

A Partnerships

A partnership is a business arrangement in which several people work together, and share the risks and profits. In Britain and the US, partnerships do *not* have limited liability for debts, so the partners are fully liable or responsible for any debts the business has. Furthermore, partnerships are not legal entities, so in case of a legal action, it is the individual partners and not the partnership that is taken to court. In most continental European countries there are various kinds of partnership which *are* legal entities.

A sole trader business – an enterprise owned and operated by a single person – also has unlimited liability for debts.

B Limited liability

A company is a business that is a legal entity. In other words, it has a separate legal existence from its owners, the shareholders. It can enter into contracts, and can be sued or taken to court if it breaks a contract. A company can (in theory) continue for ever, even if all the staff and owners change. Most companies have limited liability, which means that the owners are not fully liable for – or responsible for – the business's debts. These companies are known as limited companies. Their liability is limited to the value of their share capital: the amount of cash that the shareholders have contributed to the company. This limitation of liability encourages investors to risk their money to become part owners of companies, while leaving the management of these companies to qualified managers and senior managers, known as directors.

These managers and full-time executive directors run the company for its owners. There are standard procedures of corporate governance – the way a company is run by the management for the shareholders, and how the managers are accountable to the shareholders. These include separating the job of chairman from that of managing director, and having several non-executive directors on the board of directors who do not work full-time for the company but can offer it expert advice. Non-executive directors are often more objective: less influenced by their opinions and beliefs. There is also an audit committee, containing several non-executive directors, to which the auditors report.

BrE: chairman; AmE: president

BrE: managing director; AmE: chief executive officer (CEO)

C Founding companies

When people found or start companies, they draw up or prepare Articles of Association and a Memorandum of Association. The Articles of Association state:

- the rights and duties of the shareholders and directors
- the relationships among different classes of shareholder (See Unit 29)
- the relationships between shareholders and the company and its directors.

The Memorandum of Association states:

- the company's name
- the location of the company's registered office – where to send official documents
- the company's purpose – its aims or objectives
- the authorized share capital – the maximum share capital it can have.

BrE: Articles of Association; AmE: Bylaws

BrE: Memorandum of Association; AmE: Certificate of Incorporation

lecture 1

5.1 Are the following statements true or false? Find reasons for your answers in A and B opposite.

- 1 In case of a legal dispute, people can take a company's shareholders to court.
- 2 The owners of limited companies have to pay all the company's debts.
- 3 Many companies are not owned by their managers.
- 4 External directors can usually give more objective advice than full-time directors.
- 5 Partners in British and American businesses are not liable for the partnership's debts.
- 6 In case of a dispute, people can take British companies and partnerships to court.

5.2 Make word combinations using a word from each box. Then match the word combinations to the definitions below. Look at A opposite to help you.

corporate
audit
limited
non-executive
share

committee
directors
governance
capital
liability

- 1: a group of directors to whom the external auditors present their report
- 2: members of a board of directors who are not full-time managers of the company
- 3: owners' money invested in a company
- 4: responsibility for debts up to the value of the company's share capital
- 5: the way a company is managed for its owners

5.3 Complete the document. Look at C opposite to help you.

(a) of Association

1. The name of the Company is Language Services Pty Limited.
2. The (b) of the Company will be in Australia.
3. The (c) for which the Company is established is to provide translation and interpreting services to international companies.
4. The (d) of the company is made up of ordinary shares divided into five thousand (5,000) shares of A\$1.00 par value each with one vote for each share.

Over to you



Do partnerships have limited liability in your country? If not, who would you trust enough to start a partnership with?

A

Valuation and measurement

Investors in companies want to know how much the companies are worth, so companies regularly have to publish the value of their assets and liabilities. Companies also have to calculate their profits or losses: their managers need this information, and so do shareholders, bondholders and the tax authorities.

Companies can choose their accounting policies – their way of doing their accounts. *There are a range of methods of valuation – deciding how much something is worth – and measurement – determining how big something is – that are accepted by law or by official accounting standards.* In the USA, there are Generally Accepted Accounting Principles (GAAP). In most of the rest of the world there are International Financial Reporting Standards (IFRS), set by the International Accounting Standards Board. These are technical rules or conventions – accepted ways of doing things that are not written down in a law.

Although businesses can choose among different accounting policies, they have to be consistent, which means using the same methods every year, unless there is a good reason to change a policy: this is known as the consistency principle. The policies also have to be disclosed or revealed to the shareholders: the Annual Report will contain a 'Statement of Accounting Policies' that mentions any changes that have been made. This enables shareholders to compare profits and values with those of previous years.

Areas in which the choice of policies can make a big difference to the final profit figure include depreciation – reducing the value of assets in the company's accounts (see Unit 9), the valuation of stock or inventory, and the making of provisions – amounts of money deducted from profits – for future pension payments.

As there is always more than one way of presenting accounts, the accounts of British companies have to give a true and fair view of their financial situation – meaning there are various possibilities – rather than *the* true and fair view – meaning only one is possible.

BrE: depreciation; AmE: depreciation, amortization
BrE: a true and fair view; AmE: a fair presentation

B

Historical cost and inflation accounting

The aim of accounting standards (see Unit 3) is to provide shareholders with the information that will allow them to make financial decisions. This is one reason why in many countries accounting follows the historical cost principle: companies record the original purchase price of assets, and not their (estimated) current selling price or replacement cost. This is more objective, and the current value is not important if the business is a going concern – a successful company that will continue to do business – as its assets are not going to be sold, or do not currently need to be replaced.

However, some countries with regular high inflation, e.g. in South America, use inflation accounting systems that take account of changing prices. One system used is replacement cost accounting, which values all assets at their current replacement cost – the amount that would have to be paid to replace them now.

lecture 2

7.1 Match the two parts of the sentences. Look at A and B opposite to help you.

- 1 Companies' managers, investors, creditors and the tax authorities all
 - 2 There are different ways of doing accounting but companies have to be consistent,
 - 3 Companies have to disclose or make known
 - 4 The historical cost principle is that the price paid to buy assets,
 - 5 A going concern usually doesn't
- a and not their current value, is recorded in accounts.
 - b need to know the current market value of its assets.
 - c need to know about the size of profits or losses.
 - d which accounting methods they are using.
 - e which means regularly using the same methods.

7.2 Are the following statements true or false? Find reasons for your answers in A and B opposite.

- 1 Companies are told which accounting policies to use.
- 2 Companies can change their accounting policies whenever they like, as long as they disclose this in their Annual Report.
- 3 Companies could produce several profit figures, depending on how they depreciated their assets, valued their inventory, etc.
- 4 There is only one correct interpretation of a company's financial position, and company accounts must show this.
- 5 In a lot of countries, companies do not record the current value of their assets.
- 6 In countries with high inflation, companies value their assets at their current replacement cost.

7.3 Complete the table with words from A and B opposite and related forms. Put a stress mark in front of the stressed syllable in each word. The first one has been done for you.

Verb	Noun(s)	Adjective
	calcu'lation	-
-		consistent
-		conventional
measure		-
present		-
		valuable

Over to you



Which are the most important accounting standards or rules in your country – GAAP, IFRS, IAS, or something else?

A

The profit and loss account

Companies' annual reports contain a profit and loss account. This is a financial statement which shows the difference between the revenues and expenses of a period. Non-profit (or not-for-profit) organizations such as charities, public universities and museums generally produce an income and expenditure account. If they have more income than expenditure this is called a surplus rather than a profit.

At the top of these statements is total sales revenue or turnover: the total amount of money received during a specific period. Next is the cost of sales, also known as cost of goods sold (COGS): the costs associated with making the products that have been sold, such as raw materials, labour, and factory expenses. The difference between the sales

revenue and the cost of sales is gross profit. There are many other costs or expenses that have to be deducted from gross profit, such as rent, electricity and office salaries. These are often grouped together as selling, general and administrative expenses (SG&A).

The statement also usually shows EBITDA (earnings before interest, tax, depreciation and amortization) and EBIT (earnings before interest and tax). The first figure is more objective because depreciation and amortization expenses can vary depending on which system a company uses.

After all the expenses and deductions is the net profit, often called the bottom line. This profit can be distributed as dividends (unless the company has to cover past losses), or transferred to reserves.

BrE: net profit; AmE: net income

BrE: profit and loss account; AmE: income statement

Searby PLC**Annual Profit and Loss Account, 1/20__**

	(£'000)
Sales Revenue	48,782
Cost of Sales	33,496
Gross Profit	15,286
Selling, General and Administrative Expenses	10,029
Earnings before Interest, Tax, Depreciation and Amortization	5,257
Depreciation and Amortization	1,368
Earnings before Interest and Tax	3,889
Interest expenses	257
Income Tax	1,064
Net Profit	2,568

B

The cash flow statement

British and American companies also produce a cash flow statement. This gives details of cash flows – money coming into and leaving the business, relating to:

- operations – day-to-day activities
- investing – buying or selling property, plant and equipment
- financing – issuing or repaying debt, or issuing shares.

The cash flow statement shows how effectively a company generates and manages cash. Other names are sometimes used for it, including funds flow statement and source and application of funds statement.

British companies also have to produce a statement of total recognized gains and losses (STRGL), showing any gains and losses that are not included in the profit and loss account, such as the revaluation of fixed assets.

lecture 3

14.1 Which figure in each of the following pairs is higher for a profitable company? Look at A opposite to help you.

- | | |
|---------------------------------|-------------------------------|
| 1 cost of sales / sales revenue | 4 net profit / pre-tax income |
| 2 gross profit / net profit | 5 income tax / net profit |
| 3 EBIT / EBITDA | |

14.2 Complete the text with words from the box. You will need to use each word more than once. Look at B opposite to help you.

financing	investing	operations
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(1) means making money by selling goods and services. (2) is spending cash, for the business's future growth, including cash acquired by selling assets. (3) involves raising money by issuing stocks and bonds (and also paying dividends and interest and repaying bonds). It is better for the company if it can pay for future growth out of money from (4), without having to use (5), So a 'healthy' cash flow means that the amount of cash provided by (6) is greater than the cash used for (7)

14.3 Would the following appear as operating, financing or investing activities on a cash flow statement? Look at the example below to help you.

Changes in operating assets and liabilities	Payments to repurchase stock
Dividends paid	Sale of property
Purchase of plant and equipment	Depreciation and amortization expenses
Net income	Income taxes payable
Issuance of stock	Repayment of debt

Godwin-Malone Inc, New York

Cash flow statement (\$'000)	20__	20__
Earnings	1,811	1,274
Amortization	924	683
Other adjustments to Earnings	33	-6
Net cash provided from operations	2,768	1,951
Proceeds from issuing new stock	234	167
Stock dividends paid	-14	
Net cash provided from financing	220	167
Additions to property, plant and equipment	-2,351	-1,755
Net cash used for investing	-2,351	-1,755
Change in cash and equivalents during year	356	97
Cash and equivalents, beginning of year	2,150	2,014
Cash and equivalents, end of year	2,506	2,111

2/2

Over to you



Look at cash flow statements in company annual reports, and at the share prices of those companies over the past years. What happened to the share price of companies that generated more cash than they spent, and what happened to those that spent more than they generated?

28

Profitability and unprofitability

lecture 4

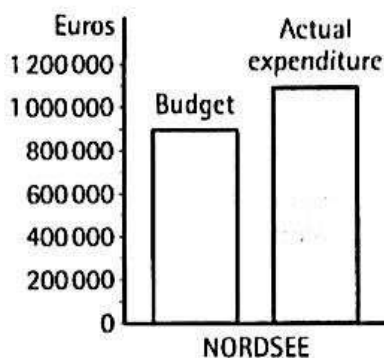
A Profitable and unprofitable products

A supermarket manager talks about the costs and prices for some of its products.

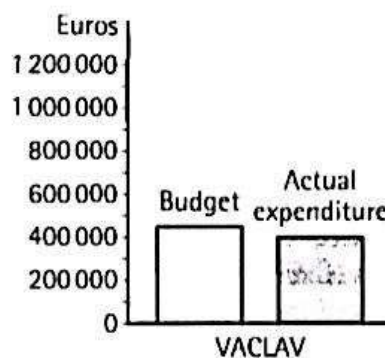
Product	Cost per unit (euros)	Sale price per unit (euros)	Result
A	10	12	We make a profit: the product is profitable or profit-making.
B	15	15	We break even: we reach break-even point.
C	8	7	We make a loss. The product is loss-making, but we use Product C as a loss leader to attract people to the store, as we know they will then also buy profitable products.
D	12	22	Product D is very profitable and we sell a lot of it. It's one of our money-spinners or cash cows, products that have very good profitability.

B Budgets and expenditure

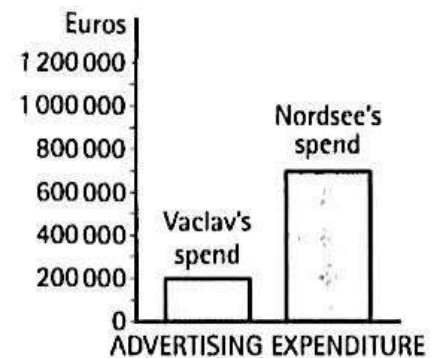
Like all companies, Nordsee and Vaclav have to budget for, or plan, their costs, and have a budget. Look at the graphs comparing their planned budgets with their actual expenditure (what they actually spent).



Nordsee went over budget and overspent by 200,000 euros.



Vaclav underspent by 50,000 euros. He was under budget.



On advertising, Vaclav's spend was only 200,000 euros, while Nordsee's advertising spend was 700,000.

Note: Spend is usually a verb, but it can also be a noun, as in advertising spend.

C Economies of scale and the learning curve

Ford is one of the biggest car companies in the world. It benefits from economies of scale. For example, the costs of developing a new car are enormous, but the company can spread them over a large number of cars produced and sold. In dealing with suppliers, it can obtain lower prices, because it buys in such large quantities.

1/2

The company also benefits from the experience curve or learning curve: as it produces more, it learns how to do things more and more quickly and efficiently. This brings down the cost of each thing produced, and the more they produce, the cheaper it gets.

lecture 4

28.1 Look at this information about Vaclav's products and answer the questions.

	Unit production cost (korunas)	Overheads per unit (korunas)	Selling price (korunas)	Number of units sold per year
Chairs	360	40	500	50,000
Stools*	180	20	195	70,000
Armchairs	700	70	800	20,000
Coffee tables	550	50	600	30,000
Dining tables	2500	300	3000	15,000

* chairs with three legs and no back

- 1 Which products make a profit?
- 2 Which product has the highest level of profitability as a percentage of its selling price?
- 3 Which loses money?
- 4 Which just breaks even?
- 5 Which is the biggest money-spinner or cash cow, in terms of overall profit?
- 6 Which product may be a loss leader, to encourage furniture stores to buy other, profitable products?

28.2 Complete the sentences using correct forms of expressions from B opposite.

- 1 She felt the organization was and wasting money on entertainment and luxury travel.
- 2 UK tobacco companies have an advertising of £50 million a year.
- 3 Orson Welles was supposed to make a film version of Heart of Darkness, but he ran, and the project was cancelled.
- 4 The repair budget for Windsor Castle after the fire was £40 million. In fact, the repairs were completed six months ahead of schedule and £3 million
- 5 Years of on investment in Britain's railways have left them in a very bad state.
- 6 Planning the concert, they found they had forgotten to the singers, and could only pay the orchestra.
- 7 Spending on books is rising as a proportion of total consumer

28.3 Match the sentence beginnings (1–3) with the correct endings (a–c). The sentences all contain expressions from C opposite.

- | | |
|--|--|
| 1 There are economies of scale in hospital services; | a so cutting unit costs. |
| 2 Some universities put more students into classes, | b but we are learning from our mistakes. |
| 3 The learning curve is very steep, | c however, they only apply up to about 100–200 beds. |

2/2

Over to you



Does your company, or one you would like to work for, have a cash cow or a loss leader?
Does your company, or one you would like to work for, benefit from economies of scale?

lecture 5

A

Assets



An asset is something that has value, or the power to earn money. These include:

- **current assets:** money in the bank, investments that can easily be turned into money, money that customers owe, stocks of goods that are going to be sold.
- **fixed assets:** equipment, machinery, buildings and land.
- **intangible assets:** things which you cannot see. For example, goodwill: a company's good reputation with existing customers, and brands (See Unit 22): established brands have the power to earn money.

If a company is sold as a **going concern**, it has value as a profit-making operation, or one that could make a profit.

B

Depreciation

Joanna Cassidy is head of IT (Information Technology) in a publishing company:

'Assets such as machinery and equipment lose value over time because they wear out, or are no longer up-to-date. This is called **depreciation** or **amortization**. For example, when we buy new computers, we **depreciate** them or **amortize** them over a very short period, usually three years, and a **charge** for this is shown in the financial records: the value of the equipment is **written down** each year and **written off** completely at the end.'

The value of an asset at any one time is its **book value**. This isn't necessarily the amount that it could be sold for at that time. For example, land or buildings may be worth more than shown in the accounts, because they have increased in value. But computers could only be sold for less than book value.'

C

Liabilities

Liabilities are a company's debts to suppliers, lenders, the tax authorities, etc. Debts that have to be paid within a year are **current liabilities**, and those payable in more than a year are **long-term liabilities**, for example bank loans.

D

Balance sheet

A company's **balance sheet** gives a picture of its assets and liabilities at the end of a particular period, usually the 12-month period of its **financial year**. This is not necessarily January to December.

lecture 5

30.1 Look at A opposite. What kind of asset is each of the following? Which three are not assets?

- 1 Vans which a delivery company owns and uses to deliver goods.
- 2 Vans for sale in a showroom.
- 3 A showroom owned by a company that sells vans.
- 4 A showroom rented by a company that sells cars.
- 5 Money which customers owe, that will definitely be paid in the next 60 days.
- 6 Money which a bankrupt customer owes, that will certainly never be paid.
- 7 The client list of a successful training company, all of which are successful businesses.
- 8 The client list of a training company, with names of clients that have all gone bankrupt.

30.2 Use the correct forms of words in brackets from B opposite to complete these sentences.

- 1 The bank had lent too much and was left with a mountain of bad debts: £4.3 billion was (write off / wrote off / written off) last year.
- 2 Most highway building programs in the US are (amortization / amortize / amortized) over 30 years or more.
- 3 The company reported a record income of \$251.2 million, after a \$118 million (charge / charged / charges) for reduction in the (book value / books value / booked value) of its oil and gas properties.
- 4 Under the new law, businesses face five different (depreciate / depreciation / depreciations) rules for different types of equipment.
- 5 The company reported a loss of \$12.8 million, partly due to a special charge of \$1.5 million to (write down / wrote down / written down) the value of its spare parts inventory.

30.3 Look at C and D opposite and say if these statements are true or false.

- 1 Money that a company has to pay to a supplier in less than a year is a long-term liability.
- 2 A loan that a company has to repay to a bank over five years is a long-term liability.
- 3 A company's financial year can run from 1 May to 30 April.

Over to you



Obtain a copy of your company's balance sheet, or a copy of the balance sheet of a company that you are interested in. What are its main assets and liabilities?

You can find this information for companies all over the world at www.carol.co.uk (Company Annual Reports Online).

A

Trade

Most economists believe in **free trade** – that people and companies should be able to buy goods from all countries, without any barriers when they cross frontiers.

The **comparative cost principle** is that countries should produce whatever they can make the most cheaply. Countries will raise their living standards and income if they specialize in the production of the goods and services in which they have the highest relative productivity: the amount of output produced per unit of an input (e.g. raw material, labour).

Countries can have an **absolute advantage** – so that they are the cheapest in the world, or a **comparative advantage** – so that they are only more efficient than some other countries in producing certain goods or services. This can be because they have raw materials, a particular climate, qualified labour (skilled workers), and economies of scale – reduced production costs because of large-scale production.

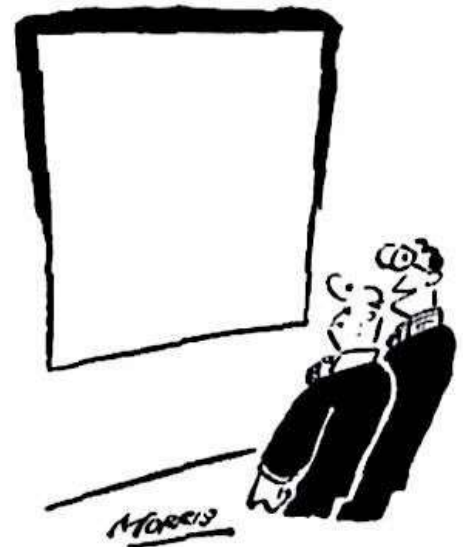
B

Balance of payments

Imports are goods or services bought from a foreign country. Exports are goods or services sold to a foreign country.

A country that exports more goods than it imports has a **positive balance of trade** or a **trade surplus**. The opposite is a **negative balance of trade** or a **trade deficit**. Trade in goods is sometimes called **visible trade**. Services such as banking, insurance and tourism are sometimes called **invisible imports and exports**. Adding invisibles to the balance of trade gives a country's **balance of payments**.

BrE: visible trade; AmE: merchandise trade



"Good invisible export figures this quarter, sir."

C

Protectionism

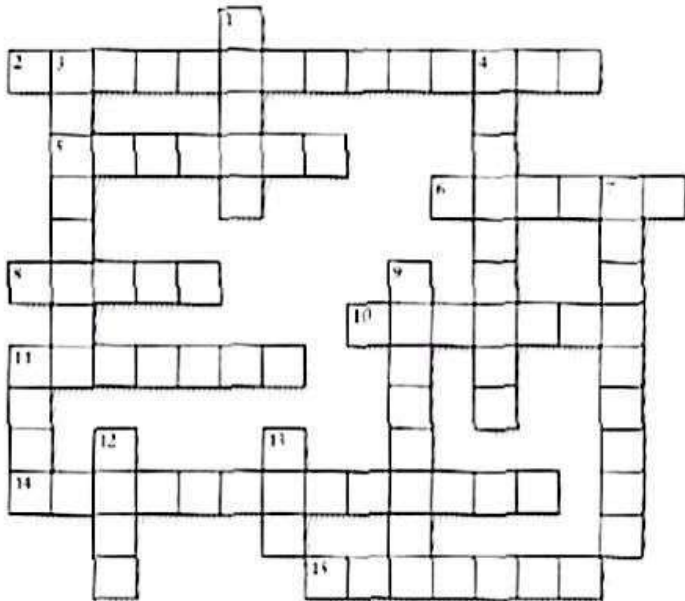
Governments, unlike most economists, often want to **protect** various areas of the economy. These include **agriculture** – so that the country is certain to have food – and other **strategic industries** that would be necessary if there was a war and international trade became impossible. Governments also want to protect other industries that provide a lot of jobs.

Many governments impose **tariffs** or **import taxes** on goods from abroad, to make them more expensive and to encourage people to buy local products instead. However, there are an increasing number of **free trade areas**, without any import tariffs, in Europe, Asia, Africa and the Americas.

The **World Trade Organization (WTO)** tries to encourage free trade and reduce **protectionism**: restricting imports in order to help local products. According to the WTO agreement, countries have to offer the same conditions to all trading partners. The only way a country is allowed to try to restrict imports is by imposing **tariffs**. Countries should not use **import quotas** – limits to the number of products which can be imported – or other restrictive measures. Various international agreements also forbid **dumping** – selling goods abroad at below cost price in order to destroy or weaken competitors or to earn foreign currency to pay for necessary imports.

lecture 6

43.1 Complete the crossword. Look at A, B and C opposite to help you.



Across

- 2 Countries that export a lot of oil or manufactured goods tend to have a positive (7,2,5)
 5 A country exporting more than it imports has a trade (7)
 6 In a free trade area, governments cannot impose a on imports. (6)
 8 A limit to the quantity of goods that can be imported is a (5)
 10 and 9 down Adding trade in services to trade in goods gives you the of (7,8)
 11 Billions of dollars leave the USA every year because the country has a big trade (7)
 14 Attempting to reduce imports in favour of local production is called (13)
 15 The import and export of goods is called trade. (7)

Down

- 1 Producing in large quantities becomes cheaper because of economies of (5)
 3 and 4 If a country can produce something more cheaply than anywhere else in the world it has an (8,9)
 7 Many economists encourage governments to abolish import taxes and have completely (4,5)
 9 See 10 across.
 11 A number of international agreements make it illegal to goods on foreign markets at a price that doesn't give a profit. (4)
 12 The comparative principle is that countries should make the things they can produce the most cheaply. (4)
 13 The has established rules of trade between nations. (3)



2/2

Over to you



What are your country's major exports and imports? Which industries in your country would find it difficult to compete if there was completely free trade?

A

Code of ethics

Ethics are moral beliefs about what is right and wrong, and the study of this. Some actions are not criminal, but they are morally wrong: **unethical**. Areas where choices have to be made about right and wrong behaviour are **ethical** issues. Some organizations have a **code of ethics** or **code of conduct** where they say what their managers' and employees' behaviour should be, to try to prevent them behaving **unethically**.

B

Ethical standards

Ten years ago, Zoe Fleet and Lena Nimble founded FN, which makes trainers (running shoes). Zoe explains:

We want FN to be socially responsible and behave ethically. We don't run plants directly: we buy trainers from plants in Asia. We often visit the plants to check that they don't exploit workers by underpaying them or making them work long hours: **sweatshop labor**. In management in the US, we have an **affirmative action program**, to avoid racial or sex discrimination. (See Unit 8) Every year, we ask an independent expert to do a 'social performance audit' to see how we are doing in these areas. We always publish it, even if we don't like everything in it!

BrE: labour; AmE: labor

BrE: programme; AmE: program

C

Ethical investment

Sven Nygren is CEO of the Scandinavian Investment Bank.

'Investors are more and more concerned about where their money is invested. We take **ethical investment** very seriously. We don't invest, for example, in arms companies or tobacco firms. **Environmental** or **green** issues are also very important. Recently we were involved in a project to build a large dam in the Asian country of Paradiso. We discovered that large numbers of farming people would be forced to leave the area flooded by the dam, and that the dam would also be **environmentally damaging**, reducing water supplies to neighbouring countries. It was **green** activists from the environmental organization Green Awareness who told us this. We withdrew from the project and tried to persuade other organizations not to invest in it. We didn't want to damage our reputation for ethical investment.'



lecture 7

41.1 Complete these sentences with words from A opposite.

- 1 Retailers say packaging that imitates the style and image of market leaders is not wrong and has nothing to do with
- 2 A company is behaving if it pollutes the environment.
- 3 Working conditions are very poor; the organization 'Ethics in Business' blames the employers and agencies that exploit the workers.
- 4 The television industry should adopt a on violence in its programmes.
- 5 '..... behaviour is good for business,' says Carol Marshall, vice president for ethics and business conduct. 'You get the right kind of employees, and it's a great draw for customers.'

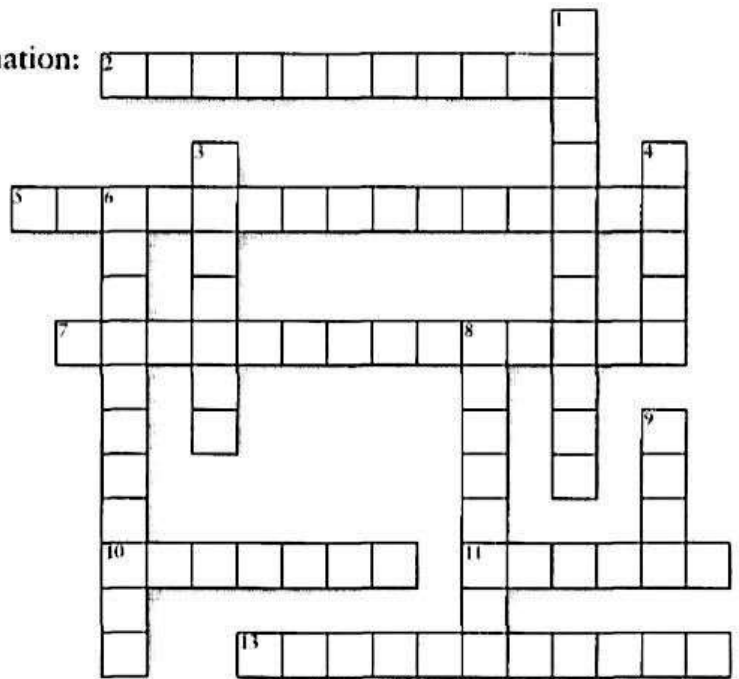
41.2 Complete the crossword with words from A, B and C opposite.

Across

- 2 Steps taken in the US to avoid discrimination: action program. (11)
- 5 When manual workers are employed in bad conditions with very low pay (BrE). (9,6)
- 7 When one group of people is unfairly treated differently from another. (14)
- 10 To pay people badly and make them work in bad conditions (BrE). (7)
- 11 See 4 down.
- 13 See 3 down.

Down

- 1 If your actions do not harm people or the environment, you are socially (11)
- 3, 13 across Putting money into activities that do not harm people or the environment. (7,11)
- 4, 11 across Topics relating to the environment. (5,6)
- 6 The world around us. (11)
- 8 Someone who takes direct action on social or other issues. (8)
- 9 A written set of rules of behaviour. (4)



2/2

Over to you



Do you know of any companies that are famous for their ethical behaviour?
Do you choose to buy from them because of this?

What environmental movements are there in your country? What environmental projects are they involved in?