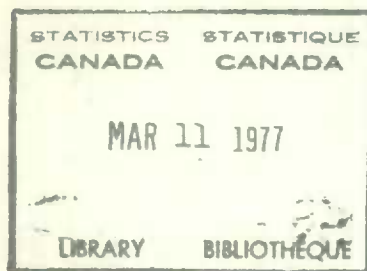


CATALOGUE No.

63-408

BIENNIAL

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# OPERATING RESULTS AND FINANCIAL STRUCTURE OF FILLING STATIONS AND GARAGES

1959

(Independent)

*Published by Authority of*  
The Honourable George Hees, Minister of Trade and Commerce

**DOMINION BUREAU OF STATISTICS**  
Industry and Merchandising Division

January, 1961  
6542-523

Price 50 cents

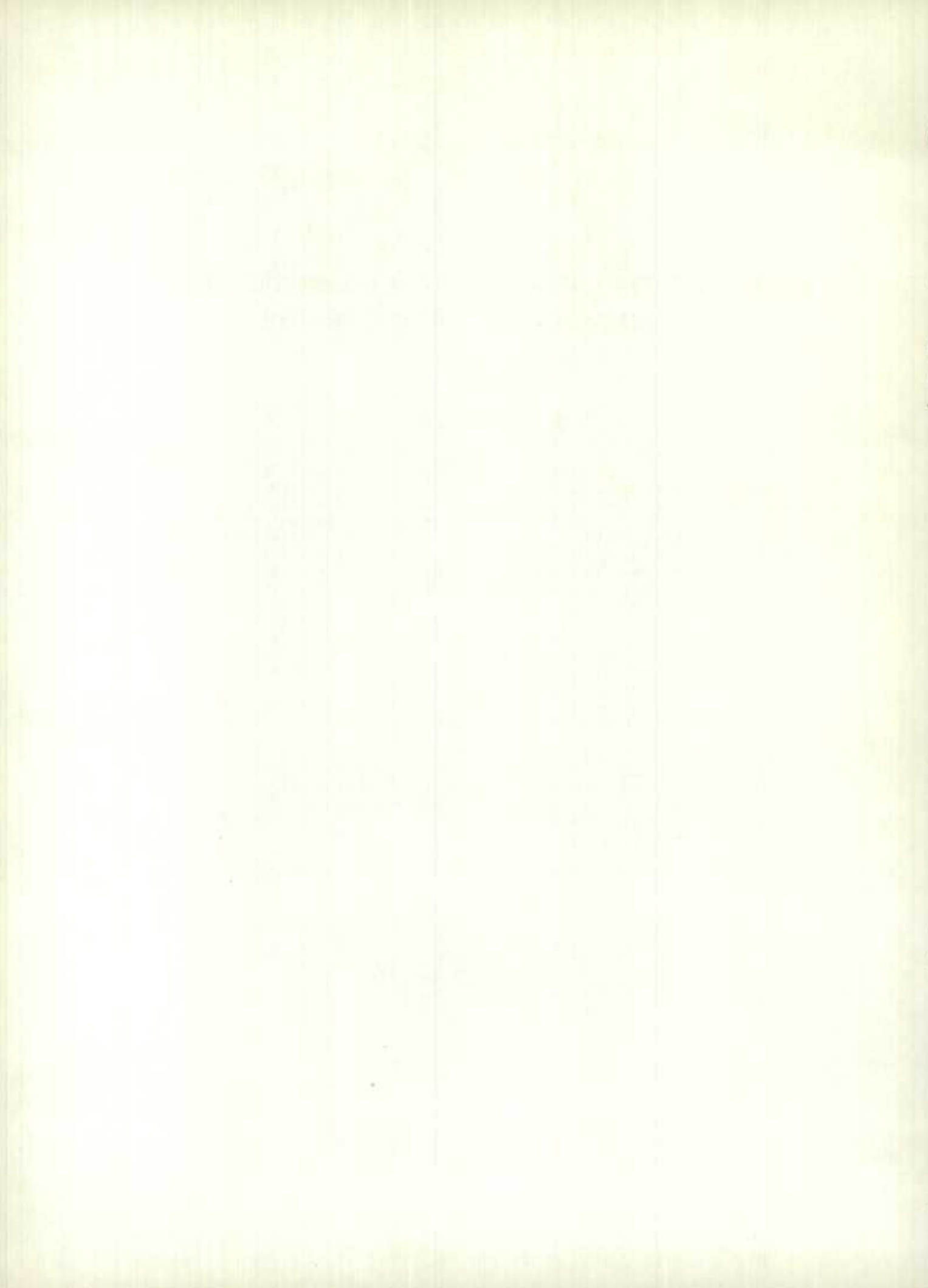
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Other occasional reports and 1951 Census reports on retail trade are shown in a complete list of publications of the Dominion Bureau of Statistics which is available on request from the Information Services Division, D.B.S., or from the Queen's Printer, Ottawa.

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# OPERATING RESULTS AND FINANCIAL STRUCTURE OF FILLING STATIONS AND GARAGES

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.

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 and 6 as well as the "total" column in Table 3 and Table 8 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 12 and 13.

## INDEPENDENT FILLING STATIONS

This survey of unincorporated independent filling stations covers only establishments selling mainly gasoline, oil, parts and accessories, tires

and tubes. They also perform service and repairs but the sale of gasoline and oil must constitute 67% or more of total net sales.

TABLE 1. Operating Results of Unincorporated Independent Filling Stations, 1952 - 59

Item	1952	1954	1956	1959
	per cent of net sales			
<b>Gross profit</b> .....	<b>19. 70</b>	<b>20. 80</b>	<b>20. 76</b>	<b>22. 34</b>
Operating expenses:				
Employees' salaries .....	6. 28	6. 61	6. 35	7. 19
Occupancy .....	4. 19	4. 64	4. 88	4. 97
Office and store supplies .....	0. 39	0. 32	0. 30	0. 19
Advertising .....	0. 22	0. 28	0. 31	0. 32
All other expenses .....	1. 65	1. 85	1. 95	2. 00
<b>Total operating expenses</b> .....	<b>12. 73</b>	<b>13. 70</b>	<b>13. 79</b>	<b>14. 67</b>
<b>Net operating profit</b> before deduction of proprietors' salaries and income tax and addition of net non-trading income .....	<b>6. 97</b>	<b>7. 10</b>	<b>6. 97</b>	<b>7. 67</b>

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

TABLE 2. Unincorporated Independent Filling Stations - Balance Sheet Ratios as at December 31, 1952 - 59

Item	1952	1954	1956	1959
Current ratio—Owned .....	3. 71	2. 83	2. 45	3. 70
Rented .....	3. 22	2. 92	3. 25	3. 43
Liquidity ratio—Owned .....	2. 42	1. 99	1. 73	2. 50
Rented .....	2. 11	1. 95	2. 08	2. 10
Working capital to net worth ratio—Owned .....	0. 38	0. 32	0. 30	0. 39
Rented .....	0. 66	0. 61	0. 62	0. 62
Worth debt ratio—Owned .....	2. 82	2. 52	1. 88	2. 20
Rented .....	2. 59	2. 24	2. 07	2. 74
Turnover of total capital employed—Owned .....	3. 14	3. 45	3. 21	2. 91
Rented .....	8. 76	8. 18	7. 89	8. 44

**Note:** see page 12 for definitions.



**TABLE 3. Independent Filling Stations—Operating Results of Unincorporated Establishments by Annual Sales Volume and Occupancy Basis, 1959**

Item	Owned establishments with annual net sales of			Rented establishments with annual net sales of			Total <sup>1</sup>
	\$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 establishments reporting .....	27	16	13	14	67	50	197
Average net sales per establishment .....	\$ 33,599	76,208	127,805	35,443	75,312	158,863	72,122
Average beginning inventory .....	\$ 1,951	3,819	4,832	1,214	3,523	5,147	3,065
Average inventory, end of year .....	\$ 2,138	3,957	5,163	1,357	3,068	5,360	3,085
Average cost of goods sold .....	\$ 26,493	61,859	96,697	27,494	57,132	122,891	55,792
Stock turnover (times per year) .....	12.96	15.91	19.35	21.40	17.34	23.39	18.14
<b>Profit and loss data</b> (Per cent of net sales)							
<b>Gross profit</b> .....	<b>21.15</b>	<b>18.83</b>	<b>24.34</b>	<b>22.43</b>	<b>24.14</b>	<b>22.64</b>	<b>22.34</b>
Operating expenses:							
Employees' salaries and wages (except delivery) .....	3.92	6.83	10.69	5.16	9.55	10.07	7.19
Occupancy expenses:							
Taxes .....	0.89	0.78	0.63	0.55	0.44	0.34	0.64
Insurance .....	0.64	0.54	0.62	0.31	0.33	0.31	0.45
Rent .....	—	—	—	2.73	3.31	3.03	1.67
Light, heat and power .....	1.21	0.81	0.63	1.05	0.88	0.62	1.02
Repairs and maintenance .....	0.61	0.52	0.45	0.32	0.33	0.30	0.41
Depreciation allowances .....	1.35	1.26	1.19	0.51	0.54	0.51	0.78
<b>Total occupancy expenses</b> .....	<b>4.70</b>	<b>3.91</b>	<b>3.72</b>	<b>5.47</b>	<b>5.83</b>	<b>5.11</b>	<b>4.97</b>
Office and store supplies .....	0.15	0.20	0.13	0.19	0.21	0.25	0.19
Advertising .....	0.28	0.27	0.52	0.36	0.33	0.39	0.32
Net loss on bad debts .....	0.04	0.11	0.16	0.36	0.10	0.10	0.12
All other expenses .....	2.08	2.03	2.67	1.39	1.85	1.99	1.88
<b>Total operating expenses</b> .....	<b>11.17</b>	<b>13.35</b>	<b>17.89</b>	<b>12.93</b>	<b>17.87</b>	<b>17.91</b>	<b>14.67</b>
<b>Net operating profit</b> .....	<b>9.98</b>	<b>5.48</b>	<b>6.45</b>	<b>9.50</b>	<b>6.27</b>	<b>4.73</b>	<b>7.67</b>
Non-trading income .....	0.97	0.25	0.39	0.20	0.42	0.27	0.44
Non-trading expense .....	0.14	—	—	0.10	0.08	0.03	0.07
<b>Net profit before deduction of proprietors' salaries and income tax</b> ..	<b>10.81</b>	<b>5.73</b>	<b>6.84</b>	<b>9.60</b>	<b>6.81</b>	<b>4.97</b>	<b>8.04</b>

<sup>1</sup> Averages and ratios "weighted" according to the 1951 Census weights of the different sales sizes for independent establishments.

**TABLE 4. Independent Filling Stations—Owned—Financial Structure of Unincorporated Establishments by Size of Business as at December 31, 1959**

Item	Establishments with annual net sales of			Total all sizes \$20,000 and over
	\$20,000 - 49,999	\$50,000 - 99,999	\$100,000 and over	
average per establishment (dollars)				
Assets				
Current assets:				
Cash on hand and in bank .....	1,566	4,305	5,606	3,332
Accounts and notes receivable (net) .....	1,242	3,483	5,435	2,905
Merchandise inventory .....	2,223	3,743	5,168	3,376
Other current assets .....	377	2,162	87	811
Total current assets .....	5,408	13,693	16,296	10,424
Fixed assets (net):				
Used in the business .....	7,915	12,024	25,034	13,277
Not used in the business .....	2,710	4,332	4,987	3,728
Total fixed assets (net) .....	10,625	16,356	30,021	17,005
Other assets:				
Long term investments .....	767	—	857	572
Other assets .....	257	380	3	229
Total other assets .....	1,024	380	860	801
Total assets .....	17,057	30,429	47,177	28,230
Liabilities				
Current liabilities:				
Accounts and notes payable .....	1,179	3,151	5,580	2,817
Fixed liabilities:				
Mortgages on fixed assets used in the business .....	1,597	3,884	9,748	4,243
Mortgages on fixed assets not used in the business .....	1,042	276	1,055	828
Total fixed liabilities .....	2,639	4,160	10,803	5,071
Other liabilities .....	686	301	2,192	947
Total liabilities .....	4,504	7,612	18,575	8,835
Net worth: Proprietors' equity in the business .....	12,553	22,817	28,602	19,395
Total liabilities and net worth .....	17,057	30,429	47,177	28,230
Average net sales of establishments reporting .....	36,400	74,662	127,805	89,649
Number of establishments reporting .....	25	15	13	53

**TABLE 5. Independent Filling Stations - Rented - Financial Structure of Unincorporated Establishments by Size and Age of Business as at December 31, 1959**

Item	Establishments 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 establishment (dollars)								
Assets								
Current assets:								
Cash on hand and in bank .....	1,657	1,894	2,880	2,436	4,102	4,042	4,063	3,018
Accounts and notes receivable (net) .....	841	1,978	1,897	1,933	3,301	3,078	3,155	2,320
Merchandise Inventory .....	1,253	3,004	3,211	3,118	5,717	5,192	5,374	3,847
Other current assets .....	167	1,290	566	891	651	700	683	735
Total current assets .....	3,918	8,166	8,554	8,378	13,771	13,012	13,275	9,920
Fixed assets (net):								
Used in the business .....	783	257	2,084	2,304	3,554	2,579	2,917	2,402
Not used in the business .....	2,920	653	2,141	1,471	3,223	2,642	2,843	2,171
Total fixed assets (net) .....	3,703	3,225	4,225	3,775	6,777	5,221	5,760	4,573
Other assets:								
Long term investments .....	19	56	1,866	1,051	359	1,168	887	883
Other assets .....	—	255	43	138	31	376	256	172
Total other assets .....	19	311	1,909	1,189	390	1,544	1,143	1,055
Total assets .....	7,640	11,702	14,688	13,342	20,938	19,777	20,178	15,548
Liabilities								
Current liabilities:								
Accounts and notes payable .....	875	2,760	1,998	2,341	4,615	3,752	4,052	2,888
Fixed liabilities:								
Mortgages on fixed assets used in the business .....	—	130	321	235	270	50	127	168
Mortgages on fixed assets not used in the business .....	668	535	383	452	2,026	500	1,029	707
Total fixed liabilities .....	668	665	704	687	2,296	550	1,156	875
Other liabilities .....	367	532	250	377	635	299	416	391
Total liabilities .....	1,910	3,957	2,952	3,405	7,546	4,601	5,624	4,154
Net worth: Proprietor's or partners' equity in the business .....	5,730	7,745	11,736	9,940	13,391	15,175	14,556	11,392
Total liabilities and net worth .....	7,640	11,702	14,688	13,342	20,938	19,777	20,178	15,548
Average net sales of establishments reporting .....	35,088	73,622	76,176	75,027	164,022	157,512	159,771	105,384
Number of establishments reporting .....	12	27	33	60	17	32	49	121



## INDEPENDENT GARAGES

This survey of independent garages covers only establishments engaged in making repairs or performing other service in addition to the sale of gasoline, oil, parts and accessories. Repair work must con-

stitute between 25% and 50% of total sales. The sale of gasoline and oil does not amount to over 33% of total trade.

TABLE 6. Operating Results of Unincorporated Independent Garages, 1952-59

Item	1952	1954	1956	1959
	per cent of net sales			
Gross profit .....	29.65	30.59	33.56	33.19
Operating expenses:				
Employees' salaries .....	11.09	11.40	12.88	12.40
Occupancy .....	5.35	5.70	6.17	6.09
Office and store supplies .....	0.58	0.44	0.43	0.36
Advertising .....	0.33	0.36	0.44	0.33
All other expenses .....	2.67	3.24	3.37	3.44
Total operating expenses .....	20.02	21.14	23.29	22.62
Net operating profit before deduction of proprietors' salaries and income tax and addition of net non-trading income .....	9.63	9.45	10.27	10.57

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

TABLE 7. Unincorporated Independent Garages - Balance Sheet Ratios as at December 31, 1952-59

Item	1952	1954	1956	1959
Current ratio - Owned .....	2.88	2.32	2.61	3.65
Rented .....	2.65	2.91	3.55	3.46
Liquidity ratio - Owned .....	1.79	1.39	1.56	2.40
Rented .....	1.84	2.07	2.63	2.57
Working capital to net worth ratio - Owned .....	0.40	0.39	0.38	0.40
Rented .....	0.61	0.61	0.57	0.55
Worth debt ratio - Owned .....	2.05	1.73	1.62	2.55
Rented .....	2.24	2.61	2.51	2.61
Turnover of total capital employed - Owned .....	2.54	2.52	2.21	2.52
Rented .....	4.16	3.99	3.92	4.81

Note: See page 12 for definitions.

**TABLE 8. Independent Garages—Operating Results of Unincorporated Establishments by Annual Sales Volume and Occupancy Basis, 1959**

Item	Owned stores with annual net sales of					Rented stores with annual net sales of			Total <sup>1</sup>
	Under \$10,000	\$10,000-19,999	\$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 establishments reporting .....	10	14	50	28	12	19	15	10	163
Average net sales per establishment .....	\$ 6,641	16,412	34,871	69,615	166,448	32,753	70,082	145,471	66,666
Average beginning inventory .....	\$ 1,299	2,040	2,461	3,351	10,915	2,178	2,881	4,658	3,950
Average inventory, end of year .....	\$ 1,537	2,010	2,529	3,628	11,216	2,094	2,997	4,566	4,078
Average cost of goods sold .....	\$ 3,917	10,582	23,049	46,168	119,902	20,661	46,634	100,299	45,837
Stock turnover (times per year) .....	2.76	5.23	9.24	13.23	10.84	9.67	16.55	21.75	11.42
<b>Profit and loss data</b> (Per cent of net sales)									
<b>Gross profit</b> .....	<b>41.01</b>	<b>35.52</b>	<b>33.90</b>	<b>33.68</b>	<b>27.96</b>	<b>36.92</b>	<b>30.60</b>	<b>31.05</b>	<b>33.19</b>
Operating expenses:									
Employees' salaries and wages (except delivery) .....	3.14	7.71	11.33	16.23	14.42	12.69	11.44	14.19	12.40
Occupancy expenses:									
Taxes .....	2.53	1.62	1.29	1.07	0.70	0.52	0.36	0.31	1.05
Insurance .....	2.29	1.00	0.76	0.96	0.74	0.65	0.51	0.52	0.82
Rent .....	—	—	—	—	—	3.32	2.84	2.70	0.61
Light, heat and power .....	2.66	1.64	1.56	1.36	0.68	1.19	0.68	0.64	1.32
Repairs and maintenance .....	1.97	0.94	0.75	0.86	0.62	0.78	0.19	0.17	0.73
Depreciation allowances .....	2.87	1.71	1.83	1.76	1.36	0.83	0.64	0.61	1.56
<b>Total occupancy expenses</b> .....	<b>11.34</b>	<b>7.11</b>	<b>6.19</b>	<b>6.03</b>	<b>4.30</b>	<b>7.29</b>	<b>5.22</b>	<b>4.95</b>	<b>6.09</b>
Office and store supplies .....	0.87	0.38	0.43	0.20	0.30	0.32	0.36	0.46	0.36
Advertising .....	0.14	0.32	0.31	0.40	0.29	0.36	0.26	0.50	0.33
Net loss on bad debts .....	—	0.24	0.24	0.25	0.39	0.16	0.16	0.39	0.25
All other expenses .....	5.97	3.20	3.26	3.21	2.31	3.79	2.31	2.35	3.19
<b>Total operating expenses</b> .....	<b>21.46</b>	<b>18.96</b>	<b>21.76</b>	<b>26.32</b>	<b>22.01</b>	<b>24.61</b>	<b>19.79</b>	<b>22.84</b>	<b>22.62</b>
<b>Net operating profit</b> .....	<b>19.55</b>	<b>16.56</b>	<b>12.14</b>	<b>7.36</b>	<b>5.95</b>	<b>12.31</b>	<b>10.81</b>	<b>8.21</b>	<b>10.57</b>
Non-trading income .....	0.70	1.34	0.96	1.34	0.14	0.03	0.47	1.70	0.87
Non-trading expense .....	0.42	0.22	0.04	0.75	0.05	0.02	0.69	0.83	0.27
<b>Net profit before deduction of proprietors' salaries and income tax</b> .....	<b>19.83</b>	<b>17.68</b>	<b>13.06</b>	<b>7.95</b>	<b>6.04</b>	<b>12.32</b>	<b>10.59</b>	<b>9.08</b>	<b>11.17</b>

<sup>1</sup> Averages and ratios "weighted" according to the 1951 Census weights of the different sales sizes for independent establishments.

**TABLE 9. Independent Garages—Owned—Financial Structure of Unincorporated Establishments By Size and Age of Business as at December 31, 1959**

Item	Establishments 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			
average per establishment (dollars)						
Assets						
Current assets:						
Cash on hand and in bank .....	4,253	2,064	2,571	4,774	4,234	3,473
Accounts and notes receivable (net) .....	1,262	1,934	1,783	4,169	9,069	3,517
Merchandise inventory .....	2,403	2,163	2,217	3,733	11,216	3,909
Other current assets .....	—	961	745	109	613	532
Total current assets .....	7,918	7,142	7,316	12,805	25,152	11,431
Fixed assets (net):						
Used in the business .....	10,492	10,864	10,780	14,089	21,731	13,289
Not used in the business .....	202	1,894	1,514	2,528	4,438	2,224
Total fixed assets (net) .....	10,694	12,758	12,294	16,617	26,169	15,513
Other assets:						
Long term investments .....	266	98	136	1,328	4,207	1,057
Other assets .....	37	532	421	802	546	555
Total other assets .....	303	630	557	2,130	4,753	1,612
Total assets .....	18,915	20,530	20,167	31,552	56,074	28,556
Liabilities						
Current liabilities:						
Accounts and notes payable .....	1,627	1,664	1,715	3,250	6,631	3,129
Fixed liabilities:						
Mortgages on fixed assets used in the business .....	1,844	1,846	1,845	6,294	5,614	3,751
Mortgages on fixed assets not used in the business .....	—	132	102	—	—	57
Total fixed liabilities .....	1,844	1,978	1,947	6,294	5,614	3,808
Other liabilities .....	—	730	567	1,389	2,671	1,106
Total liabilities .....	3,671	4,392	4,229	10,933	17,116	8,043
Net worth: Proprietor's or partners' equity in the business .....	15,244	16,138	15,938	20,619	38,958	20,513
Total liabilities and net worth .....	18,915	20,530	20,167	31,552	56,074	28,556
Average net sales of establishments reporting .....	33,791	35,533	35,142	69,526	166,446	63,597
Number of establishments reporting .....	11	38	49	27	12	88

**TABLE 10. Independent Garages — Rented — Financial Structure of Unincorporated Establishments by Size of Business as at December 31, 1959**

Item	Establishments with annual net sales of			Total all sizes \$20,000 and over
	\$20,000 - 49,999	\$50,000 - 99,999	\$100,000 and over	
	average per establishment (dollars)			
<b>Assets</b>				
Current assets:				
Cash on hand and in bank .....	2,136	3,510	7,065	3,807
Accounts and notes receivable (net) .....	1,912	4,492	9,134	4,555
Merchandise inventory .....	2,156	3,035	4,566	3,044
Other current assets .....	120	166	1,002	351
<b>Total current assets</b> .....	<b>6,324</b>	<b>11,203</b>	<b>21,767</b>	<b>11,757</b>
Fixed assets (net):				
Used in the business .....	3,173	1,877	5,453	3,286
Not used in the business .....	2,616	4,223	7,216	4,287
<b>Total fixed assets (net)</b> .....	<b>5,789</b>	<b>6,100</b>	<b>12,669</b>	<b>7,573</b>
Other assets:				
Long term investments .....	41	—	5,534	1,367
Other assets .....	301	414	10	269
<b>Total other assets</b> .....	<b>342</b>	<b>414</b>	<b>5,544</b>	<b>1,636</b>
<b>Total assets</b> .....	<b>12,455</b>	<b>17,717</b>	<b>39,980</b>	<b>20,966</b>
<b>Liabilities</b>				
Current liabilities:				
Accounts and notes payable .....	1,678	4,191	5,194	3,394
Fixed liabilities:				
Mortgages on fixed assets used in the business .....	—	302	16	107
Mortgages on fixed assets not used in the business .....	1,164	2,478	—	1,329
<b>Total fixed liabilities</b> .....	<b>1,164</b>	<b>2,780</b>	<b>16</b>	<b>1,436</b>
Other liabilities .....	794	1,624	387	978
<b>Total liabilities</b> .....	<b>3,636</b>	<b>6,595</b>	<b>5,597</b>	<b>5,808</b>
Net worth: Proprietor's or partners' equity in the business .....	8,819	9,122	34,383	15,158
<b>Total liabilities and net worth</b> .....	<b>12,455</b>	<b>17,717</b>	<b>39,980</b>	<b>20,966</b>
Average net sales of establishments reporting .....	33,315	71,312	145,471	73,645
Number of establishments reporting .....	17	14	10	41

## 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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