

**Київський національний торговельно-економічний
університет**

Є. В. Рудешко

**АНГЛІЙСЬКА МОВА СФЕРИ ФІНАНСІВ
ТА БУХГАЛТЕРСЬКОГО ОБЛІКУ**

**ENGLISH OF FINANCE
AND ACCOUNTING**

Підручник

Київ 2018

**Розповсюдження і тиражування без офіційного дозволу КНТЕУ
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Автор Є. В. Рудешко, ст. викл.

Рецензенти: В. П. Базов, д-р філос. наук, науковий консультант Вищого адміністративного суду України;
С. М. Дишлева, канд. філол. наук, доцент кафедри іноземних мов факультету іноземної філології НПУ ім. М. П. Драгоманова;
О. Б. Януш, канд. філол. наук, доц., завідувач кафедри сучасних європейських мов Київського національного торговельно-економічного університету

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Рудешко Є. В.

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Метою підручника є забезпечення цілісного й послідовного засвоєння лексики і термінології сфери фінансової справи та бухгалтерського обліку, формування вмінь та навичок роботи з фаховою літературою, а також розширення знань студентів у цих галузях.

Підручник призначений для студентів немовних закладів вищої освіти, які вже мають базовий рівень володіння англійською мовою і бажають удосконалити свої мовленнєві навички та знання професійної лексики сфери фінансів та бухгалтерського обліку.

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ВСТУП

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Підручник складається з чотирьох частин, які охоплюють тематику, що відповідає програмі вивчення іноземної мови за професійним спрямуванням сфери фінансів та бухгалтерського обліку. У I–III частинах подаються чітко структуровані розділи, які містять фахові тексти, термінологічні словники з базової граматики та різні види лексичних вправ. IV частина включає в себе теоретичний матеріал та тести, метою яких є повторення засвоєного матеріалу та перевірка рівня знань студентів.

Підручник пропонується для використання на практичних заняттях та під час самостійної роботи.

PART I

Understanding Money and Banking

Unit One

MONEY

Text A: Functions and Characteristics of Money

Text B: Money Supply

The unit aims to:

- **explain what money is;**
- **describe the essential characteristics of money;**
- **list and explain the main functions of money;**
- **define the monetary policy;**
- **explain what money supply is.**

Warm-up activities

- Try to give brief explanations of the following terms: money, cash, currency, currency exchange, value, barter, money supply.
- What do you know about functions of money?
- What is the difference between barter economy and money economy?
- Why do people buy and sell currencies?

Text A: Functions and Characteristics of Money

When someone asks you how much money you have, what do you say? Do you count the *cash*, *bills* and *coins* in your pockets? Do you mention the funds in your *checking* and *savings accounts*? What about *stocks*, *bonds*, your car? Taken together, the *value* of everything you own is your *personal wealth*. Not all of it, however, is money.

Characteristics of Money

The hryvnia *notes* and coins you carry every day are money. So are US dollar bills, British pound notes, French francs, and Japanese yen. Modern money often takes the form of printed paper or stamped metal *issued* by a government. But over the centuries, items as diverse as stone wheels and salt have been used as money.

A coin is a piece of metal, usually disc-shaped, which bears *lettering*, *designs* or numbers showing its value. Until the 18th and 19th centuries coins were given monetary worth based on the *exact* amount of metal contained in them, but most modern coins are based on *face value*, the value the governments choose to give them, *irrespective* of the actual metal *content*. Most governments now issue paper money in the form of notes, which are «promises to pay». Paper money is easier to handle and much more convenient in the modern world. Checks and credit cards are being used increasingly and it is possible to imagine a world where «money» in the form of coins and paper currently will no longer be used.

Money is any object that is portable, divisible, durable, and stable and that serves as a *medium of exchange*, a *store of value*, and a *unit of account*.

Portability. Modern *currency* is lightweight and easy to handle.

Divisibility. Modern *currency* is easily divisible into smaller parts with a fixed value for each *unit*. In the United States, for example, a dollar can be exchanged for 4 quarters, 10 dimes, 20 nickels, 100 pennies, or many combinations of these coins. It is thus easy to match units of money with the value of all goods.

Durability. Modern *currency* does not *spoil*, and it does not die. If it *wears out*, it can be replaced with new coins and paper money. In addition, it is not easy to *counterfeit*.

Stability. A good money system should have a stable value. If the value of money *fluctuates*, people become unwilling to trade goods and services for it. *Inflation* is, therefore, a serious *concern* for governments. In the case of runaway inflation, where the value of money *decreases* 20 percent or more in a single year, people increasingly return to a *barter* system, exchanging their *output* for the output of others.

Functions of Money

Portability, divisibility, durability, and stability are all important characteristics because of the roles money plays in society. In broad terms, money serves three functions. It acts as a medium of exchange. It is a store of value. And it functions as a unit of account.

Medium of Exchange. We use money every day as a medium of exchange – that is, as the way of buying and selling things. Without money, we would have to exchange one good for another, a process known as barter. For centuries, before the *invention* of money, all exchanges were by barter.

Store of Value. Money in the form of *currency* can be used for *purchases* in the future and thus serves as a store of value – a way of keeping *accumulated wealth* until it is needed to make new purchases.

Unit of Account. Finally, money lets us measure the relative value of goods and services. Economists say that money acts as a unit of account because all products in the economy are valued and accounted for in terms of money.

Vocabulary

cash	☞	готівка
bill	☞	паперовий грошовий знак, банкнота
coin	☞	монета
checking account	☞	чековий (поточний) рахунок
savings account	☞	ощадний рахунок
stock	☞	акція
bond	☞	облігація
value	☞	вартість, цінність; ціна
own	☞	володіти
personal wealth	☞	особисте майно
note	☞	банкнота
issue	☞	випускати
diverse	☞	різний, різноманітний
lettering	☞	напис, тиснення
design	☞	малюнок, візерунок
exact	☞	точний
face value	☞	номінальна вартість
irrespective (of)	☞	безвідносний (до), незалежний (від)
content	☞	вміст, склад
medium of exchange	☞	засіб обміну, засіб платежу
store of value	☞	засіб збереження
unit of account	☞	розрахункова грошова одиниця
portability	☞	портативність
currency	☞	валюта
divisibility	☞	подільність
unit	☞	одиниця
durability	☞	довговічність, тривкість, міцність
spoil	☞	псуватися
wear out	☞	стирати, зношувати
counterfeit	☞	підроблений; підробка; підробляти

stability	↻	стабільність
fluctuate	↻	коливатися, хитатися
inflation	↻	інфляція
concern	↻	справа, турбота, інтерес
decrease	↻	зменшення
barter	↻	бартер
output	↻	продукція
invention	↻	винахід
purchase	↻	покупка
accumulated wealth	↻	накопичене багатство
measure	↻	вимірювати
relative value	↻	відносна вартість (ціна)

Vocabulary Tasks

I. Study the following words and phrases. Recall the sentences in which they are used in the text. Use them in sentences of your own.

Currency; face value; note; counterfeit; lettering; measure; content; portability; coin; personal wealth; durability; diverse; barter; stock; bill; unit of account; inflation; relative value; own; wear out; design; accumulated wealth; bond; invention; stability; issue; output; exact; savings account; medium of exchange; decrease; divisibility; fluctuate; concern; store of value; purchase; cash; irrespective (of).

II. Replace the Ukrainian words and phrases by appropriate English equivalents. Translate the sentences.

1. Money offers one big advantage as a (засіб збереження): it is highly liquid.
2. Precious metals gradually took over because, when made into (монети), they were (портативні), (довговічні), recognizable, and divisible into larger and smaller (одиниці) of value.
3. Direct exchange of goods – (бартер) – must give way to (непрямому обміну) involving the use of (грошей).

4. (Інфляція) erodes money's (вартість).
5. The wildly (хитка) value of money may drive businesses to adopt the barter tactics.
6. Electronic (валюта) no longer backed by gold in most countries is not considered by some economists to be a (засіб збереження).
7. Until a new form of money (буде випущена), the community will devise its own form of money by using such things as cigarettes as the (засіб обміну) and (розрахункову грошову одиницю).
8. Almost every society now has a money economy based on coins and (банкноти) of one kind or another.
9. In the USA many places especially filling stations do not accept (готівку) at night for security reasons.
10. Currency has a (номінальна вартість), as do stamps and postal orders.

**III. Change the noun form into the verb and adjective forms.
You may want to use a dictionary.**

Example: value (n) – value (v) – valuable (adj)

Exchange, function, measure, counterfeit, divisibility, purchase, diversity, concern, account, cash, design, face, invention, stability.

IV. Complete the following sentences with the correct derivatives of the words in brackets.

1. A...is a person who receives and pays out money in a bank, store, hotel, restaurant, etc. (**cash**)
2. Banks may use....transactions which are done without using actual money. (**cash**)
3. Shares can go down as well as go up in....(**value**)
4. The task force were looking for....money. (**counterfeit**)
5. Tourists may use a more favorable....rate in the bank than in the hotel. (**exchange**)
6. With a few minor adjustments the cash-machine will be....again. (**function**)

7. The tax will not have any....impact on the lives of most people. **(measure)**
8. The....of the dollar depends greatly on the monetary policy of the government. **(stability)**
9. Widespread wage rises result in increased....power. **(purchase)**
10. If a business...., it starts to produce a range of different products and services, instead of just one or two. **(diversity)**

V. For each word or phrase, write one which means the opposite.

Function, own, paper note, money economy, indivisibility, shortlived, cumbersome, decrease, stable, respective.

VI. Match these words as they occur in the text. Translate the phrases.

- | | |
|----------------|-------------|
| 1. store of | a) bills |
| 2. unit of | b) money |
| 3. medium of | c) value |
| 4. in terms of | d) metal |
| 5. checking | e) exchange |
| 6. dollar | f) accounts |
| 7. stamped | g) wealth |
| 8. personal | h) account |

VII. Choose the explanation for each of these words and phrases.

- | | |
|------------------|---|
| 1. currency | a) money in the form of coins and notes |
| 2. money | b) speed at which items can be converted to cash |
| 3. exchange rate | c) a common denominator for measuring the value of all goods and services |

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- | | |
|-----------------------|--|
| 4. medium of exchange | d) anything generally accepted as a means of paying for goods and services |
| 5. liquidity | e) rate at which a country's currency can be exchanged for other currencies |
| 6. unit of account | f) means of facilitating exchange and eliminating the need for a barter system |
| 7. face value | g) a value evident from an examination of the object itself |
| 8. cash | h) system or type of money that a particular country uses |

VIII. Find words and phrases in the text which mean:

1. money in the form of coins or notes
2. light and able to be carried or moved easily
3. a standard numerical unit of measurement of the market value of goods, services, and other transactions
4. cash in the form of notes and coins
5. able to be divided
6. direct exchange of goods one for another
7. the amount of a substance that is contained in something

IX. Fill in the blanks with prepositions.

Monetary Policy

Monetary policy is the process by which a government, central bank, or monetary authority manages the money supply achieve specific goals. Usually the goal monetary policy is to accommodate economic growth in an environment of stable prices.

A failed monetary policy can have significant detrimental effects an economy and the society that depends it. These include hyperinflation, stagflation, recession, high unemployment, shortages of

imported goods, inability export goods, and even total monetary collapse and the adoption much less efficient barter economy.

Governments and central banks have taken both regulatory and free market approaches monetary policy. Some the tools used to control the money supply include:

- currency purchases or sales,
- increasing or lowering government spending,
- increasing or lowering government borrowing,
- changing the rate which the government loans or borrows money,
- manipulation of exchange rates,
- taxation or tax breaks on imports or exports capital into a country,
- raising or lowering bank reserve requirements,
- regulation or prohibition private currencies.

For many years much of monetary policy was influenced an economic theory known as monetarism. Monetarism is an economic theory which argues that management of the money supply should be the primary means regulating economic activity. The stability of the demand money prior to the 1980s was a key finding of Milton Friedman and Anna Schwartz supported the work of David Laidler, and many others.

The nature of the demand for money changed the 1980s owing to technical, institutional, and legal factors and the influence monetarism has since decreased.

X. Fill in the blanks with the most appropriate words from the list.

- | | |
|--------------|-----------------|
| 1. valuables | 7. interest |
| 2. deposited | 8. goldsmith |
| 3. bullion | 9. store |
| 4. purchase | 10. checks |
| 5. safe | 11. withdrawals |
| 6. fee | 12. deposit |

Money and Banking

Early banks were little more than moneychangers, exchanging coins and (uncoined gold or silver bars) from one form to another for a Money was counted on a *banque*, the French word for «bench». Banking, as the term is understood today, dates back to London goldsmiths of the seventeenth century. Because goldsmiths had a safe in which to gold, others in the community came to rely on goldsmiths to hold their money and other for safekeeping. The goldsmith found that when money was held for many customers, deposits and tended to balance out, so a pool of deposits remained in the at a fairly constant level. Loans could be made from this pool of idle cash, and the goldsmith could thus earn

The system of keeping one's money on with the goldsmith was safer than leaving money where it could be easily stolen, but it was a bit of a nuisance to have to visit the goldsmith each time money was needed. For example, the farmer would visit the to withdraw enough money to buy a horse. The farmer then paid the horse trader, which promptly the receipts with the goldsmith.

Thus, money took a round trip from goldsmith to farmer to horse trader and back to goldsmith. Because depositors grew tired of going to the goldsmith every time they needed to make a, the practice developed whereby a purchaser, such as the farmer, wrote the goldsmith instructions to pay the horse trader so much from the farmer's account. These written instructions to the goldsmith were the first

Reading Tasks

I. Answer the questions using the information from the text.

1. What is personal wealth?
2. What forms does modern money take?
3. What items have been used as money over the centuries?
4. What is a coin?

5. What is a note?
6. What is money?
7. What are the essential characteristics of money?
8. What is meant by a medium of exchange?
9. How would you define a store of value?
10. What is meant by a unit of account?

II. Mark these statements T (true) or F (false) according to the information in the text. Find the part of the text that gives the correct information.

1. People have always used coins and paper bills for money.
2. Money serves as a medium of exchange – a means of facilitating exchange and eliminating the need for a barter system.
3. Notes and coins must be durable.
4. In modern times it would be convenient for large forms of money to be used.
5. The absence of money causes an economy to be efficient.
6. One of the advantages of money as a store of value is liquidity.
7. Money does not function as a unit of account.

III. Without looking back at the text, exchange its content with someone who read the text too.

Writing and Speaking Tasks

(To do Speaking Tasks see Language Bank, pages 262–272)

I. Write sentences with the following words.

Example: store of value / gold / as a medium of exchange / popular / was/ and

Gold was popular as a medium of exchange and store of value.

1. from bars / precious metals / be coined / into bars / can / again / melted down / or

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2. with ridges / coins / around the edges / are often made
3. unacceptable / in periods of / many currencies / high inflation / as denominations of debt / have become
4. disagree with / most / a gold standard / returning to / economists
5. the most / of all functions of money / problematic / the medium of exchange function / because of / has historically been / counterfeiting
6. may / of the dollar / the purchasing power / decline

II. Write questions to the following answers.

1.
The use of proto-money may date back to at least 100,000 years ago.
2.
The first Greek coins were made initially of copper, then of iron because copper and iron were powerful materials used to make weapons.
3.
Metal based coins had the advantage of carrying their value within the coins themselves.
4.
Money is the most liquid asset because it is universally recognized and accepted as the common currency.
5.
Money gives consumers the freedom to trade goods and services easily without having to barter.
6.
The euro was introduced to world financial markets as an accounting currency in 1999 and launched as physical coins and banknotes in 2002.
7.
The European System of Central Banks (ESCB) participates in the printing, minting and distribution of notes and coins in all member states, and the operation of the Eurozone payment systems.

- III. Describe the characteristics a good form of money should have, and list the functions of money.**
- IV. Explain the effect of high inflation on the ability of money to carry out each of its functions.**
- V. Give reasons why barter was replaced by money.**
- VI. Ask your fellow students if they know any criticism of the Ukrainian currency (i.e. size or colour of each denomination).**
- VII. Write the summary of the text.**
- VIII. Check the summary of the text written by one of the students and if it is necessary comment on the mistakes.**
- IX. Express your opinion and explain your point of view on the following statement : «Money is power, freedom, a cushion, the root of all evil, the sum of blessings». (Carl Sandburg)**
- X. Discuss what international and domestic events may effect the value of the currency of your country.**
- XI. Use the Internet or other sources of information to make the reports on topics:**
- History of Money;
 - The Euro.

Text B: Money Supply

Money Supply: M-1

For money to serve as a medium of exchange, a store of value, or a unit of account, both buyers and sellers must agree on its value. The value of money, in turn, depends in part on its supply – that is, how much money is in *circulation*. When the *money supply* is high, the value of money *drops*. When the money supply is low, the value of money *increases*.

Unfortunately, it is not easy to measure the supply of money. One of the most commonly used measures, **M-1**, *counts* only the most *liquid* (spendable) forms of money: currency, *demand deposits*, and other «checkable» deposits.

Currency. Paper money and metal coins issued by the government – currency – are widely used for small payments. Currency is *legal tender* for all *debts*, public and private. Legal tender is money that the law *requires* a creditor to *accept* in payment of a debt.

Demand Deposits. A check is an *order* instructing the bank to pay a given sum to a specified person or firm. Checks enable buyers to make large purchases without having to carry large amounts of cash. Checking accounts, which are known as demand deposits, are counted in M-1 because such funds may be *withdrawn* at any time («*on demand*») without *notice*.

Other Checkable Deposits. Other checkable deposits – that is, deposits on which checks can be written – include *automated teller machine (ATM) account balances*, and NOW (*negotiable order of withdrawal*) accounts. NOW accounts are special *interest-bearing checking accounts* that can be held only by individuals and nonprofit organizations in *savings banks* and *savings and loan associations*.

«Broad Money»: M-2

A broader measure of the money supply, **M-2**, includes everything in M-1 plus items that cannot be spent directly but are easily *converted* to spendable forms: *time deposits*, *money market mutual funds*, and *savings deposits*.

Time Deposits. Unlike demand deposits, time deposits require *prior notice* to make a *withdrawal* and cannot be transferred to others by check. In return for these inconveniences, time deposits pay higher *interest rates*.

Money Market Mutual Funds. Another component of **M-2**, money market mutual funds, are operated by investment companies that bring together a *pool* of assets from many investors. With these assets, the fund buys a collection of short-term, low-risk financial *securities*. *Ownership* of and profits (or losses) from the sale of these securities are shared among the investors in the fund.

Savings Deposits. Traditional savings deposits, such as *passbook savings*, have *declined* in the wake of new, more attractive investments such as money market mutual funds, NOW accounts and CDs (*certificates of deposit*).

Plastic Money

Although not included in either **M-1** or **M-2**, credit – especially use of *credit cards* – has become a major factor in the purchase of consumer goods. Indeed, the use of MasterCard, Visa, American Express, Discover, Choice, and Carte Blanche cards has become so widespread that many people refer to credit cards as «plastic money». Nevertheless, credit cards are not money.

Credit cards are big business for a few reasons. First, they offer convenience to consumers. Second, they are extremely profitable to the issuing companies. These profits arise from two sources. First, some cards *charge an annual fee* to cardholders and all charge interest on any unpaid balance. Depending on the bank or store issuing the card – and certain state regulations – cardholders pay interest rates ranging from 11 percent to 20 percent. The second source of profits is fees paid to the card issuer by merchants who accept credit cards.

The huge amount of money spent on credit purchases each year has focused attention recently on some important ethical issues. Consumers and *legislators* have expressed concern over the high rates of interest credit cards charge on *outstanding balances*.

Vocabulary

money supply	☞ грошова маса, сума грошей в обігу
circulation	☞ обіг
drop	☞ знижуватися, падати
increase	☞ збільшувати
count	☞ вважати, мати значення
liquid	☞ ліквідний

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demand deposit	☞ депозит до запитання, поточний рахунок
legal tender	☞ законний засіб платежу
debt	☞ борг
require	☞ вимагати
accept	☞ приймати
order	☞ розпорядження, наказ
withdraw (withdrew; withdrawn)	☞ вилучати
on demand	☞ на вимогу
notice	☞ повідомлення, попередження
automated teller machine (ATM)	☞ банкомат (автоматичний касовий апарат)
account balance	☞ баланс рахунку
negotiable order of withdrawal (NOW)	☞ платіжний наказ з використанням коштів з ощадного рахунку клієнта у банку
interest-bearing checking account	☞ процентний поточний рахунок
savings bank	☞ ощадний банк
savings and loan associations	☞ ощадні та кредитні товариства
convert	☞ конвертувати, перетворювати
time deposit	☞ вклад на строк, терміновий вклад
money market	☞ грошовий ринок, ринок короткострокового капіталу
mutual fund	☞ взаємний фонд
savings deposit	☞ ощадний вклад
prior notice	☞ попереднє повідомлення
withdrawal	☞ зняття (з рахунку), вилучення
interest rate	☞ процентна ставка
pool	☞ пул, об'єднання, спільний фонд
securities	☞ цінні папери

ownership	↻	володіння, право власності
passbook savings	↻	рахунки на ощадній книжці
decline	↻	занепадати, падати, знижуватись
certificate of deposit (CD)	↻	сертифікат депозиту
credit card	↻	кредитна картка
charge	↻	призначити (ціну)
annual fee	↻	щорічна плата
legislator	↻	законодавець
outstanding balance	↻	несплачене сальдо (рахунок)

Reading and Speaking Tasks

(To do Speaking Tasks see Language Bank, pages 262–272)

I. Make up questions covering the content of the text and let your fellow students answer them.

II. Having read the text, what you can now say about:

- M-1;
- «broad money»: M-2;
- plastic money.

III. Work with a partner who read the text to produce a summary of the text. You need only mention the important points.

Unit Two

CENTRAL BANK

Text A: The Bank of England

Text B: The National Bank of Ukraine

The unit aims to:

- **define core purposes of a central bank;**
- **list and describe the main functions of the Bank of England;**
- **explain the role of the National Bank of Ukraine;**
- **list and explain the major functions of the National Bank of Ukraine.**

Warm-up activities

- Try to give brief explanations of the following terms: central bank, monetary and financial stability, foreign exchange and gold reserves, interest rate, monetary policy, securities, inflation, mint, national debt.
- What do you know about the main functions of a central bank?
- Which are the largest banks in your country? What services do they provide?
- Do you agree that central banks influence economies and politics?

Text A: The Bank of England

The Bank of England is the *central bank* of the United Kingdom. The Bank's building is located in the City of London, in Threadneedle Street and *hence* it is sometimes known as The Old Lady of Threadneedle Street or The Old Lady. The Bank was founded in 1694, nationalized in 1946, and gained operational independence in 1997. Standing at the centre of the UK's financial system, the Bank is committed to promoting and maintaining monetary and *financial stability* as its *contribution* to a healthy economy.

The Bank's roles and functions have evolved and changed over its three-hundred year history. Since its foundation, it has been the Government's banker and, since the late 18th century, it has been the banker to the banking system more generally – the bankers' bank. As well as providing banking services to its customers, the Bank of England manages the UK's *foreign exchange and gold reserves*.

The Bank has two *core purposes* – *monetary stability* and *financial stability*.

Monetary stability means *stable prices* and *confidence* in the currency. Stable prices are defined by the Government's *inflation target*, which the Bank seeks to meet through the decisions on *interest rates* taken by the Monetary Policy Committee, explaining those decisions *transparently* and implementing them effectively in the money markets.

The first objective of any central bank is to *safeguard* the *value of the currency* in terms of what it will *purchase* at home and in terms of other currencies. *Monetary policy* is directed to achieving this *objective* and to providing a framework for non-inflationary *economic growth*. As in most other developed countries, monetary policy operates in the UK mainly through influencing the price of money, in other words the interest rate.

Financial stability entails detecting and reducing *threats* to the financial system as a whole. Such threats are *detected* through the Bank's surveillance and market *intelligence* functions. They are reduced by strengthening infrastructure, and by financial and other operations, at home and abroad, including, in exceptional circumstances, by acting as the *lender of last resort*.

The functions of the Bank of England are very similar to the functions of any central bank and, in fact, many of the central banks throughout the world were modeled on the Bank of England so that it is not surprising that their functions follow the same lines. These are as follows:

- operating the government's *accounts*,
- controlling the *issue of notes and coins*,
- the issue and *redemption* of government stocks,
- the *Treasury bill* issue,
- operating the *exchange equalization account*,
- carrying out the government's monetary policy,
- the Bank's international role,
- operating accounts for the banks,
- lender of last resort,
- *supervising* the banks.

Operating the government's accounts. As the government's bank the Bank of England is responsible for running the accounts of all the government departments.

Controlling the issue of notes and coins. In conjunction with *the Treasury* (the government's finance department), the Bank is responsible for printing bank notes. It determines the size of the note issue, which must be increased to meet seasonal needs and in the longer term to meet the needs of an economy which, hopefully, is

growing, and in which therefore the number and value of transactions is increasing. Coins are *minted* by the *Royal Mint*, which is a *separate entity* from the Bank of England, but it is the Bank's responsibility to ensure that adequate coins of each *denomination* are minted to meet the needs of the community. Similarly, it must print an appropriate quantity of each bank note and ensure that torn and dirty notes are replaced.

Issue and redemption of government stocks. The Bank is *registrar* for most of the government's issues of stocks. As registrar the Bank issues and *redeems* stocks, records their *ownership* and pays the interest when it is due. These *securities* represent the main part of *the National Debt*, and their sale and redemption provide an important means whereby the Bank of England can manipulate the amount of funds and the level of interest rates in the money market.

The Treasury bill issue. This is a special type of *bill of exchange* issued by the Treasury and it represents short-term loans to the government whereas government stocks are long-term loans. The Treasury bill rate (of interest) is watched very carefully in the money market as an indicator as to how the level of interest rates generally is likely to move. The Treasury bill tender is important in the context of carrying out the government's monetary policy.

Operating the exchange equalization account. By operating this account the Bank is able to influence the value of sterling and other currencies in the *foreign exchange market*. The account holds all of the UK reserves of gold and foreign currencies. When sterling is weak, the Bank of England will sell some foreign currency in exchange for sterling. This reduces the *supply* of sterling in the foreign exchange market and increases the supply of the foreign currency; this tends to increase the value of sterling and to reduce the value of the foreign currency and to bring about a state of equilibrium in the market. When sterling is particularly strong the bank must operate the account in the opposite direction in order to keep down the value of the pound and to increase the value of the foreign currency.

Carrying out the government's monetary policy. It is vital that the government controls the total of the *money supply* if it is to

succeed in maintaining constant prices: in other words if it is to avoid inflation. The majority of the money supply is made up of bank deposits, and therefore any attempt to control the money supply must involve influencing or determining the size of bank deposits. The main determinants of the size of deposits are the level of interest rates and sale and purchase of government securities, which are both within the control of the Bank of England, though ultimately it is the government which dictates how the Bank, as its agent, must use these devices.

The Bank's international role. *The Governor of the Bank of England* is responsible not only for carrying out the government's monetary policy, but also for meeting with other central bank governors to discuss international monetary problems, and to decide upon joint action to deal with them.

Accounts for the banks. Each of the other British banks keeps accounts with the Bank of England, and through these they are able to settle transactions with one another, i.e. to draw cheques on the Bank. The Bank of England maintains accounts for overseas banks as well as the British banks, and these include the central banks' accounts through which it is possible to carry out transactions relating to loans between countries and through such institutions as *the International Monetary Fund (IMF)*. The Bank of England also holds accounts for the IMF and other international institutions.

Lender of last resort. It is vital that a central bank should act as lender of last resort to the banking system. If the banks are short of funds and are unable to acquire additional funds from other sources, then they must have the support of the central bank, but the central bank is able to determine the price that has to be paid for that support, i.e. the rate of interest charged.

Supervising the banks. Under the Banking Acts 1979 and 1987 the Bank of England is able to demand very detailed *statistical returns* from the other banks in order to ensure that the banks are being operated on safe and *prudential* lines. If the Bank is not satisfied with a particular bank's returns it is able to insist that measures are taken to put matters right. If a bank fails to follow the guidelines given by the Bank of England the *ultimate sanction* of *withdrawing* that bank's

licence to accept deposits could be used. The Bank is run by a body called the Court. It is headed by the Governor and Deputy Governor, four executive directors and twelve non-executive directors. The Governor is appointed by the Prime Minister for a term of five years and is usually re-appointed.

Vocabulary

central bank	☞	центральний банк
hence	☞	звідси, отже
financial stability	☞	фінансова стабільність
contribution	☞	внесок
healthy economy	☞	здорова економіка
foreign exchange and gold reserves	☞	резерви іноземної валюти та золота
core purposes	☞	головні цілі
monetary stability	☞	грошова стабільність
stable prices	☞	стабільні ціни
confidence	☞	довіра
inflation	☞	інфляція
target	☞	ціль
interest rates	☞	процентні ставки
transparently	☞	прозоро
safeguard	☞	захист, охорона; захищати, охороняти
value of the currency	☞	вартість валюти
purchase	☞	покупка, придбання; купувати
monetary policy	☞	грошова політика
objective	☞	мета, ціль
economic growth	☞	економічне зростання
detect	☞	виявляти
entail	☞	викликати, спричиняти
threat	☞	загроза
intelligence	☞	розвідка, обслідування, обстеження
lender of last resort	☞	останній кредитор у критичній ситуації; центральний банк

Part I. Understanding Money and Banking

account	↪	рахунок
issue of notes and coins	↪	випуск банкнот і монет
redemption	↪	погашення, вилучення
redeem	↪	погашати, вилучати
the Treasury bill	↪	казначейський вексель
exchange equalization account	↪	фонд стабілізації валюти
supervising	↪	контроль, нагляд, інспектування
the Treasury	↪	Міністерство фінансів (у Великобританії); Державне казначейство
mint	↪	карбувати
the Royal Mint	↪	Королівський монетний двір
separate entity	↪	окрема одиниця
denomination	↪	вартість, деномінація
registrar	↪	реєстратор
ownership	↪	власність, право власності
securities	↪	цінні папери
the National Debt	↪	державний борг
bill of exchange	↪	вексель (переказний), тратта
tender	↪	платіжний засіб
foreign exchange market	↪	валютний ринок
supply	↪	запас
money supply	↪	грошова маса, сума грошей в обігу
the Governor of the Bank of England	↪	голова Банку Англії
the International Monetary Fund (IMF)	↪	Міжнародний валютний фонд (МВФ)
statistical returns	↪	статистичні звіти
prudential	↪	розсудливий, розважливий
ultimate	↪	останній, кінцевий, максимальний
sanction	↪	санкція, примусовий захід
withdrawing	↪	вилучення
licence	↪	ліцензія
accept deposits	↪	приймати депозити

Vocabulary Tasks

I. Study the following words and phrases. Recall the sentences in which they are used in the text. Use them in sentences of your own.

Value of the currency; financial stability; monetary stability; central bank; issue of notes and coins; the Treasury; money supply; accept deposits; statistical returns; securities; the Royal Mint; stable prices; the Treasury bill; sanction; licence; the International Monetary Fund (IMF); supervising; lender of last resort; monetary policy; interest rates; account; The Governor of the Bank of England; exchange equalization account; foreign exchange market; registrar; inflation; core purposes; economic growth; redeem; hence; denomination; confidence; healthy economy; safeguard; ownership; foreign exchange and gold reserves.

II. Replace the Ukrainian words and phrases by appropriate English equivalents. Translate the sentences.

1. The Bank of England has had a monopoly on the (випуск банкнот) in England and Wales since the early 20th century.
2. (Міністерство фінансів) and the Bank work toward the common aim of increased financial stability.
3. In May 1997 the Government gave the Bank operational independence to set (грошову політику) by deciding the level of (процентних ставок).
4. In exceptional circumstances, the Bank may act as the (останній кредитор в критичній ситуації) by extending credit when no other institution will.
5. The Bank maintains the Government's Consolidated Fund (рахунок), and it also manages the country's (резерви іноземної валюти та золота).
6. The Bank has the power to cancel a (ліцензію) if it is not satisfied with the way a bank is being operated.
7. As (реєстратор) the Bank issues and (погашає) stocks.
8. The coin of the lowest (деномінації) in Great Britain is penny.

9. The Bank of England regulates the (грошову масу).
10. All the banks must provide the Bank of England with detailed (статистичні звіти).

**III. Change the noun form into the verb and adjective forms.
You may want to use a dictionary.**

Example: stability (n) – stabilize (v) – stable (adj)

Contribution, exchange, reserve, finance, inflation, value, threat, detect, supervision, redemption, governor, withdrawal, safe, deposit, bank.

IV. Complete the following sentences with the correct derivatives of the words in brackets.

1. His friend always keeps some money in ..., just in case. **(reservation)**
2. All the big ... institutions cut their interest rates today. **(finance)**
3. The volunteers ... huge amounts of their own time to the project. **(contribution)**
4. Now ... is running at over 16%. **(inflate)**
5. They work under the Chief Accountant's **(supervise)**
6. Bonus shares can be ... until 31st July. **(redeem)**
7. Liz ... \$100 from her account yesterday. **(withdrawal)**
8. He invented a program for ... the computer system against viruses. **(safeguard)**
9. Someone who puts money in a bank or other financial organization is.... . **(deposit)**
10. Did you....that check? **(bankable)**

V. For each word or phrase, write one which means the opposite.

Dependence, stability, domestic, mistrust, deflation, safe, fall, issue, borrower, responsible, decrease, appropriate, intact, clean, accept, weak, fail, separate, draw, unable, imprudential, purchase, conceal.

VI. Match these words as they occur in the text. Translate the phrases.

- | | |
|-----------------|--------------|
| 1. inflation | a) stability |
| 2. financial | b) purposes |
| 3. stable | c) bank |
| 4. gold | d) prices |
| 5. central | e) target |
| 6. core | f) reserves |
| 7. the Royal | g) returns |
| 8. money | h) Mint |
| 9. the Treasury | i) supply |
| 10. statistical | j) bill |

VII. Choose the explanation for each of these words and phrases.

- | | |
|-----------------------|--|
| 1. bank | a) rise in prices brought about by the expansion of the supply of money, credit, etc. |
| 2. monetary stability | b) government department responsible for administering the financial affairs of the country |
| 3. national debt | c) establishment for keeping money, valuables safely, the money being paid out on the customer's order |
| 4. inflation | d) the amount which the government of the country owes arising out of its issue in the past of government securities |
| 5. treasury | e) stable prices and confidence in currency |
| 6. mint | f) factory where coins are made |

VIII. Find words and phrases in the text which mean:

1. to obtain or achieve something important or valuable
2. freedom from control
3. something that you give or do in order to help something be successful
4. for this reason
5. central or most important part of anything
6. to protect something
7. the amount of money that something is worth
8. someone whose duty is to keep records or registers
9. right of possession
10. total amount of money circulating in the economy at a specified point in time

IX. Fill in the blanks with prepositions.

A

In October 1997, a Memorandum of Understanding between the Bank, Her Majesty's Treasury and the Financial Services Authority (FSA) was agreed. This formalized the allocation responsibilities for regulation and financial stability the UK. It made provisions the establishment of a high level Standing Committee provide a forum in which the three organizations could develop a common position on any problems which may emerge. An updated Memorandum was issued March 2006.

B

Interest rates decisions are taken The Bank's Monetary Policy Committee. The MPC has to judge what interest rate is necessary meet a target for overall inflation in the economy. The inflation target is set each year the Chancellor of the Exchequer. The Bank implements its interest rate decisions through its financial market operations – it sets the interest rate which the Bank lends to banks and other financial institutions. The Bank has close links financial markets and institutions. This contact informs a great deal its work, including its financial stability role and the collation and publication monetary and banking statistics.

X. Fill in the blanks with the most appropriate words from the list.

- | | |
|---------------------|--------------------------|
| 1. facilities | 5. issue |
| 2. foreign exchange | 6. account |
| 3. circulation | 7. lender of last resort |
| 4. maintains | 8. banknotes |

The Bank of England acts as the Government's banker, and as such it the Government's Consolidated Fund It also manages the country's and gold reserves. The Bank also acts as the bankers' bank, especially in its capacity as a, and to maintain its pragmatic experience in all aspects of banking also provides commercial and retail banking to a very limited number of corporate institutions and individuals.

The Bank of England has a monopoly on the of banknotes in England and Wales. Scottish and Northern Irish banks retain the right to issue their own, but they must be backed one to one with deposits in the Bank of England, excepting a few million pounds representing the value of notes they had in in 1845. The Bank decided to sell its banknote printing operations to De La Rue in December 2002.

Reading Tasks**I. Answer the questions using the information from the text.**

1. What is the central bank of the United Kingdom?
2. When was the Bank founded?
3. What is the other name of the Bank of England?
4. When was the Bank of England nationalized?
5. What is meant by the term 'the Government's banker'?
6. What core purposes does the Bank have?
7. What does monetary stability mean?
8. What is the first objective of any central bank?
9. What does financial stability mean?

10. What are the main functions of the Bank of England?
11. Is the Bank responsible for the note issue?
12. Which body is responsible for minting coins?
13. What is meant by the issue and redemption of government stocks?
14. What is the Treasury bill?
15. How does the exchange equalization account operate?
16. Which institution is responsible for carrying out the government's monetary policy?
17. What is the Bank of England's international role?
18. What is the role of the Bank as lender of last resort?
19. How does the Bank of England supervise the banks?

II. Mark these statements T (true) or F (false) according to the information in the text. Find the part of the text that gives the correct information.

1. The Bank of England promotes monetary and financial stability of the country.
2. Monetary policy operates in the UK mainly through influencing the money supply.
3. The Monetary Policy Committee does not make decisions on interest rates.
4. The central banks throughout the world have mainly the same functions as the Bank of England has.
5. It is the Royal Mint's responsibility to ensure that adequate coins of each denomination are minted.
6. By operating the exchange equalization account the Bank changes the value of currencies in the foreign exchange market.
7. The government controls the total of the money supply if it avoids inflation.
8. The Bank of England does not hold accounts for the IMF and other international institutions.

III. Can you remember in what context the following expressions were mentioned? Refer to the text only if you need to.

1. influencing or determining the size of bank deposits

2. a state of equilibrium in the market
3. on safe and prudential lines
4. the Old Lady of Threadneedle Street
5. the Bank's surveillance and market intelligence functions
6. to meet seasonal needs
7. a framework for non-inflationary economic growth
8. the Treasury bill rate

IV. Without looking back at the text, exchange its content with someone who read the text too.

Writing and Speaking Tasks

(To do Speaking Tasks see Language Bank, pages 262–272)

I. Write sentences with the following words.

Example: technical assistance and advice / to / the Bank of England / other central banks / offers

The Bank of England offers technical assistance and advice to other central banks.

1. the responsibility / setting monetary policy / of the Bank / is
2. competes seriously / to industry and commerce / in the provision of banking services / with other banks / the Bank of England
3. within member countries / under / must be licensed / all banks / by the central bank / the European Community rules
4. the National Debt / the main part / the securities / of / represent
5. with the aim of / the Bank / improving / and international organizations / the international financial system / other central banks / works together with
6. with the Bank of England / the balances / part of their cash reserves / form / of the British banks' accounts

II. Write questions to the following answers.

1.
Stable prices and confidence in the currency are the two main criteria for monetary stability.

2.
Since 1997 the Monetary Policy Committee has had the responsibility for setting the official interest rate.
3.
The Bank of England has played a key role in maintaining the stability of the United Kingdom's financial system for 300 years.
4.
Up to 1946 the Bank of England was privately owned but in that year it was nationalized.
5.
Yes, it is. The Bank is registrar for most of the government's issues of stocks.
6.
The Bank of England stands ready to come to the assistance of the banking system in times when it is threatened by a shortage of cash.
7.
The clearing banks maintain accounts at the Bank of England.

III. List and briefly describe the main functions of the Bank of England.

IV. Write the summary of the text.

V. Check the summary of the text written by one of the students and if it is necessary comment on the mistakes.

VI. Discuss how the economic life of the United Kingdom is influenced by the activity of the Bank of England nowadays.

VII. To what extent is banking regulated in your country? What are the advantages and disadvantages of this?

VIII. How do central banks influence the activity of commercial and other banks?

IX. How can the actions of a central bank affect individuals as well as companies?

X. Use the Internet or other sources of information to make the reports on topics:

- The Federal Reserve System;
- The European Central Bank.

Text B: The National Bank of Ukraine

The National Bank of Ukraine is a legal entity with separated property, which is the object of the state property. Its *authorized capital* amounts to UAH 10 million and is the state-owned property which is in the full economic competence of the National Bank.

According to Article 99 of the Constitution of Ukraine, adopted in 1996, the main function of the country's central bank is to ensure stability of monetary unit-the Hryvnia. To carry out its main function, the National Bank shall *foster* the stability of the banking system and, within its *competence*, the price stability.

The National Bank also carries out the following functions:

- to determine and *pursue the monetary policy* in accordance with the General Principles of the Monetary Policy developed by the Council of the National Bank of Ukraine;
- to issue the national currency of Ukraine on a monopoly basis and to organize its circulation;
- to establish the rules of conducting banking transactions, accounting and reporting, protection of the information, funds and property for the banks and other financial and credit institutions;
- to organize and to provide the methodological support to the system of the monetary, crediting and banking statistical information and the statistics of the balance of payments;
- to determine the areas of the development of modern electronic banking technologies, to establish, co-ordinate and control the creation of electronic means of payment, payment system, banking automation and the banking information *protection facilities*;

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- to *exercise* the banking regulation and supervision;
- to *keep a Register of banks*, their branch and representative offices, currency exchanges and financial and credit institutions, to license banking business and transactions, if provided for by the laws;
- to *compile*, analyze and *forecast* the balance of payments;
- to represent Ukraine's interests in central banks of other states, international banks and other crediting institutions, where the cooperation takes place at the level of central banks;
- to exercise the currency regulation with the competence to be defined by a special law, to determine the procedure of effecting payments in the foreign currency, to organise and exercise the currency control over the commercial banks and other credit institutions which are in possession of a National Bank's license for the transactions with currency values;
- to ensure the accumulation and *custody* of the gold and currency reserves and the conduction of transactions with them and the banking metals;
- to analyze the status of the monetary, crediting, financial, pricing and currency relations;
- to organize the collection and transportation of bank notes, coins and other values;
- to implement the national policy of the protection of state secrets within the system of the National Bank;
- to take part in the training of personnel for Ukraine's banking system;
- to exercise other functions in the monetary and crediting sphere within its competence defined by the law.

Vocabulary

authorized capital	☞ уставний капітал
foster	☞ стимулювати, заохочувати
competence	☞ компетенція, правомочність
pursue the monetary policy	☞ проводити грошову політику
protection facilities	☞ засоби захисту

exercise	☞ здійснювати, використовувати
keep a Register of banks	☞ вести реєстр банків
compile	☞ складати
forecast	☞ передбачення, прогнозування
custody	☞ опіка, піклування

Reading and Speaking Tasks

(To do Speaking Tasks see Language Bank, pages 262–272)

I. Make up questions covering the content of the text and let your fellow students answer them.

II. Having read the text, what you can now say about:

- the authorized capital of the National Bank of Ukraine;
- the main function of the NBU according to the Constitution of Ukraine;
- other functions of the NBU.

III. Work with a partner who read the text to produce a summary of the text. You need only mention the important points.

Unit Three

COMMERCIAL BANKS

Text A: Commercial Bank and Its Services

Text B: Bank Accounts

The unit aims to:

- **define what a commercial bank is;**
- **describe the three main functions of a commercial bank;**
- **explain what the full-service philosophy of banks means;**
- **identify wholesale and retail banking, and name their essential functions;**
- **list and describe the banking services;**
- **explain the main issues of the banking law;**
- **define what a bank account is;**
- **describe different types of bank accounts: basic bank accounts, current accounts and savings accounts;**
- **explain the bank organization.**

Warm-up activities

- Try to give brief explanations of the following terms: commercial bank, deposit, wholesale and retail banking, overdraft, loan, mortgage, current account, savings account, ATM.
- What services does your bank offer? Which of them do you use?
- How do commercial banks make money?
- What changes have taken place in the banking industry recently?

Text A: Commercial Bank and Its Services

A *commercial bank* is a type of financial *intermediary* and a type of bank. Commercial bank has two possible meanings:

- Commercial bank is the term used for a normal bank to *distinguish* it from an *investment* bank.

This is what people normally call a «bank». The term «commercial» was used to distinguish it from an investment bank. Since the two types of banks no longer have to be separate companies, some have used the term «commercial bank» to refer to banks which *focus* mainly on companies. In some English-speaking countries outside North America, the term «trading bank» was and is used to denote a commercial bank. After the great depression and the stock market crash of 1929, the U.S. Congress passed the act requiring that commercial banks only engage in banking activities (*accepting deposits* and *making loans*, as well as other *fee based services*), whereas investment banks were limited to capital markets activities. This *separation* is no longer *mandatory*.

In Great Britain the term retail banks is used to include all of the banks which have *branch* networks through which they are able to offer a wide range of services to a large number of *customers*. Sometimes the term high street banks is used to mean the same thing, and on occasions the term commercial banks is used, though less commonly these days.

- Commercial banking can also refer to a bank or a *division* of a bank that mostly deals with deposits and loans from corporations or large businesses, as opposed to normal individual members of the public (*retail banking*).

A **commercial bank** is a profit-making business that holds deposits of individuals and businesses in the form of *current (checking)* or *savings accounts* and uses these funds to *make loans* to individuals and businesses.

The most important services which the commercial banks provide are:

- the *acceptance* of deposits,
- the *provision* of ways in which deposits can be *transferred*,
- the provision of credit.

Let us look briefly at each one of these services in turn.

Acceptance of deposits. This simply means that a bank must be prepared to take deposits of cash and cheques from its customers and to credit their *accounts* with them. The bank keeps these funds for their customers and *undertakes to repay* them *on demand* if the money is on a current account, or at the *expiry of a period of notice* if the money is on an *investment account*.

The provision of ways in which deposits can be transferred. Money on current account can be *withdrawn* by presenting a cheque for cash at the bank's *counter* or *issuing* it to a third *party* who can then pay it into his bank account or cash it at the counter if it is an *open* (an *uncrossed*) *cheque*. The vast majority of third party cheques are in fact *crossed* and are presented through the *banks' clearing system* to the banks on which they are drawn. Alternatively the customer may *draw on* his deposit through an *ATM*; he may *authorise* the bank to *make payments* from the account *on his behalf* against a *standing order* or a *direct debit*; or he may use his *debit card*.

The provision of credit. This means that the banks must be prepared to *lend money* to their customers. This does not mean that every customer is *entitled to borrow*, far from it, but that the banks are willing to provide loans to those customers who are sufficiently *creditworthy*. This means that their *assets* and *income* must be such that they are able to repay the *advance* over the time period that is

agreed *at the outset*, and also to pay the *interest* as it falls due. Lending money in this way is the main source of income to the banks – they accept deposits and pay modest rates of interest, if any, on them, and then lend most of their deposits at rates of interest that are considerably higher than those paid on deposits.

These are by no means all the services that the commercial banks offer their customers, and indeed they offer a wide range of services and, mostly through *subsidiary* companies, they offer services (products) that compete with those offered by the *merchant banks* and by many of the financial intermediaries such as *building societies*, *insurance companies*, and *unit trusts*.

The way in which a bank is organized and operates is determined by its objectives and by the type of economy in which it conducts its business. The aim of commercial banks is to *earn* profits. They therefore provide and develop services that can be sold at a price that will *yield* a profit.

A commercial bank which provides the same range of services year after year is less successful than one which *assesses* changes in the demand for its products and which tries to match products to its customers' needs. New services are constantly being introduced and developed by commercial banks, and the full-service philosophy of many banks means that they are *akin* to financial supermarkets, offering a wide variety of services. However, not every bank may want to offer every kind of financial service.

Many banks offer a combination of *wholesale* and *retail banking*. The former provides large-scale services to companies, government agencies and other banks. The latter mainly provides smaller-scale services to the general public. Both types of banking, however, have three essential functions, which are: deposits, payments, credits.

Several factors have combined to make banking an international business. These include the growth of multinational companies and of international capital markets, the increased competition between the banks themselves, and important improvements in communications and transportation. The major banks of the world have established extensive international operations by acquiring banks in other countries, by extending their own branch network abroad and by

establishing correspondent relationships with foreign banks so as to develop profitable joint operations. The operations of these major commercial banks are dynamic and rapidly changing, and their organization is of a global nature.

Vocabulary

commercial bank	☞ комерційний банк
intermediary	☞ посередник
distinguish	☞ розрізняти
investment bank	☞ інвестиційний банк
focus	☞ зосереджувати
crash	☞ крах, банкрутство
accepting deposits	☞ прийняття депозитів
acceptance	☞ прийняття, акцепт
making loans	☞ надання позик
make loans	☞ надавати позики
fee	☞ плата, збір, внесок, гонорар
service	☞ послуга
separation	☞ відокремлення, роз'єднання
mandatory	☞ обов'язковий до виконання
branch	☞ філія, представництво, відділення
customer	☞ клієнт
division	☞ підрозділ, відділ
retail banking	☞ роздрібний банківський бізнес
current (checking) account	☞ поточний рахунок
savings account	☞ ощадний рахунок
provision	☞ забезпечення
transfer	☞ переказувати (гроші), перераховувати
account	☞ рахунок
undertake	☞ зобов'язуватися
repay	☞ виплачувати, погашати, повертати
on demand	☞ на вимогу

expiry of a period	↪	закінчення строку
notice	↪	повідомлення, попередження
investment account	↪	інвестиційний рахунок
withdraw	↪	анулювати, знімати з рахунку
counter	↪	стійка
issue	↪	виписувати (чек)
party	↪	сторона, учасник
open (uncrossed) cheque (check)	↪	відкритий (некресований) чек
crossed cheque (check)	↪	кресований чек
banks' clearing system	↪	банківська система клірингових розрахунків
draw on	↪	виписувати (чек); знімати гроші з рахунку
ATM (Automated Teller Machine)	↪	банкомат (автоматичний касовий апарат)
authorise	↪	дозволяти, уповноважувати
make payments	↪	робити платежі
on behalf	↪	від імені
standing order	↪	постійне доручення
direct debit	↪	пряме дебетування
debit card	↪	дебетова картка
lend money	↪	позичати гроші
entitle	↪	давати право
borrow	↪	позичати
creditworthy	↪	кредитоспроможний
assets	↪	активи, власність
income	↪	дохід
advance	↪	позика, аванс
at the outset	↪	спочатку, на початку
interest	↪	процент
subsidiary	↪	філіал, дочірня компанія
merchant bank	↪	торговельний банк
building society	↪	будівельне товариство
insurance company	↪	страхова компанія
unit trust	↪	пайовий траст

earn	☞	заробляти
yield	☞	приносити
assess	☞	оцінювати
akin	☞	споріднений, близький
wholesale banking	☞	оптовий банківський бізнес

Vocabulary Tasks

I. Study the following words and phrases. Recall the sentences in which they are used in the text. Use them in sentences of your own.

Retail banking; account; investment bank; earn; current (checking) account; savings account; commercial bank; merchant bank; service; make loans; transfer; make payments; banks' clearing system; subsidiary; insurance companies; direct debit; crossed cheque; building society; assets; intermediary; customer; withdraw; branch; assess; on demand; debit card; advance; authorize; open (uncrossed) cheque; yield; interest; borrow; accepting deposits; notice; ATM (Automated Teller Machine); issue; unit trusts; lend money; crash; division; expiry of a period; draw; income; akin; fee; repay; provision; creditworthy; standing order; undertake; counter; entitle; party; distinguish; on behalf; at the outset; mandatory; focus; separation; acceptance; wholesale banking.

II. Replace the Ukrainian words and phrases by appropriate English equivalents. Translate the sentences.

1. (Комерційний банк) should offer all (клієнтам) the same level and quality of (послуг) and avoid any discrimination on grounds of nationality, religion, sex, financial situation or professional capacity.
2. (Ощадні рахунки) are opened by banks following a customer's written application, with the signing of the adequate documents and after verification of his identity.
3. Banks usually inform customers about the existing methods of (переказ фондів) nationally or internationally.

4. (Плати) can be charged for processing a new (позика) or providing (роздрібні банківські послуги) such as (обробка чеків).
5. The typical (поточний рахунок) enables the (клієнт), to pay money in and (знімати з рахунку) money by paying in a (чек) or by writing a cheque in favour of a creditor.
6. The first (банкомат) in Eastern Europe has been set up by the Czech Komerční Bank.
7. The two major international brand names of (кредитні картки) are Visa and MasterCard.
8. (Банківська система клірингових розрахунків) involves paper clearing and electronic clearing.
9. Electronic clearing is becoming increasingly important for (прямі дебетування), (постійні доручення), salary payments, supplier (платежі) and high value payments made by banks for corporate customers.
10. In addition to a variety of (поточні та ощадні рахунки) and personal and business (позики), commercial banks offer discount (банківські послуги), wire (перекази), and financial counseling.

III. Change the noun form into the verb and adjective forms.

You may want to use a dictionary.

Example: focus (n) – focus (v) – focussed (adj)

Acceptance, service, separation, customer, repayment, provision, demand, notice, counter, check, authorization, order, advance, subsidiary, insurance, trust, assessment.

IV. Complete the following sentences with the correct derivatives of the words in brackets.

1. I wish I had ... your advice and kept my money in the bank. **(acceptance)**
2. For refunds, please go to the customer ...counter. **(serviceable)**
3. We don't want to lose them – they're one of our biggest **(customize)**

4. The hotel ... a shoe-cleaning service for guests. **(provider)**
5. They closed the factory, giving the workers only a week's
(notice)
6. You can claim housing benefit from the local **(authorize)**
7. Their company has placed a large ... for electronic equipment.
(ordered)
8. Do you have ... on your household contents? **(insure)**
9. The money your father left you will be held in ... until you are 21.
(trustful)
10. It's difficult to ... the effects of the new legislation just yet.
(assessment)

V. For each word or phrase, write one which means the opposite.

Withdraw, direct, borrow, liabilities, credit, expenses, authorized, crossed, retail, success, diffuse, unite, unlimit, exclude, narrow, immodest, disagree, at the end, give out, more, unimportant, unprofitable, the latter, decline, insufficiently.

VI. Match these words as they occur in the text. Translate the phrases.

- | | |
|------------------|-------------|
| 1. debit | a) order |
| 2. uncrossed | b) deposits |
| 3. building | c) company |
| 4. subsidiary | d) services |
| 5. acceptance of | e) debit |
| 6. current | f) society |
| 7. standing | g) card |
| 8. large-scale | h) trust |
| 9. direct | i) account |
| 10. unit | j) cheque |
| 11. making | k) system |
| 12. clearing | l) loans |

VII. Read both columns. Consult the vocabulary given below. The left-hand column gives the list of banking services and the other column contains short descriptions of each service. Cover the Service column, and from the description name the service. Finally, cover the Description column, and try to describe each service listed.

Service	Description
Credit card	<ul style="list-style-type: none">• a plastic card used in making credit purchases, special credit arrangement between <i>issuer</i>, card holder, and merchant. A credit card provides the <i>cardholder</i> with credit up to a prescribed limit.
Debit card	<ul style="list-style-type: none">• a coded plastic card which is offered in payments for goods and services. A debit card can be used by the cardholder for purchases up to the amount of the balance on his current account. It may be used to make larger payments than might be acceptable by cheque and it can be used to operate ATM with a special <i>PIN</i> (<i>personal identification number</i>).
Overdraft	<ul style="list-style-type: none">• the drawing out from a bank account of more money than has been deposited in it. An <i>overdraft</i> is a loan by the banker to the customer and interest will be charged on the <i>outstanding balance</i>. It is normal for a customer requiring an overdraft to agree with the bank on an overdraft limit, i.e. a maximum level to which the overdraft will be permitted to rise.
Loan	<ul style="list-style-type: none">• a sum of money <i>advanced</i> by a bank to a customer with the intention that the amount concerned should <i>ultimately</i> be repaid. Usually interest is payable in respect of a loan. The rate of interest on a loan is usually fixed in relation to the bank's <i>base rate</i>. A <i>secured loan</i> is a loan backed by something valuable such as property. If a loan is not backed by <i>collateral</i> it is called <i>unsecured loan</i>.

- Mortgage
- a legal arrangement by which a customer borrows money from a bank in order to buy or build some property, and pays back the money over a period of years. The property itself is used as collateral for the lender (*mortgagee*). If the borrower (*mortgagor*) fails to repay the loan the lender transfers the *ownership* for the property to itself.
- Direct debit
- an instruction given by the customer of a bank to the bank to allow charges to be made periodically to an account *at the instance* of some third party. Direct debits are a very useful way for a customer to make regular payments of an irregular amount, such as in payment of electricity or telephone bills.
- Standing order
- an instruction to a bank by a customer to make a fixed payment regularly on stated dates to some third party. The regular payments may be monthly or annually or at any other convenient interval. Standing orders are commonly used by customers to make payments of their mortgage or annual subscription to societies.
- Clearing
- the process of passing a cheque through the banking system so that funds are transferred from the account of the *payer* to the account of the *payee*.
- Foreign exchange service
- the facility to change money from one currency to another.

Vocabulary

issuer
cardholder

✎ емітент, емісійний орган
✎ власник картки

PIN (personal identification number)	↻	персональний ідентифікаційний номер
overdraft	↻	перевищення кредиту, овердрафт
outstanding balance	↻	залишковий (несплачений) баланс
advance	↻	авансувати, позичати
ultimately	↻	врешті-решт, зрештою
base rate	↻	базова ставка
secured loan	↻	забезпечена позика
unsecured loan	↻	незабезпечена позика
collateral	↻	забезпечення кредиту, застава
mortgage	↻	застава, іпотека
mortgagee	↻	кредитор по заставі
mortgagor	↻	боржник по заставі
ownership	↻	володіння, право власності
at the instance	↻	на прохання
clearing	↻	кліринг, безготівкові розрахунки
payer	↻	платник
payee	↻	одержувач (грошей), пред'явник чека

VIII. Find words and phrases in the text which mean:

1. at the beginning
2. one of the parts into which something is divided
3. an arrangement that you have with a bank to pay in or take out money
4. money charged or paid for the use of money
5. money that you earn from your work or that you receive from investments
6. a table or flat surface where customers are served in a bank
7. a written or printed statement that gives information or warning to people
8. instead of someone, or as their representative
9. accepted as being safe to offer credit to
10. amount of money that is paid into a bank account

IX. Fill in the blanks with prepositions.

Banking law is based on a contractual analysis of the relationship the bank and the customer.

The law implies rights and obligations into this relationship as follows:

1. The bank account balance is the financial position between the bank and the customer, when the account is in credit, the bank owes the balance the customer, when the account is overdrawn, the customer owes the balance to the bank.
2. The bank engages to pay the customer's cheques to the amount standing to the credit of the customer's account, plus any agreed overdraft limit.
3. The bank may not pay from the customer's account without a mandate from the customer, e.g. a cheque drawn the customer.
4. The bank engages to promptly collect the cheques deposited the customer's account as the customer's agent, and to credit the proceeds to the customer's account.
5. The bank has a right to combine the customer's accounts.
6. The bank has a lien on cheques deposited to the customer's account, the extent that the customer is indebted to the bank.
7. The bank must not disclose the details of the transactions going through the customer's account unless the customer consents, there is a public duty disclose, the bank's interests require it, or under compulsion of law.
8. The bank must not close a customer's account reasonable notice to the customer, because cheques are outstanding in the ordinary course of business for several days.

These implied contractual terms may be modified by express agreement between the customer and the bank. The statutes and regulations in force in the jurisdiction may also modify the above terms and/or create new rights, obligations or limitations relevant the bank-customer relationship.

X. Fill in the blanks with the most appropriate words from the list.

- | | |
|---------------|-----------------|
| 1. bills | 7. savings |
| 2. screen | 8. computerized |
| 3. checks | 9. credit |
| 4. withdrawal | 10. customer |
| 5. transfer | 11. cash |
| 6. account | 12. cleared |

The huge cost, associated with processing checks has led companies and the banking system to explore methods to reduce the number of written.

The long-awaited «cashless/checkless society» may have begun in the form of the electronic funds transfer system (EFTS) – a system for making purchases and paying bills through electronic depositing and withdrawal of funds. Some of these systems are operated by a push-button telephone, permitting the account holder to funds electronically from one account to another and to pay The monthly bank statement lists all telephone transactions made.

Some banks are testing the idea of banking by video, in which the walks into a booth, dials a phone number, and talks to a banker on a television screen – at any time of day. The booth looks like an ATM. Inside, you can push buttons on a telephone to open a checking or account, apply for a credit card or car loan, and buy and sell stocks. A bank officer on a TV asks for your credit history, checks your record with a credit bureau, and approves or disapproves your request immediately.

Another option is banking by personal computer. Some large banks provide custom-made software that allows customers to find their current balances, see if checks have, and pay bills electronically.

If you really hate writing checks, you could try using a coded plastic debit card. Debit cards differ from cards in that they require immediate payment for any cash or purchase; the amount is deducted from the purchaser's account.

Debit cards are often used with point-of-sale (POS) terminals linked to bank computers. When the customer's debit card number and purchase data are recorded into the terminal, the amount of the sale is transferred electronically from the customer's to the store's account. The cards can also be inserted in ATMs in order to withdraw, switch funds from one account to another, and pay utility bills.

Reading Tasks

I. Answer the questions using the information from the text.

1. What meanings does the term «commercial bank» have?
2. How is the term «commercial bank» used in the USA and Great Britain?
3. What is a commercial bank?
4. Which are the three main functions of a commercial bank? Describe each function.
5. What determines the way in which a bank is organized and operates?
6. What is the aim of commercial banks?
7. What do commercial banks have to do to be successful?
8. What does the full-service philosophy of banks mean?
9. What is wholesale banking?
10. What is retail banking?
11. What essential functions do both types of banking have?
12. What factors make banking an international business?
13. In which way have the major banks of the world established extensive international operations?

II. Mark these statements T (true) or F (false) according to the information in the text. Find the part of the text that gives the correct information.

1. A commercial bank performs the same functions as an investment bank.
2. Banks which offer wholesale banking provide large-scale services to companies, government agencies and other banks.

3. A commercial bank which provides the same range of services year after year is more successful.
4. A commercial bank is a nonprofit-making business.
5. As a rule banks provide loans to the customers who are sufficiently creditworthy.
6. A bank must not be prepared to take deposits of cash and cheques from its customers and to credit their accounts with them.
7. The customer may authorize the bank to make payments from the account on his behalf against a standing order or direct debit.
8. Commercial banks do not undertake to repay funds on demand if the money is on a current account.
9. Commercial banks offer services that compete with those offered by the merchant banks and by other financial intermediaries.

III. Can you remember in what context the following expressions were mentioned? Refer to the text only if you need to.

1. smaller-scale services
2. the stock market crash
3. expiry of a period
4. modest rates of interest
5. subsidiary companies
6. an open (an uncrossed) cheque
7. extensive international operations
8. high street banks
9. the provision of credit
10. to earn profits

IV. Without looking back at the text, exchange its content with someone who read the text too.

V. Read the dialogue and complete the following organization chart. First write in the boxes the names of the divisions of an American bank. Then under the boxes add details of the responsibilities of each of the divisions.

Part I. Understanding Money and Banking

Mr. Spenser: OK, there's an organization chart here, Mr. Taylor, in the back of the annual report, that we can run through, just to make things a little clearer.

Mr. Taylor: Oh, good.

Mr. Spenser: We were reorganized earlier this year, so the organization is still fairly new. Basically, as you can see, we're split into six line divisions. The first of these, the Banking Division, consists of three geographic groups: Group One the Americas, Group Two Europe, and Group Three Africa, Asia and the Middle East. All these groups offer a full range of international banking services.

Then there's the Private Banking Division which serves consumers in the domestic and international markets.

The Treasurer's Division has a wide spread of operations which includes investment portfolio management, commercial paper, government and municipal bonds, foreign exchange, bullion, and public finance.

Mr. Taylor: So there are three operative divisions.

Mr. Spenser: That's right, and these three operative divisions are backed up by another three servicing divisions. Firstly, there's the Administrative Division which covers administrative services as well as personnel, premises, and economic analysis.

The Financial and Information Systems Division includes the Comptroller's Department, the Corporate Tax Department, and the Systems and Data Processing Department.

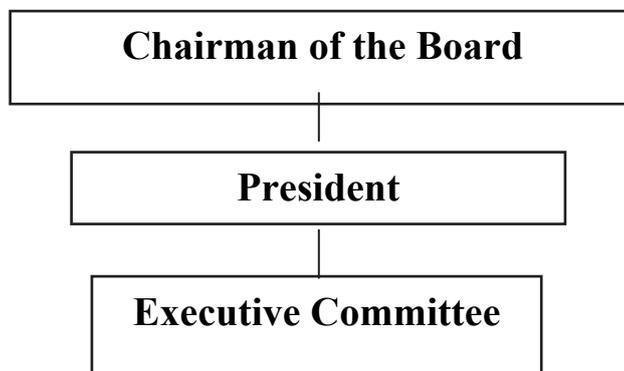
And then finally, the Corporate Planning Division includes strategic planning, and credit policy and administration.

Mr. Taylor: Yes, I see.

Mr. Spenser: It gets much more complicated than that if we go into detail, but I'll leave the annual report with you, in case you ever need it for reference.

Mr. Taylor: Right. Thank you very much.

Organization Chart



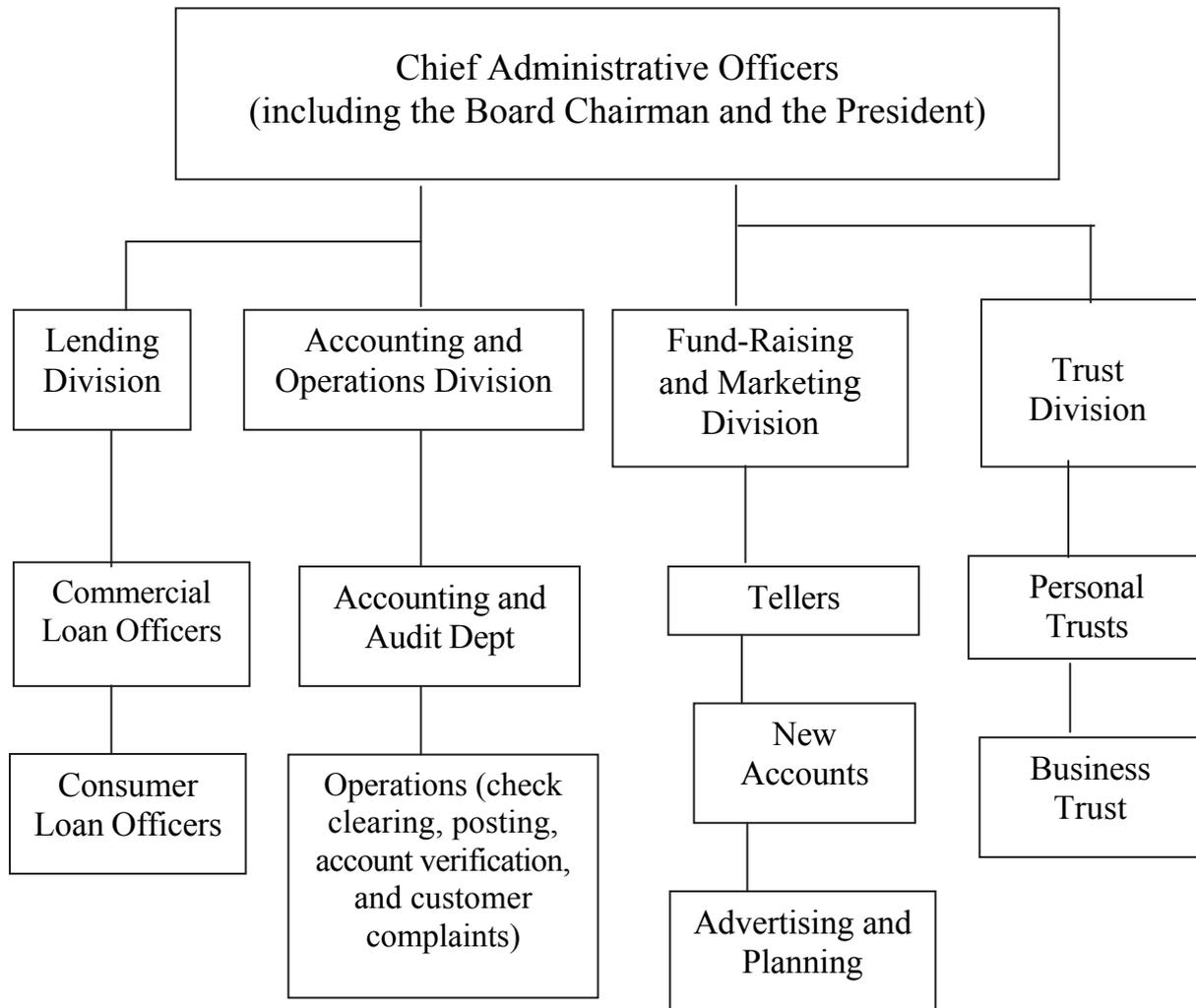
Banking division					
<ul style="list-style-type: none"> • Group 1 The Americas • Group 2 Europe • Group 3 Africa, Asia, Middle East 					

VI. Read the text, timing yourself. Make an outline of the text in the form of questions and let your fellow students answer them.

Bank Organization

Banks are usually organized to follow their functions and supply the services as efficiently as possible. A bank's size is also a significant factor in determining how banks are organized. This can be seen most directly by looking at the typical organization chart for large versus small banks.

Organization Chart of a Bank



The service operations of a small bank usually are monitored by a cashier and auditor working in the accounting division and by vice-presidents heading up the bank's loan, fund-raising, marketing and trust departments (if the bank offers trust services). These officers report to the senior executives of the firm, consisting of the board chairman, the president (who usually runs the bank from day to day), and senior vice-presidents, who are responsible for long-range planning and for assisting heads of the various departments in solving their most pressing problems. Senior management, in turn, reports periodically (at least once each month) to members of the board of directors – the committee selected by the shareholders to set a policy

and oversee the bank's performance. There is often close contact between top management and the management and staff of each line division. Such banks present a relatively low-risk working environment, but with limited opportunities for rapid advancement or for the development of new banking skills. Nevertheless, such banks place the banker close to the customer and give bank employees the opportunity to see how their activities, especially in granting loans can have a real impact on the vitality and quality of life in local communities. The organization chart of a large money bank is much more complex.

The large banks possess some potential advantages over small and medium-size banks. Because the largest institutions serve many different markets with many different services, they are better diversified, both geographically and by product line, to withstand the risks of a fluctuating economy. They also possess the important advantage of being able to raise financial capital at relatively low cost and the professional expertise to focus that new capital on the most promising loans and business acquisitions.

Where law and regulations permit, the bank may form a branch banking organization. The full range of banking services is offered from several locations, including head office and one or more branch offices.

Writing and Speaking Tasks

(To do Speaking Tasks see Language Bank, pages 262–272)

I. Write sentences with the following words.

Example: more accessible / banks / ATMs / have / to customers / made / by opening / themselves

Banks have made themselves more accessible to customers by opening ATMs.

1. very costly / system / the cheque / is / to operate
2. into use / in / the cheque / the seventeenth / first / century / came

3. to make payments / the customer / authorise / the bank / may / from the account
4. services / offer / a wide range of / commercial banks / their customers
5. payment services / almost / all / provide / banks
6. as payment agents / by conducting / act / banks / for customers / current accounts
7. economies / banks / and / have influenced / for centuries / politics
8. banks / now / ATMs / most / than / have / more / branches

II. Write questions to the following answers.

1.
Currently commercial banks are regulated and required a bank licence to operate.
2.
Banks act both as collection agent and paying agent for customers.
3.
A banker or bank is a financial institution that acts as a payment agent for customers, and borrows and lends money.
4.
Banks borrow money by accepting funds deposited on current account, accepting term deposits and by issuing debt securities such as bonds.
5.
A bank generates a profit from the differential between the level of interest it pays for deposits and other sources of funds, and the level of interest it charges in its lending activities.
6.
The term bankassurance is used to describe the sale of insurance products in a bank.

III. List and briefly describe the most important services which the commercial banks provide.

IV. Write the summary of the text.

- V. Check the summary of the text written by one of the students and if it is necessary comment on the mistakes.**
- VI. Discuss the current status of commercial banks in Ukraine and other countries. You may need to do a little research.**
- VII. Interview a partner about the organization of a bank he or she knows well. Then write a description of the organization of this bank and give it to your partner to look through and comment on. Then describe a bank you know well.**
- VIII. Discuss the problems which exist for commercial banks in competing other financial intermediaries.**
- IX. What has happened to banks in Ukraine, in Britain and many other countries?**
- X. What can you say about recent trends in banking?**
- XI. Give information about banking regulations – how banking is controlled by rules.**
- XII. What has helped one bank to increase product sales in some branches?**
- XIII. Which way of banking do you prefer, and why? What services do you expect from a bank?**
- XIV. Use the Internet or other sources of information to make the reports on topics:**
- Banking System of Ukraine;
 - Banking System of the USA;
 - Banking System of Great Britain.

Text B: Bank Accounts

A **bank account** is a monetary account with a banking institution recording the balance of money for a customer. Bank accounts may have a positive or *credit balance* where the bank holds money on behalf of the customer; or a negative or *debit balance* where the customer owes the bank money.

Broadly, accounts opened with the purpose of holding credit balances are referred to as deposit accounts; whilst accounts opened with the purpose of holding debit balances are referred to as loan accounts.

Some accounts are defined by their function rather than nature of the balance they hold. Bank accounts designed to process large numbers of transactions may offer credit and debit facilities and therefore do not sit easily with a polarised definition. These transactional accounts are called by different names in different countries: in the USA and Canada they are checking accounts, in the UK current accounts.

There are two types of bank accounts for managing everyday money: a basic bank account and a current account. Banks also offer a range of accounts designed for medium or longer-term *savings*. Savings or term accounts usually pay more interest than basic and current accounts.

Basic bank accounts offer a convenient place to keep money you need for everyday use. You can arrange to have wages, state pension and *benefits* or *tax credits* paid into one. You can also pay in cheques or cash free of charge, and set up «direct debits» which pay regular bills automatically from your account.

With a basic bank account you get a *cash card* which you can use at a bank machine to withdraw cash. Some also offer a «debit card» that you can pay for items with, and get cash back; but with a basic account these will only work if there's enough money in your account.

You don't get a *cheque book* with a basic bank account, and you can't take out more money than is in the account («go overdrawn»). For this reason basic bank accounts are useful for anyone worried about *overspending*.

Current accounts have more features than basic bank accounts. For example, they usually offer:

- cheque book;
- cheque guarantee card (acts as a «guarantee» so makes cheques more widely acceptable);
- debit card (some allow payments without checking your account);
- direct debits (automatic bill payments direct from your account);
- standing orders (regular set payments from your account to someone of your choice);
- BACS (Bankers' automated clearing service) - the facility to accept payments directly into your account (e.g. from your employer), or for you to make one-off payments to someone else out of the account;
- overdraft facility - the bank may allow you to go overdrawn up to a certain amount; but you need to arrange this in advance and charges apply (you pay extra charges if you go overdrawn without an agreement).

Some current accounts pay interest on money you leave in the account, but the rate is usually low.

Banks offer a wide range of savings accounts. The main differences between them are how quickly you can get at your money, the minimum amount required to keep the account open and the type and rate of interest rate paid. **Savings accounts** are accounts maintained by commercial banks, savings and loan associations, credit unions, and mutual savings banks that pay interest but can not be used directly as money (by, for example, writing a cheque). These accounts let customers set aside a portion of their *liquid assets* that could be used to make purchases while earning a monetary *return*.

Obtaining funds held in a savings account may not be as convenient as from a *demand account*. For example, one may need to visit an ATM or bank branch, instead of writing a cheque or using a debit card. However, this transference is easy enough that savings accounts are often termed near money.

Some savings accounts require funds to be kept on deposit for a minimum length of time, but most permit unlimited access to funds. True savings accounts do not offer cheque-writing privileges, although

many institutions will call their higher-interest demand accounts or money market accounts «savings accounts».

All savings accounts offer lists of all financial transactions, traditionally through a *passbook*, but also through a bank statement.

Vocabulary

credit balance	↪	кредитове сальдо (баланс)
debit balance	↪	дебетове сальдо (баланс)
savings	↪	збереження, заощадження
benefit	↪	допомога
tax credit	↪	податкова пільга
cash card	↪	грошова картка (для отримання готівки з автомата)
cheque book	↪	чекова книжка
overspending	↪	перевитрата
liquid assets	↪	оборотний капітал, оборотні активи
return	↪	прибуток
demand account	↪	безстроковий рахунок
passbook	↪	банківська розрахункова книжка, депозитна книжка

Reading and Speaking Tasks

(To do Speaking Tasks see Language Bank, pages 262–272)

I. Make up questions covering the content of the text and let your fellow students answer them.

II. Having read the text, what you can now say about:

- basic bank accounts;
- current accounts;
- savings accounts.

III. Work with a partner who read the text to produce a summary of the text. You need only mention the important points.

IV. Work in pairs. Ask each other about the terms and conditions of different bank accounts.

Unit Four

LENDING

Text A: Bank Lending

Text B: Credit

The unit aims to:

- **explain what it means to serve the credit requirements of the community;**
- **list the organizations which serve credit needs of the community in less – developed and developed countries;**
- **describe what role the UK and US commercial banks played in the mortgage finance market in past;**
- **name and describe the types of commercial loans;**
- **identify the types of consumer loans;**
- **describe savings and loan associations, savings banks and credit unions;**
- **list the principles of classification of credits;**
- **define different types of credit.**

Warm-up activities

- Try to give brief explanations of the following terms: moneylender, borrower, credit, loan, mortgage, lending rate, creditworthiness, collateral, leasing, secured loan, unsecured loan.
- How do banks decide who to lend money to?
- What types of loans do banks provide?

Text A: Bank Lending

One of the most important *obligations* of a commercial bank is to try to serve the *credit requirements* of the community: that is, to provide credit which will *further* the stability or growth of the economy as well as improving the economic *well-being* of its citizens. Credit needs of the community will be served whether commercial banks serve them or not. For example, in many less-developed countries (where banking systems are underdeveloped), informal markets for credit exist, usually in the form of *moneylenders*. Cooperatives and small savings banks also tend to provide credit facilities where the role of commercial banks is limited.

Developed countries' financial systems have numerous competitive institutes and government agencies serving credit needs. The non-bank financial institutions tended to supply credit to sectors which the commercial banks either failed to recognise or *neglected*. For example, in the UK, building societies dominated the *mortgage* finance market up until the early 1980s when the commercial banks decided to «get into» this market: UK commercial banks *extended* hardly any *retail credit* until the mid-1960s. Similarly, commercial banks in the US were generally not prepared to make the volume or kind of mortgage loans for which the public turned to the *savings and loan association* in large numbers during the 1960s. Historically, commercial banks throughout the developed world tended to concentrate on *short- to medium-term* corporate lending with specialist non-bank institutions dealing with *consumer credit* and

corporate *long-term* credit needs. The advent of the «retail banking revolution» during the 1960s resulted in many commercial banks turning their focus toward the profitability of the retail market, and this resulted in a substantial increase in the supply of consumer credit by commercial banks. Longer-term credit needs tend still to be supplied by government-owned long-term investment banks, or subsidiaries of commercial banks offering *venture capital* etc. Although most commercial banks take their highest risks in their *loan portfolios*, *yields* on loans have historically been higher than on investments. In periods of *slack* loan demand, the opposite is the case. Overall, however, the returns on loans will be higher than the returns on investments and the provision of loans will continue to be the main function of commercial banks.

Bank loans also help to cement banking relationships, particularly with corporations; for example, many banks only lend to firms that keep deposit balances at the bank, and most firms *monitor* these balances at banks which they believe are willing to fill their borrowing requirements.

Commercial Loans

Commercial loans can be constructed to fulfil the needs of *industrial customers*. There are five main types:

- the open line of credit,
- the transaction loan,
- the working capital loan,
- revolving credit,
- the term loan.

Open lines of credit

Open lines of credit are generally given to *creditworthy customers*, who have had a *long-standing relationship* with the bank. Open lines of credit require no *collateral* and therefore banks must examine the potential borrowers very carefully. Once the banks decide to offer such a service, the customer is informed as to the maximum amount it can borrow; the price it will have to pay, and the need, in certain instances, to pay off all its *borrowings* once a year. Lines of credit agreements are very informal and are not legally binding.

Transaction loans

Whereas the purpose of the open line of credit is to fulfil *temporary recurring* credit needs, transaction loans are for temporary loans that occur only once. Demand is *infrequent* and therefore the *terms* of such loans are negotiated on an individual basis. These loans are usually secured on assets. The money to repay the bank is *generated* from the assets upon which the loan is *secured*.

Working capital loans

These types of loans are usually undertaken by firms which require funds to finance medium-term increases in current assets. *Working capital loans* are often used to purchase *current assets* or the repayment of recurrent *debt obligations*. Unlike transaction loans which are expected to be repaid by the sale of an asset, working capital *advances* are expected to be serviced and repaid through *cash flow*. These types of loans tend to have fixed time periods and are secured on the current assets that are being financed.

Revolving credit

This is similar to the open line of credit except that it is a formal agreement set up for a longer period of time – generally two to three years. There is an unconditional commitment made by the bank to lend when the borrower makes a request under the facility. This type of facility is almost always given only to the larger creditworthy companies. Repayment comes out of cash flow or through funding with longer-term debt.

Term loans

These loans are generally used for the purchase of *fixed assets* (usually *maturities*) and run from three to five years, although longer-term facilities are often granted. The whole amount or portions of the loan can be used over the agreed period. Repayment is specifically expected to be out of cash flow and therefore most term loans are repaid on an *amortised* basis.

There are many other sources of credit available to firms other than loans - for example: overdraft facilities, trade credit facilities, *leasing* and *factoring* business etc.

Consumer Loans

Consumer loans extended by banks include *instalment loans* and non-*instalment loans*, and loans at *fixed rates of interest* and at *variable rates of interest*. Consumers have access to credit through many means (overdraft facilities and credit cards); the following will examine only loans.

Personal loans

These are instalment credits, normally extended for fixed periods and at fixed rates of interest, although variable-rate personal loans are widely available and are used for all manner of purposes such as cars, *consumer durables*, home improvements, holidays etc.

Revolving credit accounts

Consumers make a regular monthly payment to an account and are given the *option* of borrowing up to a given *multiple* of their monthly payment. The revolving credit is extended at variable rates.

Housing loans

These are long-term loans to owner-occupiers usually from a minimum of 15 years to as long as 50 or 60 years. Typically housing loans are secured on a first or second mortgage on the property and amount to between 50 and 90 per cent of *valuation*.

Housing loans are subject to a minimum of between two or three times a borrower's *gross annual income* or alternatively they are limited by the requirement that monthly repayments should not normally exceed 20 to 30 per cent of *net monthly income*. Mortgage loans also differ with regard to pricing and pattern of repayment.

Home-equity access loans

This is a type of revolving credit facility that is secured by a second mortgage on the free equity value (the difference between the market value of property and *outstanding* first mortgage).

This is a facility for the provision of secured consumer credit. It has become increasingly popular in the US and UK in recent years.

Vocabulary

lending	☞	кредитування, позичання
obligation	☞	зобов'язання, обов'язок
credit requirements	☞	потреби кредитування
further	☞	сприяти
well-being	☞	добробут
moneylender	☞	лихвар
neglect	☞	зневажати, нехтувати
mortgage	☞	іпотека, застава
extend	☞	надавати (позику, кредит), поширювати
retail credit	☞	кредит роздрібної торгівлі
savings and loan association	☞	позичково-ощадна асоціація
short-term	☞	короткостроковий
long-term	☞	довгостроковий
medium-term	☞	середньостроковий
consumer credit	☞	споживчий кредит
venture capital	☞	вкладений з ризиком капітал
loan portfolio	☞	портфель кредитів
yield	☞	прибуток
slack	☞	слабкий, млявий
monitor	☞	контролювати, спостерігати
commercial loan	☞	комерційна позика
industrial customer	☞	промисловий споживач
open line of credit	☞	відкрита кредитна лінія
creditworthy customer	☞	кредитоспроможний клієнт
long-standing relationship	☞	довготривалий зв'язок
collateral	☞	забезпечення кредиту, додаткове забезпечення
borrowing	☞	позичка, кредит
transaction loan	☞	операційна позика
temporary	☞	тимчасовий
recur	☞	відбуватися знову, повторюватись
infrequent	☞	рідкісний

terms	☞	умови
generate	☞	створювати
secure	☞	забезпечувати, гарантувати, страхувати
working capital loan	☞	позика оборотного капіталу
current assets	☞	оборотний капітал
debt obligations	☞	боргові зобов'язання
advance	☞	аванс
cash flow	☞	рух грошової готівки
revolving credit	☞	кредит, що поновлюється автоматично
term loan	☞	строкова позика (кредит)
fixed assets	☞	основний капітал
maturity	☞	строк платежу
amortize	☞	погашати, амортизувати
leasing	☞	лізинг, довготермінова оренда
factoring	☞	факторні операції (перепродаж права на стягнення боргів)
consumer loan	☞	споживча позика
instalment loan (credit)	☞	позичка (кредит) з погашенням у розстрочку
fixed rate of interest	☞	фіксована процентна ставка
variable rate of interest	☞	змінна процентна ставка
personal loan	☞	позичка приватній особі
consumer durables	☞	споживчі товари довготривалого користування
revolving credit account	☞	рахунок кредиту, що поновлюється автоматично
option	☞	опціон, вибір
multiple	☞	кратне число
housing loan	☞	позика на купівлю будинку
valuation	☞	оцінка (майна), визначення вартості, розцінка
gross annual income	☞	валовий річний дохід
net monthly income	☞	чистий щомісячний дохід
outstanding	☞	несплачений, нереалізований

Vocabulary Tasks

I. Study the following words and phrases. Recall the sentences in which they are used in the text. Use them in sentences of your own.

Collateral; term loan; lending; consumer credit; creditworthy customer; monitor; commercial loan; savings and loan association; obligation; fixed rate of interest; gross annual income; venture capital; retail credit; open line of credit; outstanding; personal loan; secure; advance; leasing; working capital loan; transaction loan; revolving credit account; instalment loan; mortgage; loan portfolio; current assets; fixed assets; option; factoring; revolving credit; credit requirements; housing loan; maturity; consumer loan; long-standing relationship; variable rate of interest; moneylender; terms; consumer durables; generate; industrial customer; valuation; yield; net monthly income; debt obligations; borrowing; short-term and medium-term lending; amortize; cash flow; well-being; neglect; slack; further; temporary; extend; multiple.

II. Replace the Ukrainian words and phrases by appropriate English equivalents. Translate the sentences.

1. (Короткострокові позики) finance borrowers with short-lived and project-oriented needs for funds.
2. Normally, as a condition of the (кредитної лінії), the agreement requires that the customer be out of debt to the bank for some period of time during the year.
3. The bank may increase the (забезпечення кредиту) and restructure the (позику).
4. Line-of-credit (позики) usually (забезпечуються) with inventory, accounts receivable, or (основним капіталом).
5. (Кредити, що поновлюються автоматично) finance the expansion of (оборотного капіталу) or the retirement of current liabilities.
6. The bank loan is normally secured by the borrower's fixed assets, including a (іпотеку) on land.

7. (Позики оборотного капіталу) are often used to purchase current assets or the repayment of (боргових зобов'язань).
8. (Споживчий кредит) has become more affordable because of below-market prices on manufacturers' credit.
9. The predominant type of borrowing used by consumers is (кредит з погашенням у розстрочку) that the consumer repays on an (амортизаційний) basis, typically over several years.
10. Following World War II, installment lending was quickly legitimized by millions of consumers who were eager to obtain (споживчі товари довготривалого користування) that had not been available during the war.

III. Change the noun form into the verb and adjective forms. You may want to use a dictionary.

Example: obligation (n) – oblige (v) – obligatory (adj)

Credit, extension, neglect, consumer, venture, yield, slack, customer, collateral, recurrence, term, security, advance, revolver, maturity, amortization, leasing, valuation, lender, borrower.

IV. Complete the following sentences with the correct derivatives of the words in brackets.

1. US banks billions of dollars to Third World countries in the 1970s. (**lender**)
2. The cheque has been To the customer's account. (**credit**)
3. Theyheavily from the bank to start their new business. (**borrowing**)
4. If a bank credit to someone it lends them money. (**extension**)
5. Jeff his whole fortune on one throw of the dice. (**venturesome**)
6. To means to promise that if you cannot pay back money you have borrowed, you will give the lender goods or property of the same value instead. (**security**)

7. The time when a financial arrangement such as bond or policy becomes ready to be paid is called **(mature)**
8. They decided to ... the building to another company. **(leasing)**
9. Signing a contract places you under a long – term **(obligatory)**
10. Her life seems to ... around her career. **(revolving)**

V. For each word, write one which means the opposite.

Gross, income, lending, reduce, variable, short-term, continuous, frequent, current, stability, formal, limited, succeed, wholesale, minimum, liabilities, unsecured, purchase, exclude, irregular, installment.

VI. Match these words as they occur in the text. Translate the phrases.

- | | |
|---------------------|---------------------|
| 1. savings and loan | a) credit |
| 2. venture | b) customer |
| 3. consumer | c) annual income |
| 4. debt | d) account |
| 5. revolving credit | e) capital |
| 6. gross | f) association |
| 7. current | g) obligation |
| 8. term | h) rate of interest |
| 9. creditworthy | i) assets |
| 10. variable | j) loan |

VII. Choose the explanation for each of these words and phrases.

- | | |
|--------------------|---|
| 1. venture capital | a) someone whose business is to lend money to people, especially at very high rates of interest |
| 2. moneylender | b) a facility, such as a bank overdraft, which allows the holder to draw credit up to a certain agreed amount |

- | | |
|---------------------|---|
| 3. lending rate | c) funds which are invested in a business with a risk |
| 4. creditworthiness | d) a process of hiring rather than buying fixed assets |
| 5. line of credit | e) the rate of interest that you have to pay to a bank or other financial institution when you borrow money from them |
| 6. collateral | f) the characteristic of being reliable in the repayment of borrowed money |
| 7. leasing | g) secondary or supporting security for a loan |
| 8. credit | h) an arrangement with a shop, bank etc. that makes it possible for you to buy something and pay for it later |

VIII. Find words and phrases in the text which mean:

1. a feeling of being comfortable, healthy, and happy
2. to watch and check a situation carefully in order to see how it changes or progresses over a period of a time
3. the way in which people or groups behave towards each other
4. someone who is borrowing money
5. an amount of money that you borrow from a bank
6. land, buildings, or equipment that a business owns and uses
7. a moral or legal duty to do something
8. the money that is available to be used for the costs of a business
9. services that are provided
10. the state of producing a profit, or the degree to which a business or activity is profitable

IX. Fill in the blanks with prepositions.

Thriffs: Savings and Loan Associations and Savings Banks

Thriffs, as savings and loan associations and savings banks are commonly called, have traditionally served as sources home mortgages. However, they also offer passbook accounts, time deposits,

traveler's checks, and a variety other banking services at rates competitive commercial banks. A savings and loan association (S&L) is a thrift institution offering both savings and checking accounts and using most of its funds make home mortgage loans. Their original purpose was encourage family thriftiness and home ownership, hence the common term «thrift». For years, S&Ls were permitted pay slightly higher interest rates to savers than could commercial banks. Deposited funds were then used to make long-term, fixed-rate mortgages prevailing mortgage rates.

Savings banks, also known as mutual savings banks, are virtually identical to S&Ls. Their origins can be traced to the early 1800s Boston and Philadelphia, where they were established to provide interest savings accounts. The early US banks did not provide such accounts, and the first savings banks were designed meet the savings and borrowing needs of individual households. Their early missions are suggested by such names as Emigrant Savings Bank, Dime Savings Bank, and Seaman's Bank for Savings. The approximately 600 savings banks are concentrated the New England states.

Traditionally, both S&Ls and savings banks housed savings deposits that they used loans and home mortgages. Deregulation during the 1980s broadened their role, and thrifts took on new activities, such as making commercial loans, engaging consumer leasing, providing trust services, and issuing credit cards.

Credit Unions

A credit union is actually a form of savings cooperative and is typically sponsored a company, union, or professional or religious group. The credit union pays interest to its member depositors, and the nation's 12,800 federally insured credit unions can provide consumer loans at competitive rates their members. While credit unions tend be relatively small, with only 30 percent having assets of \$5 million or more, they exist in every state and claim nearly 53 million members. Credit unions today have outstanding loans of almost \$113 billion.

Credit unions have traditionally concentrated short-term and consumer loans and savings deposits; their operating flexibility has increased as a result deregulation. As mentioned earlier, they offer an interest-bearing checking account called a share draft account and can make long-term mortgage loans. Other services available to member depositors and borrowers typically include life insurance competitive rates and financial counseling.

X. Fill in the blanks with the most appropriate words from the list.

A

- | | |
|---------------|----------------|
| 1. property | 6. creditor |
| 2. collateral | 7. additional |
| 3. fully | 8. fulfillment |
| 4. money | 9. possession |
| 5. right | 10. assets |

Collateralisation of Credit

Collaterals ensure that interest payments and repayment can be made and on schedule.

It is distinguished:

- a) *true personal credits* = *blank credits* which imply relinquishment of all collaterals;
- b) *reinforced personal credits* without collateralisation with real, but e.g.
- *assignment of receivables*. Transfer of a claim against third parties from the debtor to the (e.g. claims from sales or saving deposits),
 - *guarantee*. Legal liability of a third party (guarantor) for the of the debtor's liabilities;

c) *credits secured by real property = collateral loan*

Credits are secured either by pledges (mortgage, land charge) or by assignments as security of fixed (mainly real property):

- *pledging = right of lien*

It is called pledging, if for (pledged) items (especially real property) or rights a right of lien (chattel mortgage) is ordered from the debtor to the creditor as for a debt claim and the corporeal thing itself is handed over. The right of lien allows the beneficiary to claim a specified amount of from the pledged item (e.g. in case of an execution sale by way of public auction).

- *assignment as security*

Compared to pledging, where the handing over of the pledged items is necessary, the collateral is only assigned as security by contract in this case. In this process only the property on the collateral is handed over to the creditor, but not the collateral itself. The collateral remains in the of the debtor. Assignments as security usually serve as securities.

B

- | | |
|------------------|---------------------|
| 1. to repay | 5. a loan |
| 2. loan policies | 6. borrowed funds |
| 3. the customer | 7. the loan officer |
| 4. credit | 8. the borrower |

The loan officer must be convinced that the customer has a well-defined purpose for requesting a bank and a serious intention to repay. If the officer is not sure exactly why the customer is requesting, this purpose must be clarified to And once the purpose is known, must determine if that purpose is consistent with the bank's current Even with a good purpose, however, the loan officer must determine that has a responsible attitude towards using The customer must be truthful in answering the bank's questions and must make every effort what is owed.

Reading Tasks

I. Answer the questions using the information from the text.

1. What is one of the most important obligations of a commercial bank?
2. What does it mean to serve the credit requirements of the community?
3. What organizations serve credit needs of the community in less-developed countries?
4. What institutions serve credit needs of the community in developed countries?
5. Why did the non-bank financial institutions tend to supply credit?
6. What role did the UK and US commercial banks play in the mortgage finance market in past?
7. What types of commercial loans do banks provide? Describe each type.
8. What types of consumer loans do banks provide? Describe each type.

II. Mark these statements T (true) or F (false) according to the information in the text. Find the part of the text that gives the correct information.

1. Consumer loans are provided to industrial customers.
2. Only commercial banks provide credit facilities.
3. Working capital advances are serviced and repaid through cash flow.
4. The revolving credit is extended at variable rates.
5. Overdraft facilities, trade credit facilities, leasing and factoring business are sources of credit other than loans available to firms.
6. Open lines of credit require collateral.
7. Term loans are used for the purchase of fixed assets and run from three to five years.
8. The advent of the «retail banking revolution» during the 1960s did not result in commercial banks.

9. The purpose of transaction loans is to fulfil temporary recurring credit needs.
10. Personal loans are normally extended for fixed periods and at fixed rates of interest.
11. Housing loans are not secured on a mortgage on the property.
12. Longer-term credit needs tend to be supplied by government – owned long-term investment banks, or subsidiaries of commercial banks offering venture capital.

III. Can you remember in what context the following expressions were mentioned? Refer to the text only if you need to.

1. loan portfolios
2. economic well-being
3. consumer durables
4. debt obligations
5. industrial customers
6. net monthly income
7. home improvements
8. instalment loans
9. revolving credit
10. credit facilities
11. «retail banking revolution»
12. open lines of credit
13. working capital loans
14. personal loans

IV. Without looking back at the text, exchange its content with someone who read the text too.

Writing and Speaking Tasks

(To do Speaking Tasks see Language Bank, pages 262–272)

I. Write sentences with the following words.

Example: customers / industrial / are extended / most / and / bank credits / commercial / to

Most bank credits are extended to commercial and industrial customers.

1. the cheapest / of / the overdraft / borrowing / form / is
2. lenders / also / real estate field / commercial banks / in / are / important / the
3. the loan portfolio / in banking / risk / to be / in / tends / concentrated
4. involves / analysis / a review / of the documentation / collateral / and / a detailed
5. loan rates / establish / for / banks / of customers / different classes / on the basis / the prime rate / of
6. the application process / the initial interview / the loan officer / which / deals with / involves
7. include / and / consumer loans / instalment loans / non-instalment loans
8. usually / on assets / are / transaction loans / secured
9. given / creditworthy / open lines of credit / are / to / generally / customers
10. fixed / working capital loans / time / have / periods

II. Write questions to the following answers.

1.
Loans are among the highest-yielding assets a bank can add to its portfolio.
2.
One of the most difficult tasks in lending to business firms is deciding how to price the loan.

3.
The revolving credit is extended at variable rates.
4.
Personal loans are instalment credits, extended for fixed periods and at fixed rates of interest.
5.
The non-bank financial institutions tended to supply credit to sectors which the commercial banks either failed to recognize or neglected.
6.
Open lines of credit are generally given to creditworthy customers, who have had a long-standing relationship with the bank.
7.
Working capital loans are often used to purchase current assets or the repayment of recurrent debt obligations.
8.
Banks make loans of reserves to other banks through the federal funds market.
9.
The money to repay the bank is generated from the assets upon which the loan is secured.
10.
Revolving credit is similar to the open line of credit except that it is a formal agreement set up for a longer period of time – generally two to three years.

III. List and briefly describe the main types of commercial and consumer loans.

IV. Write the summary of the text.

V. Check the summary of the text written by one of the students and if it is necessary comment on the mistakes.

VI. Discuss what makes a loan attractive to the bank and customer.

VII. Explain how a bank can reduce the risks involved in granting a loan.

Text B: Credit

The main aim of the credit system world-wide is to raise investments for the economy of the country. So the credit system should attract clients to borrow money from the bank by offering low interest rates and, simple procedures.

Credits are defined as a transfer of means of payment for a limited period of time. In this process for a specified period of time the *lender (creditor) relinquishes* the use of his means of payment and *entrusts* it to the *borrower (debtor)*, who pays interest as compensation.

There are different principles of classification of credits.
Classification of credits according to:

a) Maturity

- *short-term (seasonal) credit*
- *medium-term credit*
- *long-term credit*

b) Debt service

- *installment credit*
- *annuity credit*
- *credit with final maturity*

c) Collateralisation of loan

- *true personal credit (blank credit)*
- *reinforced personal credit*
- *credits secured by real property*

d) Origin of credit

- *bank credit*
- *dealer credit*
- *private credit*

e) Use of credit

- *credit for production*
 - *short-term operation credit*
 - *investment credit*
- *consumer credit.*

There are different types of credit:

a) credit in current account

The credit in current account is granted by banks by allowing an overdraft on the current account (*giro account*). This type of financing serves the covering of the periodic or short-term capital requirements. The credit in current account is a short-term credit, which can be claimed by the borrower at any time according to his requirements up to the agreed limit.

b) dealer credit	commodity credit
trade credit	supplier credit

For a dealer credit the supplier grants a credit by extending the time allowed for payment. The collateralization is effected by reservation of ownership or bill of exchange. This type of credit does not require a fixed credit contract.

c) bill of exchange

A bill of exchange contains the order of the *drawer (creditor)* to the *drawee (debtor)* of the bill to pay a specified sum of money to the drawer or a third party (*payee of a bill*) at a certain date (usually after three months).

d) loan

Loans are *medium-term to long-term (bank) credits*. The loans are usually secured by a *mortgage (right of lien)* on the *real property* of the customer.

The following modes of repayment are distinguished:

- *loan with final maturity*: total repayment at the end of the maturity period, interest payment either within or also at the end of the maturity period;
- *redeemable loan = installment loan*: equal rates of repayment and decreasing interest payments over the period of maturity because the debts are reduced by the repayment;

- *annuity loan*: constant debt service (interest + repayment) over time with a decreasing *share of interest* payment and a proportionally increasing share of repayment.

Credit-worthy are persons, groups and firms which can be expected to fulfill the *contractual obligations* from credits. The credit worthiness depends on *personal and material preconditions*:

- **Personal credit worthiness**

The personal credit worthiness is fulfilled, when the creditor trusts the debtor due to certain qualities like diligence, honesty, competence and reliability.

- **Material credit worthiness**

- Collateralization of the credit with real or nominal capital. The borrower can secure the credits by real property or bank deposits (high level of security for the bank).
- *Proof* of the ability for *debt service*.

Credit operations are the operations of giving loans to bank clients and receiving, in exchange interest rates on those loans. Credit operations are the main operations of a bank. Banks are the biggest center of credit. Credit operations form the main specific weight of any bank's assets because they give the biggest profit to the banks.

Vocabulary

lender (creditor)	☞	кредитор (позикодавець)
relinquish	☞	відмовлятися від
entrust	☞	довіряти, доручати, передавати
borrower (debtor)	☞	позичальник (боржник)
maturity	☞	термін, строк боргового зобов'язання
short-term (seasonal) credit	☞	короткотерміновий (сезонний) кредит

Part I. Understanding Money and Banking

medium-term credit	☞	середньотерміновий кредит
long-term credit	☞	довготерміновий кредит
debt service	☞	сплата платежів і відсотків
installment credit	☞	позика, що сплачується частинами
annuity credit	☞	ануїтетний кредит
credit with final maturity	☞	позика, що сплачується в кінці строку
collateralization of loan	☞	забезпеченість кредиту
true personal credit (blank credit)	☞	чистий персональний (бланковий) кредит
reinforced personal credit	☞	забезпечений персональний кредит
credit secured by real property	☞	кредит, забезпечений майном
origin of credit	☞	походження кредиту
bank credit	☞	банківський кредит
dealer credit	☞	торговий кредит
private credit	☞	приватний кредит
use of credit	☞	використання кредиту
credit for production	☞	продуктивний кредит
short-term operation credit	☞	кредит для засобів виробництва
investment credit	☞	кредит для капітального будівництва
consumer credit	☞	споживчий кредит
credit in current account	☞	контокорентний кредит
giro account	☞	жиро рахунок
dealer credit	☞	кредит продавцю
trade credit	☞	торговий кредит
commodity credit	☞	підтоварний кредит
supplier credit	☞	кредит постачальника
bill of exchange	☞	вексель
drawer (creditor)	☞	векселедавець (трасант)
drawee (debtor)	☞	боржник (трасат)
payee of a bill	☞	ремітент
loan	☞	позика

mortgage (right of lien)	☞	іпотека (заставне право)
real property	☞	нерухомість
loan with final maturity	☞	позика з кінцевою сплатою
redeemable loan	☞	позика зі сплатою у визначений строк
installment loan	☞	позика з виплатами
annuity loan	☞	ануїтетна позика
share of interest	☞	частка процентів
contractual obligations	☞	договірні зобов'язання
personal and material preconditions	☞	особисті та майнові передумови
personal credit worthiness	☞	особиста кредитоспроможність
material credit worthiness	☞	матеріальна кредито- спроможність
proof	☞	підтвердження
debt service	☞	обслуговування боргу

Reading and Speaking Tasks

(To do Speaking Tasks see Language Bank, pages 262–272)

I. Make up questions covering the content of the text and let your fellow students answer them.

II. Having read the text, what you can now say about:

- principles of classification of credits;
- types of credit;
- creditworthiness.

III. Work with a partner who read the text to produce a summary of the text. You need only mention the important points.

IV. What types of credit have you used? Why have you chosen them?

Part II

Financial Management

Unit Five

FINANCE AND THE ROLE OF THE FINANCIAL MANAGER

Text A: Responsibilities of the Financial Manager

Text B: Financial Plan

The unit aims to:

- **define finance(«corporate finance»);**
- **list the responsibilities of a financial manager;**
- **explain what a financial manager's overall objective is;**
- **explain what cash flow planning is;**
- **describe the managerial finance function;**
- **identify the difference between finance, economics and accounting;**
- **explain what a financial plan is;**
- **define financial control.**

Warm-up activities

- Try to give explanations of the following terms: finance, financial assets, cash inflows and outflows, financial requirements, company's earnings and costs, financial adviser, treasurer, controller, financial plan.
- What area of finance do you want to work in, and why?
- What are the responsibilities of financial managers?

Text A. Responsibilities of the Financial Manager

The way a company *handles* its *finances* can make the difference between life and death for the firm. Firms that expand too rapidly and do not plan their *cash flows* carefully can find their businesses *tottering* on the *brink* of *bankruptcy*. And how well investors understand a company's finances can seriously affect their personal profits or losses.

The business activity concerned with determining a firm's *long-term investments*, obtaining the funds to pay for those investments, and conducting the firm's everyday financial activities is known as finance (also called «corporate finance»). Production managers are responsible for planning and controlling a firm's output of goods and services. Marketing managers plan and control the development and marketing of products. Similarly, *financial managers* plan and control the *acquisition* and *dispersal* of a company's *financial assets*.

Financial managers have many *responsibilities*. These include collecting funds, paying debt, establishing *trade credit*, obtaining loans, controlling cash balances, and planning for the firm's future *financial requirements*. But a financial manager's *overall objective* is to increase the value of the firm and thus to increase stockholders' wealth. To reach this goal, financial managers must *ensure* that the company's *earnings exceed* its *costs* – in other words, that the company earns a profit. In *proprietorships* and *partnerships*, profits translate into an increase in the *owners' wealth*. In corporations, profits translate into an increase in the value of *common stock*.

Managing Cash Flow (Cash Flow Planning). To increase the firm's value, financial managers must make sure the company always has enough funds *on hand* to purchase the materials it needs to produce goods and services. At the same time, any funds not needed immediately must be invested to earn more money for the firm. This management of a firm's cash flow requires careful planning. Otherwise, excess cash balances will sit idle (and therefore be unproductive) or cash *deficits* will occur.

How *extensive* is the *idle cash* situation in businesses? More and more companies are learning that these idle funds can become a profitable workhorse. By finding out where its idle cash is located and putting it to work, companies avoid borrowing from outside sources. The savings on *interest payments* can be *substantial*.

Pools of idle cash can often be found in checks that are received by a company but not cashed immediately. To remedy this situation, companies that receive large numbers of checks can have them sent to lockboxes – addresses near the senders where checks are held in locked boxes for safekeeping. Another source of idle cash can be found in the checks issued by a company but not yet cashed.

Some firms use special «controlled *disbursement*» accounts to keep track of these funds. In these accounts, managers use desktop computers wired directly into their banks to see which checks will be cleared by which banks at what times during the day.

Accurate information about *current cash status* isn't enough for good cash management, however. Managers also need to plan cash flows days, weeks, and months ahead of time. Accurate projections allow firms to take advantage of high-yielding *investment opportunities*. Many businesses choose to use special *financial advisers* for this purpose.

Vocabulary

financial management	☞ управління фінансами
handle	☞ регулювати, здійснювати контроль
finance	☞ фінанси
cash flow	☞ рух грошової готівки
totter	☞ хитатися

brink	↻ край
bankruptcy	↻ банкрутство
long-term investments	↻ довгострокові інвестиції
financial manager	↻ фінансовий менеджер
acquisition	↻ придбання
dispersal	↻ розосередження, розподілення
financial assets	↻ фінансові активи
responsibility	↻ відповідальність, обов'язок
trade credit	↻ комерційний кредит
financial requirements	↻ фінансові потреби
overall	↻ загальний
objective	↻ мета, завдання
ensure	↻ гарантувати, забезпечувати
earnings	↻ дохід, прибуток, надходження
exceed	↻ перевищувати
costs	↻ витрати
proprietorship	↻ власність
partnership	↻ товариство, компанія
owners' wealth	↻ майно власників
common stock	↻ звичайна акція
on hand	↻ наявний, у наявності
deficit	↻ дефіцит, нестача
extensive	↻ поширений, продовжений
idle cash	↻ невикористана (вільна) готівка
interest payment	↻ сплата процентів
substantial	↻ істотний
disbursements	↻ виплати, витрати
accurate	↻ точний
current	↻ поточний
status	↻ становище, стан, статус
investment opportunities	↻ інвестиційні можливості
financial adviser	↻ фінансовий консультант

Vocabulary Tasks

I. Study the following words and phrases. Recall the sentences in which they are used in the text. Use them in sentences of your own.

Financial requirements; owners' wealth; costs; cash flow; finance; current cash status; ensure; deficit; on hand; extensive; financial adviser; long-term investments; financial management; overall objective; idle cash; responsibility; acquisition; financial assets; proprietorship; controlled disbursements; company's earnings; the brink of bankruptcy; interest payment; exceed; investment opportunities; common stock; financial manager; trade credit; handle finances; partnership; dispersal; substantial; accurate.

II. Replace the Ukrainian words and phrases by appropriate English equivalents. Translate the sentences.

1. (Фінансовий менеджер) is responsible for both meeting expenses and increasing profits for the firm's stockholders.
2. America West declared (банкрутство) in July 1991.
3. The financial manager must worry about the firm's solvency, i.e. having adequate funds (у наявності) to satisfy operational needs.
4. Knowledge about (рух грошової готівки) enables to avoid insolvency.
5. A charity might make (виплати) from money it has collected to the causes it was formed to support.
6. The company's (надходження) have dropped by 5% in the first quarter.
7. The head of a large company has many (обов'язки).
8. (Інвестиційні можливості) of some businesses are limited.
9. The Board decided to listen to the independent (фінансовий консультант).
10. The stockholders may control the (розподілення фінансових активів компанії).

**III. Change the noun form into the verb and adjective forms.
You may want to use a dictionary.**

Example: finance (n) – finance (v) – financial (adj)

Manager, expansion, bankruptcy, responsibility, acquisition, cost, extension, flow, object, idler, adviser, balance, payment, control, product.

IV. Complete the following sentences with the correct derivatives of the words in brackets.

1. Someone who controls or lends large sums of money is a
(finance)
2. The company's failure was mainly due to bad ... **(manage)**
3. The population of the town ... rapidly in previous years.
(expansion)
4. The recession has made many small companies go ...
(bankruptcy)
5. She was given promotion and more ... **(responsible)**
6. Mr Brown will be a valuable ... to the staff of our company.
(acquire)
7. Money has been ... into the country from Western aid agencies.
(flow)
8. They are waiting for an independent financial ... next week.
(advice)
9. We need to strike a ... between the needs of the community and the rights of the individual. **(balance)**
10. The Johnson family has effective ... of the company, owning almost 60% of the shares. **(controllable)**

V. For each word or phrase, write one which means the opposite.

Inaccurate, information, losses, particular, objective, assets, cash surplus, increase, directly, responsible, careful planning, lending, long-term investments, dispersal, insufficient funds, to lose track of, to be productive, past cash status.

VI. Match these words as they occur in the text. Translate the phrases.

- | | |
|---------------|-----------------|
| 1. idle | a) safekeeping |
| 2. long-term | b) requirements |
| 3. boxes for | c) information |
| 4. cash | d) cash |
| 5. controlled | e) flow |
| 6. overall | f) investments |
| 7. financial | g) disbursement |
| 8. company's | h) objective |
| 9. accurate | i) earnings |

VII. Choose the explanation for each of these words and phrases.

- | | |
|----------------------|---|
| 1. cash flow | a) business function of effectively obtaining and managing funds |
| 2. fund | b) the profit that a company makes |
| 3. finance | c) the volume of cash moving into and out of a business |
| 4. financial manager | d) expenditures required in order to produce some specified output or benefit |
| 5. earnings | e) a sum of money held for a specified purpose |
| 6. disbursement | f) individual in an organization responsible for developing and implementing the firm's financial plan and for determining the most appropriate sources and uses of funds |
| 7. costs | g) a legitimate payment of money out of some fund |

VIII. Find words and phrases in the text which mean:

1. large enough in amount or number to be noticeable or to have an important effect

2. a person who gives advice
3. edge of something unknown, dangerous or exciting
4. a business owned by two or more partners who share the profits and losses
5. the state of being unable to pay your debts
6. the act of spending things over a wide area
7. anything of economic value owned by a firm or an individual

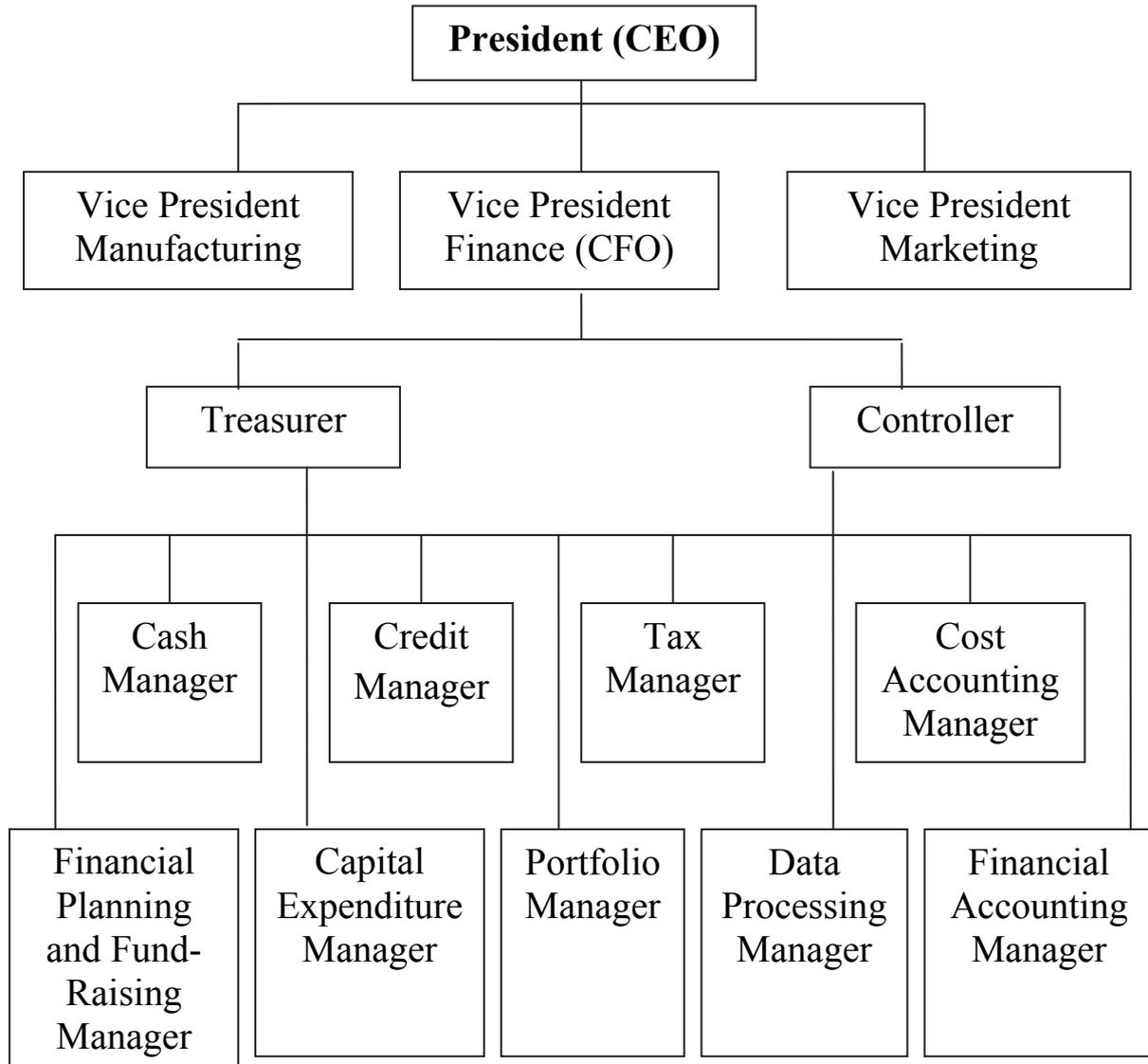
IX. Fill in the blanks with prepositions.

Managerial Finance Function

Most business plans and decisions are measured financial terms, and the financial manager consequently plays a key role in the operation the firm. The scope and importance of the managerial finance function depend the size of the firm. In small firm the finance function is commonly performed the accounting department, but as the firm grows, a separate department typically evolves. This department becomes headed by a vice-president finance with the title of chief financial officer (CFO) who reports directly the company president or chief executive officer (CEO). The placement of the firm's finance functions under one man, and in turn within one department, marks the significant transition from a small business a sizeable and maturing corporation.

The treasurer and the controller report directly to the CFO. The treasurer is responsible financial planning, cash management, capital expenditures, fund raising, credit management, and management the firm's investment portfolio. The controller is responsible for the firm's financial accounting and cost accounting, data processing, and tax management.

X. Look at the chart given below and using the information from the previous exercise speak about the organizational structure and the financial activities of a medium-size or larger corporation.



XI. Fill in the blanks with the most appropriate words from the list.

- | | |
|---------------|------------------|
| 1. analysis | 7. financial |
| 2. finance | 8. supplementary |
| 3. related | 9. guide |
| 4. flows | 10. insolvency |
| 5. data | 11. benefits |
| 6. accounting | 12. evaluates |

Finance and Its Relationship to Economics and Accounting

Since every business operates within the economy, the field of finance is closely to that of economics. The financial manager needs to be alert to the effects of variations in economic activity and changes in economic policies. He must also be able to use economic theory as a to operating efficiency of the firm. Examples of this include price theory, supply-and-demand, and profit-maximizing strategies. In his daily working, the financial manager makes frequent use of marginal analysis, the economic principle that financial decisions should be made only when added exceed added costs. A basic knowledge of micro-economics is therefore desirable.

The functions of finance and accounting are closely related and may at times overlap. Consequently the firm's finance and accounting activities are typically within the control of the CFO. Nevertheless, there are two quite basic differences between and accounting: one pertains to the method of funds recognition, and the other is related to decision making.

The function of the accountant is to develop and provide management with for measuring the firm's performance, assessing its financial position, and paying taxes. By working according to standardized principles accepted within the profession, the accountant prepares.... statements. One of these principles is called the accrual method. It recognizes income at the point of sale and recognizes expenses when incurred. On this basis, taxes are paid and a good overall view of the firm's performance can be gained. On the other hand, the financial manager must worry about the firm's solvency, i.e. having adequate funds on hand to satisfy operational needs. He therefore places primary emphasis on cash, the intake and outgo of cash. This is referred to as the cash method of recognizing income and expenses only when actual cash inflows and outgoes occur. The example shows that accrual accounting does not adequately describe a firm's circumstances. Consequently a financial manager must use supplementary statements to gain insight. Knowledge about cash flows enables him to avoid Accountants are of course aware of the significance of cash flows, but their

emphasis must be placed on the accrual method, whereas the financial manager relies on cash flow methods as well.

The essential difference between finance and accounting lies in the area of decision making. While the accountant works on the collection and presentation of financial data, the financial manager the accountant's statements, prepares supplementary data, and analyzes the totality of this material. On this basis he makes decisions about actions to be taken by the firm. The primary focus of is therefore distinctly different from that of finance. The accountant provides data and statements about the firm's past, present and projected future operations. The financial manager uses these data together with material in his decision-making process. The financial manager thereby moves closer to the activity of the general manager.

Reading Tasks

I. Answer the questions using the information from the text.

1. What is finance («corporate finance»)?
2. What is a financial manager responsible for?
3. What is a financial manager's overall objective?
4. What must financial managers do to reach this goal?
5. Into what do profits translate in proprietorships and partnerships?
6. Into what do profits translate in corporations?
7. What is cash flow planning?
8. Can idle funds become a profitable workhorse?
9. What are some sources of idle cash?
10. Is accurate information about current cash status enough for good cash management?

II. Mark these statements T (true) or F (false) according to the information in the text. Find the part of the text that gives the correct information.

1. Financial managers are responsible for planning and controlling a firm's output of goods and services.

2. Firms that do not plan their cash flows carefully may go bankrupt.
3. Any funds not needed immediately must be invested.
4. In corporations, profits translate into an increase in the owners' wealth.
5. A financial manager's overall objective is to collect funds.
6. Business need financial management.
7. Managers don't need to plan cash flows days, weeks, and months ahead of time.

III. Without looking back at the text, exchange its content with someone who read the text too.

Writing and Speaking Tasks

(To do Speaking Tasks see Language Bank, pages 262–272)

I. Write sentences with the following words.

Example: vital people / are among / on / the most / financial managers / the corporate scene

Financial managers are among the most vital people on the corporate scene.

1. a finance / one in three / nearly / have / banking background / or / chief executives
2. to invest / profitability / failure / reduces / surplus funds
3. means / risk / more / debt / more
4. seek / financial managers / to balance / with / the risks / financial returns
5. must / earnings / exceed / its costs / the company's
6. cash flow / requires / the management / careful planning / of a firm's

II. Write questions to the following answers.

1.
Possible job titles for high-ranking financial managers include vice president for finance and chief financial officer (CFO).

2.
An increase in a firm's cash on hand reduces the risk of unexpected cash needs.
3.
The financial manager strives to maximize the wealth of the firm's stockholders by striking a balance between risk and profitability.
4.
Balance between the risk of an investment and its potential gain is called risk-return trade-off.
5.
Most financial decisions involve trade-offs.
6.
Every financial manager must perform the risk-return balancing act, from small start-ups to huge multinational corporations.

III. Give reasons why, in the modern business world, effective financial decisions are increasingly important to organizational success.

IV. Explain the functions performed by the financial manager.

V. Describe the difference between finance and accounting in regard to emphasis on cash flow.

VI. Write the summary of the text.

VII. Check the summary of the text written by one of the students and if it is necessary comment on the mistakes.

VIII. Identify the background and experience needed by an individual in order to become a financial officer of a corporation.

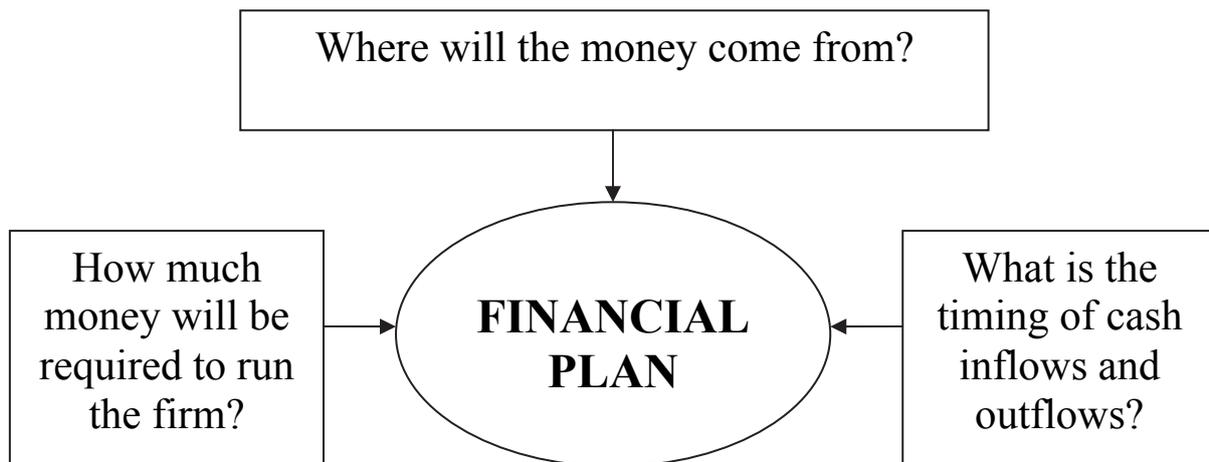
Text B: Financial Plan

In order to *determine* the best sources and uses of funds, financial managers develop the organization's **financial plan**, which indicates the funds needed by the firm for a specified period, the *timing* of *inflows* and *outflows*, and the most appropriate sources and uses of funds. It is based on *forecasts* of *production costs*, purchasing, and expected sales activities for the period covered. Financial managers use forecasts to determine the specific amounts and timing of *expenditures* and *receipts*. The financial plan is built on answers to three *vital* questions:

1. What funds does the firm require during the next period of operations?
2. How will the necessary funds be obtained?
3. When will more funds be needed?

The financial manager must consider these three questions carefully and then decide on the best sources of funds and how they should be used.

Some funds will be obtained through selling the firm's products or services. But funds are needed in different amounts at different times, and the financial plan must *reflect* both the amount and the timing of inflows and outflows of funds. Profitable firms often face a *financial squeeze* as a result of the need for funds when sales *lag*, when the volume of credit sales increases, or when customers are slow in making payments. Cash inflows and outflows of a business are similar to those in a household; the members of a household may depend on a weekly or monthly paycheck for funds, but their expenditures vary greatly from one pay period to the next. The financial plan should indicate when the flows of funds entering and leaving the organization will occur and in what amounts.



A good financial plan also involves *financial control*, a process that periodically checks *actual* revenues, costs, and expenses against the forecasts. If there are significant differences between *projected figures* and reality, it is important to catch them early in order to take corrective action. Financial controls can be highly specific in order to indicate particular divisions, departments, or even employees that are somehow *deviating* from the financial plan. Sometimes the firm's business practices can be changed in order to more closely meet the goals of the financial plan. At other times, the financial plan itself may need to be changed if it is unrealistic.

Vocabulary

determine	☞ визначати, встановлювати
financial plan	☞ фінансовий план
timing	☞ хронометрування, призначення часу, регулювання
inflow	☞ приплив, наплив
outflow	☞ витікання, втрата, зменшення
forecast	☞ прогнозування, передбачення
production costs	☞ витрати виробництва
expenditure	☞ витрата
receipt	☞ отримання, прихід, прибуток

vital	↪	істотний, основний, життєвий
reflect	↪	відобразити, відбивати
financial squeeze	↪	фінансове ускладнення, фінансова скрута
lag	↪	відставати
financial control	↪	фінансовий контроль
actual	↪	фактичний, дійсний, наявний
projected figures	↪	заплановані показники
deviate	↪	відхилятися

Reading and Speaking Tasks

(To do Speaking Tasks see Language Bank, pages 262–272)

- I. Make up questions covering the content of the text and let your fellow students answer them.**

- II. Having read the text, what you can now say about:**
 - financial plan;
 - financial control.

- III. Work with a partner who read the text to produce a summary of the text. You need only mention the important points.**

- IV. Describe how financial managers develop a plan to allocate funds.**

- V. Explain what roles forecasting plays in the functions performed by the financial manager.**

Unit Six

FIRM'S FINANCES

Text A: Short-Term and Long-Term Expenditures

Text B: Debt and Equity Capital

The unit aims to:

- **list the main kinds of financial outlays;**
- **name and describe short-term (operating) expenditures: accounts payable, accounts receivable and inventories;**
- **define long-term (capital) expenditures;**
- **explain the difference between short-term and long-term expenditures;**
- **explain why organizations need funds;**
- **describe the ways of cash management;**
- **identify debt capital;**
- **define equity capital.**

Warm-up activities

- Try to give brief explanations of the following terms: firms finances, short-term expenditures, long-term expenditures, accounts payable, accounts receivable, inventories, competitor, dealer, supplier.
- Why do organizations need funds?
- What is a credit policy?
- What types of inventories do you know?
- What are fixed assets?

Text A: Short-Term and Long-Term Expenditures

Every company needs money to survive. Failure to make payments to suppliers can lead to bankruptcy and the *dissolution* of the firm. To maximize company profits, financial managers must distinguish between two different kinds of financial *outlays*: *short-term (operating) expenditures* and *long-term (capital) expenditures*.

Short-term (operating) expenditures

Short-term expenditures are the expenditures *incurred* regularly in a firm's everyday business activities. To manage these expenditures, financial managers must pay special attention to *accounts payable*, *accounts receivable*, and *inventories*.

Accounts Payable are *unpaid bills* to *suppliers* for materials. In *drawing up* a financial plan, financial managers must pay special attention to accounts payable, for this is the largest single category of *short-term debt* for most companies. But financial managers must also rely on other managers for accurate information about the quantity of *supplies* that will be required in an upcoming period. They must also consider the time period in which they must pay various suppliers. For example, a financial manager for a magazine needs information from production manager about both the amount of ink and paper needed to print the magazine and when these supplies will be needed. *Obviously*, it is in the firm's interest to *withhold* payment as long as it can.

The longer it withholds payment, the longer it will have that cash available for investments or other uses.

Accounts Receivable are *amounts due* from customers who have purchased goods on credit. A sound financial plan also requires financial managers to project accurately both the amounts buyers will pay to the firm and when they will make these payments. Because they represent an investment in products on which the firm has not yet received payment, accounts receivable *temporarily* tie up some of the firm's funds. Clearly, it is in the firm's interest to receive payment as quickly as possible.

Given that it is in the self-interest of buyers to *delay* payment as long as possible, how can financial managers *predict* payment times? The answer lies in the development of a *credit policy* – the rules governing the *extension of credit* to customers. The credit policy sets standards as to which buyers are *eligible* for what type of credit. Financial managers extend credit to customers who have the ability to pay and honor their *obligations* to pay. They *deny* credit to firms with poor *repayment histories*. Information about such histories is available from many sources.

The credit policy also sets *payment terms*. For example, credit terms of «2/10; net 30» mean that the selling company offers a 2 percent *discount* if the customer pays within 10 days. The customer has 30 days to pay the regular price. Under these terms, the buyer would have to pay only \$980 on a \$1,000 *invoice* on days 1 to 10, but all \$1,000 on days 11 to 30. The higher the discount, the more *incentive* buyers have to pay early. Sellers can thus *adjust* credit terms to influence when customers pay their bills. Often, however, credit terms can be adjusted only *slightly* without giving *competitors* an *edge*.

Inventories. Between the time a firm buys raw materials and the time it sells finished products, it has funds tied up in inventory, materials and goods that it will sell within the year. There are three basic types of inventories: raw materials, work-in-process, and finished goods.

The supplies a firm purchases to use in its production process are its *raw materials inventory*. Levy Strauss's raw materials inventory includes *huge* rolls of *denim*. *Work-in-process inventory* consists of

goods part-way through the production process. Cut out but not yet sewn jeans are part of the work-in-process inventory at Levi's. The *finished-goods inventory* consists of those items ready for sale. Completed blue jeans ready for *shipment to dealers* are part of Levi's finished-goods inventory.

Failure to manage inventory can have *grave* financial *consequences*. Too little inventory of any kind can cost the firm sales. Too much inventory means that the firm has funds tied up that it cannot use elsewhere. In extreme cases, too much inventory may *force* a company to sell *merchandise* at low profits simply to obtain cash.

Long-term (capital) expenditures

In addition to needing funds to *cover* operating expenditures, companies also need funds to cover long-term expenditures on *fixed assets*. Fixed assets are items that have a lasting use or value, such as land, buildings, and machinery.

Because they are so *crucial* to business success, long-term expenditures are usually more carefully planned than are short-term expenditures. But long-term expenditures *pose* special problems for the financial manager because they differ from short-term expenditures in several ways. First, unlike inventories and other short-term assets, they are not normally sold or converted into cash. Second, their acquisition requires a very large investment. Third, they represent an ongoing tie-up of the company's funds. All these features influence the ways in which long-term expenditures are funded.

Vocabulary

dissolution	☞ розпуск, ліквідація
outlays (pl.)	☞ витрати
short-term (operating) expenditures	☞ короткострокові (експлуатаційні) витрати, витрати виробництва
long-term (capital) expenditures	☞ довгострокові (капітальні) витрати

incur	☞ зазнавати
accounts payable	☞ кредиторська заборгованість (сума)
accounts receivable	☞ дебіторська заборгованість (сума)
inventories	☞ товарно-матеріальні запаси
unpaid bill	☞ непогашений вексель
supplier	☞ постачальник
supplies (pl.)	☞ запас
draw up	☞ складати (документ)
short-term debt	☞ короткостроковий борг
obviously	☞ очевидно, безсумнівно
withhold	☞ утримуватися, відмовлятися
amount due	☞ належна сума
temporarily	☞ тимчасово
delay	☞ затримувати, відстрочувати
predict	☞ передбачати
credit policy	☞ кредитна політика
extension of credit	☞ надання кредиту
eligible	☞ прийнятний, бажаний
obligation	☞ зобов'язання
deny	☞ відмовляти
repayment history	☞ історія (картина) погашень
payment terms	☞ умови платежу
discount	☞ знижка, дисконт
invoice	☞ рахунок-фактура
incentive	☞ заохочувальний, спонукальний, стимулюючий
adjust	☞ узгоджувати, коректувати, регулювати
slightly	☞ трохи
competitor	☞ конкурент
edge	☞ перевага
raw materials inventory	☞ запас сировинних матеріалів
huge	☞ величезний, гігантський
denim	☞ груба бавовняна тканина

work-in-process inventory	↻	запас напівфабрикатів
finished-goods inventory	↻	запас готової продукції
shipment	↻	перевезення
dealer	↻	торговець, дилер, посередник
grave	↻	серйозний, тяжкий
consequence	↻	наслідок
force	↻	примушувати
merchandise	↻	товар
cover	↻	покривати
fixed assets	↻	основний капітал
crucial	↻	вирішальний
pose	↻	ставити

Vocabulary Tasks

I. Study the following words and phrases. Recall the sentences in which they are used in the text. Use them in sentences of your own.

Inventories; short-term debt; payment terms; credit policy; extension of credit; adjust; consequence; short-term (operating) expenditures; long-term (capital) expenditures; dealer; pose; work-in-process inventory; fixed assets; incur; merchandise; withhold; repayment history; temporarily; competitor; unpaid bill; dissolution; to give an edge; predict; outlays; raw materials inventory; invoice; amount due; supplier; supplies; obligation; crucial; incentive; obviously; shipment; slightly; grave; delay; huge rolls of denim; accounts payable; accounts receivable; cover; eligible; force; deny; finished-goods inventory; discount; draw up.

II. Replace the Ukrainian words and phrases by appropriate English equivalents. Translate the sentences.

1. Cash is continuously invested in (запас сировинних матеріалів, запас напівфабрикатів) and (запас готової продукції).

2. For many firms, such credit purchases – labeled (дебіторська заборгованість) on the firm’s financial statements – make up 15 to 20 percent of all assets.
3. Land owned by the firm is a (основний капітал) with an unlimited life.
4. (Довгострокові витрати) for a new plant or the cash purchase of another firm means that the funds used for these purposes cannot easily be converted to cash should a need for additional funds arise quickly.
5. In order to minimize the firm’s cash needs, the financial manager should (відстрочувати) the payment of bills as long as possible and collect money owed to the firm as quickly as possible.
6. The customer (утримувався) payment until the (постачальник) had delivered the materials.
7. House buyers usually have large initial (витрати) on furniture.
8. (Величезні) expenditures may cause the (ліквідація) of the firm.
9. Some funds must be held in the form of cash to (покривати короткострокові витрати).
10. The financial manager must (передбачати) the inflows and outflows of cash to determine what additional funds must be obtained at any given time.
11. The company (зазнала) debts of over \$ 300,000.
12. The safety procedures had been ignored, with potentially tragic (наслідки).

**III. Change the noun form into the verb and adjective forms.
You may want to use a dictionary.**

Example: term (n) – term (v) – terminable (adj)

Force, edge, dissolution, expenditure, receiver, delay, prediction, obligation, adjustment, competitor, finish, shipment, merchandise, cover.

IV. Complete the following sentences with the correct derivatives of the words in brackets.

1. They are trying to extend the on their mortgage. (terminable)

2. The high cost of borrowing is many companies to close.
(force)
3. Her objections to the plan began to (dissolution)
4. The work should be produced with minimum of time and money. (expend)
5. Economists are a fall in interest rates. (predictable)
6. We have had to make some to our original calculations.
(adjust)
7. Going to trade fairs is an ideal opportunity to size up the
(compete)
8. Ann has the over the other students, having spent a year in England. (edge)
9. If the product is properly , it should sell very well.
(merchandise)
10. You will have to pay an extra amount to the cost of insurance. (coverage)

V. For each word or phrase, write one which means the opposite.

Dissolution, revenues, accounts payable, paid bill, amount undue, permanently, deny credit, considerably, work-in-process inventory, current assets, crucial, unacceptable.

VI. Match these words as they occur in the text. Translate the phrases.

- | | |
|------------------------|--------------|
| 1. raw materials | a) products |
| 2. long-term (capital) | b) terms |
| 3. repayment | c) buyers |
| 4. finished | d) inventory |
| 5. accounts | e) policy |

- | | |
|-----------------------|-----------------|
| 6. dissolution of the | f) histories |
| 7. unpaid | g) receivable |
| 8. credit | h) expenditures |
| 9. incentive | i) consequences |
| 10. amounts | j) firm |
| 11. grave | k) due |
| 12. payment | l) bills |

VII. Choose the explanation for each of these words and phrases.

- | | |
|--|--|
| 1. short-term (operating) expenditures | a) unpaid bills to suppliers |
| 2. inventory | b) the supplies of farm and natural products purchased by a firm for use in its production process |
| 3. accounts payable | c) expenditures incurred regularly in a firm's everyday business activities |
| 4. long-term (capital) expenditures | d) amounts due from customers who have purchased goods on credit |
| 5. raw materials inventory | e) expenditures on fixed assets |
| 6. accounts receivable | f) materials and goods that are held by a company but will be sold within one year |
| 7. finished-goods inventory | g) the portion of a firm's inventory consisting of goods part-way through the production process |
| 8. work-in-process inventory | h) the portion of a firm's inventory consisting of completed goods ready for sale |

VIII. Find words and phrases in the text which mean:

1. to refuse to pay until some point of time
2. a person or firm supplying goods, materials, etc
3. someone who buys and sells a particular product

4. the conditions under which you agree to pay for something
5. a person, team, company etc. that is competing with another
6. the rules governing the extension of credit to customers
7. assets that have long-term use or value, such as land, buildings and equipment
8. use pressure or influence to get or do something
9. very serious and worrying
10. extremely large
11. reduction in the cost of goods or services
12. something that happens as a result of a particular action or set of conditions.

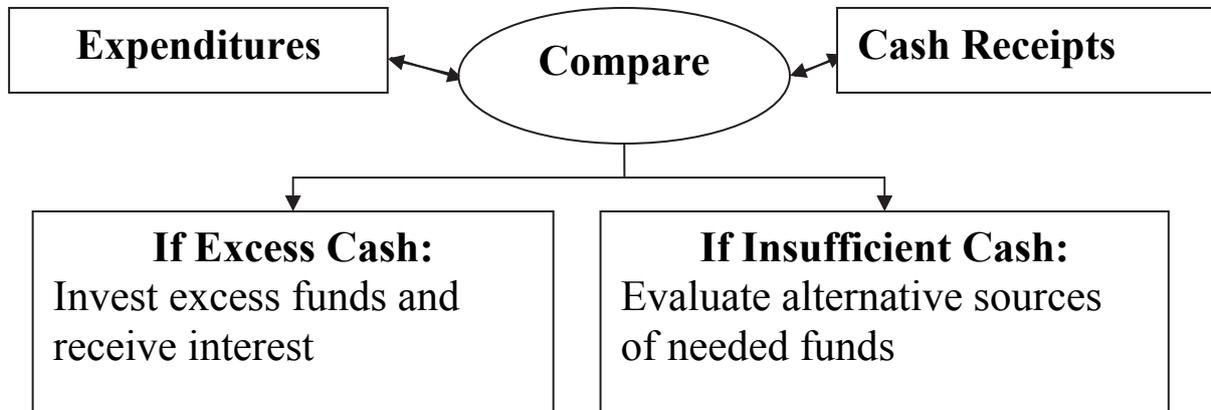
IX. Fill in the blanks with prepositions.

Why Organizations Need Funds

Organization require funds for dozen reasons. Some funds must be held the form of cash to meet day-to-day requirements. If the firm permits customers to make credit purchases, funds must be available to prevent cash deficiencies the time between the sale and the receipt of payment.

Inventory used in producing goods and services or stocked a retail store cost money. This money will not be recovered until the finished output is sold or the raw materials are converted finished products and sold. Other funds requirements include making interest payments loans; paying dividends to stockholders, and purchasing land, facilities, and equipment. The financial plan identifies the firm's specific cash needs and when they will be needed. Comparing these needs expected cash inflows from product sales, payments made by credit purchasers, and other sources will help the financial manager determine precisely what additional funds must be obtained any given time. If inflows exceed cash needs, the financial manager will invest the surplus to earn interest. On the other hand, if inflows do not meet cash needs, the financial manager will seek additional sources funds. The following chart illustrates this process.

Financial Planning and Decision Making



X. Fill in the blanks with the most appropriate words from the list.

- | | |
|--------------|----------------|
| 1. efficient | 6. interest |
| 2. bills | 7. outstanding |
| 3. funds | 8. cash |
| 4. computers | 9. dividends |
| 5. finances | 10. payments |

Financial Managers try to minimize the amount of held in the form of cash since it does not earn interest. However, some funds must be available each day in the firm's checking account to pay and to meet the payroll. Periodically, larger amounts of cash must be available to pay taxes, provide stockholders with (if the firm is a corporation), or make interest payments due on loans or mortgages. While the typical firm will use an interest-earning checking account for these funds, such accounts typically earn less than other investments.

The general principle underlying cash management is to minimize the amount ofrequired for businesses operations so that more can be used in interest-producing investments. In order to minimize the firm's cash needs, the financial manager should pay bills as late as possible and collect money owed to the firm as quickly as possible. These actions lead to cash management – as long as they do not damage the firm's credit rating or cost more than they save.

One of the least expensive ways for firms to manage themselves is by finding out where and how their cash is working for them. Banks are now selling desktop to larger companies, giving financial managers access to balances on bank accounts throughout the world. Excess funds that are not earning interest can be instantly moved elsewhere. Midsize companies use lock-boxes, which are essentially local addresses where customers can make Companies that receive large numbers of small checks can bypass banking delays caused by mailing this way. Still another new method of managing cash is the controlled disbursement account, a system that lets a firm know how many checks and in what amounts will clear what banks at what time. Firms can then keep funds invested until the minute checks clear.

Reading Tasks

I. Answer the questions using the information from the text.

1. Why does a company need money?
2. What can lead to bankruptcy and dissolution of the firm?
3. What are two different kinds of financial outlays?
4. What are short-term (operating) expenditures?
5. What are accounts payable?
6. Why is it the firm's interest to withhold payment as long as it can?
7. What are accounts receivable?
8. What is a credit policy?
9. In what cases do financial managers deny credit to firms?
10. What do payment terms determine?
11. What is inventory?
12. What is raw materials inventory?
13. What is work-in-process inventory?
14. What is finished-goods inventory?
15. What financial consequences can failure to manage inventory lead to?
16. What are long-term (capital) expenditures?
17. What are fixed assets?
18. Why do long-term expenditures pose special problems for the financial manager?

II. Mark these statements T (true) or F (false) according to the information in the text. Find the part of the text that gives the correct information.

1. It is in the firm's interest to pay bills as quick as possible.
2. Long-term expenditures are usually more carefully planned than are short-term expenditures.
3. Sellers can adjust credit terms slightly to influence when customers pay their bills.
4. Financial managers extend credit to all customers.
5. Companies need funds to cover only operating expenditures.
6. Long-term expenditures don't differ from short-term expenditures.
7. The largest single category of short-term debt for most companies is accounts payable.
8. Work-in-process inventory consists of items ready for sale.
9. Acquisition of fixed assets requires a very large investment.
10. Accounts receivable represent an investment in products on which the firm has not yet received payment.

III. Without looking back at the text, exchange its content with someone who read the text too.

Writing and Speaking Tasks

(To do Speaking Tasks see Language Bank, pages 262–272)

I. Write sentences with the following words.

Example: a great deal of / financial managers / attention to / of credit sales / devote / the efficient management

Financial managers devote a great deal of attention to the efficient management of credit sales.

1. converted / are not/ cash / into / normally / fixed assets
2. crucial / business success / to / are / capital expenditures

3. to cover / funds / companies / operating / expenditures / need / and / capital
4. firms / deny / with / repayment histories / poor / to / credit / financial managers
5. major / a / represents / dollar / inventory / investment
6. involves / the largest need / cash / for manufacturing firms / for / fixed assets / purchasing
7. unsold products / raw materials / and / tied up / in some / are / substantial funds
8. as / credit purchases / in / are called / accounts receivable / financial statements

II. Write questions to the following answers.

1.
For most firms – producers, wholesalers, and retailers – inventory requires considerable dollar investment.
2.
The financial plan identifies the firm's specific cash needs and when they will be needed.
3.
Day-to-day operating requirements call for funds to pay bills, meet payrolls, make interest payments, and pay taxes.
4.
Inventory in the form of raw materials, work in process, or finished goods requires considerable funds.
5.
When funds on hand exceed cash needs, the financial manager may choose to make a number of investments designed to earn interest.
6.
Major purchases of land, buildings, and equipment may involve sizable outlays of funds.
7.
Additional funds are tied up in accounts receivable if the firm allows customers to buy on credit.

8.
Most firms hold some inventory in order to satisfy customer demand quickly.

III. Describe how financial managers meet businesses' short-term needs for funds.

IV. Describe how financial managers meet businesses' long-term needs for funds.

V. Explain how the financial manager can generate additional revenue from excess funds.

VI. Identify the primary uses of cash in an organization.

VII. Speak about the basic principles underlying efficient cash management. What dangers exist if this principle is carried too far?

VIII. Write the summary of the text.

IX. Check the summary of the text written by one of the students and if it is necessary comment on the mistakes.

Text B: Debt and Equity Capital

So far we have focused on half of the definition of finance – the reasons organizations need funds and how they use them. But of equal importance to the firm's financial plan is the choice of the best sources of needed funds. Sources fall into two major categories: debt and equity. *Debt capital* represents funds obtained through borrowing. *Equity capital* consists of funds from several sources:

purchases of equipment, train a *work force*, make *lease payments* on buildings, and buy needed raw materials and *component parts*. Even established firms may not be able to generate sufficient funds from operations to cover all costs of a major expansion into new geographic areas or a significant investment in new equipment and facilities. In all of these instances, the financial manager must evaluate the potential *advantages* and *drawbacks* of seeking funds by borrowing.

The *alternative* to borrowing is equity capital, which may be raised in several ways. The financial manager's job includes determining the most cost-effective balance between equity and borrowed funds and the proper *blending* of short- and long-term funds.

In contrast to equity capital, which has no maturity date, debt capital has a specific date when it must be repaid. Lenders also have a *prior claim* on assets and a prior claim on income paid in the form of interest. Owners have only a *residual claim* on assets and income after lenders have been paid. Lenders, unlike owners, have no voice in the management of the firm unless interest payments have not been made.

Vocabulary

debt capital	☞ залучений капітал
equity capital	☞ власний капітал
contribution	☞ внесок
venture	☞ комерційне підприємство
share of ownership	☞ право власності на акції
stock issue	☞ випуск акції
plow (back)	☞ капіталізувати (прибуток), перетворювати в капітал
portion	☞ частка, доля
generate	☞ викликати, породжувати, створювати
operating revenues	☞ доходи від основної діяльності
rental	☞ орендна плата
emphasize	☞ підкреслювати, наголошувати
bonus	☞ бонус, винагорода, премія

distribute	↻	розподіляти, роздавати
annual earnings	↻	річний дохід
mature	↻	високорозвинений, зрілий
maturity	↻	строк (платежу)
sufficient	↻	достатній
extra funds	↻	додаткові фонди
work force	↻	робоча сила, трудовий ресурс
lease payments	↻	оплата оренди
component parts	↻	складові частини
advantage	↻	перевага, вигода
drawback	↻	недолік, перешкода
alternative	↻	вибір, альтернатива
blend	↻	змішувати, сполучати
prior	↻	попередній
claim	↻	вимога, заява
residual claim	↻	залишена частка вимог

Reading and Speaking Tasks

(To do Speaking Tasks see Language Bank, pages 262–272)

I. Make up questions covering the content of the text and let your fellow students answer them.

II. Complete the table given below using the information from the text.

Comparing Debt and Equity Capital

Factor	Debt	Equity
Maturity	Has a specific date when it must be repaid.

Claim on assets	Stockholders have claims only after claims to lenders have been paid.
Claim on income	Lenders have prior claim on a fixed amount of interest, which must be paid before dividends can be paid to stockholders. Interest payments are a contractual obligation of the borrowing firm.
Right to a voice in management	Stockholders are the owners of the company, and most are given a voice in the operation of the firm.

III. Having read the text, what you can now say about:

- debt capital;
- equity capital.

IV. Work with a partner who read the text to produce a summary of the text. You need only mention the important points.

V. Distinguish between debt capital and equity capital on the basis of maturity, claim on assets, claim on income, and right to a voice in management. Use the information from Exercise II.

Unit Seven

SOURCES OF FUNDS

Text A: Sources of Short-Term and Long-Term Funds

Text B: Financial Management for Small Businesses

The unit aims to:

- **list short-term sources of funds;**
- **describe the most common forms of trade credit;**
- **distinguish between secured and unsecured loans;**
- **define commercial paper;**
- **identify factoring accounts receivable;**
- **determine the primary sources for long-term financing;**
- **explain what debt and equity financing is;**
- **describe the difference between common and preferred stocks;**
- **define retained earnings;**
- **explain what venture capital is;**
- **outline the main sources of funds for small businesses.**

Warm-up activities

- Why to give brief explanations of the following terms: trade credit, secured and unsecured loans, factoring, bond, stock, earning, default, maturity date.
- What sources of short-term or long-term funding do you know?
- What is the difference between common and preferred stock?

Text A: Sources of Short-Term and Long-Term Funds

Part I. Sources of Short-Term Funds

Firms can call on many short-term sources for the funds they need to finance day-to-day operations and to *implement* short-term plans. These sources include *trade credit*, *secured* and *unsecured loans*, *commercial paper*, and *factoring accounts receivable*.

Trade Credit

Accounts payable are not *merely* an expenditure. They are also a source of funds to the company, which has the use of both the product purchased and the price of the product until the time it pays its bill. Trade credit, the granting of the credit by one firm to another, is thus effectively a *short-term loan*.

The most common forms of trade credit are *open-book accounts*, *promissory notes*, and *trade drafts* and *trade acceptances*. Open-book credit is essentially a «gentlemen's agreement». It is form of trade credit in which sellers ship merchandise on *faith* that payment from the buyer will be *forthcoming*.

A promissory note is a form of trade credit in which a buyer signs a promise-to-pay agreement before the merchandise is shipped. A trade draft is a form of trade credit in which the seller draws up a *statement of payment terms* and *attaches* it to the merchandise. The

buyer must sign this agreement to take possession of the merchandise. A trade acceptance is a trade draft that has been signed by the buyer.

Secured Short-Term Loans

For most firms, bank loans are a very important source of short-term funding. Such loans almost always involve a promissory note in which the borrower promises to repay the loan plus interest. In secured loans, banks also require the borrower to *pledge collateral* – that is, to give the bank the right to *seize* certain assets if payments are not made as promised.

Perhaps the biggest disadvantage of secured borrowing is the paperwork and administrative costs involved. Agreements must be written, collateral must be evaluated, and the terms of the loans must be *enforced*. But secured loans do enable borrowers to get funds when they might not *qualify* for unsecured credit. In addition, secured loans generally carry lower interest rates than unsecured loans.

Unsecured Short-Term Loans

Not all loans require businesses to *put up* collateral. With an unsecured loan, the borrower does not have to put up any collateral. However, in many cases, the bank requires the borrower to *maintain a compensating balance*. That is, the borrower must keep a portion of the loan amount on deposit with the bank in a *non-interest-bearing account*. Requiring a compensating balance lets the bank raise the borrower's real cost of the loan and thus the bank's profit.

The terms of an unsecured loan – amount, *duration*, interest rate, and *payment schedule* – are negotiated between the bank and the borrowing firm. Thus, to receive an unsecured loan from a bank, a firm usually must have established a good banking relationship with the lender. Once an agreement is made, a promissory note will be *executed* and the funds transferred to the firm. Although some short-term unsecured loans are one-time-only arrangements, many take the form of *lines of credit* or *revolving credit agreements*.

Lines of Credit. A *standing agreement* between a bank and a firm in which the bank promises to lend the firm a maximum amount of funds *on request* is called a line of credit. With a line of credit, the firm knows the maximum amount it will be allowed to borrow. The bank does not guarantee that the funds will be available when requested, however.

Revolving Credit Agreements. Revolving credit agreements are similar to bank credit cards for consumers. Under a revolving credit agreement, a lender agrees to make some amount of funds available on demand to a firm on a *continuing* basis. The lending institution *guarantees* that these funds will be available when *sought* by the borrower. In return for this guarantee, the bank charges the borrower a *commitment fee* for holding open the line of credit, even if the customer does not borrow any funds.

Commercial Paper

Some firms can raise funds *in the short run* by issuing commercial paper. But commercial paper is backed solely by the issuing firm's promise to pay. For this reason, issuing commercial paper is an option for only the largest and most creditworthy firms.

How does commercial paper work? Corporations issue commercial paper with a certain face value. Companies that buy commercial paper pay less than that value. At the end of a specified period (usually 30 to 90 days, but legally up to 270 days), the issuing company buys back the paper – at the face value. The difference between the price paid and the face value is the buyer's profit.

Commercial paper offers those few corporations able to issue it several advantages. Its cost is usually lower than *prevailing* interest rates on short-term loans. It also gives the issuing company access to a wide range of lenders, not just financial institutions.

Factoring Accounts Receivable

A firm can raise funds rapidly by factoring – selling the firm's accounts receivable. In this process, the purchaser of the receivables,

usually a financial institution, is known as the *factor*. The factor pays some percentage of the full amount of receivables due to the selling firm. The seller gets this money immediately.

Part II. Sources of Long-Term Funds

Just as firms need short-term funding to cover their short-term expenditures, so they need long-term funding to finance their long-term expenditures on fixed assets. Firms need funds for the buildings and equipment necessary for conducting their business. Companies may seek long-term funds from outside the firm (*debt financing*), or they may draw on internal financial sources (*equity financing*).

Debt Financing

Long-term borrowing from outside the company – debt financing – is a major component of most firms' long-term financial planning. The two primary sources of such funding are *long-term loans* and the sale of *corporate bonds*.

Long-Term Loans. In many respects, a long-term loan is very much like a short-term loan. The major difference is that a long-term loan extends for three to ten years, while short-term loans generally must be paid off in a few years or less. Most corporations get their long-term loans from a commercial bank, usually one with which the firm has developed a long-standing relationship. But credit companies, insurance companies, and pension funds also grant long-term business loans.

Long-term loans are attractive to the borrowing companies for several reasons. First, because the number of parties involved is limited, long-term loans can often be arranged very quickly. Second, the firm need not make a public *disclosure* of its business plans or the purpose for which it is acquiring the loan. Third, the duration of a long-term loan can easily be matched to the borrower's needs. Finally, if the firm's needs change, long-term loans usually contain clauses making it possible to change the loan's terms.

Long-term loans also have some disadvantages. Borrowers of large sums may have trouble finding lenders to supply the needed funds. Long-term borrowers also may have restrictions placed on them as conditions of the loan. They may have to pledge long-term assets as collateral. And they may have to agree not to take on any more debt until the borrowed funds are repaid.

The interest rate on long-term loans is negotiated between the borrower and the lender. Loans from banks usually have a *floating rate* that is tied to the prime rate. The *prime rate* is the interest rate the bank charges its most creditworthy customers. A company that obtains a loan at «one percent above prime» pays an interest rate that is one percentage point higher than the prime rate. This rate may *fluctuate* because the prime rate itself goes up and down as market conditions change.

Corporate Bonds. Like commercial paper, a corporate bond is a contract – a promise by the issuing company or organization to pay the holder a certain amount of money on a specified date. Unlike commercial paper, however, bond issuers do not pay off quickly. In many cases, bonds may not be redeemed for 30 years from the time of issue. In addition, unlike commercial paper, most bonds pay the bondholder a *stipulated sum* of interest semiannually or annually. If the company fails to make a bond payment, it is said to be in *default*.

The terms of a bond, including the amount to be paid, the interest rate, and the *maturity date* (when the *principal* is to be paid off), differ from company to company and from issue to issue. They are spelled out in the bond contract, or bond *indenture*. The indenture also identifies which of the firm's assets, if any, are pledged as collateral for the bonds.

In addition to planning the types of bonds to sell, financial managers must plan for the *retirement of these bonds* – that is, how the borrowed funds will be repaid.

Corporate bonds are the major source of long-term debt financing for most corporations. These bonds are attractive when companies need large amounts of funds for long periods of time. The issuing company gets access to large numbers of lenders through nationwide bond markets and stock exchanges.

But bonds involve expensive administrative and selling costs. They also may require very high interest payments if the issuing company has a poor credit rating.

Equity Financing

Although debt financing has strong appeal in some cases, turning inside the company for long-term funding preferable under other circumstances. In small companies, the founders may increase their personal investment in the firm. In most cases, however, equity financing takes the form of issuing *common stock* or of *retaining* the firm's *earnings*. As you will see, both options involve putting the owners' capital to work.

Public Sales of Stock

The sale of stock, both *preferred* and common, to the general investor public represents a major source of equity funds for corporations. Such sales provide cash inflows for the firm and a share in ownership for the stock purchasers. Stocks are shares of ownership in the corporation, and stockholders are considered the real owners of the firm. However, they are not guaranteed dividend payments. Stockholders receive dividends only after a firm's bondholders are paid; and even then, dividend payments must be decided by the firm's board of directors. Since the stock of many corporations is traded on organized security exchanges, stockholders can easily sell their shares.

Common stock. People who purchase common stock seek profit in the forms of both dividends and *appreciation*. Overall, shareholders hope for an increase in the market value of their stock because the firm has profited and grown. By selling shares of stock, the company gets the funds it needs for buying land, buildings, and equipment.

It should be noted that the use of equity financing via common stock can be expensive because paying dividends is more expensive than paying bond interest. Why? Because interest paid to bondholders is a business expense and, hence, a *tax deduction* for the firm. Stock dividends are not tax-deductible.

Retained Earnings. Another approach to equity financing is the use of retained earnings. Retained earnings are profits not paid out in dividends. The use of retained earnings means that the firm will not have to borrow money and pay interest on loans or bonds.

A firm that has a history of eventually reaping much higher profits by successfully reinvesting retained earnings may be very attractive to some investors. However, more retained earnings means smaller dividends paid to shareholders, which may decrease the demand for – and thus the price of – the company’s stock.

Financial Burden on the Firm. If equity funding can be so expensive, why don’t firms rely entirely on debt financing? Because long-term loans and bonds carry fixed interest rates and represent a fixed promise to pay, regardless of changes in economic conditions. If the firm defaults on its obligations, it may lose its assets and even go into bankruptcy.

When borrowers increase their *indebtedness* to make other investments, they are said to be more highly *leveraged*, and they have a higher risk of default.

Because of the risk of default, debt financing appeals most strongly to companies in industries that have predictable profits and cash flow patterns. The additional source of equity financing is *venture capital*. Venture capital refers to funds invested by outside investors in new, small, or struggling businesses with potential for rapid growth in exchange for an ownership share in the business.

Hybrid Financing: Preferred Stock

A middle ground between debt financing and equity financing is the use of preferred stock. Preferred stock is a hybrid because it has some of the features of corporate bonds and some of the features of common stocks. As with bonds, payments on preferred stock are for fixed amounts – for example, \$ 6 per share per year. Unlike bonds, however, preferred stock never matures but can be held indefinitely, like common stock. In addition, preferred stocks have first rights (over common stock) to dividends.

A major advantage of preferred stock to the issuing corporation is its flexibility. Because preferred stockholders have no voting rights, preferred stock secures funds for the firm without *relinquishing* control. Furthermore, preferred stock does not require repayment of principal or the payment of dividends in *lean times*.

Vocabulary

short-term funds	☞	короткостроковий капітал
long-term funds	☞	довгостроковий капітал
implement	☞	виконувати, здійснювати
trade credit	☞	торговий кредит
secured loan	☞	забезпечена позика, позика під заставу
unsecured loan	☞	незабезпечена позика
commercial paper	☞	комерційний вексель
factoring accounts receivable	☞	факторинг дебіторської заборгованості
merely	☞	тільки, просто
short-term loan	☞	короткострокова позика
open-book account (credit)	☞	кредит по відкритому рахунку
promissory note	☞	простий вексель
trade draft	☞	торгова тратта (переказний вексель)
trade acceptance	☞	акцептований торговий вексель
faith	☞	віра, довіра
forthcoming	☞	майбутній
statement of payment terms	☞	заява про умови платежу
attach	☞	надавати, прикріплювати
pledge	☞	віддавати під заставу, заставляти
collateral	☞	додаткове забезпечення
seize	☞	конфіскувати
enforce	☞	наполювати, добиватися

qualify (for)	☞ розглядати, називати, отримувати
put up	☞ віддавати під заставу
maintain	☞ зберігати, підтримувати
compensating balance	☞ компенсаційний баланс
non-interest-bearing account	☞ безпроцентний рахунок
duration	☞ тривалість
payment schedule	☞ план (графік) платежу
execute	☞ виконувати, здійснювати
line of credit	☞ кредитна лінія
revolving credit agreement	☞ угода автоматично відновлюючого кредиту, револьверного акредитиву
standing agreement	☞ постійна угода, довготривала угода
on request	☞ на прохання, на вимогу
continuing	☞ безперервний
guarantee	☞ гарантувати; гарантія
seek (sought)	☞ шукати
commitment fee	☞ комісійні за зобов'язання надати кредит
in the short run	☞ незабаром, невдовзі
prevailing	☞ переважний
factoring	☞ факторинг, факторні операції (перепродаж права на стягнення боргів)
factor	☞ комісіонер, агент, посередник
debt financing	☞ фінансування шляхом отримання позик
equity financing	☞ фінансування шляхом залучення власних коштів, випуску нових акцій
long-term loan	☞ довгострокова позика
corporate bond	☞ корпоративна облігація
disclosure	☞ викриття
floating rate	☞ плаваючий курс (ставка)

prime rate	↻	«прайм рейт», базисна ставка
fluctuate	↻	коливатись
stipulated sum	↻	обумовлена сума
default	↻	невиконання зобов'язань, несплата
maturity date	↻	дата погашення (облігації)
principal	↻	сума боргу, на яку нараховується процент
indenture	↻	угода між компанією та її акціонерами
retirement of bonds	↻	погашення облігацій
common stock	↻	звичайна акція
retained earnings	↻	нерозподілений прибуток
preferred stock	↻	привілейована акція
appreciation	↻	підвищення в ціні
tax deduction	↻	податкова пільга
indebtedness	↻	сума боргу, заборгованість
leverage	↻	використання засобів займу
venture capital	↻	венчурний капітал, вкладання капіталу з ризиком
relinquish	↻	відмовлятися від
lean times	↻	важкі часи

Vocabulary Tasks

I. Study the following words and phrases. Recall the sentences in which they are used in the text. Use them in sentences of your own.

Short-term funds; statement of payment terms; maturity date; commitment fee; duration; forthcoming; principal; standing agreement; unsecured loan; indebtedness; collateral; line of credit; enforce; retained earnings; commercial paper; floating rate; payment schedule; prime rate; open-book account (credit); seize; tax deduction; pledge; factoring accounts receivable; factor; put up; retirement of bonds; long-term funds; debt financing; guarantee; implement; long-term

loan; default; secured loan; equity financing; on request; promissory note; revolving credit agreement; qualify; merely; non-interest-bearing account; corporate bond; trade draft; indenture; execute; attach; appreciation; faith; trade acceptance; disclosure; preferred stock; in the short run; compensating balance; relinquish; prevailing; common stock; continuing; lean times; maintain; fluctuate; factoring; venture capital; short-term loan.

II. Replace the Ukrainian words and phrases by appropriate English equivalents. Translate the sentences.

1. When sellers want more reassurance, they may insist on legally binding written documents: (прості векселі).
2. (Короткострокові джерела фондів) typically finance current needs for cash or inventory at times when cash requirements exceed available funds.
3. Most firms not only sell on credit, they also buy on credit, or (кредит по відкритому рахунку).
4. The presence of a (кредитна лінія) speeds the borrowing process for both the bank and the borrowing firm because the bank does not have to reexamine the firm's creditworthiness each time it borrows money.
5. Firms with excess funds often purchase (комерційний вексель) in order to earn interest.
6. For small companies, (забезпечені позики) are the only source of (короткостроковий капітал).
7. Although (факторинг) is an expensive method of raising short-term funds, it is often used in retailing because it reduces the need for major record keeping and for maintaining a collection department.
8. The uncertain nature of (довгострокові позики) can make it difficult to finance high-risk ventures.
9. Issuing (облігації) to raise money is generally reserved only for larger companies with regional or national reputations.
10. (Фінансування шляхом залучення власних коштів) differs from (фінансування шляхом отримання позик) in that there is no (дата погашення) for repayment.

11. The key to managing (використання засобів займу) is ensuring that the company's earnings are larger than the interest payments, which increases the leverage on the rate of return on the stockholders' investments.
12. Secured loans require the borrower to (віддавати під заставу додаткове забезпечення) such as accounts receivable or inventory.

III. Change the noun form into the verb and adjective forms. You may want to use a dictionary.

Example: security (n) – secure (v) – secure (adj)

Commerce, promise, note, statement, enforcement, compensation, interest, qualification, execution, continuation, commitment, floatation, rate, bond, stock, venture, preference, appreciation, deduction, standing, tax, profit.

IV. Complete the following sentences with the correct derivatives of the words in brackets.

1. Our top priorities must be profit and growth. (**commerce**)
2. The company us a bonus last month. (**promise**)
3. The on the loan is 16,5 % per year. (**interest**)
4. Britain the pound on the foreign exchange market. (**floatation**)
5. Our money was running out at alarming (**rate**)
6. The contract him to playing for the team for the next three years. (**commitment**)
7. He decided to sell his in Allied Chemicals. (**stock**)
8. A commercial is a new business activity that involves taking risks. (**venture**)
9. Many people living in cities would actually to live in the country. (**preference**)
10. Cigarettes are heavily in Britain. (**tax**)

V. For each word or phrase, write one which means the opposite.

Long-term funds, secured loans, short-term loan, buyer, lender, advantage, agreement, higher interest rates, interest-bearing account, short-term agreement, minimum amount, forbid, insolvent firm, undue, long-term expenditures, debt financing, to grant, attractive, concealment, prime rate, common stock, distributed earnings, to purchase stock, to meet obligations, predictable cash flow patterns; slow growth, definitely.

VI. Match these words as they occur in the text. Translate the phrases.

- | | |
|-----------------------|---------------|
| 1. line of | a) note |
| 2. factoring accounts | b) indenture |
| 3. promissory | c) agreement |
| 4. revolving credit | d) fee |
| 5. venture | e) firm |
| 6. bond | f) credit |
| 7. commitment | g) collateral |
| 8. stipulated | h) receivable |
| 9. creditworthy | i) earnings |
| 10. face | j) capital |
| 11. to pledge | k) value |
| 12. retained | l) sum |

VII. Choose the explanation for each of these words and phrases.

- | | |
|-------------------|--|
| 1. unsecured loan | a) the contract spelling out all the terms of the bond, including the principal amount, the interest rate, and the maturity date |
| 2. corporate bond | b) long-term borrowing financed from sources outside the company |
| 3. bond indenture | c) the use of borrowed funds to finance an investment |

-
- | | |
|----------------------|--|
| 4. factoring | d) short-term sources of borrowed funds for which the borrower does not pledge any assets as collateral |
| 5. debt financing | e) the use of common stock and/or retained earnings to raise money for long-term expenditures; involves putting the owners' capital to work |
| 6. trade credit | f) a bond in which the issuing company pays the holder a certain amount of money on a certain date, with stated interest payments in the interim |
| 7. leverage | g) a method of short-run financing in which large, stable companies issue unsecured notes at a certain face value, sell them for less than the face value, then buy them back at the face value at a later date |
| 8. equity financing | h) a standing agreement between a bank and a firm in which the bank promises to lend the firm a maximum amount of funds on request. The bank will not necessarily have the funds to lend when they are needed, however |
| 9. line of credit | i) selling a firm's accounts receivable to another company |
| 10. commercial paper | j) short-term source of funds resulting from purchases made on credit or open account |

VIII. Find words and phrases in the text which mean:

1. an asset pledged by a borrower; in the event of nonpayment of the loan, the lender has the right to seize the asset;
2. shares of ownership in a corporation;
3. the way in which a bond is paid off;
4. financial institution that purchases accounts receivable at a discount from retailers;
5. certificate of indebtedness sold to raise long-term funds for corporations or government agencies;

6. location at which stocks and bonds are bought and sold;
7. the interest rate that a bank charges its most creditworthy customers;
8. stock that provides owners preferential dividend payment and first claim to assets after debts are paid, but seldom includes voting rights;
9. the failure to meet a financial obligation;
10. guaranteed line of credit;
11. to change very often from a high level to a low one and back again;
12. an increase in the value of an asset;
13. tax benefit;
14. an amount of money lent, put into a business, on which interest is paid.

IX. Fill in the blanks with prepositions.

Inventory Loans

A firm's inventory may be a sufficiently valuable asset to act as collateral a loan. When a loan is made with inventory as collateral, the lender lends the borrower some portion the stated value of the inventory.

The attractiveness of inventory as collateral for a loan depends how much real security it gives for the loan amount. If the inventory can be converted cash easily, it is relatively more valuable as collateral. In general, a firm's work-in-process inventory is the most difficult to convert to cash and thus least valuable as collateral. Boxes full expensive, partially completed lenses for eyeglasses, for example, are of little value on the open market. Inventory that is easily transported makes better collateral than inventory that is difficult to move. Finally, inventory that is easily identified and controlled also makes better collateral. One thousand crates of canned tomatoes that are tagged and isolated other foods would be better collateral than one thousand boxes of assorted canned goods.

The main drawback with inventory as collateral arises when the borrower is a relatively poor credit risk. One bank lent money a salad dressing firm using drums of salad oil as collateral. When the firm defaulted its loan, the bank found to its chagrin that the drums contained mostly water with oil only on the top – the inventory collateral had disappeared!

X. Fill in the blanks with the most appropriate words from the list.

- | | |
|---------------|---------------|
| 1. confident | 6. secured |
| 2. seize | 7. accounts |
| 3. collateral | 8. bonds |
| 4. loan | 9. receivable |
| 5. assets | 10. pledged |

Accounts receivable can be used as collateral for a, a process called pledging accounts receivable. In the event of nonpayment, the lender may the receivables. If these assets are not enough to cover the loan, the borrower must make up the difference.

Not all lenders will accept a firm's accounts as collateral. Those who do are typically financial institutions with credit departments capable of evaluating the quality of the firm's receivables. Only if the lender is that the risk of the firm's debtors' not paying is acceptably low will the loan be granted.

Using accounts receivable as is especially important to service companies such as accounting firms and law offices. These firms do not have inventories to offer as collateral. Accounts receivable are their main sources of collateral for getting loans.

Most businesses have other types of assets that can be as collateral. A few businesses own marketable securities, such as stocks or of other companies, that can serve as collateral. Many more own fixed assets such as land, buildings, and equipment that can be used as collateral. But fixed are usually used to secure long-term – not short-term – loans. It is easy to see, then, why most short-term business borrowing is secured by receivable and inventories.

Reading Tasks

I. Answer the questions using the information from the text.

1. What are five short-term sources of funds for financing day-to-day operations?
2. What are the most common forms of trade credit?
3. What are the advantages and disadvantages of secured and unsecured loans?
4. What is commercial paper?
5. How do you define factoring accounts receivable?
6. What are the primary sources for long-term financing?
7. What is debt financing?
8. In what ways do the two sources for debt financing differ from each other?
9. What is equity financing?
10. How does common stock differ from preferred stock?
11. What are retained earnings?
12. What is venture capital?

II. Mark these statements T (true) or F (false) according to the information in the text. Find the part of the text that gives the correct information.

1. Accounts payable are not a source of funds to the company.
2. Unsecured loan is a loan in which the borrower is required to put up collateral.
3. Selling commercial paper can be an important source of funds for large and creditworthy firms attempting to raise money.
4. Factoring can make it easier for a small business to get started.
5. Long-term loans are not attractive to the borrowing companies.
6. In exchange for funds the venture capitalist receives shares of the corporation's stock and becomes a part-owner of the corporation.
7. The use of retained earnings means that the firm will have to borrow money and pay interest on loans or bonds.
8. Commercial banks make short-terms loans on the basis of previous experience in dealing with the firm and the firm's credit reputation.

9. Long-term loans generally cost more than short-term loans since they involve greater uncertainty about the future.
10. Equity capital includes the use of long-term loans or the issuing of bonds.
11. Open-book credit typically involves a formal contract.
12. A revolving credit agreement is not a guaranteed line of credit.

III. Without looking back at the text, exchange its content with someone who read the text too.

Writing and Speaking Tasks

(To do Speaking Tasks see Language Bank, pages 262–272)

I. Write sentences with the following words.

Example: long-term / and / uses / debt financing / corporate / loans / bonds

Debt financing uses long-term loans and corporate bonds.

1. issue / some / paper / commercial / large firms
2. the proper mix / must / debt / and / equity / financial planners / choose / of / preferred stock funding
3. strategy / the list risky / is / most expensive / equity financing / of / the use / and
4. are available / as well as / lines of credit / to / individuals / businesses
5. promissory notes / most / a maturity / have / 30 to 90 days / of
6. be repaid / one year / must / sources of funds / within / short-term
7. that / accounts receivable / are factored / at a discount / are sold
8. overreliance / reduces / on / management flexibility / borrowed funds / in future decisions
9. accounts receivable / sell / retailers / and / furniture / of / appliances / factors / to
10. funds / long-term / from / be obtained / may / or / debt capital / equity financing

II. Write questions to the following answers.

1.
To finance their short-term expenditures, firms rely on credit extended by suppliers (trade credit) and on secured and unsecured loans.
2.
The credit terms are stated on the supplier's invoice, or bill, which accompanies the shipment.
3.
The three types of unsecured short-term loans made by commercial banks are promissory notes, lines of credit, and revolving credit agreements.
4.
Because commercial paper is unsecured – backed by only the reputation of the issuing firm – only very large firms with unquestioned financial stability are able to issue and sell it.
5.
Issuing commercial paper to raise funds is usually 1 or 2 percent cheaper than borrowing short-term funds from a bank.
6.
Selling the accounts receivable to a factor means every sale is a «cash» sale and the firm is freed from the necessity of collecting payments from customers.
7.
Factors make profits by paying less for the accounts receivable than their face value, so businesses pay a high price for using this approach.
8.
Long-term loans are made by financial institutions such as commercial banks, insurance companies, and pension funds.
9.
The corporate bond is issued according to the terms of a legal contract called the bond indenture, which contains the provisions of the loan: amount, interest rate, and maturity date.

- 10.....
Raising needed cash by borrowing allows the firm to benefit from the principle of leverage – a technique of increasing the rate of return on investment through the use of borrowed funds.
- III. Identify five sources of short-term financing for businesses.**
- IV. Distinguish between the various sources of long-term financing and the financial risks involved with each type.**
- V. Write the summary of the text.**
- VI. Check the summary of the text written by one of the students and if it is necessary comment on the mistakes.**
- VII. If you were the financial manager of a large firm, what type(s) of short-term funding would you use most? Least? Why?**
- VIII. How would you decide on the best mix of debt, equity, and preferred stock for a company?**
- IX. How might you use financial management in your personal life?**
- X. Explain how trade credit is used in financing expenditures. Is trade credit considered short-term or long-term financing?**
- XI. Are you a proponent or critic of foreign investment (venture capital) in Ukrainian firms? Defend your position.**
- XII. Choose a business you would like to start. What short-term and long-term sources of funding would be needed? Why? Discuss what business needs are served by each source of funding.**

XIII. Interview the owner of a small local business. Identify the types of short-term and long-term funding used by the firm. Determine the reasons behind these financial management decisions.

Text B: Financial Management for Small Businesses

New business failures are often caused by *inadequate funding*. One study of nearly 3,000 new companies found the *survival rate* to be 84 percent for new businesses. Those with lower *initial funding* have a lower survival rate. *Entrepreneurs* often *underestimate* the value of establishing bank credit as a source of funds and do not use trade credit effectively. They often do not consider venture capital as a source of funding, and they are *notorious* for not planning their cash flow requirements properly.

Establishing Bank Credit and Trade Credit

Obtaining credit begins with choosing a bank that can support the small firm's financial needs. Banks differ greatly in their willingness to *assume* risk, ability to give professional advice, *loyalty* to customers, and maximum size of loans offered. Some have liberal credit policies and offer financial analysis, cash flow planning, and suggestions based on their experiences with other local small businesses. Some provide loans to small businesses in bad times and work to keep them going. But some do not.

Credit seekers must be prepared to show they are worthy of the bank's help. A sound financial plan, a good credit history, and proven capability on the part of the entrepreneur can all *convince* bankers and other potential financiers that the business can succeed.

Once a line of credit is obtained, the small business can attempt to secure more liberal credit policies from other businesses. Sometimes suppliers will give customers longer credit periods, such as 45 or 60 days rather than 30 days. Such liberal trade credit terms with suppliers let the firm increase its short-term funds and avoid additional borrowing from banks.

Venture Capital As a Source of Funds

Many newer businesses, especially those that are growing rapidly, are hard-pressed to obtain the funds they need through borrowing alone. Venture capital is an alternative source of equity funds in which outside capital is obtained in return for part ownership of the firm. Venture capital firms are always looking for opportunities to invest in new and growing firms. Because the failure rates of new businesses pose high risks, venture capitalists demand higher returns.

On the international front, however, the *trend* is toward greater venture capital participation. In 1989, for example, for the first time ever, more venture capital was invested in Europe than in the United States. The *gap* widened in 1992 when the European market became the world's largest. In *the Pacific Rim countries* of Korea, Taiwan, Singapore, and Hong Kong, some U.S. entrepreneurs seeking venture capital have found Asian venture capitalists to be much more *cautious* than those in the United States. They tend to look more closely at the borrower than do U.S. venture capitalists.

Planning Cash Flow Requirements

Although all businesses should plan for their cash flows, it is especially important for small businesses to do so. Success or failure may *hinge on anticipating* the times when cash will be short and when excess cash can be expected.

By anticipating *shortfalls*, a financial manager can seek funds in advance and minimize their cost. By anticipating excess cash, a manager can plan to put the funds to work in short-term, interest-earning investments.

Vocabulary

inadequate funding	☞	недостатнє фінансування
survival rate	☞	рівень виживання
initial funding	☞	початкове фінансування
entrepreneur	☞	підприємець

underestimate	↪	недооцінювати
notorious	↪	горезвісний
assume	↪	брати (на себе)
loyalty	↪	вірність, лояльність
convince	↪	переконувати
trend	↪	тенденція, напрям
gap	↪	розрив
the Pacific Rim countries	↪	країни Тихоокеанського регіону
cautious	↪	обережний, завбачливий
hinge on	↪	залежати від
anticipate	↪	передчувати
shortfall	↪	дефіцит, нестача

Reading and Speaking Tasks

(To do Speaking Tasks see Language Bank, pages 262–272)

I. Make up questions covering the content of the text and let your fellow students answer them.

II. Having read the text, what you can now say about:

- the main sources of credit for small businesses;
- venture capital as a source of funds for small businesses;
- planning cash flow requirements in small businesses.

III. Work with a partner who read the text to produce a summary of the text. You need only mention the important points.

PART III

Accounting

Unit Eight

ACCOUNTING PROFESSION

Text A: People in Accounting Profession

Text B: Auditors in Accounting Process

The unit aims to:

- **define accounting;**
- **determine the major users of accounting information;**
- **distinguish between managerial (management) accounting and financial accounting;**
- **identify the accountant's responsibility;**
- **explain what bookkeeping is;**
- **describe the accounting system;**
- **name and describe different types of accounting specialists: public, private and government accountants;**
- **list the services provided by CPAs (chartered accountants);**
- **explain what audit is;**
- **distinguish between the tasks which independent and internal auditors solve.**

Warm-up activities

- Try to give explanations of the following terms: accounting, accountant, auditing, auditor, CPA, bookkeeping, tax, internal audit, external audit.
- What is accounting (auditing)?
- Give reasons why you decided to study accounting.
- Do you agree that accounting (auditing) is becoming more attractive as a profession? Why?

Text A: People in Accounting Profession

Of all the business disciplines, probably none has the *universal* reach of *accounting*, which is found in nearly every community in the world. Within most businesses, *accountants* play a role in *virtually* all activities.

Accounting is a system that collects and processes (analyzes, measures, and records) financial information about an organization and reports that information to decision makers.

Managers throughout the organization (*internal* decision makers) and parties outside the firm such as investors, creditors, suppliers, customers, etc. (*external* decision makers) use reports produced by this system. Internal managers typically require continuous detailed information because they must plan and manage the day-to-day operations of the organization. Developing accounting information for internal decision makers is called *managerial* or *management accounting*. Accounting for external decision makers is called *financial accounting*. That branch of accounting is concerned with the production of information for persons not concerned with the day-to-day running of the business. The products of the financial accounting process are financial statements.

It is the accountant's responsibility to *keep records* of such financial transactions as *taxes* paid, income received, and expenses incurred. Even more important is the accountant's analysis of how

these transactions affect a particular business. By sorting, analyzing, classifying, and recording thousands of transactions, accountants can determine how well a business is being managed and how financially strong it is.

Bookkeeping, a term that is sometimes *confused* with accounting, is just one phase of accounting – the recording of accounting transactions. Clearly, accounting is much more comprehensive than bookkeeping because accounting involves more than just the recording of information.

Because businesses *engage* in many thousands of transactions, accounting systems are *mandatory* to ensure *reliable*, *consistent*, and *dependable* financial information. An *accounting system* is an organized means by which accounting information about a company's activities is identified, measured, recorded, and *retained* so that it can be used in *accounting statements* and *management reports*. The system includes accountants, *bookkeepers*, computers, reports, and all the *procedures* for *keeping track of* financial transactions. At the head of the accounting system is the *controller*, the person who manages all of the firm's accounting activities. As the chief accounting officer, the controller is responsible for ensuring that the accounting system provides the reports and statements that are needed for the planning, controlling, and decision-making activities of others in the company.

To meet these needs, accountants must design reports that are reliable, *accurate*, and *complete*. The reports must also be timely, understandable, and – most importantly – *relevant* to the types of decisions that must be made. This broad range of accounting activities requires different types of accounting specialists.

Although public accountants are not the most common type of accountants, they are probably the best known. *Certified public accountants (CPAs)* derive their name from the fact that they are members of firms that offer their accounting services to the public. CPAs are licensed at the state level after passing a *rigorous* examination.

While some CPAs work as individual practitioners, many join with one or more other CPAs in a partnership or professional corporation.

Virtually all CPA firms – whether they boast 10,000 employees and 100 offices or just one person in a tiny office – provide three types of services: *audit* services, tax services, and management services. The larger CPA firms earn about 60 to 70 percent of their revenue from audit services. Smaller firms typically earn most of their income from tax services and management services.

In an **audit**, the accountant examines a company's accounting system to determine whether the company's financial reports *fairly* present its operations.

Tax services include assisting clients not only with preparation of their state and federal *tax returns* but also in their tax planning. Tax laws are complex. A CPA's advice can help a business structure (or restructure) its operations and investments and save money in taxes. In order to best serve their clients, of course, accountants must *stay abreast of* changes in tax laws.

Accountants are often hired as consultants to help firms resolve a variety of problems. **Management advisory services** performed by accountants range from personal financial planning to planning corporate *mergers*. Other services include plant *layout* and *design*, *production scheduling*, computer feasibility studies, and design and implementation of accounting systems. Some CPA firms even assist in executive recruitment.

Many accountants who are not certified provide valued accounting services to the general public. Small businesses, individuals, and big businesses rely on public accountants for *income tax* preparation, *payroll accounting*, and financial planning services. Some of these accountants have simply chosen not to take the CPA exam; others are preparing to take the exam or have not yet fulfilled the practice requirements for state certification.

To assure the *fairness* of their reports, CPAs are always independent of the firms they audit. They are employees of accounting firms and provide services for many client firms. But businesses also hire their own *private accountants* as salaried employees to carry out the company's day-to-day accounting activities. Private accountants perform an amazing *diversity* of accounting jobs.

Large businesses employ specialized accountants in such areas as budgets, financial planning, internal auditing, payroll, and taxation. Each accounting area has its own challenges and excitement. In small businesses, a single individual may handle all accounting tasks – and approve credit terms, too!

The nature of accounting jobs varies from business to business.

Most private accountants provide accounting services that help their company's managers do a better job of managing all *facets* – marketing, production, engineering, and so forth – of the business. Consequently, their work is frequently called management accounting and they are known as management accountants. Those who become certified management accountants (CMAs) are recognized as professional experts. Certification is granted to people who meet educational and professional standards and who pass the examination.

Federal, state, and local governments also require accounting services. *Government accountants* and those working for not-for-profit organizations are professional accountants who perform services similar to those of private and public accountants. But here, instead of the reporting emphasis being on measuring profit or loss, it is more concerned with determining how efficiently the organization is accomplishing its objectives. Not-for-profit organizations such as churches, labor unions, political parties, charities, schools, hospitals, and universities also hire accountants.

Vocabulary

universal	☞	загальний, універсальний
accounting	☞	бухгалтерський облік
accountant	☞	бухгалтер
virtually	☞	фактично
internal	☞	внутрішній
external	☞	зовнішній
managerial (management) accounting	☞	управлінський бухоблік
financial accounting	☞	фінансовий бухоблік

keep records	✎	вести записи
tax	✎	податок
bookkeeping	✎	бухгалтерія, рахівництво
confuse	✎	змішувати, плутати
engage	✎	займатися
mandatory	✎	обов'язковий
reliable	✎	достовірний, надійний
consistent	✎	послідовний
dependable	✎	надійний
accounting system	✎	бухгалтерська система
retain	✎	зберігати, утримувати
accounting statement	✎	бухгалтерський звіт
management report	✎	звіт адміністрації
bookkeeper	✎	бухгалтер, рахівник
procedure	✎	процедура
keep track of	✎	слідкувати
controller	✎	головний бухгалтер-аналітик
accurate	✎	точний, ретельний
complete	✎	повний, закінчений
relevant	✎	доречний
certified public accountant (CPA)	✎	дипломований бухгалтер вищої кваліфікації, аудитор
rigorous	✎	суворий
audit	✎	аудит
fairly	✎	чесно, справедливо
tax return	✎	податкова декларація
stay abreast of	✎	не відставати від
merger	✎	поглинання, злиття, об'єднання
layout	✎	план
design	✎	проект
production scheduling	✎	план (графік) виробництва
feasibility	✎	можливість, ймовірність

income tax	↻	прибутковий податок
payroll accounting	↻	нарахування зарплати
fairness	↻	чесність, справедливість
private accountant	↻	приватний бухгалтер
diversity	↻	різноманітність
facet	↻	аспект
government accountant	↻	урядовий бухгалтер

Vocabulary Tasks

I. Study the following words and phrases. Recall the sentences in which they are used in the text. Use them in sentences of your own.

Accounting; keep records; production scheduling; accurate; government accountant; universal; engage; accounting system; income tax; management report; audit; procedure; internal; external; reliable; certified public accountant (CPA); feasibility; retain; complete; managerial (management) accounting; financial accounting; consistent; fairly; fairness; keep track of; accountant; relevant; private accountant; virtually; facet; accounting statement; merger; confuse; payroll accounting; bookkeeper; design; tax; diversity; dependable; controller; layout; mandatory; stay abreast of; bookkeeping; rigorous.

II. Replace the Ukrainian words and phrases by appropriate English equivalents. Translate the sentences.

1. (Бухгалтера) today are international business people of both genders and all races, equipped with personal computers and using sophisticated information system.
2. Like statistics, (бухгалтерський облік) is a language of business.
3. (Приватні бухгалтера) frequently specialize in different aspects of accounting.
4. The (бухгалтерська система) and needs of the Kansas City Royals Baseball Club differ considerably from those of Trans World Airlines or a Las Vegas casino.

5. (Дипломовані бухгалтера вищої кваліфікації) enjoy the same professional status within their field as attorneys and physicians do in theirs.
6. Both managers and accountants must understand (фінансові звіти), business operations, and the use of financial statements in decision making to perform their duties successfully.
7. (Головний бухгалтер-аналітик) is responsible for the firm's (фінансовий бухоблік) and cost accounting, data processing, and tax management.
8. The differing needs of (зовнішніх) and (внутрішніх) users of accounting information result in differences between the (управлінським та фінансовим бухобліком).
9. (Рахівництво) is the job of recording the accounts of an organization.
10. Accounting records must be (точні та повні).

**III. Change the noun form into the verb and adjective forms.
You may want to use a dictionary.**

Example: accounting (n) – account (v) – accountable (adj)

Report, engagement, certificate, dependence, tax, confusion, controller, completion, mandate, diversity, auditor, procedure.

IV. Complete the following sentences with the correct derivatives of the words in the brackets.

1. Her salary is paid directly into her bank.... . **(accountant)**
2. The manager won't be able to meet the customer – he has a prior **(engage)**
3. You have to get these accounts by an auditor. **(certificate)**
4. What is the for renewing your car tax? **(procedural)**
5. We entirely on donations from the public. **(dependence)**
6. He kept asking unnecessary questions which only the issue. **(confusion)**
7. We paid them on the work. **(complete)**
8. They are seeking a for tax reforms. **(mandatory)**
9. The Board had to take into account a of opinion. **(diversify)**
10. An examined a company's financial records in order to check that they are correct. **(audit)**

V. For each word or phrase write one which means the opposite.

Complete, external decision makers, financial accounting, unreliable, distinguish, inaccurate, incomplete, irrelevant, fairly.

VI. Match these words as they occur in the text. Translate the phrases.

- | | |
|-----------------------|----------------------|
| 1. managerial | a) examination |
| 2. rigorous | b) records |
| 3. chief accounting | c) accounting system |
| 4. to keep | d) tax |
| 5. to stay abreast of | e) accounting |
| 6. implementation of | f) changes |
| 7. not-for-profit | g) officer |
| 8. income | h) organizations |

VII. Choose the explanation for each of these words and phrases.

- | | |
|---|--|
| 1. accounting | a) professional employed by a business other than a public accounting firm. He is responsible for carrying out the firm's day-to-day accounting activities |
| 2. bookkeeping | b) professional employed by a government agency or not-for-profit organization |
| 3. public accountant | c) recording of accounting transactions |
| 4. private accountant | d) measuring, interpreting, and communicating financial information for internal and external decision making |
| 5. government accountant | e) professional who provides accounting services to other businesses and individuals |
| 6. certified public accountant (CPA) / chartered accountant | f) accountant who specializes in management accounting, has met certain educational and professional standards, and has passed the examination |

7. certified management accountant (CMA) g) accountant who has completed education and experience requirements and passed a comprehensive examination

VIII. Find words and phrases in the text which mean:

1. the correct or normal way of doing something
2. the job or activity of recording the accounts of an organization
3. the person in charge of all firm's accounting activities, the firm's chief accounting officer
4. that may be relied or depended on
5. an accountant who has passed all examinations
6. the quality of being fair
7. aspect of something
8. the act of joining together two or more companies or organizations to form a larger one

IX. Fill in the blanks with prepositions.

Accounting For Whom?

Who are the interested parties – inside and outside the firm – aided accounting? Inside the business, government agency, or not-for-profit agency, managers are the major users accounting information, which helps them plan and control both daily and long-range operations. Owners of the firm and boards of trustees of not-for-profit groups rely accounting data to determine how well the firm or agency is being operated. Union officials use the data contract negotiations.

Outside the firm, potential investors use accounting information to help them decide whether to invest the company. Bankers and other existing and potential creditors find that it helps them determine a company's credit rating and gives them insight its financial soundness. The Internal Revenue Service and state tax officials use it to evaluate the company's tax payments the year. Citizens' groups and government agencies use it in assessing the efficiency a charitable group, local school system, or a city museum or zoo.

X. Fill in the blanks with the most appropriate words from the list.

- | | |
|--------------------|----------------|
| 1. rigorous | 6. accountants |
| 2. assistance | 7. services |
| 3. a wide range of | 8. consulting |
| 4. fee | 9. statements |
| 5. recording | 10. accounting |

A public accountant provides accounting services to individuals or business firms for a Most public accounting firms provide four services to clients: (1) auditing, or examining, of financial record; (2) tax services, such as the preparation of statements; (3) advisory or consulting services to management; and (4) small-business consulting. In addition, they provide in filing securities registration papers for new issues of stocks and bonds, prepare loan applications, and assist in the design of accounting systems. Since they are not employees of the firm for which they are providing services, public accountants are in a position to provide unbiased advice about the firm's financial condition.

Approximately 40,000 public firms exist in the United States, many of which are small one- or two-person operations. Other public accounting firms are extremely large and provide services for their clients.

Increasingly, large public accounting firms are becoming more involved in management by designing computers systems for clients, providing financial counseling, and developing marketing and strategic planning strategies. Consequently, public accounting firms provide the greatest number of jobs for accounting graduates.

A certified public accountant (CPA) proves his or her skills by meeting the state's requirements for education and experience and successfully completing a number of tests in accounting theory and practice, auditing, and law.

Although the services of CPAs may seem an expensive option for small-business owners needing accounting , they are more than worth the cost considering their extensive training, peer review, and regulation.

An accountant who is employed by a business other than a public accounting firm is called a private (or management) accountant. Private accountants are responsible for collecting and financial transactions and preparing financial statements used by the firm's managers in decision making. In addition to preparing the financial , private play a major role in interpreting them.

Reading Tasks

I. Answer the questions using the information from the text.

1. What is accounting?
2. What are the major users of accounting information?
3. What is managerial (management) accounting?
4. What is financial accounting?
5. What do accountants do?
6. What is bookkeeping?
7. What is an accounting system?
8. What is the controller's responsibility?
9. What are public accountants?
10. What services do CPAs perform?
11. What are private accountants?
12. What are government accountants?

II. Mark these statements T (true) or F (false) according to the information in the text. Find the part of the text that gives the correct information.

1. Accountants gather, record, report, and interpret financial information that describes the status and operation of a firm and aids in decision making.
2. Bookkeeping is the same process as accounting.
3. The controller is responsible for the firm's financial accounting and cost accounting, data processing, and tax management.
4. CPAs are salaried employees who carry out the company's day-to-day accounting activities.

5. Public accountants provide services to not-for-profit organizations such as schools, charities, hospitals, etc.
6. CPA firms provide audit services, tax services, and management services.
7. Certified management accountants typically work as the private accountants with management responsibilities.
8. Large businesses do not employ specialized accountants for different accounting areas.

III. Without looking back at the text, exchange its content with someone who read the text too.

Writing and Speaking Tasks

(To do Speaking Tasks see Language Bank, pages 262–272)

I. Write sentences with the following words.

Example: can / public / accountants / private / as / be classified / government / and

Accountants can be classified as public, private and government.

1. useful / information / accounting / in making / decisions / provides / economic
2. the success / failure / cause / may / or / accounting decisions / of a business
3. always / are / independent / CPAs / of / audit / they / the firms
4. by / is / accounting / done / accountants
5. accounting records / fairness / the accuracy / is / authenticity / of / completeness / and
6. management / services / may / accountants / perform / advisory
7. carries out / the / maintaining / process / bookkeeper / of / records / financial
8. of / opinions / CPAs / the / are / recognized / officially

II. Write questions to the following answers.

1.
Accountants must accomplish three major tasks: scorekeeping, calling attention to problems and opportunities, and aiding in decision making.

2.
The increasing globalization of business has transformed the stereotype of the accountant as a pale, bookish male dressed in a white shirt and narrow tie, seated behind the desk in a small office and making notations in a dusty ledger.

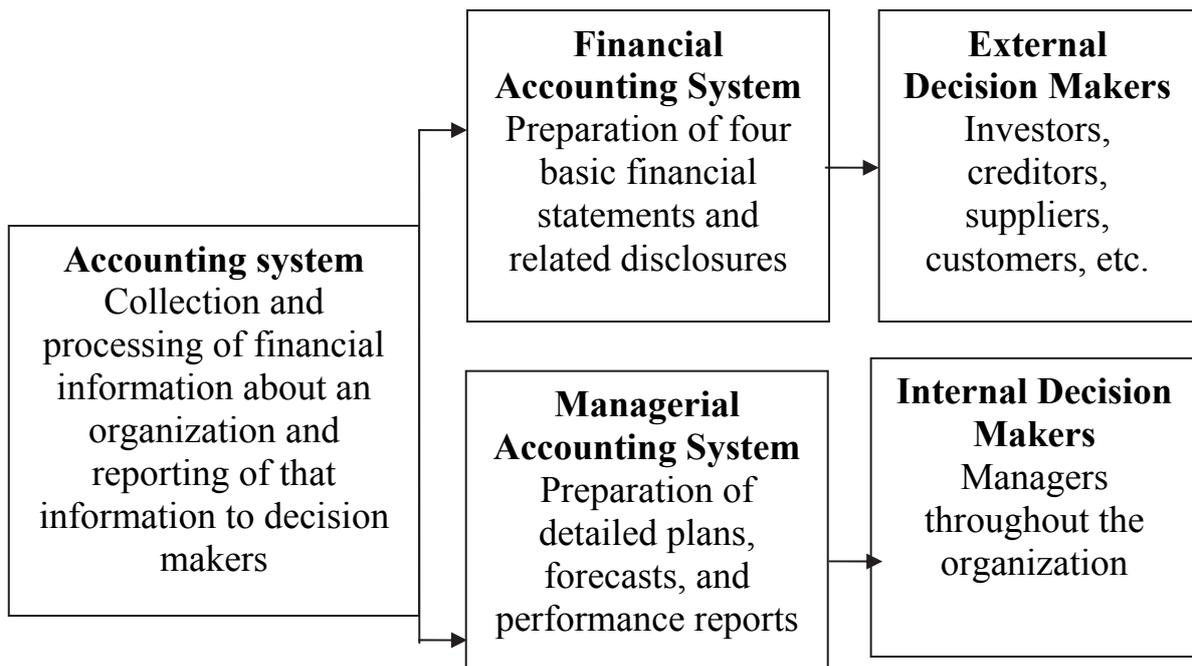
3.
The availability of jobs and the relatively high starting salaries for talented accounting graduates have lured hundreds of thousands of students into accounting classes in colleges and universities.

4.
A cost accountant determines the cost of goods and services and helps set their prices.

5.
The American Institute of Certified Public Accountants (AICPA), founded in 1886, prepares the CPA examination, provides technical support to its members and discipline in matters of professional ethics.

6.
The users of accounting information can be divided into two groups: external and internal.

III. Look at the chart given below and speak about the two parts of the accounting system: financial and managerial.



IV. Study the chart given below and speak about the application of a firm’s accounting information by its major users.

User	Application
Owners, stockholders, potential investors, creditors	To evaluate operations of firm To make investment decisions
Management	To plan and control
Employees, union officials	To use in contract negotiations
Lenders, suppliers	To evaluate credit ratings
Government agencies, economic planners, consumers’ groups	To evaluate tax liabilities To approve new issue of stocks and bonds

- V. Identify the role of accountants and distinguish between the kinds of work done by public, private and government accountants.
- VI. Write the summary of the text.
- VII. Check the summary of the text written by one of the students and if it is necessary comment on the mistakes.
- VIII. Use the Internet and other sources of information to be ready to speak about the history of accounting.
- IX. Discuss how the role of accountants has changed in recent years.
- X. Talk to your partner about the stereotype image of accountants.

Text B: Auditors in Accounting Process

Auditing is an accounting function. *Audit* is an *examination* of *accounts* and their *underlying records* in order to be able to express an opinion on their *honesty* and *veracity*. Many forms of organization *undergo* an audit either *voluntarily*, under their own rules, or under the *requirements of law*. An audit may be an ***internal audit*** conducted by employees of the organization (*internal auditors*) or *independent (external) audit* conducted by independent persons from outside (*independent or external auditors*). The best-known example of an audit is that which, by law, must be undergone annually by every company. The auditor must be independent and must be appropriately qualified (in most cases by membership of a *professional accountancy body*). He or she must produce a *report* for the members of the company expressing, amongst other things, an opinion on whether the accounts give a *true and fair view* and on whether they *comply with* company legislation.

An accountant may be licensed as a certified public accountant, or CPA. This designation is granted only on completion of requirements.

Other accountants can offer various accounting services to the public, but only a licensed CPA can issue an audit report. In this role, accountants are known as independent CPAs (or independent accountants) because they have certain responsibilities that *extend* to the general public in addition to those to the specific business that pays for the services. Independent CPAs, although paid by their clients, are not employees of their clients.

An audit involves the examination of the financial reports (prepared by the management of the *entity*) to ensure that they represent what they *claim* and *conform* with *generally accepted accounting principles (GAAP)*. In performing an audit, the independent CPA examines the underlying transactions, including the collection, classification, and assembly of the financial data *incorporated* in the financial reports. To *appreciate* the *magnitude* of these responsibilities, consider the enormous number of transactions involving a major enterprise such as General Motors that *total* billions of dollars each year. The CPA does not examine each of these transactions, however; rather, professional approaches are used to *ascertain* beyond reasonable doubt that transactions were measured and reported properly. Many unintentional and intentional opportunities exist to prepare *misleading financial reports*. The audit function performed by an independent CPA is the best protection available to the public. When that protection fails, however, the independent CPA is often found liable for losses incurred by those who rely on the *statements*.

The *report of independent accountants*, or *audit report*, describes the *auditor's opinion* of the fairness of the financial statement presentations and the *evidence* gathered to support that opinion. Accountants who *monitor* an organization's *internal accounting controls* are called auditors. These workers are accountants who specialize in *auditing procedures* in private firms, government, and nonprofit organizations.

An internal auditor examines the firm's financial practices to ensure that records are *accurate* and that company operations are in *compliance with* laws and *regulations*.

Internal auditors are specialized private accountants who help the organization by *furnishing* information about situations that could *interfere* with accomplishing the organization's goals. Effective internal auditing requires extensive knowledge of the organization, its economic environment, and its methods of gathering and using financial data to help direct and control the activities of the firm. A certified internal auditor (CIA) is an accountant who has at least 24 months of internal auditing experience, a B.A. degree from an accredited college or university, and who has passed the CIA examination.

The exam, administered by the Institute of Internal Auditors, covers theory and practice of internal auditing; management, quantitative methods, and information systems; and accounting, finance, and economics.

Auditors *evaluate* accounting records to determine whether monies are being handled properly and are being correctly recorded by managers and employees. Audit findings are reported to higher levels of management. *Consequently*, auditors must be *thorough* and conduct comprehensive accounting reviews.

Beginning auditors are usually *assigned* to largely clerical duties such as *verifying the accuracy of accounting records*. Experienced auditors are placed in charge of specific audits and may have several other auditors reporting to them. Management positions are also available within the auditing department. Successful auditors may also move to other areas of accounting. Many top executives began their careers in auditing.

If financial statements are to be of any value to decision makers, users must have *confidence* in the fairness of the information. These users will have greater confidence in the information if they know that the people who were associated with auditing the financial statements were required to meet professional standards of *ethics* and *competence*.

The American Institute of Certified Public Accountants (AICPA) requires all of its members to *adhere to* a professional *code* of ethics. These broad principles are supported by specific rules that govern the performance of audits by members of the AICPA. Failure

to comply with the rules of conduct can result in serious professional *penalties*. The potential economic effects of damage to reputation and *malpractice* liability, however, provide even stronger *incentives* to *abide by* professional standards. CPAs' reputations for honesty and competence are their most important assets.

Financial statements *fraud* is a fairly rare event, due in part to the *diligent efforts* of practicing CPAs. In fact, many such frauds are first identified in the course of the *annual audit*. Even the most diligent audit, however, may not immediately uncover the result of fraud involving *collusion* of the top officers of a corporation.

In case of malpractice in the audit function, the independent CPA is subject to potential liability that may extend to all parties (whether known to the CPA or not) who have suffered loss because they relied on financial statements examined by the CPA.

Vocabulary

auditing	↻	аудит, ревізування (процес)
audit	↻	аудит, перевірка, ревізія
examination	↻	перевірка, ревізія, огляд
account	↻	фінансовий звіт, рахунок
underlying records	↻	записи, що лежать в основі
honesty	↻	правдивість, чесність
veracity	↻	правдивість, достовірність
undergo	↻	зазнавати, переносити
voluntarily	↻	добровільно
requirements of law	↻	вимоги закону
internal audit	↻	внутрішній аудит
internal auditor	↻	внутрішній аудитор
independent (external) audit	↻	незалежний аудит
independent (external) auditor	↻	незалежний аудитор
professional accountancy body	↻	професійний бухгалтерський орган
report	↻	звіт
true and fair view	↻	точний та чесний огляд

comply (with)	☞ виконувати, підкорятися, погоджуватися
entity	☞ економічна одиниця, самостійна компанія, юридична особа
claim	☞ заявляти
conform (with)	☞ узгоджуватися (із), відповідати
generally accepted accounting principles (GAAP)	☞ загальноприйняті (офіційно визнані) принципи бухгалтерії
incorporated	☞ включені, зареєстровані
appreciate	☞ оцінювати
magnitude	☞ важливість, розмір
total	☞ складати у підсумку, дорівнювати
ascertain	☞ упевнитися, пересвідчитися
misleading financial reports	☞ оманливі фінансові звіти
statements	☞ звіти
report of independent accountant / audit report	☞ звіт незалежного аудитора
auditor's opinion	☞ висновок аудитора
evidence	☞ доказ, дані, факти
extend	☞ поширювати
monitor	☞ спостерігати, контролювати
internal accounting controls	☞ внутрішня бухгалтерська звітність
auditing procedures	☞ аудиторські процедури
accurate	☞ точний, ретельний
in compliance with	☞ згідно з, відповідно до
regulations	☞ правила
furnish	☞ постачати, доставляти
interfere	☞ втручатися, перешкоджати
evaluate	☞ оцінювати, атестувати
consequently	☞ отже

thorough	↪	досконалий, ґрунтовний
assign	↪	призначати
verifying the accuracy of accounting records	↪	перевірка точності бухгалтерських записів
confidence	↪	довіра
ethics	↪	етика
competence	↪	компетентність
adhere (to)	↪	дотримуватися
code	↪	кодекс, норми, правила
penalty	↪	покарання, штраф
malpractice	↪	порушення правил практики
incentive	↪	стимул
abide (by)	↪	додержуватися
fraud	↪	обман, шахрайство
diligent efforts	↪	старанні зусилля
annual audit	↪	щорічна ревізія
collusion	↪	таємна угода, змова

Reading and Speaking Tasks

(To do Speaking Tasks see Language Bank, pages 262–272)

I. Make up questions covering the content of the text and let your fellow students answer them.

II. Having read the text, what you can now say about:

- audit;
- the tasks independent auditors solve;
- the tasks internal auditors solve;
- the importance of ethics, reputation and legal liability in accounting.

III. Work with a partner who read the text to produce a summary of the text. You need only mention the important points.

IV. Read the report of independent accountants given below and speak about the role of an independent auditor.

**Report of Independent Accountants To the Stockholders and
Board of Directors of Maxidrive Corp.**

We have audited the accompanying balance sheet of Maxidrive Corp. as of December 31, 2008, and the related statements of income, retained earnings and cash flows for the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Maxidrive Corp. at December 31, 2008, and the results of its operations and its cash flows for the period ended December 31, 2008, in conformity with generally accepted accounting principles.

Smith and Walker, CPAs

- V. Explain what qualities you think a good auditor should possess.**
- VI. Distinguish the roles of managers and auditors in the accounting communication process.**
- VII. Discuss the ways in which internal auditing can be beneficial to a company.**
- VIII. Explain what the main priority of an auditor is.**
- IX. Exchange opinions with your groupmates why the auditing profession has been criticized in recent years.**

Unit Nine

ACCOUNTING PROCESS

Text A: Record-Keeping and Accounting Equation

Text B: Double-Entry Accounting

The unit aims to:

- **explain what accounting process is;**
- **identify the steps in accounting process;**
- **distinguish between a journal and a ledger;**
- **explain what posting is;**
- **identify the fiscal year;**
- **define accounting equation;**
- **describe the impact of computers on the accounting process;**
- **explain what double-entry accounting is;**
- **determine the difference between the two entries – a credit and a debit.**

Warm-up activities

- Try to give brief explanations of the following terms: record-keeping, accounting equation, double-entry accounting, journal, ledger, balance, posting, assets, liabilities, owners'e equity.
- Do you agree that there is a shortage of accountans these days?
- Has accounting changed significantly in the past few years?

Text A: Record-Keeping and Accounting Equation

Accounting deals with financial transactions between the firm and its employees, customers, suppliers, owners, bankers, and various government bodies. Weekly payroll checks result in cash outflows for the compensation of employees. A payment to a supplier result in the *receipt* of needed materials for the production process. Cash, check, and credit purchases by customers *generate funds to cover the costs* of operations and earn a profit. Prompt payment of bills preserves the firm's credit rating and its ability to obtain future loans. This *procedural cycle* used by accountants in *converting* individual transactions of financial statements is called the accounting process. These transactions must be recorded, classified, and summarized in order to produce financial statements for the firm's management and other *interested parties*.

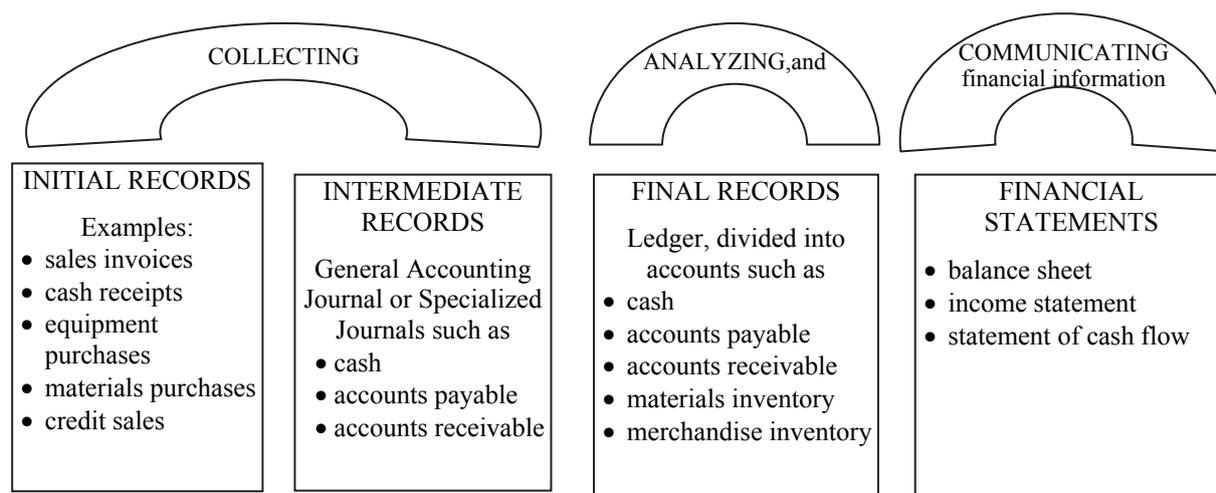
All accountants, whether public or private, rely on *record-keeping*. Private accountants use *journals* and *ledgers* to *enter* and keep track of their company's business transactions. Underlying these *records* are the *two key concepts of accounting*: the *accounting equation* and *double-entry bookkeeping*.

As the chart given below shows, record-keeping begins with *initial records* of the firm's financial transactions. Examples are *sales orders*, *invoices* for incoming materials, employee time cards, and customer payments on *installment purchases*. Unless they are analyzed and classified in an orderly fashion, managers cannot keep track of the business's progress.

Accounting and Record-Keeping

Throughout the year, a firm's financial transactions are entered into intermediate records. At the end of the year, these records are finalized and used to prepare financial statements.

ACCOUNTING is a comprehensive system for



Notations of the sorted records are then entered into a journal, an intermediate form of record, as the initial records are received. A **journal** is just a chronological record of financial transactions along with a *brief description* of each transaction. Some companies *keep* only a single (general) *journal*. Others keep specialized journals for cash receipts, sales, purchases, and the like. For centuries, journals were kept by hand, but today many firms use computers for their record-keeping.

Transactions from a company's journal(s) are brought together and summarized, usually monthly, in *final records* called **ledgers**. The process of recording the individual transactions from the general journal to specific ledger accounts is called *posting*.

Ledgers are divided into categories (accounts) similar to those of specialized journals. But unlike journals, accounts in a ledger contain only minimal descriptions of transactions. However, they do contain a very important *additional column, labeled «Balance»*, or current *total amount*. Because of this column, ledgers enable managers to tell at a glance where the company stands. If the balance is unexpectedly

high or low, accountants and other managers can then *track backward* to the corresponding *journal entry* to see what has caused the unexpected balance.

At the end of the year, accountants *total up* all the accounts in a firm's ledger and *assess* the business's *financial status*. This *summation* is the basis for *annual financial reports*. With the preparation of financial reports, the old *accounting cycle* ends and a new cycle begins.

The *timing* of the annual accounting cycle is called the *fiscal year*. The fiscal year is the 12-month period used for financial reporting purposes. Most companies *use the calendar year* as their fiscal year, so their financial reports cover the period beginning January 1 and ending December 31. However, companies that have *extreme seasonality* in their businesses may *elect* a different 12-month period. A fruit orchard business, for example, may select a period from September 1 to August 31, so that the fiscal year ends at the *completion* of harvesting in the *seasonal cycle*. The choice is purely a matter of convenience for the business, but the same period must be used year after year.

At various points in the year, public and private accountants *balance the data* in journals and ledgers by using the following **accounting equation**:

$$\text{Assets} = \text{Liabilities} + \text{Owners' equity}$$

The accounting equation is the basic accounting concept that assets are equal to liabilities plus owners' equity.

To understand why this equation is important, you must first understand what accountants mean by *assets*, *liabilities*, and *owners' equity*.

You are probably familiar with the first two terms in their *general sense*. White teeth and intelligence are often said to be «assets». Someone who cannot swim may be a «liability» on a boat trip. Accountants apply these terms more narrowly, focusing on items with *quantifiable value*. Thus an **asset**, in the accounting sense, is anything of economic value owned by a firm or an individual.

Examples are land, buildings, equipment, *inventory*, and payments due the company (*accounts receivable*). In contrast, a **liability** is a debt the firm owes to others.

Finally, you may have heard people speak of the «*equity*» they have in their home, meaning the amount of money they would get if they sold the house and paid off the mortgage. In a similar fashion, **owners' equity** refers to the amount of money a firm's owners would receive if they sold all the company's assets and paid off all its liabilities (that is, if they *liquidated* the company). We can rewrite the accounting equation to show this definition:

$$\text{Assets} - \text{Liabilities} = \text{Owners' equity}$$

If a company's assets *exceed* its liabilities, then the owners' equity is positive. That is, if the company went out of business, the owners would receive some cash (a *gain*) after selling the firm's assets and paying off its liabilities. If liabilities *outweigh* assets, then owners' equity is negative – there aren't enough assets to pay off all the debts. Therefore, if the company went out of business, the owners would get no cash and some creditors would not be paid back the debts the company owes them.

But owners' equity is helpful not just for liquidation – it is *meaningful* in healthy, *ongoing businesses* too. Banks and other *lenders* want to see how much owners' equity exist in a business before lending money to a business owner.

Owners' equity is made up of what the owners originally invested and the profits the firm has earned and reinvested in the company. Thus it shows how the owners' financial interests and rights in the company have changed over time. For example, in years when a company operates profitably, its assets increase faster than its liabilities. As a result, owners' equity will increase if those profits are retained in the business instead of being paid out as dividends to stockholders. Owners' equity can increase in the other ways, too – for example, if the owners invest more of their own money to increase the firm's assets. However, owners' equity can *shrink* when the company operates *at a loss* and when owners withdraw assets.

Vocabulary

accounting process	☞ процес бухгалтерського обліку
record-keeping	☞ ведення записів (обліку)
accounting equation	☞ бухгалтерське рівняння
receipt	☞ отримання
generate funds	☞ створювати фонди
cover the costs	☞ покривати витрати
procedural cycle	☞ процедурний цикл
converting	☞ конвертація, перетворення
interested parties	☞ зацікавлені сторони
journal	☞ журнал (бухгалтерський)
ledger	☞ бухгалтерська книга, головна книга, grosбух
enter	☞ записувати, вносити, реєструвати
record	☞ запис; записувати
key concepts of accounting	☞ основні поняття бухобліку
double-entry bookkeeping	☞ бухгалтерія подвійного запису
initial records	☞ початкові записи
sales orders	☞ розпорядження про продаж
invoice	☞ рахунок-фактура (накладна)
installment purchase	☞ покупка у розстрочку
intermediate records	☞ проміжні записи
finalize	☞ завершувати, закінчувати
notation	☞ запис
sorted records	☞ класифіковані записи
chronological record	☞ хронологічний запис
brief description	☞ стислий опис
keep a journal	☞ вести бухгалтерський журнал
final records	☞ кінцеві записи
posting	☞ проводка, розноска по рахунках, переведення в бухгалтерську книгу
additional column	☞ додаткова колонка
label	☞ маркувати

balance	↻	баланс; підсумовувати
total amount	↻	загальна сума
track backward	↻	простежувати у зворотному порядку
journal entry	↻	запис в журналі
total up	↻	підбити підсумок
assess	↻	оцінювати
financial status	↻	фінансове становище
summation	↻	підбиття підсумку
annual financial report	↻	щорічний фінансовий звіт
accounting cycle	↻	бухгалтерський цикл
timing	↻	вибір часу, призначення часу
fiscal year	↻	фіскальний, фінансовий рік
calendar year	↻	календарний рік
extreme seasonality	↻	крайня (надзвичайна) сезонність
elect	↻	вибирати
completion	↻	закінчення
season cycle	↻	сезонний цикл
balance the data	↻	підсумовувати дані, збалансовувати дані
assets	↻	активи
liabilities	↻	пасиви
owners' equity	↻	акціонерний капітал
general sense	↻	загальне значення
quantifiable value	↻	кількісна вартість
inventory	↻	товарно-матеріальні запаси
accounts receivable	↻	рахунки дебіторів, дебіторська заборгованість
equity	↻	власний капітал, частка, частка акціонерна в капіталі
liquidate	↻	ліквідувати
exceed	↻	перевищувати
gain	↻	прибуток, дохід, приріст
outweigh	↻	перевищувати, переважувати

meaningful	↪	значущий
ongoing business	↪	успішний бізнес, організація
lender	↪	кредитор, позикодавець
shrink	↪	знижуватися
at a loss	↪	зі збитком

Vocabulary Tasks

I. Study the following words and phrases. Recall the sentences in which they are used in the text. Use them in sentences of your own.

Procedural cycle; key concepts of accounting; intermediate records; accounting equation; double-entry bookkeeping; balance; calendar year; balance the data; chronological record; journal entry; assets; liabilities; owners' equity; final records; assess; accounting process; ledger; accounts receivable; generate funds; summation; fiscal year; enter; record-keeping; journal; inventory; total up; keep a journal; invoice; exceed; additional column; gain; annual financial report; ongoing business; financial status; receipt; notation; shrink; accounting cycle; finalize; outweigh; label; completion; initial records; quantifiable value; track backward; timing; cover the costs; sorted records; total amount; liquidate; sales orders; brief description; at a loss; seasonal cycle; lender; interested parties; meaningful; elect; converting; general sense; extreme seasonality; installment purchase; posting; equity.

II. Replace the Ukrainian words and phrases by appropriate English equivalents. Translate the sentences.

1. The first step in the processing of transactions by the firm is to (записувати) each of them in chronological order in a book called a (бухгалтерський журнал).
2. The firm agreed to pay \$ 5,000 of the total cost in ten days and the remaining (баланс) at the end of the month.

3. The (бухгалтерська книга) is a specialized accounting book that contains separate accounts for such items as cash, accounts receivable, (розпорядження про продаж), salaries and (товарно-матеріальні запаси).
4. The basic (бухгалтерське рівняння) reflects the financial position of any firm at any point in time.
5. The total (активи) must equal the total of the firm's (пасиви) and the (акціонерний капітал).
6. The basic principle of (бухгалтерія подвійного запису) is that every financial transaction is seen as a flow of value from one account to another.
7. In the UK the (фіскальний рік) runs from 6 April to the following 5 April.
8. A document published annually by a company for its shareholders and other (зацікавлені сторони) is (щорічний фінансовий звіт).

III. Change the noun form into the verb and adjective forms. You may want to use a dictionary.

Example: cycle (n) – cycle (v) – cyclic (adj)

Double, entry, equation, balance, total, timing, chronology, finalization, key, notation, gain, shrinkage, completion, record.

IV. Complete the following sentences with the correct derivatives of the words in brackets

1. We must remember about the ... nature of history. **(cycle)**
2. The Federal government has ... its tax on liquor. **(double)**
3. The jornal's last few ... described the events vividly. **(enter)**
4. A higly-trained workforse ...high productivity. **(equation)**
5. He earned a grand ... of \$ 4000. **(total)**
6. The manager flew out to Canada to ... the datails of the deal. **(final)**
7. You will....useful experience in working with computers. **(gain)**
8. The number of students has ... from 120 to 70. **(shrinkage)**
9. Keep a ... of any money you pay out. **(recorder)**
10. You can summarize the ... points of his speech in a few lines.
(key)

V. For each word or phrase, write one which means the opposite.

Inflows, initial records, detailed description, general (single) journal, maximal, accounts payable, expected balance; old accounting cycle, familiar, calendar year, assets, own, negative owners' equity, ongoing business, withdraw, at a profit, loss.

VI. Match these words as they occur in the text. Translate the phrases.

- | | |
|-----------------|----------------|
| 1. accounting | a) equity |
| 2. extreme | b) column |
| 3. additional | c) bookkeeping |
| 4. owners' | d) equation |
| 5. financial | e) receipts |
| 6. double-entry | f) records |
| 7. procedural | g) seasonality |
| 8. cash | h) year |
| 9. intermediate | i) cycle |
| 10. fiscal | j) status |

VII. Choose the explanations for each of these words and phrases.

- | | |
|------------------------|---|
| 1. accounting equation | a) the action of recording a financial transaction by means of an entry in the ledger |
| 2. journal | b) anything of economic value owned by a firm or an individual |
| 3. ledger | c) the amount of money a firm's owners would receive if they sold all the company's assets and paid off all its liabilities |
| 4. posting | d) a basic accounting concept that assets are equal to liabilities plus owners' equity |

- | | |
|------------------------|--|
| 5. accounting process | e) a specialized accounting book which summarizes the listing of transactions in the journal by assembling them into specific accounts |
| 6. double-entry system | f) the 12-month period used by a firm for annual financial reporting purposes |
| 7. asset | g) a chronological record of a firm's financial transactions along with a brief description of each transaction |
| 8. liability | h) method of converting individual transactions to financial statements |
| 9. owners' equity | i) process requiring two entries for every transaction, thereby keeping the accounting equation in balance |
| 10. fiscal year | j) a debt owed by a firm or an individual |
| 11. accounting cycle | k) the recordkeeping process used during and at the end of the accounting period that results in financial statements |

VIII. Find words and phrases in the text which mean:

1. the act or fact of receiving something;
2. to find the total number or total amount of something by adding;
3. difference between two columns of an account (money received and money paid out);
4. writing down details of financial transactions in journals and ledges as they happen;
5. a routine document evidencing the dispatch of goods and giving details of quality, quantity and price;
6. tangible property held for sale in the normal course of business or used in producing goods or services for sale;
7. an amount recorded in the financial records of a business;

8. to make a judgment about a situation after thinking carefully about it;
9. to do something with the result that you have less money than you had in the beginning;
10. the act of completing or finishing something.

IX. Fill in the blanks with prepositions.

Accounting Journals and Ledgers

The first step in the processing of transactions by the firm is to record each them in chronological order in a book called a journal. Most firms today have computerized accounting systems programmed to provide printouts of the financial statements and perform various ratio analyses.

The next step involves transferring the data contained the journal entries to individual accounts in the firm's ledger. This is a specialized accounting book that contains separate accounts such items as cash, accounts receivable, sales, inventory, and salaries. It summarizes the listing of transactions in the journal by assembling them specific accounts.

The process of posting is recording the individual transactions from the general journal specific ledger accounts. the end of the accounting period, the data in each ledger account are summarized and used as the basis for preparing the firm's accounting statements.

X. Fill in the blanks with the most appropriate words from the list.

- | | |
|----------------|----------------|
| 1. recall | 5. accountants |
| 2. systems | 6. journal |
| 3. statements | 7. registers |
| 4. summarizing | 8. entries |

Impact of Computers on the Accounting Process

The computer revolution of the last decades of the twentieth century has simplified the accounting of thousands of firms, both industrial giants and neighborhood service providers. Fully automated systems developed by firms such as NCR Corporation have eliminated most of the recording, classifying, and tasks once done by hand. As point-of-sale terminals replaced cash , a number of functions could be performed each time a sale was recorded. Not only can such a terminal prices from memory and maintain a perpetual inventory count of every item in stock, but it also automatically performs accounting data

Accounting software programs such as Peachtree are widely used. They make possible a «do-it-once» approach, whereby each sale is automatically converted into a entry, which is then stored until needed. Up-to-date financial and financial ratios can then be requested when needed by the decision maker. The integration of accounting and computers in almost every organization requires to be increasingly computer-literate.

Reading Tasks

I. Answer the questions using the information from the text.

1. What does accounting deal with?
2. What is the accounting process?
3. What are the key concepts of accounting?
4. What are the steps in the accounting process?
5. What is a journal?
6. What is a ledger?
7. What is posting?
8. What is the fiscal year?
9. What is the accounting equation?
10. What is an asset?
11. What is a liability?
12. What is the owners' equity?

II. Mark these statements T (true) or F (false) according to the information in the text. Find the part of the text that gives the correct information.

1. The accounting process involves only the recording of accounting transactions.
2. Only private accountants rely on record-keeping.
3. Transactions are chronologically recorded in the journal, posted in ledgers, and then summarized in accounting statements.
4. Ledgers allow managers to assess the firm's current state of finances.
5. Companies must use the calendar year as their fiscal year.
6. The accounting equation is not kept in balance.
7. Assets are things of the value owned or leased and used in the business.
8. Liabilities are claims against the assets by creditors of the firm.
9. If a company's liabilities outweigh its assets, then the owners' equity is positive.

III. Without looking back at the text, exchange its content with someone who read the text too.

Writing and Speaking Tasks

(To do Speaking Tasks see Language Bank, pages 262–272)

I. Write sentences with the following words.

Example: posted / entries / are / ledgers / journal / to

Journal entries are posted to ledgers.

1. have / in / owners / equities / and / a / firm / creditors
2. transactions / a / log / chronological / of / journals / are
3. financing structure / the / represents / the / accounting equation / a / business / of
4. entered / intermediate / into / transactions / are / records / financial

5. basis / financial statements / for / ledgers / in / records
6. accountants / using / in / balance / journals / the accounting equation / and / the data / ledgers

II. Write questions to the following answers.

1.
Four fundamental terms are involved in the accounting equation: assets, equities, liabilities, and owners' equity.
2.
An equity is a claim against the assets of a business.
3.
The entries made to reflect transactions are referred to as debits and credits.
4.
Owners' equity is the owners' claims against the assets.
5.
The accounting equation states that assets are equal to liabilities plus owners' equity.
6.
An increase in assets results in an increase in liabilities or owners' equity.
7.
Transactions are recorded in chronological order in books called journals.
8.
Journal entries are transferred or posted to individual accounts kept in a ledger.
9.
All accounts in the ledger are summarized at the end of the accounting period and financial statements are prepared from these account summaries.

- III. Explain how journals, ledgers, and financial statements are involved with the steps in the accounting process.
- IV. Give reasons why the accounting equation reflects the financial position of any firm at any point in time.
- V. Write the summary of the text.
- VI. Check the summary of the text written by one of the students and if it is necessary comment on the mistakes.
- VII. Explain why accountancy is still considered to be dull.
- VIII. Talk to your partner about the most difficult tasks facing accountants.
- IX. With your groupmates, discuss what qualities you think a good accountant should possess.

Text B: Double-Entry Accounting

The accounting equation must always *balance*. Thus if assets go up and liabilities remain unchanged, owners' equity must also go up. If assets go down and liabilities stay the same, owners' equity must go down. Changes in liabilities have the *opposite effects* on owners' equity.

This balance was *remarked on* by a fifteenth-century Italian *monk* named Luca Pacioli, who used it to develop the double-entry bookkeeping system still in use today. As the name *implies*, the *double-entry system* requires that all transactions be recorded in two ways: one *entry* showing how the transaction affects assets and the other entry showing how the transaction affects liabilities and owners' equity. Thus, double-entry bookkeeping requires that every «plus» be balanced by a «minus». This keeps the accounting equation in balance.

To see how double-entry accounting works, consider the *sample* pages given below, which show two *ledger accounts* for Perfect

Posters. Both of these accounts – accounts receivable and cash – are assets of Perfect Posters. Before Eye-Poppers sent its check, it owed \$245 to Perfect Posters. This \$ 245 represented a «receivable» to Perfect Posters – that is, an amount to be collected in the future.

Sample Ledger Accounts

General Ledger								
Accounts Receivable Account								
Date 2009			Debit		Credit		Balance	
Sept.	30						1436	61
Sept.	30	No Blond Locks			324	46	4222	15
Oct.	3	Eye-Poppers			245	00	3977	15
Oct.	6	Walls R ua	513	132			9108	47
Oct.	10	Cover all			123	45	8985	02

General Ledger								
Cash Account								
Date 2009			Debit		Credit		Balance	
Oct.	3						98,563	43
Oct.	3	Eye-Poppers	245	00			98,808	43
Oct.	4	Lorson			153	20	98,055	23
Oct.	5	Brown			15,000	00	83,055	23

Under the double-entry accounting system, the check from Eye-Poppers increases Perfect Posters' cash balance and decreases its accounts receivable balance.

Then the check arrived from Eye-Poppers and was cashed by Perfect Posters. You can see how the payment from Eye-Poppers affects Perfect Posters' records. The check is entered twice because, under the double-entry system, it affects both of these assets (accounts receivable and cash) in opposite directions. That is, the \$ 245 *increase* in the *cash account balance* is *offset* by the \$245 *decrease* in the *accounts receivable balance*, leaving total assets unchanged. In other, more complex transactions, combinations of asset accounts, liability accounts, and owners' equity all may be affected.

Another *significant difference* between the two entries is that Eye-Poppers' payment is *listed* as a *credit* to accounts receivable and as a *debit* to cash. To understand why, you need to understand debits and credits. In bookkeeping, debit and credit do not necessarily refer to decreases and increases, respectively. Rather, they refer to the column in which information is to be entered. The left column is debits. The right column is credits. A debit is an increase in assets, but a decrease in liabilities and owners' equity. A credit is the *reverse* – a decrease in assets, but an increase in liabilities and owners' equity. Thus when Perfect Posters received payment from Eye-Poppers, it had *to credit* its accounts receivable, since money is no longer owed. But it also had *to debit* its cash account, since an asset – cash – increased.

Debits and credits provide a system of checks and balances. Every debit entry in a journal must have an *offsetting credit entry* elsewhere. If not, the books won't balance, and some *error* (or *deliberate deception*) has been made in the record-keeping. The accountants have to find the error and correct it to ensure accurate financial records.

Vocabulary

double-entry accounting	↻	подвійний бухгалтерський облік
balance	↻	балансувати, зрівноважувати
opposite effect	↻	протилежний ефект (влив, результат)
remark on	↻	помічати, висловлюватися про
monk	↻	чернець
imply	↻	значити, натякати, мати на увазі
double-entry system	↻	система подвійного запису

entry	↻	запис
sample	↻	зразок
ledger accounts	↻	рахунки бухгалтерської книги
increase	↻	збільшення, зростання
cash account balance	↻	баланс касової готівки
offset	↻	залік, відшкодування, компенсація
decrease	↻	зменшення
accounts receivable balance	↻	баланс дебіторської заборгованості
significant difference list	↻	значна відмінність вносити до списку
credit	↻	кредит
debit	↻	дебет
reverse	↻	протилежне
to credit	↻	кредитувати, записувати в кредит
to debit	↻	дебетувати, записувати в дебет
offsetting credit entry	↻	компенсаційний (заліковий) запис в кредит рахунку
error	↻	помилка
deliberate deception	↻	навмисний обман

Reading and Speaking Tasks

(To do Speaking Tasks see Language Bank, pages 262–272)

I. Make up questions covering the content of the text and let your fellow students answer them.

II. Having read the text, what you can now say about:

- double-entry accounting;
- difference between the two entries – a credit and a debit.

III. Work with a partner who read the text to produce a summary of the text. You need only mention the important points.

IV. Explain how the double-entry system reduces the chances of mistakes and fraud in accounting.

Unit Ten

FINANCIAL STATEMENTS

Text A: Basic Financial Statements

Text B: Budget – Internal Financial Statement

The unit aims to:

- **describe three broad categories of financial statements: balance sheets, income statements, and statements of cash flows;**
- **identify three types of assets: current, fixed, and intangible;**
- **describe different categories of liabilities: current and long-term liabilities;**
- **define owner's equity;**
- **name the major components of income statement: revenues, cost of goods sold, and operating expenses;**
- **explain what each section of the cash flows statement reports;**
- **explain what budget is;**
- **describe the budget system of Ukraine.**

Warm–up activities

- Try to give brief explanations of the following terms: financial statements, assets, liabilities, owner’s equity, cash flow, budget.
- Explain what revenues and expenses are.
- Do you agree that budgeting by both large and small firms is similar to household budgeting in that the purpose is to match income and expenses so as to accomplish objectives and correctly time inflows and outflows?

Text A: Basic Financial Statements

The primary purpose of accounting is to summarize the results of a business’s transactions and to *issue reports* that will help managers make *informed decisions*. Some of the most important reports, called financial statements, fall into three broad categories: *balance sheets*, *income statements*, and *statements of cash flows*. Balance sheets are sometimes called «statements of financial position» because they show the financial condition of a firm at one point in time.

Balance Sheets

At one time, the only financial statement *released* to people outside the company (such as stockholders and lenders) was the balance sheet. Early balance sheets provided very *sketchy information*. Today balance sheets supply a considerable amount of information, including detailed technical descriptions of complex accounts and transactions. Balance sheets present the accounting equation factors: a company’s assets, its liabilities, and its owners’ equity.

Assets. Most companies have three types of assets from an accounting *standpoint*: current, fixed, and intangible. *Current assets* include cash and assets that can or will be converted into cash in the following year. They are normally listed in order of *liquidity*, or the ease with which they can be converted into cash. Business debts normally can be satisfied only through payments of cash. A company that cannot generate cash as it is needed (in other words, a company

that is not *liquid*) may be forced to sell assets at *sacrifice prices* or even to go out of business.

Cash is, by definition, completely liquid. *Marketable securities* are assets that are slightly less liquid but that can be sold quickly if there is a need for additional cash. *Stocks* or *bonds* of other companies, *government securities* and *money market certificates* are all marketable securities. *Accounts receivable* are amounts due from customers who have purchased goods on credit. Most businesses expect to receive payment within 30 days of a sale.

Unfortunately, some customers never pay what they owe. For the sake of accuracy, the balance sheet should reflect such a loss. The *allowance for doubtful accounts entry* allows the accounts receivable assets reported on the balance sheet to be decreased accordingly.

Following accounts receivable is *merchandise inventory*, the cost of merchandise that has been acquired for sale to customers and is still on hand. Merchandise inventory is two steps removed from cash: first the inventory must be sold, generating accounts receivable, and then the accounts receivable must be collected to obtain cash.

There are two primary methods of valuing inventories on the balance sheet. Because inventories are flowing in and out throughout the year, *assumptions* must be made about which ones were sold and which ones remain in storage. The *LIFO (last-in-first-out) method* assumes that inventories received last (most recently) are sold first, thus leaving the older inventories on hand for future use. The *FIFO (first-in-first-out) method*, in contrast, assumes that the older inventories (first in) are sold first, and the newer inventories are held for later use. The method used in calculating inventory must be disclosed in a firm's financial statements. It must also be used *consistently* year after year.

The final current asset listed is *prepaid expenses*. Included in this category are *supplies on hand* and rent paid for the period to come.

Normally, the next major balance sheet classification is *fixed assets*. Items in this category have long-term use or value – for example, land, buildings, and equipment. Because buildings and equipment do *eventually wear out* or become *obsolete*, however, the accountant must *depreciate* them. *Depreciation* means calculating the

useful life of the asset in years, dividing its worth by that many years, and then *subtracting* the resulting amount each year. Thus the asset's remaining value on the books goes down each year.

Despite their name, intangible assets are not without monetary value, though their worth is hard to set. *Intangible assets* usually consist of the cost of obtaining rights or *privileges* such as *patents*, *trademarks*, *copyrights*, and franchise fees. Another intangible asset, *goodwill*, can be recorded only when a business is being purchased. It is the amount paid for an existing business over and above the value of its other asset because the firm has a particularly good reputation or good location.

Liabilities. Like assets, liabilities are often separated into different categories. *Current liabilities* are debts that must be paid within the year. They include unpaid bills to suppliers for materials (*accounts payable*) as well as wages and taxes that will have to be paid in the coming year.

Debts that are not due until more than *one year hence* are called *long-term liabilities*. They normally represent borrowed funds on which the company must pay interest.

Owners' Equity. The final section of the balance sheet shows owners' equity broken down into *common stocks*, *paid-in capital*, and *retained earnings*. Paid-in capital is additional money invested in the firm by the owners.

A company's net profits less dividend payments to stockholders are its **retained earnings**. Retained earnings *accumulate* when profits, which could have been distributed to stockholders, are instead kept for use by the company.

Income Statements

Perhaps the most popular form of financial statement is the **income statement**. It is sometimes called a **profit-and-loss statement** because its description of a company's *revenues* and *expenses* results in a figure that shows the firm's *annual profit or loss*. That is,

$$\text{Revenues} - \text{Expenses} = \text{Profit (or Loss)}$$

An income statement enables the reader to assess how effectively management is using the resources *entrusted* to it. Indeed, the final number on the income statement, the profit or loss – also known as «the bottom line» – is probably the most important figure in any business enterprise. Like the balance sheet, the income statement is divided into three major categories: revenues, *cost of goods sold*, and *operating expenses*.

Revenues. The first major category shown on an income statement is revenues. Revenues are the funds that flow into a business from selling products or providing services.

Cost of Goods Sold. The second section of the income statement details expenses involved in producing goods – the cost of goods sold. This category shows the cost of obtaining materials to make the products that were sold during the year.

Subtracting cost of goods sold from revenues gives us *gross profit* (or *gross margin*).

Operating Expenses. In addition to costs directly related to acquiring the goods it sells, every company has general operating expenses, ranging from erasers to the president's salary. Like cost of goods sold, operating expenses are resources that must flow out of a company in order for it to earn revenues.

Two parts of the operating expenses – *selling expenses* and *general/administrative expenses* – are especially important. Selling expenses are operating expenses from the activities related to selling the firm's products and services. Sales salaries, costs to deliver merchandise to customers, and advertising are examples of selling expenses. General and administrative expenses are operating expenses related to the general management of the company. Typical administrative expenses are management's salaries, insurance expenses, office supplies, and maintenance costs.

Sometimes managers are interested in determining the firm's *operating income* (*income before taxes*), which compares the gross profit from business operations against the firm's operating expenses.

Subtracting operating expenses and income taxes from gross margin yields *net income* (also called *net profit* or *net earnings*).

Statements of Changes in Cash Flows

A balance sheet and an income statement are the only financial reports some companies prepare. But all firms whose stock is publicly traded are required to issue a third report, a **statement of cash flows**. This statement describes a company's *cash receipts* and *cash payments* for the year. Since it provides the most detail about the company's ability to generate and use cash, some investors and creditors consider it the most important financial statement of all. The statement of cash flows, also called the **statement of changes in financial position**, shows the effects on cash of three aspects of the business: operating activities, investing activities, and financing activities.

Cash flows from Operations. This first section of the cash flow statement is concerned with the firm's main operating activities – the cash transactions involved in buying and selling goods and services. Lenders and stockholders want to see clearly just how much of the firm's cash went out and how much came in during the past year. This reveals how much of the year's profitability is due to the main line of business rather than *ancillary* activities.

Cash Flows from Investing. This section of the cash flow statement reports net cash used in or provided by investing. It includes cash receipts and payments from buying and selling stocks, bonds, property, equipment, and other productive assets.

Cash Flows from Financing. This final section of the cash flow statement reports the net cash from all financing activities. It includes cash inflows from borrowing or issuing stock as well as outflows for payment of dividends and repayment of borrowings.

The overall change in cash from the three sources – operating activities, investing and financing – provides a *linkage* between financial statements from one year to the next. When creditors and stockholders know how firms obtained and used their funds during the year, it is easier for them to *interpret* the year-to-year changes in the firm's balance sheet and income statement. Clearly, then, the statement of cash flows is a valuable measure of any company's financial health and its ability to conduct business in the future.

Vocabulary

financial statements	↻	фінансові звіти
issue reports	↻	випускати (видавати) звіти
informed decisions	↻	правильні рішення
balance sheet	↻	балансовий звіт
income statement/profit-and-loss statement (P&S)	↻	звіт про прибутки та збитки
statement of cash flows/ statement of changes in financial position	↻	баланс оборотних коштів (активів)
release	↻	випускати
sketchy information	↻	приблизна інформація
standpoint	↻	погляд, думка
current assets	↻	оборотний капітал, поточні оборотні активи
liquidity	↻	ліквідність
liquid	↻	ліквідний
sacrifice prices	↻	збиткові ціни
marketable securities	↻	цінні папери, що легко реалізуються
stock	↻	акція
bond	↻	облігація
government securities	↻	державні цінні папери
money market certificate	↻	сертифікат грошового ринку
accounts receivable	↻	рахунки дебіторів, дебіторська заборгованість
allowance for doubtful accounts entry	↻	запис про знижку на рахунки, які можуть бути не виплачені
inventory	↻	товарно-матеріальні запаси
merchandise inventory	↻	комерційні товарні запаси
assumption	↻	припущення
assume	↻	припускати
LIFO (last-in-first-out)	↻	метод визначення вартості

method		за цінами останніх закупок
FIFO (first-in-first-out)	↻	метод визначення вартості
method		за цінами перших закупок
consistently	↻	послідовно
prepaid expenses	↻	передплачені витрати
supplies on hand	↻	наявні запаси (сировина та матеріали)
fixed assets	↻	основний капітал, неліквідні активи
eventually	↻	з часом
wear out	↻	зношуватись
obsolete	↻	застарілий, старий
depreciate	↻	знижувати (списувати) вартість, амортизувати
depreciation	↻	зниження (списання) вартості, амортизація основного капіталу
subtract	↻	віднімати
intangible assets	↻	нематеріальні (невидимі активи)
privilege	↻	привілей
patent	↻	патент
trademark	↻	торговельна марка, торговельний знак
copyright	↻	авторське право
franchise fee	↻	платня за франшизу
goodwill	↻	вартість накопичених нематеріальних активів
current liabilities	↻	короткострокові пасиви (зобов'язання)
accounts payable	↻	рахунки кредиторів, кредиторська заборгованість
one year hence	↻	через рік
long-term liabilities	↻	довгострокові пасиви (зобов'язання)

common stocks	↻	звичайні акції
paid-in capital	↻	оплачена частина акціонерного капіталу
retaining earnings	↻	нерозподілений прибуток
accumulate	↻	накопичувати, акумулювати
revenues	↻	доходи, прибутки
expenses	↻	витрати, видатки
entrust	↻	доручати
cost of goods sold	↻	вартість проданих товарів
operating expenses	↻	операційні витрати
gross profit/gross margin	↻	валовий прибуток, загальний резерв
selling expenses	↻	торгові витрати
general/administrative expenses	↻	загальні витрати, адміністративні витрати
operating income/income before taxes	↻	операційний дохід, дохід до сплати податків
net income/net profit/net earnings	↻	чистий дохід (прибуток)
cash receipts	↻	готівкові надходження
cash payments	↻	готівкові платежі
ancillary	↻	допоміжний
linkage	↻	зв'язок
interpret	↻	пояснювати

Vocabulary Tasks

I. Study the following words and phrases. Recall the sentences in which they are used in the text. Use them in sentences of your own.

Balance sheet; current assets; privilege; retained earnings; income statement/profit-and-loss statement; fixed assets; accumulate;

financial statements; bond; stock; interpret; eventually; LIFO method; FIFO method; intangible assets; accounts payable; merchandise inventory; supplies on hand; operating expenses; issue reports; subtract; cash receipts; sketchy information; trademark; linkage; statement of cash flows/statement of changes in financial position; depreciation; gross profit/gross margin; operating income/income before taxes; cash payments; accounts receivable; patent; current liabilities; entrust; wear out; informed decisions; liquidity; long-term liabilities; allowance for doubtful accounts entry; net income/net profit/net earnings; franchise fee; revenues and expenses; sacrifice prices; copyright; government securities; paid-in capital; release; obsolete; assume; prepaid expenses; ancillary; general/administrative expenses; consistently; cost of goods sold; goodwill; depreciate; one year hence; selling expenses; assumption; standpoint; money market certificate; common stocks; liquid; marketable securities; inventory.

II. Replace the Ukrainian words and phrases by appropriate English equivalents. Translate the sentences.

1. (Балансові звіти) should be prepared at regular intervals to provide information to management concerning the financial position of the firm.
2. (Товарно-матеріальні запаси) is always considered a (оборотний капітал), regardless of how long it takes to produce and sell the inventory.
3. Any excess of current assets over (короткострокові пасиви) can provide a cushion against unexpected reductions in assets or increases in liabilities.
4. (Нематеріальні активи) include (патенти) on inventions, designs, or processes; (авторські права) and (торговельні марки) protecting written or recorded materials; and (вартість накопичених нематеріальних активів).
5. (Довгострокові пасиви) include such items as (облігації), (рахунки кредиторів), mortgages, and other business loans from banks or other financial institutions that are not scheduled for repayment during the coming year.

6. The (звіт про прибутки та збитки) summarizes the (доходи) and (витрати) of the firm over a period of time.
7. After (віднімання) \$ 14,000 for taxes, the firm earned a total (чистий дохід) of \$ 60,000.
8. Since 1987 all companies listed on organized stock exchanges have been required to prepare a (баланс оборотних коштів).

**III. Change the noun form into the verb and adjective forms.
You may want to use a dictionary.**

Example: consistence (n) – consist (v) – consistent (adj)

Sketch, sacrifice, accumulation, statement, assumption, doubt, allowance, report, pay, receiver, expense, administration, operation, interpretation.

IV. Fill in with the correct form of the words in brackets.

1. He ... a fortune through property speculation last year. **(accumulation)**
2. The company's annual financial ... to shareholders will be published next week. **(statement)**
3. I think we can safely ... that interest rates will go up again soon. **(assumption)**
4. The cost of the project is \$2 million ... for inflation. **(allowance)**
5. The accountants ... to the Deputy Financial Director. **(reporter)**
6. The clerk said that discounts were offered for cash **(pay)**
7. If a person or business goes into ... , they are controlled by the official receiver because they have no money. **(receiver)**
8. Losing your temper with the client was a very ... mistake, we have lost the contract. **(expense)**
9. They are looking for someone with experience in ... job. **(administration)**
10. He was very disappointed. He had ... her silence as a refusal. **(interpretation)**

V. For each word or phrase, write one which means the opposite.

Current liabilities, revenues, prohibition, tangible, distributed earnings, detailed information, accounts payable, FIFO method, fixed assets, obsolete, subtract, gross loss, cash receipts.

VI. Match these words as they occur in the text. Translate the phrases.

- | | |
|----------------------------|-----------------------|
| 1. statement of changes in | a) liabilities |
| 2. marketable | b) statement |
| 3. allowance for | c) securities |
| 4. profit-and-loss | d) income |
| 5. intangible | e) financial position |
| 6. current | f) assets |
| 7. gross | g) doubtful accounts |
| 8. merchandise | h) profit/margin |
| 9. net | i) earnings |
| 10. retained | j) inventory |

VII. Choose the explanation for each of these words and phrases.

- | | |
|---|---|
| 1. financial statements | a) a financial record of revenues, expenses, and profits of a company over a period of time |
| 2. balance sheet/
statement of financial
position | b) nonphysical assets such as patents, trademarks, and copyrights that have economic value but whose precise value is difficult to calculate |
| 3. income
statement/profit-and-
loss statement /
operating statement | c) any of three broad types of reports (balance sheets, income statements, and statement of cash flows) regarding a company's financial status, used by managers to make informed decisions |

- | | |
|--|--|
| 4. statement of cash flows/ statement of changes in financial position | d) assets, such as government securities and money market certificates, that can be converted into cash quickly if necessary |
| 5. marketable securities | e) the costs – other than the cost of goods sold-incurred by a firm in producing its product or service. Often broken down into selling expenses and general/administrative expenses |
| 6. intangible assets | f) a company's net profits less its dividend payments to stockholders; the amount retained by the company for use by the company |
| 7. retained earnings | g) a financial statement that reports the firm's cash receipts and payments from operating, investing, and financing activities |
| 8. operating expenses | h) a statement of a firm's financial position on a particular date. It summarizes a firm's financial position by listing its assets, liabilities, owners' equity |

VIII. Find words and phrases in the text which mean:

1. assets that can or will be converted into cash or used within one year;
2. debts that must be repaid within the year;
3. the funds that flow into a business from selling its products or services;
4. unpaid bills to suppliers for materials;
5. amount due from customers who have purchased goods on credit;
6. assets that have long-term use or value, such as land, buildings, and equipment;
7. debts that are not due until more than one year hence;
8. the ease with which an asset can be converted into cash;

9. additional money, over and above the proceeds from the sale of stock, paid directly into the firm by its owners;
10. a firm's gross profit minus its operating expenses;
11. the process of distributing the cost of a major asset over the life of the asset;
12. a firm's revenues (net sales) minus its cost of goods sold;
13. the cost of merchandise that has been acquired for sale to customers and is still on hand;
14. a firm's gross profit minus its operating expenses and income taxes.

Reading Tasks

I. Answer the questions using the information from the text.

1. What broad categories do financial statements fall into?
2. What is the balance sheet?
3. What types of assets do most companies have? Describe each of them.
4. Is there any difference between the LIFO and the FIFO method of valuing inventories?
5. What categories are liabilities separated into? Characterize each of them.
6. What does the final section of the balance sheet show?
7. What is the income statement?
8. What are its major components?
9. What does the statement of cash flows describe?
10. What does each section of the cash flows statement report?

II. Mark these statements T (true) or F (false) according to the information in the text. Find the part of the text that gives the correct information.

1. The income statement details the company's revenues and expenses for a given period of time and identifies any profit or loss.

2. Selling expenses are operating expenses related to the general management of the company.
3. Intangible assets are without monetary value.
4. Long-term liabilities represent borrowed funds on which the company must pay interest.
5. Retained earnings cannot be used for expansion and growth and cannot be invested in such assets as land and buildings.
6. The first section of the cash flows statement – cash flows from operations – reports the net cash from all financing activities.
7. The final figure on the income statement is the well-known bottom line – the overall profit or loss earned by the firm, which is called gross profit.
8. The loss in value of a long-lived asset due to time, use, or obsolescence is reflected on the balance sheet by an accounting procedure called depreciation.

III. Without looking back at the text, exchange its content with someone who read the text too.

Writing and Speaking Tasks

(To do Speaking Tasks see Language Bank, pages 262–272)

I. Write sentences with the following words.

Example: have / assets / current / most / fixed / and / companies / intangible

Most companies have current, fixed and intangible assets.

1. completely / is / cash / liquid
2. reflect / balance sheet / the / allowance / the / doubtful accounts / for / should
3. credit purchases / firm's / the / are / accounts receivable / by / customers

- 4. is / cost of goods sold / gross profit / minus / revenues
- 5. operating expenses / into / income statement / is / cost of goods sold / and / divided / the / revenues
- 6. sources / presents / the / and / statement of cash flows / uses of cash / the

II. Write questions to the following answers.

- 1.
The typical balance sheet classifies assets on the basis of conversion time – the speed and ease with which they can be turned into cash.
- 2.
Marketable securities are temporary investments of surplus funds in stocks, bonds, or other investments that can be quickly converted to cash.
- 3.
Services such as insurance and prepaid rent and supplies on hand that have been paid for but not used are prepaid expenses.
- 4.
All of the fixed assets, except land, are considered depreciable assets since they wear out over time from use or age and must eventually be replaced.
- 5.
The term working capital refers to the difference between current assets and current liabilities.
- 6.
The purpose of the income statement is to show the profitability or unprofitability of a firm during a period of time, usually a year, a quarter, or a month.
- 7.
Proponents of the statement of cash flows hope its preparation and scrutiny by affected parties will prevent financial disaster for otherwise profitable firms that are forced into bankruptcy due to a lack of funds needed to continue day-to-day operations.

III. Identify the three types of assets and the two types of liabilities that appear on a typical balance sheet. Categorize the following account titles:

- | | |
|-------------------------|--------------------------|
| a) Peter Brown, Capital | e) Common Stock |
| b) Mortgage Payable | f) Prepaid Expenses |
| c) Patent | g) Accounts Payable |
| d) Buildings | h) Marketable Securities |

IV. Explain why firms include depreciation on their accounting statements when it involves no cash outlays.

V. Write the summary of the text.

VI. Check the summary of the text written by one of the students and if it is necessary comment on the mistakes.

VII. Suppose you are planning to invest in a company. Give reasons which types of financial statements you would most want to see.

VIII. Use the Internet or other sources of information to look through the basic financial statements from a local company or some well-known company. Analyze them and then say how they reflect the financial condition and activities of the company.

Text B: Budget–Internal Financial Statement

In addition to financial statements, managers need other types of information from accounting to help them in internal planning, controlling, and decision making. For example, in order to give *rewards* or to take corrective action, a sales manager needs to know what sales were made and lost in each sales territory. To assure a *steady supply of production inputs*, inventory supervisors need information on projected production and sales.

Probably the most *crucial* internal financial statement is the budget. A **budget** is a detailed of *estimated receipts and expenditures* for a period of time in the future, usually one year. Some companies

also prepare budgets for three- or five-year periods, especially when considering major capital expenditures, such as building a new factory.

A budget is quantitative of financial plan of a defined period of time. It may include planned sales volumes and revenues, resource quantities, business units, organizations, activities or events in measurable terms.

A budget is the sum of money allocated for a particular purpose and the summary of intended expenditures along with proposals for how to meet them.

The act of preparing budget is called *budgeting*. Budgeting is an important component of financial success. Budgeting makes it easier for people with incomes and expenses of all sizes to make *conscious* decisions about how they'd prefer to allocate their money.

Budget helps to *aid* the planning of actual operations by forcing managers to consider how the conditions might change and what steps should be taken now and by encouraging managers to consider problems before they arise.

The accounting staff coordinates the budget process. For example, in preparing a sales budget like that shown below, the accounting department must obtain the sales group's projections for units to be sold each quarter for the coming year.

Perfect Posters, Inc.
Sales Budget
First Quarter, 2017

	January	February	March	Quarter
Budgeted sales (units)	7.500	6.000	6.500	20.000
Budgeted selling price per unit	<u>\$3.50</u>	<u>\$3.50</u>	<u>\$3.50</u>	<u>\$3.50</u>
Budgeted sales revenue	<u>\$26.250</u>	<u>\$21.000</u>	<u>\$22.750</u>	<u>\$70.000</u>
Expected cash receipts:				
From December sales	\$26.210(a)			\$26.210
From January sales	17.500(b)	\$8.750		26.250
From February sales		14.000	\$7.000	21.000
From March sales			15.000	15.200
Total cash receipts:	<u>\$43.710</u>	<u>\$22.750</u>	<u>\$22.200</u>	<u>\$88.660</u>

(a) This cash from December sales represents a collection of the Account Receivable appearing on the December 31, 2016 Balance Sheet.

(b) The company estimates that two-thirds of each month's sales revenues will result in cash receipts during the same month. The remaining one-third is collected during the same month. The remaining one-third is collected during the following month.

Since the accounting department is the financial center of the organization, it provides much *master*, or operating, *budget* is a *composite* of numerous sub-budgets for each of the departments of the firm. These typically include the production budget, the cash budget, the capital expenditures budget, the advertising budget, and the sales budget. These budgets are usually established on an annual basis, but may be divided monthly or quarterly for control purposes.

The budget of a government is a summary or plan of the intended revenues and expenditures of that government. There are three types of government budget: the operating or current budget, the capital or investment budget, and the cash or cash flow budget.

The national budget of Ukraine is composed of the *state budget* and the *local budgets*. The state budget is the budget of the central government including all grants and transfers to the local level. Local budgets include the budgets of the Autonomous Republic of Crimea and of the cities of Kiev and Sevastopol, the budgets of oblasts, rayons and cities, and the budgets of city districts, villages, *rural* settlements and towns. The national budget can be seen as the *consolidated* budget of Ukraine. It is used for analysis and forecasts of economic and social development of the country.

Budget process is a process of *drafting, deliberation, approval and execution* of budgets, reporting on budget execution, and exercising over *compliance* with budget *legislation* regulated by the budget legislation.

Budget period for all budgets included into the budgetary system of Ukraine is one calendar year starting on January 1 each year and ending on December 31 of the same year. Failure to *adopt* the Law On the State Budget of Ukraine by Verkhovna Rada before January 1 of the respective year does not constitute the *grounds* for setting a different budget period.

The Ministry of Finance of Ukraine the draft law on the state budget of Ukraine for the respective year, a forecast for the figures of the consolidated budget Ukraine, secures the execution of the state budget, controls compliance with the budget legislation at every stage of the budget process in terms of the state budget and the local budgets.

Budget is a plan for the consolidation and use of financial resources for tasks and function delegated to the bodies in the respective budget period.

It must also obtain expected sales expenses. It must then *convey* this information to the marketing and production departments so these groups can *determine* what supplies and promotional monies they need. Accountants also draw up the final budget, incorporating costs such as planned administrative and capital (machinery and equipment) expenses. Finally, throughout the year, the accounting department *compares* the budget to actual expenditures and revenues. The importance of budgeting should not be *underestimated*. Although budgeting is a time-consuming process, computers now allow budgets to be changed or revised in a *fraction* of the time it took 20 years ago.

Vocabulary

budget	↻	бюджет
reward	↻	винагорода, нагорода
steady supply	↻	стабільне забезпечення
production input	↻	затрати на виробництво
inventory supervisors	↻	контролер запасів (оборотних фондів)
crucial	↻	важливий, вирішальний
estimated receipts and expenditures	↻	оцінені доходи та витрати
budgeting	↻	складання бюджету
conscious	↻	свідомий
aid	↻	допомагати
convey	↻	передавати
determine	↻	визначати, встановлювати
draw up	↻	складати (документи)
incorporate	↻	включати
compare	↻	порівнювати, звіряти
underestimate	↻	недооцінювати
fraction	↻	частка
master budget	↻	головний (зведений) бюджет
composite	↻	суміш

state budget	↻	державний бюджет
local budget	↻	місцевий бюджет
rural	↻	сільський
consolidated	↻	консолідований, об'єднаний
drafting	↻	підготовка проекту
deliberation	↻	обговорення
approval	↻	схвалення
execution	↻	виконання
compliance	↻	відповідність
legislation	↻	законодавство
adopt	↻	приймати
ground	↻	підстава
elaborate	↻	розробляти

Reading and Speaking Tasks

(To do Speaking Tasks see Language Bank, pages 262–272)

VI. Make up questions covering the content of the text and let your fellow students answer them.

VII. Having read the text, what you can now say about:

- the most crucial internal financial statement-budget;
- budget preparation process;
- the budget system of Ukraine.

VIII. Work with a partner who read the text to produce a summary of the text. You need only mention the important points.

IX. Explain the role of budgets in business.

X. Use the Internet or other sources of information to make the reports on topics:

- Budget System of Great Britain;
- Budget System of the USA;
- Types of Budget.

PART IV

Extra Help on Grammar

Present time: present simple, present continuous, present perfect simple, present perfect continuous, stative verbs

Present simple

Form statement :	I/you/we/they travel...	He/she/it travels...
negative:	I/you/we/they don't travel...	He/she/it doesn't travel...
question:	Do I/you/we/they travel...?	Does He/she/it travel...?

Use	Example
Current habits	<i>Toby walks to work.</i>
To talk about how often things happen	<i>Angela doesn't visit us very often.</i>
Permanent situations	<i>Carlo works in a travel agent's.</i>
States	<i>Do you have an up-to-date passport?</i>
General truths and facts	<i>Poland is in the European Union.</i>

Present continuous

Form statement :	I am driving...You/we/they are driving...He/she/it is driving...
negative:	I'm not driving...You/we/they aren't driving... or You're/we're/they're not driving...He/she/it isn't driving...or He's/she's/it's not driving...

Part IV. Extra Help on Grammar

Use	Example
Actions happening now	<i>Mike is driving to work at the moment.</i>
Temporary series of actions	<i>Taxi drivers aren't stopping at the train station because of the roadworks.</i>
Temporary situations	<i>Are they staying in a hotel near the Olympic stadium?</i>
Changing and developing situations	<i>Holidays abroad are becoming increasingly popular.</i>
Annoying habits (usually with <i>always</i>)	<i>Dad is always cleaning the car when I want to use it!</i>

Present perfect simple

Form have/has + past participle

statement : I/you/we/they **have flown...** He/she/it **has flown...**

negative: I/you/we/they **haven't flown...** He/she/it **hasn't flown...**

question: **Have** I/you/we/they **flown...?** **Has** He/she/it **flown...?**

Use	Example
Situations and states that started in the past and are still true	<i>She's had her motorbike for over six years.</i>
A series of actions continuing up to now	<i>We've travelled by taxi, bus, plane and train – all in the last twenty-four hours!</i>
Completed actions at a time in the past which is not mentioned	<i>Have you ever flown in a helicopter?</i>
Completed actions where the important thing is the present result	<i>I've booked the coach tickets.</i>

Present perfect continuous

Form statement : I/you/we/they **have been traveling...** He/she/it **has been travelling ...**

negative: I/you/we/they **haven't been travelling ..**He/she/it **hasn't been travelling ...**

question: **Have** I/you/we/they **been travelling...?** **Has** He/she/it **been travelling...?**

Use	Example
Actions continuing up to the present moment	<i>We have been driving for hours. Can't we have a break soon.</i>
Actions stopping just before the present moment	<i>I'm out of breath because I've been running to get here in time.</i>

Stative verbs

Stative verbs are not normally used in continuous tenses because they don't describe actions.

+ I **see** what you mean.

-I ~~**am seeing**~~ what you mean.

Stative verbs often refer to:	Example
Thinking	<i>Believe, imagine, know, mean, think, understand</i>
Existence	<i>Be, exist</i>
Emotions	<i>Hate, like, love, need, prefer, satisfy, want</i>
The human senses	<i>Hear ,see, smell, sound, taste</i>
Appearance	<i>Appear, look, resemble, seem</i>
Possession and relationships between things	<i>Belong to, consist of, have, include, involve, own</i>

Past time: past simple, past continuous, past perfect simple, past perfect continuous, would, used to

Past simple

Form statement : I/you/he/she/it /we/they played...	Note: Irregular verbs do not take 'ed' in the past simple. Learn the past simple form of irregular verbs.
negative: I/you/he/she/it/we/they didn't play ...	
question: Did I/you/he/she/it/we/they play ...?	

Use	Example
Single completed actions	<i>Tom and I played a game of chess and he won.</i>
Habits in the past	<i>Did you collect stamps when you were younger?</i>
Permanent situations in the past	<i>A famous footballer lived in our house before we bought it.</i>
General truths and facts about the past	<i>Crosswords didn't become popular until the 1930 s.</i>
The main events in a story	<i>The referee blew the whistle and Simon passed the ball to James, who ran towards the goal.</i>

Past continuous

Form statement : I/he/she/it was playing... You/we/they were playing...
negative: I/he/she/it wasn't playing ... You/we/they weren't playing ...
question: Was I/he/she/it playing ...? Were you/we/they playing ...?

Use	Example
Actions happening at a particular moment in the past	<i>At five o'clock, I was reading my new book.</i>
Temporary situations in the past	<i>Greg was living in London at the time.</i>
Annoying past habits (usually with <i>always</i>)	<i>When we were young, my brother was always borrowing my toys.</i>

Actions in progress over a period of time	<i>Daniel was playing video games all morning yesterday.</i>
Two actions in progress at the same time	<i>Were Ulla and her friends playing Monopoly while we were playing Draughts?</i>
Background information in a story	<i>The sun was shining and the birds were singing. Lisa opened the window and looked out.</i>

Past perfect simple

Form	had + past participle
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Use	Example
Situations and states before the past	<i>We'd lived next to the gym for a couple of months before I decided to join.</i>
Completed actions before a moment in the past	<i>I'd already bought the computer game when I saw it was cheaper in another shop.</i>
Completed actions where the important thing is the result at a moment in the past	<i>We didn't feel like playing Scrabble because we had just finished a long game of Monopoly.</i>

Past perfect continuous

Form statement : I/you/he/she/it/we/they had been playing...
negative: I/you/he/she/it/we/they hadn't been playing...
question: Had I/you/he/she/it/we/they been playing...?

Use	Example
Actions continuing up to a moment in the past	<i>When you saw us, we had been running for six miles – and we still had a mile to go!</i>
Actions stopping just before a moment in the past	<i>Sarah looked tired because she had been exercising all morning.</i>

would

Form	would + bare infinitive
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Use	Example
Past habits, particularly for the distant past	<i>When I was very young, my grandfather would take me to the park to play.</i>

used to

Form	used to + bare infinitive
	statement : I/you/he/she/it/we/they used to train three times a week.
	negative: I/you/he/she/it/we/they didn't use to be good at football.
	I/you/he/she/it/we/they never used to be so good at football.
	I/you/he/she/it/we/they used not to be good at football.
	question: Did I/you/he/she/it/we/they use to play hockey here?

Use	Example
Past habits and states, particularly for the distant past	<i>My mother used to play a lot of squash before I was born.</i>

Future time, present tenses in time clauses, prepositions of time and place

Expressing the future: will / won't and be going to

There is sometimes little difference in meaning between <i>will</i> and <i>be going to</i> . It is often just a matter of formality. <i>Will</i> is generally more formal than <i>be going to</i> .

Use	Example
Facts about the future	<i>The website will come online next week. (more formal)</i> <i>The website's going to come online next week. (more informal)</i>
Predictions not based on present evidence	<i>In the future, everyone will have their own car. (more formal)</i> <i>In the future, everyone is going to have their own car. (more informal)</i>
Decisions made at the moment of speaking	<i>I've decided! I won't get a new DVD player just yet. (emphasizing the decision)</i> <i>I've decided! I'm not going to get a new DVD player just yet. (emphasizing the intention)</i>

Sometimes it is more appropriate to use **will** rather than **be going to**.

Use	Example
Offers and suggestions	<i>I'll help you with your physics homework, if you like.</i>
Requests	<i>Will you help me with my physics homework?</i>
Most first conditional sentences	<i>If we get a computer, we'll be able to surf the Internet.</i>

Sometimes it is more appropriate to use **be going to** rather than **will**.

Use	Example
Plans and intentions (which you already have when you speak)	<i>I'm going to be a famous doctor one day.</i>
Predictions based on present evidence	<i>It sounds like the plane's going to take off in a few minutes.</i>

Expressing the future: present continuous

Use	Example
Arrangements made before the moment of speaking	<i>Are they installing the new computers next week?</i>

Expressing the future: present simple

Use	Example
Timetables, arrangements and fixed events (which the speaker cannot change)	<i>The bus to the science museum leaves at 8 o'clock tomorrow morning.</i>
After if in first conditional and zero conditional sentences	<i>If technology continues to advance so quickly, what will life be like in a hundred years?</i>
After certain time expressions (see below)	<i>We'll find out as soon as we get to the lab.</i>

Expressing the future: future perfect simple

Form will/won't + have + past participle

Use	Example
Actions which are completed some time between now and a point in the future	<i>I'll have finished my chemistry homework by the time you come home.</i>

Expressing the future: future continuous

Form will/won't + be + -ing form

Use	Example
Actions in progress at a point in the future	<i>This time next week, I'll be taking my biology exam.</i>
Habits or repeated actions at a point in the future	<i>In the future, we'll all be flying around using jet-packs.</i>

Expressing the future: future perfect continuous

Form will/won't + have + been + -ing form
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Use	Example
Actions in progress up to a point in the future	<i>At seven o'clock, I'll have been doing my chemistry homework for three hours!</i>

Present tenses in time clauses

In time clauses, we do not use *will* or *be going to* immediately after some time words and phrases. We use a present tense (present simple, present continuous or present perfect) to talk about the future.

Time words and phrases	Example
When	<i>It'll be wonderful when scientists find / have found a cure for cancer.</i>
As soon as	<i>Let me know as soon as your new computer arrives / has arrived.</i>
Before	<i>It'll be several years before we send / we've sent a manned mission to Mars.</i>
After	<i>Let's go for a pizza after we go / have been to the natural history museum.</i>
Until / till	<i>The rocket won't be launched until they do / have done a final check.</i>
While	<i>Think of me while you travel / are travelling to the Moon!</i>
Once	<i>We'll stop for petrol once we pass / we've passed Cambridge.</i>

The passive, the causative

The passive

Form noun + be in the correct form + past participle (+ by/with + noun)

	Active	Passive
Present simple	They grow bananas in tropical areas.	<i>Am/is/are</i> + past participle Bananas are grown in tropical areas.
Present continuous	They are redecorating the cafe.	<i>Am/is/are</i> + -ing + past participle The cafe is being redecorated .
Present perfect simple	Has anyone peeled the carrots?	<i>Has/have</i> + <i>been</i> + past participle Have the carrots been peeled ?

Part IV. Extra Help on Grammar

	Active	Passive
Past simple	They served the meal in an elegant dining room.	<i>Was/were</i> + past participle The meal was served in an elegant dining room.
Past continuous	We asked for coffee while they were preparing the bill.	<i>Was/were</i> + <i>-ing</i> + past participle We asked for coffee while the bill was being prepared .
Past perfect simple	Someone had eaten all the food by the time I got there.	<i>Had</i> + <i>been</i> + past participle All the food had been eaten by the time I got there.
<i>Will</i> future	We will deliver your offer in forty minutes.	<i>Will</i> + <i>be</i> + past participle Your offer will be delivered in forty minutes.
<i>Be going to</i> future	Overweight customers are going to sue Burgerland.	<i>Is/are going to</i> + <i>be</i> + past participle Burgerland is going to be sued by overweight customers.
Future perfect simple	They will have signed the contract by the end of September.	<i>Will</i> + <i>have</i> + <i>been</i> + past participle The contract will have been signed by the end of September.
Modal	You should make the report in time.	Modal + <i>be</i> + past participle The report should be made in time .
Modal + perfect infinitive	They should have delivered the goods by now.	Modal + <i>have</i> + <i>been</i> + past participle The goods should have been delivered by now.
<i>-ing</i> (gerund)	I don't like people telling me what to do in the office.	<i>Being</i> + past participle I don't like being told what to do in the office.

Use	Example
When we don't know who does/did something	My car has been stolen!
When it's obvious who does/did something	A boy was arrested in town yesterday for stealing a bike.
When it's not important who does/did something	The French bistro is being knocked down.
When we want to emphasise new information or use a formal style	The potato was brought to Europe by Sir Walter Raleigh.

- We do not normally use verbs in the passive in the present perfect continuous, past perfect continuous, future continuous or future perfect continuous tenses.
- We only normally use 'by' to say who did something when it is important information.
The letter was written by our partner.
*The best pizzas are made **by** the Italians.*
- We usually use 'with' when we talk about the thing used to do something.
The letter was written with a blue pen.
- Some verbs are not normally used in the passive. They include intransitive verbs (without objects), such as *appear* and *die*, and some common transitive verbs, such as *have*, *let*, *lack*, etc.

The impersonal passive

To express other people's opinions in a formal style, we can use two special forms of the passive.

They can be used with a number of verbs, including: *say*, *believe*, *think*, *claim*, *estimate*, etc.

Some other verbs (*argue*, *suggest*, *calculate*, etc) are usually used with only the second structure.

Form noun + *is/are said to* + bare infinitive / perfect infinitive
It is said that + clause

Active	Passive
People think he is a great doctor.	<i>He is thought to be a great doctor.</i> <i>It is thought that he is a great doctor.</i>
People believe he was a great doctor.	<i>He is believed to have been a great doctor.</i> <i>It is believed that he was a great doctor.</i>

People claim he has had an influence on many other doctors.	<i>He is claimed to have had an influence on many other doctors.</i> <i>It is claimed that he has had an influence on many other doctors.</i>
People say he has been making the best cheese in the area for over thirty years.	<i>He is said to have been making the best cheese in the area for over thirty years.</i> <i>It is said that he has been making the best cheese in the area for over thirty years.</i>
People estimated that his business was worth over \$10 million.	<i>His business was estimated to be/to have been worth over \$ 10 million.</i> <i>It was estimated that his business was worth over \$10 million.</i>
People have suggested that he is a great accountant.	<i>It has been suggested that he is a great accountant.</i>

The causative

Form noun + *have / get* in the correct form + noun + past participle (+*by/with* + noun)

Use	Example
To show that someone arranges for someone else to do something for them	<i>I have my letters delivered by the postman once a week.</i> <i>We are having a new printer put in tomorrow.</i> <i>We had a report made.</i> <i>Have you had your office decorated?</i> <i>We are going to have the food for the party made by a catering company.</i>
To refer to an unpleasant situation which hasn't been arranged	<i>We had our garden vandalized while we were away.</i> <i>The Smiths have had their new car stolen.</i>

Using the verb *get* is usually more informal than using *have*.
*Can you go and **get** this bill **photocopied** for me?*

Reported speech, reported questions, reporting verbs

Reported speech: tense and modal changes

- We use reported speech when we want to say what someone else said.
Jason said he was going to buy a new pair of trainers.
- If the reporting verb is in the past (eg *said*), we usually have to change the tense of what the person actually said.

Direct speech	Reported speech	Example
present simple	past simple	<i>'I need a credit card,' said Tim. – Tim said he needed a credit card.</i>
present continuous	past continuous	<i>'I'm taking Lizzie shopping,' said Tim. – Tim said he was taking Lizzie shopping.</i>
present perfect simple	past perfect simple	<i>'I've bought Tom a present,' said Tim. – Tim said he'd bought Tom a present.</i>
present perfect continuous	past perfect continuous	<i>'I've been thinking about buying a car,' said Tim. – Tim said he'd been thinking about buying a car.</i>
past simple	past perfect simple	<i>'I spent six euros,' said Tim. – Tim said he'd spent six euros.</i>
past continuous	past perfect continuous	<i>'I was hoping to find a new top,' said Tim. – Tim said he'd been hoping to find a new top.</i>
Past perfect simple	Past perfect simple (no tense change)	<i>'I'd looked everywhere for my credit card before I found it.' said Tim. – Tim said he'd looked everywhere for his credit card before he found it.</i>

Part IV. Extra Help on Grammar

Direct speech	Reported speech	Example
past perfect continuous	past perfect continuous (no tense change)	<i>'I'd been looking for that book for weeks before I found it,' said Tim. – Tim said he'd been looking for that book for weeks before he found it.</i>
<i>am/is/are going to</i>	<i>was/were going to</i>	<i>'I'm going to go shopping,' said Tim. – Tim said he was going to go shopping.</i>
<i>will</i>	<i>would</i>	<i>'I'll need a credit card,' said Tim. – Tim said he would need a credit card.</i>
<i>can</i>	<i>could</i>	<i>'I can take Lizzie shopping,' said Tim. – Tim said he could take Lizzie shopping.</i>
<i>must/have to</i>	<i>had to</i>	<i>'I must go to the supermarket,' said Tim. Tim said he had to go to the supermarket</i>
<i>may</i>	<i>might</i>	<i>'I may go shopping later,' said Tim. Tim said he might go shopping later.</i>

- We do not need to make any changes to the verb tense or modal when we are reporting a scientific fact or when something is still true.

*'Most banks **charge** interest,' said Tim. – Tim said most banks **charge** interest.*

Reported speech: pronoun and determiner changes

- With reported speech, we also usually have to change some pronouns and determiners. These changes include:

Direct speech	Reported speech	Example
<i>my</i>	<i>his/her</i>	<i>'I've lost my credit card,' said Tim. – Tim said he had lost his credit card.</i>
<i>This/that + noun</i>	<i>the/that</i>	<i>'I love this sweater,' said Tim. – Tim said he loved the/that sweater.</i>
<i>This/that + verb</i>	<i>it</i>	<i>'This is a lovely sweater,' said Tim. – Tim said it was a lovely sweater.</i>
<i>these/those + noun</i>	<i>the/those</i>	<i>'I love those sweaters,' said Tim. – Tim said he loved the/those sweaters.</i>
<i>these/those + verb</i>	<i>they</i>	<i>'These are lovely sweaters,' said Tim. – Tim said they were lovely sweaters.</i>
<i>verb + these/those</i>	<i>them</i>	<i>'I'm going to buy these,' said Tim. – Tim said he was going to buy them.</i>

Reported speech: time and place changes

- With reported speech, we also usually have to change words and phrases connected to time and place. These changes include:

Direct speech	Reported speech	Example
<i>here</i>	<i>There</i>	<i>'I usually shop here,' said Tim. – Tim said he usually shopped there.</i>
<i>now/at the moment</i>	<i>then/at that moment</i>	<i>'I'm shopping at the moment,' said Tim. – Tim said he was shopping then/at that moment.</i>
<i>Tomorrow</i>	<i>the next/ following day</i>	<i>'I'm going shopping tomorrow,' said Tim. – Tim said he was going shopping the next/following day.</i>
<i>tonight</i>	<i>that night</i>	<i>'I'm going shopping tonight,' said Tim. – Tim said he was going shopping that night.</i>
<i>Next week/ month/year</i>	<i>the following week/month/year</i>	<i>'I'm going shopping next week,' said Tim. – Tim said he was going shopping the following week.</i>
<i>Yesterday</i>	<i>the day before/ the previous day</i>	<i>'I went shopping yesterday,' said Tim. – Tim said he'd been shopping the day before /the previous day.</i>

<i>last week/month/year</i>	<i>the week/month/year before / the previous week/month/year</i>	<i>'I went shopping last week,' said Tim. – Tim said he'd been shopping the week before /the previous week.</i>
<i>Ago</i>	<i>before/previously</i>	<i>'I went shopping two days ago,' said Tim. – Tim said he'd been shopping two days before/previously.</i>

- We do not need to make any changes to time words/phrases when the information is still true at the moment of speaking/writing.
*'I'm going shopping **tomorrow**,' said Tim to Ben. – Ben immediately called Lizzie and said, 'Tim said he's going shopping **tomorrow**.'*

Reported questions / reporting verbs

- We use reported questions when we want to say what someone else asked.
Tim asked Tom if he wanted to go shopping with him.
- We use the same rules regarding tense, pronoun and time and place word/phrase changes with reported questions as we do with reported speech.

Direct speech	Reported speech	Example
<i>have, do, be or modal (ie yes/no questions)</i>	<i>use if or whether</i>	'Can you get me an ice cream, Tom?' asked Tim. – Tim asked Tom if/whether he could get him an ice cream.
<i>what, who, which, when, where, why and how</i>	<i>what, who, which, when, where, why and how</i>	'Why did you buy these shoes,' asked Tim. – Tim asked me why I had bought those shoes .

Reporting verbs

- Different reporting verbs take different grammatical patterns. Some verbs can take more than one pattern.
Deny (verb + noun) *Katie **denied the accusation**.*
Deny (verb + that clause) *Katie **denied (that)** she was a shoplifter.*
Deny (verb + -ing) *Katie **denied stealing** the chocolate biscuits.*

Conditionals: zero, first, second, third, mixed, inverted, unless, in case, as/so long as, provided (that)

Zero conditional

Form <i>if</i> + present simple, present simple	
Use	Example
General or scientific facts and definitions	<i>If you have faith in something, you believe in something you cannot prove.</i>

First conditional

Form <i>if</i> + a present tense, <i>will</i> +bare infinitive	
Use	Example
Real or likely conditions in the present or future and their results in the present and future	<i>If you have a birthday party, you'll get loads of cool presents!</i>
	<i>If you're working till half past six, we'll have dinner at about eight.</i>
	<i>If you have revised properly, you won't have any problems in the test next week.</i>

- We can also use *may, might, can, could, shall, should, ought to, have to* instead of *will*, depending on the meaning.

*If you **have** a birthday party, you **might get** loads of cool presents!*

Unless, in case, as / so long as, provided (that)

Word or Phrase	Meaning	Example
<i>unless</i>	'except if' or 'if...not'	<i>I'll be there at six unless I get delayed. (= except if I get delayed / if I don't get delayed)</i>
<i>in case</i>	'because he/she/it/etc might'	<i>Let's take our wellies in case it's muddy. (= because it might be muddy)</i>
<i>as/so long as</i>	'if' or 'only if'	<i>As long as I'm happy, my parents don't care what job I do. So long as I'm happy, my parents don't care what job I do.</i>
<i>provided (that)</i>	'if' or 'only if'	<i>Provided (that) I'm happy, my parents don't care what job I do.</i>

Second conditional

Form <i>if</i> + past simple or past continuous, <i>would</i> + bare infinitive	
Use	Example
Impossible, unlikely or hypothetical conditions in the present or future and their results in the present or future	<i>If you had a beard, you would look just like Charles Dickens!</i> <i>If you were flying to Rio, would you get there much quicker?</i>
Advice	<i>If I were you, I would think very carefully about my future.</i> (more formal) <i>If I was you, I'd have a party at the weekend!</i> (more informal)

Third conditional

Form <i>if</i> + past perfect (simple or continuous), <i>would</i> + have + past participle	
Use	Example
Hypothetical conditions in the past and their results in the past	<i>If you had worn a fake beard, no one would have known who you were!</i> (= You didn't wear a fake beard so people knew who you were.) <i>If she'd been wearing her new glasses, I would have noticed them.</i> (= She wasn't wearing her new glasses so I didn't notice them.)

- We can also use *might*, *could* or *should* instead of *would*, depending on the meaning.

*If I **had done** some revision, I **might/could/should** have passed the exam*

Mixed conditionals

Form <i>if</i> + past perfect (simple or continuous), <i>would</i> + bare infinitive	
Use	Example
Hypothetical past condition and a present result	<i>If I had listened to my parents, I wouldn't be in so much trouble now.</i> (= I didn't listen to my parents so I'm in lots of trouble now.)

Form <i>if</i> + past simple or past continuous, <i>would</i> + have + past participle	
Use	Example
Hypothetical present condition and a past result	<i>If I had a mobile, I would have called you last night. (= I don't have a mobile so I didn't call you last night.)</i>

Inverted conditionals

Form	<i>Should I/you/he/etc...</i> instead of <i>If I/you/he/etc should...</i> <i>Were I/you/he/etc...</i> instead of <i>If I/you/he/etc were...</i> <i>Had I/you/he/etc...</i> instead of <i>If I/you/he/etc had...</i>
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Use	Example
More formal form of the first conditional (with should)	<i>Should the situation worsen, the United Nations is prepared to send in a peacekeeping force. (= If the situation should worsen...)</i>
More formal form of the second conditional	<i>Were the situation to worsen, the United Nations would be prepared to send in a peacekeeping force. (= If the situation were to worsen...)</i>
More formal form of the third conditional	<i>Had the situation worsened, the United Nations would have been prepared to send in a peacekeeping force. (= If the situation had worsened...)</i>

- For all conditional sentences (first, second, third, mixed, inverted), when the condition comes before the result it is usually followed by a comma. When the result comes first, no comma is necessary.

*If I had a mobile, I would have called you last night.
I would have called you last night if I had a mobile.*

Wishes

We use different structures with *wish / if only*, depending on exactly what we want to express.

Use	Structure	Example
Expressing wishes about the present, future or generally	<i>wish/if only</i> + past simple/ continuous	<i>I wish I was studying history of fashion instead of biology!</i>
Expressing wishes about the past	<i>wish/if only</i> + past perfect simple/ continuous	<i>If only I'd known Burton's was having a sale last week.</i>
Criticising other people or complaining about a situation now, in the future or generally	<i>wish/if only</i> + <i>would</i>	<i>If only Henry would get a haircut!</i>
Expressing hypothetical ability or permission now, in the future or generally	<i>wish/if only</i> + <i>could</i>	<i>I wish I could fit into these jeans.</i>
Expressing desires in a formal way	<i>wish</i> + full infinitive	<i>I wish to try on this ball gown.</i>

Modals: ability, permission, advice, criticism, obligation and necessity, degrees of certainty

Form

- All modals (*will, would, shall, should, can, could, may, might, must*) and semi-modal *ought to* have only one form.
- Modals are followed by the bare infinitive (simple or continuous) or the bare perfect infinitive.
Toby **should be** very fit by now.
Toby **should have recovered** by now.
- The semi-modals *have to* and *need to* change their form depending on person and tense.
The doctor said I **had/needed to** give up red meat.

Modals: ability

Use	Modal	Example
Expressing ability now or generally	<i>can</i>	<i>I can run a kilometre in four minutes.</i>
Expressing decisions made now about future ability	<i>can</i>	<i>We can meet at the gym tomorrow, if you like.</i>
Expressing ability in the past	<i>could</i>	<i>I could do fifty press-ups with one hand when I was younger.</i>
Expressing ability in present, future or general hypothetical situations	<i>could</i>	<i>If only I could quit smoking!</i>
Expressing ability in past hypothetical situations	<i>could + perfect infinitive</i>	<i>I could have roasted the potatoes, but I decided that boiling them was healthier.</i>

We use *be able to* for the infinitive and other tenses.

*I'd love **to be able to** fit into these jeans again!* (infinitive)

*I'll **be able to** leave hospital in a few weeks, apparently.* (future)

*I've **been able to** swim since I was five.* (present perfect)

Modals: permission

Use	Modal	Example
Asking for and giving permission now, for the future or generally	<i>may, could, can</i>	<i>May I Could/Can I see the doctor, please?</i>

- *May* is more polite than *could*, and *could* is more polite than *can*.
- We don't usually use a modal to talk about past permission
*I **was allowed to** wear a knee support during the match.*
- However, we do use *could* to talk about past permission in reported speech
*The coach said I **could** wear a knee support during the match.*

Modals: advice

Use	Modal	Example
Asking for and giving advice now, for the future or generally	<i>should, ought to</i>	<i>You ought to/should cut down on the amount of red meat you eat.</i>

Modals: criticism

Use	Modal	Example
Criticising past behaviour	<i>should, ought to</i> (+ perfect infinitive)	<i>He ought to /should have made more of an effort with his diet.</i>

Modals: obligation and necessity

Use	Modal	Example
Expressing obligation or necessity	<i>must, have to, need to</i>	<i>I must/have to/need to pick up that prescription from the chemist on the way home.</i>
Expressing lack of obligation or necessity	<i>needn't, don't have to, don't need to</i>	<i>You needn't /don't have to / don't need to pick up that prescription from the chemist as I'll get it while I'm in town.</i>
Expressing past obligation	<i>had to</i>	<i>I had to take the pills three times a day for two weeks.</i>
Expressing lack of past obligation	<i>needn't (+ perfect infinitive) / didn't have to / I didn't need to</i>	<i>I needn't have gone/didn't have to go/didn't need to go to the doctor.</i>

<ul style="list-style-type: none"> • There is usually no difference in meaning between <i>must</i> and <i>have to</i>. However, we are sometimes more likely to use <i>must</i> for personal obligation (making our own decision about what we must do) and <i>have to</i> for external obligation (someone else making a decision about what we must do). • We can also use <i>will have/need to</i> to express future obligation. <i>You'll have/need to be more careful about what you eat in future.</i> • It is unusual to use <i>must</i> for questions. We usually use <i>have/need to</i>. <i>Do I have/need to take this medicine before every meal?</i> • <i>Must</i> cannot be used as an infinitive. Use <i>to have to</i>. <i>I'd hate to have to have injections every day.</i> • <i>Mustn't</i> and <i>don't/doesn't have/need to</i> have different meanings. <i>You mustn't do that!</i> (Don't do that!) <i>You don't have/need to do that.</i> (You can do that if you want to but it's not necessary.) • <i>Needn't</i> (+ perfect infinitive) always refers to an action that happened. <i>Didn't have to</i> and <i>didn't need to</i> can refer to actions that did or didn't happen. <i>I needn't have gone to the doctor.</i> (I went but it wasn't necessary.) <i>I didn't have/need to go to the doctor because I suddenly felt better.</i> (I didn't go.) <i>I didn't have/need to go to the doctor but I went just to be on the safe side.</i> (I did go.) • Be careful with the verb <i>need</i>. It can also take the <i>-ing</i> form. <i>I need to sterilise this syringe.</i> <i>This syringe needs sterilising.</i>
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Modals: degrees of certainty

Use	Modal	Example
Expressing certainty (or near certainty) about now or generally	<i>must,</i> <i>can't,</i> <i>couldn't</i>	<i>That must be the district nurse at the door.</i> <i>These can't/couldn't be the pills; they're the wrong colour.</i>

Part IV. Extra Help on Grammar

Use	Modal	Example
Expressing certainty (or near certainty) about the ' past	<i>must, can't, couldn't</i> (+ perfect infinitive)	<i>She must have been in a lot of pain. His leg can't/couldn't have been in plaster for two years!</i>
Expressing probability about now, the future or generally	<i>should, ought to</i>	<i>You ought to/should feel better in a few days, as long as you get lots of rest.</i>
Expressing probability about the past	<i>should, ought to</i> (+ perfect infinitive)	<i>The bruise ought to/should have disappeared days ago. I wonder why it didn't.</i>
Expressing possibility about now, the future or generally	<i>could, may, might</i>	<i>You should talk to your doctor first because that diet could/ may/might be dangerous.</i>
Expressing possibility about the real past	<i>could, may, might</i> (+ perfect infinitive)	<i>That could/I may/might have been the doctor who rang earlier while we were out.</i>
Expressing possibility about a hypothetical past	<i>could, might</i> (+ perfect infinitive)	<i>It's a good thing you went to the doctor or you could / might have become quite ill.</i>

Grammar Tests

Variant 1

I. Select the correct form of the verb.

1. Він **працює** тут вже декілька років.
 - a) have worked
 - b) works
 - c) has been working
 - d) had been working

2. Вчора вона **запросила** мене відвідати філіал компанії.
 - a) invited
 - b) will invite
 - c) have invited
 - d) had invited

3. Я **буду** дуже **зайнятий** на початку червня.
 - a) had been busy
 - b) shall have been busy
 - c) am busy
 - d) will be busy

4. Дощ **йшов вже** годину, коли ми закінчили роботу.
 - a) had been raining
 - b) was raining
 - c) had rained
 - d) rained

5. Ми **підрахуємо** всі збитки до вівторка.
 - a) shall calculate
 - b) shall be calculating
 - c) shall have calculated
 - d) should calculate

II. Supply the correct form of the verb.

1. He ... from Kyiv two years ago.
 - a) comes
 - b) came
 - c) had come
 - d) have come

2. He ... since early morning.
 - a) have been working
 - b) have worked
 - c) has been working
 - d) had worked

3. Tommorrow I ... to him.
 - a) shall have spoken
 - b) shall speak
 - c) have spoken
 - d) speak

4. He ... the book and looked at her.
 - a) have closed
 - b) will close
 - c) had closed
 - d) closed

5. At present the Board ... the Chairman.
 - a) is electing
 - b) will elect
 - c) was electing
 - d) have elected

III. Select the correct form of the verb to build a question.

1. How ... they solved the problem?
 - a) has

- b) does
 - c) have
 - d) shall
2. What ... you writing?
- a) are
 - b) have
 - c) is
 - d) has
3. What ... they decide to do?
- a) have
 - b) has
 - c) does
 - d) did
4. Since when ... you been studying English?
- a) have
 - b) has
 - c) are
 - d) will
5. ... you be very busy next month?
- a) shall
 - b) will
 - c) do
 - d) have

IV. Fill in the blanks with the appropriate Passive form of the verb.

1. I ... about it yet.
- a) were not told
 - b) will not be told
 - c) have not been told
 - d) is not told

2. These instructions ... by all the employees.
 - a) shall be followed
 - b) be followed
 - c) are followed
 - d) has been followed

3. I'm afraid that the plan can't
 - a) is changed
 - b) be changed
 - c) to be changed
 - d) would be changed

4. The work must ... as soon as possible.
 - a) be done
 - b) is done
 - c) will be done
 - d) to be done

5. The report ... soon
 - a) have been sent
 - b) be sent
 - c) had been sent
 - d) will be sent

V. Sequence of Tenses.

1. Президент доповів, що політичний клімат **змінився** на краще.
 - a) had changed
 - b) changed
 - c) has changed
 - d) would be changed

2. Я знав, що вони **підписали** угоду ще у суботу.
 - a) signed
 - b) have signed
 - c) had signed
 - d) was signing

3. Вони запитали, чи **зможу я приїхати** через тиждень.
- a) can
 - b) should be able to
 - c) will be able to
 - d) am able to
4. Я думала, що цей каталог **видається** в Києві.
- a) will be published
 - b) is published
 - c) was published
 - d) had been published
5. Він сказав, що відповідь партнерів **буде перекладено** на українську мову.
- a) will be translated
 - b) would be translated
 - c) was translated
 - d) had been translated

VI. Choose the most appropriate form of the verb.

1. If the firm introduces profit-sharing scheme, some workers... a cut in wages because of the bad year.
- a) would not get
 - b) will not get
 - c) would not have got
2. If these lap top computers... so expensive, we would buy them.
- a) would not be
 - b) will not be
 - c) were not
3. If our company hadn't won that order, we... to stop the production.
- a) have
 - b) would have had
 - c) will have

4. I wish I... enough money to set up my own business.
a) will have
b) have
c) had
5. I wish I... the beginning of the meeting.
a) haven't missed
b) hadn't missed
c) don't miss

***VII. Fill in the blanks with the appropriate modal verbs
and their equivalents.***

1. He... help me last time.
a) can't
b) won't be able to
c) wasn't able to
d) isn't able to
2. I... report to him every day.
a) has to
b) is to
c) must
d) ought
3. He said they... come soon.
a) might
b) was to
c) will have to
d) have to
4. You ...leave your luggage here.
a) ought
b) is able to
c) has to
d) may

5. You...to help your colleagues.
- a) ought
 - b) must
 - c) may
 - d) could

Variant 2

I. Select the correct form of the verb.

1. Наш директор зараз **приймає** іноземну делегацію.
- a) receives
 - b) is receiving
 - c) has been receiving
 - d) receive
2. Наш директор вже **прийняв** іноземну делегацію.
- a) had received
 - b) have received
 - c) has received
 - d) received
3. Наш директор **прийняв** іноземну делегацію перед вашим візитом.
- a) has received
 - b) received
 - c) had received
 - d) was receiving
4. Наш директор завжди **приймає** іноземні делегації.
- a) receives
 - b) are receiving
 - c) has been receiving
 - d) receive

5. Наш директор **прийматиме** іноземну делегацію через тиждень.
- a) will receive
 - b) will have received
 - c) are going to receive
 - d) receive

II. Supply the correct form of the verb.

1. It is half past eight and you ... the telex yet.
- a) won't have sent
 - b) haven't sent
 - c) didn't send
 - d) hasn't sent
2. It ... me long to do this.
- a) shall take
 - b) had taken
 - c) have taken
 - d) takes
3. The partners ... already ... their work.
- a) didn't finish
 - b) have finished
 - c) had finished
 - d) have been finishing
4. Two days ago we ... the contract.
- a) had signed
 - b) have signed
 - c) were signed
 - d) signed
5. The clients ... for a long time.
- a) have been waiting
 - b) waited
 - c) had waited
 - d) are waiting

III. Select the correct form of the verb to build a question.

1. What else ... be done to find a target market? Our time is almost up.
 - a) must
 - b) am
 - c) do
 - d) have

2. It was a nice day, ... it?
 - a) isn't
 - b) doesn't
 - c) wasn't
 - d) was

3. ... the chief read the report yet?
 - a) have
 - b) did
 - c) does
 - d) has

4. Why ... barter a very unsatisfactory system of exchange?
 - a) are
 - b) were
 - c) is
 - d) does

5. ... you see the manager last week?
 - a) do
 - b) did
 - c) have
 - d) will

IV. Fill in the blanks with the appropriate Passive form of the verb.

1. Such contracts ... always ... in writing.
 - a) has been made
 - b) are made
 - c) was made
 - d) are being made

2. While the goods ... for shipment, we were looking for a proper boat.
 - a) were being prepared
 - b) was prepared
 - c) will be prepared
 - d) has been prepared

3. ... you ... about it yet?
 - a) were asked
 - b) has been asked
 - c) had been asked
 - d) have been asked

4. A great number of houses ... in Kyiv every year.
 - a) have been built
 - b) is built
 - c) are being built
 - d) are built

5. This bridge ... by a well-known engineer at the beginning of our century.
 - a) have been built
 - b) had been built
 - c) has been built
 - d) was built

V. Sequence of Tenses.

1. Ніхто не знав, що вони вже **підписали** контракт.
 - a) signs
 - b) signed
 - c) has signed
 - d) had signed

2. Його попередили, що делегація **перебуває** в готелі.
 - a) is
 - b) will be
 - c) was
 - d) had been

3. Було сказано, що він це **зробить**.
 - a) would do
 - b) will do
 - c) does
 - d) did

4. Їй сказали, що клієнт **хоче** її бачити.
 - a) wants
 - b) has wanted
 - c) wanted
 - d) want

5. Він згадав, що **залишив** документи на столі.
 - a) have left
 - b) left
 - c) has left
 - d) had left

VI. Choose the most appropriate form of the verb.

1. If they had carried out an annual audit of the company accounts, they ... a costly error.
 - a) will avoid
 - b) would have avoided
 - c) avoided

2. If the bank financed this construction project, we ... a big profit.
 - a) will make
 - b) would make
 - c) would have made

3. If the government doesn't take urgent measures the economic situation ... to deteriorate.
 - a) will continue
 - b) would continue
 - c) continues

4. If she becomes an area manager, she ... to another city.
 - a) would have to move
 - b) will have to move
 - c) has to move

5. I wish I ... that old computer.
 - a) didn't sell
 - b) hadn't sold
 - c) don't sell

VII. Fill in the blanks with the appropriate modal verbs and their equivalents.

1. You ... take my dictionary, it's on the shelf.
 - a) is to
 - b) has to
 - c) ought
 - d) may

2. When he was a young man, he ... swim very well.
 - a) must
 - b) had to
 - c) could
 - d) should

3. If he tried, he ... do it.
a) is able
b) has to
c) could
d) were allowed to
4. ... I go there at once? - Yes, you must.
a) need
b) am
c) is allowed
d) has to
5. You ... take better care of your health.
a) is to
b) should
c) ought
d) has to

Variant 3

I. Select the correct form of the verb.

1. Наша фірма **відправляє** товари щодня.
a) is shipping
b) ship
c) shipped
d) ships
2. Наша фірма вже **відправила** товари.
a) shipped
b) has shipped
c) had shipped
d) was shipped
3. Наша фірма зараз **відправляє** ваші товари.
a) are shipping
b) ships
c) are shipped
d) is shipping

4. Дві години тому наша фірма **відправила** вам товари.
a) had shipped
b) shipped
c) was shipped
d) has shipped
5. Сьогодні до 14.00 наша фірма **відправить** вам товари.
a) shall ship
b) is shipping
c) will have shipped
d) will be shipping

II. Supply the correct form of the verb.

1. He ... a current account two months ago.
a) have opened
b) opened
c) had opened
d) was opening
2. I hope that the analyst ... the problem.
a) will solve
b) have solved
c) shall solve
d) are solving
3. When we came into the office he ... through the documents.
a) look
b) has looked
c) was looking
d) is looking
4. Banks ... many financial services to their customers.
a) provides
b) was providing
c) shall provide
d) provide

5. The auditor ... already ... the records.
- a) has examined
 - b) examined
 - c) examines
 - d) is examining

III. Select the correct form of the verb to build a question.

1. How many clauses ... the contract contain?
- a) does
 - b) is
 - c) has
 - d) shall
2. Trade between nations is becoming important, ... it?
- a) aren't
 - b) have
 - c) do
 - d) isn't
3. What services ... this firm provided lately?
- a) were
 - b) has
 - d) does
 - c) will
4. Where ... they meet the foreign delegation?
- a) have
 - b) did
 - c) were
 - d) shall
5. What ... he done yet?
- a) did
 - b) were
 - c) had
 - d) has

IV. Fill in the blanks with appropriate Passive form of the verb.

1. Cases ... by the customs officer at the moment.
 - a) are being counted
 - b) are counted
 - c) have been counted
 - d) had been counted

2. Yesterday after the accident he ... home immediately.
 - a) is taken
 - b) was taken
 - c) had been taken
 - d) has been taken

3. Many houses ... in our town lately.
 - a) are being built
 - b) has been built
 - c) have been built
 - d) had been built

4. The issue which ... at the conference now is very important.
 - a) is discussed
 - b) is being discussed
 - c) have been discussed
 - d) shall be discussed

5. The event ... by the newspapers before they arrived home.
 - a) had been reported
 - b) has been reported
 - c) have been reported
 - d) were reported

V. Sequence of Tenses.

1. Вона сказала, що **знає** дві іноземні мови.
 - a) knows
 - b) known
 - c) knew
 - d) had known

2. Він сказав, що **обідав**, коли надійшла телеграма.

- a) had dinner
- b) was having dinner
- c) had had dinner
- d) is having dinner

3. Ми чули, що ви **бували** в Парижі.

- a) had been
- b) have been
- c) were
- d) has been

4. Він обіцяв, що **поговорить** з менеджером.

- a) will speak
- b) should speak
- c) would speak
- d) spoke

5. Я думав, що ви **купили** ці акції.

- a) had bought
- b) have bought
- c) bought
- d) were buying

VI. Choose the most appropriate form of the verb.

1. Our company manager will feel very disappointed if we ... this contract.

- a) didn't sign
- b) wouldn't sign
- c) don't sign

2. What laws ... you ... if you were the President of our country?

- a) will ... change
- b) did ... change
- c) would ... change

3. If we had followed the financial analyst's advice, we ... all this money.
 - a) didn't lose
 - b) wouldn't have lost
 - c) won't lose

4. It was a mistake to sign this employment contract. I wish I ... it.
 - a) don't sign
 - b) didn't sign
 - c) hadn't sign

5. If you mix blue and yellow, you ... green.
 - a) will get
 - b) would get
 - c) get

VII. Fill in the blanks with the appropriate modal verbs and their equivalents.

1. The manager... speak to him at once, or he will make a mistake.
 - a) are to
 - b) must
 - c) ought
 - d) was allowed

2. It ... rain today. The sky is too cloudy.
 - a) may
 - b) should
 - c) ought
 - d) needn't

3. The customer ... do it yesterday.
 - a) can
 - b) shall
 - c) ought
 - d) could

4. You ... pay your taxes on time!
a) can
b) must
c) might
d) ought
5. People ... do without food for a long time.
a) may not
b) can't
c) ought
d) has to

Variant 4

I. Select the correct form of the verb.

1. Наша фірма **купує** нове обладнання щорічно.
a) are buying
b) buy
c) buys
d) have bought
2. Наша фірма **купила** нове обладнання минулого місяця.
a) have bought
b) was buying
c) had bought
d) bought
3. Наша фірма **купить** нове обладнання наступного року.
a) have bought
b) bought
c) will buy
d) was bought
4. Наша фірма **збирається купити** нове обладнання.
a) is going to buy
b) are buying
c) shall buy
d) are going to buy

5. Наша фірма вже *купила* нове обладнання.
- a) are buying
 - b) has bought
 - c) buy
 - d) have been buying

II. Supply the correct form of the verb.

1. I ... him in the shop last week.
- a) met
 - b) have met
 - c) meet
 - d) am meeting
2. Unfortunately, I ... Mary in the office since last Sunday.
- a) didn't see
 - b) wasn't seeing
 - c) am not seeing
 - d) haven't seen
3. The suppliers ... the goods by next Friday.
- a) has delivered
 - b) delivered
 - c) will have delivered
 - d) had delivered
4. She ... to the secretary when I came.
- a) spoke
 - b) was speaking
 - c) speak
 - d) had spoken
5. The manager ... to the branches every month.
- a) go
 - b) went
 - c) will go
 - d) goes

III. Select the correct form of the verb to build a question.

1. ... you seen this report?
 - a) did
 - b) will
 - c) have
 - d) has

2. ... he find the letter yesterday?
 - a) did
 - b) has
 - c) had
 - d) was

3. They visited a lot of countries, ... they?
 - a) haven't
 - b) aren't
 - c) weren't
 - d) didn't

4. What ... there on the file?
 - a) did
 - b) has
 - c) had
 - d) was

5. What companies ... take part in the exhibition?
 - a) were
 - b) will
 - c) have
 - d) did

IV. Fill in the blanks with the appropriate Passive form of the verb.

1. Interesting articles ... often ... in this magazine.
 - a) is published
 - b) shall be published
 - c) has been published
 - d) are published

2. He ... to the Verhovna Rada a year ago.
 - a) have been elected
 - b) had been elected
 - c) elected
 - d) was elected

3. The documents ... now.
 - a) were being printed
 - b) is being printed
 - c) are being printed
 - d) have been printed

4. The contract ... by the legal adviser yesterday.
 - a) was checked
 - b) is checked
 - c) will be checked
 - d) had been checked

5. A new office ... just ... in this district.
 - a) have been built
 - b) has been built
 - c) was built
 - d) was being built

V. Sequence of Tenses.

1. Було відомо, що банк **не працює** у понеділок.
 - a) doesn't work
 - b) didn't work
 - c) hasn't worked
 - d) isn't working

2. Ми знали, що вони **зустрінуться** о 18:00.
 - a) would meet
 - b) had met
 - c) meet
 - d) will meet

3. Покупець сказав, що **придбав** товар в іншому магазині.
- a) buys
 - b) bought
 - c) will buy
 - d) had bought
4. Я знала, що він вже **закінчив** університет.
- a) graduated
 - b) has graduated
 - c) had graduated
 - d) was graduating
5. Ніхто не здогадувався, що **буде** завтра.
- a) would happen
 - b) will happen
 - c) had happened
 - d) happens

VI. Choose the most appropriate form of the verb.

1. I go to work every day, but I wish I
- a) wouldn't
 - b) don't
 - c) didn't
2. If our competitors hadn't modernized their production line, they ... the output of product.
- a) will not increase
 - b) wouldn't increase
 - c) wouldn't have increased
3. Even if he... me a good job, I would turn it down.
- a) would offer
 - b) offer
 - c) offered

4. Our company ... to compete if we don't change our marketing strategy.
- a) won't be able
 - b) wasn't able
 - c) wouldn't have been able
5. If demand doesn't increase soon, we ... a lot of money.
- a) would lose
 - b) will lose
 - c) lose

VII. Fill the blanks with the appropriate modal verbs and their equivalents.

1. This project ... immediately or will be too late.
- a) can be done
 - b) must be done
 - c) may be done
 - d) are to be done
2. We ... finish this financial statement tomorrow.
- a) are
 - b) will be able to
 - c) are allowed
 - d) ought
3. Why ... you do it yesterday?
- a) couldn't
 - b) may not
 - c) cannot
 - d) isn't able to
4. Ask him, he ... know her address.
- a) need
 - b) is able
 - c) have to
 - d) must

5. You ... go home now, I'll do remaining part of our work myself.
- a) is to
 - b) has to
 - c) may
 - d) am to

Variant 5

I. Select the correct form of the verb.

1. Він **зустрічав** делегацію о 17:00.
- a) met
 - b) was meeting
 - c) has met
 - d) were meeting
2. Менеджер **одержав** листа, прочитай його.
- a) has received
 - b) was received
 - c) had received
 - d) received
3. Саме зараз партнери **підписують** угоду.
- a) is signing
 - b) will be signing
 - c) were signing
 - d) are signing
4. Що ви **будете робити** завтра в цей час?
- a) will do
 - b) will be doing
 - c) have done
 - d) did
5. До понеділка вони вже **підготували** звітні документи.
- a) had made
 - b) made
 - c) were making
 - d) are made

II. Supply the correct form of the verb.

1. They ... raw materials by next Tuesday.
 - a) ship
 - b) will ship
 - c) will have shipped
 - d) ships

2. I ... about it.
 - a) is sorry
 - b) will be sorry
 - c) sorry
 - d) be sorry

3. Do you consider the meeting ... tomorrow or the day after tomorrow?
 - a) will take place
 - b) took place
 - c) take place
 - d) was taken place

4. When ... you buy the new equipment?
 - a) did
 - b) does
 - c) have
 - d) has

5. The partners ... the terms of the contract now.
 - a) to discuss
 - b) were discussing
 - c) are discussing
 - d) is discussing

III. Select the correct form of the verb to build a question.

1. What ... he doing there?
 - a) is
 - b) are
 - c) will
 - d) were

2. When ... she meet him yesterday?

- a) does
- b) will
- c) has
- d) did

3. They were busy yesterday, ... ?

- a) didn't they
- b) did they
- c) weren't they
- d) were they

4. It isn't snowing, ...?

- a) doesn't it
- b) did it
- c) is it
- d) was it

5. ... you ever been to Great Britain?

- a) Did
- b) Have
- c) Has
- d) Does

IV. Fill in the blanks with the appropriate Passive form of the verb.

1. This problem ... by the Manager next week.

- a) was solved
- b) will solve
- c) were solved
- d) will be solved

2. When ... this bank ... ?

- a) are ... built
- b) will ... build
- c) was ... built
- d) were ... built

3. What statements ... usually ... by auditors?
 - a) is ... checked up
 - b) was ... checked up
 - c) are ... checked up
 - d) will ... be checked up

4. He ... to come in time.
 - a) was asked
 - b) were asked
 - c) shall be asked
 - d) have been asked

5. The students ... a new grammar material tomorrow.
 - a) shall explain
 - b) will be explained
 - c) have been explained
 - d) were explained

V. Sequence of Tenses.

1. Він знав, що вона **працює** в офісі.
 - a) was worked
 - b) is worked
 - c) worked
 - d) has worked

2. Їй повідомили, що вони **зберуться** саме зараз.
 - a) gathered
 - b) will gather
 - c) gather
 - d) would gather

3. Секретарка сказала, що директор **зайнятий**.
 - a) was busy
 - b) is busy
 - c) would be busy
 - d) were busy

4. Микола сказав, що Олена **працювала** в бібліотеці.

- a) worked
- b) works
- c) had worked
- d) has worked

5. Вона думала , що делегація вже **поїхала**.

- a) went
- b) had gone
- c) go
- d) will go

VI. Choose the most appropriate form of the verb.

1. When the auditors finish checking all financial documents, they ... overall performance of the bank.

- a) would have analyzed
- b) will analyze
- c) would analyze

2. If I were in the Manager's position, I ... on having more staff in the Sale's Department.

- a) will insist
- b) would insist
- c) will be insisted

3. If they ... an advertising campaign last month, their sales would have dropped.

- a) hadn't launched
- b) didn't launch
- c) haven't launched

4. I wish I ... enough money to set up my own business.

- a) have
- b) had
- c) am having

5. It was a mistake to sign that unprofitable contract. We wish we ... it.
- a) don't sign
 - b) didn't sign
 - c) hadn't sign

VII. Fill in the blanks with appropriate modal verbs and their equivalents.

1. He ... read this literature in the original to know English well.
- a) have to
 - b) shall be
 - c) must
 - d) are too
2. The things which we bought in the airport were not duty-free, so we ... pay duty.
- a) had to
 - b) must
 - c) are to
 - d) can
3. She ... type well last year.
- a) is able to
 - b) were allowed to
 - c) could
 - d) will be able
4. They ... to pay more attention to the quality of products.
- a) is allowed
 - b) ought
 - c) must
 - d) can
5. Nick was taught to solve such problems, so he ... know how to do it.
- a) are able
 - b) must
 - c) were allowed
 - d) ought

Language Bank

Presentations

Welcoming the audience

It gives me great pleasure to welcome you here this morning.
I'd like to welcome you on behalf of (the board of directors).

Introducing and welcoming speakers

I think you all know (Mrs Tahal), our (Marketing Director).
I'd like to introduce (Mr Peters), who represents (Hall & Partners).

Opening the presentation

The purpose of this presentation is to present/outline/explain ...
I'd like to give you some information about ...
My presentation today is about ...
Today I'm going to talk about ...
This morning, I'll begin by explaining ...
I would like to begin by giving a brief overview of the situation.
Today, I'd like to tell you something about the company's
performance last year.

Outlining the main points

There are four main areas to be considered ...
My presentation today covers (three) main points.

Sequencing

I'll begin by looking at ...
Then I'll explain ...
Firstly / Secondly / Thirdly ...
First / Then / After that / Finally ...

Explain why something is interesting / significant

The information presented here today is important, as it shows ...
If we compare this year's figures with last year's, it is interesting to note that ...

Establishing a bridge

So, first of all, I 'd like to ...
Let's now move on to look at ...
This brings me to my next point.
My next point is ...
I'd now like to turn to ...

Linking with a previous point

As I mentioned earlier, ...
As I said at the beginning / in my introduction, ...
To go back to ...

Summarizing the main topics

To sum up, I'd like to say that ...
So, to conclude ...
In conclusion, we can see that ...
To summarize, I feel that ...

Making a strong final comment

It is clear from the figures presented here today that ...
Given the data / information I have presented, we can be certain that ...

Thinking your audience

I appreciate your being here today and thank you for your attention.
It has been a pleasure to be able to speak before you today, and I thank you for your attendance.
Finally, I'd like to thank you for coming today.
Thank you for your attention.

Discussions

Introducing a topic

Today, I am going to talk about ...
First of all, I'd like to say / point out that ...

Moving on to another point

Moving on, ...
Let's move on to the second point.
The second point I want to make is ...

Inviting participation

Would you like to add something to that?
Would you like to comment on that?

Giving examples

For example,
To be more specific, ...
For instance, ...
Let me give you an example.

Clarifying comments

In other words, ...
Let me put it another way.
The point I want to make is ...

Asking for clarification

If I understood you correctly, you mean ...
I'm not sure I follow you. Could you explain that again, please?
Could you elaborate on this point?
Could you clarify your last point?

Interrupting

Let me interrupt for a minute.
Could I just come in at this point?
Can I add something here?

Redirecting the discussion

That's not really relevant.
Let's keep to the point

Highlighting points

Let me emphasize at this point, that ...
I'd like to stress that ...
This underlines the fact that ...

Summarizing and concluding

To summarize ...
In summary ...
To conclude ...
In conclusion ...
The conclusions we can draw from this are ...
To sum up, ...
Right, let's sum up, shall we?
I'd like now to recap ...
Let's summarize briefly what we've looked at.
Finally, let me remind you of some of the points we've covered.
If I can just sum up the main points ...

Giving opinions

Asking for opinions/reactions

What do you think, (John)?
How do you feel about that, (Hana)?
I'd like to hear your view on this matter.
What's your reaction to that?
Where exactly do you stand on this issue?

Giving strong opinions

I firmly believe that we should (introduce more ATMs).
I'm absolutely convinced that we should (go ahead).
There's no doubt in my mind that this would be the best solution.

Giving neutral opinions

In my opinion, we should (install Sage).

Personally, I think we should (expand our headquarters).

I think we should (employ more administrative staff).

As I see it, (the firm needs stricter financial procedures).

Giving tentative opinions

It seems to me that we should (increase our range of services).

I tend to think we should (reduce our overheads).

Strong agreement

I completely agree.

I'm in total agreement.

Absolutely.

Neutral agreement

I agree.

I think you're right.

Partial agreement

I would tend to agree.

I agree in principle, but ...

I agree to some extent, but ...

By and large, I agree.

I see your point, but ...

Strong disagreement

(I'm afraid) I totally disagree with you / I disagree entirely.

(I'm sorry,) I think you are mistaken.

Presenting arguments*Introducing your viewpoint*

The first thing we have to consider ...

The first things to be considered ...

One of the main arguments against / in favour of ... is that ...

There is no doubt that ...

It is a fact that ...

In my opinion, / Personally, / As far as I'm concerned, ...

Agreement / disagreement

I agree / disagree with ... when he / she writes/ says that ...

Partial disagreement

... but / however, ...

... on the other hand, ...

Definite agreement

I completely / totally agree with

Neutral agreement

... may be correct / true

a relevant point

Linking ideas

Writing the list

firstly; secondly; thirdly; to begin with; next; then; after that; lastly

Giving examples

for example; for instance; namely; in particular; particularly; especially; mainly; chiefly

In other words, ...; That is to say, ...

As in the following examples; as follows; such as

Expressing alternatives

On the one hand, ... , on the other hand, ...

alternatively; rather; one alternative is ...

Another possibility is ...; Another way of looking at this is...
by contrast; in comparison; on the contrary

Expressing the same idea in a different way

To put it simply, ...
In other words, ...; In this case, ...
In view of this, ...
Looking at this another way, ...

Adding more information

besides; also; moreover; furthermore; in addition; further; what is
more; above all; as well as; either; neither ... nor; not only ... but also
in the same way; similarly; indeed
regarding; as for; with respect to
in reality; in theory; in fact

Emphasizing / contrasting a point already made

However; nonetheless; although; though
despite ... ; in spite of ... ; ... notwithstanding, ...
While ... may be true, ...

Giving results

The result is ...; The consequence is ...
so; hence; thus; resulting from
accordingly; therefore; because of this
due to ...

Summarizing and concluding

To sum up, ... ; To summarize, ...; In short, ...; On the whole, ...
In brief; briefly; overall; thus
My conclusion is, ...; To conclude, ...

Handling questions

Giving a positive response

That's a good / a tricky / a difficult / an interesting question.
Thank you for asking that question. I can say that ...
I'm glad someone asked that question.

Clarifying a question

If I understand you correctly, you want to know ...
You're asking me about Is that right?
Sorry, I didn't follow / catch the question.
Could you repeat that for me, please?
Could you clarify that you mean?
In other words, you're asking ...

Referring back

As I mentioned in the introduction, ...
As I said in the first part of my presentation, ...
As I said / explained at the beginning / earlier, ...
I think I already mentioned that ...

Checking your answer

Does that answer your question?
Is that clear?
Can we move on?

Accepting criticism

I agree up to a point.
I accept that.
That's fair comment.
I agree with what you're saying.

Avoiding questions

Let me ask you the same question.
Let me ask you what you think.

I can answer that by asking you a question.

I'm afraid I can't really answer that.

I'm not in a position to answer that.

That's not really my area / field, I'm afraid.

Wrong topic

That's not really my field.

I'm afraid that question isn't really relevant to today's presentation.

I'm afraid that's confidential.

I'm not in a position to give you that information.

I'd be happy to discuss that with you in person after the presentation.

Hedging

Well, that depends on what you mean by ...

There are, of course, several ways of looking at it.

Describing the activities of your firm / department

Starting

I'd now like to tell you about ...

It consists of ...

It is divided into ... sections / areas / branches.

Describing functions

Firstly, let's take a look at ...

This department / section is responsible for ...

is involved in ...

is concerned with ...

cooperates with ...

deals with ...

liaises with ...

Moving on

Let's move on to ...

Ending

Finally, I'd like to say a few words about ...

Clarifying and explaining

Asking for clarification

What exactly do you mean by ...?

Could you explain what you mean by ...?

Could you clarify that?

Could you be more specific?

Could you give me an example?

Explaining

What I mean is ...

What I am saying is ...

...is another way of saying that ...

Structuring a composition

Introducing opinions

In my opinion, ...

Some people believe ...

Most people tend to think that ...

Contrasting

On the other hand, ...

However, ...

Giving examples

In most cases, ...

Generally, ...

In some cases,

The main advantage ...

In addition, ...

Summarizing

In conclusion, ...

To sum up, ...

Expressing yourself emphatically

We categorically deny [doing] ...

In no way did I [do] ...

We fully recognize [that] ...

I am completely aware of [the situation].

We enthusiastically endorse ...

I happily, and completely believe [that] ...

We freely appreciate [that] ...

I certainly understand [that]...

We positively encourage [someone] to [do something].

We deeply regret [doing] ...

I am very sorry about [doing] ...

We readily endorse ...

I strongly recommend [that] ...

I really think you should [do] ...

We totally reject ...

I refuse to believe [that] ...

We sincerely hope [that] ...

I honestly think [that] ...

Useful Abbreviations

ABFA American Board of Forensic Accounting

ABV Accredited Business Valuation (specialist)

ACCA Association of Chartered Certified Accountants

ACV actual cash value

AICPA American Institute of Certified Public Accountants

APB Auditing Practices Board

APV adjusted present value

ARR accounting rate of return

ASB Accounting Standards Board

ATF Accounting Task Force

BAS Board for Accounting Standards

BRIC Brazil, Russia, India and China (world affairs)

BSC balanced score card

CA Chartered Accountant

CAT Certified Accounting Technician

CBA computer-based assessment

CCA current cost accounting

CCAB Consultative Committee of Accountancy Bodies

CFO Chief Financial Officer

CGT capital gains tax

CIB Chartered Institute of Bankers

CICA Canadian Institute of Chartered Accountants

CIMA Chartered Institute of Management Accountants

CIPFA Chartered Institute of Public Finance and Accountancy

CPA Certified Public Accountant

CPE continuing professional education

CPI consumer price index

CPP current purchasing power

CSR corporate social responsibility

CV curriculum vitae

CVA Certified Valuation Analyst

CVA company voluntary agreement / arrangement

CVL company voluntary liquidation

CVP cost-volume-profit (analysis)

E&OE errors and omissions excepted

EBITDA earnings before interest, tax, depreciation and amortization

EFRAG European Financial Reporting Advisory Group

EMS European monetary system

EPS earnings per share

EVA economic value added

FASB Financial Accounting Standards Board

FCCA Fellow Member of the Association of Chartered Certified Accountants

FCF financial cashflow

FDI foreign direct investment

FIFO first in, first out

FRC Financial Reporting Council

PRRP Financial Reporting Review Panel

FSF Financial Stability Forum

FTVA fast-track voluntary arrangement

GAAP generally accepted accounting principles

GAAS generally accepted auditing standards
IAD Insurance Accounts Directive
IAS International Accounting Standards
IASB International Accounting Standards Board
IASC International Accounting Standards Committee
IASCF International Accounting Standards Committee Foundation
ICAEW Institute of Chartered Accountants in England and Wales
ICAS Institute of Chartered Accountants of Scotland
ICF investing cash flow
ID identity
IFRS International Financial Reporting Standards
IPO initial public offering
IPT insurance premium tax
IRR internal rate of return
IRS Inland Revenue Service
IVA individual voluntary arrangement
LLP limited liability partnership
LTV lifetime value
MMC Monopolies and Mergers Commission
MVA market value added
NPV net present value
OBS off balance sheet (banking)
OFT Office of Fair Trading
OECD Organisation for Economic Co-operation and Development
P/E price/earnings (ratio)
PCAOB Public Company Accounting Oversight Board

POB Professional Oversight Board
PRDB purchases returns day book
PwC PricewaterhouseCoopers
REIT Real Estate Investment Trust
ROE return on equity
ROI return on investment
RPM resale price maintenance
SAS Statement of Auditing Standard
SEC Securities Commission
SFC Securities and Futures Commission
SME small and medium-sized enterprise
SORP statement of recommended practice
SOX Sarbanes-Oxley Act of 2002
SQC smaller quoted companies
SSAP Statement of Standard Accountancy Practice (UK)
SWOT strengths, weaknesses, opportunities and threats
TC Test of Competence
VAT value-added tax
WACC weighted average cost of capital

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Навчальне видання

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