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Кафедра иностранных языков

АНГЛИЙСКИЙ ЯЗЫК

Методическая разработка
по внеаудиторному чтению
для студентов старших курсов
экономического факультета
специальности БиА

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Методическая разработка составлена для студентов старших курсов экономического факультета специальности БиА, для ознакомления студентов с терминологией по специальности. В нее включены тексты по специальности и лексико-грамматические упражнения. Методическая разработка может использоваться как для внеаудиторного чтения, так и для аудиторной работы.

UNIT 1

I. Read and translate the text.

WHAT IS ACCOUNTING

Accounting involves the collection, summarization, and reporting financial data. It is a dynamic discipline, one in which new principles and procedures are constantly evolving. In our modern society, it is exceedingly difficult to carry out even routine activities without at least rudimentary knowledge of accounting.

Accounting is concerned with describing economic events, with measuring resources, and with determining periodic changes in those resources. Accounting measurements are almost always expressed in monetary units and pertain to economic organizations such as businesses, governments, or individuals. Accounting is a service function. It provides information that fulfills several broad objectives:

- Allocating the scarce resources of our society. Under any form of economy, be it capitalism or socialism, decisions as to where capital should be invested are made on the basis of information contained in financial statements. In a free enterprise system, private investors make determinations as to the stock of companies they purchase largely on the basis of data contained in periodic financial reports. Bankers and other suppliers of funds study financial reports before making loan decisions. Government agencies use them in deciding whom to tax and whom to subsidize. The decisions of labor unions as to how much of a wage increase to seek are strongly influenced by reports of profit or loss.

- Managing and directing the resources within an organization. Managers of profit and nonprofit entities alike rely upon accounting information to assure that they maintain effective control over both their human and material resources and they allocate such resources to the products, subunits, or functions in which they can be most productive.

– Reporting on the custodianship of resources under the command of individuals or organizations. Individuals, acting either as investors or merely as citizens, entrust resources to professional managers and governmental officials. They expect the managers and officials to provide them with periodic reports by which their performance can be evaluated.

Accounting focuses on the measurement and communication of wide range of financial data. Accountants provide the information required to make decisions as to where to allocate financial resources and how to control them effectively. Periodically, as the management process is being carried out, accountants “report the score” – they provide information by which the results of prior decisions can be evaluated.

Viewed from a slightly different perspective, accounting aims to enable managers, investors, creditors, and other users of financial statements to determine the future earning power of an enterprise. Decisions made today can affect only the future, not the past. Those who seek information from financial statements are primarily concerned with how well the enterprise will perform in the years to come rather than in years gone by. Will the enterprise be able to satisfy its obligation to those to whom it is indebted? Will it be able to meet the wage demands of its employees? Will it be able to provide adequate returns to its owners?

A distinction is commonly made between financial accounting and management accounting. Financial accounting focuses on providing information for parties external to the organization – actual and potential owners and lenders, creditors, labor unions, suppliers, financial analysts, economists, trade associations, and the public.

Management accounting is directed at insiders – directors, managers, and employees. It provides the information needed to establish the objectives of the organization, to develop the strategies and plans to fulfill those objectives, to administer and control the day-to-day activities of the organization, and to evaluate the success of the organization in fulfilling its objectives. When it issues reports to insiders, an organization need not satisfy externally imposed standards or adhere to specific accounting principles. The number, frequency, and content of reports can be determined at the discretion of management.

II. Notes:

- | | |
|---|---|
| 1) to pertain – принадлежать, иметь
отношении к чему-либо | 5) report of profit and loss – доход
о прибылях и убытках |
| 2) to fulfill – выполнять | 6) to rely upon – полагаться на |
| 3) objective – цель | 7) to maintain – поддерживать |
| 4) to allocate scarce resources –
распределять ограниченные
ресурсы | 8) to entrust – доверять
вверять
9) to impose – навязывать,
облагать |

III. Answer the questions:

1. What kind of activities does accounting involve?
2. How are accounting measurements expressed?
3. What objectives does accounting have? Describe them.
4. Who provides a wide range of financial data?
5. Which types of accounting do you know?

IV. Insert the missing words:

1. Accounting measurements are expressed in and ... to economic organizations such as business, government or individual.
2. Accounting provides information that ... several broad
3. Bankers and other suppliers of fund study before making ... decisions.
4. Accounting focuses on ... and ... of a wide range of financial data.
5. Focuses on providing information for parties external to the organization.

IV. Translate from Russian into English:

1. Бухгалтерский учет включает сбор данных и предоставление финансовых данных.
2. Банкиры и кредиторы изучают финансовые отчеты перед тем, как принять решение давать ли ссуду или нет.
3. Отдельные лица, выступающие в роли инвесторов, вверяют свои вклады профессиональным менеджерам и правительственным чиновникам и ожидают, что они предоставят им данные об эффективном использовании вкладов.

4. Бухгалтера предоставляют информацию, которая требуется, чтобы принять решение, куда распределить финансовые ресурсы и как управлять ими эффективно.
5. Управленческий учет предоставляет информацию необходимую для того, чтобы установить цели организации, разработать стратегию и планы для выполнения этих целей и оценить рентабельность организации.

VI. Retell the text.

VII. Describe the difference between accounting and bookkeeping.

UNIT 2

Read and translate the text.

ACCOUNTANTS

Historians consider 14th-century Italian merchants to have developed the practice of double-entry bookkeeping, which is used by modern accounting. The method was invented when investors looked for a way of recording the financial data of ventures that lasted for months or even years (for example, the commissioning of a merchant fleet), and in which many investors had shares. According to the Italian system the balance sheet consisted of two sections, one listing assets and the results of sales, purchases, investments in assets, while the other recording named and shares of shareholders and other liabilities incurred. If the venture were successful, the owners could receive their portion of the profit. Although the earliest double-entry books appeared in 1340 in Genoa, the first published book on bookkeeping was written in 1494 by a Franciscan monk Luca Pacioli. This work summarized the main accounting principles that have remained unchanged up to date. Additional accounting works were published during the 16th century in Italian, German, Dutch, French and English, these works included early formulations of the concepts of assets, liabilities, and income. The Industrial Revolution and the development of trade required more complex financing systems and further improvement of accounting techniques that had to be adequate to handle mechanization, factory-manufacturing operations, and the mass production of goods and services. The profession of accountant existed by the 18th century, and by the late 19th century the regulations controlling the accountant's activities were developed both in Europe and America. In the mid-19th century with the establishment of large public corporations owned by absentee stockholders and administered by professional managers, the public demand for accurate financial reports and for government regulations greatly increased. The rise of the multinational

corporations also resulted in increased accounting responsibilities, for it required exchange of foreign currency, keeping reports under different legal conditions, the adjustment of ownership and income reports in order to make less payments within various systems of taxes, tariffs and other government controls. Since the mid-20th century bookkeeping as an essential part of all accounting systems has been carried out by machines. The introduction of computers broadened the scope of bookkeeping and term "data processing" now often associates with bookkeeping.

An accountant has many choices as to what particular field of accounting to specialize in depending on the financial information she wants to analyze and how it is done. Financial accountants, tax accountants and internal auditors are all accountants in general, but require different training and work methods. A financial accountant records economic data and periodically prepares reports that show profit and other financial information of a company using the generally accepted accounting principles. The reports prepared by the accountant are useful for managers, and also for owners, creditors and the public. Based on information in the reports the public can use the reports to choose a company to invest in. Because a financial accountant is employed by an individual company, she is considered a private accountant. Another type of accountant is a tax accountant. A tax accountant prepares yearly tax returns for individual clients. The accountants have to use constant data such as rates of pay and other information to determine the proper amount of taxes to be paid. These accountants have to take a class once a year to catch up on yearly changes in tax laws and regulations. If a tax accountant has met state experience requirements, she may want to take exams to become a Certified Public Accountant (CPA).

A third type of accountant is an internal auditor. Auditors are sponsored by the Institute of Internal Auditors and work within an individual firm. The auditor reviews accounting and operating procedures used by a firm to make sure everything is being run properly. If things aren't being run properly, it is the auditor's job to find the problem and to try to rectify it. An auditor is considered a private accountant because he is employed by a firm, yet if he specializes in auditing, he may want to get a Certified Internal Auditor (CIA) certificate.

So, an accountant has career choices to make based on more specialized interests in a field, and as with other careers, a different

specialization will have different educational requirements. Different classes will need to be taken in order to gain enough knowledge in the general field and several classes on a similar topic when the accountant decides what to specialize in. Accountant may not seem like a popular profession, or a very interesting one, but once one looks deep into the separate activities and training of each specialization, one can see that accounting may appeal to many different types of people for many different reasons.

II. Notes:

- | | |
|--|--------------------------------------|
| 1) venture – предприятие | 4) monk – монах |
| 2) double-entry bookkeeping – система бухгалтерского учета с двойной записью | 5) absentee – отсутствующий |
| 3) to incur – подвергаться, нести убытки, брать на себя обязательства | 6) to catch up – догнать |
| | 7) to make sure – убедиться |
| | 8) to gain – приобрести |
| | 9) to appeal – призывать, привлекать |

I. Answer the questions:

1. When was double-entry bookkeeping developed?
2. Who published the first book on bookkeeping?
3. Why is accounting becoming more important?
4. What is the main duty of an accountant?
5. How many types of accountants do you know?

II. Complete the following sentences using the text:

1. The profession of accountant is believed ...
2. The record-keeping method was ...
3. The first concepts of assets and liabilities were...
4. The role of accounting system has greatly increased due to ...
5. An accountant has many choices...
6. There are several types of accountants...

III. Insert the missing words:

1. According to the Italian system consisted of two sections, one listed and while the other and of shareholders and other

2. This work summarized the main that have remained unchanged up to date.
3. The introduction of computers broadened the scope of ... and the term now often associates with
4. prepares yearly tax returns for individual clients.
5. ... reviews accounting and operating procedures used by a firm to make sure everything is being

IV. Translate from Russian into English:

1. Историки считают, что система бухгалтерского учета с двойной записью, которая используется сейчас, была изобретена итальянскими купцами в середине 14 века.
2. Первая книга по бухгалтерскому учету была написана в 1494 году монахом Лукой Пачоли, который описал первые бухгалтерские принципы, которые остались неизменны до настоящего момента.
3. Финансовые бухгалтера записывают данные и периодически подготавливают финансовые отчеты, которые показывают данные о прибылях и убытках.
4. Так как финансовый бухгалтер нанимается частной фирмой, он считается частным бухгалтером.
5. Аудитор изучает финансовые данные компании, чтобы убедиться в правильности проведения финансовых и бухгалтерских процедур.

V. Make up a plan. Retell the text.

UNIT 3

I. Read and translate the text.

BASIC ACCOUNTING PRINCIPLES

There are general rules and concepts that govern the field of accounting. These general rules – referred to as accounting principles and guidelines – form the groundwork on which more detailed, complicated, and legalistic accounting rules are based. For example, the Financial Accounting Standards Board (FASB) uses the basic accounting principles and guidelines as a basis for their own detailed and comprehensive set of accounting rules and standards.

The phrase “generally accepted accounting principles” (or “GAAP”) consists of three important sets of rules: (1) the basic accounting principles and guidelines, (2) the detailed rules and standards issued by FASB and its predecessor the Accounting Principles Board (APB), and (3) the generally accepted industry practices.

If a company distributes its financial statements to the public, it is required to follow generally accepted accounting principles in the preparation of those statements. Further, if a company’s stock is publicly traded, federal law requires the company’s financial statements be audited by independent public accountants. Both the company’s management and the independent accounting must certify that the financial statements and the related notes to the financial statements have been prepared in accordance with GAAP.

GAAP is exceedingly useful because it attempts to standardize and regulate accounting definitions, assumptions, and methods. Because of generally accepted accounting principles we are able to assume that there is consistency from year to year in the methods used to prepare a company’s financial statements. And although variations may exist, we can make reasonably confident conclusions when comparing one company to another, or comparing one company’s financial statistics to the

statistics for its industry. Over the years the generally accepted accounting principles have become more complex because financial transactions have become more complex.

Basic Accounting Principle: what it means in relationship to a financial statement

1. **Economic Entity Assumption** The accounting keeps all of the business transactions of a sole proprietorship separate from the business owner's personal transactions. For legal purpose, a sole proprietorship and its owner are considered to be one entity, but for an accounting purposes they are considered to be two separate entities.

2. **Monetary Unit Assumption.** Because of this basic accounting principle, it is assumed that the dollar's purchasing power has not changed over time. As a result accountants ignore the effect of inflation on recorded amounts. For example, dollars from a 1960 transaction are combined (or shown with) dollars from a 2007 transaction.

3. **Time Period Assumption.** This accounting principle assumes that it is possible to report the complex and ongoing activities of a business in relatively short, distinct time intervals. The shorter the time interval, the more likely the need for the accountant to estimate amounts relevant to that period.

4. **Cost Principle.** From an accountant's point of view, the term "cost" refers to the amount spent (cash or the cash equivalent) when an item was originally obtained, whether that purchase happened last year or thirty years ago. For this reason, the amounts shown on financial statements are referred to as historical cost amounts. Because of this accounting principle asset amounts are not adjusted upward for inflation. In fact, as a general rule, asset amounts are not adjusted to reflect any type of increase in value. Hence, an asset amount does not reflect the amount of money a company would receive if it were to sell the asset at today's market value. (An exception is certain investment in stocks and bonds that are actively traded on a stock exchange). If you want to know the current value of a company's long-term assets, you will not get this information from a company's financial statements – you need to look elsewhere, perhaps to a third-party appraiser.

5. **Full Disclosure Principle.** If certain information is important to an investor or lender using the financial statements, that information should be disclosed within the statement or in the notes to the statement.

It is because of this basic accounting principle that numerous pages of "footnotes" are often attached to financial statements.

6. **Going Concern Principle.** This accounting principle assumes that a company will continue to exist long enough to carry out its objectives and commitments and will not liquidate in the foreseeable future. If the company's financial situation is such that the accountant believes the company will not be able to continue on, the accountant is required to disclose this assessment. The going concern principle allows the company to defer some of its prepaid expenses until future accounting period.

7. **Revenue Recognition Principle.** Under the accrual basis of accounting (as opposed to the cash basis of accounting) revenues are recognized as soon as a product has been sold or a service has been performed, regardless of when the money is actually received. Under this basis accounting principle, a company could earn and report \$20,000 of revenue in its first month of operation but receive \$0 in cash in that month.

8. **Materiality.** Because of this basic accounting principle or guideline, an accountant might be allowed to violate another accounting principle if an amount is insignificant. Professional judgment is needed to decide whether an amount is insignificant or immaterial. Because of materiality, financial statements usually show amounts rounded to the nearest dollar, to the nearest thousand, or to the nearest million dollars depending on the size of the company.

9. **Conservatism.** If a situation arises where there are two acceptable alternatives for reporting an item, conservatism directs the accountant to choose the alternative that will result in less net income and/or less asset amount. Conservatism helps the accountant to "break a tie". It does not direct accountants to be conservative. Accountants are expected to be unbiased and objective. The basic accounting principle of conservatism leads accountants to anticipate or disclose losses, but it does not allow a similar action for gain. For example, potential losses from lawsuits will be reported on the financial statements or in the notes, but potential gains will be reported. Also, an accountant may write inventory down to an amount that is lower than the original cost, but will not write inventory up to an amount higher than the original cost.

II. Notes:

- | | |
|---|--|
| 1) to refer – ссылаться | 6) to disclose – обнаруживать |
| 2) ongoing – последующий | 7) to defer – отсрочить |
| 3) predecessor – предшественник | 8) to violate – нарушать |
| 4) financial statement – финансовый отчет | 9) to anticipate – предвидеть, ожидать |
| 5) to adjust – исправлять | 10) transaction – сделка |

III. Answer the questions:

1. What is the purpose of general accounting principles?
2. Which set of rules do accounting principles involve?
3. Why is it useful to use general accounting principles?
4. How many accounting principles do you know? Describe each of them.

IV. Insert the missing words:

1. The going concern principle ... that a company will continue to exist long enough ... its ... and
2. Professional ... is needed to decide whether an amount is ... or
3. ... helps the accountant to “break a tie”.
4. As a result accountants ... the effect of inflation on
5. Because of ... principle asset amounts are not ... upward for inflation.

V. Finish up the following sentences in column “a” with the sentences from column “b”:

- | A | B |
|---|---|
| 1. Over the years the generally accepted principles | a) are referred to as historical cost amounts. |
| 2. The amounts shown on financial statements | b) the company to defer some of its prepaid expenses until future accounting periods. |
| 3. Because of full disclosure principle | c) have become more complex. |
| 4. The going concern principle allows | d) to anticipate or disclose losses. |
| 5. The basic accounting principle of conservatism leads accountants | e) numerous pages of “footnotes” are often attached to financial statements. |

VI. Translate from Russian into English:

1. За многие годы бухгалтерские принципы стали более сложными, т.к. финансовые сделки тоже стали сложнее.
2. Принцип соответствия подразумевает, что расходы должны соответствовать доходам.
3. Согласно принципу признания доходов, доходы признаются, как только товар был продан или выполнена услуга, независимо от того получены ли деньги.
4. Юридически, частная собственность и ее владелец считаются одним целым, но в бухгалтерском понимании они рассматриваются отдельно.
5. Количество активов не отражает количество денег, которые компания получит, если эти активы будут проданы по рыночной цене.

VII. Summarize the text.

VIII. What other accounting principles do you know? Describe them.

UNIT 4

I. Read and translate the text.

ASSETS AND LIABILITIES

The term "asset" means anything of value that is owned by a company and can be expressed in terms of money. Economic resources that provide a potential future service to the organization are called assets in accounting. A company's total assets include such items as cash, buildings, equipment, any other property and accounts receivable, that is, money owned by its customers.

Assets are usually classified as current and long-term, both types consisting of tangible as well as of intangible items. Current tangible assets including cash, accounts receivable, stock-in-trade are usually converted into cash within one year and sometimes can be used as a means of payment. On the other hand, current intangible assets consist of short-term investments in stocks and bonds.

Long-term intangible assets are not really visible and include such items as goodwill, patent, trademarks, copyrights, these assets often being the most important factor for obtaining future incomes. For example, goodwill means an intangible asset which takes into account the value added to a business as a result of its reputation which cannot be really calculated. In contrast, the real estate (such as farm land, machinery, buildings and other physical objects) belongs to long-term tangible assets.

Liabilities are obligations that a company owes to another organization, to an individual (such as creditors and employees) or to the government. Like assets, liabilities are divided into current and long-term ones. Current liabilities are usually amounts that are paid within one year, including accounts payable, taxes on income and property, short-term loans, salaries and wages, and amounts of money owed to suppliers of goods and services. Noncurrent liabilities often called long-term are usually debts, such as bonds and long-term loans.

The amount by which the total assets exceed total liabilities is known as the net worth is usually called the equity for companies. When the company is a corporation, the equity means the investment interest of the owners (that is, the stockholders) in the organization's assets. The owners' equity can be increased either by investing more money in the company or by earning a profit or can be decreased because of the company's losses.

All companies keep proper accounting system in order to know whether or not they are operating profitably, each of the assets and the liabilities and the equity being shown in a company's accounts separately. The balance sheet prepared by the company's accountant is one of the important financial reports showing the value of the total assets, total liabilities and equity on a given date. The relationship of these main categories is represented by the fundamental accounting equation: assets (everything that is owned) are equal to liabilities (owed) plus equity (clear of debt).

$$\text{ASSETS} = \text{LIABILITIES} + \text{EQUITY}$$

As all three factors are expressed in terms of money, they are limited to items that can be given a monetary value. The accounting equation should always be balance, so that one must equal the other.

II. Notes:

- | | |
|--|--|
| 1) assets and liabilities – актив и пассив | 6) stock-in-trade – товарный запас, товарная наличность, остаток непроданных товаров |
| 2) lending terms – условия выдачи кредита | 7) copyright – авторское право |
| 3) accounts receivable – счета дебиторов, счета к получению; ожидаемые поступления | 8) equity – капитал компании, акционерный капитал; активы (предприятия) за вычетом задолженности |
| 4) current liabilities – краткосрочные обязательства; текущие пассивы | 9) balance sheet – балансовый отчет |
| 5) (ant. Noncurrent liabilities, long-term liabilities – долгосрочные обязательства) | 10) balance sheet account – статья бухгалтерского баланса |
| | 11) clear of debt – без долга |

III. Answer the questions:

1. What does the term "asset" mean?
2. How can the company's assets be classified?
3. How can "goodwill" increase the company's profits?
4. What liabilities does the company usually have? How are they classified?
5. How is the net worth calculated?
6. What is the main accounting equation?
7. Why is it important to keep the proper accounting system?

IV. Choose the right word in the brackets:

1. Knowing the company's (stocks / goodwill) value, creditors are ready to invest more money as they expect high (investment interest / salaries) at the end of the year.
2. Both farm equipment and farm building make up (short-term / long-term) (intangible / tangible) assets in agro business.
3. (Accountants / Stockholders) prepare reports in financial (items / terms) describing the results of past resources allocation decisions.
4. Any company is responsible for paying salaries of (employers / employees) and (wages / salaries) of workers belonging to company current (liabilities / assets) regularly, usually monthly or weekly.
5. The amount of goods and services known as company (stock-in-trade / real estate) is available for sale at a given time and it is shown as an asset on the (accounts receivable / balance sheet).
6. (To calculate / to operate) properly the company's manager should rely on information obtained from public survey.
7. The greater is the difference between total assets and total liabilities the greater is the company's (net loss / net worth) often known as the (equity / debt) for a corporation.
8. The fundamental accounting (equation/equilibrium) can be written in different forms, for example: $assets - liabilities = equity$.
9. The company's obligations are known to be classified as current and noncurrent ones, the former being also called (long-term / short-term) (liabilities / assets).
10. One should take into account that (accounts payable / goodwill) unlike the real estate belongs to intangible, but it can be sold like any other property.

V. Finish up the following sentences in column "a" with the sentences from column "b":

- | A | B |
|---|--|
| 1. To be clear of debt | a) is usually calculated at the end of a fiscal year! |
| 2. If current assets are less than current liabilities, | b) such as assets, liabilities and equity are likely to be arranged vertically. |
| 3. The money obtained from selling a company's current tangible assets | c) a stock, a plot of land, a building or a machine. |
| 4. Although accounting is one of the oldest professions in the world, | d) created the legal foundation protecting the work of many industries, for example music recording. |
| 5. Both a person and a company can own such items of value as | e) the company should sell off part of its receivable accounts |
| 6. In England the three major sections of the balance sheet, | f) the management of financial resources and representation of other aspects of the business in financial terms. |
| 7. In order to operate the business properly one should take into account | g) it took much time to find satisfactory general methods of keeping finance record. |
| 8. Accountants are supposed to deal with | h) that the accounting system is just one of means of processing information in an organization |
| 9. The amount of the owner's investment interest | i) is unlikely to cover the company's debts. |
| 10. The copyright Act adopted by the US Congress in 1976 | j) the stockholders can't expect any dividends. |

VI. Translate from Russian into English:

1. Производство может быть рентабельным, если как материальные, так и нематериальные активы находятся в правильном соотношении.
2. К долгосрочным материальным активам относятся такие предметы, как земля, недвижимость и оборудование, так как они участвуют в процессе производства в течение длительного времени.

3. Можно использовать текущие материальные активы, например счета дебиторов, как средство платежа.
4. Как известно, “гудвил” относится к нематериальным активам компании, однако репутация компании может значительно повысить ее доходы.
5. Изучение текущих и долгосрочных пассивов компании очень важно при проведении анализа деятельности компании.
6. Разница между активами и пассивами – это чистая стоимость компании, которая для корпорации может быть представлена в виде акций.

VII. Make up a plan to the text.

VIII. Give the annotation to the text.

UNIT 5

I. Read and translate the text.

BOOKKEEPING AS PART OF ACCOUNTING CYCLE

For management of any company to be efficient, extensive and accurate information concerning receipts and payments, assets and liabilities, depreciation of assets and other data about company status are required. Such information being obtained mainly from different records, additional funds and time should be invested in bookkeeping and accounting system.

In general, accounting and bookkeeping mean identifying, measuring, recording economic information about any business, bookkeeping being considered the preliminary stage and part of the larger field of accounting.

The task of a bookkeeper is to ensure the record-keeping aspect of accounting and therefore to provide the data to which accounting principles are applied in the preparation of financial statements. Bookkeeping provides the basic accounting data by systematical recording such day-to-day financial information as income from the sale of products or services, expenses of business operations such as the cost of the goods sold and overhead expenses such as a rent, wages, salaries.

Accounting principles determine which financial events and transactions should be recorded in the bookkeeper's books. The analysis and interpretations should be recorded in the bookkeeper's books. The analysis and interpretation of these records are the primary function of accounting. The various financial statements produced by accountants then provide managers with the basis for future financial planning and control, and provide other interested parties (investors, the government) with useful information about the company.

Modern accounting system is considered to be a seven-step cycle. The first three steps fall under the bookkeeping function, such as: 1) the

systematic recording of financial transactions; 2) the transferring of the amounts from various journals to general ledger (also called “posting step”); 3) the drawing up of the trial balance.

Record keeping of companies is based on a double-entry system, due to which each transaction is recorded on the basis of its dual impact on the company’s financial position. To make a complete bookkeeping record of every transaction in a journal, one should consider interrelated aspects of every transaction, and entries must be made in different accounts to keep the ins (receipts) and outs (payments) balanced.

A typical account is known to have two sides: the items on the left side are called debits, while the items on the right side are credits.

Thus, double-entry bookkeeping doesn’t mean that the same transaction is entered twice, it means that the same amount of money is always debited to one account and credited to another account, each record having its own effect on the whole financial structure of the company. Certain accounts are increased with debits and decreased with credits, while other accounts are increased with credits and decreased with debits.

In the second step in the accounting cycle, the amounts from the various journals are usually monthly transferred to the company’s general ledger – a procedure called posting. Posting data to the ledgers is followed by listing the balances of all the accounts and calculating whether the sum of all the debit balances agrees with the sum of all the credit balances. This procedure known as the drawing up of a trial balance and those that follow it usually take place at the end of the fiscal year. By making a trial balance, the record-keeping accuracy can be checked. The trial balance having been successfully prepared, the bookkeeping portion of the accounting cycle is completed.

The double-entry system of bookkeeping enables every company to determine at any time the value of each item that is owned, how much of this value belongs to creditors, the total profit and how much belongs to the business clear of debt. Thus, one advantage of the double– entry system is that its information is complete enough to be used as the basis for making business decisions. Another advantage is that errors are readily detected, since the system is based on equations that must always be in balance.

II. Notes:

- | | |
|--|---|
| 1) double-entry bookkeeping – система бухгалтерского учета с двойной записью | 6) to bring accounts to a balance – составлять сводный баланс |
| 2) receipts – денежные поступления, выручка; приход; доходы | 7) balances with foreign banks – остатки на счетах в зарубежных банках |
| 3) monthly statement – ежемесячный бюллетень | 8) debit – дебет (расход) |
| 4) ledger posting – запись в главную бухгалтерскую книгу | 9) credit account – запись в правой части счета, отражающая приход актива |
| 5) trial balance – пробный, предварительный бухгалтерский баланс | 10) accuracy – точность, правильность, тщательность |

III. Answer the questions:

1. What role does bookkeeping play in the accounting cycle?
2. What is the modern concept of the accounting system?
3. What tasks should a bookkeeper solve at the first three steps of the accounting cycle?
4. What does double-entry bookkeeping mean?
5. What are the advantages of the double-entry system?

IV. Choose the right words in brackets:

1. The accounting cycle is known to consist of seven main steps, the (bookkeeping / accounting) being responsible for the analysis and interpretation of the (records / entries).
2. Having drawn up the (balance sheet / trial balance), the bookkeeper expects the final financial (accounts / statements) to be prepared in the (accounting / managerial) department.
3. A bookkeeper deals with taxes, cash flow which includes cash (receipts / credits) and (debits / payments), sales, purchases and different other business (activities / transactions).
4. Bookkeepers first (post / record) all the data in the books which are called (ledgers / journals).
5. The record-keeping (accuracy / accurately) can't be checked until total debits and total credits are added together.

6. Disagreement between the total of the (debits / receipts) and the total of the (payments / credits) in the trial balance mean that there is an error in the records.
7. A ledger is a book having one page for each (entry / account) in the organization's financial structure, (debits / credits) being shown on the left side.
8. All items of tangible assets should be (posted / listed) accurately before calculating their depreciation.
9. If sources exceed uses, there will be (a balance / an excess) of cash representing funds provided but not yet put to use in the business.

V. Finish up the following sentences in column "a" with the sentences from column "b":

- | A | B |
|---|---|
| 1. The preparation of a trial balance includes | a) recording in an account a sum of money paid out or still owed. |
| 2. A special book known as a journal is used | b) regular transferring entries from the journal to the appropriate accounts in the ledger. |
| 3. Double-entry bookkeeping is a system of recording accounts where | c) for recording all primary information about any business transaction. |
| 4. The posting procedure consists of | d) the accurate performance of the first steps in the accounting cycle. |
| 5. In bookkeeping a sum of money paid or owed by a business | e) is recorded on the right-hand side of a list of accounts. |
| 6. One should know that crediting means | f) recording all money received by and paid out of a company in special books or computer files. |
| 7. Unlike crediting the debiting procedure means | g) the checking of accounts by comparing the total credits with the total debits. |
| 8. Bookkeeping as part of the accounting cycle deals with | h) is shown on the left-hand side of a list of accounts. |
| 9. A bookkeeper is sure to be fully responsible for | i) each sale or purchase is shown as having an effect on both the debit and the credit columns of an account. |
| 10. The sum of money gained by a business | j) recording the payment of a sum of money into an account. |

VI. Translate from Russian into English:

1. В настоящее время система финансового учета, как известно, состоит из семи ступеней, причем бухгалтерский учет проводится на первых трех этапах.
2. Принцип бухгалтерского учета с двойной записью используется для контроля за финансовым положением предприятия.
3. Следует знать, что типичный счет состоит из двух частей: левая часть для записей расходов, а правая часть для записей поступлений.
4. Чтобы составить пробный баланс, необходимо произвести разnosку по счетам в гроссбух.
5. Составлением пробного баланса в конце бюджетного года завершаются первые три ступени финансового учетного цикла.
6. Финансовый учет обеспечивает данные для экономического анализа и планирования повышения производительности труда и дохода.

VII. Make up the plan to the text.

VIII. Give the annotation to the text.

UNIT 6

I. Read and translate the text.

ACCOUNTING INFORMATION

Accounting provides informational access to a company's financial condition for three broad interest groups. First, it gives the company's management the information to evaluate financial performance over a previous period of time, and to make decisions regarding the future. Second, it informs the general public, and in particular those who are interested in buying its stock, about the financial position of the company. Third, accounting provides reports for the tax and regulatory departments of the government. In general, accounting information can be classified into two main categories: financial accounting (or public information) and managerial accounting (or private information).

Managerial accounting deals with cost and profit relationships, efficiency and productivity, planning and control, pricing decisions, capital budgeting, etc. Not being generally spread outside the company, this information provides a wide variety of specialized reports for division managers, department heads, project directors.

A standard set of financial statements is expected to be prepared regularly by financial accounting and published in an annual report at the end of the fiscal year. Being prepared in accordance with generally accepted accounting principles, these statements include the following items: 1) the balance sheet, 2) the statement of cash flows, 3) the income statement, 4) the statement of retained earnings.

Information relating to the financial position of a company, mainly about assets and liabilities, is presented in a balance sheet. The statement of cash flows shows the changes in the company's financial position and provides information which is not available in either an income statement or a balance sheet. Thus, the statement of cash flows represents the sources and the uses of the company's funds for operating activities, applications of working capital and data about additional financial support. Provided the company couldn't generate sufficient cash to finance its activities, it would be necessary to borrow money and it should be indicated in the statement.

Another financial statement disclosing the results of the company's activity is known as the income and expense statement. Prepared for a defined

time interval, this statement summarizes the company's revenues, expenses, gains and losses and shows whether a company has made a profit within the period. Income is considered to be the difference between revenues and expenses. If the total expenses exceeded the total revenues during the period, the difference would be the net loss of the company. Revenues are transactions that represent the inflow of assets as a result of operations – that is, the assets received from selling goods and rendering services. Expenses are transactions involving the outflow of assets in order to generate revenue, such as wages, salaries, rent, interest and taxes. In addition to disclosing revenues and expenses, the income statement also lists gains and losses from other kinds of transactions such as the sale of plant assets or the payments of long-term liabilities.

The income statement excludes the amount of assets withdrawn by the owners, in a corporation such withdrawal of assets being called dividends. The separate statement of retained earnings and stockholder's equity shows investors what has happened to their ownership in the company, how earnings and new stock issuance have increased its value, and what dividends were paid.

Each of these reports contains figures for previous years and for the current period, providing a way of comparing present and past company performance. Being prepared for the use of management, the financial statements contain neither debit nor credit columns. These statements are accompanied by additional data about the particular accounting method used, as well as explanations about the most important events within the previous year.

II. Notes:

- | | |
|--|--|
| 1) tax and regulatory departments –
отделы по налогообложению и
регулированию деятельности
компаний | 5) budgeting – составление сметы |
| 2) operating activities –
управленческая деятельность | 6) statement of retained earnings –
отчет о нераспределенной
прибыли |
| 3) financial performance –
финансовая деятельность | 7) statement of cash flows – отчет о
движении денежных потоков |
| 4) managerial accounting –
управленческая отчетность,
учет | 8) disclosure – раскрытие,
сообщение |
| | 9) net loss – чистый убыток |
| | 10) to render an account for payment
– предоставлять счет к оплате |

III. Answer the questions:

1. Who is interested in accounting information?
2. What are the main differences between financial and managerial accounting?

3. Why is it important to prepare the statement of a company's cash flows?
4. How can revenues and expenses be defined?
5. Why is it necessary to prepare additional reports?

IV. Finish up the following sentences in column "a" with the sentences from column "b":

- | A | B |
|--|--|
| 1. A balance sheet represents | a) about a company's revenues, expenses, gains and losses. |
| 2. The statement of each flows provides the information | b) relating to the profitability of the company and its financial position |
| 3. The income statement summarizes the data | c) the main accounting equation |
| 4. The statement of retained earnings discloses the information concerning | d) stockholder's equity and dividends. |
| 5. Financial accounting includes the information | e) about the changes in the financial structure of the company |

V. Translate from Russian into English:

1. Финансовые отчеты, публикуемые ежегодно для акционеров, представляют интерес для налоговых органов.
2. Отчеты для управления содержат данные о планировании, о взаимосвязях стоимости и прибыли, о ценообразовании, о составлении бюджета, эффективности и производительности предприятия.
3. Отчет о денежных потоках показывает, накопила ли компания достаточно наличных денежных средств для финансирования своей деятельности или необходимо было брать деньги займы.
4. Отчет о прибыли предоставляет данные, как о доходах и расходах, так и о прибылях и убытках компании за год.
5. Отчет о нераспределенной прибыли включает информацию об использовании акционерного капитала и об уровне дивидендов акционеров.

VI. Retell the text.

- VII. Think and say in what financial figures and statements the following groups of people are more interested: a) stockholders; b) managers; c) creditors; d) the company's employees; e) competitors; f) fiscal officials. Why? Find additional information.**

UNIT 7

I. Read and translate the text.

FORMS OF BUSINESS OWNERSHIP

Business is a commercial enterprise performing all those functions that govern the production, distribution, and sale of goods and service for the benefit of the buyer and the profit of the seller. Since the beginning of the era of economic progress old ways of running business have been modified, and new forms of business organization have been introduced. This has enabled various branches of industry to adapt to changing conditions and to function more easily, efficiently and profitably, sole proprietorship, partnership, and corporation being the main three forms of business ownership.

A sole proprietorship is a business owned by one person, in which all the profits belong to the owner, the latter being fully responsible for the success and the failure of the business. Unless an activity is specifically prohibited by law, no field of business is closed to an owner. Although advantages for the small business exist in this form, certain drawbacks make it undesirable for larger concerns. In the first place, the single owner is seldom able to invest as much capital as can be obtained by a partnership or a corporation. If single owners are able to invest large amounts of capital, they run great risk of losing it all because they are personally liable for all the debts of their businesses. It is due to unlimited liability that all the personal assets of the owner, including his home and car, can be sold to settle the debts of the business. Unless the owner has much personal wealth, the business may have difficulty borrowing money in critical times. A sole proprietorship may also have difficulty hiring and keeping good employees, because the business will dissolve when the owner retires or dies.

A partnership is an association of two or more persons who have agreed to combine their financial assets, labor, property, and other resources as well as their abilities and who carry on a business jointly for the purpose

of profit. The agreement the partners usually sign to form an association is known as a partnership contract and may include general policies, distribution of profits, responsibilities.

Like the sole proprietorship, the partnership is easy to establish, and its profits are not subjected to federal corporation taxes. Financing is generally easier to obtain because the personal assets of the group are usually larger and the chances of success are higher. The major disadvantage of the partnership is unlimited liability of each partner for the debts of the business, that is, complete financial responsibility for losses. Furthermore, partners who wish to retire may find it difficult to recover their investments without dissolving the partnership and ending the business.

A business corporation is an organization created by law that allows people to associate together for the purpose of making profit. Corporations are also known as joint-stock companies because they are jointly owned by different persons who receive shares of stock in exchange for an investment of money in the company. Shares represent fractions of the company's assets such as cash, equipment, real estate, manufactured goods, etc.

Though the corporation is more difficult and expensive to organize than other business forms, it has a number of advantages. First, investors can limit their personal liability to the amount of money they have invested, thus, if the corporation goes bankrupt, they can lose no more than have put in. Second, money to operate the business is obtained by the sale of stocks to the general public and this enables the corporation to exist independently of its owners. The corporation also finds it easier to borrow money from banks and it is also a successful means for attracting large amounts of capital and investing the latter in plants, modern equipment and expensive research. Salaries large corporations can offer to managers and specialists are high and that allows corporations to hire professional and talented employees.

The great drawback of the corporate form of ownership is double taxation of profits which means that business corporations must pay taxes on their net income, and then the shareholders are to pay taxes on the income they receive as dividends on their stock. Different kinds of reports to be filled to federal and state regulatory agencies about the corporation activity can also be considered as another disadvantage of this business form. However, in terms of size and influence it is the corporation that has become the dominant business form existing in most countries with free market economy.

II. Notes:

- | | |
|---|---|
| 1) corporate ownership –
акционерная собственность | 6) to be liable for smb – нести
ответственность за кого-то |
| 2) sole proprietorship –
единоличная собственность | 7) unlimited liability –
неограниченная
ответственность |
| 3) partnership – партнерство,
товарищество | 8) dissolve – ликвидировать |
| 4) to prohibit by law – запрещать
законом | 9) to recover debts – взыскивать
долги |
| 5) drawback – недостаток | 10) joint-stock company –
акционерное общество |

III. Answer the questions:

1. What are the main reasons of developing different forms of business ownership?
2. What is a sole proprietorship?
3. Are there any limitations as to the field of activity of a proprietor?
4. What are similarities and differences between a sole proprietorship?
5. How can large amounts of money attracted by a corporation be used?

IV. Finish up the following sentences in column “a” with the sentences from column “b”:

- | A | B |
|---|---|
| 1. If one of the partners retired | a) the products they buy |
| 2. The purpose of market analysis is | b) it would be difficult to determine and to recover his share in the business |
| 3. Each group of consumers looks for different qualities in | c) available to the company's shareholders |
| 4. The reports the auditor prepares annually should be | d) to anticipate the share of the particular market the product can expect to receive |
| 5. The banks have to keep enough cash | e) to provide for those clients who don't want to pay cheques or use credit cards |

V. Translate from Russian into English:

1. Появление трех форм собственности взаимосвязано с бурным экономическим прогрессом во всех отраслях промышленности.
2. При единоличной форме собственности владелец получает всю прибыль, а так же несет неограниченную ответственность в случае неспособности выполнить обязательства перед поставщиками и клиентами.
3. Партнерство позволяет владельцам объединить свои финансовые капиталы для получения прибыли и облегчение получения кредита у банков.
4. Основное преимущество корпорации это ограниченная ответственность акционеров.
5. Система двойного налогообложения включает подоходный налог на получаемые акционерами дивиденды.

VI. Grasp the main idea of the text.

VII. What major Kyrgyz companies or corporations do you know?

Make up a presentation.

UNIT 8

I. Read and translate the text.

PROPRIETORSHIPS AND PARTNERSHIPS

There are three major types of business enterprises: the individual proprietorship, the partnership, and the corporation. The proprietorship is a business firm owned by a single party. The partnership is one owned by two or more parties. The corporation is a separate legal entity that operates under a grant of authority from a state or other governmental body and is owned by one or more stockholders.

The proprietorship is far and away the most common type of business in the United States. Indeed, proprietorships compose approximately 70 percent of the over 16 million enterprises. Partnerships account for about 10 percent and corporations 20 percent. However, proprietorships generate only 7 percent of business receipts and partnerships only 4 percent. Corporations generate the remaining 89 percent. Moreover, the largest 3 percent of corporations generates approximately 62 percent of corporate business receipts.

Corporations are often thought of as large enterprises, proprietorships and partnerships as small. While it is true that most proprietorships and partnerships are small businesses, most corporations are also relatively small, often family-owned firms. The corporation is associated with bigness because most large businesses – those that account for the major part of industrial output – are corporations. Nevertheless, many large enterprises are organized as partnerships. Service organizations such as brokerage firms and CPA firms may be organized as partnerships even though they generate hundreds of millions of dollars in annual revenues.

Proprietorships and partnerships are, in a legal sense, extensions of their owners. One or more parties simply establish a business. They purchase or rent whatever equipment or space is needed, acquire supplies or inventory and obtain any local operating licenses that might be required. No formal

charter or state certificates are required. If the business is to be operated as a partnership it is generally wise to have an attorney draw up a partnership agreement that specifies the rights and obligations of each partner – how profits will be distributed, who will perform what services, how much each partner must contribute initially, what rights of survivorship will accrue to each partner's estate, what limitations there will be upon sale of a partner's interest in the business. But a partnership agreement is for the protection of the individual partners; it is not ordinarily required by law.

A proprietor, as well as each partner of a partnership, is usually personally responsible for all obligations of his or her business. If the enterprise suffers losses the owners are jointly and severable responsible for all debts incurred. Partners will generally be held liable not only for their own individual shares of the debts but, should their fellow partners be unable to meet their shares of the claims against the business, for the debts of those partners as well. As a consequence, few investors are as willing to purchase an equity interest in a partnership as they might be to purchase one in a corporation. In the event the partnership is liquidated and fellow partners are unable to meet their share of obligations, the personal assets of the investors might be subject to the claims of creditors. Their assets at risk are unlimited, extending beyond their original investment.

There are no limits to the number of parties who might compose a partnership. Because of the extended liability to which each partner is subject, most partnerships are small – two or three members. However, many partnerships are considerably larger. Some CPA firms that are organized as partnerships have thousands of partners who are located throughout the world.

Neither proprietorships nor partnerships are subject to federal or state taxes on income. Instead, the tax is assessed on the individual owners. If the organization is a partnership then each partner is taxed on his or her own share of partnership earnings. The rate of tax is determined by the tax bracket in which the individual partner falls after taking into account earnings from non partnership sources. Each partner is taxed on his or her individual share of the entire earnings of the partnership, not just on withdrawals from the business. Thus, especially if the partnership requires capital for expansion, a partner may be taxed on earnings that are retained in the business and are not available for his or her discretionary use as well as on funds actually taken from the business.

2) **Notes:**

- | | |
|--|---|
| 1) proprietorship – частное
предпринимательство, право
собственности | 6) attorney – адвокат |
| 2) separate legal entity – отдельное
юридическое лицо | 7) draw up – составлять |
| 3) approximately – приблизительно | 8) accrue – накапливаться, нарастать
(о процентах) |
| 4) revenue – доход, прибыль | 9) asset(s) – имущество, актив,
фонд, капитал |
| 5) extension – расширение | 10) consequence – следствие,
последствие |

3) **Answer the questions:**

1. How do we call the business if you go into it alone?
2. What kind of business is the most common type of business in the United States?
3. What are the advantages of a partnership?
4. Discuss the disadvantages of a partnership. Would you prefer partnership or proprietorship for business? Give your reasons.
5. In what cases are the owners responsible for all debts incurred?

4) **Match words or notions:**

- | | |
|---------------|--|
| 1) enterprise | a) decide or fix that amount of (e.g. a tax or fine) |
| 2) receipt | b) withdrawing or being withdrawn |
| 3) inventory | c) judge or estimate the value or qualities |
| 4) charter | d) enlargement |
| 5) assets | e) fairness; right judgment |
| 6) withdrawal | f) buy (which is much more usual) |
| 7) rate | g) undertaking, especially one that needs courage or boldness or that offers difficulty |
| 8) expansion | h) money received (in a business, etc) (contrasted with expenditure) |
| 9) equity | i) detailed list, e.g.: of house goods, furniture, etc. |
| 10) purchase | j) (written or printed statement of) rights, permission, especially from a ruler or a government |

Insert missing words and words combinations:

1. ... is a separate legal entity that operates under a grant of authority from a state or other ... body and is owned by one or more
2. Corporations are often thought of as ..., proprietorships and ... as small.
3. One or ... simply establish a business.
4. A proprietor, as well as each partner of a partnership, is usually personally ... for all obligations of his or her business.
5. Because of the ... to which each partner is subject, most partnerships are small – two or three members.
6. If ... is a partnership, then each partner is taxed on his or her own share of partnership earnings.
7. Each partner is taxed on his or her ... of the ... of the partnership, not just on withdrawals from the business.

Translate from Russian into English:

1. Корпорация – отдельное юридическое лицо, которое работает под руководством государственных властей или других правительственных органов, и принадлежит одному или более акционерам.
2. Однако многие из крупных предприятий организованы как партнерства.
3. Если бизнес должен действовать как партнерство, то в общем благоразумно иметь юриста при составлении партнерского соглашения, который подробно объяснит права и обязанности каждого партнера – как распределить прибыль, кто какую работу будет выполнять, сколько первоначально каждый из партнеров должен вкладывать, какие права приобретает партнер вследствие смерти соучредителей, какие ограничения и какой процент будет у партнера после продажи бизнеса.
4. Но соглашение партнерства не требуется согласно закону, это обычно необходимо для защиты каждого из партнеров.
5. Если предприятие несет потери, владельцы совместно несут ответственность за все понесенные долги.
6. В случае, если партнерство будет аннулировано и партнер не будет в состоянии погасить обязательства, личные активы инвесторов могут перейти к кредиторам как погашение обязательств.

7. Некоторые фирмы СРА, которые были организованы как партнерства, имеют тысячи партнеров по всему миру.
8. Партнерство часто получает налоговые льготы от правительства.
9. Партнерство имеет много преимуществ.
10. Акционеры – это лица, которые вкладывают средства в корпорацию путем приобретения пакета акций.

Advertise a corporate form of proprietorship.

Consult a lawyer how to form a partnership.

UNIT 9

I. Read and translate the text.

CORPORATIONS

A corporation, by contrast, is a legal entity separate and distinct from its owners. It is a legal "person" created by the state. A corporation is owned by its stockholders, but its stockholders are not compelled to take an active role in its management. In many corporations there is a distinct separation of ownership and operating control, with managers typically holding only a small fraction of total shares outstanding. A corporation has an indefinite life. It continues in existence regardless of the personal fortunes of its owners. Its owners are commonly free to transfer or sell their shares of stock to anyone they wish.

Corporations, unlike proprietorships or partnerships, are creatures of the state. A corporation has the right to own property in its own name, and it can sue or be sued. Upon its formation it must be chartered by the state. Although at one time charters were granted only upon special acts of the legislature today they are routinely issued upon submission of certificates of incorporation and supplementary application forms and payment of necessary fees. The certificate of incorporation specifies the name of the proposed corporation its purposes (most certificates of incorporation are drawn so as to allow the company to engage in an unlimited range of business activities), the number of shares authorized to be issued, and the number of directors.

Once the charter has been issued, the corporation has to adopt formal bylaws, which govern a number of critical areas of operation. They cover such matters as the issuance and transfer of stock and the conduct of meetings of directors and stockholders.

The single most significant distinction between corporations and proprietorships or partnerships is that the liability of stockholders of a corporation is limited to the amount of their initial investment in the

company, whereas that of the owners of proprietorships or partnerships is unlimited. With few exceptions, the maximum loss that a stockholder can sustain on the purchase of an interest in a corporation is the amount of his or her initial investment. Should the corporation fail, creditors can avail themselves of only the assets of the corporation: they cannot seek redress against the personal assets of the individual stockholders. Only in rare circumstances – the involvement of corporate stockholders in fraud, for example – is it possible for creditors or others who may have judgments against the corporation to “pierce the corporate veil” and bring a successful legal action against the individual stockholders. Because it is able to protect investors against unlimited loss, the corporation is a vehicle that is well suited to raise large amounts of capital. Investors may be willing to purchase an ownership interest in a company knowing that they can share in the gains of the company to an unlimited extent but that their losses will be limited by the amount of their direct contributions. They need not be overly concerned with the day-to-day operations of their business since neither the managers nor their fellow owners can so mismanage the business as to put their personal assets in jeopardy.

Corporations, like other legal persons, are subject to both federal and state income taxes. Earnings of a corporation are taxed regardless of whether or not they are distributed to its owners, albeit at rates different from those of individuals. The individual owners of the corporation unlike those of a partnership are not taxed on their shares of the earning that are retained in the business; they are, however, taxed on the earnings when corporate assets are distributed to them in the form of dividends. Earnings of a corporation are taxed twice – once when earned by the corporation and again when “earned” as dividends by the stockholders.

II. Notes:

- | | |
|---|---|
| 1) legislature – законодательный орган | 4) to sustain – поддерживать, выдерживать |
| 2) supplementary – дополнительный | 5) distinction – отличие, различие |
| 3) by law – распоряжение местных властей или какой-либо организации | 6) to seek – искать |
| | 7) fraud – обман, мошенничество |
| | 8) jeopardy – опасность, риск |
| | 9) regardless – не считая |
| | 10) extent – размер, степень |

III. Answer the questions:

1. What is a business corporation?
2. A corporation, it is said, is a legal "person". Why is a corporation, but not a partnership or a proprietorship so described?
3. What are the critical accounting problems involved in the formation of a corporation?
4. What warnings would you give to someone who is about to purchase the common stock of a newly organized corporation?
5. What are the advantages and disadvantages of the corporate form of ownership?
6. The risks of being a silent partner (one who takes no active role in management) of a business organized as a partnership are for greater than those of being a silent stockholder of a firm organized as a corporation. Do you agree? Explain.

IV. Match words or notions:

- | | |
|-------------|---|
| 1) distinct | a) make use of, profit by, take advantage of |
| 2) fraction | b) make up for, do something that compensates for (a wrong) |
| 3) transfer | c) carriage (car, lorry, van, bus, etc) (usually wheeled) for moving goods or passengers on land (and in space) |
| 4) adopt | d) anything owned by a person, company, etc that has money value and that may be sold to pay debts |
| 5) avail | e) keep in place |
| 6) redress | f) relating to supporting, central (as distinct from state) government |
| 7) vehicle | g) accept, e.g. a report or recommendation |
| 8) asset(s) | h) change position, move |
| 9) retain | i) small part or bit |
| 10) federal | j) different in kind |

V. Insert missing words and words combinations:

1. ... is owned by its stockholders but its stockholders are not compelled to take an ... in its management.
2. A corporation has the right to own ... in its own name, and it can sue or be sued.
3. Although at one time ... were ... only upon special acts of the ..., ... they are routinely issued upon submission of certificates of incorporation and supplementary application forms and payment of necessary fees.
4. The single most ... between corporations and proprietorships or partnerships is that ... of a corporation is limited to the amount of their initial investment in the company, whereas that of the owners of ... or partnerships are unlimited.
5. ... may be willing to ... an ownership interest in a company knowing that they can share in the gains of the ... to an ... but that their losses will be limited by the amount of their direct contributions.
6. Earnings of corporation are ... regardless of whether or not they are distributed to its ..., albeit at rates different from those of
7. Earnings of a corporation are taxed twice – once when earned by the corporation and again when “earned” as ... by the

VI. Translate from Russian into English:

1. Корпорация является собственностью акционеров, которые могут не принимать участия в управлении компании.
2. Единственное наиболее значительное различие между корпорациями и частной собственностью или партнерствами – то, что ответственность акционеров корпорации ограничена на сумму их начальных инвестиций в компании, тогда как у владельцев частной собственности или партнерств не ограничена.
3. Инвесторы могут купить долю собственности в компании, зная что они могут разделить прибыль компании на неограниченный срок, а их убытки будут ограничены числом прямых инвестиций.
4. Корпорации, как и другие юридические лица, облагаются двумя подоходными налогами: федеральным и государственным.
5. Корпорация имеет больше возможностей для вовлечения финансовых ресурсов, чем партнерство.
6. Акционеры имеют решающее слово в управлении корпорацией.
7. Акции – это сертификаты на право собственности в корпорации.

VII. Speak on the following situation:

William Elton is the sole stockholder of the Elton Co. Mr. Elton intends to contribute \$1 million of his personal funds to the corporation to finance expansion of a plant. He expects that the added capacity of the plant will enable the company to earn \$ 300.000 per year additional income, before federal and state taxes. Mr. Elton has asked your advice as to whether he should have the corporation issue common stock or bonds in return for the \$1 million. Mr. Elton intends to withdraw \$ 100.000 of the additional earning each year, either in the form of interest on bonds or dividends on the common stock. The corporation pays combined federal state, and local taxes at a rate of 40 percent. Mr. Elton personally pays at a rate of 50 percent. Mr. Elton would be required to pay taxes on all returns from the corporation, regardless of whether in the form of interest or dividends.

What advice would you give to Mr. Elton?

VIII. Make up a dialogue between a lawyer and a businessman who wants to form a corporation.

UNIT 10

I. Read and translate the text.

CORPORATIONS VERSUS PARTNERSHIPS: DISTINCTIONS IN PERSPECTIVE

It is easy to place too much emphasis on the distinction between partnerships and corporations. For some businesses, especially smaller enterprises, the differences may be more of form than of substance.

For a small business the corporate form of organization is unlikely to facilitate acquisition of required capital any more than would the partnership form. Most small enterprises have difficulty obtaining equity capital, not so much because potential investors are concerned about subjecting all of their personal assets to possible loss, but rather because they are unwilling to risk any funds on the venture. Small businesses are inherently hazardous, and the corporate form of organization does not by itself enhance prospects for success.

Equally significant, the limited liability feature of the corporate form of organization may actually deter potential suppliers of capital. To a bank or other lending institution, the limitation on owners' liability is an obstacle rather than an inducement to making a loan. The bank, after all, wants assurance that in the event of default it can have access to all the assets of owners, not merely those devoted to the business. As a consequence, many lenders circumvent the limitations on stockholder liability by requiring that the stockholders personally cosign any notes issued by the corporation.

The distinction between the corporate and partnership form of organization has been diminished further in recent years by legislation in some states that provides for the limitation on the liability of certain partners in selected circumstances. As long as there exists one general partner whose liability is unlimited, the liability of other partners,

particularly those who take no part in the day-to-day management of the enterprise, may be limited.

The advantage of a corporation over a partnership is that shares of ownership are readily transferable may be more illusory than real. Although the shares of Major Corporation can be sold difficulty, those of companies that are closely held by a small number of stockholders could probably not be sold any more easily than could a similar interest in a partnership. Indeed, agreements among stockholders of smaller companies sometimes provide that all sales of shares to outsiders must meet the approval of existing owners.

The tax distinctions between partnerships and corporation have also been diminished greatly by statute. The current federal tax code provides that if certain criteria are met, small corporations may elect to be taxed as partnerships. As a consequence, Small Corporation can avoid the burden of "double" taxation; only stockholders, not the corporation, will be on corporate earning.

II. Notes:

- | | |
|---|--|
| 1) to facilitate -- облегчить,
содействовать | 7) general partner – общий партнер
(несущий полную юридическую ответственность за дело) |
| 2) acquisition – приобретение | 8) statute – закон, устав |
| 3) equity capital – собственный капитал | 9) illusory – обманчивый, иллюзорный |
| 4) inherently – неотъемлемо | 10) to obtain – получать, приобретать |
| 5) hazardous – рискованный | |
| 6) to circumvent – расстроить (планы), обмануть | |

III. Answer the questions:

1. What is the distinction between the corporate and partnership form of organization?
2. What does it mean to have unlimited liability?
3. What is the difference between a general partnership and a limited partnership?
4. What kind of partner would you like to be: a general partner or a limited partner? Why so?
5. What is the advantage of a corporation over a partnership?

IV. Match words or notions:

- | | |
|----------------|--|
| 1) substance | a) obligation; sums of money that must be paid (contrasted with assets) |
| 2) enhance | b) keep or get away from |
| 3) obstacle | c) (written) law passed by Parliament or other law-making body |
| 4) liability | d) that makes one thing different from another one |
| 5) avoid | e) prevent (a plan) from being carried out; find a way to get round (a law, rule, etc) |
| 6) statute | f) united in one group |
| 7) distinction | g) most particular part, chief or real meaning of something |
| 8) circumvent | h) add to (the value, attraction, powers, price, etc) |
| 9) corporate | i) something that stops progress or makes it difficult |

V. Insert missing words and words combinations:

1. For a small business the corporate form of ... is unlikely to facilitate ... of required capital any more than would the ... form.
2. Small businesses are ..., and the corporate form of organization does not by itself enhance prospects for success.
3. To a ... or other ..., the limitation, on owners' liability is an ... rather than an inducement to making a loan.
4. The ... of a corporation over a partnership is that shares of ownership are ... may also be more illusory than real.
5. Indeed ... among stockholders of smaller companies sometimes provide that ... to outsiders must meet the approval of ... owners.
6. The tax distinctions between ... and ... have also been diminished greatly by statute.

7. The current federal tax code ... that if certain criteria are met, small corporations may elect to be taxed as partnerships.

VI. Translate from Russian into English:

1. У большинства мелких предприятий есть трудности в получении собственного капитала, потому что потенциальные инвесторы обеспокоены возможной потерей всех их личных активов, а скорее потому, что они не желают рисковать любым капиталом на предприятии.
2. Банку или другому кредитному учреждению, ограничение на ответственность владельцев – препятствует, а не стимулирует к созданию ссуды.
3. Различие между корпоративной формой и формой партнерства организации было уменьшено далее в последние годы в соответствии с законодательством в некоторых государствах, которое предусматривает ограничение на ответственность определенных партнеров при определенных обстоятельствах.
4. Соглашения среди акционеров маленьких компаний иногда предусматривают, что все продажи акций посторонним должны получать одобрение владельцев.
5. Нынешний федеральный налоговый кодекс предусматривает, что если определенные критерии выполнены, то мелкие корпорации могут быть обложены налогом, как партнерства.

VII. Give the main idea of every passage.

VIII. Retell the text.

UNIT 11

I. Read and translate the text.

WHAT IS A MONOPOLY?

The Economics Glossary defines monopoly as: «If a certain firm is the only one that can produce a certain good, it has a monopoly in the market for that good».

To understand what a monopoly is and how a monopoly operates, we'll have to delve deeper than this.

Features of a Monopoly

When we discuss a monopoly, oligopoly, etc. we're discussing the market for a particular type of product, such as toasters or DVD players. In the textbook case of a monopoly, there is only one firm producing the good. In a real world monopoly, such as the operating system monopoly, there is one firm that provides the overwhelming majority of sales (Microsoft), and a handful of small companies that have little or no impact on the dominant firm.

Because there is only one firm (or essentially only one firm) in a monopoly, the monopoly's firm demand curve is identical to the market demand curve, and the monopoly firm need not consider what its competitors are pricing at.

Thus a monopoly will keep selling units as long as the extra amount it received by selling an extra unit (the marginal cost). Thus the monopoly firm will always set their quantity at the level where marginal cost is equal to marginal revenue.

Because of this lack of competition, monopoly firms will make an economic profit. This would normally cause other firms to enter the market. For this market to remain a monopolistic one, there must be some barrier to entry. A few common ones are:

Legal Barriers to entry – This is a situation where a law prevents other firms from entering the market to sell a product. In the United States,

only the USPS can deliver first class mail, so this would be a legal barrier to entry. In many jurisdictions alcohol can only be sold by the government run corporation, creating a legal barrier to entry in this market.

Patents – Patents are a subclass of legal barriers to entry, but they're important enough to be given their own section. A patent gives the inventor of a product a monopoly in producing and selling that product for a limited amount of time. Pfizer, inventors of the drug Viagra, have a patent on the drug, thus Pfizer is the only company that can produce and sell Viagra until the patent runs out. Patents are tools that governments use to promote innovation, as companies should be more willing to create new products if they know they'll have monopoly power over those products.

Natural Barriers to Entry – In these types of monopolies, other firms cannot enter the market because either the startup costs are too high or cost structure of the market Economists generally refer to these monopolies as natural monopolies.

A natural monopoly is a situation where for technical or social reasons there cannot be more than one efficient provider of a good. Public utilities are usually considered to be natural monopolies. There's the need to know information on monopolies. Monopolies are unique relative to other market structures, as it only contains one firm, and thus a monopoly firm has far more power to set prices than firms in other market structures.

II. Notes:

- | | |
|---|--|
| 1) to overwhelm – сокрушать,
подавлять | 7) to promote – продвигать,
содействовать, помогать |
| 2) to delve – копать | 8) innovation – инновация,
новшество |
| 3) curve – кривая линия | 9) public utilities – коммунальные
услуги |
| 4) dominant – господствующий | 10) jurisdiction – правосудие |
| 5) handful – горсть, малое
количество | |
| 6) marginal cost – предельный
доход | |

III. Answer the question:

1. What is a monopoly and how does a monopoly operate?
2. What features does a monopoly have?
3. How do monopolies differ from oligopolies?

4. What is a patent?
5. What is the natural monopoly?

IV. Match words or notions:

- | | |
|---------------|---|
| 1) curve | a) limit or boundary |
| 2) monopoly | b) government authority giving exclusive right to make or sell a new invention |
| 3) revenue | c) public service such as the supply of water or a bus service |
| 4) lack | d) apply to |
| 5) barrier | e) something new that is introduced |
| 6) patent | f) one of a number of parts which can be put together to make a structure |
| 7) utility | g) have less than enough of |
| 8) refer | h) income especially the total annual income of the state; government which collects money for public funds |
| 9) innovation | i) anything over which one person or group has control and which is not or cannot be shared by others |
| 10) section | j) line of which no parts is straight like of the edge of a circle. |

V. Insert missing words and words combinations:

1. In a real words monopoly, such as the ... monopoly, there is one firm that provides the ... majority of sales (Microsoft), and a handful of small companies that have little or no ... the ... firm.
2. Thus the monopoly firm will always ... at the level where marginal cost is ... revenue.
3. In the United States only the USPS can deliver first class mail, so this would be ... to entry. In many jurisdictions alcohol can only be ... by the ..., creating a legal barrier to entry in this market.

4. A ... gives the inventor of a product a monopoly in producing and ... that product for a limited amount of time.
5. Patents are ... that government use ..., as companies should be more willing to create new products if they know they'll have ... over those products.
6. Most public ... would fall into this category. Economists generally ... to these monopolies as
7. A natural monopoly is a situation where for ... or ... reasons there cannot be more than one efficient provider of a good.

VI. Translate from Russian into English:

1. Если только одна определенная фирма может производить определенный товар, она является монополией на рынке этого товара.
2. Когда мы говорим о монополии, олигополии, мы говорим о рынке для определенного вида продуктов, таких как тостеры или DVD-плееры.
3. Придерживаясь теории, можно сказать, что монополия – это ситуация, когда только одна фирма производит товар.
4. Из-за отсутствия конкуренции, монопольные фирмы получают экономическую выгоду. Вполне нормально, что это может побудить другие фирмы внедриться в этот рынок.
5. Патенты – это инструменты, которые использует правительство, чтобы поощрять инновации. Компании захотят производить новые продукты в большом количестве, если узнают, что будут иметь монополистическую власть на рынке этого продукта.
6. Естественная монополия – это ситуация, по техническим или социальным причинам, когда не может быть больше чем одного эффективного поставщика товара.
7. Монополии уникальны относительно других структур рынка, поскольку они содержат только одну фирму, и таким образом монопольная фирма имеет гораздо больше власти в установлении цен, чем фирмы в других структурах рынка.

VII. Grasp the main idea of the text.

VIII. Make up a plan of the text and retell it.

UNIT 12

I. Read and translate the text.

CONGLOMERATES AND MULTINATIONALS

Many of today's corporations have thousands of employees and control billions of dollars in assets and it is the large corporations that define the structure of the nation's economy in the USA. They often dominate major industries and regional economies, and make it possible to produce goods and services that require combining massive amounts of capital, technological know-how, labor resources, managerial skills, and the ability to obtain and process large and diverse amounts of information. In 1990 the combined sales of the largest 500 US industrial corporations were estimated as \$2.3 trillion, profits reached \$93.4 billion, and they collectively employed nearly 12.5 million workers. The combined annual revenues of the world's top five corporations alone were nearly \$450 billion and it was more than the gross national product of several countries. Business having become more competitive, new and more complex corporate combinations appeared. They are known to be formed by the absorption of one or more companies by another, the merger process involving either acquiring a controlling share of a company's stock or buying the company outright. Many corporations have expanded by means of mergers with and acquisitions of businesses in unrelated industries, such collections of businesses being called conglomerates. For instance, International Telephone and Telegraph achieved its growth by absorbing such companies as Sheraton Hotels, Avis Car Rentals, the Hartford Insurance Company, Continental Bakeries, and others. Antitrust laws preventing the growth of the corporations within a single field have promoted the establishment of conglomerates. Between 1955 and 1980 the top 500 corporations absorbed some 4,500 smaller companies. One problem caused by mergers is that the economic growth does not necessarily result from them, and no new jobs may be created, sometimes acquisitions influencing negatively the country's economy. For example, a small company

may be acquired by a larger one, have its assets drained off, and than be liquidated, causing the loss of jobs, goods or services, and competition. Another path to the growth for many corporations has been expansion abroad and it gave rise to the formation of multinational corporations. Moving production closer to markets by establishing foreign subsidiaries, such corporations maintain extensive business activities and large-scale production facilities throughout the world, and their revenues sometimes exceed the total revenues of the countries in which they operate. The growth of multinationals has had both benefits and drawbacks. It has linked the world more closely together economically and has helped speeding the development of poorer nations. It has also increased free-market competition by providing consumer with greater choice in the goods they may buy. Among the drawbacks, especially for American firms, have been a great outflow of money for overseas investment and a net loss of jobs to foreign workers. Some firms locate plants abroad in regions where labor is cheaper and ship the products back to the United States to compete with more expensive domestically made goods. Multinationals are so powerful throughout the world that they are to be a dominant force shaping the world economy in future.

II. Notes:

- | | |
|---|--|
| 1) to dominate – преобладать | 5) gross national product – валовый национальный продукт (ВНП) |
| 2) know-how – технологии производства | 6) competitive – конкурентоспособный |
| 3) to process diverse amounts of information – обрабатывать разнообразное количество информации | 7) absorption – поглощение |
| 4) collectively – совместно | 8) merger – слияние |
| | 9) outright – сразу |
| | 10) to drain off – выкачивать, истощать |

III. Answer the questions:

1. How can you explain an important role of corporations in the national economy of the USA?
2. How many corporations have been expanded? Give examples.
3. Were there any problems caused by mergers? Which?
4. What is the difference between conglomerates and multinationals?
5. What are the main benefits and drawbacks of conglomerates and multinationals?

IV. Finish up the following sentences in column "a" with the sentences from column "b":

A

B

- | | |
|---|--|
| 1. They are known to be formed by | a) the economic growth does not result from them, no new jobs are created. |
| 2. One problem caused by mergers is that | b) to be a dominant force shaping the world economy in future. |
| 3. Among drawbacks of multinationals have been | c) the absorption of one or more companies by another |
| 4. Multinationals are so powerful throughout the world that they are likely | d) it gave rise to the formation of multinational corporations. |
| 5. Another path to the growth for many corporations has been expansion abroad and | e) a great outflow of money for overseas investment and a net loss of jobs to foreign workers. |

V. Translate from Russian into English:

1. Многие из существующих на сегодняшний день корпораций доминируют в ведущих отраслях промышленности и производят товары и услуги, которые требуют больших капиталовложений.
2. К концу 20 века предприятия стали более конкурентоспособными и появились более сложные объединения.
3. Многие корпорации расширились посредством слияния и последующим приобретением предприятий в других отраслях промышленности и стали называться конгломератами.
4. Большая компания может приобрести маленькую и истощить ее активы, что приводит к безработице и дефициту товаров и услуг.
5. Многие фирмы строят заводы за границей, где рабочая сила дешевле, а затем перевозят их в страну.

VI. Make up a plan to the text and retell it.

VII. Tell about the world's largest and best known multinational corporations. Make a presentation.

SUPPLEMENTARY READING

CURRENT ASSETS

Current assets include cash and such other assets that will either be transformed into cash or will be sold or consumed within one year within the normal operating cycle of the business if longer than one year. For most business the normal operating cycle is one year, but for some (such as those in the tobacco and distilling industries where the products must be stored for a period of several years) it may be longer. Cash includes not only currency but savings bank or commercial bank deposits as well. Disbursements of cash include payments by check, bank transfer, and currency.

Marketable securities are shares of stock, bonds, treasure bills, and commercial paper held by the firm as short-term investments. They are ordinarily stated on the balance sheet at original cost. If, however, the market value of the portfolio of securities held is less than original cost, then they are presented at the lower, more conservative value. Owing to the ease with which marketable securities can be sold and thereby transformed into cash, the market value of the securities must be reported either parenthetically or in supplementary notes.

Accounts receivable are the claims upon customers that can be expected to be collected within the normal operating cycle (those that cannot are included among noncurrent assets). Deducted from accounts receivable is an allowance for doubtful accounts – an estimate of the amounts owed to the company that will be uncollectible. Thus the net amount of accounts receivable is not the total amount owed to the firm but only the portion that the firm estimates is actually collectible.

Inventories include both items available for sale to customers and raw materials, parts, and supplies to be used in production. Inventories are ordinarily reported at the cost incurred to either purchase or produce them. But in the event that the cost of replacing such items has declined, then the inventories may be “written down” to reflect the decline in value.

As with marketable securities, increases in value are not ordinarily recognized.

Prepaid expenses are services or rights to services purchased but not yet consumed. As they are consumed they will be "charged off" as actual expenses. A firm might, for example, purchase a one-year insurance policy for \$1,200 (\$100 per month). At the time of purchase it would record the policy as a current asset, "Prepaid insurance – \$1,200". Each month it would reduce the asset by one-twelfth of the original amount (\$100) and would charge insurance expense with the same amount. Thus, after eight months, the balance in the prepaid insurance account would be only \$ 400 (four months remaining times \$100 per month). Other common prepaid expense accounts are prepaid interest, prepaid advertising, and prepaid rent. Prepaid expenses are one type of deferred charge – outlays made in one period to benefit future periods.

NONCURRENT ASSETS

Noncurrent assets are resources that cannot be expected to be sold or consumed within the normal operating cycle of the business. Noncurrent assets are usually considered to be long-lived. Plant assets in particular are often referred to as fixed assets.

Property, plant, and equipment are recorded on the balance sheet at original cost. Deducted from each of the assets, other than land, is accumulated depreciation – an allowance to reflect the "consumption" of the assets over time by wear and tear as well as by technological obsolescence.

Depreciation is the process of allocating (spreading) the cost of an assets over its useful life. Depreciation on each individual asset or group of similar assets is computed separately, and the total amount accumulated is a function of the original cost, age, and expected useful life of the asset. No depreciation is provided for land since it is not consumed over time and seldom declines in utility.

Investments and other assets include amounts owed to the company by outsiders that are not due for at least one year and amounts that the company has invested in other companies. If, for example, a company owns 30 percent of another company, its interest would ordinarily be included among investments and other assets. An interest in another company, however, may be classified as either "Marketable securities," a

current asset, or as "Investments in subsidiaries," a noncurrent asset. The decision as to how the investment should be classified depends to a large extent on the intent of the company's management. If it intends to maintain its interest for a relatively long period of time and views ownership as a long-term investment, then the amounts owned should be classified as a noncurrent asset. If, on the other hand, the company purchases the interest with the intention of selling it as soon as additional cash might be needed (for example, if it purchases a few hundred shares of General Motors stock as a temporary investment with no intention of exercising significant control over the company), then the amount owned should be classified as a current asset.

Deferred charges such as prepaid expenses may also be included among noncurrent assets. If, for example, a company purchased an insurance policy or a license that had more than a one-year life, then the percentage of original cost representing the unexpired portion of the insurance policy or license would be included among noncurrent assets.

Some deferred charges represent outlays that will benefit future accounting periods but for which both the number of such periods and the value of the benefits are exceedingly difficult to measure. Consider the costs incurred to organize a corporation: the legal fees required to draw up the documents of incorporation, the costs of printing the shares of stock to be issued, and the fees paid to the state upon filing for a corporate charter. These costs – like those of buildings and equipment – are incurred to benefit the business over a long period of time. Just as income of a single year of operations would be understated if the entire cost of a building were charged as an expense at the time it was purchased, income would also be distorted if the costs of organizing the corporation were charged off in a single year. As a result, organizational costs are frequently reported as assets of the company, and each year a portion of the costs are amortized (i.e. depreciated) and charged off as an expense.

Deferred charges representing benefits that will accrue to the firm over a long period of time in the future are often a source of confusion. Deferred charges, unlike most other assets, are intangible and frequently have no market value. Amounts spent as organizational costs, for example, cannot be sold to outsiders. How, then, can they be considered assets?

The question must be answered in terms of the nature of all assets. Assets can be defined as future services to be received in money or benefits convertible into money. They can readily be viewed as “bundles of services” available for use or sale by a particular entity. The determination of service potential is made with respect to the business entity issuing the financial reports – not with respect to the world at large.

In accordance with currently employed practices of valuation (alternative practices will be discussed in subsequent chapters), assets are measured and recorded at the time they are acquired at the price paid for them. As their service potential declines over time (e.g. as the assets are consumed), the reported value is reduced proportionately through the process of depreciation or amortization. If one-third of the services have been consumed, then the asset is reported at two-thirds its original cost. As long as the asset is not intended for sale to outsiders, market value seldom enters into the determination of the amount at which an asset is reported. Indeed, an automobile owned by a business might be reported at an amount either greater or less than the price at which similar used cars are being traded.

The outlay for organizational costs will benefit many accounting periods. To the extent that it has “future service potential” – the corporation would not exist without it – the outlay can properly be considered an asset. Even though it may have no value to outsiders, it should be reported on the balance sheet at initial cost less that fraction of cost representing services already consumed.

CURRENT LIABILITIES AND NONCURRENT LIABILITIES

Liabilities are also categorized as either current or noncurrent. Current liabilities are expected to be satisfied out of current assets (or through the creation of other current liabilities) within a relative short period of time, usually one year. Most common categories of current liabilities are amounts owed to employees for wages and salaries; to suppliers for services, supplies, and raw materials purchased (conventionally called trade accounts, or simply accounts payable); to the government for taxes (taxes payable); and to banks or other lenders for loans (notes payable) and for interest on the loans (interest payable) that is payable within one year.

Noncurrent liabilities include all other amounts owed, such as long-term notes and bonds. Bonds are similar to long-term notes, but they differ in that the promise to pay is usually included in a more formal legal instrument and in that the term of the loan is often longer. The same bond or note may be classified as both a current and a noncurrent liability. The portion that is due within one year would be considered current; the portion due beyond one year would be noncurrent.

Amounts that a company pays in advance to receive goods or services in the future are considered to be assets of the company. In the same sense, amounts that others pay to the company for goods and services to be provided are considered to be liabilities. Suppose, for example, that an airline sells a ticket for a trip the traveler intends to take a month after purchase. At the time of sale the airline receives an asset (cash or accounts receivable) equal to the price of the ticket. At the time of sale it incurs an obligation to provide services (i.e., one airline trip) to the customer. To be sure, the obligation is not liability in the usual sense, in that the airline has no monetary debt outstanding to the customer. But it is an obligation nonetheless. These amounts are reported among the liabilities and may be labeled as appropriate: "Advances from customer," "Revenues received but not yet earned," or, less descriptively but more generally, deferred credits. They are classified as current if the obligation is likely to be satisfied within one year; otherwise they are classified as noncurrent.

Not all amounts that a firm will have to pay to others if it continues in business are recorded as liabilities, nor are all amounts that it can be expected to receive recorded as assets. If a firm signs a three-year contract with a new president, for example, and promises to pay him or her \$300,000 per year, the firm may be legally liable for the full \$900,000 as long as the new president is willing to provide the required services. The firm would not, however, record the full amount as a liability. Only as the president "earns" the salary – that is, performs his or her side of the bargain – would the firm record as a liability amounts earned but not paid. Similarly accounted for would be a transaction in which a firm borrows \$1,000 from a bank at 12 percent rate of interest and gives the bank a one-year note. At the end of the one-year period, the firm will owe the bank \$1,120 – the principal of \$1,000 plus interest of \$120. At the time the note is signed, however, the only liability that would be recorded is the \$1,000

actually borrowed. Each month, as the company has use of the borrowed funds, an additional \$10 interest for one month will be recorded as a liability. The bank, for its part, would record as an asset a note for \$1,000. It, too, would recognize an asset, "interest receivable," only as it earns the interest revenue with the passage of time.

In general, assets and liabilities arising out of executory contracts (those contingents are recorded only to the extent that one of the parties has fulfilled its contractual obligations. The reason for such limited accounting recognition of assets and liabilities will become considerably clearer as the relationship between balance sheet and income statement accounts is discussed more fully in subsequent chapters.

REVENUE RECOGNITION AND INSURANCE INDUSTRY

The criteria for revenue recognition cannot always be easily applied. To a large extent, decisions as to the timing of revenue recognition are left to the good judgment of corporate managers and their accountants. As a consequence, companies in similar industries or even in the same industry have frequently drawn different conclusions as to the most appropriate basis of revenue recognition.

The rule-making bodies of the accounting profession, the Financial Accounting Standards Board and the American Institute of Certified Public Accountants, have issued a number of pronouncements and industry audit guides that have done much to narrow the alternatives available to companies are still widespread and are likely to remain so in the foreseeable future.

A property insurance company typically insures property owners against losses from fire, theft, accident, and similar types of casualties. The policies that it writes are for a specified duration, often one to three years. Because the period of coverage is fixed, the company knows in advance how much revenue it will earn on each policy. It cannot, of course, determine the costs associated with a policy until the expiration of the policy and upon settlement of all claims. But based on its own experience, or those of other firms in the industry, it can usually make reliable estimates of the total losses that it will be required to cover.

A life insurance company, by contrast, may provide coverage for an indeterminate period (i.e., the life of the policyholder). It typically

engages in a broader range of functions than the property company. Sales activities tend to be relatively more important, and many types of life policies require the company to provide saving and investment services in addition to insurance coverage. The period over which the policyholder pays premiums may not be known with certainty when the policy is written since it may be for his or her entire life or such an extended period that there is considerable risk that the insured will either not survive for the full payment period or cancel the policy prior to dying. Moreover, the company may be obligated to provide both insurance coverage and related services for many years beyond the period during which the policyholder is liable for premiums. Nevertheless, both revenue and claims can be estimated on the basis of actuarial experience.

There are several bases for revenue recognition that can be justified and have, in fact, been used within the industry. Revenue may be recognized:

1. Evenly throughout the known or estimated period of coverage. This basis is rooted in the assumption that the primary activity of the company is insurance coverage. The company provides the coverage uniformly over the life of a policy and therefore should recognize revenues over its life.

2. In part when the policy is written, in part evenly over the life of the policy. This basis gives recognition both to the service provided in the insurance coverage itself and to the substantial efforts incurred by a company in selling and writing a policy. These efforts may include sales and advertising, investigations, medical examinations, and initial clerical costs.

3. As premiums are due from policyholders. This basis takes into account the uncertainties involved in determining total revenue to be generated. For policies on which the premiums are paid throughout the policy period, the basis provides a reasonable match of revenues recognized and services provided.

In 1982, to reduce diversity of practice, the FASB ruled that revenue on short-duration policies, such as those for property coverage, should be recognized evenly over the period for which the insurance protection is provided. For long-duration policies, such as those for life insurance, revenue should be recognized as the premiums are due from policyholders. For both types of policies, estimates of costs, including

anticipated claims, must be made and charged as expense in proportion to the revenues recognized.

INVENTORIES AND COST OF GOODS SOLD

The term inventory refers to goods that are awaiting sale or are in the various stages of production. It includes the merchandise of a trading concern as well as the finished goods, the work in process, and the raw materials of manufacturer. In addition, the term embraces goods that will be consumed indirectly as the enterprise manufactures its product or provides its service. Thus stores of stationary, cleaning supplies, and lubricants would also be categorized as inventories. Proper accounting for inventories is critical not only because they often compose a substantial portion of a firm's assets but also because they relate directly to what is frequently the firm's major expense – the cost of goods sold. The beginning inventory balance plus purchases minus the ending inventory balance equals the cost of goods sold. This chapter is directed to several key accounting issues pertaining to inventory, some of which are currently at the center of active controversy. Among the questions raised are:

- What are the objectives of inventory measurement and valuation?
- What costs should be included in inventory?
- How should inventory quantities be determined?
- What assumptions regarding the flow of costs are most appropriate in particular circumstance?
- When and how should changes in the market prices of inventories be recognized?

The discussion of inventories is in the context of generally accepted accounting principles – how inventories are accounted for in practice. But consideration is also given, in a concluding section, to alternatives that have been proposed but are not presently viewed as acceptable.

The overriding objective of conventional inventory accounting is to match the costs of acquiring or producing goods with the revenues that they generate. The emphasis is decidedly on income determination rather than on balance sheet valuation. It is to assure that the resultant measure of income is useful for evaluating performance of the past and making

predictions of the future. An unfortunate consequence is that the amounts reported on the balance sheet are indicative of costs incurred in the past – sometimes, in fact, in the very distant past. They provide information on neither the prices that would have to be paid to replace the goods on hand nor those for which they could be sold.

In a typical operating cycle of a firm, the costs of goods that are either manufactured or purchased are included in inventory and reported as an asset. Even though the goods may have been paid for, their costs are not considered to be expenses. Instead the costs are stored on the balance sheet until the goods are sold and the cost can be associated with specific revenues. At the end of a year, a portion of the goods remains on hand; the rest have been sold to outsiders. A portion of the costs therefore must be assigned to the goods that remain on hand and the rest to the goods that have been sold. That portion of the costs that is assigned to the goods on hand will continue to be carried on the balance sheet, while that assigned to the goods that have been sold will be charged to an expense account, cost of goods sold, and reported on the income statement. The question facing the firm is “How much of the total costs should be assigned to the goods on hand and how much to the goods that have been sold?”

Insofar as a greater value is placed on the goods in inventory, a lesser amount will be charged as an expense. Insofar as a greater amount is charged as a current expense, then smaller amounts will remain on the balance sheet to be charged as expenses in future years. Inventories are ordinarily stated at historical cost – that of acquisition or production. Cost, as applied to inventories, “means in principle the sum of the applicable expenditures and charges directly or indirectly incurred in bringing an article to its existing condition and location.” If goods are purchased from outsiders, then cost would include not only the invoice price but also costs of packaging and transportation. Trade, cash, or other special discounts or allowances must be deducted from the stated price.

As a rule, all costs that can reasonably be associated with the manufacture or acquisition, with the storage, or with the preparation for sale of goods should be included as part of the cost of such goods. In determining whether a particular item of cost should be added to the reported value of inventory, the impact on both the income statement and the balance sheet should be taken into account. If costs are added to the reported value of goods on hand, they will be charged as expenses (as part

of cost of goods sold) in the period in which the merchandise is actually sold. By contrast, if the costs are not assigned to particular items of inventory, they will be charged as expenses as in the periods in which they are incurred, regardless of when the merchandise is sold.

CASH AND MARKETABLE SECURITIES

Cash is ordinarily reported at its face value. Cash includes currency on hand and funds on deposit in banks that are subject to immediate and unconditional withdrawal (i.e., amounts in checking accounts). It does not in a strict sense include amounts that may be subject to withdrawal restrictions, such as funds in the form of saving accounts, which may technically require advance notification for withdrawal, or certificates of deposit. Most companies maintain several general ledger accounts for cash. In statements made available to the public, however, most cash and "near-cash" balances are summarized into a single figure.

There are several characteristics of cash that make it of distinctive interest to a manager or accountant. It is the ultimate asset of concern to investors as it is the medium of exchange in our society. The business cycle begins and ends with cash. Owners and creditors contribute cash to a firm. The firm, in turn, uses the cash to acquire other assets. It expects that by providing goods and services, it will eventually be able to reconvert these other assets into more cash than was contributed. It then distributes this greater amount of cash to the owners and creditors.

Cash is the most liquid of assets. Indeed, liquidity is a measure of how easily an asset can be converted into cash. Because of its liquid nature, cash must be the subject of especially tight safeguards and controls. As a general rule, for example, the number of persons handling currency should be kept to a minimum, all currency should be deposited in a bank as soon as feasible, and accounting recognition should be given immediately to all cash receipts via a funds should be assigned to particular individuals, and whenever possible, to assure better that the payments are made to the parties for whom they are intended, disbursements should be made by check rather than with currency.

Cash is the accepted medium of paying bills and satisfying obligations. It is essential that a firm have an adequate amount of cash available to meet its debts as they come due and to make the day-to-day payments required of any operating enterprise. Management, as well as

financial analysts and creditors, must, therefore, be continually alert to whether the firm's available cash – or assets that can readily be turned into cash – is sufficient to meet foreseeable needs.

Cash, however, is an unproductive asset. Cash on hand or on deposit in a checking account earns little or no interest. If there is inflation in the economy, cash loses its purchasing power. Unlike many other assets, it produces no services and provides no return to its owner. As a consequence, it is to the advantage of a firm to keep as little cash as possible either on hand or in checking accounts. Cash that is needed for a safety reserve or is being held for future purchase of other assets, distribution to shareholders, or payment of outstanding obligations should be invested temporarily in common stocks, short-term government notes, certificates of deposit, or other dividend – or interest-bearing securities.

Cash on hand includes customer receipts that have not yet been deposited, currency necessary to conduct routine business, and petty cash. Petty cash represents small amounts of cash maintained to meet disbursements of insufficient size to justify the time and inconvenience of writing a check. Petty cash funds are frequently accounted for on an imprest basis. That is, the general ledger balance of petty cash will always reflect a fixed amount, \$100, for example. At all times the fund itself should contain either cash or payment receipts for that amount. Periodically the fund is restored to its original amount by a transfer from general cash, and at that time accounting recognition is given to the particular expenses that had been incurred. The following journal entry might be made to restore \$70 to the petty cash fund.

GLOSSARY

A

Accounts receivable – счета дебиторов, счета к получению

Attorney – адвокат

Accrue – нарастать (о процентах)

Acquisition – приобретение

Asset(s) – актив, фонд, капитал, имущество

Accounting – учет, отчетность, бухгалтерское дело

Accountant – эксперт по анализу балансов и финансовой отчетности, квалифицированный бухгалтер; ревизор

Accurate – точный, правильный

Accounting equation – бухгалтерская сбалансированность

Abilities – долгосрочные обязательства

Approximately – приблизительно

Access – доступ, подход

B

Balance sheet – балансовый отчет

Balance sheet account – статья бухгалтерского баланса

Bookkeeping – бухгалтерия, бухгалтерский учет

Bookkeeper – бухгалтер, счетовод

Balance – баланс, сальдо, остаток

Balance of an account – остаток счета

Balance with foreign banks – остатки на счетах в зарубежных банках

Balance in hand – денежная наличность, наличность кассы

Balance of payments – платежный баланс (отчетность, характеризующая участие страны в международном обмене, включающая в себя текущий платежный баланс и баланс движения капиталов)

Balance of payment deficit – дефицит платежного баланса

Balance of trade – торговый баланс (отчетность, отражающая результаты участия страны в международной торговле, являясь составной частью платежного баланса, она входит в текущий счет)

Balance the ledgers – сбалансировать бухгалтерские книги

By-law – распоряжение местных властей или какой-либо организации

Bring accounts to a balance – составлять сводный баланс

Budgeting – составление сметы, финансовое планирование

C

Current – текущий

Current account – текущий счет

Current assets – оборотные средства (фонды); текущие (легко реализуемые, ликвидные) активы

Current liabilities – краткосрочные обязательства; текущие пассивы

Copyright – авторское право

Credit – кредит; доверие; бухгалтерский кредит; сумма, записанная на приход в правой части счета

Credit account – запись в правой части счета, отражающая приход актива

Credit balance – кредитовое сальдо, кредитовый баланс, отрицательное сальдо

Credit (to an account) – кредитовать счет, записывать сумму в кредит счета

Corporation – корпорация

Charter – хартия, устав, право

Contribution – содействие, вклад

Circumvent – расстроить (планы), обмануть

Consequence – следствие, последствие

Curve – кривая линия

Clear of debt – без долга

Cash balance – кассовая наличность

Capital budgeting – расчет рентабельности капиталовложений

Cash flow – поток наличности

D

Data – данные

Datum – данная величина

Draw up – составлять

Draw up a balance – подводить (составлять) баланс
Debit – дебет (расход)
Debit account – запись в левой части счета, показывающая задолженность организации
Debit of an account – дебет счета, списание средств со счета
Debit balance – дебетовое сальдо, дебетовый баланс, положительное сальдо
Debit (to an account) – дебетовать, записывать; вносить в дебет
Distinction – отличие, различие
Distribute – распределять, раздавать
Dividend – дивиденд
Dominant – господствующий
Delve – копать
Discretion – осмотрительность, осторожность
Demand – спрос
Disclosure – раскрытие, сообщение
Drawback – недостаток
Dissolve – ликвидировать

Е

Employee – служащий, рабочий, работающий по найму
Equity – капитал компании, акционерный капитал, активы (предприятия) за вычетом задолженности
Equation – уравнение, равенство
Error – ошибка, погрешность
Extension – расширение
Extent – размер, степень
Equity capital – собственный капитал
Earnings – заработок
Enterprise – предприятие
Entity – бытие, сущность
Expansion – расширение
Evaluate – оценивать, устанавливать стоимость

Ф

Favorable balance – активный баланс
Fund(s) – запас, резерв, капитал, денежные средства

Fraud – обман, мошенничество
Fraction – доля, частица, дробь
Federal – федеральный, союзный
Facilitate – облегчать, содействовать
Financial performance – финансовая деятельность
Financial accounting – финансовая деятельность
Financial statement – финансовый отчет
Flow – поток, прилив (вложений)

G

Goodwill – деловая репутация, ценность фирмы
General ledger – общая бухгалтерская книга
Generate – порождать, производить
General partner – общий партнер

H

Handful – горсть, малое количество
Hazardous – рискованный

I

Investment interest – процент инвестиций
Initial – первоначальный, исходный
Inherently – неотъемлемо
Illusory – обманчивый
Innovation – инновация, новшество
Item – отдельный предмет, вид товара; статья (в счете, балансе)
Intangible assets – нематериальный актив
Income statement – отчет о доходах
Inflow cash – приток наличности
Inflow of assets – приток активов

J

Journal – бухгалтерский журнал
Jeopardy – опасность, риск
Jurisdiction – правосудие
Joint-stock company – акционерное общество

К

Know-how – технология производства

L

List – вносить в список, составлять список

Legal – легальный

Legislature – законодательный орган

Limitation – ограничение

Liability – ответственность

М

Monopoly – монополия

Marginal – крайний, предельный

Managerial accounting – управленческая отчетность

Merger – слияние

N

Nevertheless – несмотря на, тем не менее

Net worth – стоимость имущества за вычетом обязательств, собственный капитал (предприятия), чистая стоимость компании

Net loss – чистый убыток

O

Overwhelm – сокрушать, подавлять

Obtain – получать, приобретать

Outflow cash – отток наличности

Outflow of assets – отток активов

Outright – сразу

Operating activities – управленческая деятельность

P

Proper – правильный, надлежащий

Preliminary – предварительный

Post the journal into the ledger – переносить журнальные записи в главную книгу

Promote – продвигать, содействовать, продавать

Public utilities – коммунальные услуги
Proprietorship – частное предпринимательство, право собственности
Performance – выполнение, исполнение
Pricing – калькуляция цен, ценообразование
Prohibit by law – запрещать законом

R

Real estate – недвижимое имущество
Receipts – денежные поступления, выручка; приход, доходы
Record – запись, регистрация, учетные документы, документация
Record – записывать, регистрировать
Record-keeping – ведение учета, учет
Regardless – не считаясь (с кем-л., чем-л.), невзирая на
Revenue – доход, прибыль
Reliable source of information – надежный источник сведений
Render – отдавать, платить
Render an account for payment – предоставлять счет к оплате
Recover debts – взыскивать долги

S

Stock in trade – товарный запас, товарная наличность, остаток непроданных товаров
Stock(s) – активы, запас(ы), фонд(ы)
Salary – заработная плата (служащих), оклад
Stockholder – акционер, владелец акций, владелец государственных бумаг
Statute – закон, устав
Supplementary – дополнительный
Sustain – поддерживать, выдерживать
Seek – искать
Separate legal entity – отдельное юридическое лицо
Statement of cash flows – отчет о движении денежных потоков
Statement of retained earnings – отчет о распределенной (реинвестированной) прибыли

T

Term – термин, выражение; период

Terms – условия

Tangible – осязаемый, материальный

Tangible assets – материальные активы

Tangible item – материальный предмет

Trademark – торговая марка

Take into account – принимать во внимание

Trial balance – пробный, предварительный бухгалтерский баланс

Tax and regulatory departments – отделы по налогообложению и регулированию деятельности компаний

U

Unfavorable balance – пассивный баланс; отрицательный баланс

Unlimited liability – неограниченная ответственность

W

Withdrawal – отзыв; изъятие; отмена; снятие со счета

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