- profit and loss
- assets and liabilities

Company finance

Reading

1 Read the article below and choose the best summary:

a) Baker's Dozen makes healthy profits because its products sell well.
b) Baker's Dozen makes a heavy loss because its costs are out of control.
c) Baker's Dozen only just breaks even because its overall margin is too small.

THE Baker's DOZEN

Baker's Dozen Ltd's thirteen outlets bake and sell their own fresh bread and cakes. **Revenue** has risen quickly since the bakeries started selling to hotels and restaurants as well as the general public. Pastries and pies are selling well, but shareholders are finding annual results disappointing. It seems that there is very little left over to pay **dividends** or to reinvest in the business as **retained profit**. So what's the problem?

The company reports a healthy **gross profit**, since its **cost of goods sold** is low: raw materials (essentially flour, water, eggs and sugar) are cheap, and most bakery staff are on minimum wage. However, **operating profit** is much less impressive. As the business has expanded, **operating costs**, such as rent, electricity, administrative salaries, insurance and marketing have increased considerably. So **net profit after tax** has been a big disappointment, not to mention all the money that disappears in corporation **tax and depreciation** (the B2B market requires customized vans that lose value very quickly). In conclusion, it seems there's still profit to be made in baking, but it's certainly not easy money!

Vocabulary

2 Use the words in bold in the article to complete 1–9 in the table.

money from customers	1	______________
______________	2	direct costs, e.g. materials and labour
profit (or loss) after direct costs	3	______________
______________	4	other costs, e.g. administration, buildings, utilities
profit (or loss) after direct and other costs	5	______________
______________	6	money paid to the government and loss in value of equipment
profit (or loss) after all costs and taxes	7	______________
______________	8	money distributed to shareholders
money reinvested in the company	9	______________

3 With a partner, put the assets and liabilities in the box in the correct category.

~~bank loans~~ buildings cars inventory invoices land
money invested in the company by the founders mortgages office furniture patents
production machinery raw materials retained profit unpaid customer invoices
unpaid insurance premiums unpaid salaries unpaid supplier invoices

Assets (what the company owns)		Liabilities (what the company owes)		
Current assets (cash and things that can be sold within one year)	Long-term assets (things that are used over more than one year)	Current liabilities (debts to pay back within one year)	Long-term liabilities (debts to pay back over more than one year)	Shareholders' equity (what's left after paying all debts)
			bank loans	