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## 2

## Financial statements and ratios

TARTER

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

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

Market Capitalization, Discounted Cash Flows ...

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
<b>Assets</b>		
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
<b>Total assets</b>	<b>\$ 366,818</b>	<b>\$ 351,334</b>
<b>Liabilities and equity</b>		
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
<b>Total Liabilities</b>	<b>333,408</b>	<b>318,835</b>

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)
<b>Total share owners' equity</b>	<b>31,036</b>	<b>30,320</b>
<b>Total liabilities and equity</b>	<b>\$ 366,818</b>	<b>\$ 351,334</b>

### Statement of Earnings

For the years ended December 31

(In millions; per share amounts in dollars)

	2006	2005	2004
<b>Revenues</b>			
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
<b>Total revenues</b>	<b>86,342</b>	<b>84,548</b>	<b>81,540</b>
<b>Costs and expenses</b>			
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
<b>Total costs and expenses</b>	<b>73,061</b>	<b>72,229</b>	<b>69,189</b>
<b>Earnings before income taxes and accounting changes</b>	<b>13,281</b>	<b>12,319</b>	<b>12,351</b>
Provision for income taxes	(3,547)	(3,188)	(3,441)
<b>Earnings before accounting changes</b>	<b>9,734</b>	<b>9,131</b>	<b>8,910</b>
Cumulative effect of accounting changes	0	(212)	0
<b>Net earnings</b>	<b>\$ 9,734</b>	<b>\$ 8,919</b>	<b>\$ 8,910</b>
<b>Per-share amounts</b>			
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
<b>Dividends declared per share</b>	<b>\$ 0.49</b>	<b>\$ .046</b>	<b>\$ 0.45</b>



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



1 consolidated		
2 retained	assets	stock
3 current		
4 common	receivables	gains
5 total		liabilities
6 accumulated	earnings	affiliates
7 intangible		

### Now match the word partners to their definitions.

- An asset which does not have a physical nature (such as a trademark or a patent).
- The holding company owns a minority interest (less than 50%), but the accounts are nevertheless consolidated.
- The total legal obligations of a company to pay other parties.
- The ordinary shares held by the owners, who therefore are the last to receive their money back in the event of liquidation.
- Amounts that will be collected in the normal course of business within one year.
- 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.
- 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

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

- £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

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

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

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.

e Slightly more this year.

f A lot more this year.

h It's exactly the same.

**7 Write definitions for the following terms:**

- a Working Capital
- b Return on Assets
- c Debt/Asset Ratio

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

