

# Revised company profits

*This note updates previous Bank calculations in the light of recent revisions to company profits.*

This note examines the effects of recent revisions to profits<sup>(1)</sup> on three measures of companies' financial position:<sup>(2)</sup> the non-North Sea pre-tax real rate of return on trading assets; income gearing; and the financial balance.<sup>(3)</sup>

It may help to recall why estimates of profits are frequently revised. They are derived from the Inland Revenue's assessment of companies' liability to corporation tax, but because of the lag between the end of a company's accounting year and the submission of its accounts to the Revenue, and also the time involved in analysing the data, 'benchmark' estimates of profits are produced three years in arrears. Figures for subsequent years are obtained by grossing-up this benchmark estimate from the results of a sample of companies. The benchmark in the 1980 'Blue Book' is for 1976, but this estimate may be revised as more complete information becomes available.

On this occasion, however, the upward revisions to the gross trading profits of non-North Sea companies in the latest 'Blue Book'—which, compared with a year earlier, have been of the order of £2–2½ billion for 1976 and 1977, and £3½ billion for 1978—are primarily the result of improvements in the coverage and quality of the Inland Revenue estimates, and figures for earlier years have been revised as well. The latest figures are nevertheless higher than revisions earlier this year, which were based on these improvements, had suggested.<sup>(4)</sup>

**Table A**  
**Gross trading profits: non-North Sea industrial and commercial companies**

£ billions

	1979 'Blue Book'	1980 'Blue Book'
1970	6.4	6.5
1971	7.2	7.4
1972	8.1	8.7
1973	9.7	11.1
1974	11.1	12.2
1975	12.0	13.8
1976	14.6	16.8
1977	16.1	18.6
1978	17.1	20.7
1979		23.9

## Pre-tax real rate of return on trading assets

The real rate of return is now estimated to have been higher than previously thought, but earlier statements about changes in it are still valid.<sup>(5)</sup>

**Table B**  
**Pre-tax real rate of return on trading assets: non-North Sea industrial and commercial companies**

Per cent

	1979 'Blue Book'	1980 'Blue Book'
1970	8.5	8.6
1971	8.6	8.8
1972	8.5	9.3
1973	7.2	9.1
1974	4.0	5.2
1975	3.8	5.3
1976	4.1	5.5
1977	4.9	6.2
1978	4.8	6.3
1979		4.7

## Income gearing<sup>(6)</sup>

Income gearing, affected also by other revisions (notably to tax payments), is now estimated to have been lower than previously thought.

**Table C**  
**Gross income gearing: all industrial and commercial companies**

Per cent

	1979 'Blue Book'	1980 'Blue Book'
1970	21.8	22.1
1971	19.0	19.1
1972	19.8	18.8
1973	26.4	23.7
1974	44.0	39.0
1975	36.9	31.7
1976	30.9	27.4
1977	25.7	22.7
1978	24.1	21.4
1979		28.0

## Financial balance (net acquisition of financial assets)

The net effect of the revisions described already, and of changed estimates of fixed investment and dividends, is to improve the financial balance of companies. The 'Blue

(1) As shown in *National Income and Expenditure, 1980 Edition* (the 'Blue Book').

(2) Throughout this note, the term 'companies' refers to 'industrial and commercial companies'.

(3) Certain other indicators (for example, capital gearing, liquidity and companies' borrowing requirement) are unaffected by these revisions.

(4) See *Economic Trends*, July 1980.

(5) Previous estimates were published in articles in the March 1976, June 1976 and December 1978 issues of the *Bulletin*, and in supplementary notes in the June 1977, June 1979 and June 1980 issues. See also the September *Bulletin*, page 272.

(6) The percentage of income, net of tax, pre-empted by interest payments. Estimates relate to all industrial and commercial companies.

Book' figures relate to all industrial and commercial companies; the figures shown in Table D—for companies excluding operations in the North Sea—are partly Bank estimates.

**Table D**  
**Financial balance: non-North Sea industrial and commercial companies**

£ billions

	<u>1979 'Blue Book'</u>	<u>1980 'Blue Book'</u>
1970	-0.6	-0.5
1971	0.6	0.8
1972	0.8	1.4
1973	-1.1	0.2
1974	-3.9	-2.8
1975	0.5	2.1
1976	0.3	1.7
1977	-1.6	0.4
1978	-1.5	1.0
1979		-3.8