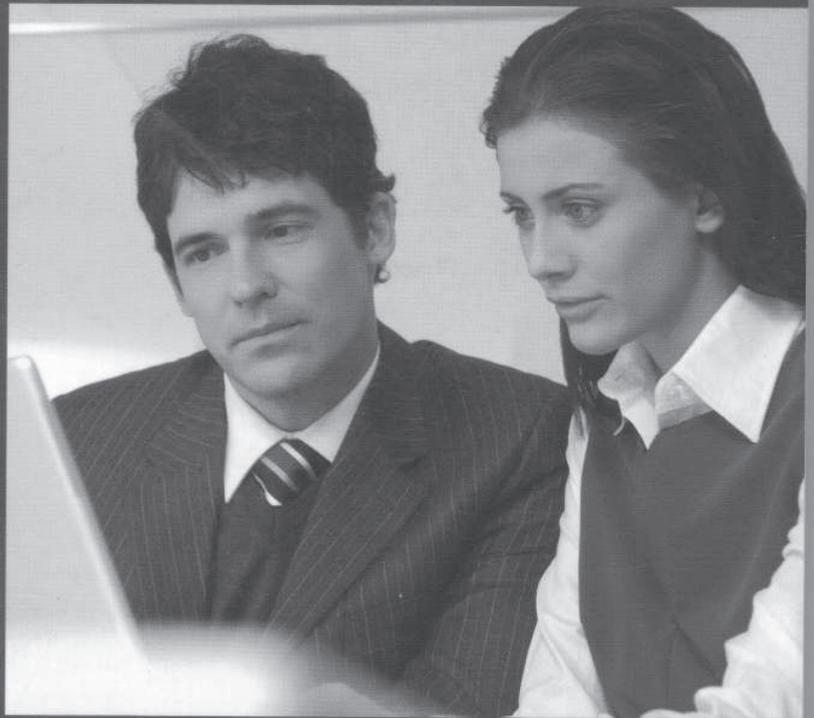
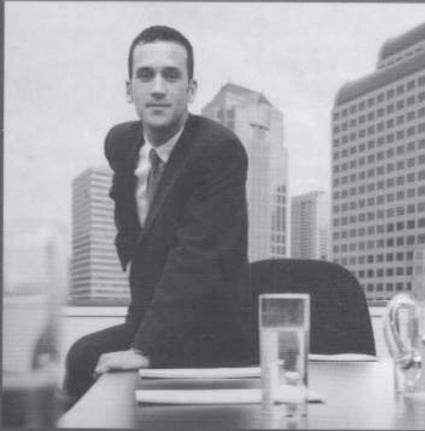


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English for Accounting

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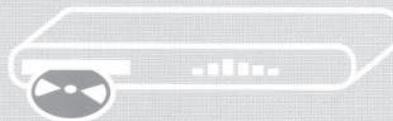
English for Accounting is accompanied by a MultiROM which
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and communication through your computer.

Listening extracts. These are in enhanced audio format that
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audio player on your computer.

Useful documents including an A-Z wordlist in PDF format
that you can print out and refer to.

If you have any problems, please check the technical support
section of the readme file on the MultiROM.



Contents

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22	3 Tax accounting	Tax systems Methods of depreciation Calculating tax expense Taxation planning	Clarifying information Being polite
29	4 Auditing	Role of auditors Types of audits Auditor–client relationship Describing graphs An auditor’s report	Telephone phrases Making appointments Talking about trends Talking about causes and results
35	5 Management accounting	Defining management accounting Statement of Cash Flows Budgets The future of accounting	Meeting phrases
42	6 Investment	Cross-border investments Different accounting practices Intercultural issues Globalization and the role of accountants	Presentation phrases Organizing a presentation
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About the book

English for Accounting has been specifically developed for people working in accounting and finance who need English to communicate in a variety of situations with colleagues and business partners. In this short course, you will learn the language related to accounting as well as ways to achieve your goals in meetings, in presentations, on the telephone, or when making small talk.

English for Accounting consists of six units, each dealing with a different area of accounting. Every unit begins with a **Starter**, which consists of a short exercise, brainstorming, or a quiz. This is followed by dialogues, texts, and authentic documents along with a variety of exercises that enable you to learn the important vocabulary and expressions in context. There are also cross-references to the **Partner Files** at the back of the book. These provide information gap exercises in the form of role-plays and they give you the opportunity to practise the target language with a partner in realistic situations.

At the end of every unit there is an **Output** activity, which is connected with the topic of the unit and provides opportunities for discussion. Throughout the book there are **Did you know?** boxes that give extra information about accounting and general working life in English-speaking countries. When you have finished this course, you have the opportunity to test your knowledge of the vocabulary from the units with the crossword in **Test yourself!**

At the back of **English for Accounting** you will find the **Answer key**, to which you can refer to check your answers. There is also a **Glossary of financial terms** and **Transcripts** of all the listening extracts.

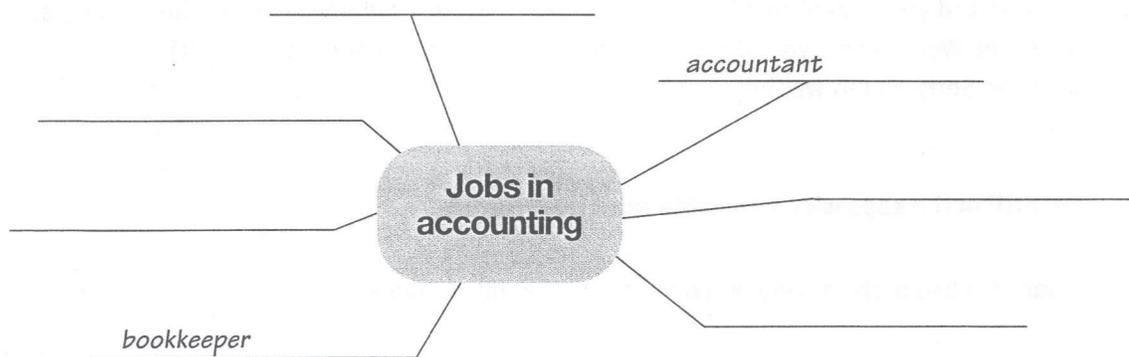
The **MultiROM** contains all the **Listening extracts** from the book. These can be played through the audio player on your computer, or through a conventional CD-player. In order to give yourself extra listening practice, listen to it in your car. The **Interactive exercises** let you review your learning by doing extra activities on your computer; this will be particularly valuable if you are using the book for self-study. As well as a summary of **Useful phrases and vocabulary** there is also an **A-Z wordlist** with all the key words that appear in **English for Accounting**. This includes a column of phonetics and a space for you to write the translations of the words in your own language.

1

Introduction to accounting

STARTER

Make a list of all the different types of job you know about in accounting.



- 1 Here are some jobs and definitions. Fill in the gaps in the definitions with words from the box below.

specializing • studying • for inspecting its accounts • processing the records
 • giving administrative support • to inspect its accounts

Trainee accountants

Accountants who are _____¹ for professional examinations

Bookkeepers

Administrative staff responsible for _____² of a business's financial activities

Tax accountant

An accountant _____³ in a company's tax affairs

Back-office manager

Person in charge of the staff responsible for _____⁴ to the Finance department

Internal auditors

Employees of a company who are responsible _____⁵.

External auditors

People employed by an outside firm of accountants and hired by a company

to _____⁶.

AUDIO



2

2 Michael Rogers, a CPA (Certified Public Accountant) from the US is meeting Paul Martens, the CFO (Chief Financial Officer) of a company in Belgium. Listen to Michael's conversation with Mr Martens' secretary. Are there any jobs mentioned which are not included in the activities on the previous page?

AUDIO



3

3 Now listen to the meeting. What is the reason for the meeting?

4 Here are some mixed-up phrases from the conversation. Re-order them so that they make sense.

- | | |
|--|-------------------------------------|
| 1 in Mr moment Martens you with will be a. | 5 come Please in seat take and a. |
| 2 have Did you a flight nice? | 6 call finishing He's just phone a. |
| 3 coffee Would some you like? | 7 to nice you meet It's. |
| 4 keep Sorry you to waiting. | |

Now fill in the gaps with a suitable word from the box.

bad • absolutely • very • know • start • fill • fairly

- 1 You're _____ right.
- 2 Would you like to _____ by telling me a little about your experience?
- 3 I guess you _____ that I studied economics in New York.
- 4 And then I'll _____ you in on our group.
- 5 Your C.V. is _____ impressive.
- 6 But that's not a _____ thing.
- 7 We're _____ international here now.

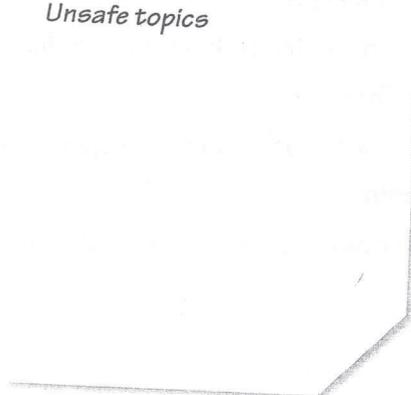
Listen again to the meeting and check your answers.

5 Make two lists. In the first, write down topics which would be safe to talk about with a foreign business partner. In the second, write down unsafe topics. Compare with a partner.

Safe topics



Unsafe topics



6 Work with a partner to practise greetings and small talk. Look at the phrases in the box before you go to the Partner Files.


PARTNER FILES

 Partner A page 50
 Partner B page 52

USEFUL PHRASES

Meeting people

Hello, Mr/Ms ... I'm
 It's nice to meet you.
 – (It's) Nice to meet you, too.
 May I introduce you to ... ?
 I'd like to introduce you to
 Have you met ... ?

Offering hospitality

Can I take your coat?
 Please come in and take a seat.
 Can I get you a cup of coffee/tea?
 Would you like something to drink?
 – Yes, please. / Yes, that would be great.
 – No, thank you. / No, thanks.

7 What do the following abbreviations mean? Check your answers in the article below.

GAAP • IFRS • IAS • IASC

International accounting

International companies can choose how they present financial information to outside parties. The rules and regulations between countries vary significantly. Accountants worldwide are familiar with the words 'Generally Accepted Accounting Principles (GAAP)'. Some of the basic principles are:

- the going concern principle
- the prudence principle
- the matching principle
- the consistency principle.

The development of these principles has greatly differed between countries. For example, in most English-speaking countries it is often accepted practice to offset unrealized gains

from unrealized losses, or to re-value long term assets upwards, provided sufficient proof of the current value can be shown. This means that accounts can have very different values, depending on whether the company chooses to follow local accounting standards, International Financial Reporting Standards (IFRS) – formerly the International Accounting Standards (IAS) – or U.S. GAAP. Whether the company can choose is governed by the laws of the country where it is registered. For example, the U.S.A. and Japan currently allow publicly-traded companies to prepare their financial statements using the standards of the International Accounting Standards Committee (IASC), but they must also include a reconciliation to domestic GAAP.

8 Use words from each box to make word partnerships. Then match them to the definitions below.

outside • accepted • English-speaking • local accounting • publicly-traded

company • practice • standards • parties • countries

- 1 A firm that sells its shares to anyone who wants to buy them.
- 2 For example, Australia, the U.K., and the U.S.A.
- 3 The way that most people do something.
- 4 The rules and regulations which state how accountants operate in a particular place.
- 5 People or groups who are not involved with the company.

9 The article mentions four basic principles of accounting. Match them to the definitions below. Then check your answers in the glossary (page 58).

1

This principle is concerned with the timing of the recognition of transactions in the accounts. Items are recorded when the income or expense arises, and are not dependent on the movement of cash.

2

When preparing accounts, one must assume that the enterprise will still be viable in the years to come. Practically all accounting items are affected by this assumption, such as the carrying value of fixed assets and inventories, and the ability to repay debts and other obligations.

3

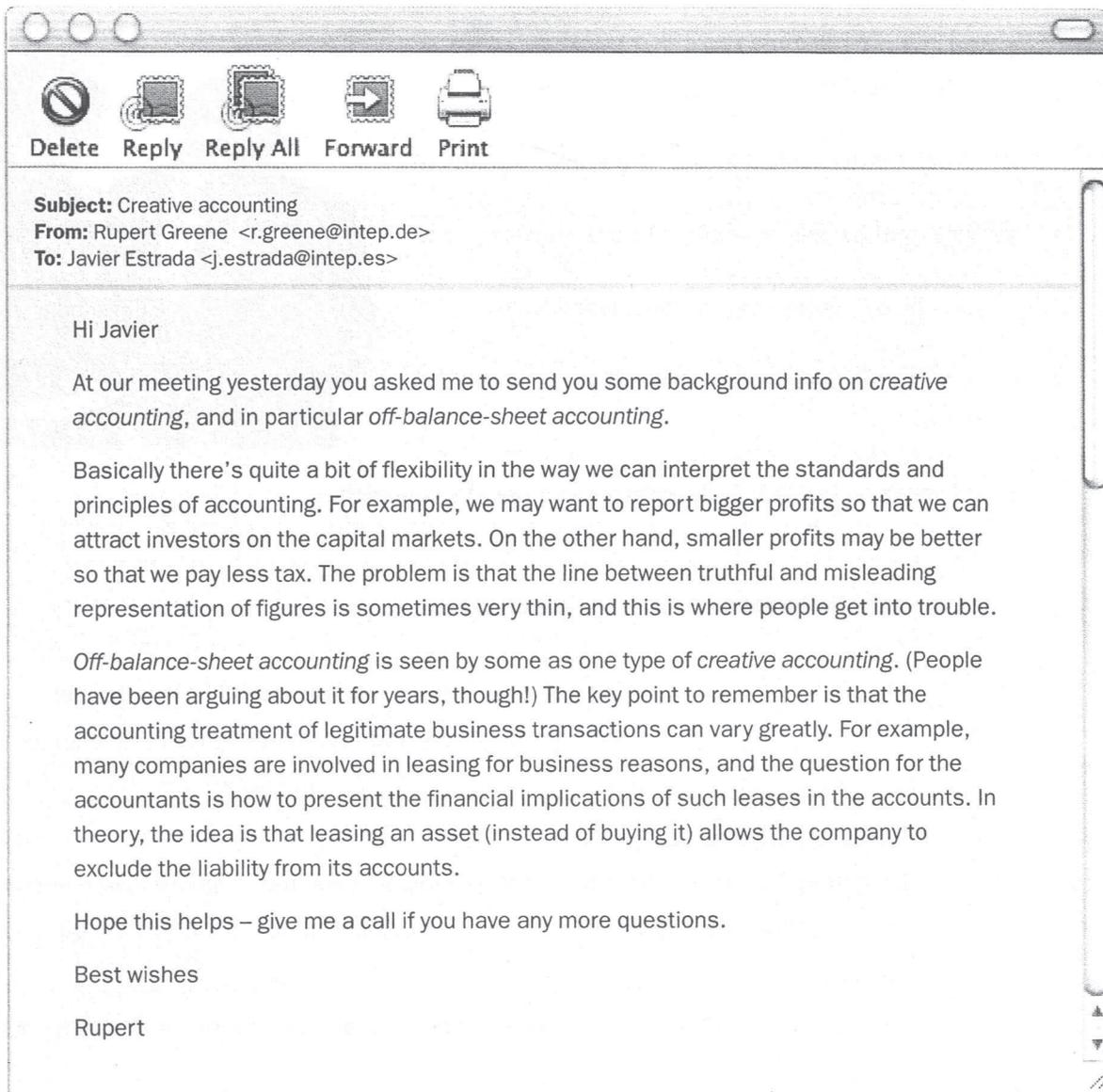
What value should be given to the numbers in the accounts? It is normal to act pessimistically, so that profits and assets are not overstated, and expenses and liabilities realistically valued.

4

Accounts should be produced using the same principles from one year to the next. Deviations from this principle must be noted, and the effects on the accounts shown.

10 Do you know of any differences in the application of these principles between countries? What should a visiting accountant know about the principles in your country? Make notes, and prepare to brief someone else in the class.

L1 Read this email on creative accounting, and then decide if the statements below are true or false .



- 1 Accountants agree that *creative accounting* is a good thing.
- 2 *Off-balance-sheet accounting* is one way of *creative accounting* – there are others.
- 3 *Creative accounting* is sometimes used to try and attract more investors.
- 4 Accountants are allowed some flexibility in the way they present accounts.
- 5 Leasing is actually illegal.
- 6 Big profits mean paying less tax.
- 7 When a company leases an asset, the accountant doesn't have to include it in the accounts.



12 Listen to the conversation between the Managing Director (Charles) and the Financial Director (Sally). Answer these questions. Make a note of the words and phrases that helped you to answer.

- 1 Do Charles and Sally agree that their company has a debt problem?
- 2 What are the consequences of the debt problem?
- 3 Why do they need a solution to the problem soon?
- 4 How does Charles suggest they deal with it?
- 5 Has Charles made a final decision about what to do?
- 6 Do we know whether Sally agrees with Charles's suggestion?



13 Fill in the gaps in the extracts from the conversation.

Charles The shareholders are getting nervous, and the markets don't like our level of g _____¹. We're getting more and more questions about whether we can s _____ our d _____², in the l _____ t _____³.

It's getting harder to attract new investments. So I wanted to speak to you about what we can do. We're investing a s _____⁴ amount in our new factory in Germany so we need to c _____ u _____ w _____⁵ a solution soon. The new factory is very important, and we're looking at leasing the assets.

Sally You're thinking that if we l _____ the a _____⁶, we can exclude these l _____⁷ from the balance sheet?

Charles Exactly.

Sally You know that the auditors will look very closely at these transactions? The accounting s _____⁸, or principles if you like, mean that finance leases must be d _____⁹. If we are effectively the owner of these assets, then we're not going to have a c _____¹⁰.

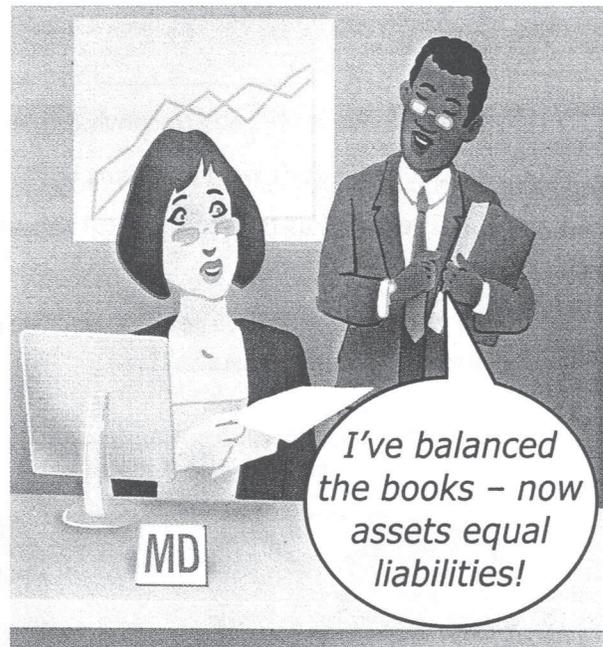
Now listen again and check your answers.

14 Match these words with their meanings.

- | | |
|---------------|--|
| 1 debt | a an agreement between two or more parties, often written |
| 2 lease | b the opposite of assets |
| 3 gearing | c buying or selling something |
| 4 liabilities | d someone who owns parts of a company |
| 5 contract | e money that is owed |
| 6 transaction | f an agreement where the owner of something allows someone else to use it for a specific time for a sum of money |
| 7 shareholder | g the proportion of own capital to borrowed funds when buying an asset or financing a company |

15 Use *liability, liabilities, debt, or debts* to complete the sentences below.

- He'll have paid his _____ off by next year.
- Look at the assets and _____ on the balance sheet if you want to know how the company's doing.
- Many developing countries are burdened by heavy _____.
- We need to look at the long-term _____ before we think about any major new purchases.
- The partnership has limited _____ status.
- Current _____ are those which are paid off within a year.
- The company's in _____ to the tune of 10 million.

**Now listen and check your answers**

16 In the conversation in exercise 11, Sally agrees with Charles. Here are some other ways to agree or disagree with someone. Put a tick (✓) next to the ones which mean agreement, and a cross (X) next to those which mean disagreement.

- | | |
|--|--|
| 1 You've got a point there. <input type="checkbox"/> | 5 It's just not on. <input type="checkbox"/> |
| 2 I see what you mean. <input type="checkbox"/> | 6 Fair enough. <input type="checkbox"/> |
| 3 Me neither. <input type="checkbox"/> | 7 Point taken. <input type="checkbox"/> |
| 4 No way. <input type="checkbox"/> | |

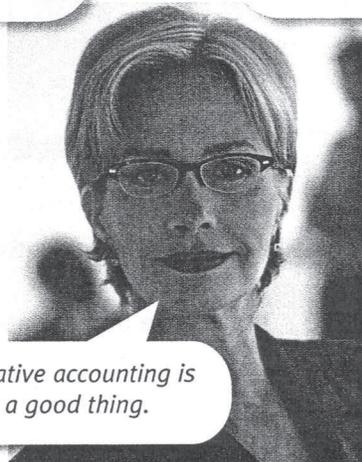
17 Now use the above expressions to respond to the following statements. Note that more than one answer is possible.

- 1 'I think we should work fewer hours. I mean, almost everyone else in this company now works 35-hour weeks, and look at us!' '_____'
- 2 'Can you come in next weekend?' 'What again? _____'
- 3 'I'd like you to prepare the figures for next week's presentation. But this time could you make sure that you put our current client's name on the slides.' '_____'
- 4 'We need to finish this by next Wednesday. How about if we postpone the department party? There's no other way.' '_____'
- 5 'Have you had a look at this? It's a disaster, a catastrophe!' 'Hang on, it can't be that bad. Ah, _____'
- 6 'Look, we really need to convince the boss that some of the transactions have been wrongly booked. I don't want problems later.' '_____'
- 7 'They want us to take a pay cut this year.' 'Are you kidding? _____'

18 Do you agree with the speaker? Use the phrases above to agree or disagree and continue the discussion with a partner.

Off-balance-sheet accounting should be made illegal.

It's time the world moved to the same accounting principles – everyone should use U.S. GAAP.



Creative accounting is a good thing.

OUTPUT**Becoming an accountant****CPA**

The body which represents the interests of accountants in the U.S. is the American Institute of Certified Public Accountants (AICPA). To become a CPA, the applicant must meet the requirements of the state where he/she wishes to practise, as established by the law of that state and administered by the state boards of accountancy.

To qualify for certification, the applicant must:

- 1 study accountancy at a college or university
- 2 pass the CPA examination, which consists of four sections:
 - Business Law and Professional Responsibilities
 - Auditing
 - Accounting and Reporting – Taxation, Managerial, and Governmental and Not-for-Profit Organizations
 - Financial Accounting and Reporting – Business Enterprises
- 3 have professional work experience in public accounting.

Most states require a qualified CPA to carry out regular professional training.

Chartered Accountant

The major accounting body in the U.K. is the Institute of Chartered Accountants in England and Wales (ICAEW).

To become a Chartered Accountant, the applicant must:

- 1 have sufficient school or university education
- 2 apply for a training contract with a recognized company, which will give him/her three years' work experience
- 3 pass the ICAEW's exams on:
 - Accounting
 - Audit and Assurance
 - Business Finance
 - Business Management
 - Financial Reporting
 - Taxation
- 4 as well as prove his/her knowledge on Commercial and Company Law, and then with further exams on:
 - Business Environment
 - Business Life Cycle
 - Advanced Case Study

OVER TO YOU

How does the process of becoming an accountant in your country compare to those described above?

Describe the general accounting rules and practices in your country. What standards are used to prepare financial information? How is off-balance-sheet accounting treated in your country? How is leasing reported in accounts?

2

Financial statements and ratios

Statement of Financial Position, Notes, Annual Report, Budget ...

Balance Sheet, Statement of Cash Flows, Statement of Earnings ...

Market Capitalization, Discounted Cash Flows ...

STARTER

Management Accounts, Investments, Statement of Shareholders' Equity ...



The man in the picture is thinking about different types of financial statements. Which ones are you familiar with? Can you explain what they are used for?

- 1** Here are two typical examples of the disclosures required under U.S. law. In the U.K. one would be called a *Balance Sheet*, and the other a *Profit and Loss Statement*. In the U.S. they have other names. Which is which?

Statement of Financial Position

At December 31 (In millions)

	2006	2005
Assets		
Cash and equivalents	\$ 13,485	\$ 18,278
Investment securities	67,833	61,890
Current receivables	7,290	6,870
Inventories	3,444	3,281
Financing receivables	121,189	113,871
Insurance receivables	2,560	2,187
Other receivables	985	1,009
Property, plant and equipment – net	46,005	44,875
Investments	18,320	18,320
Intangible assets	19,836	17,998
All other assets	65,871	62,755
Total assets	\$ 366,818	\$ 351,334
Liabilities and equity		
Short-term borrowings	\$ 95,531	92,736
Accounts payable	12,894	10,209
Progress collections	2,890	3,897
Dividends payable	1,155	1,102
All other current costs and expenses accrued	9,598	8,293
Long-term borrowings	75,728	70,354
Insurance liabilities, reserves and annuity benefits	85,389	84,283
All other liabilities	37,487	33,763
Deferred income taxes	12,736	14,198
Total Liabilities	333,408	318,835

Minority interest in equity of consolidated affiliates	2,374	2,179
Common stock	1,214	1,214
Accumulated gains/(losses) – net	2,189	2,427
Other capital	9,827	9,834
Retained earnings	30,545	29,772
Less common stock held in treasury	(12,739)	(12,927)
Total share owners equity	31,036	30,320
Total liabilities and equity	\$ 366,818	\$ 351,334

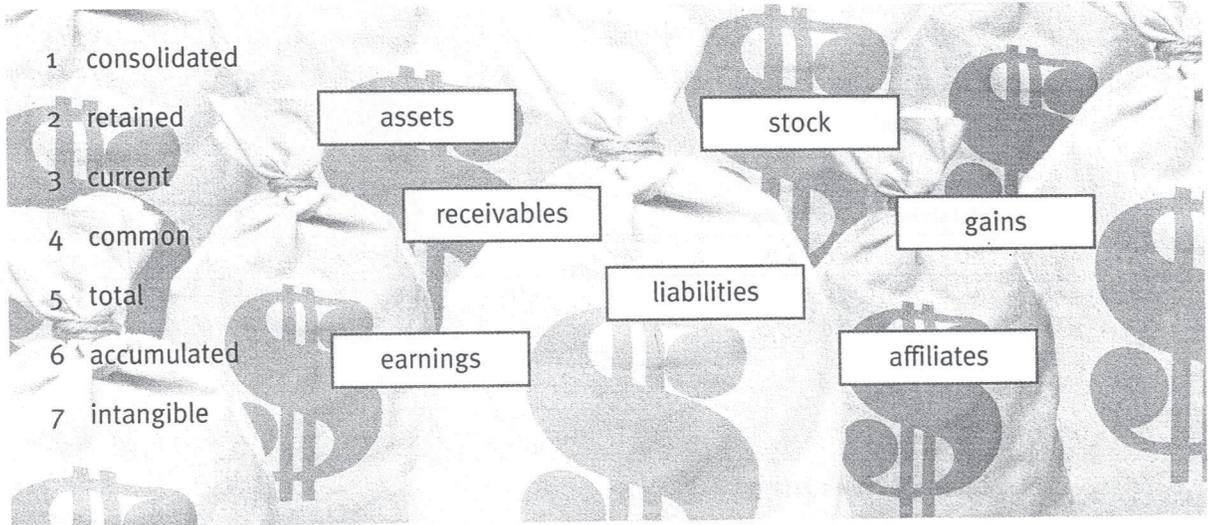
Statement of Earnings

For the years ended December 31

(In millions; per share amounts in dollars)

	2006	2005	2004
Revenues			
Sales of goods	\$ 80,746	\$ 78,847	\$ 74,387
Sales of services	4,384	4,267	5,925
Other income	1,212	1,434	1,228
Total revenues	86,342	84,548	81,540
Costs and expenses			
Cost of goods sold	28,659	27,498	25,728
Cost of services sold	4,112	4,255	5,601
Interest and financial charges	8,518	8,855	8,645
Insurance losses and policyholder and annuity benefits	10,372	10,137	9,928
Provision for losses on financing receivables	4,374	4,561	4,612
Other costs and expenses	16,811	16,735	14,480
Minority interest in net earnings of consolidated affiliates	215	188	195
Total costs and expenses	73,061	72,229	69,189
Earnings before income taxes and accounting changes	13,281	12,319	12,351
Provision for income taxes	(3,547)	(3,188)	(3,441)
Earnings before accounting changes	9,734	9,131	8,910
Cumulative effect of accounting changes	0	(212)	0
Net earnings	\$ 9,734	\$ 8,919	\$ 8,910
Per-share amounts			
Per-share amounts before accounting changes			
Diluted earnings per share	\$ 1.22	\$ 1.16	\$ 1.13
Basic earnings per share	\$ 1.23	\$ 1.17	\$ 1.14
Per-share amounts after accounting changes			
Diluted earnings per share	\$ 1.22	\$ 1.13	\$ 1.13
Basic earnings per share	\$ 1.23	\$ 1.14	\$ 1.14
Dividends declared per share	\$ 0.49	\$.046	\$ 0.45

2 Match the words with their partners, and then look at the statements again to check.



Now match the word partners to their definitions.

- a An asset which does not have a physical nature (such as a trademark or a patent).
- b The holding company owns a minority interest (less than 50%), but the accounts are nevertheless consolidated.
- c The total legal obligations of a company to pay other parties.
- d The ordinary shares held by the owners, who therefore are the last to receive their money back in the event of liquidation.
- e Amounts that will be collected in the normal course of business within one year.
- f Profit which is not paid out to shareholders in the form of dividends, but instead is kept by the company to reinvest or pay off debts.
- g The amounts affecting common stockholders, but not from movements in the stock of the company (e.g. currency translation adjustments).

3 Compare the financial statements on pages 14 and 15 to ones from your country. Make some notes for a colleague in the U.S., summarizing the major differences in the layout.

DID YOU KNOW?

The U.K. and the U.S.A. often have different terms for the same thing. Here are some important examples. Can you think of any others?

U.K.	U.S.A.	Your language
Balance Sheet	Statement of Financial Position	
Profit and Loss Statement	Statement of Earnings	
shareholder	stockholder	
stock	inventory	
gearing	leverage	

4 Choose the best way to say these numbers and equations. (Sometimes more than one way is possible.)

- 23.56
- a twenty-three comma fifty-six
 - b twenty-three point fifty-six
 - c twenty-three point five six
 - d two three point five six

- 1999
- a nineteen ninety-nine
 - b nineteen hundred ninety-nine
 - c nineteen nine nine
 - d one nine nine nine

- 10,001
- a one thousand and one
 - b ten thousand one
 - c ten thousand and one
 - d one triple oh one

- 2003
- a two thousand three
 - b two double oh three
 - c two thousand and three
 - d twenty oh three

- £63.30
- a sixty-three pound and thirty pence
 - b sixty-three pounds and thirty pence
 - c sixty-three pounds and thirteen pence
 - d sixty-three pounds thirty

- 5,400,342
- a five hundred thousand, four hundred, three hundred and forty-two
 - b five million, four hundred thousand, three hundred and twenty-four
 - c five million, four hundred thousand, three hundred and forty-two
 - d five billion, four hundred thousand, three hundred and twenty-four

- €45,638
- a forty-five thousand, six hundred and thirty-eight euro
 - b forty-five thousand, six hundred and eighty-three euro
 - c forty-five thousand, six hundred and three eight euro
 - d forty-five, sixty-three, eight euro



Now listen and check your answers.

DID YOU KNOW?

Saying numbers in English

Notice how we use the decimal point in English:

6.02	six point oh two
0.04	zero (or nought) point oh four
0.007	zero point double oh seven
56.345	fifty-six point three four five [NB: single numbers after the decimal!]

Here commas – and not decimal points – are used:

12,076	twelve thousand and seventy-six
2,534,210	two million, five hundred and thirty-four thousand, two hundred and ten

Note the following:

1,000,000	one million
1,000,000,000	one billion

Sums of money:

€3.67	three euros sixty-seven OR three euro sixty-seven
\$5 m	five million dollars

Note how we say years:

1987	nineteen eighty-seven
2003	two thousand and three
2030	two thousand and thirty (or twenty thirty)

5 Work with a partner to check on some figures. Use the information in your Partner File to make a phone call.

PARTNER FILES

Partner A page 50
Partner B page 52

6 We often make comparisons when talking about financial statements. Look again at the Statement of Earnings on page 15 and find the figures for the items below. Which sentences (a–h) can be used to describe and compare the figures?

- | | |
|---|--------------------------------|
| 1 Net earnings | 5 Total revenues |
| 2 Interest and financial charges | 6 Dividends declared per share |
| 3 Basic earnings per share (2005 and 2006) | 7 Other costs and expenses |
| 4 Earnings before income taxes and accounting changes | 8 Sales of services |

a *It's better than last year.*

c *There's quite a drop from 2005 to 2006.*

d *It's not as low as two years ago.*

b *It's gone down since last year.*

g *It's virtually the same.*

f *A lot more this year.*

e *Slightly more this year.*

h *It's exactly the same.*

7 Write definitions for the following terms:

- Working Capital
- Return on Assets
- Debt/Asset Ratio

AUDIO



7

Now listen to an accountant explaining ratio analysis to some managers in her company and check your answers.



DID YOU KNOW?

Saying equations/formulas

+	plus, and, add	$a \times b = c$	a times (or multiplied by) b equals c
-	minus, less, subtract	$\frac{a-b}{c}$	a minus b divided by (or over) c
÷	divided by	$\frac{\text{total assets}}{\text{total liabilities}}$	total assets divided by total liabilities
—	divided by, over		
x	multiplied by, times		
=	equals, is		

8 Some other common ratios are given below. Match the ratios with the formulas (1–7) and the descriptions (a–g).

gross profit margin • earnings per share • return on equity • average interest rate • debt/equity ratio • inventory turnover • price/earnings ratio

1 $\frac{\text{interest expenses}}{\text{liabilities} - \text{accounts payable}}$

5 $\frac{\text{revenue} - \text{cost of goods sold}}{\text{revenue}}$

2 $\frac{\text{net income} - \text{dividends on preferred stock}}{\text{average shares}}$

6 $\frac{\text{cost of goods sold}}{\text{average inventory}}$

3 $\frac{\text{net income}}{\text{shareholder's equity}}$

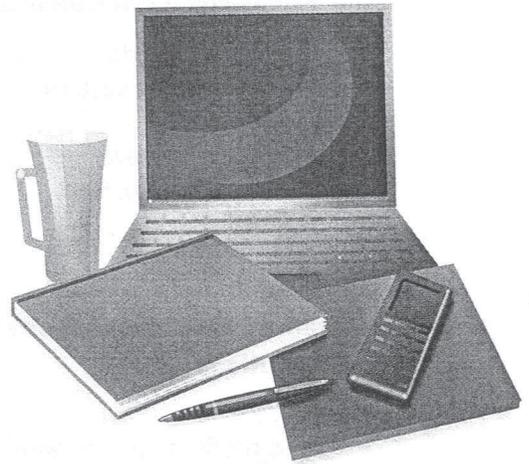
7 $\frac{\text{market value per share}}{\text{earnings per share}}$

4 $\frac{\text{total liabilities}}{\text{shareholder's equity}}$

- Gives the company's pricing policy and mark-up margins. An adequate gross margin allows a company to pay its expenses, and then expand.
- Determines the average interest rate at which a company borrows funds.
- Compares the current market price with earnings to calculate if a stock is over or under valued. Used as a prediction or expectation of future performance.
- Indicates the return a company gets on the owners' investment. Companies that make high returns often do not require more debt investments.
- Shows the turnover of inventory, and can be compared against sales figures, to show the demand for the company's products.
- Indicates what proportion of equity and debt an enterprise uses to finance its assets. A more stringent test is to use just the long-term debt.
- Calculates the profit made on a per-share basis. This is quoted by U.S. publicly held companies in their financial statements.

9 Use words from the descriptions above to complete the table. The first one is done for you.

VERB	NOUN
to predict	prediction
to _____ 1	payment
to _____ 2	comparison
to _____ 3	calculation
to expect	_____ 4
to _____ 5	indication
to _____ 6	expansion
to perform	_____ 7



Now use verbs or nouns from above to complete the sentences. You may need to change the form.

- The figures are a little different to what we were _____.
- The problems in the Middle East have made it really difficult to _____ next year's turnover.
- I think there are some mistakes in the _____.
- The fund _____ much better last year. This year has been very disappointing.
- The _____ into Eastern Europe looks good.
- We need to make sure that our customers _____ us on time.

10 Here are some phrases the accountant used during the meeting in exercise 7. Can you fill in the missing words?

questions • just • that • got • over • ask

- Norma has asked me to go _____ some of the ratios I used in the report.
- Everyone _____ it?
- Before you _____ ...
- Is _____ clear?
- I was _____ coming to that.
- OK, if there are no _____, I'd like to ...

AUDIO



8

Now listen to check your answers.

- ## 11 Look at the financial statements of the company at the start of the unit, and discuss with your partner whether you have enough information to calculate the working capital and inventory turnover ratios. If you need more details, write an email to your contact in the company and request the information you need.

OUTPUT

Listen to what these people say about financial statements and fill in the gaps.

AUDIO



9



Accountant: The financial statements of a company are the most important documents that a company produces. Investors, c_____¹, banks, customers – everybody reads the statements. The accounts show what a company does with its money, how p_____² it is, and also how risk-worthy it is. And you can see warning signs for the future. Our s_____ e_____³ depend on properly prepared accounts.

Trader: I agree that the accounts of the companies have a lot of information, but it's very hard to understand it all. In my job, I need to know the f_____ s_____⁴ of a company. People interested in the stock exchanges r_____ o_____⁵ experts like me. But there are also many other s_____⁶ of information. As for the accounting rules, they don't interest me, or anyone else, at all. That's s_____⁷ for the accountants.



Investor: All those numbers, and I haven't g_____ a c_____⁸ what they all mean. Pages and pages of them, and apparently they are often only 'estimates', or they can be i_____⁹ in one of many ways. What's the p_____¹⁰ when the accountants t_____¹¹ can't agree on how to show the numbers? Most of us need a lot more information and knowledge about a company than what we get in the accounts.

Layman: Is it all ready that hard? Can't we just look at the profit or loss of the company to f_____ o_____¹² how it's doing? I don't see all the f_____¹³. Accountants are there to tell us about the numbers, and I thought that's what they do. They are t_____¹⁴ to report these numbers, and it can't be that hard to c_____ u_____¹⁵ everything that's happened.



Managing Director: This is e_____¹⁶ the problem. There are many ways to change the numbers to give a better p_____¹⁷. Some of my peers have been guilty of doing just that. The accountants and auditors have to t_____ r_____¹⁸ for the way that numbers are reported. Accountants and their work are extremely important, they just need to make it all a little easier to understand.

Which comments do you agree with? How would you respond to the people you don't agree with?

OVER TO YOU

In your experience, what do people think of the work done by accountants? What do they generally think about financial statements?

How can accountants make the numbers they produce easier to understand?

3

Tax accounting

STARTER

There are some types of tax in the boxes below, but some letters are missing. Can you complete the words?

1 inc_m_

4 c_rp_r_te

6 v_l__dd_d

2 s_l_s

5 pr_p_rty

7 _xc_s_

3 inh_rit_nc_

Which taxes in the boxes above are you familiar with? Briefly explain each one. What do foreign companies and individuals need to know about the taxation system in your country?

AUDIO



1 A manager has asked his accountant to explain depreciation. Listen and answer the questions.

- 1 What happens to fixed assets?
- 2 How do accountants do this?
- 3 What are the five methods of depreciation the accountant mentions?

a s_____l_____

b d_____b_____

c s_____ -of-the-y_____ -d_____

d u_____ of p_____

e h_____ of u_____

DID YOU KNOW?

In the U.S. and Britain accounting methods for income tax and financial reporting are independent of each other. This means that there can be large differences between the profit recorded in the financial statements and the profit for the income tax calculation.

2 Now look at the accountant's list of definitions. Can you match them to the methods of depreciation she mentioned in exercise 1?

- 1 _____: The asset is depreciated by a constant amount every year. The depreciation expense for each year is calculated by subtracting the salvage value from the acquisition cost, and then dividing the difference by the useful life of the asset.
- 2 _____: The depreciation expense is calculated by first subtracting the salvage value from the acquisition cost. The difference is multiplied by a fractional amount, where the denominator and numerator are based on the addition of the figures in the asset's useful life.
- 3 _____: The depreciation is 'accelerated' by this method, so that the expense is greater in the first years. The salvage value is ignored in the calculation, but the asset will not be depreciated below this value.
- 4 _____: The expected usage of the asset is taken into account in determining the rate of depreciation.
- 5 _____: The expected output of the asset is taken into account in determining the rate of depreciation.

3 Prepare a short presentation on depreciation methods. First read the questions below and note down your answers. Then organize your notes and give your presentation.

- What depreciation method does your company/client use on its assets?
- Why has your company/client chosen that method?
- What are the alternatives in your country for depreciating assets?

AUDIO



4 An accountant explains the taxation expenses disclosure requirements to a CEO. Listen to the dialogue and answer the questions.

- How does the accountant calculate the profit before tax figure?
- Why is the taxation amount only an estimate?
- Do they file the interim tax return?

Now listen again and complete the CEO's notes.

Taxation expense is calculated by subtracting _____
 _____¹ from _____²
 This gives us an estimate, which we use to _____
 _____³
 We need it to justify _____⁴
 If there is any difference between the profit before tax and the
 taxable income, we _____
 _____⁵

5 Later in the meeting the CEO asks more questions. Match them to the accountant's answers (a-g)

- | | |
|---|--|
| 1 Will this also be checked? | a 600 euro per hour. |
| 2 Could you just go over it again? | b I'm afraid that will be too late. |
| 3 How is the profit calculated? | c Every three months. |
| 4 How much is your fee? | d It's basically income minus expenses. |
| 5 How often do they check? | e Yes, of course. Let me try to explain it differently
this time. |
| 6 Who'll handle the presentation? | f It should be. I'll ask Jürgen to make sure it's done |
| 7 How about if we send it in next week? | g Susanne. |

6 Use the words from the box to complete the following conversation.

depends • so • clarify • mean • basically • exactly

- Kathy** Hi Javier. How's it going?
Javier It's not easy, all this English. We didn't do any of this on my course.
Kathy Can I help?
Javier Well, maybe you could _____¹ a couple of things. Let's see. Ah, here we are. *Provision for income taxes*. What does that _____²?
Kathy OK. *Provision* means putting money aside so that we have something to pay with later. So *provision for income taxes* is talking about the current year's tax expense which will have to be paid in the future.
Javier Like provisional?
Kathy Not _____³. *Provisional* just means temporary, you know, not final. Like a provisional budget. It's not the final version.
Javier I see. And what about *deferred income tax balances*. What does *deferred* mean?
Kathy _____⁴ put off to another day. The income has been recognized in the accounts, but the tax owing on that income will only be realized in the future.
Javier OK. How does that affect associated companies?
Kathy Well, it _____⁵. Associated companies and affiliates are a special case. Deferred taxes are not normally recognized on undistributed earnings, but only if the plan is to re-invest the profits.
Javier _____⁶ if we don't invest the profits, we pay tax.
Kathy Exactly.



Now listen and check your answers. Then explain – in your own words – what *provision for income tax* and *deferred income tax balances* mean.

7 Now work with a partner to practise explaining and clarifying information. Each of you should explain a standard procedure from your workplace, and the other asks questions about it. Then swap partners and explain the procedure you have just heard to another person.

In my office the procedure for claiming travel expenses is ...

The way private people pay income tax in my country is normally to ...

DID YOU KNOW?

Clarifying information

- | | |
|---|--------------------------------------|
| Maybe you could clarify a couple of things. | – Sure. / Certainly. |
| What do these figures mean again? | – Basically, they just mean that ... |
| Can we just go over that one more time? | – Of course. / No problem. |
| Could you repeat that, please? | – Sure, I said ... |
| So, what you're saying is that the profits are too low. | – That's right. / Exactly. |
| So, this column is wrong? | – Well, not exactly. / it depends. |
| In other words, we'll need to send it by Friday? | – Exactly. |
| When did you say we'd be starting the audit? | – On ... |

8 Match these expressions with *tax* to their definitions.

- | | |
|-------------------|--|
| 1 tax avoidance | a someone who lives in another country for tax reasons |
| 2 tax bracket | b to introduce a new tax on something |
| 3 tax evasion | c to make the tax go up |
| 4 tax exempt | d when you don't have to pay tax on certain income |
| 5 tax exile | e to cancel a tax |
| 6 to abolish tax | f tells you what amount of tax to pay based on income |
| 7 to impose tax | g trying not to pay tax (legal) |
| 8 to increase tax | h trying not to pay tax (illegal) |

9 Use words from the box to fill in the gaps.

abolish • bracket • breaks • exempt • exile • increase • property • return

- The government needs more money, so it is planning to _____ taxes.
- He earns a lot of money – he must be in the highest tax _____.
- She lives there because she has to – she's a tax _____.
- They are planning to _____ the tax on large company cars, and replace it with a tax on all company cars.
- She is a student, so she is tax _____.
- The government is planning to introduce new tax _____ for IT companies.
- Don't buy a house this year – the _____ taxes are being abolished next March.
- A tax _____ is the same as a tax declaration – it's a list of income and tax deductible expenditure for the tax authority.

AUDIO



10 An accountant from a Swiss parent company, Uta Meier, telephones the Internal Revenue Service (IRS) in the U.S. to discuss the treatment of certain costs. Listen to the conversation. What is the result of the discussion?

Fill in the gaps in the extract from the discussion.

Uta We're _____¹. I'm

 _____².

IRS Look. I'm sorry _____
 _____³. I suggest _____
 _____⁴ to our office. We can then consider your
 arguments in detail.

Uta Fine. I'll _____ 5. Thanks _____
_____ 6.

Now listen again and check your answers.

11 Find words from the conversation which mean the following:

- | | |
|--|-------|
| 1 to improve a machine or equipment | _____ |
| 2 written suggestion | _____ |
| 3 an opinion of what something means | _____ |
| 4 rules | _____ |
| 5 to include as an asset | _____ |
| 6 an explanation of what something means | _____ |

USEFUL PHRASES

Polite language

Uta and the IRS agent didn't agree but they kept their conversation polite by using certain phrases and expressions to soften their statements. Most English speakers expect this type of 'polite' language and think people who don't use it are too direct and even impolite.

Here are some typical phrases you can use to 'soften' what you say.

Excuse me, but ...

I'm sorry but ...

I'm afraid that's not quite right.

We have a slight problem.

At first glance, it appears clear ...

This seems to be ...

Could you please ...

12 Use phrases from the box to 'soften' the following statements.

1 *I can't agree with your comments. They don't make sense.*

3 *I disagree. You're wrong.*

4 *Your idea is rubbish.*

5 *Your calculations are full of mistakes.*

2 *This conversation is going nowhere. Call me back later.*

6 *You don't have the necessary experience to do this job.*

13 The new head of your finance department wants to know about the taxation system in your country. He has also heard that the taxation system is closely connected with the financial reporting requirements. Write a report to him explaining the major points and referring to the relevant laws.

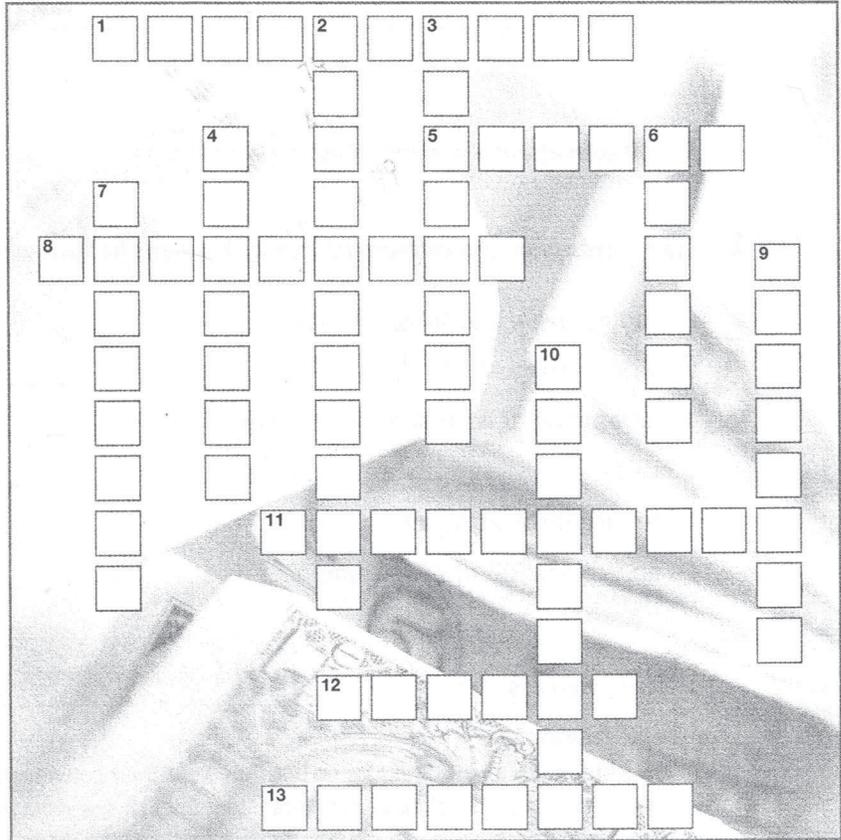
14 Use the clues to complete the crossword.

Across:

- 1 suggestion, often in writing
- 5 a plan of how much you are going to spend
- 8 not permanent
- 11 the worth of an item which has finished its useful life (2 words – 5, 5)
- 12 opposite of loss
- 13 money you get for doing something

Down:

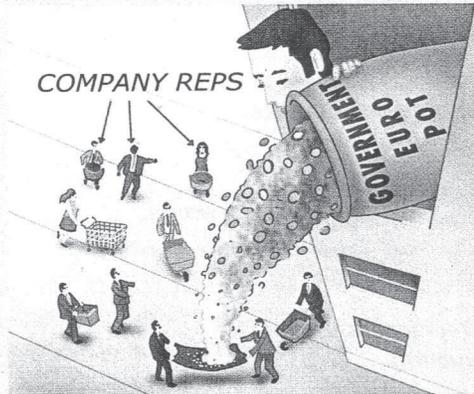
- 2 you might get this when someone dies
- 3 to take away; opposite of *add*
- 4 wealth
- 6 excused from paying taxes: tax ...
- 7 delayed
- 9 you pay this when you borrow money
- 10 putting money aside



OUTPUT

Taxation planning

The governments of some countries use the taxation system to promote investment. Taxation laws are enacted to encourage domestic and international



corporations to either invest or raise capital, and tax breaks are given to specific industries or to certain types of expenses to attract investors and

consumers. As a result of these taxation measures, there is significant scope for taxation planning in some countries and companies would be well advised to use such opportunities to structure their business in the most tax effective manner.

For effective taxation planning, companies rely on tax specialists who must have an excellent understanding of both their clients' business and the various taxation laws. Companies turn to their tax advisers for help on all the taxes for which they are liable, such as income tax, sales tax, property tax and payroll tax. These tax specialists are normally Chartered Accountants and CPAs who are not only involved in the preparation of tax returns (compliance), but who also give advice on a multi-national company's domestic and foreign operations (consulting). Furthermore, they represent their clients before the tax authorities.

OVER TO YOU

- Can you think of any tax breaks which the government in your country has introduced recently?
- Where can a potential investor go for advice?
- What tax advice would you give to an individual who comes to live and work in your country?

4

Auditing**STARTER**

What does an auditor do? Look at the following activities and decide which ones are normally done internally or externally.

An auditor ...

- 1 *spends time getting to know the business as well as the environment and the industry in which it operates.*
- 2 *analyses the internal business and financial systems used to make and record transactions. . .*
- 3 *gathers evidence on the financial control systems and the figures in the financial statements. . .*
- 4 *gives advice on the business methods and transactions of the company.*
- 5 *examines financial statements to determine whether they conform to generally accepted accounting principles.*
- 6 *prepares the financial statements in accordance with the generally accepted accounting principles of the country where the enterprise operates.*
- 7 *examines the management report and determines whether it conforms to the financial statements.*
- 8 *guarantees the correctness of the figures presented in the accounts.*
- 9 *provides consulting services.*
- 10 *presents a written report to the management of the company, describing whether the accounting records, financial statements and management reports conform to legal requirements.*
- 11 *maintains confidentiality and independence.*

AUDIO



14

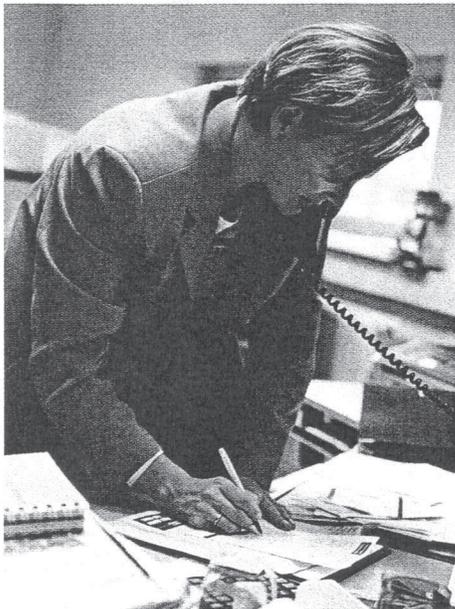
1 Janet Hendley, a partner in an audit firm, calls Claude Bernaud, the CFO of a French company. Listen to the dialogue, and then decide if the statements which follow are true or false .

- 1 Janet wants to talk to Claude about a report.
- 2 Janet thinks that capitalization of costs should be expenses in the P&L.
- 3 Claude agrees with Janet on this point.
- 4 Claude thinks capitalization of costs should be classed under machine upgrades.
- 5 Claude's reasoning is that the upgrades are really investments in the future.
- 6 Janet agrees to reconsider her opinion.

2 Put the letters into the correct order to make words used in the conversation that have a similar meaning to the words on the right.

- | | | |
|-------------------------|--------------------|-----------------|
| 1 L-P-Y-E-R-R-I-I-M-A-N | <u>preliminary</u> | initial |
| 2 S-D-S-I-S-U-C | _____ | talk about |
| 3 G-D-U-E-P-A-R | _____ | improvement |
| 4 T-V-E-I-Y-R-A | _____ | range |
| 5 B-E-S-I-A-Z-L-E | _____ | big |
| 6 G-U-F-E-R-I | _____ | amount of money |
| 7 S-C-O-D-I-N-R-E | _____ | think about |
| 8 E-E-B-A-R-S-N-O-L-A | _____ | sensible |

Now listen again and check your answers.



3 Find the sentence on the right which is closest in meaning to the sentence on the left.

- | | | |
|---|--|---|
| 1 | We have to keep up with the competition. | a We can ignore the competition.
b We can't ignore the competition. |
| 2 | You can't really justify spending so much money on office equipment. | a You can't defend your actions.
b You can defend your actions. |
| 3 | This plan is designed to keep us in business. | a This is a plan to start a business.
b This is a plan to get business. |
| 4 | This was a sizeable investment on our part. | a We spent very little money on this.
b We spent a lot of money on this. |
| 5 | These figures are too material for us to ignore. | a The figures are very high.
b The figures are very low. |
| 6 | I suggest you consider this again. | a Have another think about it.
b Forget it. |
| 7 | I'm sure you'll find it's reasonable. | a You think this is fair.
b I think this is fair. |

4 Here is the follow-up conversation between Claude and Janet, but the sentences are in the wrong order. Re-arrange them so that the conversation makes sense.

- | | | | |
|---|-------------------------------------|--------|---|
| A | <input type="checkbox"/> | Janet | Glad to be of assistance. |
| B | <input type="checkbox"/> | Janet | Good to hear. |
| C | <input type="checkbox"/> | Janet | Tuesday? No, sorry, I'm afraid I'm busy on Tuesday. What about Wednesday morning? At, say, 9 a.m? |
| D | <input checked="" type="checkbox"/> | Janet | Hendley and Sanderson. Janet Hendley speaking. |
| E | <input type="checkbox"/> | Janet | Hi Claude. How's it going? |
| F | <input type="checkbox"/> | Janet | Yes, you too. Bye. |
| G | <input type="checkbox"/> | Janet | Yes, yes. Actually, we had a meeting this morning. I was just about to send you an email. You'll be glad to hear that the partners have agreed with your proposal. |
| H | <input type="checkbox"/> | Claude | Yes, that sounds good, Wednesday at 9. So, Janet, I'll see you then. Have a good weekend. |
| I | <input type="checkbox"/> | Claude | Bye. |
| J | <input type="checkbox"/> | Claude | Erm. One other thing. There are some other things I'd like to go over with you, but I'd prefer to do it in person, not over the phone. Could you come by the office next week sometime? Tuesday, say? |
| K | <input checked="" type="checkbox"/> | Claude | Hi Janet. It's Claude. |
| L | <input type="checkbox"/> | Claude | Listen, Janet. I'm just calling to find out if you've had a chance to look at those capitalization of costs yet. You know – our machine upgrades? |
| M | <input type="checkbox"/> | Claude | Not too bad. Our latest sales figures are quite good so the boss is happy. |
| N | <input type="checkbox"/> | Claude | That's great. It'll really help. |

5 Work with a partner to practise making a telephone call. Use phrases from the box below.

PARTNER FILES 

Partner A page 50
Partner B page 52

USEFUL PHRASES

Telephone phrases

Hello, this is ... from
May I speak to ..., please?
Could you put me through to ... ?
– Janet speaking.
Hello, Janet. It's Claude.

Making appointments

Could you come by the office next week?
How/What about Monday at 9.30?
Can you make Tuesday afternoon?
– No, I'm sorry. I'm busy then.
– Yes, that sounds good.



6 Two colleagues from an auditing firm are discussing the latest financial scandal. Listen to part 1 of the dialogue and answer the following questions.

- What is Heidi worried about?
- What does Phillip think?
- What does Heidi think investors should get?
- What example of inaccurate information does she give?



Now listen to part 2 of the dialogue and complete the gaps.

Phillip We don't _____¹ anything.

Heidi But we're expected to find these things. That's what we're paid to do.

Phillip Hang on a minute. Our job is to _____² the information provided to us by the management of a company. We have to assume that they're being _____³. We're not police officers.

Heidi But ...

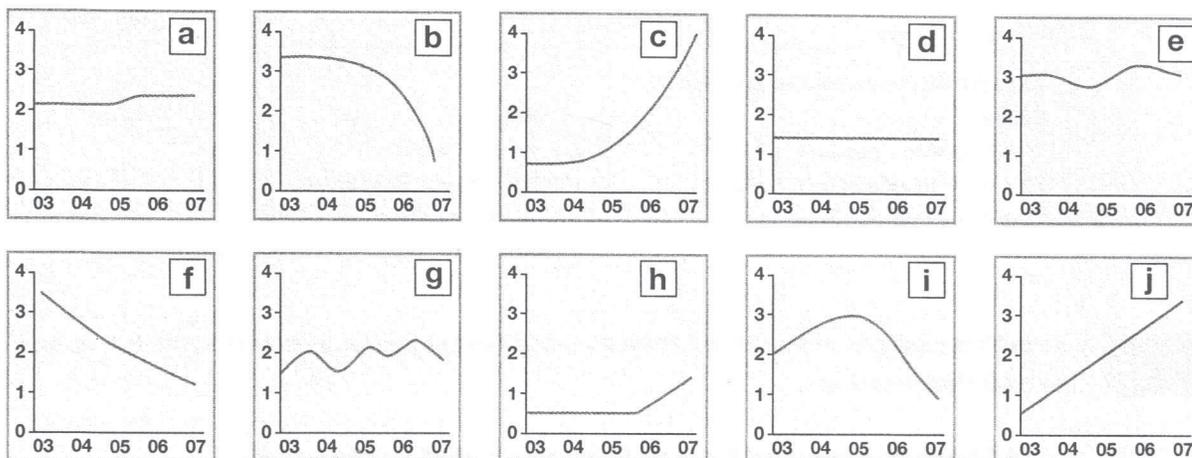
Phillip Let me finish. Look, there are _____⁴ mechanisms to deal with people who commit _____⁵. The auditing profession has its own _____⁶ and investors trust this. It's tried and tested.

Heidi All I'm saying is that investors have a right to _____⁷ on the financial information they read, and we're paid to _____⁸ exactly that. _____⁹ may not be enough. And the trend is ...

Phillip I agree that it's a bit strange that we're paid by the same people who we _____¹⁰, but it's always been this way and I don't see how that can be changed, do you?

Whose opinion do you agree with? What responsibilities do auditors have in their relationship with their clients? How is this regulated in your country or in a country you know? Is the regulation strong enough?

- 7** Auditors often have to write or present reports on the financial information they have audited. This is especially important for enterprises with branches or subsidiaries in foreign countries. Look at the following sentences and decide which graph or chart goes best with the description.



- | | | | |
|--|--------------------------|--|--------------------------|
| 1 Figures have increased slightly. | <input type="checkbox"/> | 7 There have been some fluctuations. | <input type="checkbox"/> |
| 2 Figures have increased dramatically. | <input type="checkbox"/> | 8 The situation was pretty bad, but is now improving slowly. | <input type="checkbox"/> |
| 3 Figures have increased steadily. | <input type="checkbox"/> | 9 Profits have been falling since the fire. | <input type="checkbox"/> |
| 4 This is a significant drop. | <input type="checkbox"/> | 10 We're hovering at around 3%. | <input type="checkbox"/> |
| 5 This is a gradual drop. | <input type="checkbox"/> | | |
| 6 The situation is stable. | <input type="checkbox"/> | | |

- 8** Now choose the option which makes most sense.

'Have a look at this. Last year was really good. Profits *fell/rose*¹ dramatically after we launched Glenogen. And here you can see how it affected the rest of the market. CFL remained *stable/gradual*², which was a bit of a surprise, but Junfil was hit quite badly – sales *increased/decreased*³ to almost non-existent. Now look here. This next graph shows what we think will happen next year. Good news again. Everything's going *up/down*⁴.'



- 9** Work with a partner to practise describing graphs or trends. Use phrases from exercise 7.

PARTNER FILES →

Partner A page 51
Partner B page 53

- 10** Now write a report on some figures from your company or from one of your clients. Explain the movement from one year to the next, giving the cause and the result. Here are some phrases which might help.

USEFUL PHRASES

Explaining causes and results

Cause

This happened because ...
 This (increase/decrease) is due to ...
 This is a result of ...

Result

It could lead to ...
 What could happen is ...
 Because of this, we'll see ...

OUTPUT

Read this example of an extract from an independent auditors' report in the U.S.A. and answer the questions.

To Share Owners and Board of Directors of Megatrap Corp

We have audited the accompanying statement of financial position of Megatrap Corp and consolidated affiliates as of December 31, 2007 and 2006, and the statements of earnings, changes in share owners' equity and cash flows for each of the years in the three-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. We have to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Under these standards we have to plan and perform the audit to obtain reasonable assurance that the financial statements do not have any material

misstatement. We examined on a test basis the evidence supporting the figures and disclosures in the financial statements. We also assessed the accounting principles used and significant estimates made by management, and we evaluated the presentation of the statements.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of Megatrap Corp and consolidated affiliates at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

OVER TO YOU

According to the report, an audit does several things. What is mentioned?
 What documents did the auditors look at?
 In what ways is this report different to those used in your country?



5

Management accounting

STARTER

Cost accounting is about manufacturing and sales costs. But what exactly is management accounting? Which of the following are true statements?

- 1 Management accountants prepare information which managers use to make decisions.
- 2 Management accountants sometimes suggest ways to improve financial performance.
- 3 Management accountants may also analyse non-financial data.
- 4 Management accounts are normally for internal use only.



1 A new commercial manager, who has been sent in from the overseas parent company, is having a meeting with the Chinese CFO. What information does he require? Listen and complete the table below. (The first one has been done for you.)

CUSTOMERS	EMPLOYEES	OVERHEADS
<ul style="list-style-type: none"> • Profits we make on customers (with breakdown based on company size) • 	<ul style="list-style-type: none"> • 	<ul style="list-style-type: none"> • •

How do you think he should present this information? What kind of reports or documents would be most effective?

What financial information do you need to do your job well?

- 2 Make a list of what the CFO needs to supply. How do you think he should present this information? What kind of reports or documents would be most effective? Find words in the dialogue above to complete the table.**

VERB	NOUN	ADJECTIVE
to allocate	_____ 4	—
to complete	completion	_____ 2
to cost	_____ 3	costly
to employ	_____ 4/employer	employable
to inform	_____ 5	informative
to produce	_____ 6	productive
to profit	profit	_____ 7
to sell	_____ 8	—

Now use the correct form of words from the table to complete the sentences.

- We have far too much work – we need to _____ an assistant to help us.
- Everything we do depends on having accurate _____.
- The company _____ electrical goods like photocopiers and scanners.
- We can't have new laptops for everyone because it's simply too _____.
- The pre-tax _____ was over €12 bn.
- We've been _____ the conference room on the ground floor. Let's meet down there at 2 p.m.
- They hope to _____ the report by Friday.
- We always have the highest _____ at Christmas.

- 3 Look at the Statement of Cash Flows on the next page. Are the following statements true or false ?**

- Amortization of goodwill and other intangibles rose in 2007.
- More dividends were paid in 2007 than in 2006.
- Net earnings increased from 2005 to 2007.
- Depreciation and amortization of property, plant and equipment went up in 2006.
- Inventories remained stable during the period 2005–2007.
- There were no additions to property, plant and equipment in 2007.
- Deferred income taxes fell in 2007.
- Cash from operating activities was more than cash for investing activities in 2007.

DID YOU KNOW?

The regulatory authorities of various countries have made it mandatory for certain enterprises (e.g., publicly listed companies) to produce and present a report on the movement of cash in any given year. This statement is called the *Source and Application of Funds*, the *Statement of Cash Flows*, or the *Cash Flow Statement*.

Statement of Cash Flows

For the years ended December 31 (In millions)	2007	2006	2005
Cash flows – operating activities			
Net earnings	\$ 9,734	\$ 8,919	\$ 8,910
Adjustments to reconcile net earnings to cash provided from operating activities			
Cumulative effect of accounting changes	0	212	0
Depreciation and amortization of property, plant and equipment	3,574	3,475	3,118
Amortization of goodwill and other intangibles	1,837	1,987	1,887
Earnings (before accounting changes) retained	0	0	0
Deferred income taxes	965	756	545
Decrease (increase) in current receivables	1,274	1,177	1,571
Decrease (increase) in inventories	(617)	(847)	189
Decrease (increase) in accounts payable	2,647	3,197	2,948
Decrease (increase) in insurance liabilities and reserves	4,490	5,612	6,765
Provision for losses on financing receivables	1,964	1,299	1,578
All other operating activities	4,966	689	32
Cash from operating activities	30,834	26,476	27,543
Cash flows – investing activities			
Additions to property, plant and equipment	(16,222)	(12,388)	(13,094)
Dispositions of property, plant and equipment	5,609	4,512	5,436
Net increase in financing receivables	(10,755)	(8,287)	(7,339)
Payments for principal businesses purchased	(8,618)	(1,276)	(6,376)
All other investing activities	(1,388)	(4,858)	(4,286)
Cash used for investing activities	(31,374)	(22,297)	(25,659)
Cash flows – financing activities			
Net increase (decrease) in borrowings (maturities of 90 days or more)	18,594	(3,590)	1,844
Newly issued debt (maturities longer than 90 days)	18,866	36,644	30,866
Repayments and other reductions (maturities longer than 90 days)	(40,056)	(32,918)	(30,667)
Net dispositions (purchases)	1,732	1,288	(1,466)
Dividends paid	(3,655)	(3,455)	(3,298)
All other financing activities	266	655	(7)
Cash from (used for) financing activities	(4,253)	(1,376)	(2,728)
Increase (decrease) in cash and equivalents during year	(4,793)	2,803	(844)
Cash and equivalents at beginning of year	18,278	15,475	16,319
Cash and equivalents at end of year	\$ 13,485	\$ 18,278	\$ 15,475
Supplemental disclosure of cash flows information			
Cash paid during the year for interest	(9,475)	(10,366)	(8,838)
Cash recovered (paid) during the year for income taxes	(1,288)	(1,909)	(1,678)

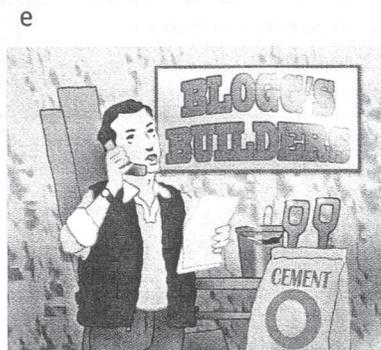
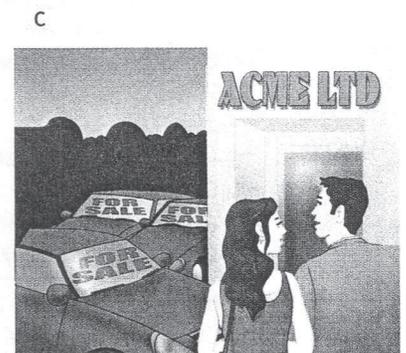
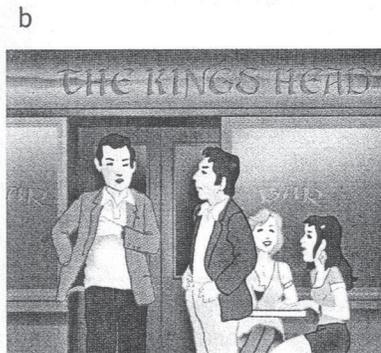
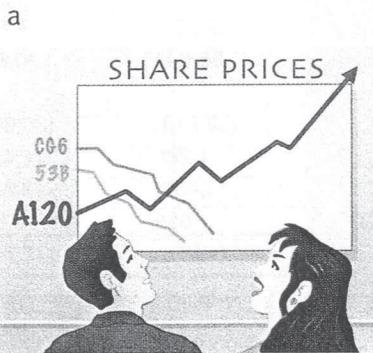
4 Match these words from the Statement of Cash Flows with their meanings.

- | | |
|----------------|--|
| 1 dividend | a money that is owed |
| 2 cash | b purchase price minus real value of assets |
| 3 plant | c reduction in value due to wear and tear |
| 4 amortization | d money paid out to shareholders |
| 5 goodwill | e writing an intangible asset off over a number of years |
| 6 cumulative | f increasing by successive additions |
| 7 depreciation | g coins, bank notes, or something that can be easily exchanged for these |
| 8 debt | h building and equipment for manufacturing |

5 Work with a partner. Look at the Statement of Cash Flows again. One of you explain in your own words where the money has come from. The other explain where it has gone. Together write a brief report for your manager.

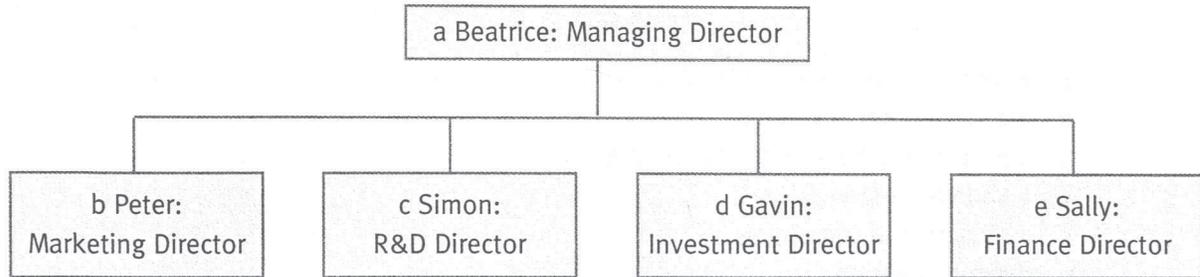
6 Here are some expressions with *cash*. Match the sentences with the pictures.

- I'm totally out of cash.
- We would expect cash in advance so that we can buy the materials.
- Cash on delivery, please.
- The A120 is the best – it's a real cash cow.
- Use the petty cash to pay for the tea, and we'll sort it out later.
- They're trying to raise cash by selling some assets, but they've only got until the end of the month. It's going to be tight.



7 The directors of a company are meeting to discuss the future direction of the company and the budgeting process.

Who do you think says the sentences below? Match the director to the sentences.



- 1 'Consumers simply don't have the confidence to spend their money on fancy new products.'
- 2 'We've been working really hard to come up with some great ideas, ...'
- 3 'Our investment programme has been ready to go for months.'
- 4 'Everybody's forecasts seem to indicate hard times ahead.'
- 5 'I'd like to move to the next item on the agenda'

Now listen to the meeting to check your answers.

Listen to the last part of the meeting again and complete the gaps.

Peter Ideas and investments don't mean _____¹ in the bank.
Consumers simply don't have the _____² to spend their money on fancy new products. And as for expansion, I think the good old days are long gone. We should be _____³.

Beatrice Sally, how do you feel about all this?

Sally We're talking about budgets for the upcoming year. Everybody's _____⁴ seem to indicate _____⁵ times ahead. And we don't even have the money to spend. How are we going to _____⁶ more debt, or _____⁷ more cash in the capital markets?

Beatrice So despite our great ideas and investment plans, it seems the reality is that our budgets for this year will have to be _____⁸.



8 Use words from each box to make useful word partnerships. Then match them to the definitions below.

negative • hard • economic • next
• middle • cut • capital • investment

back • outlook • item • term •
plan • times • conditions • markets

- 1 what will be discussed after this
- 2 the state of the economy
- 3 a programme for getting money to grow
- 4 a bad view of the future
- 5 a reduction in something
- 6 difficult situation
- 7 a period between soon and the distant future
- 8 a place where you can buy and sell debt or equity securities

9 Here are some useful phrases for meetings. Write the number in the correct box. Can you add any more phrases from the conversation in exercise 7?

- 1 We have to make a decision today about ...
- 2 So, in other words ...
- 3 Anything to add, Harry?
- 4 What I want to look at is ...
- 5 Can you say that again?
- 6 You *did* say the 24th, didn't you?
- 7 Let me just go over what we have agreed.
- 8 What I'm saying is ...
- 9 Shall we move on to the next item?
- 10 To sum up then, ...
- 11 I'd like to move on if I may.
- 12 Perhaps we could discuss that at lunch?
- 13 Our aim today is to ...
- 14 I didn't quite catch that.
- 15 Sally?

stating objectives
1

asking for contributions

moving on

dealing with communication problems
2

summarizing

10 Now try to use phrases from above in a meeting role-play. Work with a partner to discuss next year's budget.

PARTNER FILES →

Partner A page 51
Partner B page 53

11 Bring a real budget to class, present it, then be ready to answer questions about it.

OUTPUT

The future of accounting

The traditional view of accountants as merely ‘bean counters’ is slowly becoming a thing of the past. For centuries, accountants have been employed to report on the numbers. They have sat there in their little corner, surrounded by stacks of paper and computer printouts, and have told us whether or not we have made a profit. But more and more, accountants are finding that management doesn’t need them to report on the numbers. With today’s technology, management already has access to software programs which do this work for them.

So what will the future accountant do? According to Mr Hamilton-Smythe, the Managing Director of KHZ Enterprises, the large international manufacturing

company, accountants will be employed “to help companies *change* the numbers. Their expertise, and knowledge of the business will be called upon to prepare strategies. They will become consultants and advisers. And their skills will need to change accordingly. They will be involved in international meetings, in giving presentations, running international teams, writing reports, and making decisions.”

This is going to require a significant change in the general public’s opinion of accountants, who in turn will need to develop skills not traditionally associated with the job. The image of the guy in the corner with the stacks of paper will change to one of a high flyer, someone who is critical to the success of the organization.



OVER TO YOU

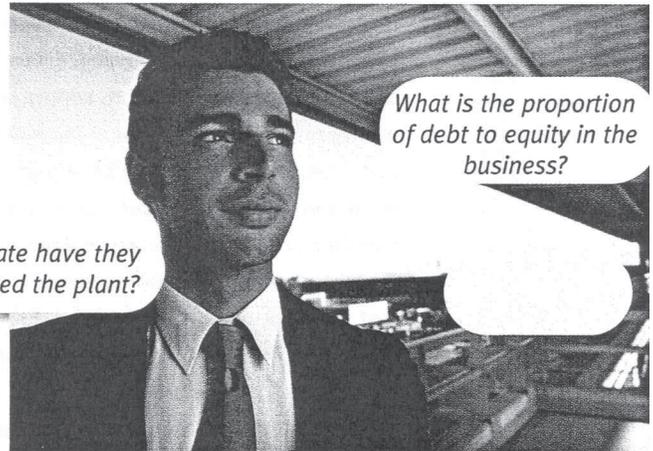
- What do you think the future of accounting looks like?
- What skills will you need to be successful in this profession?
- How will you prepare yourself for the future?

6

Investment

STARTER

A U.S. firm is thinking of investing in a European company and you are advising them. They have some questions to ask the owners. Can you think of three more questions?



1 The management team is discussing the investment. Listen and list the factors each speaker mentions.

- ANNE 1 Better to invest in an existing business
- LUIS 2 _____
- 3 _____
- ALLEN 4 _____
- 5 _____
- 6 _____
- DANA 7 Accounting regulations...
- 8 _____
- 9 _____

2 Use words from the conversation to complete the table.

VERB	NOUN	VERB	NOUN
to acquire	_____ a	to _____ e	investment
to _____ b	agreement	to legislate	_____ f
to _____ c	consideration	to _____ g	thought
to discuss	_____ d	to _____ h	utilization

Now use the correct form of the words above to complete the email below.

Hi guys

I've been looking at the figures for the Scottish project. I _____¹ we need to find ways to make the _____² more profitable. One idea may be to _____³ the plant in Perth, but this will need _____⁴ from the local authorities. We could also _____⁵ in the Dundee plant, but this may cause problems with the local planning _____⁶. Maybe we could _____⁷ it at Friday's meeting. Any _____⁸?

Sam

3 Here is another email. This time the CFO of a British company is writing to the head of the Italian subsidiary. What is Rocco's job?

Hello Marco

Thanks for your email. As you know, before we can agree to your investing in the new plant in Slovakia, we need to have a clear description of the project. I've listed the main points below. If you have any questions give me a call, but remember I'm away the first two weeks of December. I've copied this email to Rocco as I'm sure he will be responsible for producing much of the information.

- 1 audited financial statements of the plant's current owners
- 2 planned sources of supply
- 3 possible suppliers of capital goods and services
- 4 anticipated output
- 5 markets and distribution channels
- 6 competition
- 7 a summary of project costs

Best wishes
KJ

1 selected

Read the email again and then decide if the following statements are true or false .

- 1 Rocco is senior to Marco in the company hierarchy.
- 2 The British company has already decided to invest in the new plant.
- 3 KJ wants Marco to describe the project in more detail.
- 4 KJ wants financial information about how the plant has performed in the past.
- 5 KJ wants to know about other similar plants in the market.
- 6 KJ is very interested in how many people work in the plant.
- 7 KJ needs to have the completed report by 7 December.



4 The CFO of a European corporation is talking about differences in accounting practices in other countries. Listen and match each comment he makes with a point from his list. (The first one has been done for you.)

- taxation system
- goodwill
- leased products
- inventory
- financial instruments
- income statements

Put the following words into the table below according to their stress pattern.

major • capital • requirements • disclosure • average • develop • different
 acquire • balance • profit • taxation • measure • require • value • actually

●●	●●●	●●●●	●●●●●
<i>major</i>			

Now listen again and check your answers.

5 Do you know of any cross-border investments that have failed? Discuss with a partner, and try to analyse possible reasons for the failure.



6 You are going to hear to extracts from a presentation.

Listen to the first extract (part 1) and answer the questions below.

- 1 What do you think the speaker's job is?
- 2 What is she talking about?
- 3 How does she hope to help her audience?
- 4 How has she divided her talk?
- 5 Should people take notes?



Now listen to part 2 and fill in the gaps in the extracts from the presentation.

- 1 ' _____¹ has been a _____² for many years now.'
- 2 'All of us have been involved in, or seen, companies _____³ across _____⁴ and we have seen some _____⁵ collapse.'
- 3 'I think that my research has shown that one of the main reasons for such collapses is that _____⁶ has ignored the _____⁷ factors facing the members of teams working in an international _____⁸.'
- 4 'I hope my presentation has made you aware of some of the factors which _____⁹ the ability of people from different _____¹⁰ to work together.'



10 Work with a partner. Use the role cards in the Partner File to have a meeting about investing abroad.

PARTNER FILES

Partner A page 51
Partner B page 53

OUTPUT

Read these statements about globalization and the role of accountants. Which opinions (if any) do you agree with?



Accountants are responsible for reporting on the future profitability of an international merger or takeover. It is the accountants

who produce financial information so they are best equipped to analyse the numbers of a potential partner or target. The accountants should see the opportunities for growth.



Accountants are only responsible for checking the figures provided by the company or organization. They have no skill in

seeing opportunities for companies to expand.

Accountants have no people skills. They are not trained in the finer art of communication. They should therefore be left in their offices to punch the numbers. They can't be let loose with representatives from the potential partner!



Accountants nowadays have ever-increasing responsibilities. They are on the boards of directors of companies all over the world.

They are involved in negotiations and meetings every day. They are no longer machines dressed up in suits. They have had to improve their communication and interpersonal skills.



Accounting rules are basically the same all over. Maybe we'll have to learn a few more things, but our job will be basically the same.



Accounting regulations are different in every country. Globalization will lead to accountants having to be up to date on the latest developments,

and not only those of the country they work in.

OVER TO YOU

How do you think globalization has affected – or will affect – you?

What about the next generation of accountants? How do you think their jobs will be different?

Test yourself!

See how much accounting vocabulary you've learned.

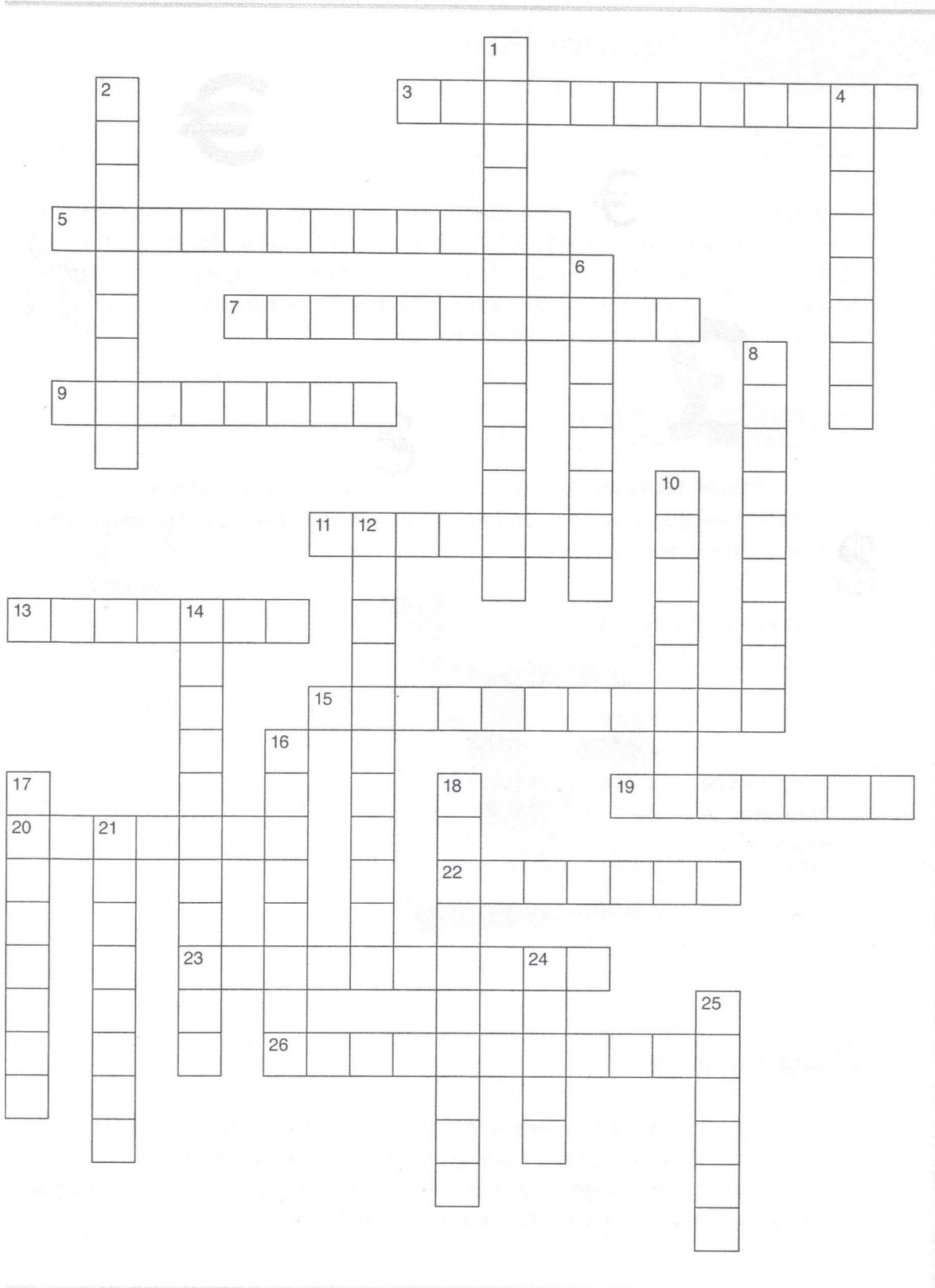
Use the clues to complete the crossword puzzle.

Across

- 3 the process to reduce the value of an intangible asset to zero, over a specified number of years
- 5 describes how the capital value of an asset goes down over time
- 7 happening before something else: *a ... report or a ... meeting*
- 9 another word for land or buildings
- 11 the list of people employed and paid by a company
- 13 the person who examines the business and financial records of a company or organization
- 15 debts of a business
- 19 the money that a company or organization receives from its business
- 20 the latest version of an item which, due to new technology or processes, replaces the older version
- 22 statement of the financial position of a company at a specific time: ... *sheet*
- 23 cannot be seen or touched; often used with the word *assets*
- 26 the amount of money that a company is owed

Down

- 1 the process of including the figures of subsidiaries and affiliates in the accounts of a holding company
- 2 American English word for *stock on hand*
- 4 the expenses of a company which can't be charged to a particular product, department, etc: ... *expenses*
- 6 a person who lives outside the country for tax reasons (two words)
- 8 profits paid to shareholders of a company
- 10 adapting a company's figures to give the best possible picture: ... *accounting*
- 12 another word for the purchase of something, such as another company or a piece of land
- 14 a piece of business that is done between two parties, such as buying or selling
- 16 a person or company that is owed money
- 17 the money you pay when you buy something: ... *price*
- 18 a company which is owned by another (parent) company
- 21 the money spent to buy another company, which is more than the fair value of the tangible assets
- 24 a written contract to rent a piece of equipment or a building for a period of time
- 25 things of value which belong to a company or person



Partner A

Partner Files

Unit 1

You work in the finance department of your company. Today a new colleague from your overseas parent company is coming to the office for the first time. (He or she only speaks English.) You have been asked to welcome the new colleague, show him/her around the office, and make him/her feel comfortable. At the end you should introduce your new colleague to the head of the department.

Unit 2

You're in trouble. You've just spilt coffee all over this document, and you need it for an important meeting in a few minutes. Phone your colleague (Partner B) and ask him/her to give you the missing numbers.

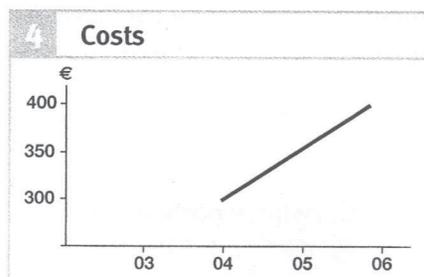
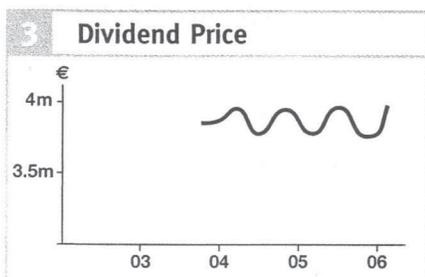
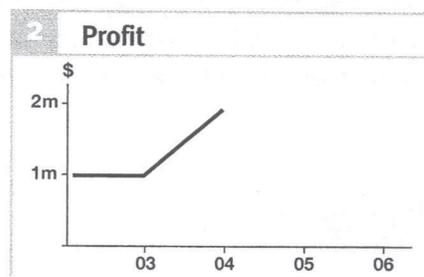
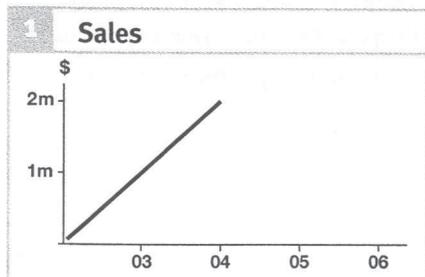
Christmas party budget		
(last year's figures in brackets)		
Transport	€7000	(€6...)
Food	€6000	(€...)
Drink	€...	(€19,564.57)
Band (3 hours)	€5000	(€4566.00)
Breakages	€0	(€...6.00)
Insurance (€1.5 m liability)	€200	(€0)
Total	€38,200	(€...)

Unit 4, Exercise 5

You would like to arrange a meeting with a colleague to discuss your ideas for some new software for the department. It is very urgent as you have a meeting next Friday with the head of your department and your boss expects results. Phone your colleague and find a suitable time to meet. (You will need your diary.)

Unit 4, Exercise 9

Look at the following graphs. They are incomplete. You have one part, while your partner has the missing part. Work with your partner to complete the information.



Unit 5

Times are tough. Costs have to be reduced. But where? As the MD (Managing Director) of a large international conglomerate, you have to reduce your budget for next year. Make some notes on how the finance department can save costs (e.g., less staff, more software), and be prepared to explain your position in a preliminary meeting with your Chief Financial Officer.

Unit 6

You work in the finance department of a large U.S. based conglomerate, and are currently at a trade fair in Valencia. Your boss has asked you to look out for European companies interested in working with you – your company needs to get a foothold in the expanding European market. You are about to meet up with someone from a medium-sized European company which is looking for investment from abroad. This could be your chance. Your aim in the meeting is to decide what information you need from the other company, and what happens next.

Partner B

Partner Files

Unit 1

It is your first day in your new job as a member of the finance department in one of your company's European subsidiaries. You only speak English, but hope to start learning the local language soon. One of your new colleagues will meet you and show you around the company. Make small talk and ask questions about the company. (How many people work there? Do they have a canteen? Does the company offer language classes? etc.)

Unit 2

The following document has just been faxed to you, but some of the information has not printed properly. Unfortunately you need all the information in order to brief your boss. You are just wondering what to do when your phone rings.

Christmas party budget

(last year's figures in brackets)

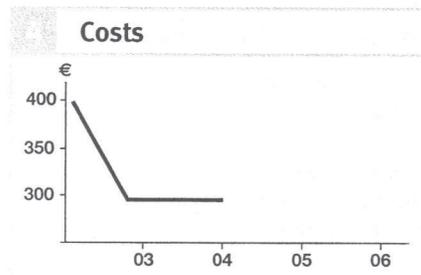
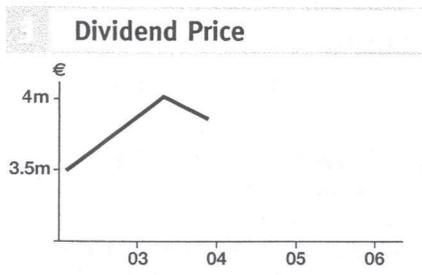
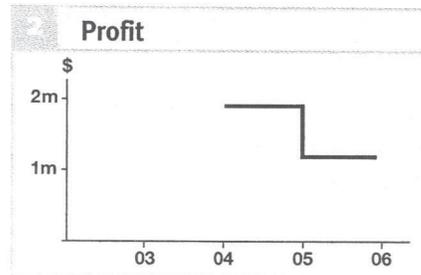
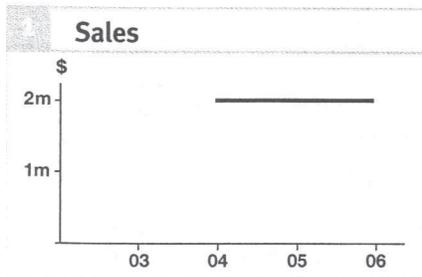
Transport	€7,000	(€6,543.23)
Food	€6,000	(€5,647.98)
Drink	€20,000	(€10,745.11)
Band (3 hours)	€1,000	(€10,000)
Breakages	€0	(€45,456.00)
Insurance (Public liability)	€200	(€1,000)
Total	€24,200	(€81,777.78)

Unit 4, Exercise 5

You are looking through your diary for next week when the phone rings. You see from the number on your display that it is a colleague. Answer it. (You are very busy next week and it will be difficult to schedule any new appointments but you might be able to fit something in if it is important!)

Unit 4, Exercise 9

Look at the following graphs. They are incomplete. You have one part, while your partner has the missing part. Work with your partner to complete the information.



Unit 5

Times are tough. Costs have to be reduced. But where? As the CFO (Chief Financial Officer) of a large international conglomerate, you have to defend your budget for next year. Make some notes on why the employees in your department are so important, and be prepared to defend your position in a preliminary meeting with your boss, the Managing Director.

Unit 6

You are at a trade fair in Valencia, representing a medium-sized European company which is looking for investment from abroad. You meet up with a representative from a large U.S.-based conglomerate who sounds interested. Your aim in the meeting is to decide what information you need from the other company, and what happens next.

Glossary of financial terms

accounts payable

The amounts that a person or organization owes to someone else in the normal daily business.

accounts receivable

The amounts that a person or organization is owed in the normal daily business, i.e., excluding loans and liabilities.

acquisition

Another word for purchase. Normally used for very large amounts, such as buildings, factories, or another company (verb: to acquire).

affiliate

A person or company which is in some way connected to another.

American Institute of Certified Public Accountants (AICPA)

The professional body of accountants in the U.S.A.

amortization

The process to reduce the value of an intangible asset to zero, over a specified number of years (verb: to amortize).

assets

The things which a person or company owns and which are of value to the owner.

Balance Sheet

A written statement showing 1) the amount of money and property a company has and 2) the money received from shareholders and creditors.

Board (of Directors)

The top management of a company.

branch

The offices of a company which are located in various countries or cities. A branch is not a separate company.

budget

The fixing of the amounts to be spent in the future. Also, the official statement showing these amounts.

capitalization

When a company spends money on something which will last for more than one year. This amount is normally put into the Balance Sheet.

Certified Public Accountant (CPA)

The title given to state-recognized accountants in the United States of America.

confidentiality

Not telling others about information which a business partner or client tells you.

consistency principle

The idea that accounts should be prepared on the same basis from one year to the next.

consolidation

The process of including the figures of subsidiaries and affiliates in the accounts of a holding company

creative accounting

The manipulation of figures in the accounts, designed to give a better result for the company.

creditor

a person or organization to whom money is owed.

debt

An amount which has to be paid to another party (See also: to service debt.)

deferred

The inclusion in the accounts of amounts which will have to be paid in the future, but which are based on current transactions.

depreciation

The process to reduce the value of an asset to zero, over a specified number of years (verb: to depreciate).

disposition

Another word for the sale of an asset.

dividend

The distribution of the profits of a company to its owners.

due diligence

The process of checking the finances and contracts of a company before the purchase of its assets or shares, to ensure all relevant information has been given.

expenditure

The money spent on buying assets, which will then be included in the Balance Sheet.

to expense

When used as a verb, this word means that an amount of money spent by a company can go directly into the Profit and Loss Statement.

gearing

The proportion of debt and equity ownership in a company or an asset.

Generally Accepted Accounting Principles (GAAP)

These are the rules which accountants are required to follow when preparing financial statements, which are not written into law.

going concern principle

The idea that financial information can only be reported correctly on the basis that the company will be able to operate in the future.

goodwill

The total value of a company minus the net value of the tangible assets.

holding company

The company which owns the shares in all the other companies in a group.

to impair

Used to describe the process of reducing the value of an intangible asset.

Institute of Chartered Accountants in England and Wales (ICAEW)

The professional body of accountants in the United Kingdom.

intangible

Something which has no physical presence, but is only an abstract idea. (Intangible assets, for example, are patents, trademarks or brands.)

International Accounting Standards (IAS)

Currently the International Financial Reporting Standards.

International Accounting Standards Committee (IASC)

The body responsible for the creation of an international set of accounting standards.

International Financial Reporting Standards (IFRS)

The set of standards created to unify accounting practices in the world. Replaced the former International Accounting Standards.

inventory

The goods which a company produces, but which have not yet been sold.

leasing

A legal contract to rent assets from the owner, often over long periods of time and with the possibility to buy the asset at the end of the rental period.

liability

The amount of money or the value of something which a person or organization owes to someone else. For insurance matters, 'liability' means the responsibility to pay the costs of an accident.

liquidation

The dissolving of a company which can no longer pay its bills.

to loan

When one party gives another an amount of money which will be paid back at a later date (noun: loan).

margin

The difference between the sales value and the direct costs of producing an item.

matching principle

The idea that amounts should be recorded at the time they occur, not when cash is paid or received.

maturity

The end date of a contract.

merger

When two organizations come together to create one new company (verb: to merge).

minority interest

A shareholding of less than 50% in another company.

off-balance-sheet accounting

The structuring of certain transactions which might allow the company to leave large amounts out of the accounts.

parent company

A company which owns most of the shares in another company. (See also: subsidiary.)

provision

The inclusion in the accounts of amounts which may arise in the future.

prudence principle

The idea that financial information should be reported conservatively, so that it is not possible that the overall value of a company is overstated.

ratio

A mathematical calculation which compares one amount to another.

repair and maintenance

Costs to fix an asset (such as a machine), or the normal costs needed to keep the asset working properly.

salvage value

The estimated value of an asset at the end of its useful life.

scrap value

The sales value of an asset when it can no longer be used.

to service debt

To pay the interest and capital repayment in accordance with the loan contract.

stock

- 1) Another word for the shares of a company.
- 2) The inventory of a company, i.e., the goods which have not been sold.

subsidiary

A company which is owned or controlled by another company. (See also: parent company.)

tax return

An official document sent to the tax authorities which states profit or loss, and is used to calculate how much tax has to be paid.

test basis

The process of checking a random sample of a list of items, to gain assurance that the complete list is correctly reported.

unrealized gain (loss)

The increase (decrease) in value of an asset which has not yet been sold.

Transcripts

UNIT 1, EXERCISE 2

- 2 *Secretary* Mr Martens will be with you in a moment. He's just finishing a phone call.
- Michael* Thank you.
- Secretary* Would you like some coffee?
- Michael* Yes, that would be great. Milk no sugar, please.
- Secretary* Here you are.
- Michael* Thank you.
- Michael* Is this the whole department?
- Secretary* No, no, not at all. On this floor we have the trainee accountants and the bookkeepers.
- Michael* Uh-huh. And does everyone work in the open-plan area?
- Secretary* No, some of the managers have individual offices. The two big offices on the left are for the company treasurer and for our senior tax accountant. The offices on the right are for our cost accountant and for our budget manager.
- Michael* And the office in the corner of the open-plan area?
- Secretary* That's used by our back-office manager.
- Michael* And you have offices downstairs as well?
- Secretary* Yes, that's correct. Downstairs are the internal auditors and at the moment we have a team of external auditors. They're in one of the conference rooms at the end of the corridor.
- Michael* I see.

UNIT 1, EXERCISE 3

- 3 *Secretary* Ah, Mr Martens. This is Michael Rogers.
- Paul* Ah, yes. Hello, Michael. I'm Paul. It's nice to meet you. Sorry to keep you waiting. Please come in and take a seat. Did you have a nice flight?
- Michael* Yes, thanks, Paul. Finding the office was a little more difficult, though. I'm glad so many people here in Brussels can speak English.
- Paul* Oh yes, we're very international here now. But that's not a bad thing, I must say.
- Michael* A little cultural mix is good, isn't it?
- Paul* You're absolutely right. Would you like to start by telling me a little about your experience, Michael? Your C.V. is very impressive. And then I'll fill you in on our group, and the particular requirements we have for this position.
- Michael* Yes, that's fine. I guess you know from my C.V. that I studied economics in New York, ...

UNIT 1, EXERCISE 12

- 4 *Sally* Morning Charles. You wanted to see me?
- Charles* Yeah. Hi Sally. About our board meeting next week, you know we'll be discussing our debt problems?

- Sally* Of course. Probably our biggest issue at the moment.
- Charles* Right. The shareholders are getting nervous, and the markets don't like our level of gearing. We're getting more and more questions about whether we can service our debt, in the long term. It's getting harder to attract new investments. So, I wanted to speak to you about what we can do. We're investing a significant amount in our new factory in Germany so we need to come up with a solution soon. The new factory is very important, and we're looking at leasing the assets. And that's where you come in. Tell me what we can do with leases on the balance sheet. What's allowed in this country?
- Sally* Is this a business decision, to lease these assets?
- Charles* Let's just say it's one possibility we're looking at.
- Sally* You're thinking that if we lease the assets, we can exclude these liabilities from the balance sheet?
- Charles* Exactly.
- Sally* You know that the auditors will look very closely at these transactions? The accounting standards, or principles if you like, mean that finance leases must be disclosed. If we are effectively the owner of these assets, then we're not going to have a choice.
- Charles* And how do we determine the owner?
- Sally* That depends on the conditions in the contract.
- Charles* That shouldn't be a problem. And then we can call them ...
- Sally* Operating leases. But remember, auditors and the markets are now very sensitive to these things. We can't afford to be seen as trying to mislead anyone.
- Charles* Of course not. But for the meeting next week, have a think about it. OK?
- Sally* Yeah. I'll try and bring some ideas.
- Charles* Great. See you later.
- Sally* OK. Bye.

UNIT 1, EXERCISE 15

- 5 1 He'll have paid his debts off by next year.
- 2 Look at the assets and liabilities on the balance sheet if you want to know how the company's doing.
- 3 Many developing countries are burdened by heavy debt.
- 4 We need to look at the long-term liabilities before we think about any major new purchases.
- 5 The partnership has limited liability status.
- 6 Current liabilities are those which are paid off within a year.
- 7 The company's in debt to the tune of 10 million.

NIT 2, EXERCISE 4

twenty-three point five six
 ten thousand and one
 sixty-three pounds and thirty pence
 or
 sixty-three pounds thirty
 five million, four hundred thousand, three hundred
 and forty-two
 forty-five thousand, six hundred and thirty-eight
 euro
the year: nineteen ninety-nine
 or
the phone number, room number, or other figure:
 one nine nine nine
the phone number, room number, or other figure:
 two double oh three
 or
the year: two thousand and three

NIT 2, EXERCISE 7

untant OK. Norma has asked me to go over some of the ratios I used in the report which I sent you last week. The first of these is on page 3 – *working capital*. Everyone got it?
 OK. Working capital is quite simple – it's the current assets divided by the current liabilities. Any questions?
 Yes. What's it for?
untant Well, it basically tells us whether we have enough short-term assets to cover our short term debt. If we don't, we could be in trouble. OK? Good. Next is *return on assets*. This is net income plus interest expense divided by total assets.
 Before you ask, it allows us to evaluate the way we use our assets. It can help us decide whether or not we should start a new project, for example, by comparing the return expected against the normal borrowing costs. Is that clear?
an I have a question. What's debt/asset ratio?
untant I was just coming to that. It's the total assets divided by total liabilities. It tells us what proportion of the enterprise's assets are being financed through the use of debt. If this ratio is high in a market with increasing interest rates, creditors are going to get worried. The debt/asset ratio determines the funding leverage of the enterprise. OK, if there are no questions, I'd like to ...

NIT 2, EXERCISE 10

Norma has asked me to go over some of the ratios I used in the report.
 Everyone got it?
 Before you ask ...
 Is that clear?
 I was just coming to that.
 OK. if there are no questions. I'd like to ...

UNIT 2, OUTPUT

Accountant 9 The financial statements of a company are the most important documents that a company produces. Investors, creditors, banks, customers – everybody reads the statements. The accounts show what a company does with its money, how profitable it is, and also how risk-worthy it is. And you can see warning signs for the future. Our stock exchanges depend on properly prepared accounts.
Trader I agree that the accounts of the companies have a lot of information, but it's very hard to understand it all. In my job, I need to know the financial situation of a company. People interested in the stock exchanges rely on experts like me. But there are also many other sources of information. As for the accounting rules, they don't interest me, or anyone else, at all. That's stuff for the accountants.
Investor All those numbers, and I haven't got a clue what they all mean. Pages and pages of them, and apparently they are often only 'estimates', or they can be interpreted in one of many ways. What's the point when the accountants themselves can't agree on how to show the numbers? Most of us need a lot more information and knowledge about a company than what we get in the accounts.
Layman Is it all really that hard? Can't we just look at the profit or loss of the company to find out how it's doing? I don't see all the fuss. Accountants are there to tell us about the numbers, and I thought that's what they do. They are trained to report these numbers, and it can't be that hard to count up everything that's happened.
Managing Director This is exactly the problem. There are many ways to change the numbers to give a better picture. Some of my peers have been guilty of doing just that. The accountants and auditors have to take responsibility for the way that numbers are reported. Accountants and their work are extremely important, they just need to make it all a little easier to understand.

UNIT 3, EXERCISE 1

Manager 10 So, could you just go over depreciation again?
Accountant Sure. I've prepared a quick list of the different types like you asked.
Manager Great.
Accountant OK, let's see. Well, you know that normal accounting treatment means that a fixed asset has to be written off over its useful life. Basically we look at the cost of the item, and take away its estimated scrap value. Then we use a depreciation method to write it off.
Manager Yes, of course. It's five years for computers, I think.

Accountant Right. Well, as you say, there are different ways of doing this. Er, let's see, straight line, declining balance, sum-of-the-years'-digits, unit of production, hours of use. If you look at this list, you can see a description of each of these methods.

Manager Oh yes, I see. Yes, that's very useful.

UNIT 3, EXERCISE 4

11 *CEO* We've got a few minutes to ourselves. Could you just go over it again? How is the taxation expense calculated?

Accountant OK. The operating profit minus our interest expenses gives us the profit before tax figure. This is the amount which theoretically is then subject to taxation. In fact, the taxation amount is just an estimate, because we won't know until much later exactly how much tax we'll have to pay.

CEO What do we do with this estimate?

Accountant In effect, we prepare an interim tax return. It won't be filed, just kept by us to justify the taxation expense we include in the P&L.

CEO Will this also be audited?

Accountant Yes. And of course the profit after tax is the figure which we can distribute to shareholders.

CEO What do we do when the taxable income differs from the profit before tax?

Accountant We record what happens on the balance sheet. It's either a net deferred tax asset or liability.

UNIT 3, EXERCISE 6

12 *Kathy* Hi Javier. How's it going?

Javier It's not easy, all this English. We didn't do any of this on my course.

Kathy Can I help?

Javier Well, maybe you could clarify a couple of things. Let's see. Ah, here we are. 'Provision for income taxes'. What does that mean?

Kathy OK. *Provision* means putting money aside so that we have something to pay with later. So, *provision for income taxes* is talking about the current year's tax expense which will have to be paid in the future.

Javier Like provisional?

Kathy Not exactly *Provisional* just means temporary, you know, not final. Like a provisional budget. It's not the final version.

Javier I see. And what about *deferred income tax balances*. What does *deferred* mean?

Kathy Basically put off to another day. The income has been recognized in the accounts, but the tax owing on that income will only be realized in the future.

Javier OK. How does that affect associated companies?

Kathy Well, it depends. Associated companies and affiliates are a special case. Deferred taxes are not normally recognized on undistributed earnings, but only if the plan is to re-invest the profits.

Javier So, if we don't invest the profits, we pay tax.

Kathy Exactly.

UNIT 3, EXERCISE 10

13 *Uta* These costs clearly relate to the repair and maintenance of our machines.

IRS But in your financial statements, you argue that this expenditure was to upgrade and you have capitalized it all. At first glance, it appears clear that...

Uta Excuse me, but you know as well as I do that the accounting and tax regulations allow for different definitions of what we can capitalize, and what we must expense. Yes, but it's easy to work out the type of costs you have from the descriptions in your accounts. And based on our interpretation of the laws, this seems to be capital expenditure, which you can of course depreciate.

Uta We're going to take this further. I'm afraid I can't agree with your comments.

IRS Look. I'm sorry, but this conversation is going nowhere. I suggest you make a submission and send it to our office. We can then consider your arguments in detail.

Uta Fine. I'll do it today. Thanks for your time. You're welcome. Goodbye.

IRS Bye.

UNIT 4, EXERCISE 1

14 *Claude* Claude Beraud.

Janet Hi Claude. It's Janet. You wanted to chat?

Claude Hi Janet. Great, you got my message. Thanks for getting back to me so quickly.

Janet You're welcome. How can I help?

Claude Well, it's about your preliminary report. There are a couple of things I think we need to discuss.

Janet Yeah, sure. No problem. I have it in front of me.

Claude Hang on. I'll just find my notes. OK. The first point is on page eleven, third paragraph. What do you mean, exactly?

Janet OK. Let's have a look. Oh yes. Capitalization of costs in your factories. We think that these costs should be expenses in the P&L.

Claude But ... no, sorry. I'm afraid I disagree. They were necessary for the upgrade of our plant. Surely you agree that we have to keep up with the competition?

Janet Yes, of course. But lots of the items we tested are clearly normal repair and maintenance expenses. You can't really justify including such costs under machine upgrades.

Claude I see it differently. Our machines have been developed to produce a wider variety of products, to improve the running efficiency of the equipment, to keep us in business. This was a sizeable investment on our part. The figure we're talking about shows the commitment we've made to the future. I mean, we're going to be getting benefits from these upgrades for years. Our balance sheet should show this.

Janet I'm sorry. These figures are too material for us to ignore. There are some expenses which ...

Claude Companies do this all the time and, I might add, their auditors accept it. I suggest you consider this again. I'm sure you'll find it's reasonable when you think about how important these investments were to this company.

Janet All right. We'll look at these costs again. Let's move on the next point.

UNIT 4, EXERCISE 6

Part 1

Heidi Have you seen the latest?
Philip What's that? About Megacorp PLC
Heidi Yeah. And it's not the only one. Every week there's a new scandal. It's going to change how we do our job.
Philip How? Our role is only to give an opinion based on estimates. We can't review every little thing in detail.
Heidi Oh, come on. Investors expect financial information to be correct. And I think it's fair enough. If they find out that, I don't know, that assets have been overstated by 50%, then they're going to be annoyed. I would be, too.

Part 2

Philip We don't overstate anything.
Heidi But we're expected to find these things. That's what we're paid to do.
Philip Hang on a minute. Our job is to review the information provided to us by the management of a company. We have to assume that they're being honest. We're not police officers.
Heidi But ...
Philip Let me finish. Look, there are legal mechanisms to deal with people who commit fraud. The auditing profession has it's own regulations and investors trust this. It's tried and tested.
Heidi All I'm saying is that investors have a right to rely on the financial information they read, and we're paid to check exactly that. Self-regulation may not be enough. And the trend is ...
Philip I agree that it's a bit strange that we're paid by the same people who we audit, but it's always been this way and I don't see how that can be changed, do you?

UNIT 5, EXERCISE 1

17 *Manager* I'm sorry, but the external accounts don't help me much. Doesn't matter if they're in English or Chinese. I need information from you which will help me run this department.
CFO What exactly would you like?
Manager Well, for example, I need something which tells me about the profit we make on our customers, with some sort of breakdown based on the size of the company. I want to compare the money we make to the size of the customer.
CFO Sure. We can do that. And how about the costs per customer?
Manager Exactly. How much we spend on each customer, compared to the size of their orders.
CFO That should be possible.
Manager Great. Also, the profit made per employee. I would like to know where we are profitable and with which employees we make our money.
CFO You realize that this is going to be a lot of work for my department.
Manager Yes, I know. But it's very important for me. Can I also have a complete breakdown of our overhead expenses, and the allocation of them to each of the products that we sell?
CFO OK. How would you like all this information to be presented?
Manager In plain English, please. So that even I can understand it.

UNIT 5, EXERCISE 7

18 *Beatrice* So, we've agreed that Sally's team will produce those figures by the end of the month. Got that? Good. OK, I'd like to move to the next item on the agenda, which is the budget for the upcoming year. Peter, would you please give a short overview of your research into the market, and your conclusions?
Peter Sure. As you all know, my department has been extensively researching the market and the economic conditions we'll be facing in the short term. It's quite clear that events of recent years have unsettled the market greatly. Both investors and consumers are convinced that it won't get better, probably for a long time. Investors are looking for solid companies, and consumers don't just throw their cash around like they used to. We think that the situation will remain like it is in the middle term. This is a time for consolidation, not expansion.
Beatrice Simon, what does R&D think about this?
Simon It's a pretty negative outlook. We've been working really hard to come up with some great ideas, and maybe now's the time to launch some of our new products.
Gravin And our investment programme has been

ready to go for months. We can't just wait and hope that things get better. Our strategy has always been to lead the market, not sit back and cruise along.

Beatrice
Peter

Ideas and investments don't mean cash in the bank. Consumers simply don't have the confidence to spend their money on fancy new products. And as for expansion, I think the good old days are long gone. We should be cutting back.

Beatrice
Sally

Sally, how do you feel about all this? We're talking about budgets for the upcoming year. Everybody's forecasts seem to indicate hard times ahead. And we don't even have the money to spend. How are we going to serve more debt, or raise more cash in the capital markets?

Beatrice

So, despite our great ideas and investment plans, it seems the reality is that our budgets for this year will have to be tight.

19 Peter

Ideas and investments don't mean cash in the bank. Consumers simply don't have the confidence to spend their money on fancy new products. And as for expansion, I think the good old days are long gone. We should be cutting back.

Beatrice
Sally

Sally, how do you feel about all this? We're talking about budgets for the upcoming year. Everybody's forecasts seem to indicate hard times ahead. And we don't even have the money to spend. How are we going to service more debt, or raise more cash in the capital markets?

Beatrice

So, despite our great ideas and investment plans, it seems the reality is that our budgets for this year will have to be tight.

UNIT 6, EXERCISE 1

20 Anne

So, can we agree at least that it will be most cost effective to invest in an existing business? That way, we will be able to utilize the local knowledge of the personnel currently running the business.

Luis

Yeah, I think so. The question is how exactly. Do we buy the company or only the assets? There's a lot to think about. For instance, the due diligence process, although that won't affect the mechanics of our acquisition. What will we have to consider, Allen? You're the international lawyer.

Allen

Lots of things, takeover rules, European Union regulation on competition and the accounting legislation. Dana, can you tell us something about that?

Dana

Actually, the accounting regulations aren't such a big issue. More important will be the effect of our acquisition on our balance sheet. The goodwill component is huge and we have to be aware of the impact this is going to have. That'll be an interesting discussion with the auditors.

UNIT 6, EXERCISE 4

- 21 If we are thinking about raising capital in overseas markets, the reporting requirements of those markets are obviously important. I've summarized some of the major points on this slide – let's go through them briefly
- 1 It may be possible to measure all of these at their fair value, which would allow the recognition of unrealized gains.
 - 2 This may have been developed completely separately from the accounting systems, and may provide considerable opportunities for taxation planning.
 - 3 Typical of these is the Profit and Loss Account.
 - 4 This can be acquired or self-generated – of course it may have to be recognized as an asset, if certain criteria are met.
 - 5 Here we're talking about things which we don't actually own – they go back to their owners after a certain amount of time. They require different disclosure in the Balance Sheet, and the GAAP of different countries can require different classification, normally finance or operating.
 - 6 The methods used to measure this can vary considerably. The normal ones are FIFO, which means 'first in first out', LIFO or 'last in first out', or average cost, which is somewhere between the two. All give a different value for what we hold.

UNIT 6, EXERCISE 6

Part 1

- 22 Good morning, ladies and gentleman. My name is Kathryn Smithson. I'd like to thank you first of all for giving me the opportunity to come here today and talk to you about the international issues facing enterprises with cross-border interests. Although I am not an accountant I hope to give you some information which will help you in your dealings abroad. If you don't mind, I would prefer to answer any questions you may have at the end.

There'll be three parts to my presentation. I'll start with a short description of the general issues faced by managers today. Then we'll look at some of the issues in more detail using some of the data I have collected. Finally we'll look at how you can approach these problems and create successful international teams. There'll be a comprehensive hand-out at the end, so there's no need to take notes unless you really want to.

Part 2

- 23 So, what can we conclude from all this? We all know that globalization has been a buzzword for many years now. All of us have been involved in or seen companies expand across borderland we have seen some mergers collapse. I think that my research has shown that one of the main reasons for such collapses is that management has ignored the intercultural factors facing the members of teams working in an intercultural environment. I hope my presentation has made you aware of some of the factors which affect the ability of people from different cultures to work together.

I will now be happy to take any questions from the floor, and perhaps even discuss some of these issues further. Yes, the gentleman on the right?

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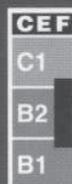
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