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Internal and external sources of company finance

Introduction

The extent to which companies finance their growth by raising money from outside sources as distinct from ploughing back profits is a subject of continuing interest to economists and of current importance in view of recent changes in company taxation.

This article examines some of the statistical problems in defining the sources of finance both of individual companies and of the company sector as a whole. It considers alternative ways of defining both the total finance available to companies, and the extent to which it is obtained from outside the company sector. The final section reviews the results obtained by applying the preferred method of analysis to the quoted companies whose accounts are regularly summarised by the Board of Trade(¹).

Total sources and uses of funds

The finance available to a company, particulars of which have to be provided under the provisions of the Companies Act, 1948, can be divided broadly between:

Long-term finance from outside sources;
Short-term finance from outside sources;
Internal finance.

An enumeration of the various sources of finance available to a company falling under each of these three headings provides the widest practicable definition. This definition is wider than the purely capital funds of the company—it includes, for instance, short term liabilities; but it falls short of the total amount of money passing through a company's hands, for which details of its trading account, not called for under the Companies Act, 1948, would be needed.

A wide definition of this kind is used in the Board of Trade's regular analysis of sources and uses of funds; the details are set out in Table 1 at the end of this article. Changes in liquid assets (defined as cash, tax reserve certificates and marketable securities) can be treated in a number of different ways, for example, an increase could be treated as a negative item under sources of funds, as a positive item under uses of funds, or as a balancing item. The second of these alternatives is now adopted throughout the Board of Trade's analysis, and is followed here(²).

The total sources and the total uses of funds are conceptually simple and relatively unambiguous. Their main drawback in discussions of the financing of company growth is that the total uses of funds represent a wider concept than is usually meant by the growth of assets or gross investment. The growth of a company is most frequently measured in terms of changes in its total net assets (that is, its total fixed assets net of depreciation plus its current assets and less its current liabilities), which is equal to the total share and loan capital and reserves (including the proportion due to minority interests). The additional items included in the total sources (or uses) of funds are additions to current liabilities, depreciation provisions, and certain minor items.

There is one further concept to be considered. It has been mentioned that company growth is most usually measured by the growth of assets net of depreciation, that is after deducting the provisions made each year in the accounts to allow for depreciation or diminution in value of fixed assets. In fact the amount deducted for depreciation is sometimes rather arbitrary and may be influenced by changes in the investment and initial allowances and by revaluations. Methods of calculating depreciation vary from company to company There are therefore sometimes advantages in considering the growth of gross, as well as of net, assets and both concepts are used in the accompanying tables. The growth of net assets and the growth of gross assets are alike in that they are both calculated net of current liabilities.

(¹) Industrial and commercial quoted companies, excluding companies whose main interests are in agriculture, shipping, property, or finance, and companies mainly operating abroad.

(²) In the detailed tables published quarterly in the *Board of Trade Journal* up to 1965, different totals were shown for sources and for uses of funds, changes in liquid assets appearing as a balancing item.

The relationship between total sources of funds and the growth in gross or net assets is shown in Table 2.

Internal and external finance

By grouping the various items shown in Table 1 it is possible to divide the sources financing the growth of a company's total net assets between internal and external sources. External sources consist of the following:

Receipts from the issue of long-term loans;
Receipts from the issue of ordinary shares;
Receipts from the issue of preference, etc., shares;
Increase in liability to minority shareholders.

Bank loans do not appear here, since they are classed as current liabilities.

The following are the internal sources:

Balance retained in reserves;
Additions to future tax reserves;
Other net receipts on capital account.

Expressing each of these items as a percentage of the increase in capital and reserves for successive years provides a measure of the extent to which different sources of finance have contributed to company growth.

The discussion so far has concentrated on the individual company. When, however, the company sector as a whole is considered it is necessary to recognise that there is double-counting when the results for individual companies are aggregated, and that if a picture of the financing of the company sector vis-a-vis other sectors in the economy is required some adjustment is desirable.

Receipts from the issue of share and loan capital

In the Board of Trade's analysis all receipts from the issue of capital (long-term loans, ordinary shares, preference, etc., shares) which lead to a growth in net assets are included. Bonus issues, which merely redistribute total net assets between capital and reserves, are excluded. But the figures include issues of share and loan capital for considerations other than cash, most importantly in the acquisition of subsidiary companies. From the point of view of the individual company issues of shares for cash and other issues are similar in that in each case there is an increase in shareholders' interests corresponding to an increase in net assets. It depends on circumstances whether a company issues shares in order to obtain the cash with which to acquire another company or whether it issues shares directly to the shareholders of the acquired company. The end result is virtually the same from the company's point of view.

However, from the point of view of the company sector as a whole it is preferable to ignore all acquisitions of one company by another by the issue of loan and share capital, since there is no net growth in the assets of the company sector, only a redistribution of ownership, and there is no net receipt from the market, only a change in the companies in which shares are held[3]. This argument leads to the exclusion of all issues of shares and loan capital for interests in other companies, whether to acquire control of a subsidiary company, to acquire or extend a trade investment, or to buy out minority shareholdings in an existing subsidiary.

A rather different problem arises when shares are issued by a company to employees as part of a profit-sharing scheme or to directors as a form of remuneration. Since in these cases it can be argued that there is an implicit exchange of cash for shares by the recipients, it seems best to treat them as issues for cash.

When the company sector is considered as a whole, attention should be restricted therefore to issues of loan and share capital for cash (including 'imputed' cash issues in profit-sharing schemes, etc.).

Although the Board of Trade's figures of receipts from the issue of loan and share capital are net in the sense that redemptions by a company of its own loan and share capital are deducted from gross issues, no deduction is made for those cases where a company's loan and share capital is, as it were, redeemed, in whole or in part, when it is acquired by another company for cash. From the point of view of the acquiring company there is no change in net assets, a fall in current assets with the outflow of cash being compensated by the assets acquired, including goodwill. For the company sector as a whole there is, however, a decrease in net assets, that is, a transfer of cash from the company sector to the sector from which the shares are acquired. If our concern is to ascertain the net flow of cash from the personal sector or other sectors into the company sector, all payments by companies of cash for shares (except payments to other companies) should in principle be deducted from issues of shares for cash.

This means that, for the purpose of estimating for the company sector as a whole the proportion of finance which is obtained externally, a further adjustment should be made to the total sources of funds described earlier. The first set of adjustments is to exclude, for each of the categories of share and loan capital, the amount issued in exchange for all or part of other companies' capital. The second adjustment is to deduct acquisitions for cash of all or part of other companies' capital. The proportion of finance obtained externally is then measured by comparing net cash receipts from issues and the growth of capital and reserves.

Some qualifications

Ideally it would be desirable to measure the net inflow of cash through the issue of loan and share capital, and the growth of net assets free of inter-company transactions which involve duplication, for the company sector as a whole. But at present the Board of Trade have a complete analysis of company accounts only for quoted public companies, and even for these knowledge of inter-company transactions is limited.

At present the best that can be done is to measure the net flow of cash in exchange for shares into the quoted company sector. The acquisition of non-quoted companies by quoted companies must then be treated as representing real growth; but issues of share and loan capital, and also cash expenditure on acquiring all or part of the

(3) There are valuation problems in dealing with company acquisitions since the payment made, whether in shares or cash, may exceed the book value of the acquired assets. Such book 'additions' to assets do not affect the issues under discussion here.

capital of other quoted companies, would be left out of account when computing the increase in capital and reserves. In practice all expenditure on trade investments has to be ignored, since investments in quoted and in unquoted companies cannot be distinguished.

It cannot be assumed that the pattern of financing of all companies resembles that of quoted companies, among other reasons because the quoted company sector tends to expand by taking over parts of the non-quoted company sector and quoted companies often acquire non-quoted companies for cash rather than for shares. The pattern of financing of the quoted company sector is, none the less, of considerable interest and importance in itself.

The existing data do not enable us to identify quoted companies' purchases of shares from other quoted companies. Nor is it possible to identify that part of the change in marketable securities which relates to holdings in other quoted companies. No adjustment can therefore be made for these items (what evidence there is suggests that both are relatively small); the adjustment in respect of the acquisition of shares for cash being limited to cash expenditure on acquiring quoted subsidiary companies.

The following points also need to be borne in mind:

(*a*) Issues of share and loan capital in acquiring subsidiaries have been separately distinguished only from 1954 onwards, and consequently the present analysis cannot be carried back earlier than that.

(*b*) The issue of shares in exchange for trade investment holdings was not distinguished from issues for cash up to 1963. The same is also true of shares issued in acquiring minority interests in an existing subsidiary. With the exception noted in footnote (²) to Table 3 it has not been possible to make allowance for these factors.

(*c*) Conversions of fixed interest stock to ordinary shares, which apart from any cash premium involved do not affect the total receipts from the issue of loan and share capital, can be treated in two ways. A conversion from debentures to ordinary shares could be treated as a negative item under issues of long-term loans and a corresponding positive item under issues of ordinary shares plus any share premium which would naturally appear under issues of ordinary shares. Alternatively the conversion could be ignored and only the share premium shown under receipts from the issue of ordinary shares. While the method of treatment adopted will not affect the total amount of finance raised outside, it will affect conclusions on the relative importance of ordinary shares and debentures in financing growth. In the Board of Trade's analysis up to 1963, the second method has been adopted. It could however be argued that a loan conversion implies two transactions, of cash for debentures and of ordinary shares for cash, which if they had occurred separately would have been recorded as negative and positive items respectively and reflect a genuine change of emphasis in financing.

Summary

For the purpose of assessing the relative importance of internal and external sources in financing the growth of companies, there are advantages in using the concept of the growth of assets gross of depreciation rather than of net assets. The concept of the growth of net assets, which is the same as the increase in capital and reserves, accords however with recognised accounting practice.

When considering the quoted company sector as a whole, inter-company acquisitions should be ignored as far as possible: the value of share and loan capital issued in exchange for all or part of the capital of other quoted companies should be excluded; and cash acquisitions of interests in other quoted companies should be treated effectively as a redemption of capital.

The financing of the growth of the quoted company sector will differ in some respects from that of the total company sector. This fact, together with the limitations on the information extracted from the published accounts of quoted companies, means that great care must be taken before drawing general conclusions from the trends in the finance of quoted companies over the past decade.

Changes between 1954 and 1963

The adjustments discussed above are made in Table 3, for the quoted companies covered by the Board of Trade's analysis. Table A and the accompanying chart illustrate how the relative proportions of finance from external and internal sources have changed during the period 1954-1963. Over the whole period the proportion of the growth of net assets financed from external sources, on the basis described above, has varied around an average figure close to 30 per cent. In relation to the growth in gross assets, with the change in accumulated depreciation added to other internal sources of finance, the average proportion derived from external sources was little more than 20 per cent.

The relative importance of internal and external sources of funds in the increase in assets of the quoted company sector

Table A — percentages

	Sources of funds financing the increase in:			
	Net assets		Gross assets	
	Internal sources	External sources	Internal sources	External sources
1954	81·7	18·3	84·7	15·3
1955	71·2	28·8	77·5	22·5
1956	65·7	34·3	75·4	24·6
1957	59·1	40·9	70·0	30·0
1958	73·0	27·0	79·6	20·4
1959	84·4	15·6	89·2	10·8
1960	69·9	30·1	78·2	21·8
1960(¹) ..	69·1	30·9	77·6	22·4
1961(¹) ..	54·4	45·6	68·9	31·1
1962(¹) ..	56·4	43·6	71·6	28·4
1963(¹) ..	71·9	29·1	81·3	18·7

(¹) Quoted companies with net assets of £0·5 million or more, or income of £50,000 or more, in 1960.

The fluctuations about these averages in part reflect the economic cycle. In the three years when profits rose substantially (1954, 1959 and 1963) external sources tended to represent only a relatively small proportion of the total sources of finance (18 per cent., 16 per cent. and 29 per cent. respectively of the growth of net assets, or 15 per cent., 11 per cent. and 19 per cent. respectively of the growth of gross assets).

Superimposed on this pattern is the effect of changes in the taxation system and of restrictions on new capital issues. Up to 1958 there was a differential profits tax under which undistributed profits bore profits tax at a rate only about one-tenth of that for distributed profits. Other factors, including the control of capital issues by the Capital Issues Committee up to early in 1959, were also operating as an incentive to retain profits to finance growth of assets during the earlier part of this period. As a result, whereas between 1954 and 1958 the proportion of the growth of net assets financed from internal sources was about 70 per cent., between 1959 and 1963 it had fallen to about 67 per cent.

The corresponding proportion of the growth of gross assets was, however, virtually unchanged at about 78 per cent. between the two periods, as a result of the change in accumulated depreciation having represented a steadily growing proportion of the growth of gross assets, which counterbalanced the factors tending to reduce the share of other internal sources of finance.

For the purpose of economic analysis, there is not a great deal of significance in the accounting division of the total sum whose appropriation is under a company's control between depreciation provisions and allocations for reserves. As has already been noted, the amount set aside for depreciation is to some extent arbitrary. For these reasons, the stable proportion of finance obtained from internal sources, when calculated with reference to the growth of gross assets, may be of greater significance than the declining proportion calculated with reference to the growth of net assets.

Analysis of receipts in cash from the issue of loan and share capital

Table B — percentages

	Receipts in cash from the issue of loan and share capital (less redemptions)		
	Long term loans	Preference, etc., shares	Ordinary shares
1954	55·1	14·2	30·7
1955	33·7	11·8	54·4
1956	44·1	3·2	52·7
1957	42·9	4·0	53·0
1958	40·7	3·8	55·4
1959	33·4	6·1	60·5
1960	10·2	4·1	85·7
1960(¹)	7·7	4·7	87·6
1961(¹)	22·9	1·0	76·0
1962(¹)	56·9	4·3	38·8
1963(¹)	49·0	3·9	47·1

(¹) Quoted companies with net assets of £0·5 million or more, or income of £50,000 or more, in 1960.

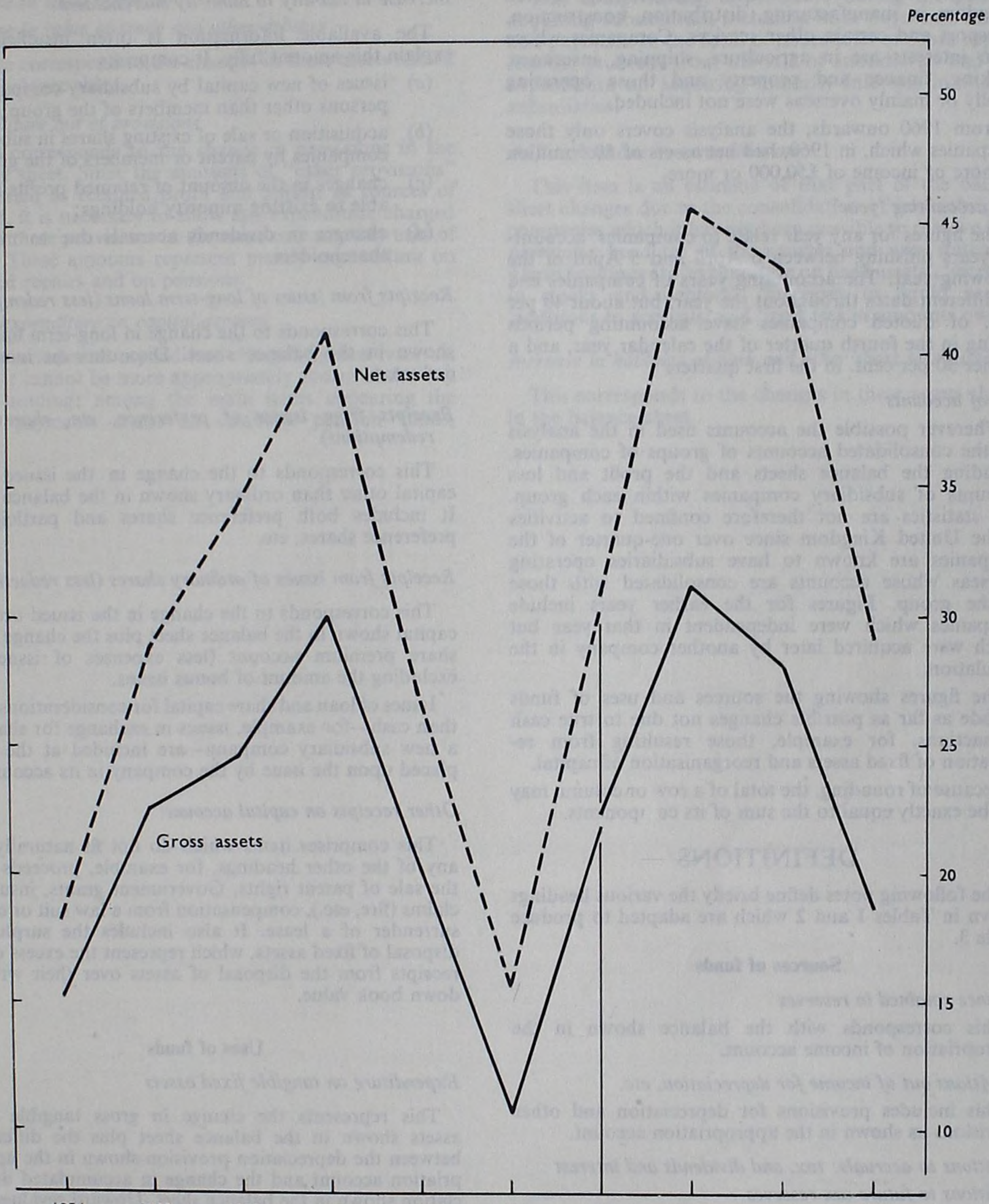
Within external sources of funds issues of ordinary shares represented an increasing proportion of total receipts from the issue of loan and share capital up to 1960. Issues of preference shares were very small throughout the period, representing less than 2 per cent. of the total sources of funds in each year since 1956. Long-term loans, as a proportion of total issues of loan and share capital, fell away between 1954 and 1960: in 1960 they represented only 10 per cent. compared with 55 per cent. in 1954. Since then issues of long-term loans have recovered until in 1962 and 1963 they again exceeded issues of ordinary shares and, since the advent of Corporation Tax, have become the predominant means of raising money from the market.

Board of Trade

External sources of finance as a percentage of :–

(a) growth of gross assets of quoted company sector

(b) growth of net assets of quoted company sector



NOTES

Companies included

The companies included in this analysis are those whose shares were quoted on a United Kingdom stock exchange, and which were mainly engaged in the United Kingdom in manufacturing, distribution, construction, transport and certain other services. Companies whose main interests are in agriculture, shipping, insurance, banking, finance and property and those operating wholly or mainly overseas were not included.

From 1960 onwards, the analysis covers only those companies which, in 1960, had net assets of £0.5 million or more or income of £50,000 or more.

The accounting 'year'

The figures for any year relate to companies' accounting years finishing between 6 April and 5 April of the following year. The accounting years of companies end on different dates throughout the year, but about 40 per cent. of quoted companies have accounting periods ending in the fourth quarter of the calendar year, and a further 30 per cent. in the first quarter.

Use of accounts

Wherever possible the accounts used in the analysis are the consolidated accounts of groups of companies, including the balance sheets and the profit and loss accounts of subsidiary companies within each group. The statistics are not therefore confined to activities in the United Kingdom since over one-quarter of the companies are known to have subsidiaries operating overseas whose accounts are consolidated with those of the group. Figures for the earlier years include companies which were independent in that year but which were acquired later by another company in the population.

The figures showing the sources and uses of funds exclude as far as possible changes not due to true cash transactions, for example, those resulting from revaluation of fixed assets and reorganisation of capital.

Because of rounding, the total of a row or column may not be exactly equal to the sum of its components.

DEFINITIONS

The following notes define briefly the various headings shown in Tables 1 and 2 which are adapted to produce Table 3.

Sources of funds

Balance retained in reserves

This corresponds with the balance shown in the appropriation of income account.

Provisions out of income for depreciation, etc.

This includes provisions for depreciation and other provisions as shown in the appropriation account.

Additions to accruals: tax, and dividends and interest

Additions to future tax reserves

These are the changes in the corresponding items shown in the balance sheet.

Increase in amounts owing to banks

Increase in amounts owing to trade and other creditors

These are the changes in the corresponding liabilities shown in the balance sheet.

Increase in liability to minority shareholders

The available information is often insufficient to explain this amount fully. It comprises

(*a*) issues of new capital by subsidiary companies to persons other than members of the group;

(*b*) acquisition or sale of existing shares in subsidiary companies by parent or members of the group;

(*c*) changes in the amount of retained profits applicable to existing minority holdings;

(*d*) changes in dividends accruals due to minority shareholders.

Receipts from issues of long-term loans (less redemption)

This corresponds to the change in long-term liabilities shown in the balance sheet. Discounts on issues are deducted.

Receipts from issues of preference, etc. shares (less redemptions)

This corresponds to the change in the issued share capital other than ordinary shown in the balance sheet. It includes both preference shares and participating preference shares, etc.

Receipts from issues of ordinary shares (less reductions)

This corresponds to the change in the issued ordinary capital shown in the balance sheet plus the change in the share premium account (less expenses of issue) but excluding the amount of bonus issues.

Issues of loan and share capital for considerations other than cash—for example, issues in exchange for shares in a new subsidiary company—are included at the value placed upon the issue by the company in its accounts.

Other receipts on capital account

This comprises items which do not fit naturally into any of the other headings, for example, proceeds from the sale of patent rights, Government grants, insurance claims (fire, etc.), compensation from a law suit or on the surrender of a lease. It also includes the surplus on disposal of fixed assets, which represent the excess of the receipts from the disposal of assets over their written-down book value.

Uses of funds

Expenditure on tangible fixed assets

This represents the change in gross tangible fixed assets shown in the balance sheet plus the difference between the depreciation provision shown in the appropriation account and the change in accumulated depreciation shown in the balance sheet. Upward revaluations are excluded. Any deficits on the disposal of assets are treated as expenditure.

Expenditure on goodwill and other intangibles

Expenditure on trade investments

These correspond to the changes in these assets shown in the balance sheet, excluding any upward revaluations.

Increase in value of stocks

Increase in value of trade and other debtors

These correspond to the changes in these assets shown in the balance sheet.

Expenditure out of provisions

This corresponds to the change in provisions in the balance sheet. Since the amounts of "other provisions" are treated as retained profit and appear as sources of finance, it is necessary to show any expenditure charged against these provisions in the same way as other uses of funds. These amounts represent mainly expenditure on deferred repairs and on pensions.

Other expenditure on capital account

This includes all expenditure charged against reserves, where it cannot be more appropriately shown under any other heading; among the main items appearing the initial payments made to establish pension funds, capital distributions to shareholders, expenses of mergers, acquisitions, capital reconstructions, property revaluation, etc.

Expenditure on acquisition of subsidiaries

This comprises the expenditure during the year on acquiring subsidiaries, including both payments in cash and payments in the form of issues loan or share capital, less the proceeds from the sale of subsidiaries and plus expenditure on acquiring minority interests in existing subsidiaries.

Adjustment due to consolidation

This item is an estimate of that part of the balance sheet changes due to the consolidation of new subsidiary companies which it has not been possible to remove from particular headings of the sources and uses statement. These headings are 'expenditure on fixed assets', 'increases in stocks and debtors', 'increases in liquid assets', 'additions to accruals' and 'increases in amounts owing'.

Increase in holdings of cash and other short term assets

This corresponds to the changes in these assets shown in the balance sheet.

APPENDIX

Finance of quoted companies, 1954-1963

TABLE 1

£ million

	1954	1955	1956	1957	1958	1959	1960	1960 (¹)	1961 (¹)	1962 (¹)	1963 (¹)
Sources of finance											
Balance retained in reserves	432·1	493·0	464·8	448·3	483·5	574·4	599·6	574·4	481·7	426·1	502·8
Provisions out of income for depreciation, etc.	281·3	322·2	366·7	414·7	463·0	512·8	560·3	538·3	593·6	649·2	715·6
Additions to future tax reserves	53·5	18·2	— 10·0	15·5	— 32·2	54·7	57·9	58·4	— 59·0	— 17·4	72·1
Increase in liability to minority shareholders	3·3	— 7·9	19·5	— 6·0	1·6	— 11·3	— 1·1	0·0	5·0	10·2	16·0
Other receipts on capital account	50·9	41·1	27·8	23·7	35·9	66·1	71·1	70·6	63·4	69·3	67·0
Additions to accruals: tax	3·0	33·1	73·7	5·2	— 15·3	— 37·0	97·9	93·8	65·0	— 61·9	9·3
Additions to accruals: dividends and interest	26·3	17·2	6·3	15·1	13·8	67·7	29·7	33·2	1·2	12·1	40·7
Increase in amount owing to banks	28·7	65·2	77·7	52·1	18·2	67·9	168·6	149·4	174·7	78·5	120·3
Increase in amount owing to trade and other creditors	181·6	231·4	160·1	157·3	48·9	233·8	380·6	340·9	197·7	135·8	374·1
Receipts from the issue of long-term loans (less redemptions)	85·7	82·6	112·0	154·0	84·8	70·4	36·3	27·5	104·7	298·9	164·6
Receipts from the issue of preference shares (less redemptions)	23·8	29·3	8·7	28·3	10·6	18·9	24·5	26·7	15·9	30·8	20·0
Receipts from the issue of ordinary shares (less reductions)	65·4	157·3	161·0	245·0	158·6	263·1	408·1	413·9	490·9	269·1	207·8
Total sources of funds	1235·6	1482·6	1468·2	1553·2	1271·4	1881·4	2433·6	2327·0	2134·8	1900·7	2310·3
Uses of finance											
Expenditure on tangible fixed assets	583·4	715·5	902·5	940·4	948·9	925·3	1147·0	1070·0	1311·6	1267·8	1238·8
Expenditure on goodwill and other intangibles	3·6	4·0	3·8	6·8	3·5	17·9	31·9	33·9	19·4	27·4	23·9
Expenditure on trade investments	10·0	20·8	25·4	30·5	34·8	67·8	76·1	76·4	80·8	144·9	79·4
Consolidation adjustment	— 4·7	3·4	— 14·8	— 1·1	— 25·1	— 78·5	—145·0	—139·9	—126·9	—127·9	—155·2
Increase in value of stocks	235·2	374·3	345·6	233·1	— 1·1	84·2	635·5	614·6	300·1	75·8	239·2
Increase in value of trade and other debtors	220·2	305·1	168·2	177·4	76·9	380·1	422·9	409·4	235·6	179·3	439·7
Expenditure out of provisions	14·1	14·8	14·7	17·5	19·9	20·4	18·6	18·0	22·0	17·7	19·4
Other expenditure on capital account	17·9	11·6	9·5	13·2	11·1	22·6	15·6	16·1	21·4	26·7	25·3
Expenditure on acquisition of subsidiaries	114·4	97·0	118·9	127·7	121·1	277·0	338·1	328·1	373·7	305·9	306·6
Increase in holdings of cash and other short-term assets	41·8	— 64·5	—103·7	0·9	76·4	163·5	—110·2	—102·7	—111·0	— 33·8	90·0
Residual and other adjustments	— 0·2	0·7	— 1·8	6·7	5·0	1·2	3·1	3·2	8·1	16·9	3·3
Total uses of funds	1235·6	1482·6	1468·2	1553·2	1271·4	1881·4	2433·6	2327·0	2134·8	1900·7	2310·3

(¹) Quoted companies with net assets of £0·5 million or more, or income of £50,000 or more, in 1960.

The relationship between the total sources of funds and the increase in gross assets

TABLE 2

£ million

	1954	1955	1956	1957	1958	1959	1960	1960 (¹)	1961 (¹)	1962 (¹)	1963 (¹)
Total sources of funds (See Table 1)	1235·6	1482·6	1468·2	1553·2	1271·4	1881·4	2433·6	2327·0	2134·8	1900·7	2310·3
less Provisions out of income for depreciation, etc.	281·3	322·2	366·7	414·7	463·0	512·8	560·3	538·3	593·6	649·2	715·6
less Additions to accruals: tax	3·0	33·1	73·7	5·2	— 15·3	— 37·0	97·9	93·8	65·0	— 61·9	9·3
less Additions to accruals: dividends and interest	26·3	17·2	6·3	15·1	13·8	67·7	29·7	33·2	1·2	12·1	40·7
less Increase in amounts owing to banks	28·7	65·2	77·7	52·1	18·2	67·9	168·6	149·4	174·7	78·5	120·3
less Increase in amounts owing to trade and other creditors	181·6	231·4	160·1	157·3	48·9	233·8	380·6	340·9	197·7	135·8	374·1
less Other expenditure on capital account	17·9	11·6	9·5	13·2	11·1	22·6	15·6	16·1	21·4	26·7	25·3
Increase in net assets issued capital and reserves)	696·8	801·9	774·1	895·6	731·7	1013·7	1180·8	1155·3	1081·2	1060·3	1025·1
plus Change in accumulated depreciation	123·5	214·9	284·8	293·1	213·4	347·1	388·3	373·1	398·4	429·4	485·1
Increase in gross assets	820·3	1016·8	1058·9	1188·7	945·1	1360·8	1569·1	1528·5	1479·6	1489·7	1510·2

(¹) Quoted companies with net assets of £0·5 million, or income of £50,000 or more in 1960.

Financing the growth of the quoted company sector, 1954-1963

TABLE 3 £ million

	1954	1955	1956	1957	1958	1959	1960	1960 (1)	1961 (1)	1962 (1)	1963 (1)
External sources											
Receipts from the issue of long term loans (less redemptions)	85·7	82·6	112·0	154·0	84·8	70·4	36·3	27·5	104·7	298·9(2)	164·6
less issues of long-term loans in acquiring quoted subsidiary companies	—	—	—	0·2	6·5	—	0·4	0·4	1·2	91·6(2)	22·5
Receipts in cash from the issue of long-term loans	85·7	82·6	112·0	153·8	78·3	70·4	35·9	27·1	103·5	207·3	142·1
Receipts from the issue of preference, etc., shares (less redemptions)	23·8	29·3	8·7	28·3	10·6	18·9	24·5	26·7	15·9	30·8	20·0
less issues of preference, etc., shares in acquiring quoted subsidiary companies	1·6	0·3	0·5	13·8	3·2	6·0	10·1	10·1	11·4	15·1	8·7
Receipts in cash from the issue of preference, etc., shares	22·1	29·0	8·1	14·5	7·4	12·8	14·5	16·6	4·5	15·7	11·3
Receipts from the issue of ordinary shares (less reductions)	65·4	157·3	161·0	245·0	158·6	263·1	408·1	413·9	490·9	269·1	207·8
less issues of ordinary shares in acquiring quoted subsidiary companies	17·6	24·0	27·1	55·0	52·0	135·6	106·2	106·2	147·6	127·7	71·1
Receipts in cash from the issue of ordinary shares	47·8	133·2	133·9	190·0	106·6	127·5	302·0	307·7	343·2	141·4	136·7
Total receipts in cash from the issue of loan and share capital (less redemptions) ..	155·6	244·8	254·0	358·3	192·3	210·7	352·3	351·4	451·3	364·4	290·1
less cash expenditure on acquiring quoted subsidiary companies	43·3	17·9	26·9	24·0	17·6	75·6	44·4	44·4	66·3	25·4	53·4
Net receipts in cash from the issue of loan and share capital	112·2	227·0	227·1	334·3	174·8	135·1	308·0	307·0	385·0	339·0	236·8
Increase in liability to minority shareholders (3)	3·3	—7·9	19·5	— 6·0	1·6	—11·3	— 1·1	0·0	5·0	10·2	16·0
Total	115·8	219·1	246·6	328·3	176·4	123·9	306·9	307·0	390·0	349·2	252·9
Total external sources											
as percentage of increase in net assets (issued capital and reserves) of quoted company sector	*18·3*	*28·8*	*34·3*	*40·9*	*27·0*	*15·6*	*30·1*	*30·9*	*45·6*	*43·6*	*29·1*
as percentage of increase in gross assets ..	*15·3*	*22·5*	*24·6*	*30·0*	*20·4*	*10·8*	*21·8*	*22·4*	*31·1*	*28·4*	*18·7*
Internal sources											
Balance retained in reserves	432·1	493·0	464·8	448·3	483·5	574·4	599·6	574·4	481·7	426·1	502·8
Additions to future tax reserves	53·5	18·2	—10·0	15·5	—32·2	54·7	57·9	58·4	—59·0	—17·4	72·1
Other net receipts on capital account	33·0	29·5	18·2	10·5	24·9	43·5	55·5	54·5	42·0	42·6	41·8
Total	518·7	540·7	473·0	474·2	476·1	672·6	712·9	687·3	464·6	451·3	616·7
Total internal sources											
as percentage of increase in net assets (issued capital and reserves) of quoted company sector	*81·7*	*71·2*	*65·7*	*59·1*	*73·0*	*84·4*	*69·9*	*69·1*	*54·4*	*56·4*	*70·9*
as percentage of increase in gross assets (4)	*84·7*	*77·5*	*75·4*	*70·0*	*79·6*	*89·2*	*78·2*	*77·6*	*68·9*	*71·6*	*81·3*
Increase in net assets (issued capital and reserves) of quoted company sector	634·5	759·8	719·6	802·5	652·5	796·5	1019·8	994·3	854·7	800·5	869·5
plus change in accumulated depreciation ..	123·5	214·9	284·8	293·1	213·4	347·1	388·3	373·2	398·4	429·4	485·1
Increase in gross assets of quoted company sector	757·9	974·7	1004·4	1095·6	865·9	1143·6	1408·1	1367·5	1253·1	1229·9	1354·6

(1) Quoted companies with net assets of £0·5 million or more, or income of £50,000 or more, in 1960. The discontinuity in the series in 1960 is relatively small; the increase in gross assets in 1960 on the new basis is about 3 per cent. lower than on the old basis, although there are larger differences for certain headings.

(2) Includes the issue by Imperial Chemical Industries in exchange for Courtaulds' shares which did not achieve a majority holding.

(3) This is treated as an external source of funds since the main item leading to substantial changes is the issue of share capital by a subsidiary.

(4) Including change in accumulated depreciation as an internal source of finance.