**6,231**	**9,520**	**7,398**	**3,876**	**7,106**	**5,685**	**9,062**	**11,595**	**10,087**	**8,997**
Fixed assets (net):										
Used in the business	7,217	11,502	8,738	1,814	1,972	1,902	3,014	1,126	2,250	2,924
Not used in the business	1,302	3,479	2,074	394	685	557	134	358	225	598
Total fixed assets (net)	**8,519**	**14,981**	**10,812**	**2,208**	**2,657**	**2,459**	**3,148**	**1,484**	**2,475**	**3,522**
Other assets:										
Investments of a permanent nature	680	—	438	25	81	56	312	5	188	110
Intangibles	67	92	76	209	75	134	1,617	381	1,116	790
Total other assets	**747**	**92**	**514**	**234**	**156**	**190**	**1,929**	**386**	**1,304**	**900**
Total assets	**15,497**	**24,593**	**18,724**	**6,318**	**9,919**	**8,334**	**14,139**	**13,465**	**13,866**	**13,419**
Liabilities										
Current liabilities – accounts and notes payable	926	4,503	2,195	2,517	1,830	2,132	3,210	5,676	4,207	4,312
Fixed liabilities – mortgages on fixed assets:										
Used in the business	2,371	2,578	2,445	491	193	324	756	—	451	1,239
Not used in the business	—	—	—	—	—	—	200	23	129	55
Other liabilities	18	1,223	445	243	122	175	1,138	873	1,030	592
Total liabilities	**3,315**	**8,304**	**5,085**	**3,251**	**2,145**	**2,631**	**5,304**	**6,572**	**5,817**	**6,198**
Net worth – proprietors' or partners' equity in the business	12,182	16,289	13,639	3,067	7,774	5,703	8,835	6,893	8,049	7,[illegible]
Total liabilities and net worth	**15,497**	**24,593**	**18,724**	**6,318**	**9,919**	**8,334**	**14,139**	**13,465**	**13,866**	**13,419**
Number of stores reporting	20	11	31	22	28	50	25	17	42	98
Average net sales of stores reporting	35,357	67,826	46,878	35,612	36,866	36,315	70,684	71,377	70,964	57,[illegible]