CANADA

OPERATING RESULTS AND FINANCIAL STRUCTURE
INDEPENDENT GENERAL 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¢

Part III — Service and Special Fields

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

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

* Biennial reports — not issued for 1952.

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returned by customers are deducted from gross sales, but sales of meals or lunches provided employees and any goods withdrawn by the proprietor for personal use are included.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

This classification includes stores recognized by the trade as independent general stores. The term "independent" is used to mean non-chain or single establishment firms. The sales of these stores were comprised of a general line of merchandise and the stores were generally situated in localities of less than 2,000 population. Of the total annual sales, food comprised the largest portion and the remainder was clothing, dry goods, shoes, hardware, etc.

Reports suitable for profit and loss statement tabulations were received from 364 unincorporated firms. Of these, 310 were operated by owner-proprietors and 54 by lessee-proprietors. Tabulations of averages and ratios are shown separately for each of these categories. In addition, a further differentiation was made to show separate results for firms within typical annual sales-size ranges for each category.

Average balance sheet results are presented for both "owned" and "rented" categories. There was a sufficient number of reporting firms in the "owned" category to allow presentation of balance sheet data for businesses in operation "under 10 years" and "10 years and over" within each sales-size range.

Operating Results

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

The 1952 gross profit ratio of 14.57 per cent of net sales was only slightly greater than the 1950 ratio of 14.54 per cent. Operating expenses, in total, showed a decline from 9.03 per cent in 1950 to 8.92 per cent in 1952. This decrease was common to all itemized expenses with occupancy expense showing the greatest decline from 2.62 per cent in 1950 to 2.43 per cent in 1952. The decline in total operating expenses entirely accounted for the increase in the 1952 net operating profit ratio of 5.65 per cent compared to 5.51 per cent for 1950. In addition, the average net sales were greater in 1952. Therefore, general store proprietors realized a greater net operating profit than was indicated by direct ratio comparison. That is, in addition to the net operating profit forming a larger part of the average net sales' dollar for 1952, the average net sales (or the number of sales' dollars) were greater in 1952.

Generally, inventories were slightly higher in value at the end of 1952 than at the beginning of the year, for businesses operated in both owned and rented premises.

The annual rate of stock turnover ranged from 2.97 in the smaller stores to 5.36 for firms in the larger sales-size category.

Financial Ratios of Independent General Stores as at December 31, 1952

Ratio[1]	Owned	Rented
Current ratio	4.45	4.04
Liquidity ratio	1.65	1.66
Working capital to net worth	0.73	0.89
Worth debt ratio	3.36	2.72
Turnover of total capital employed	2.38	2.70

1. Ratio definitions are shown on page 6.

Operating Results of Independent General Stores 1950 and 1952 Compared

Item	1950	1952
Average net sales per store $	55,320	64,587
Profit and Loss Data (Per cent of net sales)		
Gross profit	14.54	14.57
Operating expenses:		
Employees' salaries and wages	4.08	3.98
Occupancy	2.62	2.43
Store supplies	0.38	0.36
Advertising	0.23	0.22
All other expenses	1.72	1.93
Total operating expenses	9.03	8.92
Net operating profit before deduction of proprietors' salaries and income tax	5.51	5.65

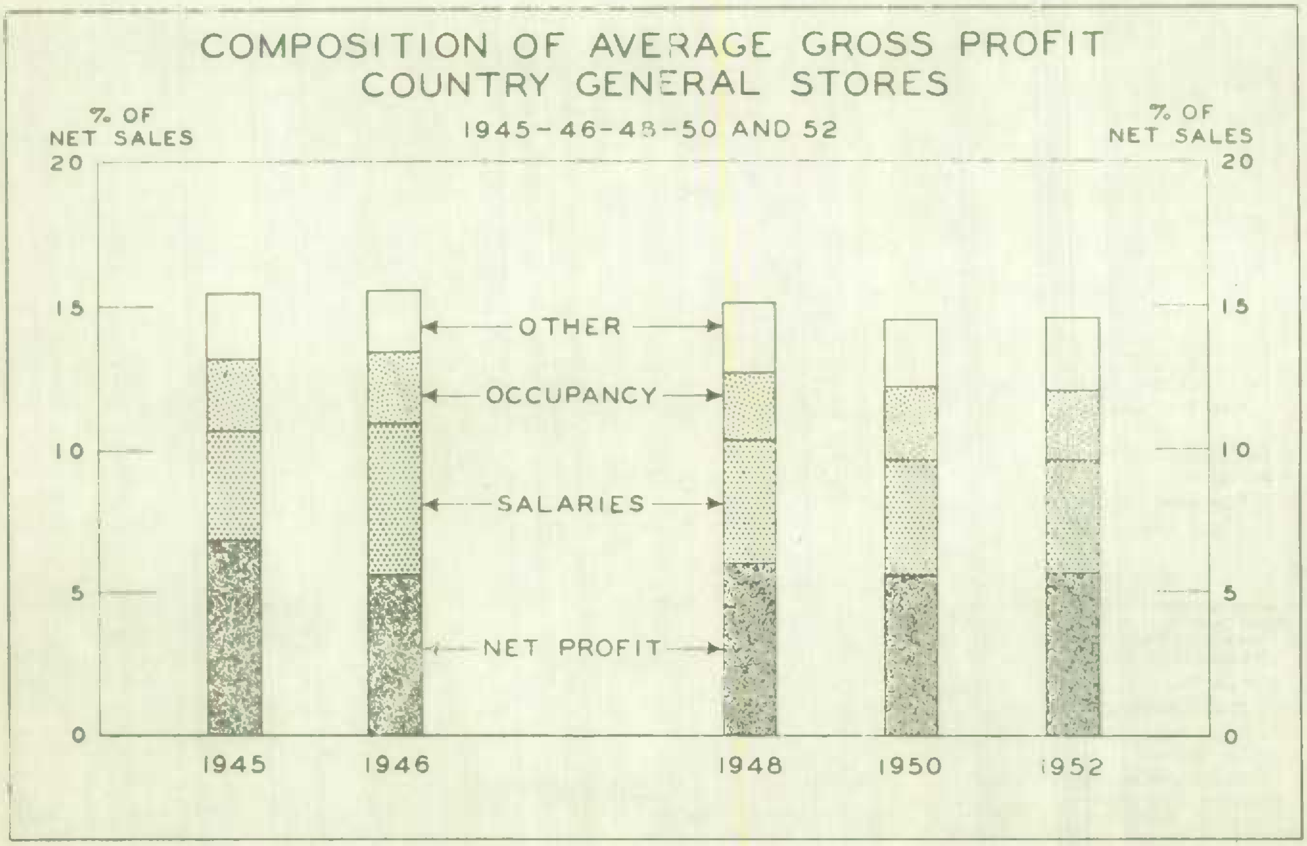

TABLE 1. Independent General Stores – Operating Results by Annual Sales Volume and Occupancy Basis, 1952

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	$100,000 and over	$20,000 to $49,999	$50,000 to $99,999	$100,000 and over
Number of stores reporting	58	114	85	48	19	20	15
Average net sales per store $	16,024	33,408	68,298	169,757	33,953	69,924	182,036
Average cost of goods sold $	13,400	28,957	58,588	145,552	29,041	58,780	151,832
Average beginning inventory $	4,408	7,818	13,681	31,876	6,831	15,966	27,688
Average inventory, end of year $	4,630	7,809	14,071	32,760	7,135	17,000	29,017
Stock turnover (times per year)	2.97	3.71	4.22	4.50	4.16	3.57	5.36
Profit and Loss Data (Per cent of net sales)							
Gross profit	**16.36**	**13.32**	**14.21**	**14.25**	**14.46**	**15.94**	**16.59**
Operating expenses:							
Employees' salaries and wages	2.25	2.00	3.77	4.73	0.92	4.15	6.20
Taxes	0.77	0.54	0.43	0.28	0.34	0.28	0.17
Insurance	0.68	0.51	0.39	0.35	0.32	0.40	0.34
Rent	—	—	—	—	1.09	1.18	0.70
Heat, light and power	1.54	0.85	0.60	0.40	0.85	0.60	0.40
Delivery	1.05	0.69	0.76	0.76	0.49	0.66	0.68
Repairs and maintenance	0.73	0.40	0.34	0.32	0.49	0.53	0.17
Depreciation allowances	0.84	0.71	0.55	0.47	0.47	0.56	0.39
Store supplies	0.56	0.35	0.39	0.34	0.32	0.28	0.38
Advertising	0.13	0.18	0.18	0.24	0.08	0.36	0.28
Bad debts-written off	0.24	0.19	0.22	0.44	0.08	0.14	0.22
(Less) amount recovered	0.02	0.06	0.02	0.09	—	0.02	0.01
Net bad debt loss	0.22	0.13	0.20	0.35	0.08	0.12	0.21
All other expenses	0.94	0.82	0.99	1.09	0.47	0.83	0.82
Total operating expenses	**9.71**	**7.18**	**8.60**	**9.33**	**5.92**	**9.95**	**10.74**
Net operating profit before deduction of proprietors' salaries and income tax	**6.65**	**6.14**	**5.61**	**4.92**	**8.54**	**5.99**	**5.85**

TABLE 2. Independent General Stores – Owned – Financial Structure by Size and Age of Business as at December 31, 1952

Item	Stores with annual net sales of									Total all sizes $20,000 and over
	$20,000 to $49,999			$50,000 to $99,999			$100,000 and over			
	Under 10 years	10 years and over	Total	Under 10 years	10 years and over	Total	Under 10 years	10 years and over	Total	
Assets										
Current assets:										
Cash on hand and in bank	1,678	1,734	1,715	1,628	2,895	2,587	3,484	5,290	4,700	2,677
Accounts and notes receivable (net)	1,613	1,551	1,572	6,500	4,396	4,908	9,968	10,103	10,057	4,607
Merchandise inventory	6,722	8,282	7,764	13,450	13,928	13,812	27,581	36,988	33,914	15,625
Other current assets	1,012	1,981	1,658	974	2,145	1,861	1,725	2,873	2,498	1,913
Total current assets	**11,025**	**13,548**	**12,709**	**22,552**	**23,364**	**23,168**	**42,758**	**55,254**	**51,169**	**24,822**
Fixed assets (net):										
Used in the business	5,767	3,719	4,402	7,249	5,307	5,780	10,593	10,525	10,545	6,234
Not used in the business	2,003	2,416	2,279	979	2,593	2,200	177	3,314	2,290	2,254
Total fixed assets (net)	**7,770**	**6,135**	**6,681**	**8,228**	**7,900**	**7,980**	**10,770**	**13,839**	**12,835**	**8,488**
Other assets:										
Investments of a permanent nature	512	354	407	409	1,238	1,036	249	17	93	560
Intangibles	221	428	359	95	704	556	583	244	354	427
Total other assets	**733**	**782**	**766**	**504**	**1,942**	**1,592**	**832**	**261**	**447**	**987**
Total assets	**19,528**	**20,465**	**20,156**	**31,284**	**33,206**	**32,740**	**54,360**	**69,354**	**64,451**	**34,297**
Liabilities										
Current liabilities – accounts and notes payable	1,905	2,331	2,189	6,045	4,858	5,147	12,152	13,221	12,870	5,572
Fixed liabilities – mortgages on fixed assets:										
Used in the business	545	30	202	1,196	207	448	5,139	1,469	2,665	828
Not used in the business	138	184	169	—	—	—	—	790	532	189
Other liabilities	1,699	363	808	942	829	856	2,487	3,014	2,842	1,271
Total liabilities	**4,287**	**2,908**	**3,368**	**8,183**	**5,894**	**6,451**	**19,778**	**18,494**	**18,909**	**7,860**
Net worth – proprietor's or partners' equity in the business	15,241	17,557	16,788	23,101	27,312	26,289	34,582	50,860	45,542	26,437
Total liabilities and net worth	**19,528**	**20,465**	**20,156**	**31,284**	**33,206**	**32,740**	**54,360**	**69,354**	**64,451**	**34,297**
Number of stores reporting	30	60	90	18	56	74	15	31	46	210
Average net sales of stores reporting	34,495	34,228	34,322	75,291	67,435	69,350	162,415	171,829	168,723	76,115

TABLE 3. Independent General Stores – Rented – Financial Structure by Size of Business as at December 31, 1952

Item	Stores with annual net sales of $20,000 to $49,000	Stores with annual net sales of $50,000 to $99,999	Stores with annual net sales of $100,000 and over	Total all sizes $20,000 and over
Assets				
Current assets:				
Cash on hand and in bank	2,154	2,858	4,354	2,891
Accounts and notes receivable (net)	1,323	4,942	12,607	5,110
Merchandise inventory	7,367	16,110	23,134	14,166
Other current assets	163	412	8,243	1,917
Total current assets	**11,007**	**24,322**	**48,338**	**24,084**
Fixed assets (net):				
Used in the business	2,080	2,474	3,979	2,629
Not used in the business	356	369	383	367
Total fixed assets (net)	**2,436**	**2,843**	**4,362**	**2,996**
Other assets:				
Investments of a permanent nature	–	694	–	284
Intangibles	–	681	572	396
Total other assets	–	**1,375**	**572**	**680**
Total assets	**13,443**	**28,540**	**53,272**	**27,760**
Liabilities				
Current liabilities-accounts and notes payable	2,058	7,260	10,765	5,966
Fixed liabilities-mortgages on fixed assets:				
Used in the business	72	589	–	269
Not used in the business	–	–	–	–
Other liabilities	550	885	3,148	1,218
Total liabilities	**2,680**	**8,734**	**13,913**	**7,453**
Net worth-proprietor's or partners' equity in the business	10,763	19,806	39,359	20,307
Total liabilities and net worth	**13,443**	**28,540**	**53,272**	**27,760**
Number of stores reporting	17	18	9	44
Average net sales of stores reporting	33,562	69,986	157,902	73,879