It will readily be seen that when the tax was deducted from the net profits shown above the profit figures were materially reduced. The net profits from trading (after allowing deduction of income-tax) and the rates of such profits on turnover were as follows:—

| | Net Profit from Trading after Deduction of Income-tax. | Percentage on Turnover. |
|---|---|---|
| | £ | |
| Trading-year 1914 | 76,209 | 3·20 |
| „ 1919 | 216,864 | 5·61 |
| „ 1920 | 277,476 | 5·62 |

In addition to the above-mentioned profits from trading, the firms also made a relatively small amount of incidental profit arising out of operations other than the usual trading business. These amounts increased the absolute net profits to the following figures:—

| | £ |
|---|---|
| Trading-year 1914 | 85,775 |
| „ 1919 | 230,033 |
| „ 1920 | 293,609 |

Up to this point profits have been considered in relation to turnover; at a later stage the profits will be discussed as they appear relatively to the capital invested in the trade, but before doing so it is advisable that the true significance of the foregoing figures should be realized. The gross profits relatively to turnover increased slightly—from 18·98 per cent. to 21·82 per cent. It is a widely known fact that the wholesale soft-goods trade in general aims at a gross profit of 22 per cent. on turnover, though this aim was not in many cases realized in pre-war years, when under the stress of competition firms were often forced to "cut" prices, with the result that the various departments seldom secured the average percentage of profit which they were instructed to obtain. The businesses generally, however, showed results ranging about 18 per cent. to 20 per cent. on turnover.

During the war period supplies of practically all lines were short of the demand, and competition among sellers less keen than prior to 1914. In consequence of this wholesalers were able to secure a higher rate of gross profit than in pre-war years. Moreover, the operation of the principle of selling on replacement values during a period when values were rising tended to result in traders taking an increased rate of gross profit. The increase in the rate as shown in the foregoing figures is accordingly explained and substantially justified, though the basis of justification is the replacement theory rather than the contention that pre-war profits were forced by competition to an unduly low level.

The overhead expenses (exclusive of income-tax) relatively to turnover decreased, between 1914 and 1920, from 15·54 per cent. to 12·63 per cent. This decrease was, of course, brought about by reason of the increase in the value of goods sold, and not by any reduction in the absolute amount of the overhead expenses. Even allowing for the fact that supplies were short, values rose to such an extent that the turnover, as already indicated, increased by over 100 per cent. Expenses increased also, but the percentage of increase was approximately only 70.

The rate of net profit (not allowing the deduction of income-tax) on turnover increased from 3·44 per cent. to 9·19 per cent.; but income-tax has been an increasingly heavy charge, and after paying this tax the net profits represented 3·20 per cent. in 1914 and 5·62 per cent. in 1920 on turnover. The absolute net profits were £85,775 in 1914, and £293,609 in 1920—an increase between three- and four-fold.

In an endeavour to estimate the total absolute amount of profit made by these firms since 1914 over and above what would have been made had the 1914 amount, and no more, been made in succeeding years, the net profits for 1915, 1916, 1917, and 1918 have been estimated as follows:—

| | £ |
|---|---|
| Trading-year 1915 | 110,000 |
| „ 1916 | 140,000 |
| „ 1917 | 170,000 |
| „ 1918 | 200,000 |

On this basis the total "excess" profit (*i.e.*, the amount earned over and above £85,775 in each year) for the trading-years 1915–20 inclusive was approximately £600,000. This excess profit represents 46 per cent. on the "book" values of stock (£1,300,000) as at the end of the trading-year 1919–20; but in view of the great increase in prices which occurred between 1914 and 1920, and the implied probability of a substantial subsequent fall in prices, the "excess" profit made during the period 1914–20 will probably not prove to be an "excessive" profit or an unreasonable margin to cover future losses. It should not be forgotten that while this £600,000 tended to raise the prices paid by the consumer, the income-tax paid by the firms must have been an almost equally important factor in raising prices. The tax paid or payable by the firms in question in respect of the trading-years 1914–20 totalled £532,776, which is nearly £500,000 more than would have been paid had the amount paid for 1914 been payable for succeeding years.

## PROFITS IN RELATION TO CAPITAL.

The relation of profits to capital investment will now be dealt with. The following table shows in total for the companies (1) the share capital, (2) the gross capital investment, and (3) the reserves (both special and general) as at the end of the trading-years 1914, 1919, and 1920:—

| | Share Capital. | Gross Capital. | Reserves. |
|---|---|---|---|
| | £ | £ | £ |
| End of trading-year 1914 | 1,294,239 | 1,816,596 | 133,034 |
| „ 1919 | 1,445,575 | 2,639,769 | 241,228 |
| „ 1920 | 1,554,807 | 2,796,372 | 309,346 |