

▶ P&L account, balance sheet, cash flow statement

▶ accounting terms

▶ verbs for enabling and preventing

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depreciation
pellet
snapshot

7.2 Vocabulary Financial documents and regulation

Discussion

1 With a partner, discuss the following questions.

- How do you keep track of your personal finances? Do you keep accounts, use a computer program to track your income and expenditure, or simply look at your bank statements?
- Do you know today whether you are in credit or in debt?

Defining words

2 Match the three main accounting documents 1–3 with the best description a–c.

- profit and loss account
- balance sheet
- cash flow statement

- to indicate inflow and outflow of money over a specific period, in particular to make sure it does not run out
- to show managers whether a business made or lost money over a specific period
- to provide a snapshot of a business's value at a particular point in time, showing what it has and what it owes

3 Match the three main accounting documents to the simplified examples below. Why are some numbers listed in brackets?

a

2012	
Cash receipts (a)	
Cash sales	€175,000
Loans	€40,000
Total cash receipts	€215,000
Cash payments (b)	
Rent	€102,000
Admin	€85,000
Total cash payments	€187,000
Net cash flow	€28,000

b

2012	
Net sales (c)	250,000
Cost of sales	(80,000)
Gross profit	170,000
Selling, general and administrative expenses	(65,000)
Operating profit (d)	105,000
Other income	20,000
Earnings before taxes	125,000
Taxes	(25,000)
Net income	100,000

c

April 1 2012	
Assets	
Current assets (e)	
Cash	€75,000
Accounts receivable	€150,000
Total current assets	€225,000
Fixed assets (f)	
Land	€150,000
Total fixed assets	€150,000
Total assets	€375,000
Liabilities (g)	
Current liabilities	
Taxes payable	€100,000
Payroll	€125,000
Total current liabilities	€225,000
Long-term liabilities	
Loans repayable	€50,000
Total long-term liabilities	€50,000
Total liabilities	€275,000
Net assets (h)	€100,000
Owners' equity (i)	€100,000

4 Complete the sentences with terms a–i in the accounting documents above.

- A business's _____ are the sums that it will have to pay at some time in the future, such as loan repayments or taxes.
- All funds going out of a business in a specific period are known as _____.
- The amount of profit after general running costs are deducted is known as _____.
- Businesses often have money in the bank or money owed to them, known as _____.
- The total income from all of a business's normal trading activity is known as _____.
- All money coming into a business in a specific period is known as _____.
- Some things that a business owns cannot be turned easily into cash: these things are its _____.
- The difference between what a business owns and what it owes are its _____, which are equal to the _____.