



Advanced Business

Accounting and Finance

Introduction

In this introductory module you are going to work on accounting and finance with:

- ▶ Texts about finance
- ▶ Grammar points
- ▶ Numbers and figures review
- ▶ Profit & loss account exercises
- ▶ Relevant vocabulary exercises

Finance Text

Large industrialized countries are now in a recession. What are the prospects for economic recovery?

The three most important industrial economies in the world are, at the moment, facing enormous problems. Germany is struggling with the cost of reunification and is in recession. Japan is also experiencing recession and the United States has a large budget deficit. Forecasters and analysts face questions about the prospects of an economic recovery. Here are some of their findings: If the US recovered, the rest of the world would face a more promising future. However, analysts now accept that the US will only recover very slowly. Consumer and investor confidence is still lacking. Large deficits and declining short-term interest rates mean that there is little scope for economic stimulus. The Japanese economy, after years of trade and budget surpluses, is in deep recession and the growth rate has slowed down considerably. German economists have lowered their forecasts for economic growth this year. The lowering of German interest rates may bring some relief to other members of the European Exchange Rate Mechanism (ERM). However, Germany's importance as Europe's largest export market may decline. Most forecasters are predicting world growth of only one percent in 1993. Others predict that it will only be after the completion of the GATT (General Agreement on Tariffs and Trade) negotiations that the world economy will improve. In some parts of the world, there are more positive signs, particularly in some Latin American countries and in South-East Asia. Another encouraging point is that analysts do not expect an upsurge in inflation in 1993. Analysts say that, as long as the rate of interest stays above the rate of growth in national income, then the ratio of debt to income will get worse. Falling interest rates help towards overcoming this problem. They believe it may take several years before there is real recovery. However, advances in technology and the collapse of communism offer hope for the world economy.

Discuss and compare this forecast with the current situation. Was it accurate? Explain.

Grammar Point: Connectors

- ▶ What are connectors?

Connectors are linking words or phrases that connect two ideas, facts, events, etc. They join the ideas but also signal what is coming next, eg a contrasting fact or a purpose. These signals help the listener or reader to understand the connection between ideas.

- ▶ **Examples**

1. Contrast:

- Last year's profits amounted to ten million whereas the previous year's profit was eight million.
- We have not yet received our order in spite of the fact that we contacted you a month ago.

2. Consequence:

The company needs to expand its international business. We therefore recommend the opening up of new markets in Asia.

3. Adding information:

The refunds are substantial. They are, in addition, easy to claim.

4. Explaining:

We'll need to make personnel cuts. In other words there will be some redundancies.

They sometimes offer reductions.

Practice

Test it out!

Look at these connectors and choose an appropriate one to fill each gap in the sentences below:

alternatively whereas as a result despite
on the other hand in other words in addition although

1. The rate in the UK is 16%, he rate in France is 17%.
2. difficult trading conditions, the company made a considerable profit.
3. The company made a loss last year and did not pay a dividend.
4. On the one hand, reorganisation will reduce salary costs but , it will increase administrative costs.
5. their competitors became bankrupt, the company did not increase its market share.
6. The tax rates are progressive. the percentage withheld increases as the income rises.
7. We recommend that you relocate to Amsterdam. , you could consider a base in the Hague.
8. We should try to maintain the current level of manufacturing costs and, intensify our marketing efforts.

Saying figures

Look at these figures, amounts and dates and try to say them:

- | | | | |
|----|------------|----|------------|
| a. | 75,345 | j. | 2:3 |
| b. | 15,368,000 | k. | 1.5.93 |
| c. | 29% | l. | 6 2/3 |
| d. | 3/4 | m. | 24,392,000 |
| e. | 23.12.92 | n. | 6,125 |
| f. | 5/8 | o. | 2.30 |
| g. | 8,650,000 | p. | £56 |
| h. | 432 | q. | 1 1/2 |
| i. | 1/3 | r. | £85,000 |

Profit and loss account

Look at the profit and loss account below and find the words that match these descriptions:

- a. Profit before tax _____
- b. The cost of delivering the product _____
- c. The money kept by the company _____
- d. The money paid out to shareholders _____
- e. Income from investments _____

PROFIT AND LOSS ACCOUNT

	<u>1992</u> £ million
<u>INCOME</u>	
Sales	800
Interest income	50

Total	850

<u>COST OF SALES</u>	
Materials	250
Direct labour	370

<u>GROSS PROFIT</u>	230
<u>EXPENSES</u>	
Indirect labour	90
Financial charges	20
Selling and distribution costs	15
Overheads	25
Depreciation	10

<u>NET PROFIT</u>	170

<u>DIVIDEND</u>	150
<u>RETAINED PROFIT</u>	20

answers

- | | |
|---------------------------------------|--------------------|
| a. Profit before tax | Gross profit |
| b. The cost of delivering the product | Distribution costs |
| c. The money kept by the company | Retained profit |
| d. The money paid out to shareholders | Dividend |
| e. Income from investments | Interest income |

Vocabulary: Word families

Word families

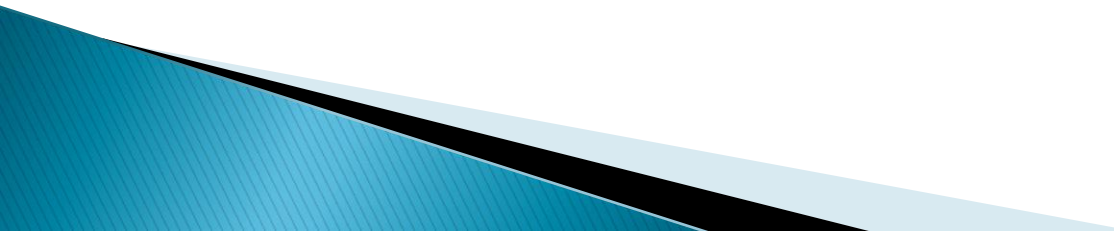
A word family is a group of words with the same root.

Look at these word families and then choose the correct words from the boxes to put into the sentences below:

NOUN	VERB	ADJECTIVE	ADVERB
<u>e</u> conomy			
<u>e</u> conomics		<u>e</u> conomic	<u>e</u> conomically
	<u>e</u> conomize		
<u>e</u> conomist		<u>e</u> conomical	
.			
<u>p</u> rofit			
<u>p</u> rofitability	<u>p</u> rofit	<u>p</u> rofitable	<u>p</u> rofitably
<u>p</u> rofiteer			

1. They will try to sell the product at an price.
2. The company hopes to return to high next year.
3. Is the company viable?
4. We spent a day talking about next year's budget.
5. The car is very . It doesn't use much petrol.
6. The company made a pre-tax of six million last year.

answers

- 1 They will try to sell the product at an **economic** price.
 2. The company hopes to return to high **profitability** next year.
 3. Is the company **economically** viable?
 4. We spent a **profitable** day talking about next year's budget.
 5. The car is very **economical**. It doesn't use much petrol.
 6. The company made a pre-tax **profit** of six million last year.
- 

Word partnerships: Investment

Look at the words below which can be used with the word "investment" to make word partnerships, for example "capital investment".

capital	equity	real
tax-free	INVESTMENT	net
speculative	fixed-interest	gross

"Capital investment" is investment in capital goods, such as machinery or buildings needed for the production process. Which of the other "investment" word partnerships have the following meanings?

1. Investment in goods and services needed for the benefit of the community, not for financial gain.
2. The use of money to buy a security or commodity with the intention of selling it at a profit.
3. An investment which earns interest at an agreed fixed rate.
4. The gross investment reduced by the amount of capital consumption.
5. An investment which gives the holder a right to receive a share in the profits, usually in the form of a dividend.

answers

1. Investment in goods and services needed for the benefit of the community, not for financial gain. **real investment**
2. The use of money to buy a security or commodity with the intention of selling it at a profit. **speculative investment**
3. An investment which earns interest at an agreed fixed rate. **fixed-interest investment**
4. The gross investment reduced by the amount of capital consumption. **net investment**
5. An investment which gives the holder a right to receive a share in the profits, usually in the form of a dividend. **equity investment**

Accounting & Taxation 1

Build compound nouns related to accounting and taxation.

1. Duty-_____goods are luxury goods bought in special shops on which you do not pay tax.
2. A_____ tax is the money that a person has to pay to the government, such as income tax.
3. Credit_____ systems make sure that debtors do not owe too much money.
4. A sales _____ is the book which contains a list of all company sales arranged by date.
5. A profit _____ is the profit that can be made in a business after the costs have been deducted.
6. Petty _____ is a small amount of money kept in an office for buying cheap items.
7. A _____packet (US ___check) is the amount of money a person earns.
8. A _____packet (US ___ envelope) is an envelope containing a person's pay which they receive.
9. A profit_____ is the difference between the amount of money that a company receives and the amount which it spends.
10. A_____ item is a single part of a financial statement giving details of the accounts of a company. (US English)

answers

1. Duty- **free** goods are luxury goods bought in special shops on which you do not pay tax.
2. A **direct** tax is the money that a person has to pay to the government, such as income tax.
3. Credit **control** systems make sure that debtors do not owe too much money.
4. A sales **journal** is the book which contain a list of all company sales arranged by date.
5. A profit **margin** is the profit that can be made in a business after the costs have been deducted.
6. Petty **cash** is a small amount of money kept in an office for buying cheap items.
7. A **pay** packet (US ___ check) is the amount of money a person earns.
8. A **pay** packet (US ___ envelope) is an envelope containing a person's pay which they receive.
9. A profit **margin** is the difference between the amount of money that a company receives and the amount which it spends.
10. A **line** item is a single part of a financial statement giving details of the accounts of a company. (US English)

Accounting & Taxation 2

Build more compound nouns related to accounting and taxation.

11. _____ accounting is the crime of changing or destroying records to obtain money.
12. I can put this lunch on my _____ account. My employer will pay for it.
13. A current _____ (US checking ___) is a bank account which usually earns little profit and to which you have quick access.
14. Creative _____ is finding ways of explaining how money has been spent which keeps hidden what has really happened to it.
15. Capital _____ is money which is spent on buildings and equipment.
16. Capital _____ are profits made by selling buildings or machines.
17. Capital _____ are the buildings and machines owned by a business.
18. A bean _____ is a tight fisted accountant who works for a large company.
19. A balance _____ is a statement that shows the value of a company's assets and its debts.
20. The bank has lost £703 million as a result of bad _____.

answers

11. **False** accounting is the crime of changing or destroying records to obtain money.
12. I can put this lunch on my **expense** account. My employer will pay for it.
13. A current **account** (US checking ___) is a bank account which usually earns little profit and to which you have quick access.
14. Creative **accounting** is finding ways of explaining how money has been spent which keeps hidden what has really happened to it.
15. Capital **investment or expenditure** is money which is spent on buildings and equipment.
16. Capital **gains** are profits made by selling buildings or machines.
17. Capital **assets** are the buildings and machines owned by a business.
18. A bean **counter** is a tight fisted accountant who works for a large company.
19. A balance **sheet** is a statement that shows the value of a company's assets and its debts.
20. The bank has lost \$703 million as a result of bad **debts**

end