

## Reading 1 &gt; The Three Statements

Marco has just joined the Marketing Department of a huge international corporation. As a part of his training week, he is given presentations of the activities of the other departments of the company. Today is the turn for the Accounting and Finance Department. A friendly-looking woman in a flowery dress introduces herself as Diana Forte ('Please, just call me Diana!'), the assistant manager of the Accounting Division. She invites the new employees into a nice conference room, offers them a selection of drinks, asks them to make themselves comfortable and begins her speech.

'As you know, our company's shares are traded on the London Stock Exchange. As a result, there is a large group of people who are keenly interested in knowing how the company is performing: our shareholders and potential investors, of course, but also financial analysts, journalists, and so on. To give them the information they need, each year we produce an **annual report**. There are three main elements of it: a **profit and loss account**, a **balance sheet** and a **cashflow statement**. I'd like to tell you a few words about each of these sets of figures. I believe it can be important for your work. After all, our financial results – which by the way are excellent – are a fantastic marketing tool, aren't they?'

They are, Marco has to agree silently. He is not very good with numbers, so he doesn't feel very confident about his ability to understand the speech, but he resolves to try to make the most of it.

'In our accounting, we use the **accruals principle**. It may sound scary to you if you have never heard of it before, but the concept is quite simple. It assumes that income and expenditure are recorded in the periods when they are incurred rather than when the payment actually happens: we use, let's say, the date of sale and not the date when payments for the goods is obtained.

Now, using the accruals principle, we produce our profit and loss account. First we record all of the money we receive from sales in the given period. Then we subtract from it the cost of labour and materials used to produce them. We call this amount the **cost of goods**

**sold.** Then we subtract our general costs, such as rent for our offices, employees' salaries and so on. We also record **depreciation** at this point, which is not exactly an actual sum of money paid out, but recording it allows for the way that equipment declines in value over time. The figure we arrive at is our **operating profit**. Take away interest that must be paid on any money we borrow – in our case, mainly bank loans – and you get our **pre-tax profit** or, to give it its full name, **profit on ordinary activities before tax**. This is the amount of money on which we pay corporation tax. So as you can see, the purpose of a P&L account is to monitor the performance of the company, to see if it is making a profit or a loss, and to know how large this profit or loss is.

The balance sheet, on the other hand, gives a picture of the **assets** and **liabilities** of our company at the moment when it is prepared, which is usually at the end of the financial year. I am sure you have heard these two words before, but let me explain in a bit more detail what they refer to.'

Diana walks up to a flipchart in the corner of the rooms and quickly writes down some bullet points:

- **current assets:** cash, securities, stocks, debtors = money owed by customers,
- **fixed = tangible assets:** equipment, buildings, land,
- **intangible assets:** goodwill, brand.

Pointing to the notes, she explains: 'The word 'assets' refers to almost anything of value, or anything that can be used to generate money for our company. As you can see here, assets are usually divided into a number of categories. Let me tell you as a side remark though that not all really valuable elements of our company are recorded as assets. For example, you here – your skills, expertise, eagerness to work – are not listed in a balance sheet. Please rest assured that it doesn't mean the company doesn't value you a lot!'

Then Diana writes down some more bullet points:

- **current liabilities:** overdrafts, interest payments due in the short term, tax payable, creditors = money owed to suppliers,
- **long-term liabilities:** bank loans etc. due in the long term

and then she goes on with her explanation: 'Liabilities are the company's debts, in a sense. It is the money it has to pay – either immediately or in more far-away future – to its creditors.'

The last of the three statements is the cashflow statement. The purpose of it is to show the money actually 'flowing' into the company and out of it – cash **inflows** and **outflows**. As you can imagine, the outflows will be connected, for example, with payments for supplies, or paying the employees' salaries, and the inflows – with the results of sales of our products. Similarly, the money we borrow is recorded under inflows, and the money to repay loans – under outflows.'

Diana pauses for a moment, gives her audience a look and a smile. 'And that, I think, is everything I wanted to tell you. If you have any questions, I will be more than happy to answer them now. Feel free to ask anything at all.'

That's it, already? Marco is surprised. He had expected something much more complicated. He has actually understood everything Diana had talked about, and he indeed has some ideas on how to use his newly-acquired knowledge in his promotional activities.

Please note the following British-American differences:

- 'profit and loss account' (or also 'profit and loss statement') is a British term; the US equivalent is 'income statement';
- when talking about assets, 'stocks' is a British term; the US equivalent is 'inventories', and
- 'debtors' is a British term; the US equivalent is 'accounts receivable' or 'receivables';
- when talking about liabilities, 'creditors' is a British term; the US equivalent is 'accounts payable' or 'payables';
- 'cashflow' can be spelled 'cash flow' and 'cash-flow' too.

### Exercise 1

Combine the words from box A with the words from box B to create correct, sensible phrases. Use every word just once. All the phrases which you need for this exercise have been used in Reading 1 > The Three Statements.

**A**

intangible income annual  
accruals current  
cashflow balance  
pre-tax accounts

**B**

liabilities statement  
statement profit assets  
report receivable  
principle sheet

## Reading 2 > Depreciation

### At a glance

Depreciation is a term used to refer to the fact that many tangible assets **lose value** over time. It allows the balance sheet value of an asset to be reduced in order to **reflect** this loss of value. Using depreciation affects the financial statements and the amount of taxes due.

### A more detailed look

What happens when a company buys a service? Spends money on coffee for its employees? Buys Christmas cards to send its valued customers? This expenditure is usually immediately **tax deductible**. Therefore, the company enjoys an immediate benefit.

However, when a company buys tangible assets that will last for a longer time – such as computer equipment, vehicles or buildings – it can't immediately claim these costs as tax-deductible. Instead, the company must **depreciate** the costs over the **useful life of the asset**. Tax deduction will only be made for a part of the total cost each year. The number of years which this operation takes depends on how long it normally takes for that type of asset to become useless and **obsolete**.

The amount describing the value of an asset at a particular moment is called its **book value**. The book value may correspond to this asset's actual **market value**, but may be different from it.

### What about appreciation?

**Appreciation** is the increase in value of a property over time – in a sense, the opposite of depreciation. In accounting, appreciation refers specifically to the increase in the market value of real estate: land and buildings.

Please note that 'depreciate' and 'depreciation' are British terms. The US equivalents are 'amortization' and 'amortize'.

## Exercise 2

Put the letters in the correct order to create words that will correctly complete the sentences. All the words that you need for this exercise have been used in Reading 2 > Depreciation.

Example:

The term 'iparencitao' >>> *appreciations* refers to the increase in value of real property.

1. Depreciation allows a company to lerctfe the loss of value of an asset in its balance sheet.
2. Expenditure on services is usually immediately tax cteeldidbu.
3. The kobo value of an asset may be different from its kaemtr value.
4. The costs of an asset are depreciated over its luseuf life.
5. Modern equipment easily becomes old-fashioned and eotseobl.

## Wordbuilding > Prefixes

### CORE WORD

flow of money  
to manage a company  
to pay sth  
profit before tax  
tangible assets  
an ability to count quickly  
to produce sth  
a valuable painting

### WORD WITH PREFIX

inflow / outflow  
to **mis**manage the company's funds<sup>1</sup>  
to **re**pay a debt<sup>2</sup> / an **un**paid debt  
**pre**-tax profit  
intangible assets  
a learning **dis**ability<sup>3</sup>  
to **re**produce sth  
invaluable advice<sup>4</sup>

<sup>1</sup> to organise or control the funds in an inefficient or dishonest manner

<sup>2</sup> to pay back the debt

<sup>3</sup> a condition that makes it difficult for someone to learn quickly

<sup>4</sup> extremely useful advice

## Exercise 3

Use the words listed above in Wordbuilding > Prefixes to complete the gaps in the text below. You don't need to use all the words listed.

Example:

We gave them 30 days to repay their debts and warned that we would sue them otherwise.

1. He was accused of having ..... the finances of the company.
2. All our ..... debts amount to over £ 3000.

3. He is a fantastic lawyer; his help has been ..... for us.
4. He has a rare ..... to read a text very quickly and immediately grasp the meaning of it.
5. The sales are high and there is a constant ..... of money into the company.
6. The company has valuable ..... assets such as buildings and land.
7. Our ..... earnings might seem high, but you must take into account how much will be left after we pay the taxes.
8. We ..... our annual report every March.
9. He has a hearing ..... and must use a hearing aid.
10. You need the painter's prior written consent in order to legally ..... a painting in your magazine.

## Alphabet Words > Letter R

### Exercise 4

Study the examples provided. They show the usage of the words listed; from the sentences, it is also possible to guess the meaning of the words. Match the words with the definitions below.

### R

#### ratify

- In July 2003 the President of the Republic of Poland ratified the EU accession treaty.
- The contract was taken to the CEO for her to ratify.

#### rebut

- The government officials were accused of not giving the arrested students opportunity to rebut the evidence against them.
- Justice dictates that a person accused of a wrongdoing must be given a proper opportunity to rebut the allegations.

#### receipt

- Good HR departments always confirm the receipt of application letters.
- The receipt of payment is enclosed.

#### reconcile

- I find it extremely difficult to reconcile my private and professional life.
- The philosopher researched methods of reconciling the various religions.

#### record

- This documentary provides a valuable record of Buenos Aires in the 1960s.
- The police keep a record of everything that transpires at a police station.

#### resolution

- There is a need for a United Nations resolution concerning these problems.
- The parliamentary resolution was later judged by the Constitutional Tribunal to be null and void.

#### restitution

- The law on the restitution of property allowed for the return of previously nationalised property to its prior owners.
- The thief was captured and proceedings were commenced with a view to carrying out the restitution of the property that was recovered.

#### retainer

- A headhunter usually receives a retainer before beginning an executive search.
- She was paid a retainer of £ 5000 to represent Mr. Chicco in defence of drug charges.

#### retire

- I don't want to retire completely before I reach 70.
- Polish law allows women to retire five years earlier than men, which for many is a mixed blessing.

#### revoke

- His driving licence was revoked after he was caught speeding while completely drunk.
- The court of appeal revoked the judgment of the lower court.

1. an amount of money that you pay to someone in advance so that they will work for you in the future
2. to find a way in which two situations or beliefs can co-exist
3. the return of items that were lost or stolen
4. the fact of receiving a payment / item; a written acknowledgment that a payment has been made or an item has been handed over.
5. an official decision that is made after voting
6. to argue that a claim is not true; to argue against some evidence
7. all the documents, evidence and transcripts of oral proceedings in a case
8. to cancel or nullify a legal document
9. to make an agreement official, to accept it
10. to stop working because of old age

## Idioms &gt; Problems with Money

## Exercise 5

Choose the best word to complete each gap. Refer to Alphabet Words > Letter R if you need help deciding which answer will fit. Only one answer in each set is correct.

Example:  
Accounting firms are eager to learn how the new law will .....C..... the two conflicting approaches to de-  
preciation.

A) retire                      B) record                      C) reconcile

1. A full ..... of the case is stored in the court where it was tried.

A) retainer                      B) record                      C) resolution

2. The management is urging the older workers to .....

A) retire                      B) ratify                      C) rebut

3. This decision was made unlawfully and should be .....

A) reconciled                      B) restitution                      C) revoked

4. Who has the power to ..... an international treaty?

A) ratify                      B) receipt                      C) resolution

5. The accusation were false and I felt compelled to ..... them in writing.

A) rebut                      B) ratify                      C) retainer

6. There has still been no ..... of the goods stolen from the Jewish citizens during the war.

A) revoke                      B) restitution                      C) retainer

7. The court will try to ..... the accounts of all witnesses.

A) retire                      B) ratify                      C) reconcile

8. I am writing in order to acknowledge the ..... of your payment.

A) receipt                      B) revoke                      C) resolution

9. In order to send troops abroad, the president and the members of parliament need to agree on a ..... to authorise the use of force.

A) retainer                      B) resolution                      C) ratify

10. It is not unusual, in particularly complex matters, for a lawyer to request a ..... of several thou-  
sand dollars.

A) restitution                      B) resolution                      C) retainer

To: chattylawyer1@legalenglish.pl  
From: chattylawyer2@legalenglish.pl  
Subject: A problematic raise

Tasha my Tasha,

Here's the bare bones of the situation: Nina, our translator, declared today that she would like to get a raise. I don't blame her: if I were in her shoes, I'd do the same. However, at the moment it is impossible for us to offer her anything substantial, much as we appreciate her work. We were just about to start despairing that she would leave us when my assistant saved the day by suggesting that maybe instead of a salary in-crease we could sponsor Nina on a course next year, which she always wanted to do. Off the record, I was going to offer that to her during her next appraisal, but under the circumstances it seems like just the thing to do now: the end justifies the means, as they say. Anyway: the reason we can't really afford to spend any more money is that the big contract with Rodney, Inc. has backfired: the huge invoices remain unpaid, and I am expecting no changes soon. We decided to cut our losses last month and we termi-nated the contract, but we need to get our skates on and find some new clients soon. Any helpful ideas?

Martha

## Exercise 6

Match the idioms underlined in the e-mail in Idioms > Problems with Money with explanations of their meaning. Refer to the text of the message if you need help deciding which definition goes with which idiom – the context will make it easier for you to find the correct answer.

## IDIOM

## EXPLANATION OF MEANING

- |                                   |  |
|-----------------------------------|--|
| a) <u>the bare bones of sth</u> → | 1. the most basic parts of something, without details                                  |
| b) to be in sb's shoes            | 2. (a saying) the final aim is so important that any way of achieving it is acceptable |
| c) to save the day                | 3. to hurry up   |
| d) off the record                 | 4. to do something that prevents a likely failure                                      |
| e) the end justifies the means    | 5. to stop losing money  |
| f) to backfire                    | 6. if you say something ....., you don't want it to be publicly reported               |
| g) to cut your losses             | 7. (about a plan) to have the opposite result to what had been intended                |
| h) to get your skates on          | 8. to be in the same situation as someone else   |

## Exercise 7

In each of the sentences below, one word has been used incorrectly. Find the incorrect word and replace it with another one to make the sentences correct and sensible.

Example:

The bare losses bones of the situation is that we don't have enough money to pay our rent.

1. If I were in his skates, I would leave the job immediately.
2. He believes that the end justifies the record and that sometimes it is OK to lie.
3. I told him that he had a good chance of getting the job; off the day, I don't really think they will take him on.
4. Get your backfired on, we need to get going!
5. Her plan to make a lot of easy money losses when her boss found out that she had been embezzling company funds.
6. We wouldn't have been able to bake the cake because we had run out of milk; Judy saved the shoes by borrowing some from a neighbour.
7. Listen, we've already lost enough time waiting for the bus. Let's cut our means and get a cab, shall we?

## Revision of Unit 9

## Exercise 8. UK / US differences

Divide the words into groups based on the country in which they are usually used.

creditors • income statement • depreciate • inventories • depreciation • payables  
• profit and loss account • amortize • debtors • amortization • *støcks* • receivables

## BRITISH:

## AMERICAN:

- |                  |         |
|------------------|---------|
| 1. <i>stocks</i> | 1. .... |
| 2. ....          | 2. .... |
| 3. ....          | 3. .... |
| 4. ....          | 4. .... |
| 5. ....          | 5. .... |
| 6. ....          | 6. .... |

## Exercise 9. Legal vocabulary

Fill the gaps in the text with appropriate words from Unit 9.

Our accountant, Dennis, *retired* last year, on his 75<sup>th</sup> birthday, and now I am responsible for maintaining our accounts. Technically I am employed in the capacity of an office manager, so I have other duties as well, which sometimes can be difficult to ..... with the duties of an accountant. Most of the time I somehow manage. If it becomes too much, I ask our receptionist to help me ..... all the information – invoices, cash slips, ..... of payments – and then I compile our three statements out of the information collected in this way.

The three statements, which are the elements of a(n) ..... report, are: the profit and loss ....., the ..... sheet and the ..... statement.

The first of these documents is produced using the accruals ..... First, the total amount of money generated by the business is recorded. Then the ..... of goods sold is deducted from it, as well as an amount charged as ..... to account for the fact that certain assets are losing ..... over time. The figure obtained in this way is called the operating ....., or the ..... on ordinary activities before tax.

The second document gives an idea of the assets and liabilities of the company at a given point in time. Assets are classified as ..... such as cash and securities, ..... such as equipment or real estate, and ..... in the form of goodwill and brands. Liabilities are divided into ..... and ..... liabilities.

The third document records the inflows and ..... of money into and from the company.

## Exercise 10. Prepositions

Fill the gaps in the text with appropriate prepositions (for example ON, OF, UNDER, etc.).

Example:

Let me tell you a few words about our annual report.

1. The accruals principle assumes that income and expenditure are recorded ..... the periods when they are incurred.
2. The profit and loss account records the money received ..... sales.
3. It must be taken into account that equipment declines ..... value ..... time. Recording depreciation allows ..... this decline. The number of years ..... which depreciation is spread depends ..... how long it normally takes that type of asset to become obsolete.
4. Interest must be paid ..... any money that is borrowed.

5. Assets are usually divided ..... a number of categories.
6. Liabilities are the money the company has to pay ..... its creditors.
7. When a company buys tangible assets it can't claim these costs ..... immediately tax-deductible.

### Exercise 11. Translation

Translate into English the following notes that a student took during a lecture on accounting.

Zgodnie z Ustawą o rachunkowości z dnia 29 września 1994 r., sprawozdanie finansowe sporządza się zasadniczo na dzień zamknięcia ksiąg rachunkowych. Sprawozdanie finansowe składa się z bilansu, rachunku zysków i strat, oraz informacji dodatkowej, obejmującej wprowadzenie do sprawozdania finansowego oraz dodatkowe informacje i objaśnienia. Sprawozdanie finansowe niektórych jednostek obejmuje także m.in. rachunek przepływów pieniężnych. W bilansie wykazuje się stany aktywów i pasywów na dzień kończący bieżący i poprzedni rok obrotowy. W rachunku zysków i strat wykazuje się oddzielnie przychody, koszty, zyski i straty oraz obowiązkowe obciążenia wyniku finansowego za bieżący i poprzedni rok obrotowy.

### Unit 9 Wordlist

- accruals principle** – zasada memoriałowa  
**amortize (n. amortization)** – amortyzować (USA)  
**annual report** – roczne sprawozdanie finansowe  
**appreciation** – aprecjacja, wzrost wartości  
**assets** – aktywa, majątek  
**current assets** – aktywa bieżące płynne, kapitał obrotowy  
**fixed assets** – aktywa rzeczowe, kapitał trwały  
**intangible assets** – aktywa niematerialne  
**tangible assets** – aktywa materialne  
**balance sheet** – bilans  
**book value** – wartość księgowa  
**cashflow statement** – rachunek przepływów pieniężnych  
**depreciate (n. depreciation)** – amortyzować (Wielka Brytania)  
**income statement** – rachunek zysków i strat (USA)  
**inflows** – wpływy  
**inventories** – zapasy (USA)  
**liabilities** – pasywa  
**current liabilities** – zobowiązania krótkoterminowe, bieżące  
**long-term liabilities** – zobowiązania długoterminowe  
**market value** – wartość rynkowa  
**obsolete** – przestarzały, bezużyteczny  
**operating profit** – zysk operacyjny

- outflows** – wydatki  
**pre-tax profit** – zysk przed opodatkowaniem  
**profit and loss account** – rachunek zysków i strat (Wielka Brytania)  
**ratify** – ratyfikować, zatwierdzić  
**rebut** – odpierać, odrzucać (np. zarzuty)  
**receipt** – odbiór; potwierdzenie odbioru  
**reconcile** – pogodzić  
**record (n. record)** – odnotować  
**reflect** – odzwierciedlać  
**resolution** – uchwała  
**restitution** – przywrócenie (mienia)  
**retainer** – zaliczka  
**retire** – przejść na emeryturę  
**revoke** – unieważniać, odwołać  
**stocks** – zapasy (Wielka Brytania)

### Accounting on the Web

- glossary of American accounting terms  
[http://www.nysscpa.org/prof\\_library/guide.htm](http://www.nysscpa.org/prof_library/guide.htm)
- glossary of British accounting terms  
<http://www.accountz.com/glossary.html>
- a series of plain-English tutorials in basic bookkeeping  
<http://www.dwmbeancounter.com/tutorial/Tutorial.html>
- a guide on bookkeeping basics  
<http://www.allbusiness.com/accounting/methods-standards/976-1.html>