

МІНІСТЕРСТВО ОСВІТИ І НАУКИ УКРАЇНИ
ЧЕРНІГІВСЬКИЙ НАЦІОНАЛЬНИЙ ТЕХНОЛОГІЧНИЙ УНІВЕРСИТЕТ

ENGLISH FOR ACCOUNTING

**Методичні вказівки до практичних занять та самостійної роботи
для студентів спеціальності «Облік і оподаткування»
всіх форм навчання**

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ВСТУП

ENGLISH FOR ACCOUNTING: Методичні вказівки до практичних занять та самостійної роботи для студентів спеціальності "Облік і оподаткування" всіх форм навчання складені у відповідності до вимог програми викладання англійської мови професійного спрямування (Київ, 2005 р.) та призначені для студентів немовних вузів, які продовжують вивчення англійської мови на базі знань, отриманих в середній школі. Однак, вони також можуть бути з успіхом використані студентами інших напрямів підготовки, а також всіма, хто працює у сфері економіки та бізнесу.

Запропоновані матеріали базуються виключно на професійно орієнтованих текстах, що представляють великий інтерес для тих, хто має намір займатися власним бізнесом або бути пов'язаним з ним в ході професійної діяльності.

На початку кожного розділу студентам пропонуються лексичні одиниці, які є базовими для спілкування в межах визначеної у розділі тематики.

Тексти, запропоновані для читання, мають фахове спрямування і направлені на розвиток вмінь читання професійно спрямованої літератури. Після текстів студентам для відповіді пропонуються питання, під час відповіді на які передбачається розвиток вмінь говоріння з використанням професійної лексики та лексики, необхідної для висловлення власної думки при обговоренні актуальних проблем.

Після читання текстів та відповідей на питання студентам пропонується виконання лексичних вправ, спрямованих на формування та вдосконалення професійних лексичних навичок. При виконанні лексичних вправ студенти аналізують будову слів, знаходять еквіваленти наданих лексичних одиниць чи словосполучень у тексті, утворюють похідні слова і т.д.

Заклучна секція кожного розділу містить питання, відповіді на які перевіряють рівень сформованості лексичних навичок, а також передбачають певний рівень розвитку вмінь говоріння для висловлення власних думок щодо професійних проблем, розглянутих у даному розділі.

Комплексна структура методичних вказівок забезпечує ефективне формування та вдосконалення навичок використання професійно орієнтованої лексики, розвиток вмінь читання фахових текстів та вмінь говоріння з висловленням власних думок щодо професійних проблем.

UNIT 1

MONEY AND INCOME

Key vocabulary

currency	➤ валюта, гроші
commission	➤ комісійна винагорода
outgoings	➤ витрати
overtime	➤ плата за понаднормову роботу
mortgage	➤ застава, іпотека
living expenses	➤ повсякденні витрати
social security	➤ соціальне забезпечення
note (banknote)	➤ банкнота
cash	➤ готівка, гроші
bank account	➤ банківський рахунок
on paper	➤ на папері
to earn	➤ заробляти
income	➤ дохід, прибуток
salary	➤ місячна заробітня плата службовця
wages	➤ погодинна заробітня плата працівників
bonus	➤ премія
fees	➤ гонорар, платня
pension	➤ пенсія
to spend	➤ витрачати
bill	➤ рахунок
rent	➤ орендна плата
health insurance	➤ медичне страхування
tax	➤ податок
budget	➤ бюджет

A Currency

The money used in a country - euros, dollars, yen, etc. - is its **currency**. Money in **notes (banknotes)** and **coins** is called **cash**. Most money, however, consist of bank deposits: money that people and organizations have in **bank accounts**. Most of this is **on paper** - existing in theory only - and only about ten per cent of it exists in the form of cash in the bank.

BrE: note or banknote; AmE: bill

B Personal finance

All the money a person receives or **earns** as payment is his or her **income**. This can include:

- a **salary**: money paid monthly by an employer, or **wages**: money paid by the day or the hour, usually received weekly
- **overtime**: money received for working extra hours
- **commission**: money paid to salespeople and agents - a certain percentage of the income the employee generates
- a **bonus**: extra money given for meeting a target or for good financial results
- **fees**: money paid to professional people such as lawyers and architects
- **social security**: money paid by the government to unemployed and sick people
- a **pension**: money paid by a company or the government to a retired person.

Salaries and wages are often paid after deductions such as social security charges and pension contributions.

Amounts of money that people have to **spend** regularly are **outgoings**. These often include:

- **living expenses**: money spent on everyday needs such as food, clothes and public transport
- **bills**: requests for the payment of money owed for services such as electricity, gas and telephone connections
- **rent**: the money paid for the use of a house or flat
- a **mortgage**: repayments of money borrowed to buy a house or flat
- **health insurance**: financial protection against medical expenses for sickness or accidental injuries
- **tax**: money paid to finance government spending.

A financial plan, showing how much money a person or organization expects to earn and spend is called a **budget**.

BrE: social security; AmE: welfare

BrE: flat; AmE: apartment

Planned monthly budget for next year (€)			
Income		Outgoings	
Salary (after deductions)	3,250	Rent	900
Commission (average)	600	Bills	250
		Living expenses	1,200
		Health insurance	130
		Tax	800
Total	3,850	Total	3,280

PRACTICE

1.1 Match the terms with their definitions.

1. salary ____	a) a payment made periodically by a tenant to a landlord in return for the use of land, a building, an apartment, an office, or other property
2. bank accounts ____	b) an agreement that allows you to borrow money from a bank or similar organization, especially in order to buy a house, or the amount of money itself
3. pension ____	c) a plan to show how much money a person or organization will earn and how much they will need or be able to spend
4. rent ____	d) money paid to finance government spending
5. tax ____	e) an amount of money paid for a particular piece of work or for a particular right or service
6. health insurance ____	f) a request for payment of money owed
7. bill ____	g) the money that is used in a particular country at a particular time
8. currency ____	h) amounts of money that regularly have to be spent, for example to pay for heating or rent
9. mortgage ____	i) an amount of money paid regularly by the government or a private company to a person who does not work anymore because they are too old or have become ill
10. income ____	j) an arrangement with a bank in which the customer puts in and removes money and the bank keeps a record of it
11. fees ____	k) a fixed amount of money agreed every year as pay for an employee, usually paid directly into his or her bank account every month
12. wages ____	l) an arrangement in which you make regular payments to an insurance company in exchange for that company paying most or all of the costs of your medical care
13. social security ____	m) a system of payments made by the government to people who are ill, poor, or who have no job
14. budget ____	n) money that is earned from doing work or received from investments
15. outgoings ____	o) the money earned by an employee, esp. when paid for the hours worked

1.2 Complete the sentences with words from the box. Look at A and B to help you.

commission	bonus	currency	earn	mortgage	tax
overtime	pension	rent	salary	social security	

1. After I lost my job, I was living on _____ for three months. This was difficult, because the amount was much lower than the _____ I had before.
2. I used to work as a salesperson, but I wasn't very successful, so I didn't _____ much _____.
3. If the company makes 10% more than last year, we'll all get a _____ at end of the year.
4. It'll take me at least 25 years to repay the _____ on my house.
5. Many European countries now have the same _____ the euro.
6. My wages aren't very good, so I do a lot of _____.
7. Nearly 40% of everything I earn goes to the government as _____.
8. The owner has just increased the _____ on our flat by 15%.
9. When I retire, my _____ will be 60% of my final salary.

1.3 Are the following statements true or false? Find reasons for your answers in A and B.

1. Bank deposits are not classified as money.
2. People earning wages get paid more often than people earning a salary.
3. People working on commission always get paid the same amount.
4. When you stop working at the end of your career, you receive a pension.
5. Most people pay a rent and a mortgage.

1.4 Find the English equivalents.

Currency, living expenses, on paper, bonus, rent, commission, social security, to earn, fees, health insurance, outgoings, notes (banknotes), income, pension, mortgage, bank account, wages, bill, tax overtime, cash, salary, to spend, budget.

1.5 Translate into English.

Соціальне забезпечення, валюта, медичне страхування, місячна заробітня плата службовця, іпотека, готівка, пенсія, податок, комісійна винагорода, орендна плата, прибуток, премія, гонорар, плата за понаднормову роботу, на папері, банківський рахунок, витрати, заробляти, погодинна заробітня плата працівників, банкнота, рахунок, витратити, повсякденні витрати, бюджет.

1.6 Give the definitions to the following terms.

rent	mortgage	budget	bill	income
tax	currency	outgoings	pension	bank accounts
salary	health insurance	social security	fees	wages

PRODUCTION

Over to you!

Do you know what the average income is in your country, and in your job or the one you are studying for? How important is salary in your choice of career?

UNIT 2

BUSINESS FINANCE

Key vocabulary

set up / start a company	➤ <i>заснувати компанію</i>
capital	➤ <i>капітал</i>
to borrow	➤ <i>запозичувати</i>
interest	➤ <i>відсоток</i>
shares	➤ <i>акції</i>
equities	➤ <i>акції</i>
to invest	➤ <i>інвестувати</i>
shareholders	➤ <i>акціонери</i>
own	➤ <i>власний</i>
share capital	➤ <i>акціонерний капітал</i>
investors	➤ <i>інвестори</i>
to lend	➤ <i>позичити</i>
bonds	➤ <i>облігації</i>
money owed	➤ <i>заборгованість</i>
debt	➤ <i>борг</i>
liabilities	➤ <i>зобов'язання</i>
on credit	➤ <i>в кредит</i>
working capital	➤ <i>робочий капітал</i>
funds	➤ <i>кошти</i>
revenue	➤ <i>дохід</i>
expenses	➤ <i>витрати</i>
profit	➤ <i>прибуток</i>
earnings	➤ <i>заробіток</i>
net income	➤ <i>чистий прибуток</i>
dividend	➤ <i>дивіденд</i>
tax	➤ <i>податок</i>
to retain	➤ <i>зберігати, резервувати</i>
financial statements	➤ <i>фінансова звітність</i>
balance sheet	➤ <i>бухгалтерський баланс</i>
assets	➤ <i>активи</i>
profit and loss account	➤ <i>рахунок прибутків і збитків</i> ➤ <i>звіт про фінансові результати</i>
loan	➤ <i>позика</i>

A Capital

When people want to **set up** or start a company, they need money, called **capital**. Companies can **borrow** this money, called a **loan**, from banks. The loan must be paid back with **interest**: the amount paid to borrow the money. Capital can also come from issuing **shares** or **equities** – certificates representing units of ownership of a company. The people who **invest** money in shares are called **shareholders** and they **own** part of the company. The money they provide is known as **share capital**. Individuals and financial institutions, called **investors**, can also **lend** money to companies by buying **bonds** – loans that pay interest and are repaid at a fixed future date.

Money that is **owed** – that will have to be paid – to other people or businesses is a **debt**. In accounting, companies' debts are usually called **liabilities**. Long-term liabilities include bonds; short-term liabilities include debts to suppliers who provide goods or services **on credit** – that will be paid for later.

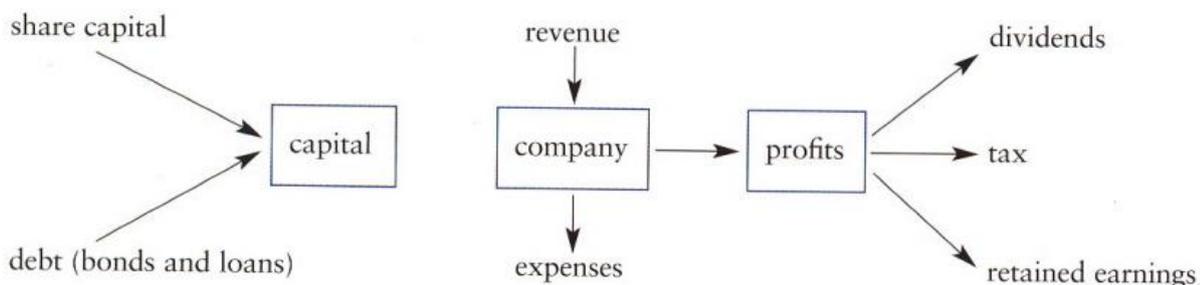
The money that a business uses for everyday expenses or has available for spending is called **working capital** or **funds**.

BrE: shares; AmE: stocks

BrE: shareholder; AmE: stockholder

B Revenue

All the money coming into a company during a given period is **revenue**. Revenue minus the cost of sales and operating **expenses**, such as rent and salaries, is known as **profit, earnings** or **net income**. The part of its profit that a company pays to its shareholders is a **dividend**. Companies pay a proportion of their profits to the government as **tax**, to finance government spending. They also **retain**, or keep, some of their earnings for future use.



C Financial statements

Companies give information about their financial situation in **financial statements**. The **balance sheet** shows the company's **assets** – the things it owns; its liabilities –

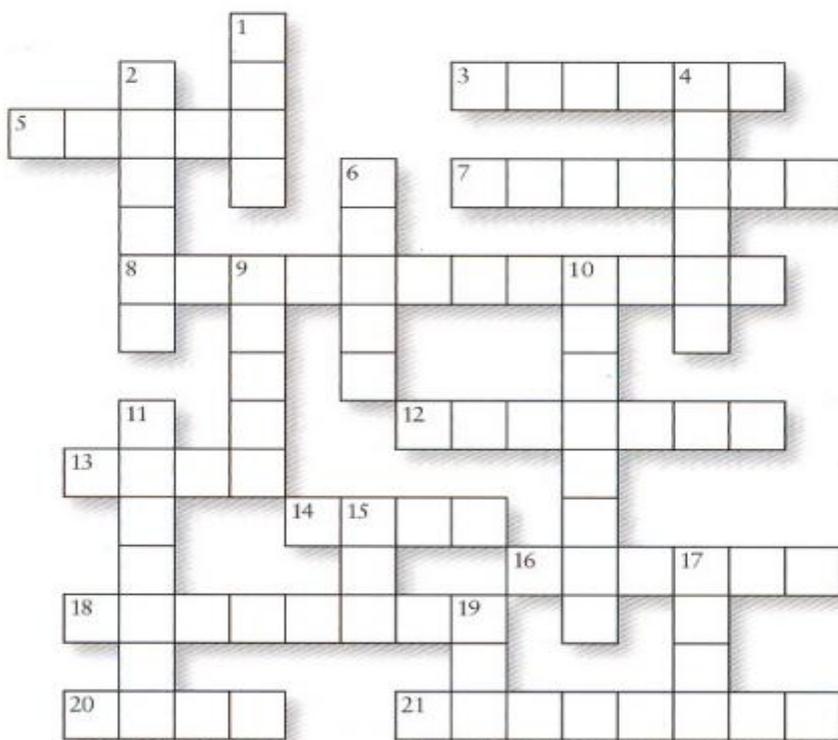
the money it owes; and its capital. The **profit and loss account** shows the company's revenues and expenses during a particular period, such as three months or a year.

BrE: profit and loss account; AmE: income statement

PRACTICE

2.1. Match the terms with their definitions.

1. to borrow ____	a) the amount of money that a person or an organization owes
2. share capital ____	b) to put money, effort, time, etc. into something to make a profit or get an advantage
3. liabilities ____	c) a statement that shows the value of a company's assets (= things of positive value) and its debts
4. dividend ____	d) money, often money for a specific purpose
5. balance sheet ____	e) an official paper given by the government or a company to show that you have lent them money that they will pay back to you at a particular interest rate
6. assets ____	f) to take money from a bank or other financial organization and pay it back over a period of time
7. profit ____	g) money invested in a business in the form of shares rather than bonds or other forms of lending
8. bonds ____	h) something that is owned by a person, company or organization, such as money, property, or land
9. to invest ____	i) the profit of a company that is paid to the people who own shares in it
10. financial statements ____	j) money that is earned in trade or business after paying the costs of producing and selling goods and services
11. funds ____	k) a report provided by a company for its shareholders and investors that shows details of its financial situation, and includes documents such as the profit and loss account and balance sheet



2.2. Complete the crossword. Look at A, B and C to help you.

Across

- 3. Small companies often try to get bank loans when they need to _____ money. (6)
- 5. We don't have sufficient _____ to build a completely new factory. (5)
- 7. and 6 down Details of a company's liabilities are shown on the _____. (7,5)
- 8. We're going to raise more money by selling new shares to our existing _____. (12)
- 12. We had to raise € 50,000 _____ in order to start the business. (7)
- 13. We're going to pay back some of the people who lent us money, and reduce our _____. (4)
- 14. I decided to buy a \$ 10,000 _____ instead of shares, as it's probably safer. (4)
- 16. Another term for profit is net _____. (6)
- 18. I think this is a good investment: it pays 8% _____. (8)
- 20. When they saw our financial statements, the bank refused to _____ us any more money. (4)
- 21. Profit is the difference between revenue and _____. (8)

Down

1. The profit and _____account shows if a company is receiving more money than it is spending. (4)
2. If you don't like taking risks, you should only _____ in very successful companies. (6)
4. A company's retained earnings belong to its _____. (6)
6. See 7 across.
9. Anything a company uses to produce goods or services is an _____. (5)
10. The company made such a big profit, I expected a higher _____. (8)
11. We sold a lot more last year, so our _____ went up. (7)
15. We _____ our suppliers \$ 100,000 for goods bought on credit. (3)
17. Everyone who buys a share _____ part of the company. (4)
19. Thirty per cent of our profits goes straight to the government _____. (3)

2.3. Find the English equivalents.

Set up, shareholders, debt, profit, balance sheet, capital, own, liabilities, earnings, assets, borrow, share capital, on credit, net income, profit and loss account, interest investors, working capital, dividend, loan, shares, lend, funds tax, equities, bonds, revenue, retain, financial statements.

2.4. Translate into English.

Дивіденд, податок, зберігати, фінансова звітність, бухгалтерський баланс, активи, рахунок прибутків і збитків, позика, робочий капітал, кошти, дохід, витрати, прибуток, заробіток, чистий прибуток, капітал, запозичувати, відсоток, акції, інвестувати, акціонери, власний акціонерний капітал, інвестори, позичити, облігації, заборгованість, борг.

2.5. Give the definitions to the following terms.

borrow	share capital	liabilities	dividend	balance sheet
assets	profit	bonds	invest	financial statements
funds				

PRODUCTION

Over to you

Think of the company you work for, or the one that you are interested in. How was it financed when it was set up, and how is it financed now?

UNIT 3

ACCOUNTING AND ACCOUNTACY

Key vocabulary

accounting	➤ бухгалтерський облік
recording	➤ запис
transactions	➤ операції
bookkeeping	➤ бухгалтерія
financial accounting	➤ фінансова звітність
preparing	➤ підготовка
creditor	➤ кредитор
management accounting	➤ управлінський облік
auditing	➤ аудит
accuracy	➤ точність
fraud	➤ шахрайство
internal audit	➤ внутрішній аудит
external audit	➤ зовнішній аудит
independent auditor	➤ незалежний аудитор
creative accounting	➤ креативний облік
true and fair view	➤ справжня та чесна точка зору
law	➤ закон
standards	➤ стандарти
to apply	➤ застосовувати
annual account	➤ річний звіт

A Accounting

- **Accounting** involves **recording** and summarizing an organization's **transactions** or business deals, such as purchases and sales, and reporting them in the form of financial statements. In many countries, the accounting or **accountancy** profession has professional organizations which operate their own training and examination systems, and make technical and ethical rules; these relate to accepted ways of doing things.
- **Bookkeeping** is the day-to-day recording of transactions.
- **Financial accounting** includes bookkeeping, and **preparing** financial statements for shareholders and **creditors** (people or organizations who have lent money to a company).
- **Management accounting** involves the use of accounting data by managers, for making plans and decisions.

B Auditing

Auditing means examining a company's systems of control and the **accuracy** or exactness of its records, looking for errors or possible **fraud**: where the company may have deliberately given false information.

- An **internal audit** is carried out by a company's own accountants or internal auditors.
- An **external audit** is done by **independent auditors**: auditors who are not employees of the company.

The external audit examines the truth and fairness of financial statements. It tries to prevent what is called '**creative accounting**', which means recording transactions and values in a way that produces a false result – usually an artificially high profit.

There is always more than one way of presenting accounts. The accounts of British companies have to give a **true and fair view** of their financial situation. This means that the financial statements must give a correct and reasonable picture of the company's current condition.

C Laws, rules and standards

In most continental European countries, and in Japan, there are **laws** relating to accounting, established by the government. In the US, companies whose stocks are traded on public stock exchanges have to follow rules set by the Securities and Exchange Commission (SEC), a government agency. In Britain, the rules, which are called **standards**, have been established by independent organizations such as the Accounting Standards Board (ASB), and by the accountancy profession itself. Companies are expected to **apply** or use these standards in their **annual accounts** in order to give a true and fair view.

Companies in most English-speaking countries are largely funded by shareholders, both individuals and financial institutions. In these countries, the financial statements are prepared for shareholders. However, in many continental European countries businesses are largely funded by banks, so accounting and financial statements are prepared for creditors and the tax authorities.

PRACTICE

3.1. Match the terms with their definitions.

1. accounting ____	a) the action or process of recording sound or a performance for subsequent reproduction or broadcast
2. annual accounts ____	b) an idea or thing used as a measure, norm, or model in comparative evaluations
3. recording ____	c) the measurement, processing, and communication of financial information about economic entities such as businesses and corporations
4. transactions ____	d) the activity or occupation of keeping records of the financial affairs of a business
5. standards ____	e) periodic or specific purpose (ad hoc) audit conducted by external (independent) qualified accountant(s)
6. law ____	f) accountant who is not an employee of, and not otherwise related to, the entity he or she is auditing
7. bookkeeping ____	g) the process of preparing management reports and accounts that provide accurate and timely financial and statistical information required by managers to make day-to-day and short-term decisions.
8. financial accounting ____	h) the accounts prepared at the end of a financial year
9. creditors ____	i) an occasion when someone buys or sells something, or when money is exchanged or the activity of buying or selling something
10.independent auditors ____	j) the system of rules that a particular country or community recognizes as regulating the actions of its members and may enforce by the imposition of penalties
11.external audit ____	k) a specialized branch of accounting that keeps track of a company's financial transactions
12.internal audit ____	l) people or organizations who have lent money to a company
13.management accounting ____	m) the examination, monitoring and analysis of activities related to a company's operations, including its business structure, employee behavior and information systems

3.2. What type of work does each person do, and what is the name of each job? Look at A and B to help you.

1. I record all the purchases and sales made by this department.
2. This month, I'm examining the accounts of a large manufacturing company.
3. I analyze the sales figures from the different departments and make decisions about our future activities.
4. I am responsible for preparing our annual balance sheet.
5. When the accounts are complete, I check them before they are presented to the external auditors.

3.3. Match the two parts of the sentences. Look at C to help you.

1. In most of continental Europe and Japan
 2. In the USA
 3. In Britain and the USA
 4. In much of continental Europe
- a) accounting rules are established by a government agency.
 - b) companies are mainly funded by shareholders or stockholders.
 - c) accounting rules are set by an independent organization.
 - d) the major source of corporate finance is banks.
 - e) accounting rules are set by the government.

3.4. Find verbs in A, B and C that can be used to make word combinations with the nouns below.

<p>_____</p> <p>_____</p>	<p>an audit</p>	<p>_____</p> <p>_____</p> <p>_____</p>	<p>standards</p>
<p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p>	<p>Rules</p>	<p>_____</p> <p>_____</p>	<p>transactions</p>

3.5. Find the English equivalents.

Bookkeeping, management accounting, external audit, internal audit, independent auditors, financial accounting, creditors, laws, transactions, standards, accounting, annual accounts, recording.

3.6. Translate into English.

Запис, бухгалтерський облік, звітність, операції, річні рахунки, застосовувати, справжня та чесна точка зору, фінансова звітність, кредитори, підготовка, управлінський облік, точність, аудит, шахрайство, внутрішня ревізія, зовнішній аудит, незалежні аудитори, креативний облік.

3.7. Give the definitions to the following terms.

accounting	annual accounts	recording	transactions	standards
law	bookkeeping	financial accounting	creditors	independent auditors
external audit	internal audit	management accounting		

PRODUCTION

Over to you!

*Is accounting in your country based on standards, rules, laws, or a mixture of these?
What accounting system do international companies in your country use?*

UNIT 4

BOOKKEEPING

Key vocabulary

bookkeeper	➤ бухгалтер
transaction	➤ операція
account	➤ рахунок
double-entry bookkeeping	➤ подвійна бухгалтерія
debit	➤ дебет
credit	➤ кредит
raw materials	➤ сировина
stock	➤ акція
debtors	➤ боржники
day books	➤ денні книги
journals	➤ журнали
nominal ledgers	➤ номінальні книжки
creditors	➤ кредитори
accounting period	➤ звітний період
trial balance	➤ пробний баланс

A Double-entry bookkeeping

Zaheer Younis works in the accounting department of a trading company:

‘I began my career as a bookkeeper. **Bookkeepers** record the company’s daily **transactions**: sales, purchases, debts, expenses, and so on. Each type of transaction is recorded in a separate **account** – the cash account, the liabilities account, and so on. **Double-entry bookkeeping** is a system that records two aspects of every transaction. Every transaction is both a **debit** – a deduction – in one account and a corresponding **credit** – an addition – in another. For example, if a company buys some **raw materials** – the substances and components used to make products – that it will pay for a month later, it debits its purchases account and credits the supplier’s account. If the company sells an item on credit, it credits the sales account, and debits the customer’s account.

As this means the level of the company’s **stock** – good ready for sale – is reduced, it debits the stock account. There is a corresponding increase in its **debtors** – customers

who owe money for goods or services purchased – and the debtors or accounts payable account is credited. Each account records debits on the left and credits on the right. If the bookkeepers do their work correctly, the total debits always equal the total credits.’

BrE: debtors; AmE: accounts
BrE: creditors; AmE: accounts
BrE: stock; AmE: inventory

B Day books and ledgers

‘For accounts with a large numbers of transactions, like purchases and sales, companies often record the transactions in **day books** or **journals**, and then put a daily or weekly summary in the main double - entry records.

In Britain, they call the main book of account **nominal ledgers**. **Creditors** – suppliers to whom the company owes money for purchases made on credit – are recorded in a **bought ledger**. They still use these names, even though these days all the information is on a computer.’

Note: In Britain the terms **debtors** and **creditors** can refer to people or companies that owe or are owed money, or to the sums of money in an account or balance sheet.

C Balancing the books

‘At the end of an **accounting period**, for example a year, bookkeepers prepare a **trial balance** which transfers the debit and credit balanced of different accounts onto one page. As always, the total debits should equal the total credits. The accountants can then use these balances to prepare the organization’s financial statements.’

4.1. Match the terms with their definitions.

1. bookkeeping	a) a method in which each transaction is entered twice in the ledger, once to the debit of one account, and once to the credit of another
2. account	b) material on which a particular manufacturing process is carried out
3. double-entry	c) the system or occupation of keeping detailed records of a company's business dealings
4. purchases	d) shares of a company that are divided and sold to its members
5. raw materials	e) a person or firm that gives credit in business transactions

6. stocks	f) a book into which all transactions are entered from the daybook or blotter to facilitate posting into the ledger
7. debtors	g) a person who is in debt or under financial obligation to another
8. day book	h) to get or obtain by the payment of money or its equivalent
9. creditors	i) a statement or record of financial transactions
10. nominal	j) debts or pecuniary obligations (opposed to assets)
11. accounting period	k) a statement of all the open debit and credit items, made preliminary to balancing a double-entry ledger
12. trial balance	l) a regular period of time, as a month or a year, for which an operative statement is drawn up
13. liabilities	m) capable of being or liable to be paid
14. customer	n) a person who purchases goods or services from another
15. payable	o) being small or low in amount when compared with the actual value

4.2. Match the words in the box with definitions below. Look at A and B to help you.

credit	ledger	debit
creditors	stock	debtors

1. an amount entered on the left-hand side of an account, recording money paid out
2. a book of accounts
3. customers who owe money for goods or services not yet paid for
4. an amount entered on the right-hand side of an account, recording a payment received
5. goods stored ready for sale
6. suppliers who are owed money for purchases not yet paid for

4.3. Complete the sentences. Look at A, B and C to help you.

1. _____ shows where money comes from and where it goes: it is always transferred from one _____ to another one. Every event is entered twice – once as a credit and once as a _____.
2. Most businesses record very frequent or numerous transactions in _____ or _____.
3. The main account book are called _____, and the book relating to creditors is called the _____.

4. In order to prepare financial statements, companies do a _____ which copies all the debit and credits balances of different accounts onto a single page.

4.4. Complete the sentences using ‘debit’ or ‘credit’. Look at A to help you.

1. If you buy new assets, you _____ the cash or capital account.
2. If you pay some bills, you _____ the liabilities account.
3. If you buy materials from a supplier on 60 days’ credit, you _____ the purchases account and _____ the supplier’s account.
4. If you sell something to a customer who will pay 30 days later, you _____ the sales account and _____ the customer’s account.

4.5. Give the definitions to the following terms.

bookkeeping	account	double-entry	purchases	raw materials
stocks	debtors	day book	creditors	nominal
accounting period	trial balance	liabilities	customer	payable

PRODUCTION

Over to you!

What qualities does a good bookkeeper need? Would you like to work as a bookkeeper? If not, which type of accounting do you think is most interesting, and why?

UNIT 5

COMPANY LAW 1

Key vocabulary

partnership	➤ <i>партнерство</i>
partners	➤ <i>партнери</i>
sole trader	➤ <i>приватний підприємець</i>
legal entity	➤ <i>юридична особа</i>
limited liability	➤ <i>обмежена відповідальність</i>
to be liable for	➤ <i>нести відповідальність за</i>
limited companies	➤ <i>обмежені компанії</i>
share capital	➤ <i>акціонерний капітал</i>
executive directors	➤ <i>виконавчі директори</i>
corporate governance	➤ <i>корпоративне управління</i>
chairman	➤ <i>голова</i>
managing director	➤ <i>керуючий директор</i>
non-executive directors	➤ <i>невиконавчі директори</i>
board of directors	➤ <i>рада директорів</i>
objective	➤ <i>об'єктивний</i>
audit committee	➤ <i>комітет з аудиту</i>
shareholders	➤ <i>акціонери</i>
non-executive	➤ <i>не виконавчий</i>

A Partnerships

A **partnership** is a business arrangement in which several people work together, and share the risks and profits. In Britain and the US, partnerships do *not* have limited liability for debts, so the **partners** are fully liable or responsible for any debts the business has. Furthermore, partnerships are not legal entities, *so* in case of a legal action, it is the individual partners and not the partnership that is taken to court. In most continental European countries there are various kinds of partnership which *are* legal entities.

A **sole trader** business - an enterprise owned and operated by a single person - also has unlimited liability for debts.

B Limited liability

A **company** is a business that is a **legal entity**. In other words, it has a separate legal existence from its owners, the shareholders. It can enter into contracts, and can be

sued or taken to court if it breaks a contract. A company can (in theory) continue forever, even if all the staff and owners change. Most companies have **limited liability**, which means that the owners are not fully **liable for** - or responsible for - the business's debts.

These companies are known as **limited companies**. Their liability is limited to the value of their **share capital**: the amount of cash that the shareholders have contributed to the company. This limitation of liability encourages investors to risk their money to become part owners of companies, while leaving the management of these companies to qualified managers and senior managers, known as **directors**.

These managers and full-time **executive directors** run the company for its owners. There are standard procedures of **corporate governance** - the way a company is run by the management for the shareholders, and how the managers are accountable to the shareholders.

These include separating the job of **chairman** from that of **managing director**, and having several **non-executive directors** on the **board of directors** who do not work full-time for the company but can offer it expert advice. Non-executive directors are often more **objective**: less influenced by their opinions and beliefs. There is also an **audit committee**, containing several non-executive directors, to which the auditor's report.

BrE: chairman; AmE: president
BrE: managing director; AmE: chief executive officer (CEO)

C Founding companies

When people **found** or start companies, they **draw up** or prepare **Articles of Association** and a **Memorandum of Association**. The Articles of Association state:

- the rights and duties of the shareholders and directors
- the relationships among different classes of shareholder (See Unit 29)
- the relationships between shareholders and the company and its directors.
- The Memorandum of Association states:
- the company's name
- the location of the company's registered office - where to send official documents
- the company's purpose - its aims or objectives
- the authorized share capital - the maximum share capital it can have.

BrE: Articles of Association; AmE: Bylaws

PRACTICE

5.1. Match the terms with their definitions.

1. committee _____	a) the relation subsisting between partners
2. value _____	b) a person associated with another or others as a principal or a contributor of capital in a business or a joint venture, usually sharing its risks and profits
3. chairman _____	c) a number of individuals assembled or associated together; group of people
4. contract _____	d) someone employed to carry or wheel a person in a chair
5. trader _____	e) a holder or owner of shares, especially in a company or corporation
6. capital _____	f) a member of a stock exchange trading privately and not on behalf of customers
7. company _____	g) an agreement between two or more parties for the doing or not doing of something specified
8. partnership _____	h) a person or group of persons elected or appointed to perform some service or function, as to investigate, report on, or act upon a particular matter
9. partners _____	i) the wealth, whether in money or property, owned or employed in business by an individual, firm, corporation, etc.
10. shareholder _____	j) the worth of something in terms of the amount of other things for which it can be exchanged or in terms of some medium of exchange

5.2. Are the following statements true or false? Find reasons for your answers in A and B.

1. In case of a legal dispute, people can take a company's shareholders to court.
2. The owners of limited companies have to pay all the company's debts.
3. Many companies are not owned by their managers.
4. External directors can usually give more objective advice than full-time directors.
5. Partners in British and American businesses are not liable for the partnership's debts.
6. In case of a dispute, people can take British companies and partnerships to court.

5.3. Make word combinations using a word from each box. Then match the word combinations to the definitions below. Look at A to help you.

corporate	audit	limited	non-executive	committee
directors	governance	liability	capital	share

1. _____: a group of directors to whom the external auditors present their report.
2. _____: members of a board of directors who are not full-time managers of the company.
3. _____: owners' money invested in a company.
4. _____: responsibility for debts up to the value of the company's share capital.
5. _____: the way a company is managed for its owners.

5.4. Complete the document. Look at C to help you.

(a) _____ of Association

1. The name of the Company is Language Services Pty Limited.
2. The (b) _____ of the Company will be in Australia.
3. The (c) _____ for which the Company is established is to provide translation and interpreting services to international companies.
4. The (d) _____ of the company is made up of ordinary shares divided into five thousand (5,000) shares of A\$1.00 par value each with one vote for each share.

5.5. Give the definitions to the following terms.

committee	value	chairman	contract	trader
capital	company	partnership	partners	shareholder

PRODUCTION

Over to you!

Do partnerships have limited liability in your country? If not, who would you trust enough to start a partnership with?

UNIT 6

COMPANY LAW 2

Key vocabulary

private companies	➤ <i>приватні компанії</i>
a public limited companies (plcs)	➤ <i>акціонерні товариства з обмеженою відповідальністю (plc)</i>
stock exchange	➤ <i>біржа</i>
corporation	➤ <i>корпорація</i>
listed companies	➤ <i>перерахункові компанії</i>
turnover	➤ <i>оборот</i>
gross profit	➤ <i>загальний прибуток</i>
net profit	➤ <i>чистий дохід</i>
quoted companies	➤ <i>котируючі компанії</i>
annual report	➤ <i>річний звіт</i>
auditors' report	➤ <i>звіт аудиторів</i>
annual general meeting	➤ <i>щорічні загальні збори</i>
extraordinary general meeting	➤ <i>позачергові загальні збори</i>
misconduct	➤ <i>неправомірні дії</i>

A Private and public companies

Private companies usually have “Limited” or “Ltd” at the end of their name. They are not allowed to sell their stocks or shares on an open market. Most companies are private; there are about one million private companies in Britain, compared to around 2,000 **public limited companies (PLCs)**. These companies have ‘plc’ at the end of their name, and their shares are publicly traded on the London Stock Exchange. A **stock exchange** is a market where anyone can buy stocks and shares. The US equivalent of a PLC is a company or **corporation** registered with the Securities and Exchange Commission (SEC).

SEC-registered companies, also known as **listed companies**, have to make quarterly reports (i.e. every three months). They report on:

- sales revenue or **turnover** – the money received by the company in that period from selling goods or services.
- **gross profit** – turnover less cost of sales
- **net profit** – gross profit less administrative expenses and tax.

Companies on the London Stock Exchange, known as **quoted companies**, have to produce a half-yearly interim report which informs shareholders about the company's progress. These reports are not audited.

All companies with shareholders or stockholders have to send them an **Annual Report** each financial year. This contains a review of the year's activity, and an examination and explanation of the company's financial position and results. There are also financial statement and notes (see Unit 11-14), and the **auditors' report** on the financial statements.

BARCLAYS PLC Interim Report 2018	
<ul style="list-style-type: none"> • Group performance was very strong: ➤ profit before tax up 23% to £2,411m ➤ earning per share up 25% at 26.7p ➤ dividend per share up 17% to 8.25p ➤ return on equity of 20,4% 	<ul style="list-style-type: none"> • All businesses had higher profit, demonstrating good progress across the whole portfolio. • Income growth was particularly strong, up 14%, with good broad based contributions by business and by income type.

B AGMs

Public companies have to hold an **Annual General Meeting** (AGM), and most private ones do too. At this meeting the shareholders can question directors about the content of the Annual Report and the financial statements, vote to accept or reject the dividend recommended by the directors, and vote on replacements for retiring members of the board. The meeting can also carry out any other business stated in the company's Memorandum of Association or Certificate of Incorporation, and Articles of Association or Bylaws.

If there is a crisis, the directors or the shareholders can request to hold an **Extraordinary General Meeting** (EGM) to discuss the situation. For example, if there are claims of **misconduct** by the directors, where they have behaved illegally, there could be an EGM.

***BrE:** Annual General Meeting (AGM); **AmE:** Annual Meeting of Stockholders
BrE: Extraordinary General Meeting (EGM); **AmE:** Special Meeting*

PRACTICE

6.1. Match the terms with their definitions.

1. misconduct _____	a) a company whose shares may not be offered to the public for sale and which operates under legal requirements less strict than those for a public company.
2. gross profit _____	b) company whose shares can be bought or sold on the Stock Exchange
3. net profit _____	c) a comprehensive report on a company's activities throughout the preceding year
4. turnover _____	d) a large company or group of companies authorized to act as a single entity and recognized as such in law.
5. stock exchange _____	e) a written opinion of an auditor regarding an entity's financial statements
6. corporation _____	f) behaviour that breaks the law
7. private companies _____	g) the total amount of money a company receives from selling goods or services
8. quoted companies _____	h) sales revenue minus the cost sales, before deductions for administration expenses, interest charges, etc.
9. Annual Report _____	i) sales revenue the cost of making and selling the goods, and deductions for administration expenses, interest charges, etc.
10. auditors' report _____	j) the legal designation of a limited liability company (LLC) which has offered shares to the general public and has limited liability
11. Annual General Meeting _____	k) a meeting of the members or shareholders of a club, company, or other organization, held at short notice, especially in order to consider a particular matter
12. Extraordinary General Meeting _____	l) a market in which securities are bought and sold
13. public limited companies (PLCs) _____	m) SEC-registered companies
14. listed companies	n) a yearly meeting of the members or shareholders of a club, company, or other organization, especially for holding elections and reporting on the year's events

6.2. Complete the table. Look at A and B to help you.

(1) _____ companies	Public companies	
• can't sell shares on the (2) _____	In the UK	In the US
	• are called public (3) _____ companies or (4) _____ companies.	• are called SEC- registered companies or (6) _____ companies.
	• produce (5) _____ reports.	• produce (7) _____ reports.
	• publish a (8) _____ and hold an (9) _____	

6.3. Find words in A and B with the following meanings.

1. behaviour that breaks the law
2. sales revenue minus the cost sales, before deductions for administration expenses, interest charges, etc.
3. sales revenue the cost of making and selling the goods, and deductions for administration expenses, interest charges, etc.
4. the total amount of money a company receives from selling goods or services

6.4. Match the two parts of the sentences. Look at A and B opposite to help you.

1. Only quoted or listed companies	a) about their sales and profits every three months.
2. American corporation publish details	b) are contained in their annual reports.
3. Companies' financial statements, and the auditor's report	c) are not checked be external auditors.
4. Quarterly and six-monthly reports	d) if there is a crisis.
5. Shareholders can ask company directors questions	e) can have their shares traded on a stock exchange.
6. Companies can hold an emergency general meeting	f) at an annual meeting.

6.5. Find the English equivalents

A stock exchange, public limited companies (PLCs), open market, an Annual General Meeting, misconduct, Extraordinary General Meeting, Annual Report, shareholders, stockholders, quoted companies, listed companies, the financial statements, gross profit, net profit, sales revenue, turnover, Securities and Exchange Commission.

6.6. Translate into English.

Товариство з обмеженою відповідальністю, чистий прибуток, валовий прибуток, оборот, річний звіт, звіт аудиторів, позачергові загальні збори, неправомірні дії, поррахункові компанії, корпорації, котируючі компанії, біржі, приватні компанії, відкритий ринок, щорічні загальні збори.

6.7. Give the definitions to the following terms.

misconduct	gross profit	net profit	turnover	A stock exchange
corporation	private companies	quoted companies	Annual Report	the auditors' report
Annual General Meeting	Extraordinary General Meeting	public limited companies (PLCs)	listed companies	

PRODUCTION

Over to you!

Have ever been to an AGM? Was there any disagreement between the shareholders and the director? Who do you think is usually more powerful – the shareholders or the directors?

UNIT 7

ACCOUNTING POLICIES AND STANDARDS

Key vocabulary

assets	➤ <i>активи</i>
liabilities	➤ <i>зобов'язання</i>
valuation	➤ <i>оцінка вартості</i>
accounting standards	➤ <i>стандарти бухгалтерського обліку</i>
accounting policy	➤ <i>облікова політика</i>
consistent	➤ <i>сумісний, який відповідає</i>
depreciation	➤ <i>амортизація</i>
account	➤ <i>звіт</i>
true and fair view	➤ <i>справжня та чесна точка зору</i>
measurement	➤ <i>вимірювання</i>
historical cost principle	➤ <i>принцип історичної вартості</i>
current value	➤ <i>поточна вартість</i>
going concern	➤ <i>діюче підприємство</i>
bondholder	➤ <i>власник облигації</i>
inflation	➤ <i>інфляція</i>
cost accounting	➤ <i>облік витрат</i>
current replacement cost	➤ <i>поточна вартість заміни</i>

A Valuation and measurement

Investors in companies want to know how much the companies are worth, so companies regularly have to publish the value of their assets and liabilities. Companies also have to calculate their profits or losses: their managers need this information, and so do shareholders, **bondholders** and the tax authorities.

Companies can choose their **accounting policies** — their way of doing their accounts. There are a range of methods of **valuation** — deciding how much something is worth —and **measurement** — determining how big something is — that are accepted by law or by official accounting standards. In the USA, there are Generally Accepted Accounting Principles (GAAP). In most of the rest of the world there are International Financial Reporting Standards (IFRS), set by the International Accounting Standards Board. These are technical rules or **conventions** — accepted ways of doing things that are not written down in a law.

Although businesses can choose among different accounting policies, they have to be consistent, which means using the same methods every year, unless there is a good reason to change a policy: this is known as the **consistency** principle. The policies also have to be **disclosed** or revealed to the shareholders: the Annual Report will contain a 'Statement of Accounting Policies' that mentions any changes that have been made. This enables shareholders to compare profits and values with those of previous years.

Areas in which the choice of policies can make a big difference to the final profit figure include **depreciation** — reducing the value of assets in the company's accounts, the valuation of stock or inventory, and the making of **provisions** — amounts of money deducted from profits — for future pension payments.

As there is always more than one way of presenting accounts, the accounts of British companies have to give a **true and fair view** of their financial situation — meaning there are various possibilities — rather than *the* true and fair view — meaning only one is possible.

BrE: depreciation; AmE: depreciation, amortization
BrE: a true and fair view; AmE: a fair presentation

B Historical cost and inflation accounting

The aim of accounting standards (see Unit 3) is to provide shareholders with the information that will allow them to make financial decisions. This is one reason why in many countries accounting follows the **historical cost** principle: companies record the original purchase price of assets, and not their (estimated) current selling price or replacement cost. This is more objective, and the current value is not important if the business is a **going concern** — a successful company that will continue to do business — as its assets are not going to be sold, or do not currently need to be replaced.

However, some countries with regular high inflation, e.g. in South America, use **inflation accounting** systems that take account of changing prices. One system used is **replacement cost accounting**, which values all assets at their **current replacement cost** — the amount that would have to be paid to replace them now.

PRACTICE

7.1 Match the terms with their definitions.

1. assets ____	a) the act of deciding how much money something might be sold for or the amount of money decided on
2. liabilities ____	b) in agreement with other facts or with typical or previous

	behavior, or having the same principles
3. valuation ____	c) if a company is sold as a going concern, it is sold when it is operating normally
4. accounting standards ____	d) an official record of all the money a person or company has spent and received
5. accounting policy ____	e) the responsibility of a person, business, or organization to pay or give up something of value
6. consistent ____	f) a rule that a company or organization must follow when it prepares its financial information
7. depreciation ____	g) a general, continuous increase in prices
8. accounts ____	h) something that is owned by a person, company, or organization, such as money, property, or land
9. true and fair view ____	i) formation of an estimate that significantly affects the financial statements
10. historical cost principle ____	j) a rule that describes how the financial information of a company or organization must be recorded
11. current value ____	k) the process in which all the costs of a business activity or production process or activity are examined in order to help managers decide how to make profits or save money
12. going concern ____	l) used in a company's accounts by its auditors to say that the accounts are accurate and complete
13. inflation ____	m) the process of losing value
14. cost accounting ____	n) the amount of money it costs to replace something that is damaged, lost, stolen, etc. with something new
15. current replacement cost ____	o) a method of accounting based on the cost of replacing assets at the prices that would be paid now, rather than at the prices they were originally bought for

7.2 Match the two parts of the sentences. Look at A and B to help you.

1. Companies' managers, investors, creditors and the tax authorities all
 2. There are different ways of doing accounting but companies have to be consistent,
 3. Companies have to disclose or make known
 4. The historical cost principle is that the price paid to buy assets,
 5. A going concern usually doesn't
- a) and not their current value, is recorded in accounts.
 - b) need to know the current market value of its assets.
 - c) need to know about the size of profits or losses.
 - d) which accounting methods they are using.
 - e) which means regularly using the same methods.

7.3 Are the following statements true or false? Find reasons for your answers in A and B.

1. Companies are told which accounting policies to use.
2. Companies can change their accounting policies whenever they like, as long as they disclose this in their Annual Report.
3. Companies could produce several profit figures, depending on how they depreciated their assets, valued their inventory, etc.
4. There is only one correct interpretation of a company's financial position, and company accounts must show this.
5. In a lot of countries, companies do not record the current value of their assets.
6. In countries with high inflation, companies value their assets at their current replacement cost.

7.4 Complete the table with words from A and B opposite and related forms. Put a stress mark in front of the stressed syllable in each word. The first one has been done for you.

Verb	Noun(s)	Adjective
	calculation	-
-		consistent
-		conventional
measure		-
present		-
		valuable

7.5 Find the English equivalents.

Assets, going concern, inflation, liabilities, current replacement cost, accounting policy, depreciation, cost accounting, measurement, historical cost principle, valuation, consistent, accounting standards, true and fair view, account, current value.

7.6 Translate into English.

Діюче підприємство, справжня та чесна точка зору, амортизація, активи, оцінка вартості, принцип історичної вартості, інфляція, поточна вартість, власник облігації, звіт, облік витрат, сумісний, зобов'язання, поточна вартість заміни, облікова політика, стандарти бухгалтерського обліку.

7.7 Give the definitions to the following terms.

assets	liabilities	valuation	accounting standards	accounting policies
--------	-------------	-----------	----------------------	---------------------

consistent	depreciation	account	true and fair view	historical cost principle
current value	going concern	inflation		

PRODUCTION

Over to you! Which are the most important accounting standards or rules in your country – GAAP, IFRS, IAS, or something else?

UNIT 8

ACCOUNTING ASSUMPTIONS AND PRINCIPLES

Key vocabulary

assumptions	➤ <i>припущення</i>
separate entity	➤ <i>окремий суб'єкт господарювання</i>
business entity	➤ <i>суб'єкт господарювання</i>
time-period	➤ <i>період часу</i>
financial year	➤ <i>фінансовий рік</i>
continuity	➤ <i>безперервність</i>
matching	➤ <i>узгодження</i>
going concern	➤ <i>діюче підприємство</i>
unit-of-measure	➤ <i>одиниця виміру</i>
subsidiaries	➤ <i>дочірні компанії</i>
financial statements	➤ <i>фінансова звітність</i>
consistency	➤ <i>послідовність</i>
historical cost	➤ <i>історична вартість</i>
full-disclosure	➤ <i>повне розкриття</i>
materiality	➤ <i>суттєвість</i>
conservatism	➤ <i>консерватизм</i>
objectivity	➤ <i>об'єктивність</i>
verifiable	➤ <i>перевіряється</i>
subjective	➤ <i>суб'єктивний</i>
revenue recognition	➤ <i>визнання доходу</i>

A Assumptions

When writing accounts and financial statements, accountants have to follow a number of **assumptions**, principles and conventions. An assumption is something that is generally accepted as being true. The following are the main assumptions used by accountants:

- The **separate entity** or **business entity** assumption is that a business is an accounting unit separate from its owners, creditors and managers, and their assets. These people can all change, but the business continues as before.
- The **time-period** assumption states that the economic life of the business can be divided into (artificial) time periods such as the **financial year**, or a quarter of it.
- The **continuity** or **going concern** assumption says that a business will continue into the future, so the current market value of its assets is not important. (See Unit 7)

- The **unit-of-measure** assumption is that all financial transactions are in a single monetary unit or currency. Companies with **subsidiaries** - that is, other companies that they own -in different countries have to convert their results into one currency in **consolidated financial statements** for the whole group of companies.

BrE: financial year; AmE: fiscal year

B Principles

The following are the most important accounting principles (as well as the **consistency** principle and the **historical cost** principle, mentioned in Unit 7):

- The **full-disclosure** principle states that financial reporting must include all significant information: anything that makes a difference to the users of financial statements.
- The principle of **materiality**, however, says that very small and unimportant amounts do not need to be shown.
- The principle of **conservatism** is that where different accounting methods are possible, you choose the one that is least likely to overstate or over - estimate assets or income.
- The **objectivity** principle says that accounts should be based on facts and not on personal opinions or feelings. Accounts, therefore, should be **verifiable**: it should be possible for internal and external auditors to show that they are true. This isn't always possible, however: depreciation or amortization, and provisions for bad debts, for example, are necessarily **subjective** - based on opinions.
- The **revenue recognition** principle is that revenue is recognized in the accounting period in which it is earned. This means the revenue is recorded when a service is provided or goods delivered, not when they are paid for.
- The **matching** principle, which is related to revenue recognition, states that each cost or expense related to revenue earned must be recorded in the same accounting period as the revenue it helped to earn.

PRACTICE

8.1 Match the terms with their definitions.

1. conservatism principle ____	a) financial data should be recorded with a common unit of measure
2. matching principle ____	b) the transactions conducted by a business are separate to those conducted by its owner
3. separate entity assumption ____	c) the amount of money that relates to income and capital gains earned from an investment

4. revenue recognition principle _____	d) directs a company to report an expense on its income statement in the same period as the related revenues
5. time-period assumption _____	e) a basic principle of accounting stating that the same methods for doing accounts should be used from one financial year to the next so that profits, losses, etc. can be compared
6. unit-of-measure assumption _____	f) accounting rule that revenue should be recorded only when the revenue generation process has been substantially completed, and an exchange has taken place

8.2 Complete the sentences. Look at A and B to help you.

1. A company's _____ does not have to begin on 1 January, like the calendar year.
2. If an American company owns a company in Britain, this is a _____.
3. Multinationals, with companies in lots of different countries, combine all their results in one set of _____.
4. Every entry in a company's accounts must be _____: there must be a document available showing that it is true.

8.3 Complete the table with words from A, B and C opposite and related forms. Put a stress mark in front of the stressed syllable in each word. The first one has been done for you. Then complete the sentences below with words from the table.

Verb	Noun	Adjective
assume		-
	disclosure	-
-	objectivity	
recognize		-
-	subjectivity	
	verification	

1. Both the internal and the external auditors have to _____ the accounts.
2. Companies have to _____ all relevant financial information in their annual reports.
3. Despite the _____ principle, accountants have to make some subjective judgments.
4. Even if a company is going through a bad period, for accounting purposes we _____ it's a going concern.

8.4 Find the English equivalents.

Subsidiaries, financial statements, consistency, historical cost, assumptions, separate entity, business entity, time-period, financial year, continuity, full-disclosure, materiality, conservatism, objectivity, verifiable, subjective, revenue recognition.

8.5 Translate into English.

Дочірні компанії, фінансова звітність, послідовність, історична вартість, повне розкриття, суттєвість, консерватизм, об'єктивність, суб'єктивний, визнання доходу, припущення, окремий суб'єкт господарювання, суб'єкт господарювання, період часу, фінансовий рік, безперервність, узгодження, діюче підприємство, одиниця виміру.

8.6 Give the definitions to the following terms.

assumptions	separate entity	business entity	time-period	financial year
continuity	matching	going concern	unit-of-measure	subsidiaries
financial statements	consistency	historical cost	full-disclosure	materiality
conservatism	objectivity	verifiable	subjective	revenue recognition

PRODUCTION

Over to you!

Look at the Annual Reports of one or two companies. How many of the assumption the principles described here are mentioned in the notes to the financial statements?

UNIT 9

DEPRECIATION AND AMORTIZATION

Key vocabulary

current assets	➤ оборотні активи
fixed assets	➤ основні засоби
wear out	➤ зношуватись
obsolete	➤ застарілий
depreciated	➤ знецінився
charge against profits	➤ збір за прибуток
depreciation	➤ амортизація
appreciate	➤ оцінювати
revalue	➤ переоцінювати
current replacement cost	➤ поточна вартість заміни
net realizable value	➤ чиста вартість реалізації
appreciation	➤ вдячність
market value	➤ ринкова вартість
straight-line method	➤ прямий метод
accelerated depreciation	➤ прискорена амортизація
incentive	➤ стимул

A Fixed assets

A company's assets are usually divided into **current assets** like cash and stock or inventory, which will be used or converted into cash in less than a year, and **fixed assets** such as buildings and equipment, which will continue to be used by the business for many years. But fixed assets **wear out** - become unusable, or become **obsolete** - out of date, and eventually have little or no value. Consequently fixed assets are **depreciated**: their value on a balance sheet is reduced each year by a **charge against profits** on the profit and loss account. In other words, part of the cost of the asset is deducted from the profits each year.

The accounting technique of **depreciation** makes it unnecessary to charge the whole cost of a fixed asset against profits in the year it is purchased. Instead it can be charged during all the years it is used. This is an example of the matching principle. (See Unit 8).

BrE: fixed assets; AmE: property, plant and equipment

B Valuation

Assets such as buildings, machinery and vehicles are grouped together under fixed assets. Land is usually not depreciated because it tends to **appreciate**, or gain in value. British companies occasionally **revalue** - calculate a new value for - appreciating fixed assets like land and buildings in their balance sheets. The revaluation is at either **current replacement cost** - how much it would cost to buy new ones, or at **net realizable value (NRV)** - how much they could be sold for. This is not allowed in the USA. Apart from this exception, **appreciation** is only recorded in countries that use inflation accounting systems. (See Unit 7).

Companies in countries which use historical cost accounting - recording only the original purchase price of assets - do not usually record an estimated **market value** - the price at which something could be sold today. The conservatism and objectivity principles support this; and where the company is a going concern, the market value of fixed assets is not important. (See Units 7 and 8)

C Depreciation systems

The most common system of depreciation for fixed assets is the **straight-line method**, which means charging equal annual amounts against profit during the lifetime of the asset (e.g. deducting 10% of the cost of an asset's value from profits every year for 10 years). Many continental European countries allow **accelerated depreciation**: businesses can deduct the whole cost of an asset in a short time. Accelerated depreciation allowances are an **incentive** to investment: a way to encourage it. For example, if a company deducts the entire cost of an asset in a single year, it reduces its profits, and therefore the amount of tax it has to pay. Consequently new assets, including huge buildings, can be valued at zero on balance sheets. In Britain, this would not be considered a true and fair view of the company's assets.

PRACTICE

9.1 Match the terms with their definitions.

1. current assets ____	a) which is out of use, does not meet modern requirements
2. fixed assets ____	b) of depreciation attempts to allocate equal portion of depreciable cost to each period of the asset's useful life.
3. accelerated ____	c) pay definition, additional pay, a higher wage, or a bonus paid to promote the productivity of an employee
4. obsolete ____	d) is a balance sheet account that represents the value of all assets that can reasonably expect to

	be converted into cash within one year.
5. market value ____	e) is any method of depreciation used for accounting or income tax purposes that allows greater deductions in the earlier years of the life of an asset.
6. appreciation ____	f) is the price an asset would fetch in the marketplace
7. incentive ____	g) also known as tangible assets or property, plant and equipment, is a term used in accounting for assets and property that cannot easily be converted into cash.
8. straight-line method ____	h) is an accounting method of allocating the cost of a tangible asset over its useful life
9. net realizable value ____	i) the value of an asset if it were sold, after all the costs of selling it have been paid
10. current replacement cost ____	j) is the value of an asset that can be realized upon the sale of the asset, less a reasonable estimate of the costs associated with either the eventual sale or the disposal of the asset in question.
11. depreciated ____	k) words of appreciation are used when you feel gratitude towards someone. This could include thanking someone for a gift, a favor, or just being a friend.
12. depreciation ____	l) is the cost to replace an asset of a company at the same or equal value, and the asset to be replaced could be a building, investment securities , accounts receivable or liens

9.2 Match the words in the box with the definitions below. Look at A and B to help you.

appreciate	current assets	fixed assets
obsolete	revalue	wear out

1. to record something at a different price
2. assets that will no longer be in the company in 12 months' time
3. to increase rather than decrease in value
4. out of date, needing to be replaced by something newer
5. assets that will remain in the company for several years
6. to become used and damaged

9.3 Match the nouns in the box with the verbs below to make word combinations. Then use some of the word combinations to complete the sentences below. Look at A, B and C to help you.

costs	fixed assets	market value
profits	value	purchase price

deduct	_____	record	_____
depreciate	_____	reduce	_____

1. Because we _____ the _____, we don't have worry about the market value of fixed assets.
2. To depreciate _____, we _____ part of their _____ from profits each year.
3. Because land usually appreciates, companies do not generally _____ its _____ on the balance sheet.

9.4 Match the two parts of the sentences. Look at B and C to help you.

1. All fixed assets can appreciate it there is high inflation,
 2. Accelerated depreciation allows companies to
 3. Fixed asserts generally lose value, except for land,
 4. The straight- line method of depreciation
 5. Accelerated depreciation reduces companies' tax bills,
- a) which usually appreciates.
 - b) charges equal amounts against profits every year.
 - c) remove some extremely valuable assets from their balance sheets.
 - d) which encourages them to invest in new factories, etc.
 - e) but historical cost accounting ignores this.

9.5 Find the English equivalents.

Market value, obsolete, fixed assets, incentive, net realizable value, purchase price, appreciate, accelerated depreciation, current replacement cost, revalue, appreciation, wear out, charge against profits, depreciated, current assets, straight-line method.

9.6 Translate into English.

Ринкова вартість, амортизація, податок на прибуток, чиста вартість реалізації, стимул, прямий метод, оцінювати, основні засоби, переоцінювати, оборотні активи, вдячність, поточна вартість.

9.7 Give the definitions to the following terms.

current assets	fixed assets	accelerated depreciation	obsolete	market value
appreciation	incentive	straight-line method	net realizable value	current replacement cost
depreciated	depreciation			

PRODUCTION

Over to you!

Are companies in your country allowed to record huge assets, such as their headquarters, as having zero value on their balance sheets? Is this a good idea?

UNIT 10

AUDITING

Key vocabulary

internal audit	➤ <i>внутрішній аудит, ревізія</i>
internal auditor	➤ <i>внутрішній аудитор</i>
external auditor	➤ <i>зовнішній аудитор</i>
controller	➤ <i>контролер</i>
stock	➤ <i>запас</i>
recommend	➤ <i>рекомендувати</i>
comply with	➤ <i>дотримуватися</i>
record	➤ <i>записувати</i>
account book	➤ <i>облікові книга</i>
consulting	➤ <i>консультуючий</i>
financial statements	➤ <i>фінансова звітність</i>
day-to-day account	➤ <i>денний рахунок</i>
system of control	➤ <i>система контролю</i>
policies	➤ <i>політика</i>
evaluate	➤ <i>оцінити</i>
law	➤ <i>закон</i>
qualified report	➤ <i>кваліфікований звіт</i>
audit report	➤ <i>аудиторський звіт</i>
examination	➤ <i>експертиза</i>
accounting principle	➤ <i>принцип бухгалтерського обліку</i>
management letter	➤ <i>службовий лист</i>
submit	➤ <i>подати</i>
accurate	➤ <i>точний</i>

A Internal auditing

After bookkeepers complete their accounts, and accountants prepare their financial statements, these are checked **by internal auditors**. An **internal audit** is an **examination** of a company's accounts by its own internal auditors or **controllers**. They **evaluate** the accuracy or correctness of the accounts, and check for errors. They make sure that the accounts **comply with** or follow, established policies, procedures, standards, laws and regulations. (See Units 7 and 8). The internal auditors also check the company's **systems of control**, related to recording transactions, valuing assets

and so on. They check to see that these are adequate or sufficient and if necessary, **recommend** changes to existing policies and procedures.

B External auditing

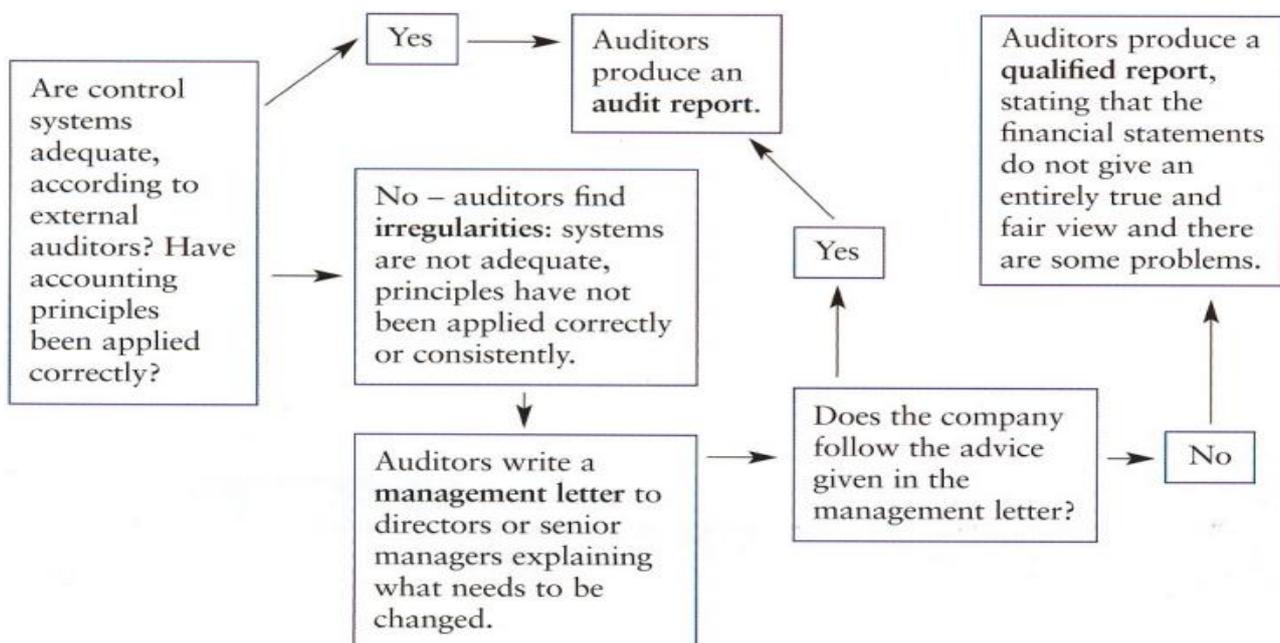
Public companies have to **submit** their financial statements to **external auditors**-independent auditors who don't work for the company. The auditors have to give an opinion about whether the financial statements represent a true and fair view of the company's financial situation and results. (See Unit 3)

During the audit, the external auditors examine the company's systems of internal control, to see whether transactions have been **recorded** correctly. They check whether the assets mentioned on the balance sheet actually exist and whether their valuation is correct. For example, they usually check that some of the debtors recorded on the balance sheet are genuine. They also check the annual **stock take** the count of all the goods held ready for sale. They always look for any unusual items in the company's **account books** or statements.

Until recently, the big auditing firms also offered **consulting** services to the companies whose accounts they audited, giving them advice about business planning, strategy and restructuring. But after a number of big financial scandals, most accounting firms separated their auditing and consulting divisions, because an auditor who is also getting paid to advise a client is no longer totally independent.

BrE: stock take; AmE: count of the inventory

C Irregularities



PRACTICE

10.1 Match the terms with their definitions.

1. policies ____	a) a form of security that indicates the holder has a portion of ownership in a corporation
2. consulting ____	b) a public accountant who conducts audits, reviews, and other work for his or her clients
3. stock ____	c) journals, ledgers, and other classified records comprising a firm's set of accounts
4. internal auditor ____	d) an independent, objective assurance and consulting activity designed to add value and improve an organization's operations
5. financial statements ____	e) is most often used when a company needs an outside, expert opinion regarding a business decision.
6. account books ____	f) a simple bank account for anyone who wants flexible options for their personal banking
7. external auditor ____	g) a formal record of the financial activities and position of a business, person, or other entity
8. day-to- day account ____	h) a deliberate system of principles to guide decisions and achieve rational outcomes
9. internal audit ____	i) a system of rules that are created and enforced through social or governmental institutions to regulate behavior
10. law ____	j) someone who provides independent and objective evaluations of the company's financial and operational business activities

10.2 Match the job titles (1-4) with the descriptions (a-d). Look at A and B to help you.

1. bookkeepers	a) company employees who check the financial statements
2. accountants	b) expert accountants working for independent firms who review companies' financial statements and accounting records
3. internal auditors	c) people who prepare financial statements
4. external auditors	d) people who prepare a company's day-to-day accounts

10.3 Match the nouns in the box with the verbs below to make word combinations. Some words can be used twice. Look at A and B to help you.

accounts	procedures	opinions
systems of control	regulations	policies
stock take	advice	laws

check	_____	examine	_____
	_____		_____
	_____		_____
comply with	_____	give	_____
	_____		_____
	_____		_____

10.4 Complete the table with from A, B and C and related forms. Put a stress mark in front of the stressed syllable in each word. The first one has been done for you. Then complete the sentences below with the correct forms of words from the table.

Verb	Noun	Adjective
-		accurate
	compliance	-
recommend		
	record	-
	examination	-

- I'm an internal auditor I _____ the company's accounts, to make sure that they are _____, and that they _____ with company policies and general accounting principles.
- If the control systems aren't adequate, I make _____ concerning changes.
- The external auditors check to see if transactions are being _____ correctly.

10.5 Find the English equivalents.

Internal audit, system of control, audit report, accurate, stock, account book, internal auditor, submit, consulting, day-to-day account, management letter, external auditor, record, policies, recommend, accounting principle, law, comply with, examination, evaluate, qualified report, controller, financial statements.

10.6 Translate into English.

Внутрішня ревізія, кваліфікований звіт, рекомендувати, консультуючий, експертиза, службовий лист, закон, записувати, облікові книга, внутрішній аудитор, система контролю, денний рахунок, аудиторський звіт, запас, дотримуватися, фінансова звітність, принцип бухгалтерського обліку, оцінити, політика, зовнішній аудитор, подати, контролер.

10.7 Give the definitions to the following terms.

internal audit	internal auditor	external auditor	stock	account book
consulting	financial statement	day-to-day account	policies	law
accounting principle				

PRODUCTION

Over to you!

Would you like to work as an external auditor? Do you think they get a very friendly welcome at the companies whose accounts they audit? If not, why not?

UNIT 11

THE BALANCE SHEET 1

Key vocabulary

balance sheet	➤ <i>балансовий звіт</i>
assets	➤ <i>активи</i>
liabilities	➤ <i>зобов'язання</i>
capital	➤ <i>капітал</i>
shareholders' equity	➤ <i>власний капітал</i>
owe	➤ <i>заборгувати</i>
supplier	➤ <i>постачальник</i>
granting credit.	➤ <i>надання кредиту</i>
share capital	➤ <i>акціонерний капітал</i>
retained earnings	➤ <i>нерозподілений прибуток</i>
distributed	➤ <i>поширюється</i>
profit and loss account	➤ <i>рахунок прибутку та збитку</i>
cash flow statement	➤ <i>звіт про рух коштів</i>

A Assets, liabilities and capital

Balance Sheet, 31 December 20 - - (\$'000)			
Current assets	3,500	Liabilities	6,000
Fixed assets	6,500	Shareholders' equity	4,000
Total assets	10,000	Total liabilities and Shareholders' equity	10,000

Company law in Britain, and the Securities and Exchange Commission in the US, require companies to publish annual **balance sheets**: statements for shareholders and creditors. The balance sheet is a document which has two halves.

The totals of both halves are always the same, so they balance. One half shows a business's **assets**, which are things owned by the company, such as factories and machines that will bring future economic benefits. The other half shows the company's **liabilities**, and its **capital** or **shareholders' equity** (see below). Liabilities are obligations to pay other organizations or people: money that the company **owes**, or will owe at a future date.

These often include loans, taxes that will soon have to be paid, future pension payments to employees, and bills from **suppliers**: companies which provide raw materials or parts. If the suppliers have given the buyer a period of time before they have to pay for the goods, this is known as **granting credit**. Since assets are shown as

debits (as the cash or capital account was debited to purchase them), and the total must correspond with the total sum of the credits - that is the liabilities and capital **assets equal liabilities plus capital** (or $A = L + C$).

American and continental European companies usually put assets on the left and capital and liabilities on the right. In Britain, this was traditionally the other way round, but now most British companies use a vertical format, with assets at the top, and liabilities and capital below.

BrE: balance sheet; AmE: balance sheet or statement of financial position **BrE:** *shareholders' equity; AmE: stockholders' equity*

B Shareholders' equity

Shareholders' equity consists of all the money belonging to shareholders. Part of this is **share capital** - the money the company raised by selling its shares. But shareholders' equity also includes **retained earnings**: profits from previous years that have not been **distributed** - paid out to shareholders - as dividends. Shareholders' equity is the same as the company's net assets, or assets minus liabilities.

A balance sheet does not show how much money a company has spent or received during a year. This information is given in other financial statements: the **profit and loss account** and the **cash flow statement**. (See Unit 14)

PRACTICE

11.1 Match the terms with their definitions.

1. balance sheet ____	a) a company, person, etc. that provides things that people want or need, especially over a long period of time
2. assets ____	b) the part of a company's profit in a particular period that it decides to keep, rather than paying it to shareholders as a dividend
3. liabilities ____	c) a type of share in an investment company which offers shareholders profits because of an increase in value of the company's investments, but which does not pay dividends
4. capital ____	d) a document that shows a company's profit or loss in a particular period
5. shareholders' equity ____	e) money and possessions, especially a large amount of money used for producing more wealth or for starting a new business

6. owe ____	f) a financial statement that shows a company's assets and debts at a particular time
7. supplier ____	g) a document that shows the money coming into and going out of a company during a particular period
8. share capital ____	h) something that is owned by a person, company, or organization, such as money, property, or land
9. retained earnings ____	i) to need to pay or give something to someone because they have lent money to you
10. cash flow statement ____	j) the amount of money that a person or organization owes
11. profit or loss account ____	k) the total value of a person's or company's assets after their total debt has been subtracted

11.2 Are the following statements true or false? Find reasons for your answer in A and B.

1. British and American balance sheets show the same information, but arranged differently.
2. The revenue of the company in the past year is shown on the balance sheet.
3. The two sides or halves of a balance sheet always have the same total.
4. The balance sheet gives information on how much money the company has received from sales of shares.
5. The assets total is always the same as the liabilities total.
6. The balance sheet tells you how much money the company owes.

11.3 Complete the sentences. Look at A and B to help you.

1. _____ are companies that provide other companies with materials, components, etc.
2. _____ are profits that the company has not distributed to shareholders.
3. _____ are things a company owns and uses in its business.
4. _____ consist of everything a company owes.
5. _____ consists of money belonging to a company's owners.

11.4 Make word combinations using a word from each box. Then use the word combinations to complete the sentences below. Look at A and B to help you.

Retain	earnings	pay	liabilities	credit
money	grant	owe	profits	distribute

1. We _____ a lot of our _____ because we don't _____ any of our _____ to the shareholders.

2. Most businesses have customers who _____, because they _____ them 30 or 60 day's _____.
3. We have a lot of _____ that we'll have to _____ later this year.

11.5 Find the English equivalents.

Shareholders' equity, assets, liabilities, suppliers, retained earnings, retain, earnings, distribute, profits, owe, money, grant, credit, liabilities, pay.

11.6 Translate into English.

Акціонери, капітал, активи, зобов'язання, постачальники, нерозподілений прибуток, утримання, прибуток, розподіл, прибуток, заборгованість, гроші, грант, кредит, зобов'язання, оплата.

11.7 Give the definitions to the following terms.

balance sheet	assets	liabilities	capital	shareholders' equity
owe	supplier	share capital	retained earnings	cash flow statement
profit or loss account				

PRODUCTION

Over to you!

Look at the balance sheets of some large company. What are the most common subdivisions of these categories: assets, liabilities and shareholders' equity?

UNIT 12

THE BALANCE SHEET 2: ASSETS

Key vocabulary

fixed assets (non-current assets)	➤ основні засоби (необоротні активи)
current assets	➤ оборотні активи
cash	➤ готівка
debtors	➤ боржники
anticipate the loss	➤ передбачити втрату
write off	➤ списати
bad debt	➤ поганий борг
make provisions	➤ створити умови
work-in-progress	➤ в роботі (невиконаний проект)
lower of cost or market	➤ нижча від вартості або ринку
tangible assets	➤ матеріальні активи
accumulated depreciation charges	➤ накопичені амортизаційні відрахування
net book value	➤ чиста балансова вартість
intangible assets	➤ нематеріальні активи
brand names	➤ брендові імена
patents	➤ патенти
trade marks	➤ торговельні марки
net worth	➤ чиста вартість
net assets	➤ чисті активи
goodwill	➤ гудвіл

A Fixed and current assets

MacKenzie Inc, New York. Balance Sheet 31 December 20__ (\$'000)

Current assets	
Cash and equivalents	3,415
Accounts receivable	8,568
Inventory	5,699
Other current assets	5,562
Total current assets	23,244
Non-current assets	

Property, plant and equipment	4,500
Goodwill	950
Long-term investments	6,265
Total non- current assets	11,715
Total assets	34,959

In accounting, assets are generally divided into fixed and current assets. **Fixed assets** (or **non-current assets**) and investments, such as buildings and equipment, will continue to be used by the business for a long time. **Current assets** are things that will probably be used by the business in the near future. They include **cash** – money available to spend immediately, **debtors** – companies or people who owe money they will have to pay in the near future, and stock.

If a company thinks a debt will not be paid, it has to **anticipate the loss** – take action in preparation for the loss happening, according to the conservatism principle. (See Unit 7) It will **write off**, or abandon, the sum as a **bad debt**, and **make provisions** by charging a corresponding amount against profits: that is, deducting the amount of the debt from the year`s profits.

B Valuation

Manufacturing companies generally have a stock of raw materials, **work-in-progress** – partially manufactured products – and products ready for sale. There are various ways of valuing stock or inventory, but generally they are valued at the **lower of cost or market**, which means whichever figure is lower: their cost – the purchase price plus the value of any work done on the items – or the current market price. This is another example of conservatism: even if the stock is expected to be sold at a profit, you should not anticipate profits.

C Tangible and intangible assets

Assets can also be classified as tangible and intangible. **Tangible assets** are assets with a physical existence – things you can touch – such as property, plant and equipment. Tangible assets are generally recorded at their historical cost (see Unit 7) less **accumulated depreciation charges** – the amount of their cost that has already been deducted from profits. This gives their **net book value**.

Intangible assets include **brand names** – legally protected names for a company`s products, **patents** – exclusive rights to produce a particular new product for a fixed period, and **trade marks** – names or symbols that are put on products and cannot be used by other companies. Networks of contacts, loyal customers, reputation, trained staff or human capitals, and skilled management can also be considered as intangible assets. Because it is difficult to give an accurate value for any of these things, companies normally only record tangible assets. For this reason, a going concern should be worth more on the stock exchange than simply its **net worth** or **net assets**:

assets minus liabilities. If a company buys another one at above its net worth – because of its intangible assets – the difference in price is recorded under assets in the balance sheet as **goodwill**.

PRACTICE

12.1 Match the terms with their definitions.

1. trade marks ____	a) durable physical properties used in operations that have a useful life longer than one year
2. brand names ____	b) an intangible asset that arises when one company purchases another for a premium value
3. goodwill ____	c) the value of an asset, taking into account diminutions, depreciations, and other accounting charges, as recorded in the accounts of its owner
4. patents ____	d) money in coins or notes, as distinct from cheques, money orders, or credit
5. fixed assets ____	e) assets that may be converted into cash, sold or consumed within a year or less
6. cash ____	f) a person, country, or organization that owes money
7. debtor ____	g) names given by the maker to a product or range of products, especially a trademark
8. current assets ____	h) defined as total assets minus total liabilities
9. tangible assets ____	i) government authorities or licenses conferring a right or title for a set period, especially the sole right to exclude others from making, using, or selling an invention
10.net book value ____	j) the value of all the non-financial and financial assets owned by an institutional unit or sector minus the value of all its outstanding liabilities
11.net assets ____	k) arrangement or preparation beforehand, as for the doing of something, the meeting of needs, the supplying of means, etc.
12.net worth ____	l) recognizable signs, designs, or expressions which identifies products or services of a particular source from those of others, although trademarks used to identify services are usually called service marks
13.work-in-progress ____	m)physical items with a clear purchase value used by a business to produce goods and services
14.make provisions ____	n) a vehicle or other object that is too badly damaged to be repaired
15.write off ____	o) a debt that cannot be recovered

16. bad debt _____	p) an unfinished project that is still being added to or developed
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12.2 Find words and expressions in A, B and C with the following meanings.

1. An amount of the money that is owed but probably won't be paid
2. The accounting value of a company (assets minus liabilities)
3. A legal right to produce and sell a newly invented product for a certain period of time
4. The historical cost of an asset minus depreciation charges
5. The amount a company pays for another one, in excess of the net value of its assets
6. A legally protected word, phrase, symbol or design used to identify a product
7. To accept that a debt will not be paid
8. To deduct money from profits because of debts that will not be paid
9. Products that are not complete or ready for sale
10. The amount of money owed by customers who have bought goods but not yet paid for them

12.3 Match the two parts of the sentences. Look at A, B and C to help you.

1. A company's value on the stock exchange is nearly always
 2. Brand name, trade marks, patents, customers, and inventory.
 3. Cash, money owned by customers, and inventory.
 4. Companies record inventory at the cost of buying or marketing the items,
 5. Companies write off bad debts, and make provisions
 6. Land, buildings, factories and equipment
- a. Are current assets
 - b. Are examples of intangible assets
 - c. Are examples of tangible, fixed assets
 - d. By deducting the amount from profits.
 - e. Higher than the value of its net assets.
 - f. Or the current markets price, whichever is lower.

12.4 Sort the following into current, fixed and intangible assets. Look at A and C to help you.

Buildings	cash in the bank	debtors
Goodwill	human capital	investments
Stock	land	reputation

Current assets

Fixed assets

Intangible assets

12.5 Find the English equivalents.

Make provisions, current assets, debtor, bad debt, anticipate the loss, cash, write off, lower of cost or market, make provisions, work-in-progress, net book value, accumulated depreciation charges, tangible assets, intangible assets, patents, brand names, net worth, trademarks, goodwill, net assets.

12.6 Translate into English.

Патенти, основні засоби, готівка, оборотні активи, передбачити втрату, боржники, списати, поганий борг, створити умови, в роботі (невиконаний проект), матеріальні активи, нижча від вартості або ринку, нематеріальні активи, накопичені амортизаційні відрахування, чиста балансова вартість, торговельні марки, патенти, брендові імена, гудвіл, чисті активи, чиста вартість.

12.7 Give the definitions to the following terms.

fixed assets (non-current assets)	current assets	cash	debtor
anticipate the loss	write off	bad debt	make provisions
work-in-progress	lower of cost or market	tangible assets	accumulated depreciation charges
net book value	intangible assets	brand names	patents
trade marks	net worth	net assets	goodwill

PRODUCTION

Over to you!

Think about the company you work for, or your place of study. What are its most valuable assets? Are they shown on the balance sheet?

UNIT 13

THE BALANCE SHEET 3: LIABILITIES

Key vocabulary

liability	➤ <i>пасив</i>
long-term/ non-current liabilities	➤ <i>довгострокові зобов'язання</i>
bond	➤ <i>облігація</i>
current liabilities	➤ <i>поточні зобов'язання</i>
balance sheet	➤ <i>бухгалтерський баланс</i>
deferred taxes	➤ <i>відстрочені податки</i>
creditor	➤ <i>кредитор</i>
short-term debt	➤ <i>короткострокова заборгованість</i>
accounts payable	➤ <i>дебіторська заборгованість</i>
shareholders' equity	➤ <i>власний капітал</i>
common stock	➤ <i>звичайна акція</i>
preferred shares	➤ <i>привілейовані акції</i>
retained earnings	➤ <i>нерозподілений прибуток</i>
accrued expenses	➤ <i>нараховані витрати</i>
shareholder	➤ <i>акціонер</i>
share premium	➤ <i>додатковий капітал</i>
share capital	➤ <i>статутний капітал</i>
reserve	➤ <i>резерв</i>

A Liabilities

Liabilities are amounts of money that a company owes, and are generally divided into two types - long-term and current. **Long-term liabilities** or **non-current liabilities** include bonds. (See Unit 33)

Current liabilities are expected to be paid within a year of the date of the balance sheet. They include:

- **creditors** - largely suppliers of goods or services to the business who are not paid at the time of purchase
- planned dividends
- **deferred taxes** - money that will have to be paid as tax in the future, although the payment does not have to be made now.

Current liabilities	
Short-term debt	1,555
Accounts payable	5,049
Accrued expenses	8,593
Total current liabilities	15,197
Non-current liabilities	
Deferred income taxes	950
Long-term debt	3,402
Other non-current liabilities	1,201
Total non-current liabilities	5,553
Total liabilities	20,750
Shareholders' equity	
Common stock	10,309
Retained earnings	3,900
Total	14,209
Total liabilities and Shareholders' equity 34,959	

B Accrued expenses

Because of the matching principle, under which transactions and other events are reported in the periods to which they relate and not when cash is received or paid, balance sheets usually include **accrued expenses**. These are expenses that have accumulated or built up during the accounting year but will not be paid until the following year, after the date of the balance sheet. So accrued expenses **are charged against** income - that is, deducted from profits - even though the bills have not yet been received or the cash paid. Accrued expenses could include taxes and utility bills, for example electricity and water.

C Shareholders' equity on the balance sheet

Shareholders' equity is recorded on the same part of the balance sheet as liabilities, because it is money belonging to the shareholders and not the company.

Shareholders' equity includes:

- the original **share capital** (money from stocks or shares issued by the company: see Units 29-30)
- share premium**: money made if the company sells shares at above their face value - the value written on them
- retained earnings**: profits from previous years that have not been distributed to shareholders
- reserves**: funds set aside from share capital and earnings, retained for emergencies or other future needs.

BrE: share premium; AmE: paid-in surplus

PRACTICE

13.1 Match the terms with their definitions.

1. liability ____	a) an individual or institution (including a corporation) that legally owns one or more shares of stock in a public or private corporation
2. bond ____	b) a part of net-profits which have been set aside to strengthen the business's financial position
3. long-term liabilities ____	c) the amount received by a company over and above the face value of its shares
4. current liabilities ____	d) liabilities that a company is required to settle within the next twelve months or which it expects to settle within its normal operating cycle
5. balance sheet ____	e) the sums of money which company owes
6. creditor ____	f) any amount you must pay back within 12 months
7. short-term debt ____	g) the part of a company's profits which is re-invested, rather than being paid out as dividend to shareholders
8. accounts payable ____	h) a fixed income investment in which an investor loans money to an entity which borrows the funds for a defined period of time at a variable or fixed interest rate
9. shareholders' equity ____	i) a person or institution to whom money is owed
10. retained earnings ____	j) the money invested in a company by the shareholders
11. shareholder ____	k) the amount that shows how the company has been financed with the help of common shares and preferred shares
12. share premium ____	l) an amount owed to a supplier or bank when goods or services are purchased on credit
13. share capital ____	m) a financial statement that summarizes a company's assets, liabilities and shareholders' equity at a specific point in time
14. reserve ____	n) a part of a section of the balance sheet that lists liabilities not due within the next 12 months

13.2 Are the following statements true or false? Find reasons for your answers in A, B and C.

1. A current liability will be paid before the date of the balance sheet.
2. A liability that must be paid in 13 months time is classified as long-term.
3. A company's accrued expenses are like money an individual saves to pay bills in the future.

4. Shareholders' equity consists of the money paid for shares, and retained earnings.
5. If companies retain part of their profits, this money no longer belongs to the owners.
6. Companies can sell shares at a higher value than the one stated on them.

13.3 Find words in texts A, B and C with the following meanings.

1. money that will be paid in less than 12 months from the balance sheet date
2. the money that investors have paid to buy newly issued shares, minus the shares' face value
3. delayed, put off or postponed until a later time
4. built up or increased over a period of time

13.4 Sort the following into assets and liabilities. Look at A and B to help you. You may need to look at Unit 12.

Accounts payable	Land and buildings	Inventory	Deferred taxes
Accrued expenses	Investments	Accounts receivable	Long-term debt
Dividends	Cash and equivalents		

Assets	Liabilities

13.5 Find the English equivalents.

Liability, common stock, bond, current liabilities, balance sheet, accrued expenses, deferred taxes, reserve, short-term debt, accounts payable, share premium, creditor, preferred shares, retained earnings, shareholders' equity, shareholder, share capital, non-current liabilities.

13.6 Translate into English.

Пасив, довгострокові зобов'язання, кредитор, власний капітал, дебіторська, відстрочені податки, заборгованість, облігація, короткострокова заборгованість, бухгалтерський баланс, поточні зобов'язання, звичайні акції, привілейовані акції, статутний капітал, додатковий капітал, нерозподілений прибуток, резерв

13.7 Give the definitions to the following terms.

liability	bond	long-term liabilities	current liabilities	balance sheet
creditor	short-term debt	accounts payable	shareholders' equity	retained earnings
shareholder	share premium	share capital	reserve	

PRODUCTION

Over to you!

Look at the last two annual reports and balance sheets of your company or one you would like to work for. What differences do you notice in the balance sheets and what reasons can you find for these?

UNIT 14

THE OTHER FINANCIAL STATEMENTS

Key vocabulary

annual reports	➤ <i>річні звіти</i>
profit and loss account statement	➤ <i>звіт про прибутки та збитки</i>
nonprofit (or not-for-profit) organizations	➤ <i>некомерційні (або неприбуткові) організації</i>
charities	➤ <i>благодійні організації</i>
income and expenditure account surplus	➤ <i>рахунок доходів та витрат</i>
sales revenue	➤ <i>профіцит (надлишок)</i>
turnover	➤ <i>дохід від продажу</i>
cost of sales	➤ <i>оборот</i>
cost of goods sold	➤ <i>собівартість реалізованої продукції</i>
gross profit	➤ <i>вартість проданих товарів</i>
selling, general and administrative expenses	➤ <i>валовий прибуток</i>
EBITDA	➤ <i>комерційні, загальні та адміністративні витрати</i>
EBIT	➤ <i>прибуток до вирахування витрат за відсотками, сплати податків та амортизаційних відрахувань</i>
net profit	➤ <i>операційний прибуток (прибуток до сплати відсотків та податків)</i>
bottom line	➤ <i>чистий прибуток</i>
net income	➤ <i>нижній рядок</i>
cash flow statement	➤ <i>чистий дохід</i>
operations	➤ <i>звіт про рух грошових коштів</i>
investing	➤ <i>операційна</i>
financing	➤ <i>інвестиційна</i>
funds flow statement	➤ <i>фінансова</i>
source and application of funds statement	➤ <i>звіт про рух коштів</i>
statement of total recognized gains and losses	➤ <i>звіт про джерела коштів і їх використання</i>
fixed assets	➤ <i>звіт про загальну визнану прибутковість та збитки</i>
income tax	➤ <i>основні засоби</i>
	➤ <i>податок на прибуток</i>

A The profit and loss account

Companies' annual reports contain a **profit and loss account**. This is a financial statement which shows the difference between the revenues and expenses of a period. **Nonprofit** (or **not-for-profit**) **organizations** such as charities, public universities and museums generally produce an **income and expenditure account**. If they have more income than expenditure this is called a surplus rather than a profit.

At the top of these statements is total **sales revenue** or **turnover**: the total amount of money received during a specific period. Next is the **cost of sales**, also known as **cost of goods sold (COGS)**: the costs associated with making the products that have been sold, such as raw materials, labour, and factory expenses. The difference between the sales revenue and the cost of sales is **gross profit**. There are many other costs or expenses that have to be deducted from gross profit, such as rent, electricity and office salaries. These are often grouped together as **selling, general and administrative expenses (SG&A)**.

The statement also usually shows **EBITDA** (earnings before interest, tax, depreciation and amortization) and **EBIT** (earnings before interest and tax). The first figure is more objective because depreciation and amortization expenses can vary depending on which system a company uses.

After all the expenses and deductions is the **net profit**, often called the **bottom line**. This profit can be distributed as dividends (unless the company has to cover past losses), or transferred to reserves.

Searby PLC	
<i>Annual Profit and Loss Account,</i>	<i>1/20__</i>
	(£'000)
Sales Revenue	48,782
Cost of Sales	33,496
Gross Profit	15,286
Selling, General and Administrative Expenses	10,029
Earnings before Interest, Tax,	
Depreciation and Amortization	5,257
Depreciation and Amortization	1,368
Earnings before Interest and Tax	3,889
Interest expenses	257
Income Tax	1,0640
Net Profit	2,568

BrE: net profit; AmE: net income
BrE: profit and loss account; AmE: income statement

B The cash flow statement

British and American companies also produce a **cash flow statement**. This gives details of cash flows - money coming into and leaving the business, relating to:

- **operations** - day-to-day activities
- **investing** - buying or selling property, plant and equipment
- **financing** - issuing or repaying debt, or issuing shares.

The cash flow statement shows how effectively a company generates and manages cash. Other names are sometimes used for it, including **funds flow statement** and **source and application of funds statement**.

British companies also have to produce a **statement of total recognized gains and losses (STRGL)**, showing any gains and losses that are not included in the profit and loss account, such as the revaluation of fixed assets.

PRACTICE

14.1 Match the terms with their definitions.

1. profit and loss account ____	a) a primary statement showing the extent to which shareholders' equity has increased or decreased from all the various gains and losses recognized in the period. It includes profits and losses for the period, together with all other movements on reserves reflecting recognized gains and losses attributable to shareholders
2. nonprofit organizations ____	b) older type of financial statement summarizing transactions that increased the working capital, such as net income, sale of securities, depreciation, and deferral of taxes
3. income and expenditure account ____	c) a statement showing money coming into and going out of a business in a particular period of time, where this money came from, and what it was used for
4. sales revenue ____	d) a summary of the actual or anticipated incomings and outgoings of cash in a firm over an accounting period (month, quarter, year)
5. surplus ____	e) the total revenue in an accounting period minus all expenses during the same period
6. turnover ____	f) the amount by which income from sales is larger than all expenditure

7. cost of sales ____	g) an indicator of a company's profitability, calculated as revenue minus expenses, excluding tax and interest
8. cost of goods sold ____	h) calculate by taking a company's net income and adding back interest, taxes, depreciation, and amortization
9. gross profit ____	i) reported on the income statement as the sum of all direct and indirect selling expenses and all general and administrative expenses of a company
10. selling, general and administrative expenses ____	j) the difference between revenue and the cost of producing goods or services sold. It is sometimes expressed as a percentage
11. EBITDA ____	k) the total of the costs directly attributable to producing goods and includes material and labor costs
12. EBIT ____	l) the sum of direct material, direct labor, and factory overheads incurred in making a product
13. net profit ____	m) the number of times an asset (such as cash, inventory, raw materials) is replaced or revolves during an accounting period
14. net income ____	n) unusual situation in a government budget where revenue exceeds expenditure
15. cash flow statement ____	o) the amount realized from selling goods or services in the normal operations of a company in a specified period
16. funds flow statement ____	p) the account through which surplus or deficit of a non-profit-seeking concern is ascertained
17. source and application of funds statement ____	q) associations, charities, cooperatives, and other voluntary organizations formed to further cultural, educational, religious, professional, or public service objectives
18. statement of total recognized gains and losses ____	r) the account through which annual net profit or loss of a business is ascertained

14.2 Which figure in each of the following pairs is higher for a profitable company? Look at A to help you.

1. cost of sales / sales revenue	4. net profit / pre-tax income
2. gross profit / net profit	5. income tax / net profit
3. EBIT / EBITDA	

14.3 Complete the text with words from the box. You will need to use each word more than once. Look at B to help you.

financing	investing	operations
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(1) _____ means making money by selling goods and services. (2) _____ is spending cash, for the business's future growth, including cash acquired by selling assets. (3) _____ involves raising money by issuing stocks and bonds (and also paying dividends and interest and repaying bonds). It is better for the company if it can pay for future growth out of money from (4) _____, without having to use (5) _____. So a 'healthy' cash flow means that the amount of cash provided by (6) _____ is greater than the cash used for (7) _____.

14.4 Would the following appear as operating, financing or investing activities on a cash flow statement? Look at the example below to help you.

Changes in operating assets and liabilities	Payments to repurchase stock
Dividends paid	Sale of property
Purchase of plant and equipment	Depreciation and amortization expenses
Net income	Income taxes payable
Issuance of stock	Repayment of debt

Godwin-Malone Inc, New York		
Cash flow statement (\$'000)	20__	20__
Earnings	1,811	1,274
Amortization	924	683
Other adjustments to Earnings	33	-6
Net cash provided from operations	2,768	1,951
Proceeds from issuing new stock	234	167
Stock dividends paid	-14	
Net cash provided from financing	220	167
Additions to property, plant and equipment	-2,351	-1,755
Net cash used for investing	-2,351	-1,755
Change in cash and equivalents during year	356	97
Cash and equivalents, beginning of year	2,150	2,014
Cash and equivalents, end of year	2,506	2,111

14.5 Find the English equivalents.

Gross profit, selling, general and administrative expenses, EBITDA, EBIT, net profit, bottom line, net income, cash flow statement, operations, investing, financing,

funds flow statement, source and application of funds statement, statement of total recognized gains and losses, fixed assets, income tax, annual reports, profit and loss account, statement, nonprofit (or not-for-profit) organizations, charities, income and expenditure account, surplus, sales revenue, turnover, cost of sales, cost of goods sold, gross profit.

14.6 Translate into English.

Річні звіти, звіт про прибутки та збитки, звітність, некомерційні (або неприбуткові) організації, благодійні організації, рахунок доходів та витрат, профіцит (надлишок), дохід від продажу, оборот, собівартість реалізованої продукції, вартість проданих товарів, валовий прибуток, комерційні, загальні та адміністративні витрати, прибуток до вирахування витрат за відсотками, сплати податків та амортизаційних відрахувань, операційний прибуток (прибуток до сплати відсотків та податків), чистий прибуток, нижній рядок, чистий дохід, звіт про рух грошових коштів, операційна, інвестиційна, фінансова, звіт про рух коштів, звіт про джерела коштів і їх використання, звіт про загальну визнану прибутковість та збитки, основні засоби, податок на прибуток.

14.7 Give the definitions to the following terms.

profit and loss account	nonprofit organizations	income and expenditure account
sales revenue	surplus	turnover
cost of sales	cost of goods sold	gross profit
selling, general and administrative expenses	EBITDA	EBIT
net profit	net income	cash flow statement
funds flow statement	source and application of funds statement	statement of total recognized gains and losses

PRODUCTION

Over to you!

Look at cash flow statements in company annual reports, and at the share prices of those companies over the past years. What happened to the share price of companies that generated more cash than they spent, and what happened to those that spent more than they generated?

UNIT 15

FINANCIAL RATIOS 1

Key vocabulary

ratios	➤ <i>співвідношення</i>
liquidity	➤ <i>ліквідність</i>
solvency	➤ <i>платоспроможність</i>
go bankrupt	➤ <i>збанкрутувати</i>
efficiency	➤ <i>ефективність</i>
current ratio	➤ <i>коефіцієнт поточної ліквідності</i>
quick ratio	➤ <i>коефіцієнт швидкої ліквідності</i>
acid test	➤ <i>кислотний тест</i>
liquid assets	➤ <i>ліквідні активи</i>
earnings per share	➤ <i>прибуток на акцію</i>
price/earnings ratio (P/E ratio)	➤ <i>співвідношення ціна / прибуток</i>
dividend cover	➤ <i>дивідендне покриття</i>
times dividend covered	➤ <i>дивіденди, що покриваються раз</i>

A Types of financial ratio

Financial **ratios** express the relationships between two or more items on financial statements. They allow investors and creditors to compare a company's present situation and performance with its past performance, and with other companies. Ratios measure:

- **liquidity**: how easily a company can turn some of its assets into cash
- **solvency**: whether a company has enough cash to pay short-term debts, or whether it could go **bankrupt** – have its assets sold to repay creditors
- **efficiency**: how well a company uses its resources.

B Liquidity and solvency ratios

$$\frac{\text{current assets}}{\text{current liabilities}}$$

This is the **current ratio**, which is a calculation of current assets divided by current liabilities. It measures liquidity and shows how much of a company's assets will have to be converted into cash in the next year to pay debts. The higher the ratio, the more chance creditors have of being paid. For example, if MacKenzie Inc (see Units 12-13) has current assets of \$23,244,000 and current liabilities of \$15,197,000, its current ratio is 1.53, which is acceptable. It is often argued that the current ratio of a healthy company should be closer to 2.0 than 1.0, meaning that it has nearly twice as many assets as liabilities.

Suppliers granting short-term credit to a company prefer the current ratio to be high because this reduces their risk. Yet shareholders usually prefer it to be low, because this means that the company has invested its assets for the future.

$\frac{\text{liquid assets}}{\text{current liabilities}}$ This is the **quick ratio** or **acid test**, which is a calculation of **liquid assets** divided by current liabilities. It measures short-term solvency. Liquid assets are current assets minus stocks or inventory, as these might be difficult to sell. MacKenzie Inc's quick ratio is 1.15.

C Earnings and dividends

Shareholders are interested in ratios relating to a company's share price, earnings, and dividend payments.

$\frac{\text{total earnings for the year}}{\text{the number of ordinary shares}}$ This is **earnings per share (EPS)**. It tells investors how much of the company's profit belongs to each share. If a company makes a post-tax profit of €1.5 million, and it has issued 2 million shares, $ESP = €0.75$.

$\frac{\text{the market price of an ordinary share}}{\text{the past year's ESP}}$ This is **price/earnings ratio** or **P/E ratio**. It shows how expensive the share is. If a company has ESP of €0.75 and the share is selling for €9.00, the P/E ratio is 12 (€9 per share divided by €0.75 earnings per share = 12 P/E.) A high P/E ratio shows that investors are prepared to pay a high multiple of the earnings for a share, because they expect it to do well in the future.

$\frac{\text{ordinary share dividend}}{\text{net profit}}$ This is **dividend cover** or **times dividend covered**, which shows how many times the company's total annual dividends could have been paid out of its available annual earnings. If a company has EPS of 75 cents and it pays out a dividend of 30 cents, the dividend cover is $75 / 30 = 2.5$. A high dividend cover shows that the company has a lot of money, but that it is not being very generous to its shareholders. A ratio of 2.0 or higher is generally considered safe (it means that the company can easily afford the dividend), but anything below 1.5 is risky. A low dividend cover – below 1.0 – means the company is paying out retained surpluses from previous years.

PRACTICE

15.1 Find words in A with the following meanings.

- 1 the ability to sell an asset for cash
- 2 how well a business uses its assets
- 3 the relationship between two figures
- 4 how easily a business can pay bills or debts when they are due

15.2 Make word combinations using a word from each box. One word can be used twice. Then use the word combinations to complete the sentences below. Look at B and C to help you.

acid
current
dividend
liquid
quick

assets
cover
ratio
test

- 1 consist of cash and things that can be easily sold and converted to cash.
- 2 A high shows that the company is retaining a lot of money belonging to its shareholders.
- 3 The or doesn't count stock or inventory because this might be difficult or impossible to turn into cash.
- 4 The shows a company's ability to pay its short-term debts.

15.3 Match the two parts of the sentences. Look at B and C to help you.

- 1 If a company pays out retained surpluses from past years
- 2 Some investors are worried that the new stock issue
- 3 A high current ratio indicates short-term financial strength but
- 4 Wall Street is on a historic price-earnings ratio of around 35, which

- a) a it does not measure how efficiently the company is utilizing its resources.
- b) b its dividend cover will fall below 1.0.
- c) c makes the market very expensive, as the long-term average is 14.45.
- d) d will dilute the company's earnings per share.

15.4 Match the terms with their definitions.

1. ratios _____	a) the portion of a company's profit allocated to each outstanding share of common stock
2. liquidity _____	b) cash on hand or an asset that can be readily converted to cash
3. solvency _____	c) a conclusive test of the success or value of something
4. go bankrupt _____	d) an indicator of a company's short-term liquidity, and measures a company's ability to meet its short-term

	obligations with its most liquid assets
5. efficiency _____	e) is a liquidity ratio that measures a company's ability to pay short-term and long-term obligations
6. current ratio _____	f) the state or quality of being efficient
7. quick ratio _____	g) to be unable to pay one's debts
8. acid test _____	h) the possession of assets in excess of liabilities; ability to pay one's debts
9. liquid assets _____	i) the availability of liquid assets to a market or company
10. earnings per share _____	j) the quantitative relation between two amounts showing the number of times one value contains or is contained within the other

15.5 Find the English equivalents.

Ratios, liquidity, solvency, go bankrupt, efficiency, current ratio, quick ratio, acid test, liquid assets, earnings per share, price/earnings ratio (P/E ratio), dividend cover, times dividend covered.

15.6 Translate into English.

Співвідношення, ліквідність, платоспроможність, збанкрутувати, ефективність, коефіцієнт поточної ліквідності, коефіцієнт швидкої ліквідності, кислотний тест, ліквідні активи, прибуток на акцію, співвідношення ціна / прибуток, дивідендне покриття, дивіденди, що покриваються раз.

15.7 Give the definitions to the following terms.

ratios	liquidity	solvency	go bankrupt	efficiency
current ratio	quick ratio	acid test	liquid assets	earnings per share

PRODUCTION

Over to you!

Look at a company's financial statements. Which of the financial ratios mentioned in this unit can be calculated:

- *from the balance sheet?*
- *from the profit and loss account?*
- *using both these statements?*

Which ratios require additional information?

UNIT 16

FINANCIAL RATIOS 2

Key vocabulary

profitability	➤ <i>прибутковість; рентабельність; дохідність</i>
gross profit margin	➤ <i>валовий прибуток; валовий дохід</i>
return on assets (ROA)	➤ <i>рентабельність активів; дохідність капіталу</i>
return on equity (ROE)	➤ <i>рентабельність власного капіталу (roe)</i>
gearing	➤ <i>платоспроможність; фінансовий важіль</i>
leverage	➤ <i>леверидж; фінансовий важіль</i>
highly geared capital	➤ <i>капітал, значну частину якого становлять позико ві кошти</i>
highly leveraged company	➤ <i>компанія з високою часткою позикових коштів</i>
interest cover	➤ <i>покриття за відсотками</i>
times interest earned	➤ <i>коефіцієнт покриття відсотків</i>

A Profitability

There are various profitability ratios that allow investors to compare a company's profit with its sales, its assets or its capital. Financial analysts usually include them in their reports on companies.

$$\frac{\text{gross profit (sales - cost of goods sold)}}{\text{sales}}$$
 This is the gross profit margin. It is the money a company has left after it pays for the cost of the goods or services it has sold. A company with a higher gross profit margin than competitors in its industry is more efficient, and should be able to make a profit in the future.

$$\frac{\text{net profit}}{\text{total assets}}$$
 This is return on assets. It measures how efficiently the firm's assets are being used to generate profits.

$$\frac{\text{net profit}}{\text{shareholders' equity}}$$
 This is return on equity (ROE). It shows how big a company's profit is (after interest and tax) compared with the shareholders' equity or funds.

B Leverage

$$\frac{\text{Debt}}{\text{shareholders' equity}}$$
 This is gearing or leverage, often expressed as a percentage.

It shows how far a company is funded by loans rather than its own capital. A highly geared or highly leveraged company is one that has a lot of debt compared to equity.

EBIT (see Unit 14)
interest charges

This is interest cover or times interest earned. It compares a businesses annual interest payments with its earnings before interest and tax, and shows how easily the company can pay long-term debt costs. A low interest cover (e.g. below 1.0) shows that a business is having difficulties generating the cash necessary for its interest payments.

BrE: gearing; AmE: leverage

Citigroup Inc Key Ratios, 2018			
	Citigroup	Banking Industry Average	S&P 500 Average
Growth Rates %			
Sales	11.5	29.4	10.7
EPS	3.2	21.2	1.2
Price Ratio			
P/E Ratio	13.9	14.5	20.6
Profit Margins			
Pre-Tax Margin	21.8	23.7	47.3
Net Profit Margin	15.5	16.3	7.6
Financial Condition			
Debt/Equity Ratio	1.9	1.32	1.1
Interest Cover	2.0	2.1	3.4
Investment Returns %			
Return On Equity	15.7	13.2	14.5
Return On Assets	1.2	1.0	2.5

PRACTICE

16.1 Match the terms with their definitions.

1. profitability___	a) ability of the borrower to pay interest from the financial resources available
2. gross profit margin___	b) ratio of debt (borrowings) to shareholder funds (broadly, share capital and retained profits), often expressed as a

	percentage or ratio
3. return on assets____	c) measure of a company's ability to honor its debt payments. It may be calculated as either EBIT divided by the total interest payable
4. return on equity (ROE) ____	d) company or other institution with a high level of debt. A highly leveraged company carries a great deal of risk and may increase the likelihood of default or bankruptcy
5. gearing____	e) financial ratio used to assess the profitability of a firms core activities, excluding fixed costs
6. leverage____	f) ratio used to examine the financial structure or gearing (leverage) of a business
7. highly geared capital____	g) ratio of equity investments in fixed income securities (bonds, preferred shares) to investments in non-fixed income securities (ordinary shares)
8. highly leveraged company____	h) measure of how well a company uses investments to generate earnings growth
9. interest cover____	i) profits, generated by investments and capital, expressed in a percentage of the profits
10.times interest earned____	j) shows how profitable a company s assets are in generating revenue

16.2 Match the two parts of the sentences. Look at A and B opposite to help you.

1. After borrowing millions to finance the takeover of a rival firm, the company's
 2. Although sales fell 5%, the company's
 3. Like profit growth, return on equity is a measure of
 4. With just 24% gearing, the company can afford
- a) a gross profit margin rose 9% from a year ago, so senior management isn't worried,
 - b) b how good a company is at making money,
 - c) c interest cover is the lowest it has ever been.
 - d) d to acquire its rival, which would help to increase its steady growth.

16.3 Read the text and answer the questions below. You may need to look at Units 11-14.

Predicting insolvency: the Altman Z-Score

The Z-Score was created by Edward Altman in the 1960s. It combines a set of 5 financial ratios and a weighting system to predict a company's probability of failure using 8 variables from its financial statements.

The ratios are multiplied by their weights, and the results are added together. The 5 financial ratios and their weight factors are:

A	EBIT / Total Assets	x 3.3
B	Net Sales / Total Assets	x 0.999
C	Market Value of Equity / Total Liabilities	x 0.6
D	Working Capital / Total Assets	x 1.2
E	Retained Earnings / Total Assets	x 1.4

Therefore the Z-Score = A x 3.3 + B x 0.999 + C x 0.6 + D x 1.2 + E x 1.4

Interpreting the Z-Score

- > 3.0 - based on these financial figures, the company is safe
- 2.7 - 2.99 - insolvency is possible
- 1.8 - 2.7 - there is a good chance of the company going bankrupt within 2 years
- < 1.80 - there is a very high probability of the company going bankrupt

Which ratio in the Z-Score takes into account:

1. money used for everyday expenses?
2. undistributed profits belonging to the shareholders?
3. income or earnings before interest and tax are deducted?
4. the current share price?
5. the amount of money received from selling goods or services?

16.4 Find the English equivalents.

Currency, bonus, rent, notes (banknotes), income, , salary, budget, profitability, gross profit margin, return on assets, return on equity (ROE), gearing, leverage, highly geared capital, highly leveraged company, interest cover , times interest earned.

16.5 Translate into English.

Рентабельність власного капіталу, рентабельність активів, валовий прибуток, рентабельність, платоспроможність, леверидж, капітал, покриття за відсотками, коефіцієнт покриття відсотків, валюта, податок, орендна плата, прибуток, премія, гонорар, банківський рахунок, банкнота, повсякденні витрати, бюджет.

16.6 Give the definitions to the following terms.

profitability	gross profit margin	return on assets (ROA)	return on equity (ROE)	gearing
leverage	highly geared capital	highly leveraged company	interest cover	times interest earned

PRODUCTION

Over to you! Look at the financial statements of a company you are interested in and calculate the company's Z-Score. Is it in good financial health?

UNIT 17

COST ACCOUNTING

Key vocabulary

cost accounting	➤ бухгалтерський звіт
profitable	➤ прибутковий
direct costs	➤ прямі витрати
indirect costs	➤ непрямі витрати
overheads	➤ накладні, додаткові витрати
fixed costs	➤ постійні витрати
variable costs	➤ змінні витрати
allocate	➤ виділяти
absorption costing	➤ витрати на поглинання
activity-based costing	➤ калькуляція на основі активності
breakeven analysis	➤ розробити аналіз
breakeven point	➤ точка беззбитковості
sales volume	➤ об'єм продаж
covers costs	➤ покриття витрат
objectives	➤ цілі
marketing policies	➤ маркетингова політика

A Direct and indirect costs

Cost accounting involves calculating the costs of different products or services, so that company managers can know what price to charge for particular products and services and which are the most **profitable**. **Direct costs** – those that can be directly related to the production of particular units of a product – are quite easy to calculate. Examples include manufacturing materials and manufacturing wages. But there are also **indirect costs** or **overheads** – costs and expenses that cannot be identified with particular manufacturing processes or units of production. Examples include rent or property taxes for the company's offices and factories, electricity for lighting and heating, the maintenance department, the factory canteen or restaurant, managers' salaries, and so on. Costs such as these are often grouped together on the profit and loss account or income statement as Selling, General and Administrative Expenses.

BrE: overheads; AmE: overhead.

B Fixed and variable costs

Companies also differentiate between fixed costs and variable costs. **Fixed costs** are those that do not change in the short term, even if the production level changes, such as rent and interest payments. **Variable costs** are those that change in proportion to the volume of production, such as components and raw materials, and overtime payments.

Manufacturing companies have to find a way of **allocating** fixed and variable costs to the various products they make: that is, they divide up the costs and charge them to the different product. **Absorption costing** attempts to charge all direct costs and all production costs, and sometimes all indirect costs such as administrative expenses, to each to the company's products or services. **Activity-based costing** calculates all the costs connected with a particular activity (e.g. product design, manufacturing, distribution, customer service), even if they are carried out by different departments in the company.

Most companies have departments or functions that do not generate any profit but only incur costs (e.g. accounting and legal departments). For accounting purposes, companies often make these departments into cost **centers**, and allocate or charge all the costs related to them separately.

BrE: cost centre; AmE: cost center.

C Breakeven analysis

When deciding whether it would be produce a product, or offer a service, companies do a **breakeven analysis**. This compares expected sales of the new product with expected costs – both direct and indirect – at various production levels. The **breakeven point** is the **sales volume** – the number of units sold – at which the company **covers its costs** – pays all its expenses. To make a profit, it is necessary to sell more than this.

Although cost accounting allows companies to calculate production costs, pricing decisions also depend on:

- the level of demand
- the prices of competitors products
- the company's financial situation
- the company's **objectives** – the goals or aims it wants to accomplish
- the company's **marketing policies** – whether it is interested in maximizing sales or maximizing profit.

PRACTICE

17.1 Match the terms with their definitions.

1) cost accounting _____	a) a costing methodology that identifies activities in an organization and assigns the cost of each activity with resources to all products and services according to the actual consumption by each
2) profitable _____	b) calculates what is known as a margin of safety, the amount that revenues exceed the breakeven point
3) direct costs _____	c) a part of an organization to which costs may be charged for accounting purposes
4) indirect costs _____	d) distribute (resources or duties) for a particular purpose
5) overheads _____	e) a cost that varies with the level of output
6) fixed costs _____	f) a method of calculating the cost of a product or enterprise by taking into account indirect expenses (overheads) as well as direct costs
7) variable costs _____	g) the recording of all the costs incurred in a business in a way that can be used to improve its management
8) allocating _____	h) business costs, such as rent, that are constant whatever the amount of goods produced
9) absorption costing _____	i) the point at which total cost and total revenue are equal
10) activity-based costing _____	j) the expenditure which cannot be conveniently traced to or identified with any particular cost unit, unlike operating expenses such as raw material and labor
11) cost centers _____	k) (of a business or activity) yielding profit or financial gain
12) breakeven analysis _____	l) to place or spread something over so as to protect or conceal
13) breakeven point _____	m) costs which are directly accountable to a cost object
14) sales volume _____	n) a thing aimed at or sought; a goal
15) covers costs _____	o) costs that are derived from overhead charges or subsidiary work
16) objectives _____	p) of the enterprise aims the production the items only of high quality
17) marketing policies _____	q) the number of units sold within a reporting period

17.2 Match the words in the box with the definitions below. Look at A, B and C opposite to help you.

breakeven point	cost center	fixed costs	overheads	variable costs	profitable
-----------------	-------------	-------------	-----------	----------------	------------

1. Expenses that are not clearly related to production or manufacturing
2. A unit of activity in an organization for which costs are calculated separately
3. Costs that depend on the amount produced
4. Adjective meaning providing income for a company
5. Costs that do not change according to the production volume
6. The sales volume at which a company doesn't make a loss, but doesn't make a profit.

17.3 Sort the following into direct, indirect, fixed and variable costs. Look at A and B opposite to help you.

Cost	Direct	Indirect	Fixed	Variable
Advertising expenses				
Bad debts				
Components				
Electricity to run machines				
Electricity for heating				
Equipment repairs				
Factory canteen				
Overtime pay				
Raw materials				
Property tax				
Rent				

17.4 Which of the following statements describes:

1. absorption costing?
2. activity-based costing?
 - a) As well as direct manufacturing costs – materials and labour – we allocate part of our fixed and variable manufacturing overheads to the cost of every product.
 - b) We identify all the different functions within the company, and assign costs to products and services according to how much these functions are involved in the process of providing the products and services.

17.5 Find the English equivalents.

Variable costs, equipment repairs, profitable, marketing policies, components, overheads, indirect costs, objectives, allocating, sales volume, activity-based costing.

17.6 Translate into English.

Змінні витрати, додаткові витрати, прибутковий, прямі витрати, виділяти, витрати на поглинання, прибутковий, бухгалтерський звіт, цілі, об'єм продаж, точка беззбитковості, робити аналіз, маркетингова політика.

17.7 Give the definitions to the following terms.

cost accounting	profitable	direct costs	indirect costs	overheads	fixed costs
variable costs	allocating	absorption costing	activity-based costing	cost centers	breakeven analysis
breakeven point	sales volume	covers costs	objectives	marketing policies	

PRODUCTION

Over to you! What do you think were the most important factors in the pricing of:

- *this book?*
- *two other products you bought recently?*

UNIT 18

PRICING

Key vocabulary

price	➤ ціна
direct cost	➤ прямі витрати
indirect costs	➤ непрямі витрати
cost-plus pricing	➤ витратне ціноутворення
mark-up pricing	➤ ціноутворення на основі націнок
unit cost	➤ ціна одиниці
sales targets	➤ цілі, орієнтовані на продаж
profit targets	➤ цілі, орієнтовані на прибуток
market penetration pricing	➤ ціноутворення для проникнення на ринок
launch	➤ запуск
market share	➤ частка ринку
economies of scale	➤ економія на масштабах
market skimming	➤ ринковий скімінг
market segment	➤ сегмент ринку
monopolist	➤ монополіст
prestige pricing	➤ престижне ціноутворення
target customer	➤ цільовий споживач
going-rate pricing	➤ ціновий курс (ринкове ціноутворення)
loss-leader pricing	➤ цінове лідерство
odd pricing/ odd-even pricing	➤ непарне ціноутворення/ непарні ціни
elasticity of demand	➤ еластичність попиту

A Manufacturer`s pricing strategies

These are student`s notes from a lecture about pricing:

- Companies' **prices** are influenced by production and distribution costs, both **direct** and **indirect**.
- **Mark-up** or **cost-plus pricing**: some firms just calculate the **unit cost** and add a percentage.
Unit cost: the expenses involved in producing each individual product.
- Most companies consider other factors, like demand, competitors' prices, **sales targets** and **profit targets**.

Sales target/profit target: the quantity of sales/profit a business wants to achieve.

- **Market penetration pricing:** some companies **launch** products at a price that only gives them a very small profit, because they want a big **market share**. This allows them to make profits later because of **economies of scale**, e.g. Bic pens, lighters and razors; Dell PCs.

Launch: to introduce a product onto the market.

Market share: the proportion of total sales in the market.

Economies of scale: the cost of producing each unit decreases as the volume of production increases.

- **Market skimming:** some customers will pay almost any price, e.g. for a new hi-tech product, so the company can charge a really high price, then lower it to reach other **market segments**, e.g. Intel with new microchips.

Market segments: groups of consumers with similar needs and wants.

- If a company has a higher demand for its products than it's able to supply, it can raise its prices. This is often done by **monopolists**.

Monopolists: companies that are the only supplier of a product or service.

- **Prestige pricing or image pricing:** products positioned at the luxury end of a market *need* to have a high price: the **target customers** probably won't buy them if they think the price is too low, e.g. BMW, Rolex.

Target customers: the customers whose needs the company wants to satisfy.

- **Going-rate pricing:** if a product is almost identical to competitors' products, companies might charge the same price.

B Retail pricing strategies

Loss-leader pricing: retailers (e.g. supermarkets) often offer some items at a very low price that isn't profitable, to attract customers who then buy more products which are profitable.

Odd pricing or odd-even pricing: many producers and retailers believe a customer sees a price of €29.95 as in the € 20 price range rather than the €30 one.

Elasticity: demand is elastic if sales respond directly to price variations - e.g. if the price is cut, sales increase. If sales remain the same after a change in price, demand is inelastic.

PRACTICE

18.1 Match the terms with their definitions.

1. target customer ____	a) process for determining the selling price of your product or service, based on cost and ensuring a profit
2. price ____	b) quantity of sales a business wants to achieve
3. direct cost ____	c) cost incurred by a company to produce, store and sell one unit of a particular product
4. indirect costs ____	d) person you've identified as most likely to purchase your products
5. unit cost ____	e) person or business that has a monopoly
6. mark-up pricing ____	f) method of adding a constant percentage to the cost price of an item to arrive at its selling price
7. cost-plus pricing ____	g) portion of a market controlled by a particular company or product
8. sales targets ____	h) price that can be completely attributed to the production of specific goods or services
9. launch ____	i) amount of money for which something is sold
10. market share ____	j) costs used by multiple activities, and which cannot therefore be assigned to specific cost objects
11. economies of scale ____	k) person you've identified as most likely to purchase your products
12. monopolist ____	l) setting a price for a product or service using the prevailing market price as a basis
13. target customer ____	m) approach under which a producer sets a high price for a new high-end product or a uniquely differentiated technical product
14. going-rate pricing ____	n) reduction of production costs that is a result of making and selling goods in large quantities
15. market skimming ____	o) debut of a product into the market

18.2 Find five verbs in A and B opposite that can be used to make word combinations with 'prices'. Then use the verbs to complete the sentences below.

1. Economists say that if sales increase when you _____ a price, demand is elastic.

2. If we have more customers than products available, we generally _____ our prices.
3. Luxury goods companies make huge profits, because their customers are prepared to _____ really high prices.
4. Our product's really the same as our competitors', so we'll probably _____ the same price.
5. After we've skimmed the market, we can _____ the price to get more customers.

18.3 Match the pricing strategies in the box with the statements below. Look at A and B opposite to help you.

going-rate pricing	loss-leader pricing	market penetration	market
skimming			
mark-up pricing	odd pricing	prestige pricing	

1. Because of our famous brand name and our reputation for quality, we can charge a *very* high price.
2. We never use whole numbers like \$10 or \$20. Our prices always end in 95 or 99 cents.
3. We launch our products at high prices, and then reduce them a few months later to get more customers.
4. We just get the cost accountants to work out how much it costs to make the product, and add our profit.
5. Demand isn't very elastic, so we charge the same price as our main competitors.
6. We actually sell a few products at breakeven price, but this brings in customers who also buy a lot of other things.
7. We charge a really low price at first, because we want to sell as many units of the product as possible.

18.4 Find the English equivalents.

Price, direct cost, indirect costs, cost-plus pricing, mark-up pricing, unit cost, sales targets, profit targets, market penetration pricing, launch, market share, economies of scale, market skimming, market segment, monopolist, prestige pricing, target customer, going-rate pricing, loss-leader pricing, odd pricing/ odd-even pricing, elasticity of demand.

18.5 Translate into English.

Ціна, прямі витрати, монополіст, непрямі витрати, витратне ціноутворення, престижне ціноутворення, ціноутворення на основі націнок, ціна одиниці, ціноутворення для проникнення на ринок, цільовий споживач, ринковий скімінг, запуск, частка ринку, економія на масштабах, сегмент ринку, цінове

лідерство, непарне ціноутворення/ непарні ціни, еластичність попиту, цілі, орієнтовані на продаж.

18.6 Give the definitions to the following terms.

price	direct cost	indirect costs	cost-plus pricing
mark-up pricing	unit cost	sales targets/ profit targets	market penetration pricing
launch	market share	economies of scale	market skimming
market segment	monopolist	prestige pricing	target customer
going-rate pricing	loss-leader pricing	odd pricing/ odd-even pricing	elasticity of demand

PRODUCTION

Over to you!

Can you think of at least one producer or retailer that uses each of the pricing strategies mentioned here?

UNIT 19

INSURANCE

Key vocabulary

insurance	➤ <i>страхування</i>
losses	➤ <i>збитки</i>
premiums	➤ <i>премії</i>
risk	➤ <i>ризик</i>
policy	➤ <i>політика</i>
insurer	➤ <i>страховик</i>
loss of	➤ <i>втрата</i>
damage to property	➤ <i>шкода майну</i>
sickness	➤ <i>хвороба</i>
personal injury	➤ <i>травма</i>
insure against	➤ <i>застрахуватися від</i>
theft	➤ <i>крадіжка</i>
stealing	➤ <i>розкрадання</i>
natural disasters	➤ <i>стихійні лиха</i>
makes a claim	➤ <i>висуває претензію</i>
indemnify	➤ <i>відшкодувати</i>
compensate	➤ <i>компенсувати</i>
brokers	➤ <i>брокери</i>
agents	➤ <i>агенти</i>
direct	➤ <i>прямий</i>
over the counter	➤ <i>за лічильником</i>
life insurance	➤ <i>страхування життя</i>
assurance	➤ <i>гарантія</i>
save	➤ <i>зберегти</i>
tax shelters	➤ <i>податкові притулки</i>
a lump sum	➤ <i>одноразова сума</i>
Lloyd's of London	➤ <i>Ллойд Лондона</i>
underwriters	➤ <i>андеррайтер</i>
syndicates	➤ <i>синдикати</i>
names	➤ <i>імена</i>
liability	➤ <i>відповідальність</i>
reinsurance	➤ <i>перестрахування</i>
bear	➤ <i>нести</i>

A Insuring against risks

Insurance is protection against possible financial **losses**. Individuals, companies and organizations can make regular payments, called **premiums**, to an insurance

company which accepts the **risk** (or possibility) of loss. When you buy insurance you make a contract, called a **policy**, with the insurance company - also known as the **insurer**. The contract promises that the company will pay you if you suffer **loss of** or **damage to property**, or **sickness** or **personal injury**.

There are various losses which people or businesses can **insure against**:

- **theft** - someone **stealing** their goods or possessions
- damage from fire or other **natural disasters** such as floods, earthquakes and hurricanes.

If property is stolen or damaged, the person or company who is insured **makes a claim** - requests compensation - from the insurer. The insurer will then **indemnify** or **compensate** them: that is, pay them an amount of money equivalent to the loss. As the number of natural disasters seems to be increasing, so are the claims for damage to property, and this will lead to higher insurance premiums.

In the past, many people buying insurance used independent **brokers** - people who searched for insurance at the lowest cost, or **agents** - people working for the insurance company. But like retail banking, the insurance industry has changed in recent years. A lot of insurance is now sold **direct**, by telephone or on the internet. This can be cheaper than insurance bought **over the counter** from a broker or an agent.

B Life insurance and saving

Life insurance (also called **assurance**) will pay an agreed sum to someone else, for example your husband or wife, if you die before a certain age. People also use life insurance policies as a way to **save** for the future: you can buy a policy that pays a certain sum on a specific date, such as when you retire from work. As with pension plans, life insurance policies are **tax shelters**, or a way of postponing payment of tax. You do not have to pay income tax on life insurance premiums. However **a lump sum** - a single, large amount of money paid out when an insurance policy matures - will be taxable.

C Insurance companies

Insurance companies have to invest the money they receive from premiums. Like pension funds, they are large institutional investors that invest huge sums in securities, especially low-risk ones like government bonds.

The largest insurance market in the world is **Lloyd's of London**. This is an association of people called **underwriters**, who guarantee to indemnify other people's possible losses. Lloyd's spreads risks among a number of **syndicates**: groups of wealthy individuals, commonly known as '**names**'. These people can earn a lot of money from insurance premiums if the clients never claim for compensation, but they also have unlimited **liability** or responsibility for losses.

If insurance companies consider that they have underwritten too many risks, they can sell some of that risk to a **reinsurance** company. This is a company that will receive some of the premium and also **bear**, or take, some of the risk.

PRACTICE

19.1 Match the terms with their definitions.

1.insurance____	a) person who serves as a trusted agent or intermediary in commercial negotiations or transactions
2.losses____	b) a representative of an insurer who negotiates and sells insurance contracts
3.premiums____	c) a contract between an insurer and a policyholder in which the insurer guarantees payment of a death benefit to named beneficiaries upon the death of the insured
4.risk____	d) insurance cover against an eventuality that (sooner or later) must occur
5.policy____	e) investment that qualifies for special tax treatment (as an incentive) or creates tax-deferred or tax-exempt income through depreciation, interest, or tax-deductible losses
6.insurer____	f) single large amount; not consisting of several smaller amounts or installments
7.loss of____	g) oldest and most famous syndicate of insurance underwriters and brokers. The underwriters (numbering about 20,000) are grouped into some 280 syndicates, each specializing in a particular type of risk. Together they provide coverage for virtually any type of peril, but their main business involves providing reinsurance to other insurance companies. This organization began in the 1689 London, in the Tavern Street coffeehouse of Edward Lloyd frequented by ship owners
8.damage to property____	h) qualified individual who evaluates an insurance proposal to assess the kind and degree of risk involved. He or she then determines how much premium should be charged for protecting the applicant against losses that may arise from the risk
9.personal injury____	i) group of brokers or insurance underwriters who together accept the risk of buying and distributing a new stock issue or an insurance risk
10.natural disasters_____	j) policy that covers civil liabilities to third parties, arising from bodily injury, property damage, or other wrongs due to the action or inaction of the insured
11.claim____	k) practice where an insurance company (the insurer) transfers a portion of its risks to another (the reinsurer)

12.compensate_____	l) an arrangement by which a company or the state undertakes to provide a guarantee of compensation for specified loss, damage, illness, or death in return for payment of a specified premium
13.brokers_____	m) reduction in the value of an insured property due to an insured peril, (2) amount paid under an insurance contract
14.agents_____	n) financial cost of obtaining an insurance cover, paid as a lump sum or in installments during the duration of the policy
15.life insurance_____	o) a situation where the probability of a variable (such as burning down of a building) is known but when a mode of occurrence or the actual value of the occurrence (whether the fire will occur at a particular property) is not
16.assurance_____	p) the formal contract issued by an insurer that contains terms and conditions of the insurance cover and serves as its legal evidence
17.tax shelters_____	q) insurance company that issues a particular insurance policy to an insured. In case of a very large risk, several insurance companies may combine to issue one policy
18.a lump sum_____	r) an amount of money lost by a business or organization
19.Lloyd's of London_____	s) physical injury or destruction of tangible property caused by either an individual who is not the owner of said property or by natural phenomenon
20.underwriters_____	t) physical or mental harm that is caused to someone, especially when this is the fault of another person or an organization
21.syndicates_____	u) a natural event such as a flood, earthquake, or hurricane that causes great damage or loss of life
22.liability insurance_____	v) assertion by a claimant for compensation, payment, or reimbursement for a loss under a contract, or an injury due to negligence
23.reinsurance_____	w) to pay someone money in exchange for something that has been lost or damaged or for some problem

19.2 Complete the crossword. Look at A, B and C opposite to help you.

Across

1 and 10 across Some people buy life insurance that pays a _____ on retirement. (4, 3)

4 Many insurance companies now sell _____, over the phone or the internet. (6)

8 I have a theft policy, so the insurance company will _____ me if my mobile phone is stolen. (9)

9 If you make a big claim from your insurance company, the cost of your _____ will probably go up. (7)

10 See 1 across.

12 When I insured my house, I used a _____ to find me the best deal. (6)

13 Exporters have to insure goods in transit in case somebody _____ them. (6)

14 I lost my job as an _____ for an insurance company when people stopped buying over the counter. (5)

15 Lloyd's spreads the risk it insures among _____ made up of groups of underwriters. (10)

17 The individual underwriters at Lloyd's are commonly called _____ . (5)

19 Natural disasters are expensive for insurance companies because they cause a lot of _____ to buildings and their contents. (6)

Down

2 Lloyd's _____ Risks worth over £14 billion. (11)

3 You should always read the small print – all the details – before you accept an insurance _____. (6)

5 There are _____ companies that take on part of the risk underwritten by smaller companies. (11)

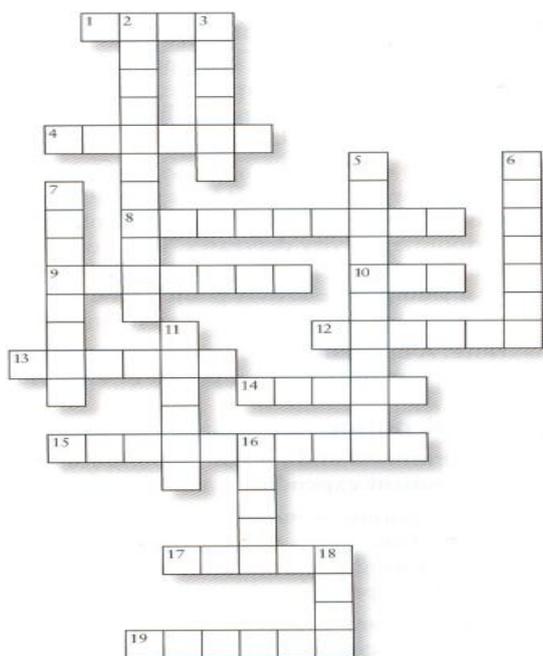
6 Life insurance can be a tax _____ – a way of putting off paying tax till later. (7)

7 Most people insure their personal _____ against loss, fire and theft. (8)

11 _____ of London is the world's largest insurance market. (6)

16 Fortunately, I've never had a car accident, so I've never had to _____ anything from the insurance company. (5)

18 Life insurance is also a way to _____ money and pay less tax. (4)



19.3 Find the English equivalents.

Stealing, natural disasters, makes a claim, indemnify, compensate, brokers, agents, direct, over the counter, life insurance, assurance, save, tax shelters, a lump sum, Lloyd's of London, underwriters, syndicates, names, liability, reinsurance, bear, insurance, losses, premiums, risk, policy, insurer, loss of ,damage to property, sickness, personal injury, insure against, theft.

19.4 Translate into English.

Страхування, збитки, премії, ризик, політика, страховик, втрата, шкода майну, хвороба, травма, застрахуватися від, крадіжка, розкрадання, стихійні лиха, висуває претензію, відшкодувати, компенсувати, брокери, агенти, прямий, за лічильником, страхування життя, гарантія, зберегти, податкові притулки, одноразова сума, андеррайтер, синдикати, імена, відповідальність , перестрахування, нести.

19.5 Give the definitions to the following terms.

insurance	losses	premiums	risk	policy	Insurer
loss of	damage to property	personal injury	natural disasters	claim	compensate
brokers	agents	life insurance	assurance	tax shelters	a lump sum
Lloyd's of London	underwriters	syndicates	liability insurance	reinsurance	

PRODUCTION

Over to you!

How many different insurance policies do you or your family have? Are there any risks you cannot insure yourself against? What insurance does your company or employer have?

UNIT 20

THE BUSINESS CYCLE

Key vocabulary

consumption	➤ <i>споживання</i>
business cycle	➤ <i>бізнес-цикл</i>
upturn	➤ <i>підйом</i>
upswing	➤ <i>підйом</i>
boom	➤ <i>бум</i>
a peak	➤ <i>пік</i>
a downturn	➤ <i>спад</i>
a slump	➤ <i>спад</i>
a recovery	➤ <i>відновлення</i>
fiscal policy	➤ <i>податково-бюджетна політика</i>
government expenditure	➤ <i>державні витрати</i>
taxation	➤ <i>оподаткування</i>
reflationary	➤ <i>рефляційний</i>
to stimulate the economy	➤ <i>стимулювати економіку</i>
overheating	➤ <i>підвищення рівня інфляції</i>
full capacity	➤ <i>повна потужність</i>
a deflationary	➤ <i>дефляція</i>
cool down the economy	➤ <i>"охолоджувати" економіку</i>
monetary policy	➤ <i>грошово-кредитна політика</i>
political business cycle	➤ <i>політичний бізнес цикл</i>

A Expansion and contraction

All market economies have periods when **consumption** – spending on goods and services – rises. Consumers buy more, companies invest more, and production, income, profits and employment increase. These periods are always followed by periods when spending and investment fall, and unemployment rises. This is the **business cycle**.

A period during which economic activity increases and the economy is expanding is an **upturn** or **upswing**. If it lasts a long time it is called a **boom**. The highest point of the business cycle is a **peak**, which is followed by a **downturn**, during which the amount of economic activity decreases.

If the economy keeps contracting for more than six months, the downswing is called a recession. A serious, long-lasting recession is called a depression or a **slump**. The

lowest point of the business cycle is a trough, which is followed by a **recovery**, when economic activity increases again, and a new cycle begins.

*Note: A **downturn** is also called a **downswing** or a **period of contraction**; a **recovery** is also called an **upturn**, an **upswing** or a **period of expansion**.*

B Fiscal policy

Government and central banks use **fiscal policy**, which involves changing the levels of **government expenditure** and **taxation** to try to limit the extent of the business cycle.

If an economy is moving into a recession, the government might have a **reflationary** fiscal policy. This means trying to **stimulate the economy** by increasing government spending, or by cutting levels of direct or indirect tax so that individuals and companies have more money to spend.

If an economy is **overheating** – expanding too quickly – it means that industry is working at **full capacity** and producing as much as it possibly can. Because demand is greater than supply, leading to rising prices and inflation, the government might have a **deflationary** fiscal policy.

This means trying to **cool down the economy**: reducing the amount of economic activity by raising tax rates or cutting government expenditure. This reduces the level of demand in the economy and helps to reduce the level of demand in the economy and helps to reduce inflation.

C Monetary policy

Government or central banks can also use **monetary policy** – changing interest rates and the level of the money supply – to influence the level of economic activity. (See unit 27) They can boost or increase economic activity if the economy is in a downturn by reducing interest rates and allowing the rate of the money supply to increase. Alternatively, if economy is growing too fast and causing inflation, they can slow it down by increasing interest rates and reducing the rate of growth of the money supply.

The main reason for having an independent central bank (see unit 23) is to prevent governments from creating a **political business cycle** – a cycle that will be at a high point at the time of the next election. Government can also do this by beginning their periods of office with a couple of years of policies designed to stop the economy from growing, followed by tax cuts and monetary expansion in the two years before the next election.

This policy, sometimes called **boom and bust**, helps the government get re-elected but is not good for economic stability. An independent central bank makes this less likely to happen.

PRACTICE

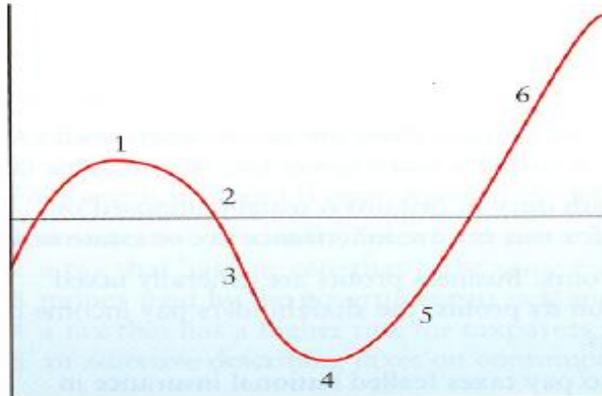
20.1 Match the terms with their definitions.

1) consumption _____	a) an increase in strength or quantity
2) business cycle _____	b) an improvement or upward trend, especially in economic conditions
3) upturn _____	c) a cycle or series of cycles of economic expansion and contraction
4) upswing _____	d) the action of using up a resource
5) boom _____	e) undergo a sudden severe or prolonged fall in price, value, or amount
6) a peak _____	f) a period of significant output within a population
7) a downturn _____	g) the macroeconomic policy laid down by the central bank
8) a slump _____	h) reach a highest point, either of a specified value or at a specified time
9) a recovery _____	i) the action or process of regaining possession or control of something stolen or lost
10) fiscal policy _____	j) a decline in economic, business, or other activity
11) government expenditure _____	k) the government spending and taxation that influences the economy
12) taxation _____	l) show marked inflation when increased demand results in rising prices rather than increased output
13) reflationary _____	m) of or relating to an increase in economic activity
14) to stimulate the economy _____	n) used mainly to describe the stimulation of the economy just prior to an election in order to improve prospects of the incumbent government getting reelected
15) overheating _____	o) the levying of tax
16) a deflationary _____	p) refers to the purchase of goods and services, which include public consumption and public investment, and transfer payments consisting of income transfers (pensions, social benefits) and capital transfer
17) monetary policy	q) then the government is taking steps to stimulate

_____	business development in economically distressed areas
18) political business cycle _____	r) characterized by or tending to cause economic deflation

20.2 Label the graph with words from the box. Look at A to help you.

boom	downswing	peak	recession	recovery	trough
------	-----------	------	-----------	----------	--------



- 1.....
- 2.....
- 3.....
- 4.....
- 5.....
- 6.....

20.3 Match the two parts of the sentences. Look at B and C to help you.

1. If the government thinks the economy is contracting too much,
 2. Fiscal policy involves
 3. If there isn't an independent central bank, government can
 4. If the government thinks the economy is growing too quickly,
 5. Monetary policy involves
- a. interest rates and the money supply.
 - b. it can raise tax rates and cut its expenditure.
 - c. manipulate the business cycle to their own advantage.
 - d. it can cut taxes and increase its spending.

20.4 Find verbs in A and B with the following meaning.

To get or make bigger

to get smaller or make smaller

20.5 Find the English equivalents.

business cycle, peak, recovery, boom, monetary policy, upturn, a deflationary, reflationary, taxation, full capacity, a recovery, consumption, cool down the economy.

20.6 Translate into English.

Підйом, спад, відновлення, споживання, бізнес-цикл, державні витрати, реляційний, підвищення рівня інфляції, оподаткування, податково-бюджетна політика, дефляція, грошово-кредитна політика.

20.7 Give the definitions to the following terms.

consumption	business cycle	upturn	upswing	boom	a peak
a downturn	a slump	a recovery	fiscal policy	government expenditure	taxation
reflationary	to stimulate the economy	overheating	a deflationary	monetary policy	political business cycle

PRODUCTION

Over to you!

*Has the economy in your country expanded or contracted over the past three years?
What do most economists think were the causes of these changes?*

ПЕРЕЛІК НАВЧАЛЬНО-МЕТОДИЧНОЇ ЛІТЕРАТУРИ

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