

# Performance of large companies

*The preceding article describes measures of profitability and the financial position of companies based on the national accounts. This companion article presents some complementary statistics derived from the reported accounts of large companies. Putting together these published accounts enables statistics to be constructed measuring the performance of individual industrial sectors.*

*The article concludes that the trends revealed by the measures based on the two sources accord reasonably well although the values of certain of the measures are rather different, in particular real profitability.*

The published accounts of most larger companies have been available in computerised form for some years. This has made it possible to study aggregate figures for these companies, and to compare the results with the national accounts statistics for the company sector. It also makes available figures for the performance of companies in individual sectors of industry, for which no breakdown has been available from the national accounts. For an individual company, comparison of its performance with such sectoral figures is likely to be more relevant than comparison with overall national statistics.

Comparison of companies' published accounts with the national accounts is of particular interest in relation to measurements of profitability. The national accounts measurements of capital stock involve estimates from partial data and on the basis of broad assumptions—for example of asset lives. The recent recession in particular has brought the closure or rationalisation of many businesses. This has often involved the premature retirement of fixed assets, which may not yet be fully reflected in the national accounts.

This article uses information from the reported financial statements of major non-oil industrial and commercial companies compiled by Datastream Ltd and analysed by the Bank.<sup>(1)</sup> The companies concerned represent only a small proportion by number of the total population of companies. The Department of Trade and Industry estimates that, including oil companies, there were 245,000 industrial and commercial company groups and independent companies in Great Britain in 1980. However, over 80% of aggregate capital employed is estimated to be accounted for by the largest 1,800 companies, which broadly correspond with the companies covered by the Datastream information. About 75% of capital employed is accounted for by the

largest 600 companies.<sup>(2)</sup> Given this degree of business concentration it would be surprising if the trends shown by the national accounts were very different from those reported by the larger companies, even though it is recognised that smaller companies may have different characteristics. There are some important respects in which companies' published accounts are not comparable with the national income statistics. Thus real profitability derived from the national accounts seeks to measure the UK trading operations of the industrial and commercial companies' sector as a whole. Company accounts however, and thus the derived figures in this article, cover the reported performance of all activities—trading and non-trading, domestic and overseas—but of major UK companies only.

## Measures of real profitability

While many of the reasons for the difference between the estimates of real corporate profitability based on national accounts and on companies' current cost accounts have been recognised for some time<sup>(3)</sup> little work has been done until recently to try and quantify these differences. Indeed, until the introduction in March 1980 of an accounting standard on current cost accounting,<sup>(4)</sup> no direct comparison was possible between the national accounts and the accounts reported by companies.

An analysis was carried out by the Bank in 1982 of the current cost accounts of some 250 of the largest listed companies for the years 1979–81. This revealed an average profitability substantially higher than the national accounts measure of real profitability for the whole corporate sector.<sup>(5)</sup> The gap between the two measures can broadly be accounted for by known and, to some extent, quantifiable differences in accounting bases and definitions. The most important of these are

(1) Sources of data are described in the appendix.

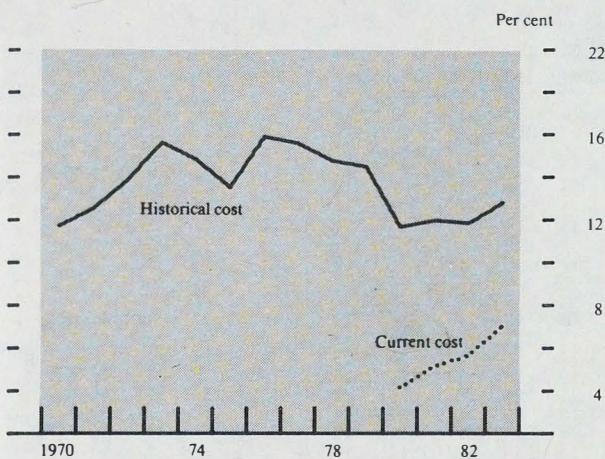
(2) *Business Monitor M-13*, fifteenth issue, Table 13.

(3) See, for example, the June 1983 *Bulletin*, page 234.

(4) Statement of Standard Accounting Practice—SSAP 16.

(5) See 'Current cost accounting', September 1982 *Bulletin*, page 378.

**Chart 1**  
Return on capital employed<sup>(a)</sup>



(a) Profits before interest and tax charges as a percentage of closing capital employed.

the treatment of overseas activities, non-trading income, extraordinary items, asset lives and monetary items.<sup>(1)</sup>

### Rates of return on capital

Rates of return on capital employed based on *historical costs*<sup>(2)</sup> (Chart 1) fell sharply from around 17% at the onset of the recent recession, averaging around 14% in 1980–82. Profitability on this basis increased to 15% in 1983 but this was still below the average of just over 16% achieved in the 1970s and the peak of 18% in 1976 and 1977. As national income figures illustrate, the nominal returns in these peak years were more a reflection of the high prevailing rate of inflation in the mid-1970s than of healthy real profitability. By contrast, the small improvement in historical cost profitability in 1983 was achieved at a time when inflation had been reduced, and masked an earlier and much sharper improvement in real profitability; this is shown by *current cost* returns which increased from a low point of 6% in 1980 to 9% in 1983.<sup>(3)</sup>

These profitability figures do not take account of extraordinary closure costs (conventionally taken 'below the line' in company accounts) but do include non-trading income. To the extent that the returns on financial assets have been boosted by high nominal interest rates (while the correspondingly high interest payments on borrowings, which are regarded as part of the capital base, are ignored in arriving at the return on capital employed), both these factors may tend to raise reported profitability by comparison with the national income figures presented in the previous article.

The improvement in 1983 was achieved by an increase of some 25% in historical cost profits over the previous

year, mainly because of the modest growth of unit labour costs, but also because the volume of turnover recovered, led by increased consumer spending. A proportion of this increase in profits may also have reflected the 8% decline in sterling for 1983 from its average for 1982. This fall will have had the effect of increasing the sterling value of the profits from exports and from the operations of overseas subsidiaries; on the other hand, some of the rise in sterling import costs may have been taken on domestic and export profit margins. The decline in the average value of sterling occurred when inflation was no worse in the United Kingdom than in competing countries. Thus the fall in the real exchange rate will have improved export margins or the competitiveness of UK products, but reduced the competitiveness of imports.

### Sectoral performance

The recession and recovery have had a different impact on different areas of industry. This can be seen by analysing the profitability of industrial sectors (Table A). Recent profitability figures may be compared with those during the 1970s, though unfortunately this can only be done on an historical cost basis. Since the industry rankings in recent years are not very different whether measured on an historical cost or current cost basis, the former figures may not be too misleading in this context.

All parts of the capital goods group, apart from electronics, still showed profitability well below the level of the 1970s. The contracting and construction sector suffered further last year from the depressed level of private sector and, more importantly, public sector capital spending, both at home and abroad. Returns were particularly low in motors and in metals, and in both sectors would have been worse had allowance been made for their heavy costs of rationalisation. The buoyancy of the electronics sector in the recession has been helped by income from the sizable liquid assets held by several major companies in this sector and by the relatively high proportion of (less cyclical) defence contract work enjoyed by these companies. In the consumer group, most sectors have maintained or increased profitability since the 1970s. The very large overseas interests of many of the major companies, including those in food manufacturing, pharmaceuticals and tobacco in particular, will have contributed to this resilience. There has been a marked recovery in textiles; however, the packaging and paper sector, parts of which suffer from continuing excess capacity, remains depressed. In the remaining groups, the most prominent features have been a recovery in chemicals, a very sharp decline in office equipment and continuing low earnings in

(1) The results of a recent study which attempted to reconcile the two measures of company profitability have been reported in *Economic Trends*, August 1984, pages 97–100.

(2) Throughout this article historical cost accounts are taken to include modified historical cost accounts which include the revaluation of certain assets, mainly land and buildings.

(3) Some caution is needed over 1983 figures as not all large companies had reported fully when these figures were compiled: the current cost figures for 1983 in particular may be biased since the proportion of companies analysed which disclosed current cost data fell sharply from 70% in 1982 to only 43% in 1983. However, the historical cost profitability for the four years 1980–83 for those companies which have also disclosed current cost data is not significantly different from the figures calculated for all companies, so that any bias is likely to be small.

**Table A**  
**Rates of return on capital employed<sup>(a)</sup>**

Per cent.

	Historical cost													Current cost				
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1980	1981	1982	1983
<b>Capital goods</b>	<b>13</b>	<b>14</b>	<b>16</b>	<b>18</b>	<b>16</b>	<b>16</b>	<b>18</b>	<b>18</b>	<b>17</b>	<b>16</b>	<b>12</b>	<b>12</b>	<b>12</b>	<b>12</b>	<b>5</b>	<b>6</b>	<b>6</b>	<b>7</b>
Building materials	13	16	19	19	13	13	16	17	17	14	13	13	14	7	7	7	9	
Contracting and construction	15	17	18	18	17	17	18	18	18	16	15	14	13	12	8	8	9	11
Electricals	16	18	19	19	17	16	19	17	19	17	14	18	18	18	7	10	10	11
Electronics	15	16	20	22	20	21	25	26	25	26	24	24	24	19	17	18	21	22
Mechanical engineering	12	13	14	16	18	17	19	18	17	15	12	11	9	11	3	4	3	5
Metals and metal forming	14	14	14	16	19	14	15	14	14	14	10	9	10	11	5	4	5	8
Motors	10	12	12	14	11	9	16	14	12	9	3	3	4	7	-5	-3	-3	1
Other industrial materials	14	15	16	20	18	17	19	19	17	17	16	15	14	13	7	8	8	7
<b>Consumer group</b>	<b>15</b>	<b>16</b>	<b>17</b>	<b>19</b>	<b>17</b>	<b>16</b>	<b>18</b>	<b>18</b>	<b>18</b>	<b>17</b>	<b>15</b>	<b>16</b>	<b>16</b>	<b>17</b>	<b>8</b>	<b>9</b>	<b>9</b>	<b>11</b>
Brewers and distillers	14	15	15	15	13	13	15	16	16	15	13	13	14	15	6	7	8	11
Food manufacturing	13	15	17	18	17	17	19	17	17	17	16	17	16	17	9	9	9	9
Food retailing	28	29	31	21	18	19	22	22	20	19	22	20	21	25	10	12	14	16
Health and household products	23	23	23	24	24	25	28	27	24	21	20	22	25	25	12	12	15	16
Leisure	16	16	19	19	16	17	19	20	18	16	15	14	14	14	10	11	11	11
Newspapers and publishing	14	18	23	24	18	18	21	22	24	24	14	17	14	18	4	7	9	12
Other consumer goods	14	18	22	23	16	20	20	18	15	13	14	13	11	18	5	7	5	13
Packaging and paper	11	12	13	17	19	13	16	17	17	17	14	14	12	11	4	5	6	6
Stores	19	20	21	20	17	17	18	19	19	18	15	14	13	16	8	9	8	11
Textiles	11	12	15	19	17	11	15	15	15	14	10	14	14	16	2	6	6	10
Tobacco	17	17	16	18	17	17	18	18	18	20	18	21	21	22	10	10	12	13
<b>Other groups</b>	<b>12</b>	<b>11</b>	<b>12</b>	<b>15</b>	<b>17</b>	<b>14</b>	<b>17</b>	<b>16</b>	<b>14</b>	<b>16</b>	<b>13</b>	<b>13</b>	<b>12</b>	<b>14</b>	<b>5</b>	<b>6</b>	<b>6</b>	<b>8</b>
Chemicals	11	11	12	17	21	16	18	17	13	15	10	11	10	13	3	4	4	7
Office equipment	28	20	23	20	19	16	18	25	22	20	23	19	14	12	8	9	5	7
Shipping and transport	8	6	8	10	12	9	11	10	9	11	11	9	8	11	6	4	2	...
Miscellaneous	13	14	15	16	16	16	18	19	19	18	16	15	15	17	7	9	11	13
<b>All industrial groups</b>	<b>14</b>	<b>15</b>	<b>16</b>	<b>18</b>	<b>17</b>	<b>16</b>	<b>18</b>	<b>18</b>	<b>17</b>	<b>16</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>15</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>

not available

(a) Aggregate profits (trading and non-trading) before interest and tax charges as a proportion of aggregate capital employed (equity, long and short-term borrowings and deferred provisions), based on the FT-Actuaries industrial classification.

shipping and transport. The weighted averages of companies in many industrial sectors tend inevitably to reflect the performance of a few dominant companies and, while this in no way invalidates the aggregate statistics, smaller companies may have quite different characteristics. Average rates of profitability taken across companies without weighting (giving equal prominence to large and small companies) suggest that the profitability of smaller companies, which was higher than of larger companies for most of the 1970s, declined very much more rapidly to a level lower than that of larger companies during the recent recession.

## Taxation

Looking to the immediate future, apart from the benefit that companies should continue to enjoy from any increases in demand and the effects of earlier rationalisation measures, the provisions of the Finance Act 1984 are likely to have an important influence. The abolition of the national insurance surcharge should reduce costs, by the equivalent of 2% or so of pre-tax profits, though there may be some offset from higher wages and lower selling prices.

The phased withdrawal of first year capital allowances and simultaneous reductions in the rate of corporation tax, and the abolition of stock relief, are major reforms of company taxation. In the very short term these

measures may possibly boost capital investment, over and above the substantial increases, albeit from a very low base, already seen in the first half of 1984, as companies bring forward expenditure into periods when higher capital allowances are available. Many companies, however, may feel that the advantages to be gained will not be large enough to make fundamental changes to their investment plans. Much of any increase seen in the near term may thus reflect an advance in the timing of contractual commitments, from the beginning of one fiscal year to the end of the previous year.

Although companies will benefit immediately from the reduction in the rate of corporation tax from 52% to 50% for 1983/84 and to 45% for 1984/85, while continuing to enjoy 100% first year allowances for expenditure contracted for before the announcement of the taxation reforms, the effects of the Finance Act on overall corporation tax payments by industrial and commercial companies in subsequent years are less clear. Tax exhausted companies will, of course, enjoy no benefit until their accumulated taxation losses and surplus ACT are relieved; indeed, they are likely to start paying tax sooner under the new regime, albeit at lower rates of corporation tax. For some companies currently paying mainstream corporation tax, the falling nominal rate of tax will not compensate for the withdrawal of stock relief<sup>(1)</sup> and first year allowances, and for the delay in building up a pool of assets qualifying

(1) The value of this will depend on the prevailing rate of inflation.

for writing down allowances. In the medium term at least, these companies will be paying more tax under the new regime, although they may eventually benefit from the lower rates of tax once their writing down allowances become substantial. While government forecasts indicate that the corporation tax yield from the whole of the company sector will be broadly similar during the transitional period as a whole to what it would have been under the old regime, the more profitable companies and those in financial and services sectors will tend to benefit, whereas the less profitable companies and those in the more capital intensive industrial sectors may be worse off. The new measures will, however, reduce distortions between the relative costs of employment and capital investment, and will remove most of the bias in favour of debt, rather than equity, finance.

### Dividend cover

Looking only at those companies which have reported both historical and current cost figures, between 68% and 79% of companies paid dividends which were fully covered by historical cost profits in each of the years from 1980 to 1983 (Table B). In current cost terms the proportion was much lower, in the range from 43% to 55%. As profits have increased so the proportions of fully covered dividends appear to have improved in 1983, but as many as 24% of companies in that year paid dividends not covered in current cost terms even though they appeared to be covered in historical cost terms.

Table B also shows a weighted average dividend cover, which takes account of the size of companies. In each of the four years 1980-83 current cost dividend cover was, at the most, half the figure based on historical cost profits; there was an improvement, however, under both accounting conventions in 1983. A striking feature of the weighted average is that aggregate dividends exceeded current cost profits in 1981 and 1982, and were only just covered by current cost profits in 1980. Although no current cost figures are available before 1980, the weighted average historical cost dividend cover was

**Table B**  
**Extent of dividend cover**

	Historical cost(a)				Current cost			
	1980	1981	1982	1983	1980	1981	1982	1983
<b>Percentage of companies</b>								
Fully covered	72	68	70	79	48	43	46	55
Wholly/partly uncovered	14	18	18	14	38	43	42	38
Nil dividend(b)	14	14	12	7	14	14	12	7
<b>Dividend cover</b>								
Weighted average(c)	2.4	2.6	2.2	2.5	1.0	0.9	0.8	1.3

(a) For those companies also reporting current cost information.

(b) Including a very small number of companies declaring a nominal dividend.

(c) Aggregate published retentions before ordinary dividends but after extraordinary items, divided by aggregate ordinary dividends payable.

noticeably higher in the 1970s, typically around 3.2; but dividend controls were in force in one form or another throughout this period.

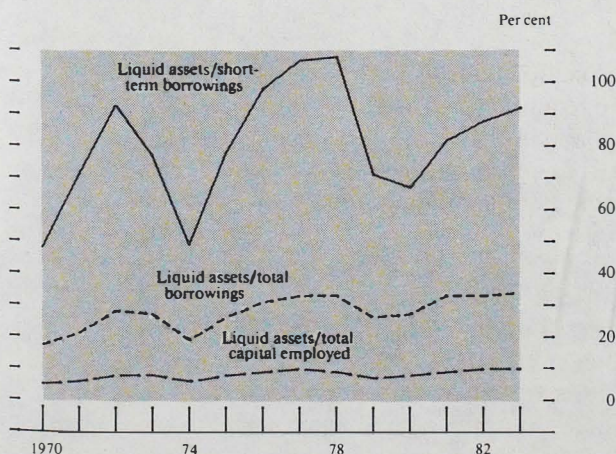
If all companies, including those which have not published current cost accounts, are analysed, the proportion of companies paying dividends fully covered by historical cost profits is some 5 percentage points lower in each of the four years than the figures shown in the first row of the table, with a corresponding increase in the proportion of companies paying a nominal or no dividend; the weighted averages are not materially different. This suggests that those, mostly smaller, companies which have passed a dividend have chosen not to publish current cost accounts. All these calculated levels of dividend cover make no allowance for cases where companies have insufficient corporation tax liabilities against which to offset the ACT payable when distributions are made. To the extent that this ACT cannot be recovered in the foreseeable future, the real cost of paying a dividend would be that much greater.

Without further injections of capital, whether through equity issues or through increased borrowings, the real operating capability of companies which have paid uncovered dividends must of necessity have contracted. Where such companies are in declining industries, the payment of dividends out of reserves can be theoretically justified on the grounds that the shareholders may be able to obtain a better return by investing their capital elsewhere. But it is likely that directors will in practice have been more influenced by a concern to minimise the risk of any weakening in their share price, and thus of increased exposure to takeover, in circumstances in which, for many companies, market valuations have been materially below net asset value at replacement cost and, indeed, below book value.

### Liquidity ratios

The published accounts of large companies also enable their aggregate balance sheets to be analysed. A narrowly defined ratio of liquid assets (cash and equivalent short-term deposits) to liquid liabilities (short-term borrowings) follows a broadly similar trend to the Department of Trade and Industry's quarterly survey of company liquidity; this survey has a similarly defined

**Chart 2**  
**Balance sheet liquidity ratios<sup>(a)</sup>**

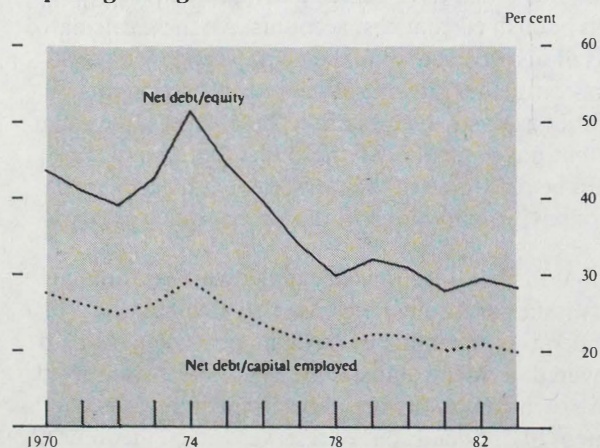


(a) Based on historical cost accounts.

ratio for a panel of large companies (see page 355). The measure of liquidity based on company accounts has been highly volatile over the last decade (Chart 2). After dipping to around 70% in 1980, the ratio recovered to 90% at the end of last year, not far short of its previous peaks. This measure represents the position at the balance sheet date and is subject to end-year window dressing as well as to movements between short-term and medium-term borrowings, so some alternative measures of liquidity also bear investigation.

The ratio of liquid assets to *total* borrowing is much less volatile (Chart 2). Its trend has been unmistakably upwards, from around 20% in the early 1970s to 35% in 1983, its highest level in recent years. Similarly, the proportion of liquid assets in total capital employed has tended to rise, from 5% or 6% in the early 1970s to 10% in the last three years. During the same period, companies reduced their reliance on loan finance, the net debt/capital employed ratio falling from 30% at the height of the liquidity crisis in 1974 to 20% in 1983 (Chart 3). All these trends are exaggerated, by the increasing use of off balance sheet finance such as leasing in later years.<sup>(1)</sup>

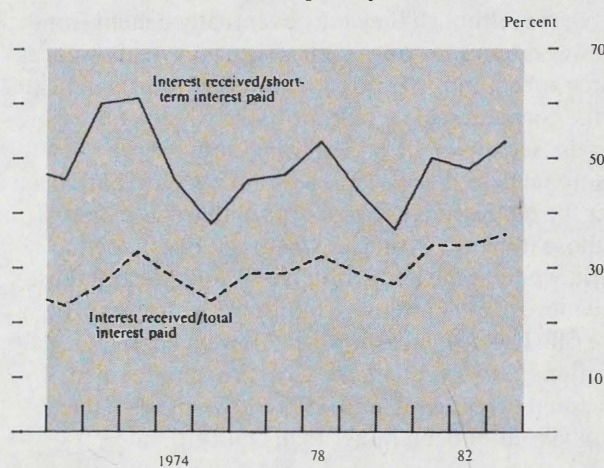
**Chart 3**  
Capital gearing<sup>(a)</sup>



(a) Based on historical cost accounts.

From the profit and loss account, the ratio of income from liquid assets to interest paid (allowing for the margin between rates of interest payable and receivable) can be used as an indicator of average liquidity during an accounting period. This avoids any distortion that might arise from looking at balance sheet positions on particular dates. When short-term interest payments are used as the denominator (Chart 4) the ratio is lower and less volatile than the corresponding balance sheet ratio. This suggests that the balance sheet ratio may not reflect the typical position throughout companies' accounting periods. When total interest payments form the denominator, however, this measure behaves similarly to the equivalent balance sheet ratio.

**Chart 4**  
Profit and loss account liquidity ratios<sup>(a)</sup>

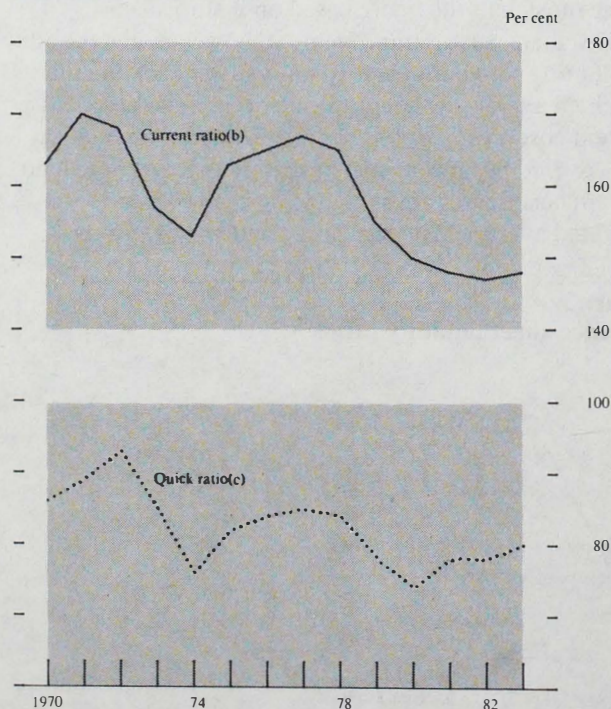


(a) Based on historical cost accounts.

**Current ratios**

The liquidity of companies is, of course, determined not only by their ability to repay short-term borrowings but by their ability to pay all current liabilities (trade creditors and short-term borrowings) as they fall due. Much so called short-term finance, although technically repayable within one year, is in fact rolled over more or less indefinitely. It could be argued that such borrowings should be regarded more in the nature of permanent finance. Furthermore, for all practical purposes, the greatest influence on a company's ability to meet its short-term liabilities is the headroom available on its

**Chart 5**  
Current ratios<sup>(a)</sup>



(a) Based on historical cost accounts.

(b) Current assets as a proportion of current liabilities.

(c) Current assets less stocks as a proportion of current liabilities.

(1) See 'Recent developments in equipment leasing', September 1982 Bulletin, page 382.

borrowing facilities, information which a company is not obliged to disclose. Despite these reservations, the measures of liquidity most generally used by financial analysts, and by businessmen themselves, are the current and quick ratios.

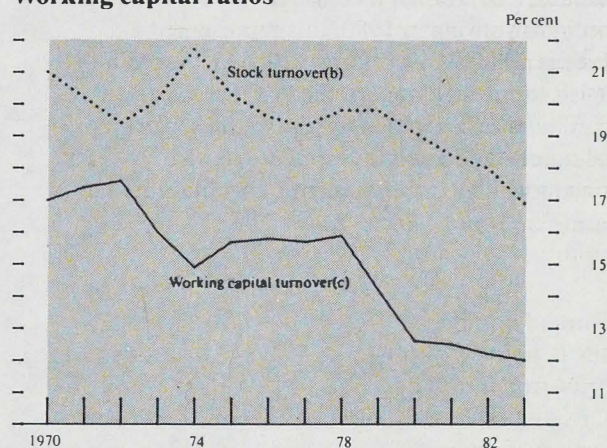
The more widely defined current ratio<sup>(1)</sup> shows an opposite trend to the liquidity ratios. It has declined from around 170% in the early 1970s to under 150% in 1983 (Chart 5). This was achieved through better management of working capital, principally through much more efficient stock control, but also by improved control over net trade credit (Chart 6). Similarly, the more narrowly defined quick ratio<sup>(2)</sup> has fallen from around 90% in the early 1970s to 80% in 1983, again suggesting some tightening in credit control by the larger companies analysed, possibly at the expense of smaller companies which lack the financial controls and muscle of the larger companies.

With asset cover for current liabilities having fallen during the last decade, and interest cover having been reduced when profits were depressed, it was perhaps only prudent that companies should have built up their cash and other short-term deposits, and reduced their dependence on short-term borrowing, in the last two years. Volatile exchange rates, interest rates and demand, and the particular experience of the liquidity crisis in the mid-1970s, appear to have led companies to exercise greater caution in their financial management.

## Sources and uses of funds

Many of the trends that have been described are reflected in the sources and uses of funds of major companies (Table C). Without some form of adjustment, changes in

**Chart 6**  
Working capital ratios<sup>(a)</sup>



- (a) Based on historical cost accounts.  
 (b) Closing stock as a proportion of sales.  
 (c) Closing stock and trade debtors less trade creditors as a proportion of sales.

the population of companies and in the value of the pound would obscure movements in the various items in the table. The sources and uses of funds have therefore been expressed as a proportion of the aggregate sales of the companies analysed. While this treatment does not remove the inflationary appreciation of working capital items, all sources and uses are nevertheless restated in terms of approximately constant pounds. On this basis, the funds arising from operations reveal the trend in the pre-tax cash flow margin.<sup>(3)</sup> This margin fell sharply in 1980 and has climbed slowly since then, but to a level still well short of that in previous years. In the earlier recession in the mid-1970s, companies failed initially to react to the fall in demand and continued manufacturing for stock; this and the high rate of inflation led to large increases in working capital and borrowing. In marked contrast, the onset of the latest recession saw a

**Table C**  
Sources and uses of funds<sup>(a)</sup>  
£ per £1,000 of sales

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
<b>Sources</b>											
Operations <sup>(b)</sup>	108	94	85	91	87	87	82	67	70	71	77
Capital issues	25	13	22	19	13	14	13	12	15	16	14
Other	15	7	9	8	4	11	7	7	10	10	8
<b>Total</b>	<b>148</b>	<b>114</b>	<b>116</b>	<b>118</b>	<b>104</b>	<b>112</b>	<b>102</b>	<b>86</b>	<b>95</b>	<b>97</b>	<b>99</b>
<b>Uses</b>											
Tax	21	24	18	15	19	18	16	15	14	15	14
Dividends	16	12	10	10	10	11	12	12	11	11	11
Fixed assets	67	57	49	44	50	60	59	55	47	53	49
Other	18	5	6	9	5	6	4	3	8	10	10
Working capital	38	41	14	33	17	18	24	—	8	7	5
<b>Total</b>	<b>160</b>	<b>139</b>	<b>97</b>	<b>111</b>	<b>101</b>	<b>113</b>	<b>115</b>	<b>85</b>	<b>88</b>	<b>96</b>	<b>89</b>
<b>Movement in working capital</b>											
Stocks	44	51	19	37	19	21	27	7	12	11	10
Debtors	39	24	15	31	15	20	27	3	19	13	17
Creditors	-45	-34	-20	-35	-17	-23	-30	-10	-23	-17	-22
<b>Movement in net liquid funds</b>											
Cash	+ 9	- 4	+13	+13	+ 6	+ 4	- 4	+ 3	+12	+ 6	+ 9
Borrowings	-21	-21	+ 6	- 6	- 3	- 5	- 9	- 2	- 5	- 5	+ 1
<b>Total</b>	<b>-12</b>	<b>-25</b>	<b>+19</b>	<b>+ 7</b>	<b>+ 3</b>	<b>- 1</b>	<b>-13</b>	<b>+ 1</b>	<b>+ 7</b>	<b>+ 1</b>	<b>+10</b>

- (a) Based on historical cost accounts.  
 (b) Profit before tax, adjusted for items not involving the flow of funds.

(1) All current assets (stocks, debtors and cash) to all current liabilities (trade and other creditors and short-term borrowings).

(2) Current assets, excluding stocks, to all current liabilities.

(3) The ratio of profit before tax, adjusted for items which do not involve the flow of funds, to sales.

negligible increase in working capital but was accompanied by a small increase in net liquid assets; with inflation strong in 1980, this represented a substantial real fall in working capital, achieved mostly through rapid destocking. In the last three years, companies have continued to control their working capital tightly, and fixed investment has also remained low. The improvement in profitability has

been used instead to increase net liquid funds. These aggregate figures of course conceal widely differing positions for individual companies and, for 1983 especially (when the smaller number of companies analysed showed both an increase in liquid assets and a small decrease in liquid liabilities), may not be representative of the whole corporate sector, particularly smaller companies.

## Appendix

### Sources of data

The statistics described in this article are derived from an analysis of accounting data for about 1,800 industrial and commercial companies provided in computerised form by Datastream Ltd. For the most part, the companies covered by this service comprise some 1,300 quoted UK companies, including those quoted on the unlisted securities market; accounts for a further 500 of the largest unquoted companies, including 100 which are foreign owned, are also available. The accounts of the nationalised industries are not available on Datastream although certain government-owned companies are, and have been included to conform with national accounts practice.

Although historical cost data for the listed companies is generally available for the whole of the 1970s, the unlisted companies have been added to the database more recently and figures for these are only available since 1980. The composition of the database has been further affected by the advent of new companies to the market and by the disappearance of others, either as the result of insolvency or through mergers with other companies. The database thus consists of a shifting but expanding population of companies. No attempt has been made to restrict the analysis to those companies which are available in each and every year, since this in itself is likely to introduce a degree of bias. Instead, all data available in a year have been included; figures for the largest companies are generally available for all the years investigated so the aggregates should not be

seriously affected by changes in the constituent companies.

Nevertheless, in interpreting the results of the analysis, particularly as time series, it should be recognised that the various measures are not exactly comparable from one year to the next, not only because of changes in the population but also because of changes in accounting policies which may have occurred either in individual companies or, more generally, as the result of new accounting standards being introduced. Furthermore, accounts for 1983<sup>(1)</sup> are still incomplete with a number of major companies with March 1984 year-ends yet to report fully at the time of writing.

Another source of aggregate data derived from company accounts is the Department of Trade and Industry's *Business Monitor MA3*, 'Company finance'. This is based on a standardised analysis of a representative sample of about 2600 industrial and commercial company groups and independent companies. The fifteenth issue was published in June and contains final figures for the accounting year 1980 and provisional figures for the accounting years 1981 and, for large companies only, 1982. Some results from the *Monitor* were discussed in an article 'Company finance 1977/1982' which appeared in *British Business* for 3 August 1984. That article also describes the coverage and definitions used. Statistics for the manufacturing sector from this source are presented in the article on page 352.

(1) Aggregated figures for calendar years include those for companies with year-ends in the first quarter of the following year.