

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

B Balance sheet

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

C 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

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

3 Mark the following statements about the balance sheet (document B) *T* (true) or *F* (false).

- 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).

- 1 For a typical company, most cash comes from a) operations b) investing c) financing.
- 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 payable is a) deducted b) added c) ignored.
- 5 A company can improve cash flow by a) issuing b) purchasing c) borrowing shares.



Glossary PAGE 152

EBITDA
 SG&A