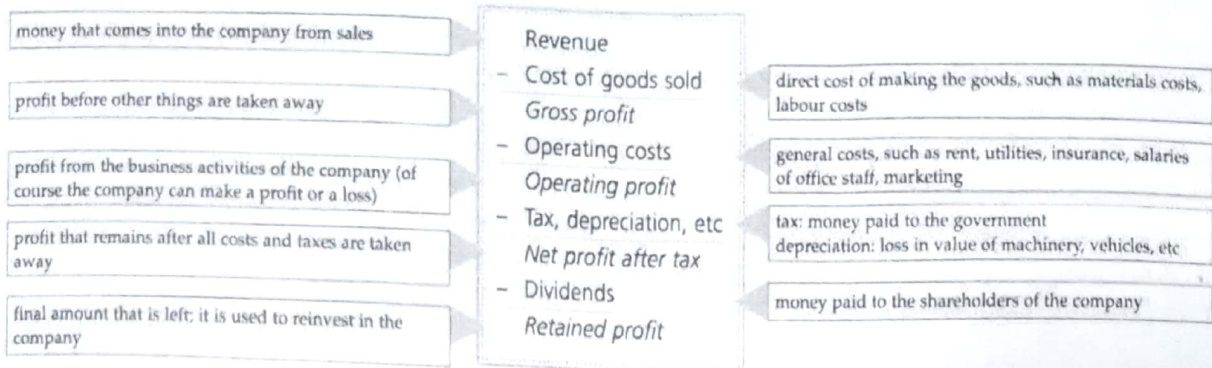


13 Company finance

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.



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.

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.

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

- 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

