

# **Professional English in Use**

## **Finance**

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# 1 Money and income

## A

### Currency

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

BrE: note or banknote;  
AmE: bill

## B

### Personal finance

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

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

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

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

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

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

BrE: social security; AmE: welfare  
BrE: flat; AmE: apartment

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

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

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

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

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

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

**Over to you** 

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

## 2 Business finance

### A Capital

When people want to **set up** or start a company, they need money, called **capital**. Companies can **borrow** this money, called a **loan**, from banks. The loan must be paid back with **interest**: the amount paid to borrow the money. Capital can also come from issuing **shares** or **equities** – certificates representing units of ownership of a company. (See Unit 29) The people who **invest** money in shares are called **shareholders** and they own part of the company. The money they provide is known as **share capital**. Individuals and financial institutions, called **investors**, can also lend money to companies by buying **bonds** – loans that pay interest and are repaid at a fixed future date. (See Unit 33)

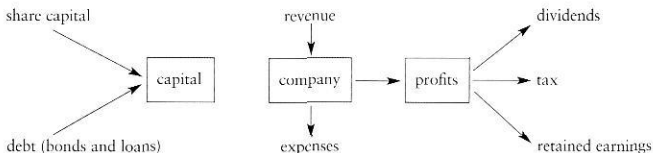
Money that is **owed** – that will have to be paid – to other people or businesses is a **debt**. In accounting, companies' debts are usually called **liabilities**. Long-term liabilities include bonds; short-term liabilities include debts to suppliers who provide goods or services on **credit** – that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

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

BrE: shares; AmE: stocks  
BrE: shareholder; AmE: stockholder

### B Revenue

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

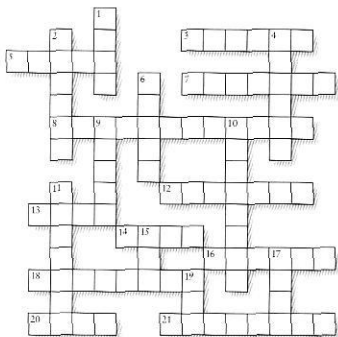


### C Financial statements

Companies give information about their financial situation in **financial statements**. The **balance sheet** shows the company's **assets** – the things it owns; its **liabilities** – the money it owes; and its capital. The **profit and loss account** shows the company's revenues and expenses during a particular period, such as three months or a year.

BrE: profit and loss account; AmE: income statement

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



Across

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

Down

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



"It's been a great year – let's hope we can keep the shareholders from finding out."

Over to you

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



# 3

## Accounting and accountancy

### A Accounting

- **Accounting** involves recording and summarizing an organization's transactions or business deals, such as purchases and sales, and reporting them in the form of financial statements. (See Units 11–14) In many countries, the accounting or accountancy profession has professional organizations which operate their own training and examination systems, and make technical and ethical rules: these relate to accepted ways of doing things.
- **Bookkeeping** is the day-to-day recording of transactions.
- **Financial accounting** includes bookkeeping, and preparing financial statements for shareholders and creditors (people or organizations who have lent money to a company).
- **Management accounting** involves the use of accounting data by managers, for making plans and decisions.

### B Auditing

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

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

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

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

### C Laws, rules and standards

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

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

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

1 I record all the purchases and sales made by this department.

2 This month, I'm examining the accounts of a large manufacturing company.

3 I analyse the sales figures from the different departments and make decisions about our future activities.

4 I am responsible for preparing our annual balance sheet.

5 When the accounts are complete, I check them before they are presented to the external auditors.

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

- 1 In Britain
- 2 In most of continental Europe and Japan
- 3 In the USA
- 4 In Britain and the USA
- 5 In much of continental Europe

- a accounting rules are established by a government agency.
- b companies are mainly funded by shareholders or stockholders.
- c accounting rules are set by an independent organization.
- d the major source of corporate finance is banks.
- e accounting rules are set by the government.

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

.....  
.....

an audit

.....  
.....

standards

.....  
.....  
.....

rules

.....  
.....

transactions

**Over to you**



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