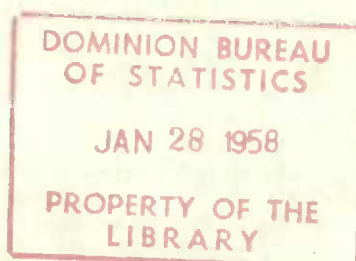


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# OPERATING RESULTS AND FINANCIAL STRUCTURE INDEPENDENT TOBACCO STORES 1956



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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¢
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- O — 1 Operating Results of Independent General Stores, 25¢
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  - 4 Operating Results of Independent Drug Stores, 25¢
  - 5 Operating Results of Independent Jewellery Stores, 25¢
  - 6 Operating Results of Independent Tobacco Stores, 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 1956.

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returned by customers are deducted from gross sales, but sales of meals or lunches provided employees and any goods withdrawn by the proprietor for personal use are included.

**Purchases**—are taken at invoice value less returns and allowances cash and trade discounts. Added to the cost of merchandise are the following expense: 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.), and amount paid for contract delivery.

**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, including rentals of warehouses and garages, etc.

**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).

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

**Office and 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 expense not pertaining to the business.



## 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 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

**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.

## 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 TOBACCO STORES, 1956

## INTRODUCTION

This report on operating results and financial structure presents information in the form of averages and ratios as a guide to operators of retail tobacco stores. 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 expense 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 this 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.

Analyses 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. This 1956 report, for the first time, shows information on "other income" and "other expense". The segregation of these improves the quality of the ratios for net operating profit in that there is little chance of a "net" of these two items being included in operating profit.

Balance sheet data, which were introduced in 1948, are continued in this 1956 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 TOBACCO STORES

This survey of independent tobacco stores covers retail establishments selling mainly tobacco, cigars and cigarettes and smokers' sundries, sales of which totalled over 50% of the trade. Other items normally carried are newspapers and magazines. In the case other lines are carried the sales of tobacco items and newspapers and magazines must be more than 50% of total sales, but the sales of tobacco must exceed the combined sales of newspapers and magazines.

Ratios and averages for these unincorporated establishments were presented for both profit and loss and balance sheet. Reports used in this study numbered 240 (68 owned and 172 rented stores). A slightly smaller number was used for the balance sheet tabulation, due to the fact that establishments in the lowest sales-sizes were not required to furnish the balance sheet information. Results are shown by sales-size categories and, where possible, a further breakdown was made in the balance sheet averages by number of years in business.



In compiling trade ratios for the "total, all sizes", the different sales-size ratios were combined by giving each size category its proper "weight" as obtained from the 1951 census. In this survey the reporting is generally better in the larger size stores so that any aggregate of reporting firms would show a ratio biased toward the characteristics of large store operation. The use of weighting gives proper importance to small store operations so that

the ratios shown in the summary table below more truly represent the trade total.

Tobacco stores operated on a higher gross profit ratio in 1956 than they did in 1954. The total operating expense ratio declined in 1956 and with the marginal profit, caused the net operating profit to register a gain, 7.91 per cent compared with 7.32 per cent in 1954.

**TABLE 1. Operating Results of Tobacco Stores 1954 and 1956 Compared**

Item	1954	1956
	(per cent of net sales)	
<b>Gross profit</b> .....	<b>18.26</b>	<b>18.69</b>
Operating expenses:		
Employees' salaries .....	4.09	3.72
Occupancy .....	5.18	5.29
Office and store supplies .....	0.34	0.35
All other expenses .....	1.33	1.42
<b>Total operating expenses</b> .....	<b>10.94</b>	<b>10.78</b>
<b>Net operating profit</b> before deduction of income tax <sup>1</sup> .....	<b>7.32</b>	<b>7.91</b>

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. They do not agree with ratios shown in historical tables.

**TABLE 2. Independent Tobacco Stores Balance Sheet Ratios as at December 31**

Ratios <sup>1</sup>	Owned	Rented
Current ratio .....		
1950 .....	3.93	2.22
1952 .....	3.37	2.09
1954 .....	2.02	2.32
1956 .....	3.20	2.66
Liquidity ratio .....		
1952 .....	1.33	0.73
1954 .....	1.00	0.73
1956 .....	1.25	0.83
Working capital to net worth ratio .....		
1950 .....	0.44	0.60
1952 .....	0.38	0.65
1954 .....	0.24	0.58
1956 .....	0.35	0.64
Worth debt ratio .....		
1950 .....	2.17	1.45
1952 .....	2.68	1.17
1954 .....	2.05	1.63
1956 .....	1.97	1.41
Turnover of total capital employed .....		
1952 .....	2.82	4.51
1954 .....	1.91	4.73
1956 .....	1.97	4.91

1. Ratio definitions are shown on page 6.



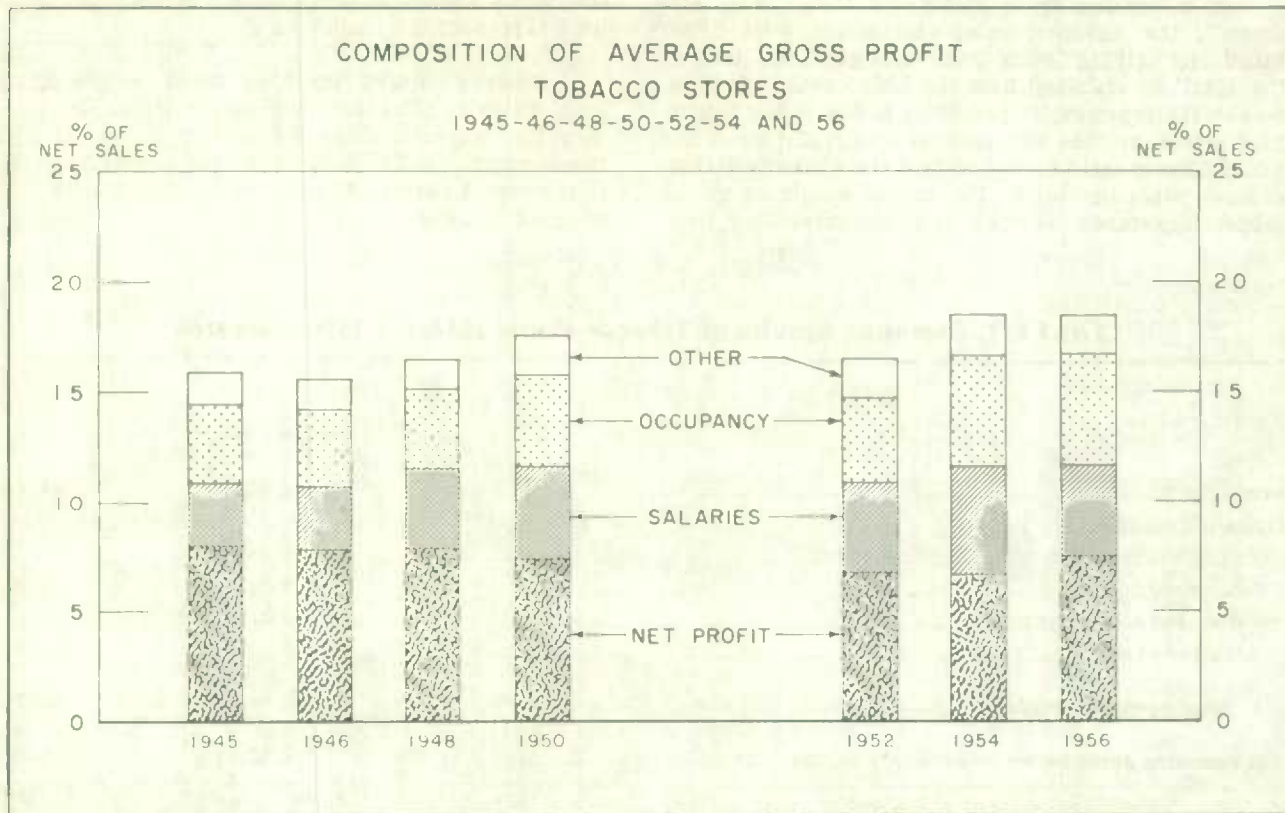


TABLE 3. Independent Tobacco Stores — Operating Results by Annual Sales Volume and Occupancy Basis 1956

Item	Owned stores with annual net sales of				Rented stores with annual net sales of				
	Under \$10,000	\$10,000- \$19,999	\$20,000- \$49,999	\$50,000- \$99,999	Under \$10,000	\$10,000- \$19,999	\$20,000- \$49,999	\$50,000- \$99,999	\$100,000 and over
Number of stores reporting .....	8	14	34	12	10	21	77	57	7
Average net sales per store ..... \$	8,069	13,981	32,967	69,930	7,794	16,111	35,662	68,033	111,705
Average beginning inventory ..... \$	644	1,613	3,654	9,212	1,169	1,499	3,729	6,310	14,690
Average inventory, end of year ..... \$	669	1,664	3,553	8,664	1,158	1,566	3,698	6,309	15,981
Average cost of goods sold ..... \$	6,580	11,196	26,892	55,714	57,335	13,155	29,159	55,877	89,277
Stock turnover (times per year) .....	10.03	6.82	7.46	6.23	4.93	8.53	7.85	8.86	5.82
Profit and loss data (Per cent of net sales)									
<b>Gross profit .....</b>	<b>18.46</b>	<b>19.91</b>	<b>18.42</b>	<b>20.32</b>	<b>26.44</b>	<b>18.35</b>	<b>18.23</b>	<b>17.87</b>	<b>20.08</b>
Operating expenses:									
Executives' and employees' salaries and wages etc. (except delivery) .....	1.47	1.61	3.26	5.25	0.25	1.49	3.66	4.71	6.43
Occupancy expenses:									
Taxes .....	1.77	1.18	1.09	0.76	0.60	0.37	0.27	0.27	0.38
Insurance .....	0.48	0.39	0.34	0.41	0.26	0.27	0.24	0.28	0.36
Rent .....	—	—	—	—	11.71	4.67	3.51	2.58	2.74
Heat, light and power .....	1.85	1.44	1.13	0.83	1.83	0.87	0.62	0.47	0.38
Repairs and maintenance .....	0.49	0.89	0.60	0.93	1.01	0.46	0.33	0.37	0.38
Depreciation allowances .....	0.77	1.55	1.46	1.71	0.35	0.05	0.55	0.63	0.47
<b>Total occupancy expenses .....</b>	<b>5.36</b>	<b>5.45</b>	<b>4.62</b>	<b>4.64</b>	<b>15.76</b>	<b>6.69</b>	<b>5.52</b>	<b>4.60</b>	<b>4.71</b>
Office and store supplies .....	0.17	0.80	0.48	0.39	0.58	0.16	0.28	0.33	0.25
Advertising .....	0.14	0.22	0.11	0.23	0.26	0.07	0.16	0.22	0.42
Net loss on bad debts .....	—	0.04	0.01	—	0.16	—	0.01	0.02	0.03
All other expenses .....	1.38	1.66	1.46	1.85	2.18	0.81	0.98	1.14	1.00
<b>Total operating expenses .....</b>	<b>8.52</b>	<b>9.78</b>	<b>9.94</b>	<b>12.36</b>	<b>19.19</b>	<b>9.21</b>	<b>10.61</b>	<b>11.02</b>	<b>12.84</b>
<b>Net operating profit .....</b>	<b>9.94</b>	<b>10.13</b>	<b>8.48</b>	<b>7.96</b>	<b>7.25</b>	<b>9.14</b>	<b>7.62</b>	<b>6.85</b>	<b>7.24</b>
Non-trading income .....	4.34	1.92	1.40	1.07	4.78	0.06	0.73	0.08	0.50
Non-trading expense .....	0.62	—	0.13	0.39	—	—	0.22	0.03	0.06
<b>Net profit before deduction of proprietors' salaries and income tax .....</b>	<b>13.66</b>	<b>12.05</b>	<b>9.75</b>	<b>8.64</b>	<b>12.03</b>	<b>9.20</b>	<b>8.13</b>	<b>6.90</b>	<b>7.68</b>

**TABLE 4. Independent Tobacco Stores — Rented — Financial Structure by Size and Age of Business as at December 31, 1956**

Item	Stores with annual net sales of						Total all sizes \$20,000 and over	
	\$20,000-\$49,999			\$50,000-\$99,999				
	Under 10 years	10 years and over	Total	Under 10 years	10 years and over	Total		
(Average per store)								
Assets								
Current assets:								
Cash on hand and in bank .....	1,134	1,318	1,222	2,469	2,430	2,454	7,048	2,053
Accounts and notes receivable (net) .....	255	82	172	320	106	236	1,221	255
Merchandise inventory .....	3,403	3,943	3,661	5,982	6,769	6,291	15,978	5,430
Other current assets .....	140	118	129	171	221	191	96	154
Total current assets .....	4,932	5,461	5,184	8,942	9,526	9,172	24,343	7,892
Fixed assets (net):								
Used in the business .....	1,781	1,505	1,649	2,271	1,564	1,993	2,185	1,823
Not used in the business .....	207	2,303	1,210	823	3,535	3,873	—	2,275
Total fixed assets (net) .....	1,988	3,808	2,859	3,094	10,149	5,866	2,185	4,098
Other assets:								
Long term investments .....	111	518	307	70	455	221	20	255
Other Assets .....	347	56	207	2,198	727	1,620	1,887	896
Total other assets .....	458	574	514	2,268	1,182	1,841	1,907	1,151
Total assets .....	7,378	9,843	8,557	14,304	20,857	16,879	28,435	13,141
Liabilities								
Current liabilities:								
Accounts and notes payable .....	1,799	1,184	1,505	4,110	5,008	4,463	5,390	2,965
Fixed liabilities:								
Mortgages on fixed assets used in business .....	129	—	67	858	45	539	—	264
Mortgages on fixed assets not used in business .....	—	1,412	675	1,051	4,258	2,311	—	1,333
Total fixed liabilities .....	129	1,412	742	1,909	4,303	2,850	—	1,597
Other liabilities .....	1,505	177	870	632	1,531	985	155	881
Total liabilities .....	3,433	2,773	3,117	6,651	10,842	8,298	5,545	5,443
Net worth: Proprietor's or partners' equity in the business .....	3,945	7,070	5,440	7,653	10,015	8,581	22,890	7,698
Total liabilities and net worth .....	7,378	9,843	8,557	14,304	20,857	16,879	28,435	13,141
Average net sales of stores reporting .....	36,067	35,133	35,621	68,535	67,058	67,955	111,705	53,373
Number of stores reporting .....	36	33	69	34	22	56	7	132

**TABLE 5. Independent Tobacco Stores — Owned — Financial Structure by Size and Age of business as at December 31, 1956**

Item	Stores with annual net sales of				Total all sizes \$20,000- \$99,999
	\$20,000-\$49,999			\$50,000- \$99,999	
	Under 10 years	10 years and over	Total		
(Average per store)					
Assets					
Current assets:					
Cash on hand and in bank .....	2,702	1,543	1,989	4,600	2,813
Accounts and notes receivable (net) .....		5	3	23	10
Merchandise inventory .....	3,969	3,750	3,834	8,667	5,361
Other current assets .....	56	294	202	1,473	603
Total current assets .....	6,727	5,592	6,028	14,763	8,787
Fixed assets (net):					
Used in the business .....	10,944	10,028	10,330	20,496	13,575
Not used in the business .....	2,493	950	1,544	4,771	2,562
Total fixed assets (net) .....	13,437	10,978	11,924	25,267	16,137
Other assets:					
Long term investments .....	—	437	269	165	236
Other assets .....	604	63	271	1,039	514
Total other assets .....	604	500	540	1,204	750
Total assets .....	20,768	17,070	18,492	41,234	25,671

## INDEPENDENT TOBACCO STORES

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**TABLE 5. Independent Tobacco Stores – Owned – Financial Structure Size and Age of Business  
as at December 31, 1956 – Concluded**

Item	Stores with annual net sales of				Total all sizes \$20,000- \$99,999
	\$20,000-\$49,999			\$50,000- \$99,999	
	Under 10 years	10 years and over	Total		
	(Average per store)				
<b>Liabilities</b>					
Current liabilities:					
Accounts and notes payable .....	1,090	1,674	1,449	5,563	2,748
Fixed liabilities:					
Mortgages on fixed assets used in business .....	3,436	2,849	3,075	5,713	3,908
Mortgages on fixed assets not used in business .....	730	—	281	1,417	640
<b>Total fixed liabilities</b> .....	<b>4,166</b>	<b>2,849</b>	<b>3,356</b>	<b>7,130</b>	<b>4,548</b>
Other liabilities .....	165	1,006	683	2,808	1,354
<b>Total liabilities</b> .....	<b>5,421</b>	<b>5,529</b>	<b>5,488</b>	<b>15,501</b>	<b>8,650</b>
Net worth: Proprietor's or partners' equity in the business .....	15,347	11,541	13,004	25,733	17,024
<b>Total liabilities and net worth</b> .....	<b>20,768</b>	<b>17,070</b>	<b>18,492</b>	<b>41,234</b>	<b>25,674</b>
Average net sales of stores reporting .....	35,512	33,228	34,106	69,930	45,419
Number of stores reporting .....	10	16	26	12	38

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