



## **Company accounts & how to use them**

Unite Research Department 2010

## Using Company Accounts

*Company accounts are an important source of information for trade unionists. Information about a company's finances is invaluable for negotiators. Workers can easily be misinformed about the true financial position of a company while, on the other hand, their confidence can be boosted by information proving the case that a company can afford to meet their demands. Even when the financial position of a company is not good, it is better for a negotiator to go into negotiations pre-warned of any financial arguments companies might make to avoid meeting demands of a pay claim. The following guide hopes to cover most of the key areas of concern to negotiators so that they are able to use company accounts with confidence in their bid to organise and deliver for workers.*

### **INFORMATION AND CONSULTATION RIGHTS**

New Information and Consultation regulations were introduced in April 2005 for companies with 150 or more employees. The regulations will apply to companies with 100 or more employees from April 2007.

Even if you work for a company with more than 150 employees, existing arrangements will continue apply unless an Information and Consultation agreement has been negotiated with your employer.

The regulations are quite complex and allow for the creation of directly elected Information and Consultation committees, so they do not automatically mean that Joint Consultative Committees or shop stewards committees are entitled to more information. This will depend on the kind of agreement that is negotiated.

**If you do have an agreement, the regulations require management to provide you with information on the following issues:**

- Launch of new products or services
- Increase or reduction in production
- Cost saving measures
- Internal restructuring plans, movement of people or posts
- Changes in senior management
- The company/undertaking's financial situation
- Trading conditions, state of the order book

**The regulations also state that employers must consult with employee representatives on a number of issues including:**

- Recruitment of new employees
- Reduced hours working
- Changes in retirement policy
- Reorganisation of jobs, redeployment or transfer of workers
- Any retraining necessary as a result of redeployment
- Collective redundancies and transfers of undertakings
- Relocation of jobs (posts)
- Flexible working, part-time working,
- Changes in overtime arrangements
- Reductions in hours
- Changes in shift work arrangements
- Introduction of significant new technology or equipment and any training associated with it

If you need any further information on this please visit the Unite Guide to the Information and Consultation Regulations which is available on the Unite website at <http://217.154.121.138/pdf/ICEReqsJuly2007.pdf>

## Finding Out About Your Employer

If you experience any difficulties in gaining access to your company's or organisations accounts you can get in touch with the Unite research department and the following people can help you:

Eddy Batchelor	020 7611 2632	<a href="mailto:Eddie.Batchelor@unitetheunion.com">Eddie.Batchelor@unitetheunion.com</a>
Alex Ryan	020 7611 2663	<a href="mailto:Alex.Ryan@unitetheunion.com">Alex.Ryan@unitetheunion.com</a>

The more information you can provide about who you work for the easier the job for the researchers. There are a range of employers within the private sector who by law must make financial information available for public inspection. Partnerships and sole traders are the only exceptions to this.

All limited companies must be registered with Companies House and provide financial information to Companies House on an annual basis. The size of the company has implications regarding the amount of financial information you are going to be able to obtain. A **medium sized company** – does not have to provide sales figures or provide the detail in its **Profit and Loss Account** that a large PLC does.

To qualify as a medium sized company the following conditions must be met;

- 1) *Annual turnover not exceeding £11.2 million*
- 2) *Total assets not exceeding £5.6 million*
- 3) *Number of workers not exceeding 250*

Companies that qualify for small company status must provide a **Balance Sheet** and **Annual Return BUT No Profit and Loss account**

To qualify as a small company the following conditions must be met:

- 1) *Turnover not exceeding £2.8 million*
- 2) *Total assets not exceeding £1.4 million*
- 3) *Number of workers not exceeding 50*

Charities and co-operatives and friendly societies must make their accounts publicly available to the Financial Standards Authority (FSA).

Workers in the **Public Sector** may find it harder to gain access to such information about their employers. Most public bodies such as NHS trusts provide annual accounts that are often available through the organisation itself or the internet.

Where there has been Compulsory Competitive Tendering, (CCT), information can be obtained from Companies House on those companies involved in tendering for contracts.

## **Just what is a Limited Company?**

Most Unite members work for limited companies, so it is worth having a look at just what a limited liability company is. Companies with limited liability started as a means for people to form a business and invest in businesses without the risk that if a company went into liquidation they would be held personally liable for the company's losses and so risk losing all of their assets.

As the term suggests a limited liability company is one that is owned by its shareholders, **but** importantly whose risk is 'limited' to the cost of their original investment in the firm. If the company goes into liquidation all that is lost by the shareholders of the company is the cost of the shares that they originally bought. At present there are more than a million such companies trading in the UK. The majority of these are private limited companies and so are not open to members of the general public to invest in.

Companies open to investment from members of the public that can afford it, or which may operate company share ownership schemes are called Public Limited Companies often referred to as PLCs. Shares in PLCs can be bought and sold on the London Stock Exchange, or in the case of large multinational PLCs, on stock markets around the world such as Wall Street in New York for instance.

## **Annual Returns**

Many companies in the UK are wholly or partially owned by other companies and it is important to discover who owns your company.

One source for this information is held in companies' **Annual Returns**. These are one of the sets of documents that a PLC and limited company must file every year. They contain information on the company's full name, its registration number, registered address, and who owns its shares; in the case of a large company with hundreds or more shareholders the information is held at Companies House in the form of a bulk shareholder list, the directors names and addresses, plus any other directorships they currently hold or have held within the last five years.

Company accounts and annual returns must not be used in isolation but in conjunction with information gathered by negotiators on the day-to-day running of a company, e.g. introduction of new machinery, order levels, stock reserves, with the information contained in the accounts. Securing an **information disclosure agreement** is vital to ensure that you receive prompt, relevant and up to date information, and have access to further detail that may be of relevance to collective bargaining.

## **Management Accounts**

The 'holy grail' for negotiators, '**management accounts**' are one of the most important sources of financial information for the negotiator and you should endeavour to include these in any agreement you have with your company. Management Accounts are not available to the general public and employers may argue that they are commercially sensitive and fall under the *provisions of section 182 of TULR (C)A*. Negotiators should argue that the information contained '*is that without which a trade union representative would be impeded to a material extent in bargaining, and which it would be in accordance with good industrial relations practice to disclose*'.

Management Accounts are usually produced by the company's accounts department for management to see and monitor the position of a company on an on going basis. Some companies produce monthly sets, other large companies produce weekly management accounts. They can sometimes be difficult to interpret as they do not have to follow a standardised form and they are not subject to auditing by a third party due to the fact that they are not for use by the general public.

It is important to remember that it is Management Accounts NOT Annual accounts that are used to inform the business decisions which affect the lives of Unite members.

## **The Annual Report, Accounts and Returns**

Negotiators should always read through the whole of the **Annual Report and Accounts** and attempt to compare them with others from previous years. The following areas are of particular interest to trade unionists;

### **The Chairman's Statement**

This can be used to compare the message being put out to shareholders with that being put to the workers, not surprisingly often there are two quite different messages!

### **The Directors' Report**

This Report by law must provide details on what the company does; results and dividends, which identify the sales and profit figures, compared with those of the previous year and recommends the amounts to be paid to shareholders. **The future prospects** is often of little substance and most activists on the shop floor will probably know more about future prospects of a company than is stated in this section. There is also information on **acquisitions and disposals** made in the previous years trading and information on **directors**, their shareholding in the company and those shares held by members of their immediate family. Armed with this sort of information it is not hard to work out how much each director receives in dividends and how much director is worth. There should also be listed here (if not it will be in the **Notes to the Accounts**), any **executive share option schemes** the company might operate. This information can help you calculate how much these shares are potentially worth. The report will also have details on any shareholdings of over 3% owned by other companies, and what political or charitable donations the company may have made.

### **The Auditors report**

This will tell you whether the accounts are a true and fair record, and should tell you of any qualifications they may have, which is useful if the company is in trouble. However, the cases of DeLorean and Enron, should warn against taking the auditors report at face value.

## **The Profit and Loss Account**

One of the most important sections of the accounts. From this the negotiators can ascertain whether the company is in a position to meet the demands of a wage claim because of higher profits or, as the case may be, used as a defence against company redundancy plans.

It will provide information, normally based over the period of the previous year's trading on the following:

- How much the company has received for its goods and services
- What the overall profit figures are
- How the profit is split between payment of taxes and shareholders and what is retained by the company.

## Guide to the Profit and Loss Account

<b>YEAR ENDING</b>	The Accounting period must be stated and is often compared with the previous year's figures alongside.
<b>* IMPORTANT NOTE</b> Words at the side indicate what is being added and subtracted. Any figures in brackets always indicate a loss/payment.	
<b>TURNOVER/SALES</b>	Depending on the size of the business this can sometimes look daunting due to the amount of information given. There will however, be an overall total figure column to in overall performance.
<b>COST OF SALES</b>	This refers to production costs, materials, labour etc*
<b>OPERATING PROFIT</b>	This refers to the profit remaining from income from trading operations, manufacturing, selling. After deducting the cost of sales*
<b>SHARE OF PROFIT OF ASSOCIATED COMPANIES</b>	Lists income from any company where there is an 20% - 50% stake held.
<b>OTHER INCOME</b>	This refers to any other forms of company income such as Rent, interest received, royalties etc.*
<b>EXCEPTIONAL ITEMS</b>	Anything out of the ordinary.  <b>This item should be checked as it may distort the true picture of the company's performance.*</b>
<b>INTEREST PAYABLE</b>	Refers to money borrowed by the company.
<b>PROFIT BEFORE TAXATION</b>	Profit left after deductions of costs and interest payable, commonly accepted as the profit figure.
<b>TAXATION</b>	Estimated tax figures on annual profits.
<b>DIVIDENDS</b>	Payments made to shareholders of the parent company, or if a subsidiary, payment to the immediate parent company.
<b>TRANSFER TO RESERVES</b>	The profit retained within the company after all deductions have been made.*

**\* More information can be found at the back of the accounts in what is referred to as the Notes to the Accounts. Often items in the Profit and Loss Accounts that have additional notes will be given a number for you to refer to in the Notes to the Accounts.**

## **The Balance Sheet**

After the profit and loss account the balance sheet is next most important part of a company's accounts for the negotiator. The balance sheet contains specific information of interest to trade union negotiators; for example, investment in new plant and machinery (for small companies this may well be the only reference).

The balance sheet gives a picture of the company's performance on the last day of the accounting period. It is laid out on two sides. One side contains the net assets which refer to what the company owns on the particular date minus what it owes creditors, banks trade suppliers etc. The other side details where the funds came from to pay for those net assets, whether that is share issues or past profits (referred to as capital and reserves). Both sides must add up to the same figure, hence the name the balance sheet.

If you work for a company that has subsidiaries you should note that they are obliged to present two balance sheets, one for the parent company and one for the whole group. It is the latter, that is referred to as the group or consolidated balance sheet, which negotiators should concentrate on. If your company sets out its balance sheet combining the two you need to concentrate your attention on those figures which fall under the heading of "group" or "consolidated". As with the profit and loss account there will be numbered notes to explain how figures have been arrived at, and negotiators should always read the notes to get a full picture of what is going on.

### **Guide to the Balance Sheet**

<b>FIXED ASSETS</b>	Land, buildings, plant and equipment, motor vehicles.
<b>INTANGIBLE ASSETS</b>	Brand names, goodwill etc.
<b>INVESTMENTS</b>	Any holdings in associated companies.
<b>CURRENT/LIQUIDITY</b>	Short term assets for example stocks, debtors, cash at bank and short term deposits.
<b>CURRENT LIABILITIES</b>	Overdrafts, money owed to suppliers.
<b>NET CURRENT ASSETS</b>	This is calculated by deducting current liabilities from current assets and is <b>an indicator of a company's solvency.</b>
<b>CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR</b>	Long term loans with banks and the parent company etc.
<b>SHARE CAPITAL</b>	Amount of money received on shares issued.
<b>SHARE PREMIUM ACCOUNT</b>	This applies only companies that are quoted on the Stock Exchange. This account shows any money received over and above the face value of the shares issued.
<b>RESERVES AND PROFIT AND LOSS ACCOUNT</b>	Money accumulated from undistributed profits. This may not be actual cash in the hands of the company but may have been spent acquiring new fixed assets.

## The Cash Flow Statement

Although not legally obliged to, most large companies usually produce a cash flow statement. This shows in cash terms the profit for the year and other changes between the balance sheet at this year's end and the previous year end. It shows the cash which the business has generated or paid out from its trading operation, the cash which is obtained from outside sources and the cash it has spent on capital expenditure.

### Guide to the Cash Flow Statement

#### **CASH FLOW FROM OPERATIONS**

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Figures for cash generated from trading operations before net in interest payments. This may not be the same as the profit figure shown in the profit and loss account as it may be adjusted to exclude items not involve the inflow or outflow of cash.

#### **RETURNS ON INVESTMENTS AND SERVICING OF FINANCE**

This will show the cost of servicing the finance used by the business, and dividends to includes interest paid investors less any interest received on surplus cash balances.

#### **TAXATION**

The amount of Corporation Tax the company has actually paid.

#### **INVESTING ACTIVITIES**

This provides the amount of capital expenditure made on fixed assets and detail the amount raised by the sale of fixed assets and investments.

#### **FINANCING**

Refers to cash flow resulting from changes in financing or new share issues less any repayment of loans etc.

#### **INCREASE OR DECREASE IN CASH EQUIVALENTS**

The total of all the sections which shows the increase or decrease in the company's cash and bank balances.

#### **REMEMBER THERE WILL BE NOTES THAT ACCOMPANY THE CASH FLOW STATEMENT**

## Notes to the Accounts

The Notes to the accounts refer to the detail of what is referred to in the profit and loss account, balance sheet and the cash flow statement. Financial analysts recommend reading through the notes to the accounts before turning to the previous three sections, as this helps to flag up items which may, on face value, in the actual accounts seem quite innocent or unimportant.

Negotiators should ensure that they always read through the notes as they clarify and supplement the information given in the three summary statements.

Often reference will be made to how the figure for operating profit is arrived at and should include:

### Depreciation

A common way for a company to calculate its depreciation policy (the notional amount set aside to cover the wear and tear on machinery, equipment and property)

<b>Original Cost</b>	/	<b>Expected Life</b>	=	
£250,000		5 years		£50,000 per year

## Directors' Emoluments

Companies must list how much the directors pay themselves under the heading **directors' emoluments, which lists all payment over £60,000**. This will include salaries/directors fees, pension payments and any golden handshakes to departing directors. The Chairpersons pay must be revealed as well as that of the highest paid director (if they are not one and the same) and companies must list the pay, in £5,000 bands of other directors with the number concerned alongside.

This information is very useful for making comparisons between the pay of directors and that of the workforce. Always remember to include any dividend income directors might receive from share holdings. In these days of heightened anxiety over company pensions schemes it is well worth comparing pension plans of the directors with those of the workforce.

## Employees and Employees Pay

This information will enable you to calculate the average pay levels in the company. If there is a breakdown of the figures between plants and countries it should also be possible to see how the company is moving production or investment around the company.

Using your **information disclosure agreement** you should seek direct access to detailed information concerning labour costs and productivity achievements and objectives. Failing that, try to calculate changes in labour costs and, using the number of employees figure, calculate the sales/profit per head to indicate changes in productivity:

<b>Gross Profit</b>	/	<b>Number of workers</b>		
£1,000,000	/	100	=	£10,000 Gross profit per worker

## Tangible Fixed Assets

This will provide the information on how much has been spent on new fixed assets.

Although it will look complicated, it helps to remember that the first section details what the company's fixed assets originally cost, adjusted for new assets bought and existing assets disposed of during the year.

The second section takes into account depreciation and details how much the assets have depreciated up to the beginning of the financial year (**accumulated depreciation**); then the depreciation charges for the year are included, (the same figure as found in the profit and loss account). Finally a figure is given which adjusts for depreciation charged in the past on assets disposed of during the year. It is important to remember that not all assets lose value over time; a good example of this is land.

The final section is what is known as the Net Book Value this you can easily calculate by deducting the total depreciation from the total cost of assets.

### **Other Points of Interest on the notes**

- **Investments**
- **Stocks**
- **Creditors – amounts falling due in one year**
- **Share capital**
- **Taxation**
- **Net interest payable**
- **Research and development**
- **Investment income**
- **Exceptional items**
- **Dividends**
- **Transfer to reserve**
- **Pensions**
- **Commitments and contingencies** – this can give you a realistic picture of where the company is going via investment or potential costs
- **Subsidiaries and associate companies** – which lists all major or significant companies in the group and the country where they are registered
- **Transactions involving directors** – most common in medium sized companies where they trade with other businesses with which the directors have an interest
- **The statement of accounting policy** - this will explain how depreciation is calculated along with other accounting procedures used by the company.

## Using accounts in preparing the wage claim

Trade union negotiators need to get the fullest picture possible of the overall position of the company in which they work.

It is important that you do not rely solely on the accounts for your company, often the best information comes from union members. With their knowledge and observations of the company's behaviour, it is important to utilise this valuable and often over looked source.

Once you feel that you have all of the information you need/gathered then this information must be communicated to the workforce prior to any negotiations.

If you are employed by a subsidiary you will need to gain access to the accounts not only for the company you work for but for those of the group as a whole. As we mentioned earlier in this guide **you must read all of the information contained in the accounts**, and obtain accounts for previous years to make comparisons. You should try and get these either from the company or, if that is not possible, then from the Unite research department (see page 4 for contacts).

When it comes to pay bargaining there are number of areas you will need to pay particular attention to:

- sales and profits
- wages costs
- productivity
- the contrast between directors pay and benefits, shareholder payment and the position of workers wages.

## Sales

Check the percentage increase in sales with the previous year, if they are up, so much the better. It is also worth checking if there has been an increase in **real terms**. To do this you need to calculate whether the price rises are greater than the price rises over the same period; that the periods being compared are the same length of time; and whether there have been any major changes in the company, i.e. any large sales or acquisitions/takeovers. Also bear in mind the requirements for companies to give separate figures for continuing and discontinuing activities.

## Profit

Compare **pre-tax profit** with previous years and make comparisons with other companies in the same or similar industries. To do this you must compare profits as a percentage of sales, or as a percentage of capital employed, to eliminate differences in scale.

Value added is a useful measure to calculate. This shows the net wealth created by the workforce. To do this you take the sales figures and deduct the cost of bought in goods and services, (sometimes this is not shown in the accounts but can be easily calculated by deducting the cost of employees and depreciation from the operating cost figures).

Calculate the value added per worker by dividing the average number of workers into the value added figure. This will show you how much each employee has contributed to the overall productivity and profitability of the company.

**Sales and profit per employee** are easier to calculate (see page 12 for profit per employee). For sales per employee merely divide the sales figure by the number of workers in the company. If you do this over two years or more you have good ammunition for arguing for a similar increase in wages.

## **CREATIVE ACCOUNTING**

### **Transfer Pricing**

There are a number of ways a company can use their accounts to tell the story that they like. Transfer pricing is just one example and one that trade unionists feel particularly concerned about. It can enable an unscrupulous company to manipulate, via internal pricing, the performance of particular subsidiaries within the company, a shining example of this was Enron in the United States.

Internal sales and purchases should be based on market prices. What often occurs is that internal prices are set which can affect the paper performance of particular sections of the group or, depending upon its location the profits, of the company. For example, if one subsidiary is forced to pay artificially high prices for a product from another subsidiary, (that just happens to be sited on an offshore tax haven), then it may be able to generate an unfair share of the profits which might attract lower taxes.

If you suspect that your company is involved in such practices then look closely at the figures for each of the subsidiaries involved in the internal trade in the group. You may have to specifically request that such information is included in an **information and consultation rights agreement**. It should be noted that any transfer pricing will be cancelled out when the groups' results are consolidated together so it is important to look at the group **consolidated results** to get the overall picture.

### **Other Measures**

**Depreciation policy** can be used to present a different picture of the company's fortunes depending on the period of time allowed for.

**Stock valuation** is another method that can be used to vary the overall picture of profitability, depending on whether an optimistic or conservative formula is used for valuing stocks.

**Underplaying potential liabilities will** also present a favourable picture a good example of this is in the nuclear industry under estimating the cost of future decommissioning of power stations.

On the whole Unite members tend not to be trained accountants nor have access to expensive auditors, so it is often difficult to spot abuses of accounting procedure used by employers. However, there are number of ways that negotiators can detect the more blatant manipulations of the figures.

1. Check the accounts of the subsidiary companies against those of the group to see whether profits are being moved around the company by transfer pricing or by allocating excessive managerial or other internal costs.
2. Check whether the company is trading with another in which the directors have an involvement.
3. Check where the profits are going and whether they are being transferred within the group via dividend payments, leaving higher interest charges to be levied on your subsidiary.
4. Compare what is shown in the profit and loss account with the balance sheet and the cash flow statement. Good profits should be reflected in the other parts of the summary accounts.
5. Check that the pension fund is receiving adequate finances and not investing heavily in the company itself or making loans to the company.
6. Make sure that there are no confusing restructuring or endless acquisitions and disposals which confuse the picture or whether the company or its subsidiaries are registered in exotic tax havens!

**It is vital that to effectively organise the workplace and bargain with employers, activists, negotiators and members must have the widest understanding of the financial position of the company they work for.**