Business fundamentals

profit and loss account

balance sheet

cash flow statement

Financial statements

Reading

1 The P&L (profit and loss account, or income statement), the balance sheet (BS) and the cash flow statement (CFS) are a company's three most important financial statements. Match descriptions 1–3 with the documents A)–C).

- 1 a picture of what a company owns and what it owes at a single moment in time
- 2 money received or spent on business activity, investments or financing
- 3 revenue minus expenses equals profit

A P&L

Revenue

- Cost of sales Gross profit
- SG&A
- **Operating** profit +Non-operating profit

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- FRITDA
- Interest
- Tax
- Depreciation
- Amortization
- Net profit after tax - Dividends Retained profit

B Balance sheet

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Assets **Current assets** Cash Accounts receivable Inventories Long-term assets **Fixed** assets Intangible assets Financial assets Liabilities

Current liabilities Bank debt Accounts payable Liabilities for tax Short-term provisions Long-term liabilities Bank loans Bonds payable Shareholders' equity

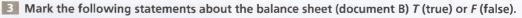
........... **G** Cash flow statement

Cash at beginning of year **Operations**

- +Cash receipts from customers - Cash paid for inventory, general
- expenses, wages, interest, tax Investing
- +Cash receipts from sale of property, equipment and securities
- Cash paid for property, equipment and securities Financing
- +Cash receipts from issuing stock, borrowing
- Cash paid for repurchase of stock, repayment of loans, dividends Net increase/decrease in cash Cash at end of year

Look at the P&L (document A). With a partner, find the words that match the definitions 1-10 below.

- 1 money paid to the government *taxes*
- the cost of materials and labour for production 2
- 3 payments received from customers
- 4 money paid to shareholders
- 5 value lost on vehicles as they get older
- the cost of advertising the product 6 7 value lost on patents as they get older
- 8 payments received for the sale of land
- the cost of loans from the bank 9
- 10 money reinvested in the business



- 1 A BS can only be completed at the end of the financial year.
- 2 Current assets include money owed by customers but not yet paid.
- 3 Inventories include stock which has been sold but not yet delivered.
- 4 Fixed assets do not include vehicles because they are mobile.
- 5 Patents, copyrights and shares in other companies are financial assets.
- 6 Current liabilities are items that have to be paid within the next year.
- 7 Accounts payable are invoices that customers have not yet paid.
- 8 Short-term provisions include money the company expects to lose in court.
- 9 Bonds payable are amounts of capital the company will receive in the future.
- 10 Shareholders' equity is the value that would be left if all the assets were sold and all liabilities paid.

4 Choose the best option to complete these statements about the cash flow statement (document C).

- For a typical company, most cash comes from a) operations b) investing c) financing. 1
- 2 The figure for cash receipts from customers comes from the a) P&L b) BS c) bank.
- 3 Investing includes money spent or made on a) equipment b) shares c) equipment and shares.
- 4 Tax pavable is a) deducted b) added c) ignored.
- 5 A company can improve cash flow by a) issuing b) purchasing c) borrowing shares.



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