## 13 Company finance

## Profit and loss

Companies have to produce accounts every year, and one of the most important is the income statement. It is also called the profit and loss account, or just the P&L. Here is a simplified version.

money that comes into the company from sales Revenue Cost of goods sold direct cost of making the goods, such as materials costs, profit before other things are taken away labour costs Gross profit Operating costs general costs, such as rent, utilities, insurance, salaries profit from the business activities of the company (of of office staff, marketing Operating profit course the company can make a profit or a loss) Tax, depreciation, etc tax: money paid to the government profit that remains after all costs and taxes are taken depreciation: loss in value of machinery, vehicles, etc. Net profit after tax Dividends money paid to the shareholders of the company final amount that is left; it is used to reinvest in the Retained profit

Note the words 'gross' and 'net'. These words can be used for salary or weight as well as profit.

Note these alternative words.

revenue = turnover = sales income operating costs = overhead = indirect costs profit = earnings (formal) a cost = an expense (formal) spending = expenditure (formal) Note that we say ...

make a reasonable/healthy/huge/record profit make a slight/significant/substantial/heavy loss first-quarter/half-year/annual profit have an annual turnover of €15m pay €2m in taxes

## Assets and liabilities

A second annual account is the balance sheet. Here is a simplified version:

Assets	Liabilities
Current assets	Current liabilities
Long-term assets	Long-term liabilities Shareholders' equity

Assets are what the company owns. Current assets include cash and things that can be turned into cash quickly, such as accounts receivable (= money owed by customers). Long-term assets are things like machinery, vehicles and buildings.

- Read the text for general understanding.
- Read it again and underline the words you don't know. Check their meaning.

Liabilities are what the company owes ('debts' in everyday language). Current liabilities are things that have to be paid quickly, such as accounts payable (= money owed to suppliers). Long-term liabilities are things like bank loans.

Now, imagine that the company stops doing business tomorrow. It uses all its assets to pay all its liabilities. Anything that remains belongs to the shareholders and would be returned to them. It is called shareholders' equity.

Note: Latin and German languages have words like 'active' and 'passive' for assets and liabilities. These are false friends.

We say ...
have total assets of €8m
have a healthy/strong balance sheet
have a high level of debt on your balance sheet

## Cash

A third annual account is the cash flow statement. This shows the movement of real cash into and out of the company. A company can be profitable 'on paper' but have cash flow problems because of customers paying late, etc. A company needs real cash, not paper profits, to run its business day to day. This available cash, used to pay bills and salaries, is called working capital.

The three sets of accounts mentioned on this page are audited (= officially examined) each year.

- 3 Highlight words you know passively, but don't use actively. Choose some to write sentences of your own.
- 4 Check pronunciation at macmillandictionary.com

