

It should be explained that the share capital should not be taken as an indication of the total value of the shareholders' interest in the businesses.

The gross capital investment was arrived at along usual lines upon the basis of the value of assets as shown in the traders' books. The figures exclude any portion of the capital which may be invested outside the normal operations of a wholesale clothing-warehouse having subsidiary factories.

The figures relative to reserves include both special and general reserves, and indicate the amounts which were specifically transferred to reserve accounts. It is virtually impossible to ascertain the true reserve position of the companies. The unappropriated balances of profits would require to be taken into consideration, and it would further be necessary to endeavour to ascertain to what extent the values of assets as shown in the books represented the true values.

It will be noticed that the share capital increased between 1914 and 1920 by £260,568, or 20 per cent., while the gross capital increased by £979,776, or 54 per cent. The absolute net profits after payment of income-tax showed the following percentage relation to gross capital investment :—

Trading-year 1914	..	..	..	..	..	..	6.11
„ 1919	..	..	..	..	..	..	9.96
„ 1920	..	..	..	..	..	..	11.72

The net-profit figures used to ascertain the above percentages have been adjusted by adding to the profits the amount of interest paid by the firms in respect of borrowed capital—such borrowed capital being included in the gross capital investment, as shown above. The rate of net profit on gross capital is therefore shown to have almost doubled as between 1914 and 1920; but again it is pointed out that the profits upon which the figures are based are largely “paper” profits which, in view of the present decline in prices, may never be realized.

On the subject of whether or not profits should be considered in relation to sales or in relation to capital, attention is drawn to certain portions of a British report upon an investigation into prices, costs, and profits of the manufacture of Yorkshire tweed cloths. This report was made in July, 1920, by a sub-committee appointed by the Standing Committee on the Investigation of Profits.

“It was laid down by Sir Robert Horne during the Profiteering Amendment Act debate, 1920, that the rate of profit is to be reckoned as the percentage rate on sales, and the reasonableness of the profit to be decided by comparison with the pre-war percentage on sales, due consideration being given to the relative expenses of carrying on the business. . . . The relation of profits to capital employed is often regarded as a test of the reasonableness or otherwise of the profits realized. This depends, however, upon ability to ascertain the capital employed. . . . The capital of some firms in the trade stands in their books at the figure at which it stood half a century ago, whilst the book values of machinery of others have been written down to nothing. . . . In practice the profit made by a firm depends less upon the sum of its capital than upon the initiative, enterprise, and good sense of those responsible for its policy. In all the circumstances a statement of return on the nominal capital employed would be wholly misleading, and we have therefore not attempted it.”

WHOLESALE TWEED TRADE.

In New Zealand, and probably in other countries, there exists a special class of wholesale traders who are engaged in the business of buying from manufacturers, and selling, mainly to “order” tailors, woollen and cotton piece-goods, buttons, threads, &c., suitable for use in the making of men's suits and women's costumes. While these firms undoubtedly do a very substantial portion of the wholesale business in such goods, the general wholesale soft-goods warehouses also have departments which handle this class of commodity. The two classes of traders buy their supplies from similar sources in Great Britain and New Zealand, and generally there is no material difference in the conditions under which the “tweed” firms and the tweed departments of general warehouses do business.

The figures given below relate to several “tweed” firms carrying on business in the chief centres of the Dominion. The records of a number of other firms have been under investigation, but, for reasons which need not be detailed here, it has been difficult to include such firms in comparative tables covering the trading-years 1914, 1919, and 1920. The firms dealt with in this summary are a fully representative sample of those engaged in this particular class of business. Turnover, gross profit, and percentage of gross profit on turnover for the three years in question were as follows :—

				Sales. £	Gross Profit. £	Percentage.
Trading-year 1914	..	..	..	172,301	39,653	23.01
„ 1919	..	..	..	204,316	68,443	33.50
„ 1920	..	..	..	345,625	114,203	33.07

The turnover increased between 1914 and 1920 by £173,324, or just over 100 per cent. The gross profit increased by £74,550, or 188 per cent.

The similar figures already given in respect of the general wholesale warehouses were 107 per cent. increase in turnover and 138 per cent. increase in gross profit. The difference in the rate of increase of gross profit as between the two classes of traders will be readily noticed.

The average percentage of gross profit on turnover taken by the tweed-warehouses in 1914 was a little higher than that taken by general warehouses over the whole of their sales. The rate of profit in 1920, however, was very much higher. There was no great disparity between the rates of profit of the several tweed-houses in 1914—the figures ranged from 21.44 to 24.60—but in 1920 the rates differed considerably, the highest being 36.32 and the lowest 28.0 per cent. The net profits and percentages on turnover were as follows :—

				Sales. £	Net Profit before Deduction of Income-tax. £	Percentage.
Trading-year 1914	..	..	..	172,301	11,050	6.41
„ 1919	..	..	..	204,315	42,148	20.62
„ 1920	..	..	..	345,625	81,305	23.52