

Unite 9 : Depreciation and amortization

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 But fixed assets wear out of date (become unusable or obsolete), and eventually have little or no value.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

The whole cost of the asset will be charged during all the years it is used, this is the accounting system depreciation.

Assets such as buildings, machinery and vehicles are regrouped together under fixed assets. Land is usually not depreciated, it tends to appreciate or gain in value. British companies usually revalue (calculate a new value for) appreciating fixed assets. The revaluation is at either current replacement cost – how much it would cost to buy new ones – or at net realizable value (NRV) – how much they could be sold for.

Appreciation is recorded only in countries that use inflation accounting systems. Companies in countries which use historical cost system – recording only the original purchase price of asset – do not usually record an estimated market value. The price at which something could be sold today. The conservatism and objectivity principles support this.

The most common depreciation system of fixed assets is the straight-line method, which means charging equal annual amounts against profits during the lifetime of the asset (eg : deducting 10 % of an asset's value from the profits every year for 10 years). Many European countries allow accelerated depreciation, businesses can deduct the whole cost of an asset in a short time. Accelerated depreciation allowances are an incentive to investment : a way to encourage it. If a company deduces the entire cost of an asset in a single year, it reduces its profits and therefore the amount of taxes it has to pay.

Comprehension :

- 1- What is the difference between fixed and current assets ?
- 2- Are stocks considered as fixed assets ?
- 3- Are companies allowed to appreciate the value of their assets ? how is that ?
- 4- Explain how could the law encourage companies to investment ?
- 5- According to which principles, countries use the historical cost system ?

Vocabulary :

Exercise 1 : match each word with its appropriate definition

Appreciate – obsolete – current assets – revalue – fixed assets – wear out

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

Exercise 2 : match the nouns in **A** with the verbs in **B** to have word combinations, then use some of the word combinations to complete the sentences in **C**.

A : Costs – profits – fixed assets – value – market value – purchase price.

B : - Deduce.....

- Depreciate.....

- Record.....

- Reduce.....

C : - Because we..... the....., we don't have worry about the market value of fixed assets.

- To depreciate,, we Part of their.....from profit each year.

- Because land usually appreciates, companies do not generally..... its on the balance sheet

Exercise 3 : match the two parts of sentences

1. All fixed assets can appreciate if there's high inflation.

2. Accelerated depreciation allows companies to

3. Fixed assets generally lose value, except for land

4. The straight line method of depreciation

5. Accelerated depreciation reduces companies' tax bills

a. Which usually appreciate

b. Charges equal amounts against profits every year

c. Remove some extremely valuable assets from their balance sheet

d. Which encourages them to invest in new factories

e. But historical cost accounting ignores this.

Grammar : *The present perfect tense*

1- Present perfect form : the present perfect of any verb is composed of two parts :

The appropriate form of the *auxiliary verb to have* (present tense) + *the past participle* of the main verb.

The past participle of a regular verb is : *base + ed*. For irregular verb, we refer to the table of irregular verbs.

Negative form : Subject + to have + not + past participle.

Interrogatif form : to have + Subject + past participle

Eg : she *has arrived*, I *have taken*..., They *haven't finished* yet, *have* you *visited* the museum ?

2- Present perfect function :

The present perfect is used to indicate a link between the present and the past. The time of the action is before now but not specified. The present perfect is used to describe :

Cases	Examples
An action or situation that started in the past and continues in the present	I have lived in Boumerdes since 1985. (and I still do)
An action performed during a period that has not finished yet.	She has been in the cinema twice this week. (and the week isn't over yet)
A repeated action in an unspecified period between the past and now.	They have visited Portugal several times.
An action that was completed in the very recent past. (expressed by just)	I have just finished my work.
An action when the time is not important. Only matter the results of the action.	She has read « War and peace ». He has learnt English, Russian and French.

Unite 10 : Auditing

An internal audit is an examination of a company's accounts by its own internal auditors, they evaluate the accuracy of the accounts and check for errors. They make sure that accounts comply with established policies and standards. The internal auditors also check the company's system of control, related to recording transactions, valuing assets and so on. They check to see that procedures of control are adequate and sufficient, they also recommend to change them if necessary.

Public companies have to submit their financial statements to external auditors – independent auditors who do not work for the company. The auditors have to give an opinion about whether the financial statement give a true and fair view of company's situation and results.

During the audit, the external auditors examine the company's system of internal control to see whether transactions have been recorded correctly. They check whether the assets mentioned in the balance sheet actually exist and wether their valuation is correct, if the debtors recorded are genuine, if the stock take – the count of all goods held ready for sale – are correct. They always look for any inusual items in the accounts.

Comprehension :

- 1- What's the difference between internal audit and external one ?
- 2- What do auditors examine ?
- 3- What do internal auditors usually check ?

Vocabulary :

Exercise 1 : find in the text synonyms of these words : correctness, follow, inspection.

Exercise 2 : match these nouns with the verbs below to make word combinations. Some words can be used twice.

Accounts – system of control – stock take – procedures – regulations – advice – policies – opinions – laws.

Comply with	Check
.....
.....
.....	Give

Examine.....

.....

Exercise 3 : Complete the following table.

Verb	Noun	Adjective
-		Accurate
	Compliance	
Recommend		
	Record	
	Examination	-

Exercise 4 : Complete this paragraph with the appropriate word.

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

Grammar : *Adverbs : Already, Ever, Never, Yet*

These adverbs are always used with present perfect tense. This table shows how to use them.

Adverbe	Affirmative sentence	Negative sentence	Interrogative sentence
Ever : express the idea of an unidentified time before now	This is the first time I've ever been in England We must add "the first time"	Nobody has ever said to me that before. Nothing like this Has ever happened to us. We must use the pattern Nobody..... ever Nothing.....ever	Have you ever met the prime minister ?
Never : at no time before now, and is the same as not.....ever	I have never visited Berlin We cannot use never and not together		

Never or ever are always placed before the past participle.	I haven't never visited Berlin I haven't ever visited Berlin		
Already : refers to an action that happened at unspecified period of time and suggests that there's no need to repeat this action. Already can be placed just before the past participle or at the end of the sentence	I have already sent the mail I have been to Tokyo already		Have you already written to him ?
Yet means not at the period of time between the past and now. It's always used at the end of the sentence		I haven't finished it yet	Has she gone yet ?

Unite 11 : The Balance sheet I

All companies have to publish an annual balance sheet, which is a statement for shareholders and creditors. It's a document with two halves, the totals of the both are the same, so they balance. One half shows the business's assets, which are things owned by the company, such as factories and machines and that will bring future economic benefits. The other half shows company's liabilities and its capital or shareholders' equity. Liabilities are obligations to pay other organizations or people money that the company owes or will owe at a future date. These often include loans, taxes that will soon have to be paid, future pension payments to employees and bills from suppliers : companies which provide raw materials. If the suppliers have given the company a period of time in order to pay its purchases, this is called **granting credit**. Assets are shown as debits in the balance sheet (because the capital was debited to purchase them), the total of these assets must equal to the sum of credits which include : liabilities and capital.

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

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

A balance sheet does not show how much money the company spent or received during a year. This information is given in an other financial statements : **The profit and loss accounts** and the **cashflow statements**.

Comprehension :

- 1- Who is concerned by the annual balance sheet ?
- 2- What is shown on each half of this document ?
- 3- Who gives usually the granting credit ?
- 4- What are the retained earnings ?
- 5- How we can calculate the shareholders' equity ?
- 6- Does the balance sheet show the profits made by company ?
- 7- Are the following statements true or false :
 - a- British and American balance sheet show the same information, but arranged differently.
 - b- The profit of the company in the previous year isn't shown on the balance sheet.
 - c- The two sides of a balance sheet have always the same total.
 - d- The balance sheet tells how much the company owes.

Vocabulary :

Exercise 1 : Complete these sentences with the appropriate word.

- 1- Are companies that provide other companies with raw materials.
- 2- are profits that company hasn't distributed to shareholders.
- 3- are things that company owns and uses in its business.
- 4- consists of everything the company owes.
- 5- consists of money belonging to company's owners.

Exercise 2 : make word combinations using a word from each side.

Distribute	Liabilities
Grant	money
Owe	Profits
Pay	earnings
Retain	credit

Grammar : *The simple past tense*

We always use the past simple when details about place and time are specified or asked for. We use the present perfect when time is not important or not specified.

Present perfect	Past simple
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I have lived in London	I lived in London in 1980.
Have you seen John ?	Where did you see John ?
We have been to Ireland.	When did you go to Ireland ?

Unite 12 : The balance sheet II

Assets are divided into fixed assets : building and equipment, and current assets : cash, stocks and debts.

If a company thinks a debt will not be paid, it has to anticipate the loss. It will write off or abandon the sum as a bad debt and make a provision by charging a corresponding amount against profit.

Assets are also classified as tangible and intangible. Tangible assets are assets with physical existence, they're generally recorded at their historical cost less accumulated depreciation charges, the amount of their costs that has already been deducted from profits. This gives their net book value.

Intangible assets include

- brand names, legally protected names for company's products.
- patents, exclusive rights to produce a particular new product for a period of time.
- trade marks, names or symbols that are put on products and cannot be used by other companies.

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

Manufacturing companies record on their balance sheet three kinds of stock :

- raw material,
- partially manufactured products (or work in progress)
- and products ready for sale.

Stocks are valuing at their cost which include the price of purchase plus any work done on the items.

Vocabulary :

Exercise 1 : match each word with its appropriate definition

Goodwill – bad debt – write off – make provision - partially manufactured products – trade mark – net book value – patent – net worth

- 1- An amount of money that is owed but probably will not be paid
- 2- The accounting value of a company.
- 3- A legal right to produce and sell a newly invented product for a certain period of time.
- 4- The historical cost of an asset minus its depreciation charges.
- 5- The amount a company pay for another one, in excess of the net value of its assets.
- 6- A legally protected word, phrase, symbol or design used to identify a product.
- 7- To accept that a debt will not be paid.
- 8- To deduct money from profits because of debts will not be paid.
- 9- Products that are not Complete or ready for sale.

Exercise 2 : match the two parts of the sentence

- 1- A company's value on the stock exchange is nearly always
- 2- Brand names, patents, customers and qualified staff
- 3- Cash, money owed by customers and stocks
- 4- Companies record stocks at the cost of buying, cost of manufacturing
- 5- Companies write off bad debts and make provision
- 6- Land, building, factory and equipment

- a- are current assets.
- b- are examples of intangibles assets
- c- are examples of tangible, fixed assets.
- d- by deducting the amount from the profits
- e- higher than the value of its net assets
- f- or the current market price, whichever is lower.

Unite 13 : Cultural differences

What is culture ? Culture can be defined as all the elements which come together to form the way of thinking and acting which allows one group of people to be distinguished from another and it includes, among other things, a system of values.

In a business environment, understanding cultural differences is essential : different attitudes, different behaviour, different values must be understood and accepted if successful business dealings are to take place.

In Europe, broadly speaking, cultural variations differentiate the citizens of northern countries from those of Southern countries. Experts have identified some of the areas in which these variations come into play :

- How the citizen relate to the state : Northern countries see liberty as substantive ; the individual may do anything as long as it is not expressly forbidden by the state. In France or Spain, it is additive, you may do it only if the government says you may.
- The conception of what should be organized : in the north, management is a set of tasks to be achieved, and the structure is built for that purpose. In the south, the people involved are central, the organisation is created to manage the relationships.
- The role of authority : northerners vest power in the office and southerners ascribe it to the person. In the north, it maybe difficult to find out who is in charge, whereas in the south, the signs of status are immediately perceptible.
- Meeting : in the north, Meeting invariably begin on time, tend to be rather formal and rarely overrun the allotted schedule. In the south, they are full of interruptions, spontaneous changes and disregard for agenda and time. The two systems do not mesh.
- Attitudes to work : one of the greatest fallacies is that northerners are hard-workers and southerners are lazy.

Nevertheless, attitudes to work differ immensely. People from northern, protestant traditions «live to work », while southern Catholics « work to live ».

- Self expression : one of the most obvious, and frequent, causes of north-south misunderstanding is the extent to which people express themselves. Southerners tend to be spontaneous, colourful, and physical ; northerners are more organized, regulated and distant.

Comprehension :

- 1- What is meant by substantive liberty ?
- 2- What are the Purposes of organization in northern and southern countries ?
- 3- Are meeting more organised in the south or in the north ?
- 4- What is the difference between « work to live « and « live to work » ?

Vocabulary : Find in the text synonyms of these words :

Differentiate – contain – principles – essential – prohibit - function – implicate.

Unite 14 : The Financial statements

The profit and loss account is a financial statement which shows the difference between the revenues and the expenses of a period. Non profit organizations like charities, public universities or museums generally produce an *income and expenditures account*, if they have more income, this is called surplus rather than profit.

At the top of this statement, we find :

- the sales revenues or turnover : the total amount of money received during a specific period.
- Next is *the cost of goods sold* (COGS) : the costs associated with the products that have been sold such as raw materials, labour and factory expenses.
- The difference between the sales revenue and the cost of sales is the gross profit.
- There are many other costs that have to be deducted from the gross profit such as : rent, electricity and office salaries. These expenses are often grouped together as *selling, general and administration expenses (SG&A)*
- The statement also shows *EBITDA : earnings before interest, taxes, depreciation and amortization*. And *EBIT : earnings before interest and taxes*.
- After all these deductions, we find the *net profit*, often called the *bottom line*. This profit can be distributed as dividends (unless the company has to cover past losses), or transferred to reserves.

The cashflow statement gives details of cashflow which is money coming into and leaving the business, relating to :

- Operating : day to day activities.
- Investing : buying or selling property, plant and equipment.
- Financing : issuing or repaying debts, or issuing shares.

This document shows how much cash a company generate effectively. It's also named *Funds flow statement*. British companies also have to produce a *statement of total recognised gains and losses (STRGL)*, showing any gain or losses not included in the financial statements below such as the revaluation of fixed assets.

Questions : here are some ratios, check which ones should be higher than 1 :

- Cost of sales/sales revenue
- Grosses profit/net profit
- Ebit/EBITDA

Vocabulary :

Exercise 1 : Complete the text with words below. You will need to use each word more than once.

Financing – operations – investing

..... means making money by selling goods and services.

.....is spending cash for the future business' growth, including cash acquired from selling assets.

.....involves raising money by issuing stocks and bonds.

A healthy cash flow means that the amount of cash provided by.....
Is greater than the cash used for

Exercise 2 : would the following appear as operating, financing or investment activities on the cash flow statements ?

Changes in operating assets

Dividends paid

Purchase of equipment

Net income

Insurance of stocks

Sale of property

Repayment of debts.

Grammar : *The future verbs forms*

Obviously, any future tense refers to a time later than now, but it may also expresses our attitude to the future events. All the following ideas can be expressed using the future tense.

Ideas	Examples
1. Simple prediction	There will be snow in many places tomorrow

2. Arrangements (Both the speaker and the listener are aware of this arrangement)	We're having meeting next Wednesday.
3. Plans and intentions	We're going to spend the summer abroad
4. Time-tabled events (The statement is based on present and fixed facts like a time-table, schedule and a calendar)	The plane takes off at 3 am
5. Prediction based on present evidence	I think it's going to rain
6. Willingness	We will help you in doing this work
7. An action in progress.	Next time, i will be more punctual.
8. An action that's a matter of routine	I'll see John in the office tomorrow
9. An action that will take place immediately or very soon	The train is about to leave
10. Projecting ourselves in the future and looking back at a completed action	A month from now, he will have finished all his exams.

Unite 15 : Bookkeeping

The bookkeeper records the company's daily transactions : Sales, purchases, debts, expenses and so on. Double entry-bookkeeping is a system that records two aspects of each transaction. Every transaction is both a debit- deduction- in one account and a corresponding credit – an addition another. If a company buys some raw material that it will pay for a month later, it debits its purchase account and credits its suppliers account. If the company sells an item on credit, it debits its sales account and credits its customers account. Each account can be debited or credited, if the bookkeepers do their work correctly, the total of the debits always equal to the total of credits.

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

In Britain, they call the main books of account *nominal ledgers*. The terms of debtors and creditors can refer to both people and money. We can call debtors, companies that owe money or just the sum of money recorded in an account.

Vocabulary :

Exercise 1 : match each word with its appropriate ddefinition

Credit – debit – creditors – debtors – ledger – stocks

- An amount entered on the left hand side of account, recording money paid out

- A book of accounts
- Customers who owe money for goods or services not yet paid for.
- An amount entered on the right hand side of an account, recording money received.
- Goods stored ready for sale
- Suppliers who are owed money for purchases not yet paid for.

Exercise 2 : Complete these sentences with the appropriate word.

- shows where money comes from and where it goes. It's always transferred from one To another one. Every event is entered twice, once as a credit and once as.....
- Most businesses record very frequent transactions inor in

Exercise 3 : Complete these sentences using « credit » or « debit ».

- If you buy new assets, you The cash account.
- If you pay some bills, you the liabilities account.
- If you buy materials from suppliers on 60 days' credit, you the purchases account and The suppliers account.
- If you sell something to a customer who will pay 30 days later, you the sales account and The customers account.

Grammar : *The simple future*

The simple future is composed of two parts :

Subject + will/shall + infinitive verb (without to)

Affirmative	I will travel next week
Negative	You will not lose your job You won't have to pay for.
Interrogative	Will you get his team ? Won't you join them ?

Contraction : I will = I'll

The form it will is not normally shortened.

The simple future refers to a time later than now and expresses facts and certainty. Here are cases where we use simple future.

Cases	Examples
To predict a future event	It will rain tomorrow

To Express a spontaneous decision	I'll pay for the ticket by credit card
To express willingness	I'll carry your bag for you
To express unwillingness	I won't leave until I've seen the manager
To make an offer (with I in the interrogative form)	Shall I open the door ?
To ask for an advice or instructions (with I in the interrogative form)	What shall I tell the boss about this affair ?
To give orders (with you)	You will do everything I want.
With you to give Invitations	Will you join us ?

Shall is slightly dated but it can be used instead of will with I or We in the cases mentioned before. With the other pronouns, shall is used only in literary or poetic texts.

Unite 16 : Making decisions



Making decision is the process of selection from alternative. Decisions can be classified in different ways, one can distinguish between strategic and tactical decisions or between basic and routine decisions. Three main rules can be followed in decision making :

- The minimax rule which guarantees a minimum gain by minimizing risks,
- The maximax rule which is the opposite and where the aim is the highest possible return regardless of risks involved.
- The average rule is mid-way between the other two and aims to strike a balance between gain and risks.

Decision making is not possible without the knowledge of a number of data. These data can be of two kinds ; primary data which are available to all people, secondary data which are collected and used by people who need them. When a decision is to be

based on secondary data, it's important to know how the data have been collected and how accurate they are before one can appreciate meaning and reliability. Data can also be internal (taken from the company's records) or external (obtained from outside the organization).

In general, information is collected through direct observation or by surveys. There are three ways of survey : interviews, which can be formal with a set of questions or informal, questionnaires with yes-no questions or open-ended questions. The whole population is not concerned but just a group selected which is known as a sample. Questionnaires must be free from bias or leading question.

Finally, data should be presented according to certain criteria. Any characteristic that varies from one member to the other is a variable. The presentation mostly in use is decision trees which shows the several future chance events affecting each decision.

Comprehension :

- 1- What are the kinds of decision ?
- 2- What should be considered in making decision ?
- 3- How we can get data to make decision ?
- 4- How can we get a correct questionnaire ?
- 5- How we could present data ?

Unite 17 : Trade



Here are the five famous kinds of payments in international trade :

CF (Cost and Freight) : The price paid to the seller includes packing and freight to the port of destination, but does not include insurance. This must be paid by the buyer.

CIF (Cost, insurance and freight) : the seller's price includes all charges and risks up to the point where the ship carrying the goods arrives at the named port of destination.

Ex-works (or Ex-factory) : the price excludes all delivery charges. The buyer has to arrange for collection of the goods at the works or factory, and pays all expenses such as loading, insurance and carriage.

FAS (Free alongside ship) or franco quay : the seller's price includes all charges and risks up to the point where the goods are placed alongside the named ship ready to be taken on board.

FOB (Free on Board) : the seller's price includes all charges and risks up to the point where the seller delivers the goods on board at the named port of shipment. From that point, the buyer bears the charges and risks.

Exercise 1 : according to the terms of payments below, put them in order from 1 to 5, from the best term for the buyer to the worst one.

- 1- CIF
- 2-
- 3-
- 4-
- 5-

Exercise 2 : when trading, one needs to know many items related to transactions. Here are some of them, put each one in the correct box below.

Air freight – barrels – bill of exchange – certificate of value and origin – containers – crates – customs officer – docks – drums – freight forwarding agent – import duty – import licence – insurance broker – insurance premium – letter of credit – port of arrival – port of origin – rail freight – sacks – sales invoice – sea freight – surcharge – warehouse.

Documents	Means of transport	Packaging	Payments	People	Places

Dictionary :

British English	US English	French	Arabic
Social security	Welfare	Sécurité sociale	الضمان الاجتماعي
Shares	Stocks	Actions	اسهم
Shareholders	Stockholders	Actionnaires	مالكي الأسهم
Debtors	Accounts receivable	Débiteur	المدينون

Creditors	Accounts payable	Créditeurs	الدائنون
Chairman	President	PDG	الرئيس المدير العام
Managing director	Chief executive officer (CEO)	Manager, directeur	المدير
Articles of association	Bylaws		
Memorandum of association	Certificate of incorporation	Statut	القانون الاساسي
Annual general Meeting	Annual meeting of stockholders	Assemblée générale ordinaire	الجمعية العامة العادية
Extraordinary general Meeting	Special Meeting	Assemblée générale extraordinaire	الجمعية العامة الاستثنائية
Depreciation	Amortization	Amortissement	الاهتلاك
Financial year	Fiscal year	L'année fiscale	السنة المالية
Fixed assets	Property, plant and equipment		التثبيات المادية
Balance sheet	Statement of financial position	Bilan comptable	الميزانية المحاسبية
Net profit	Net income	Résultat net	النتيجة الصافية
Profit and loss accounts	Income statements	Tableau de compte des résultats	جدول حسابات النتائج
Stock	Inventory	Inventaire	الجرد
Gearing	Leverage	Effet de levier	اثر الرافعة
Overheads	Overhead	Les frais généraux	المصاريف العامة
Current account	Checking account	Compte courant	الحساب الجاري
Cheque	Check	Chèque	الشيك
Cash dispenser	ATM (automated teller machine)	Distributeur automatique	الموزع الالي للنقود
Merchant bank	Investment bank	Banque d'investissement	بنك الاستثمار
Retail, commercial bank	Retail, commercial bank	Banque commerciale	البنك التجاري
Fixed assets		Les acquisitions	التثبيات
Labour	Labor	Main d'œuvre	اليد العاملة
Ordinary shares	Common stocks	Actions ordinaires	الاسهم العادية
Brand name		Marque commerciale	العلامة التجارية
Patents		Brevets	براءة اختراع
Financial statements		Les états financiers	القوائم المالية
Current assets		Les actifs courants	الاصول الجارية
