

Absolute Financial English

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English for finance
and accounting

**IDEAL FOR
CAMBRIDGE
ICFE
PREPARATION**

Company performance

This unit covers:

TOPICS

- Financial statements
- Company reporting
- Definition of accounting
- Accounts receivable
- Disclosure
- Big Four accounting firms
- Investments
- The balance sheet
- Fund management

SKILLS

- Reading: text completion, word formation, vocabulary building
- Listening: listening for detail, listening and speaking
- Speaking: talking about your work style, presenting financial terms
- Writing: reports: planning your writing, accuracy

READING

Section A Skills

TALKING POINT

Discuss these questions with a partner.

- 1 What is accounting?
- 2 When did it start?
- 3 How has accounting changed in modern times?

1 Sentence completion

Read the text and complete it with the words in the box.

assets bookkeeping credit debit entries errors measures
practices principles reform relationships transactions

DEFINITION OF ACCOUNTING

Accounting is the measurement of financial (1) _____ which are transfers of legal property rights made under contractual (2) _____. Non-financial transactions are specifically excluded due to conservatism and materiality principles. At the core of modern financial accounting is the double-entry (3) _____ system. This system involves making at least two (4) _____ for every transaction: a (5) _____ in one account, and a corresponding (6) _____ in another account. Basically, the sum of all debits should always equal the sum of all credits; this provides a simple way to check for (7) _____. This system was first used in medieval Europe; however, claims have been made that the system dates back to Ancient Rome or Greece. According to critics of standard accounting (8) _____, accounting has changed little since. In each generation, accounting (9) _____ of some kind has been made in order to try to keep bookkeeping relevant to capital (10) _____ or production capacity, but such changes have not altered the basic (11) _____ of accounting. In recent times, the divergence of accounting from economic principles has resulted in controversial (12) _____ to make financial reports more indicative of economic reality.

2 Text completion

- a Read this article about investing in BRIC countries in which some sentences are missing. Discuss with a partner what kind of information you would expect to find in each gap.

Example: (0) **An introduction to the article or reference to the report?**

TIP
Look carefully at the sentence before and after each gap and consider what kind of information would fit.

Investors should look beyond BRIC countries, says PwC report

(0) **A report published by PricewaterhouseCoopers on Tuesday has suggested that investors need to look beyond the BRICs (Brazil, Russia, India and China) for future growth opportunities.** 'The World

in 2050: Beyond the BRICs' report concluded that long-term prospects for China, India and other so-called 'E7' economies (Brazil, Mexico, Russia, Indonesia and Turkey) are still upbeat, but looks for the first time at an additional 13 emerging economies, which the firm argues also have the potential to grow significantly faster than the established Organisation for Economic Co-operation and Development (OECD) countries.

(1) _____ 'The global centre of economic gravity is already shifting to China, India and other large emerging economies, and our analysis suggests that this process has a lot further to run.

(2) _____ India could grow to almost 90% of the size of the USA by 2050. Brazil seems likely to overtake Japan by 2050 to move into fourth place,

while Russia, Mexico and Indonesia all have the potential to have economies larger than those of Germany or the UK by the middle of this century. But the fastest mover could be Vietnam, with a potential growth rate of almost 10% per annum in real dollar terms.'

(3) _____ For example, it suggests that Nigeria, while high risk, has the long-term potential to overtake South Africa to be the largest African economy by 2050. (4) _____

However, with the possible exception of Vietnam relative to Turkey, the additional analysis does not change the conclusion from earlier

PricewaterhouseCoopers research that the E7 will remain the largest emerging economies through to 2050. Mr Hawksworth explained that:

'(5) _____ In fact, it should prove to be a boost for them through growing income from exports and overseas investments, even as the OECD share of world GDP declines.'

- b Match these sentences and phrases (A–F) with the gaps in the article (1–5). The first one (0) is given as an example.

A ~~A report published by PricewaterhouseCoopers on Tuesday has suggested that investors need to look beyond the BRICs (Brazil, Russia, India and China) for future growth opportunities.~~

B The rapid growth of the emerging economies does not mean the demise of the established OECD economies.

C John Hawksworth, Head of Macroeconomics at PricewaterhouseCoopers LLP, observed that:

D The report also highlights that there are many other alternatives worth considering, depending on the nature of the investment.

E BRIC economies are likely to continue to benefit from superior growth, from globalisation and from being economically 'coupled' with the developed economies.

F The Philippines, Egypt and Bangladesh also have high growth potential, but also high risk levels.

Section B

Exam focus

EXAM TASK
Test of Reading Part 2

TIP
In Part 2 of the exam, you are required to complete a text by filling the gaps with the most appropriate word.

1 Selecting the appropriate language

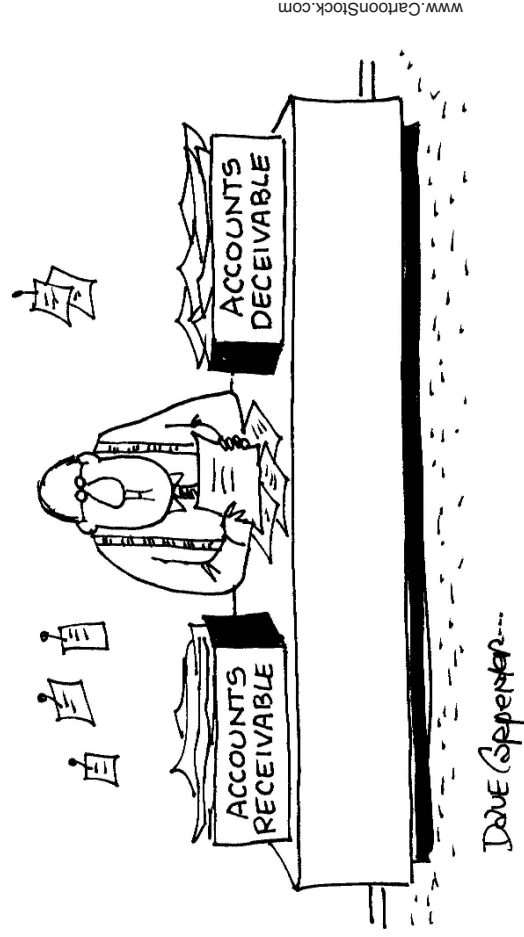
With a partner, look at this text and discuss what kind of word is missing from each sentence. Then complete the gaps in the text. The first one (0) is given as an example.

ACCOUNTS RECEIVABLE

Accounts receivable is (0) **one** of a series of accounting transactions dealing with the invoicing of customers (1) _____ owe money to a person, company or organization (2) _____ services or goods that have been (3) _____ to the customer. In most firms, this is usually (4) _____ by issuing an invoice and (5) _____ it to the customer to be paid within an agreed timeframe and payment (6) _____. One example of a common payment term is 'net 30', meaning payment is due in the amount of the invoice 30 days from the (7) _____ of invoice.

While booking a receivable is accomplished by a (8) _____ accounting transaction, the process of maintaining and collecting payments on the accounts receivable subsidiary account balances (9) _____ be time-consuming. Accounts receivable payments can be received (10) _____ to ten to 15 days after the due date has been reached. On a (11) _____ balance sheet, accounts receivable is the amount that customers (12) _____ to that company. Sometimes referred to as trade receivables, they are (13) _____ as current assets.

ACCOUNTING



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2 Word formation

Complete these sentences, which describe notes to the financial statements, using the base word at the end of each sentence. The first one (0) is given as an example.

- 0 Notes to the financial statements are **additional** notes and information added to the end of financial statements to provide the reader with more information. (ADD)
- 1 These notes help to clarify the _____ of specific items in the statements, as well as provide a more detailed assessment of a company's financial condition. (COMPUTE)
- 2 Notes to financial statements can include information on debt, going concern, accounts, contingent _____, or contextual information explaining the figures. (LIABLE)
- 3 The notes to the financial statements are also used to explain the method of accounting used to prepare the financial statements, i.e. _____ basis accounting. (ACCRUE)
- 4 In consolidated financial statements, all _____ should be listed, as well as the amount of ownership that the parent company has in the subsidiary companies. (SUBSIDE)
- 5 Any items in the financial statements that are valued by _____ should be contained in the notes. (ESTIMATE)
- 6 Differences between the amount of an estimate of any items previously _____ and the amount of the actual results should be contained in the notes. (REPORT)
- 7 Finally, full _____ of the effects of such differences between the estimate and the actual results should be in the note. (DISCLOSE)

3 Vocabulary building

Look at the four descriptions below of financial statements. Substitute the words in bold with similar words from the box.

accrued collected condition covered dues expenditure
flow held income monies snapshot value

- **The balance sheet**
This (1) **statement** of financial position shows a firm's financial (2) **situation** at a specific point in time.
- **The profit and loss account**
This shows a firm's (3) **revenues** and (4) **expenses** for a period, the amount of profit that is (5) **reinvested** in the firm (or losses to be (6) **funded**), dividends paid to the shareholders, the (7) **accumulated** net profits from any previous year's trading and tax (8) **liabilities**.
- **The cashflow statement**
This document shows the (9) **movement** of (10) **funds** for a period of time.
- **The consolidated financial statements**
These (11) **combined** financial statements of a parent company and its subsidiaries, showing assets, liabilities, and net (12) **worth** for the whole organisation.

EXAM TASK
Test of Reading Part 3

TIP
In Part 3 of the Test of Reading, you are asked to form an appropriate word to complete each gap using the base words provided.

Section A Skills

1 Vocabulary building

Match words on the left (1–8) with words with similar meanings on the right (a–h).

- | | |
|----------------------|------------------|
| 1 disclosure | a dispensation |
| 2 retain | b keep |
| 3 heated discussions | c reporting |
| 4 mandatory | d fall |
| 5 threshold | e clarity |
| 6 exemption | f starting point |
| 7 transparency | g fierce debates |
| 8 dip | h compulsory |

2 4.1 Listening for details

Listen to a report about changes in financial reporting in Singapore. As you listen, write the missing figures to complete the lecture notes on the clipboard below.

Changes in reporting procedures

- Reports for listed companies – market capitalisation of over \$\$.
- % of firms listed on Singapore Exchange
- Companies that pass the \$\$. threshold have one year to prepare themselves

3 4.1 Listening and speaking

Read these questions, then listen again. Discuss your answers with a partner.

- What recommendation was made by the Council on Corporate Disclosure and Governance?
- What did the Ministry of Finance decide to do?
- What was effect of this decision in the financial community?
- What problem does this change create for companies?
- How did the Ministry of Finance justify their decision?
- How will these changes affect smaller companies in the future?

Section B Exam focus

1 21–22 4.2–4.3 Listening for detail

You will hear two different extracts. For questions 1–4, choose the best answer (A, B or C). There are two questions for each extract. Listen to each extract twice.

Extract 1

Listen to a financial analyst talking about the Big Four accounting firms.

- What were the results for the Big Four in 2007?
 - All four firms had remarkable results, with significant growth in revenue.
 - Revenue growth in all four firms was rather slow.
 - Three of the Big Four had double-digit growth in revenue.
- What prediction does the speaker make for 2008?
 - Slightly lower growth is expected.
 - PwC will continue to be the biggest accounting firm.
 - The high level of growth in revenue will continue.

Extract 2

Listen to an accountant talking about the audit of the Big Four carried out by the PCAOB.

- What was the main conclusion of the last report?
 - The Big Four had not collected adequate sound evidence to support the auditors' opinions.
 - The performance of the Big Four was dreadfully disappointing.
 - Many of the opinions presented in the audits of the Big Four reporting were inaccurate.
- How often are the Big Four inspected by the PCAOB?
 - Every three years
 - Once a year
 - Twice a year

See Useful abbreviations, pages 116–117

2 23 4.4 Sentence completion

You will hear the start of a presentation about the performance of fund management in Hong Kong. Complete the sentences using up to three words. Listen to the recording twice.

SUMMARY – GROWTH IN HK FUND MANAGEMENT

Results

- In 2005, record growth was achieved, and Hong Kong strengthened its position as a _____ of Asia.
- The _____ of the combined fund-management business in Hong Kong grew 25% to HK\$4.526bn by the end of 2005.
- Since 2001, assets under management in Hong Kong have _____.

Reasons

- The main reasons for such excellent figures are the professionalism, enterprise and hard work of _____ and advisers.
- In addition, Hong Kong is a _____ to set up a hedge fund.

Regulatory environment

- Support from lawyers, accountants, custodians and _____ in Hong Kong is also strong.

Total non-REITs assets – HK

- Almost one-third _____ in Hong Kong and China.

Launch of REIT

- The _____ of its kind in the world is Link REIT.
- Total market capitalization of the four REITs was approximately \$6.3m, and its _____ was US\$47.8m.

EXAM TASK
Test of Listening Part 3

TIP
In Part 3 of the Test of Listening, you will hear the recording twice. This means that if you miss an answer for a question, you should continue with the next question and listen for the missing information when you listen the second time.

TIP
Don't repeat information that is already in the sentences.
Do check that your answers are spelt correctly.

Section A Skills

TIP
Small talk is an important aspect of business relations. It contributes to creating a friendly, positive atmosphere and helps put clients at ease before you begin to discuss business.

1 Small talk

You are visiting a client abroad. It is ten minutes before the start of a meeting with your clients. Introduce yourself to some of the people present and engage in small talk. With a partner, ask and answer questions about:

- his/her journey
- how business is
- how long he/she plans to stay
- his/her home country
- whether he/she is a sports fan
- where he/she is staying
- the weather
- his/her interests/hobbies
- whether he/she will have time for sightseeing
- his/her opinion about a current affair

2 SWOT analysis

a Your client is considering opening in an office one of the countries below. With a partner, do a SWOT analysis of each country using a table like the one below. Give each country a credit rating, based on your opinion of its overall political and economic risk. You must reach agreement with your partner on each point.

	Bulgaria	Tunisia	Vietnam	Chile
S (strengths)				
W (weaknesses)				
O (opportunities)				
T (threats)				
Credit rating Aaa-C *				

* Credit rating bands

Aaa = excellent; Aa = very high; A = high quality; Ba = low grade; B = very speculative; Caa = substantial risk; Ca = very poor quality; C = imminent default or in default

b Prepare a SWOT analysis of your own country to present to other members of your group or class.

➡ See Language bank, Giving opinions, page 119

TRIVIA

John Grisham, author of *The Firm* and many other novels, received his first degree in accounting from Mississippi State University.

Section B

Exam focus

1 Talking about yourself: your work style

a Look at these eight factors and their associated questions. With a partner, ask and answer the questions.

What kind of person are you? What are your priorities at work?

- 1 Working with people
Are you a 'people person'?
- 2 Working with systems, computers or new technologies
Are you an analytical person?
- 3 Being in charge
Are you an effective manager and problem-solver?
- 4 Opportunity to increase or enhance your current skills
How important is it for you to be able to enhance your skills in this position?
- 5 Stress level
Do you handle stress well? Can you work effectively under pressure?
- 6 Employer's management style
Can you easily adapt your working style to suit that of your employer?
- 7 Size of the company
Do you prefer to work in a large corporate setting?
- 8 Location of the company
Are you willing to relocate or commute to work?

TIP
In Part 1 of the Test of Speaking, you will be asked questions about yourself. The self-assessment questionnaire here focuses on your work style and the type of job you really want.

b Decide how important each factor is to you and rate each one on a scale of 1 to 5.

- 1 = Not important 4 = Very important
2 = Quite important 5 = Most important
3 = Important

2 Discussion

Discuss your answers to Exercise 1 with your partner.

3 One-minute presentation

Ask and answer these review questions about financial performance with a partner. Then choose one of the questions and prepare to give a one-minute presentation about it to the group.

Focus on delivering the presentation very clearly and accurately. Record your presentations and discuss your performance with a partner afterwards.

'It is much more difficult to measure non-performance than performance.'
Harold Geneen

Questions about financial performance

- How would you describe the balance sheet and profit-and-loss account?
- What is a statement of accounting policies?
- What is the difference between financial accounting and management accounting?
- What is an acid test?
- What are SSAPS?
- What is SOX legislation, and what does it mean for the world of accounting?
- Why is the balance sheet important to entrepreneurs?

TIP
Every presentation, no matter how long or short, should have a beginning, a middle and an end.

Section A Skills

1 Reports: planning your writing

Look at the checklist below. With a partner, discuss which points are important before you start writing, and which you should consider after writing.

- Read the introduction, topic sentences and conclusion.
- Think about what you plan to write.
- Leave the document for a while, then check it again.
- Read your writing and decide how you can shorten it without losing essential information.
- Revise your text.
- List the main points you wish to include.
- Make each point succinctly.
- Check for grammatical errors and do a spell check.
- Make a paragraph plan.
- Choose the most appropriate format.

'I'm sorry this is such a long letter. I didn't have time to write a short one.'
George Bernard Shaw

TIP Whether you are preparing a short letter or a long and detailed report, all writing must have a clear and logical structure.

2 Topic summaries

Consider your job. Choose three job-specific themes and write sample titles for reports.

Section B

Exam focus

1 Creating your own exam task

With a partner, create your own exam task for Part 2 of the Test of Writing. Your report task should in some way be related to a client's financial performance.

EXAM HINTS

DOs

- ✓ Organize your ideas and make a plan before you start writing.
- ✓ Use as wide a range of structures and vocabulary as possible.
- ✓ Check that you have covered all the content points.

DON'Ts

- ✗ Don't use too much language from the question.
- ✗ Don't include irrelevant material.
- ✗ Don't write much more than the specified word limit.

2 Accuracy

Complete the letter using the words from the box.

an at both by for further how in made nor
of since such the thereby this to with

TIP In the Test of Writing, pay close attention to accuracy.

Dear Mr Price,

Re: Shared European views on IASCF and IASB

As representatives of preparers, users, auditors and EFRAG, we were grateful for the opportunity to meet (1) _____ you and the other trustees on 22 January to exchange views in order to obtain a better understanding of each other's positions. We appreciated the constructive and fruitful discussion. We summarize (2) _____ this letter the main European concerns expressed in the meeting regarding global, principle-based standards that were shared (3) _____ all European representatives present.

● Our common aim is sustaining the European use of global financial reporting standards, (4) _____ these standards provide the benefits of increasing confidence in financial markets and of facilitating global investments, (5) _____ reducing the cost of capital. We are strongly committed to high-quality, global, principle-based, neutral financial reporting standards.

● A principle-based approach (6) _____ financial reporting means that clear principles designed to serve the public interest underpin a limited volume of application guidance that show (7) _____ those principles should be applied in common situations. This approach promotes consistency and transparency and helps companies, their advisers and auditors to respond appropriately, using professional judgement, to complex situations and new developments in business practice.

With (8) _____ a framework, participants in the financial reporting chain should not feel the need for, (9) _____ require the development of, detailed rules which seek to address all the eventualities that may arise in practice. The IASB/FASB convergence project should not lead to (10) _____ increase of rule-based accounting standards.

● We welcome the continuously expressed support by (11) _____ the IASB and the IASCF for principle-based standards. We call on the IASB to set out the main attributes of principle-based standards and to develop and publish (12) _____ comment an illustrative example of a complete principles-based standard with those attributes. (13) _____ would add to the credibility of the Board and give a clear indication to the market of the direction in which the IASB is heading when it expresses its support for principle-based standards. (14) _____ achievement of a principle-based system will need incremental steps by all financial reporting constituents. The IASB has to play a leading role in this respect.

Way forward

We commend the IASCF on the good progress (15) _____ in improving its governance. We welcome the recently announced accelerated review of the IASCF and IASB governance arrangements aimed (16) _____ enhanced public accountability. However, in our view, (17) _____ steps are required, as discussed in this letter, to improve the governance of the IASCF and the responsiveness of the IASB to its constituents. We appreciate the great progress made by the IASB in creating the stable platform of standards and repeat our common aim of sustaining the European use

(18) _____ IFRS.

Yours sincerely,

Chairman of EFRAG Supervisory Board