Discussion Paper No. 113.

Preliminary Report on a Study of Company Savings in Kenya's Manufacturing Sector

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Any views expressed in this paper are those of the author. They should not be interpreted as reflecting the views of the Institute for Development Studies or of the University of Nairobi.
1) OUTLINE OF THE OBJECTIVES OF THE STUDY

The intention of the project has been to study the nature and magnitude of company savings (or, more precisely, internally generated funds) as a source of finance for economic development in Kenya.

In designing and implementing the study, the intention has been to satisfy two different but related interests, and its success will have to be judged by the degree to which it meets both of them.

Firstly, so far as Kenya is concerned, the Statistical Section of the Ministry of Finance and Economic Planning requires a form of “pilot study” of savings in this field. Hopefully, the techniques evolved can be applied to all of the private sector, and thus provide a more complete knowledge of the financing process, which in turn should be of value for development planning purposes.

Although the present study on its own cannot fulfill this requirement it will be useful if the data elucidates elements in the behaviour of savings which can be related to the more usual material collected by official sources. For instance, if there is a reliable relationship between company savings, and, say, gross product of the sector concerned, this would not only allow estimates of the current financial situation to be made, (especially if the method of analysis were later to be found applicable to the rest of the corporate and non-corporate private sector), but also, we would have something of predictive value, and at this stage, the interests of economic planning would be catered for.

This in turn ties in with the second objective of the study which is that it should help to provide an understanding of the processes behind private savings or retentions, rather than having to treat them entirely as an “ex-post” quantity.

The meaning of this is quite simple. The present method of estimating domestic savings is to take the Gross Domestic Capital Formation for the year in question, as shown in the national accounts, and then to deduct the total of funds obtained from external sources. The remainder represents domestic savings, in the sense that savings are always, in retrospect equal to investment.

If, from the domestic savings figure so calculated we deduct government sector generated finance (which in simple terms we could take as the excess of recurrent revenue over recurrent expenditure in the Government accounts), and domestic credit creation, (for both
of which there is accurate data, we obtain an ex-post amount, showing the proportion of investment which has been financed by private savings.

This, although factually true, is not a particularly useful or operational piece of information. Firstly, it gives no indication at all of the determinants of private savings, but, more important it is a book-keeping type balancing item giving no idea of the flows which lie behind the savings generated. Along with the fact that it covers a completely heterogeneous number of economic units comprising the savings of companies, ‘individuals’ (inclusive of unincorporated businesses like partnerships), employees, and, of course, the huge subsistence sector, we seem to be left with a calculation which has only an illustrative function. As for the flows which go to make up savings, and of course the manner by which investment is financed we are left rather in the dark.

It is this concern with the flows of finance which has prompted a major study of the sources of development funds at the University of Leeds. This is to be a broad ranging analysis of a cross-section of countries at various stages of development. Special emphasis, clearly, is being laid on how the patterns of financing, and the contributions of the economic sectors vary with different levels of income.

Given this background, it is hoped that the second contribution of the present study will lead to a better understanding of company savings as one source of finance, and possibly also to an alternative method of computing company retentions from data other than tax sources. Clearly, in a cross-section study of the type being carried out at Leeds, covering as it does, some countries with very rudimentary official data collection, this would have an obvious advantage.

B) THE MAGNITUDE OF COMPANY SAVINGS IN KENYA

Having described the background against which the study is being conducted, and before going on to describe the methodology of the analysis, it will be interesting to look at an estimate of the actual magnitude of company savings in Kenya for any one year.

The year we shall take for this illustration will be 1967, as official data in this year were improved by the Census of Industrial Production.

Although figures of income for all companies in Kenya are available from the I.A.E. Income the Department Annual Reports, the item shown is “taxable income”, and hence, already has had deducted from it the
allowance granted by the authorities for depreciation. This latter allowance granted "by the authorities for depreciation. This latter is a non-cash expense so far as each company is concerned, and hence, if we are to derive an estimate for retentions, it must be added back to the figure given for taxable profit.

Fortunately, the statistical section of the Ministry of Finance kindly provided overall depreciation data derived from returns sent in for the Census of Industrial Production in 1967 and for various Surveys covering different sectors.

Using data from both sources, we shall attempt to derive an estimate of actual company retentions in Kenya during 1967.

The first step in the construction of Table I was to obtain from the tax report for the year of income 1967 the taxable income of companies in various sectors.

Secondly, we add back depreciation for each subsector. Mining, manufacturing and construction were covered in the 1967 Census, and hence, the figures shown are unamended depreciation details from that Census.

However, the only data for the "Wholesale/Retail" and "Other Services" categories come from 1968 Surveys, and the question arises as to whether or not these can be used as representative of 1967. It really does not seem that any large error will result from this, especially when one bears in mind the fairly consistent provisions set aside annually by most companies with which the author is by now familiar. Additionally, capital expenditure in the two sectors was roughly similar in both years, and this would help to bring consistency, no matter what system of asset depreciation was being employed.

Although it is still hoped to derive depreciation data for the "Transport" and "Electricity & Water" sectors, the figures presented in Table I are "guesstimates" as is the one shown relating to agriculture.

Generally, estimates place the depreciation charge for an economy at Kenya's stage of development at about one third of taxable income. This procedure has been adopted with reference to the "Electricity/Water" sector (employing long-lived assets) and with "Agriculture" (a relatively labor-intensive industry), but for Transport, the 50% ratio found to apply to the Census figure on Manufacturing has been adopted. This, it is felt, will give a reasonably accurate picture of the magnitudes involved.

After adding back these depreciation estimates the next step is to deduct tax actually paid by the companies in 1967. So far as
Kenyan practice is concerned, this will mean tax payable on the year of income 1966. The reason for this choice is based on the fact that until 1970 taxes were paid on the prior year's income. Assuming a rising trend in this income the amount paid in this way will be less than the company actually sets aside against its profits for tax payable on the income for the current year. The difference between the two amounts, (as shall be seen with the data to be presented) has been a significant form of medium term financing to companies for most of the decade.

At this point then, to return to Table 1 we have an after tax income figure for Kenya companies of £20,246,630.

From this figure, to obtain an estimate of the income actually retained we must deduct the quantity of the after tax income paid out as dividends. On this, published data does not provide all the information required, but a start can be made with the Tax Reports which show that total dividends received in Kenya for the year 1967 were £1,759,046, although this figure cannot be used without adjustments. These adjustments are of two kinds:

a) Dividends received by residents in Kenya from companies outside of Kenya must be deducted.

b) Dividends paid by Kenya companies to recipients outside of Kenya must be added.

Regarding a) we need only concern ourselves with dividends arising in East Africa, as income from outside of this source is not subject to tax, and therefore does not appear in the published tax tables. Hence only dividends paid by Tanzanian and Ugandan Companies to residents in Kenya need to be deducted. The E.A.C. kindly provided the information necessary for 1967. The data is as follows:

Tanzania = £155,000
Uganda = £337,000
Total = £492,000

Turning now to adjustment (b) we must add dividends paid by Kenya companies to residents outside of Kenya. The relevant figures here are:

Dividends paid to residents in Tanzania = £ 65,000
Uganda = £ 41,000
Other Sterling Area = £ 14,265,000
Other areas = £ 182,000
Total = £14,603,000
This figure incidentally does not equate with the item "Foreign Investment Income" in the Balance of Payments Accounts, although Mrs. Seidman appears to be under this impression.

It can be seen from Table 1 that having deducted the figures given as "Kenya generated" dividends we end with a total of company retentions in 1967 of nearly £18 milllion.

By any measure, this is a substantial amount of money, as can be seen when it is compared with the Kenya Gross Fixed Capital Formation in 1967 of £31 million. Company savings then are a very significant form of finance, especially when it is remembered that the G.D.C.F. figure includes investments in dwellings which are not generally regarded (in the GNP sense at least) as directly productive assets.

The above, therefore, gives some idea of the actual importance for Kenya of the subject being studied, which brings us to the question of methodology, and it is worth emphasizing here the criteria of the study laid down in Part I of the present paper. It was, after all, an attempt to satisfy these criteria that the methods adopted were formulated.

3) METHODOLOGY

The first task was one of definition, as a wide ranging study of company finance for all sectors in Kenya would have required a much larger sample for reasonable representation than could have been coped with in the time available.

It was decided therefore after consultations with the Ministry of Finance & Economic Planning that the purpose of the study would best be served if the sample of companies were to be drawn from manufacturing enterprises employing over 50 people. This choice was based on two facts. Firstly, a major interest for a developing country is to increase industrialization as a means for raising both living standards and employment levels. With this in mind, the savings and investment processes in manufacturing enterprises attain a special significance.

Having decided to restrict the analysis to manufacturing, the next question was one of size limits. The lower level of 50 employees was taken on the pragmatic grounds that the centrally collected data, both at the Ministry and at the E.A.C. are much more complete above this level. For instance, the annual Survey of Production only covers establishments with this number of employees and above (as opposed to the A yearly Census, covering all firms).

Having defined the scope of the survey in this manner, it remained to design a sampling procedure, which, while being a satisfactory
tool for the analysis required by the project would also make the best use of the sampling strength available. Clearly, both aims would be assisted by a double classification according to both a measure of size and of type of output.

As it had already been decided that a sample of approximately 60 companies was all that could be coped with in the allotted time it was clear that this classification could not be too complex for fear of rendering the strength of the sample in each cell statistically unreliable vis à vis the population concerned. At this stage, incidentally, a full list of manufacturing companies had been obtained from the company master file at the Ministry based on 1968 data. This was particularly useful in that it gave both an I.S.I.C. code for each company, and also, total labour employed.

Noting the substantial numbers of companies listed as employing over 50 people, it became clear that the sample stratification mentioned could be no more sophisticated than to break down type of output into the following:

1) Basic Consumption Goods - (Food, Beverages, Clothing & Tobacco)
2) Other Consumption Goods
3) Intermediate Goods
4) Capital Goods

The I.S.I.C. code given in the master file very greatly assisted in a primary allocation of companies into these four types, although in the case of some multi product organisations, it was necessary to obtain product data and allocate them according to the greatest value of the output.

After this stage had been reached, however, there remained the problem of a measure of size. After an initial scan of files at the Registry of Companies it became clear that the nominal capital figures shown therein bore no consistent relationship to companies whose approximate size was already known.

Additionally, as by far the majority of manufacturing enterprises are registered as private companies, then the yearly submission of final accounts, (which could give an indication of the value of assets as a possible size measure) was rare.
It would have been necessary, in order to obtain such information to collect data either on average investment over a number of years, or on net assets in all relevant manufacturing establishments. This would have been a time consuming, not to say tedious procedure.

Fortunately, however, it became clear during the course of discussion with people already familiar with the organization of manufacturing in Kenya, that if size of employment were taken as a measure of size of company, then no great distortion would result. This would be so especially if the limits of the size groups were drawn widely enough as (with this study) had to be the case by necessity. This, with hindsight and greater knowledge of the actual companies appears to have been good advice.

In order to coincide with classifications already in use within the Ministry the following size categories were chosen.

| Number of Employees: | 1) 50 - 99 | 2) 100 - 499 | 3) 500+

This was a useful classification from the point of view of the study, in that it gave a relatively simple number of 12 cross classified cells, as shown in Table 2. Even with this only general disaggregation, it would have been wise to use a complete stratification based on strength in each of the 12 units. This was because the "Basic Consumption" and "Intermediate" categories would have demanded such a proportion of the total strength, and the other two output categories would, as a result, have been so under represented that any inferences concerning them would have been totally unreliable. The procedure adopted, therefore, was as follows. A blanket coverage of 16 companies was chosen as a census of all those manufacturing enterprises employing over 500 people in 1968. Assuming a limit of approximately 60 companies in all, this left 44 to be allocated to the other eight occupied cells.

They were allocated on the basis of 12 firms each to output groups A and C and 9 each to B and D. These were then allocated in each case to size groups I and II according to the weights implied in the total number of employees of all companies falling into the relevant output/size category. This does seem to have given the best coverage possible within the constraints mentioned above.

The result of this in terms of representation can also be seen in Table 2. Other than the 100% coverage of the biggest firms, we manage in all but one case to obtain better than 60% coverage for the intermediate size group. The smallest size group is, of course, the least
satisfactory, but even here, the sample does manage to catch a reasonable proportion of the total population.

A possible criticism of this approach, it is appreciated, is that the smaller companies, which, on reasonable expectations may become the bigger manufacturing enterprises of the future have been under represented, and hence, significant financial trends, relating to faster than normal growth will have been lost. An immediate counter to this, however, is that because in Kenya, market size is certainly the greatest constraint on industrial output, the tendency seems to be that large firms stay large, and small firms stay small, both types, after some time probably only growing at a rate related directly to the growth of the economy.

The reason for this seems simple enough. The types of production in which a new firm can enter the market with relatively little capital will be characterized by several smaller and relatively homogeneous producers, satisfying an only gradually evolving market.

However, for those few products where the size of the market does allow significant economies of scale, the initial injection of capital in plant etc., will be large, and, in all probability supplied from overseas. Thus, of necessity, we are left with a situation in which there is simply no room for more producers, and again after a time the level of output will be governed fairly directly by the rate of general advance in incomes per head.

This reasoning would indicate a similar rate of growth of companies in the sample regardless of size, and although not enough analysis has yet been carried out to give a satisfactory answer, the data presented herein does give a positive hint in this direction.

In this then, we have the reasoning behind the choice of the above sample, and it will, incidentally, be possible to test its reliability by "grossing up" some of the more straightforward statistics for the chosen companies, and comparing them with the aggregate data for 1960. This is to be carried out in conjunction with the collection of more centralised information, and the results of the comparison will be made known at a later date.

Finally, with regard to the methodology of the project, a decision had to be made concerning the type of information which would best suit the purposes for which it was being collected. Clearly, the best way of studying the overall financing process is to make use of funds
flow analysis. Of course this required access to Balance Sheets over
the last 10 years for each enterprise along with the accompanying income
statements. These, as has been mentioned before were not open to public
view (in most cases) at the Registry of Companies and the companies
themselves had to be relied on to provide the data. In view of this,
it is fortunate that their degree of cooperation has been high.

4) PRELIMINARY COMMENTS ON THE DATA PRESENTED

The first point to be made is that for administrative reasons,
it has not been possible at this stage to include all companies in the
sample, and hence it will be wise not to place too much emphasis on the
results or trends hinted at. It would probably be more useful for
discussion to centre around the mode of analysis (which has been adopted
for illustrative purposes here) with some thoughts being given to
possible relationships which may warrant investigation.

Secondly, a word of interpretation is called for concerning
the meaning of an "average" company. Tables 3, 4 and 5 are in fact
averages of the funds flow statements constructed for the individual
companies in each size grouping. This presentation was adopted as it
seemed to be the most satisfactory way of showing up the crucial
relationships for discussion.

Unfortunately, only the "basic consumption goods" category
of the sample has been looked at here, and hence Tables 3, 4 and 5
represent the "average company" for each size category within this output
group.

The proportion of companies in the sample actually covered
in this data is as follows:

- Size I = 3 Companies or 15%
- Size II = 6 Companies or 66%
- Size III = 6 Companies or 66% (equals in this case 66% of the
  population)

5) OBSERVATIONS

Looking at each of the Funds flow series separately, an
attempt can be made to portray important financing developments in each
size group, and also, very tentatively, to indicate any significant
differences in such developments between groups.

The first item to be considered will be the rate of growth of
net assets of the "representative" companies. Table 6 above the results
of a measure of growth derived as far as possible from the funds flow data.
The first step here was to measure the "closing net assets" of actual firms within the sample and to obtain the average value which would then relate to the date presented by the flow tables.

A measure of "opening net assets" is then easily obtained by showing them as equal to:

$$ A \cdot (1 - \frac{n}{(1 + p)^n}) $$

Where $A$ is closing net assets and $\frac{n}{(1 + p)^n}$ is the sum of the changes in net assets over the period of years considered.

The sum of changes in net assets can then be shown as a proportion of the opening net assets figure just derived, and the results are shown in Table 6.

Net assets are hence taken as Net Fixed Assets plus net current assets, and in the same way, the change in net assets is post depreciation charges. This in turn makes as a useful measure of the company's new investment, and, as such, the measure will be employed later.

It is interesting to note that the two largest size groups (which do in fact represent companies of substantially different average sizes as the net assets figures show) have displayed remarkably similar growth patterns since 1960. The smallest size group has shown a rate of development of much greater magnitude from 1965, but these, as can be seen were companies in the early stages of growth, and a comparison with established concerns of larger size would be difficult. Indeed, the earlier years for the largest group (Size III) also show a very high growth rate, sufficient in fact to show a total growth of assets in 10 years of 153%.

In post Independence years, the growth of both of the established groups, by contrast, have shown almost identical rates (47.4% and 47.9%). This does indicate, as mentioned in the discussion of methodology, that market growth in Kenya in the longrun will determine company size in a far more direct way than a radical change in the structure of companies (e.g. the change of a company from being small to large). Certainly, this would seem to be a corollary of a policy of import...
substitution in which after a domestic "consumption threshold" has been passed a local production facility is established.

These growth rates, incidentally, can be compared with Tew & Henderson's data on British public companies collected in the early 1950's. By their scale, the growth rate of our size group I would be "very fast" and the two bigger groups would be "moderate".

Bearing this growth background in mind it will be useful to look at the significant aspects of the financial processes portrayed.

Our main interest hence of course must be with the companies' income and the degree to which it was retained. Tables 8, 9 and 10 show the relevant data in this respect, again, derived entirely from the average funds flow statements.

A word of definition here; savings have been taken to mean the increment to unappropriated profit shown in the company Balance Sheets plus additions to reserves. That is, we exclude additions to depreciation provision and changes in capital reserves. The latter now represent (since the effects of asset revaluation have been removed) extraordinary profit on numerous items or bonus issues of shares held in subsidiaries and so on. Hence it is useful that they should be excluded from an analysis of the normal growth in income.

These figures are derived entirely from Tables 3, 4 and 5 as are the dividend and interest payments which, when added to savings, gives the growth of total income.

The most useful way of looking at savings would seem to be by employing a "thrift ratio" that is S/Y%. This again is done in the tables provided.

For size group I the data is inconclusive except that in recent years it seems that savings are settling at between 30 and 50% of income, although dividend payments are responsible for a wide degree of fluctuation. Certainly, it would be quite wrong to imply much else from such inadequate information. However, we seem to be on firmer ground with size II.

The most noticeable item here again is the relatively depressed level of savings vis a vis income in the period 1960 - 64. In other years until 1967 a steady 60% was being maintained. However, from 1967, there has been a noticeable decline in the ratio, and now, just below half of income is being saved.
Always bearing in mind that the tables may not be confirmed by the completed data, one exploration for this decline may tie in with earlier remarks about market limitations determining the growth rate of companies. It is possible that by 1967 the post Independence investment programmes had been fully implemented and hence, the firms would be reaching the limits set on their growth by the market constraint. At this stage, investment would have to fall back to serve the market at the general rate of expansion would allow.

The point being made here is that the savings rate may be related to this change in the companies’ condition, or, more simply, it is possible that the decision to save may be related to the decision to invest. The proposition gains strength if one bears in mind the very high degree of self financing in Kenya companies.

If there is substance in this proposed relationship, then we would expect to see a decline in savings related to a decline in investment rather than to a decline in income. This is certainly verified quite strongly in the data for size III. Investment as a proportion of income does show a substantial decline for the last three years of depressed savings.

Additionally, this has all been occurring at a time of rising income trends the difference being accounted for by a substantial rise in distributions. In turn, this is reflected by dividend growth rather than interest payments, as the latter have been depressed by the gradual paying off of long term loans clearly in evidence from the funds flow tables.

Turning now to the data for size group III, the most immediate contrast is that, except for one year, savings were not noticeably affected during the years leading up to Independence. In that one year (1963) although income was not very much changed on the previous year distributions were sharply up, and net savings were actually negative.

More importantly though, in respect of the savings data, is the clear contrast which emerges between this group and the smaller companies in that the farmer’s savings as a proportion of income are lower by a substantial amount. In fact if we were to adopt Tew & Henderson’s size classifications, the two smaller groups would correspond in their savings practices to the majority of U.K. public companies, whereas the largest Kenyan companies would be lower in all years of the current survey.
Also true, however, is the fact that in only three years of the total did their investment rates account for half of their income or more. Again, according to Tew & Henderson's data, this would place them rather low by the British experience. This, upon consideration of the fuller data may be further evidence of a fairly close relationship between decisions relating to savings and to investments. Again, as can be seen from the data, the smaller size groups achieved a higher investment/income rate in most years.

Certainly, one explanation for this relatively disappointing level of investment by the largest group of companies comes quickly to mind. This grouping has a high proportion of companies whose original investment in Kenya was intended initially to meet the needs of the East Africa market. However, after the "Kampala Agreement" separate investments had to be established in Tanzania and Uganda and capacity in Kenya was increasingly confined to the potential of the Kenyan market. Clearly, so far as local Kenyan branches were concerned this led to spare capacity at least for one or two years, hence reducing the need for new investment. Significantly, the largest decline in investment ratios (Table 10) occurs for this group from 1966/67 onwards.

This market contraction process would seem to explain some of the discrepancy in investment rates between the large and smaller companies. The lower savings rate however presents greater difficulty. Definitely, the prime cause has been the burden of dividend as opposed to interest payments, which, even as a proportion have been larger vis a vis income than for the smaller companies. This is clearly indicated in Tables 8, 9 and 10.

Another, though less important factor in the determination of the amount of income saved, has been the burden of interest payments, and in complete contrast to the smaller companies, the larger ones have been facing increasing costs on this score. They appear to have been raising new long term loans quite recently whereas in size group II there is a definite tendency to pay off such debt as quickly as possible, and in recent years to rely almost entirely on internally generated funds.

To return to the main point concerning dividends however, it is probably worth adding that, to an extent, the high payments are the natural corollary to the process of investment we were discussing above. The companies have now reached the stage where further expansion of new investment in their traditional fields would be uneconomic.
Certainly, all have ample productive capacity to serve the available market over the next few years and the question becomes what to do with the income currently being generated. As a matter of interest, the author has no doubt, after talking with members of the management of these concerns that they are actively looking for local investment opportunities as a possible channel for the use of income being generated. A constraint they seem to place on themselves however, is that the new activity should be either related to what they are producing already in Kenya, or, alternatively, it should be based on something with which the head office already possesses some expertise. The willingness to invest locally does seem to be there, however, and it is quite possible that the amount of "risk capital" available locally for well planned projects may be more than is commonly believed.

Possibly as a consequence of the rather low savings ratio, other significant differences in financing patterns appear between companies in size group III and the rest. It is apparent from Table 10, that savings for this size of enterprise (especially in the later years) have been insufficient to cover new investment, and, as a result resort to external financing has been more noticeable. Share issues (real, as opposed to bonus) have in later years contributed a certain amount to this "savings - investment gap" and long term loans, as has already been noted, have been resorted to in recent years more than for the smaller companies. This can be seen most clearly from the funds flow tables when it is remembered that brackets around the figures for loan increment represent their being paid off. Correspondingly figures without brackets indicate either new loans to the company or increments to outstanding ones.

The most popular of the external finance has tended to be Bank Development Corporation Loans, and parent company finance. The latter has certainly been the most frequently resorted to over the period for the largest size group, as can be seen from the incremental data shown in the funds tables, (although significant amounts have been raised by this group from local statutory bodies).

As stated already, the rule for the smaller sized "average" companies seems to have been to pay off early loans without raising more finance by the means of these institutions.

The contrast in reliance on external funds, perhaps only coincidentally, has been mirrored in the structure of current items. Table 7 shows that net trade credit given or received by the respective average companies in each year. Significantly, the only size grouping in
which for most years trade credit is a net receipt to the larger group,
although it must be added that the intermediate size group has experienced
net receipts from these sources in all of the past four years.

From a common sense point of view, this is quite a surprising
situation, in that generally one would expect the larger organisations
to be extending such trade credit than they are receiving.

Certainly then, this trend must be treated with extreme caution until
the results of the complete survey are available.

However, the use of these short term external funds is to
some extent mirrored by the situation regarding bank overdrafts. For
this item, using Few & Henderson's measure of net change over the period
as a % of closing net assets we have the following results:

Size I = 1.2% (1963/70) Size II = 1.0% (1963/70) Size III = 3.5% (1963/70)

The classifications employed by these authors would give
sizes I and II a "large" source of funds from bank loans. However,
size II would be rated as receiving only a "small" amount from this
source.

We see then from this evidence a tendency for the largest
companies to make more use of external money both short and long term.

This could bear some relation to their credit worthiness although
one would have felt that all of the firms covered in this survey would
be sound enough to warrant some confidence in their continuing operation.

It will then be interesting to see if the completed data bears out this
tentative analysis.

A final remark concerns tax payments. In our earlier discussion
of the magnitude of company savings, the tax figure taken to be deducted
was that relating to the prior year's income. The explanation given for
this practice was that as company incomes have grown, tax, being
chargeable a year in arrears has meant that the difference between
that payment and the current net aside against current income has been
a source of intermediate (12-18 months) finance for the companies
in the sample.

This trend can certainly be observed quite clearly from the
funds flow tables (remembering that the figures shown are incremental),
and so this was an interest free source, one can understand the complaints
raised when the payments system was changed to a current year basis
in 1970!
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<td>3,807</td>
<td>7,958</td>
<td>5,104</td>
<td>4,516</td>
</tr>
<tr>
<td>Gross Income</td>
<td>6,991</td>
<td>15,968</td>
<td>18,359</td>
<td>18,258</td>
<td>20,096</td>
</tr>
</tbody>
</table>

| Receipts from the issue of shares | 3,200 | XIL | 2,166 | 4,000 | XIL |
| Long term loans: | XIL | (1,290) | (3,423) | (102) | XIL |
| Increase in bank balances owing | 47 | (100) | 5,016 | 4,656 | (938) |
| Tax payable | | | | | |
| Trade creditors | 11,962 | (11,457) | 3,045 | (2,002) | (390) |
| Bank Overdraft | 10,495 | (7,255) | 2,636 | (5,135) | XIL |
| Other current liabilities | 3,955 | (1,721) | 2,704 | (1,603) | 1,981 |
| Total sources of finance | 46,072 | (11,283) | 26,203 | 20,185 | 17,399 |

| Use of Funds: | |
| Expenditure on fixed assets | 15,590 | 1,939 | 774 | 4,967 | 82 |
| Increase in value of stocks | 18,159 | (1,977) | 7,290 | 3,444 | (12,279) |
| Increase in trade creditors | 10,517 | (8,485) | 6,601 | (4,458) | 16,663 |
| Purchase of other current assets | (202) | (475) | 1,251 | 155 | (1,871) |
| Dividends paid or payable | 2,300 | 600 | 5,166 | 3,166 | 10,500 |
| Interest paid or payable | 1,733 | 2,007 | 2,792 | 2,038 | 329 |
| Total use of funds | 46,072 | (11,283) | 26,203 | 20,185 | 17,399 |