

Absolute Financial English

All the Basics You Need to Know

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Exchange Rates

Country	Rate
AUSTRALIA	0.88
BRAZIL	0.52
CANADA	0.96
CHINA	0.14
Costa Rica	0.002
Euro	1.409
HONG KONG	0.147
JAPAN	0.0094
MEXICO	0.1074
NEW ZEALAND	0.7284
S Korea	0.0012
Sweden	0.6922
Switzerland	0.1502
TAHITI	0.8837

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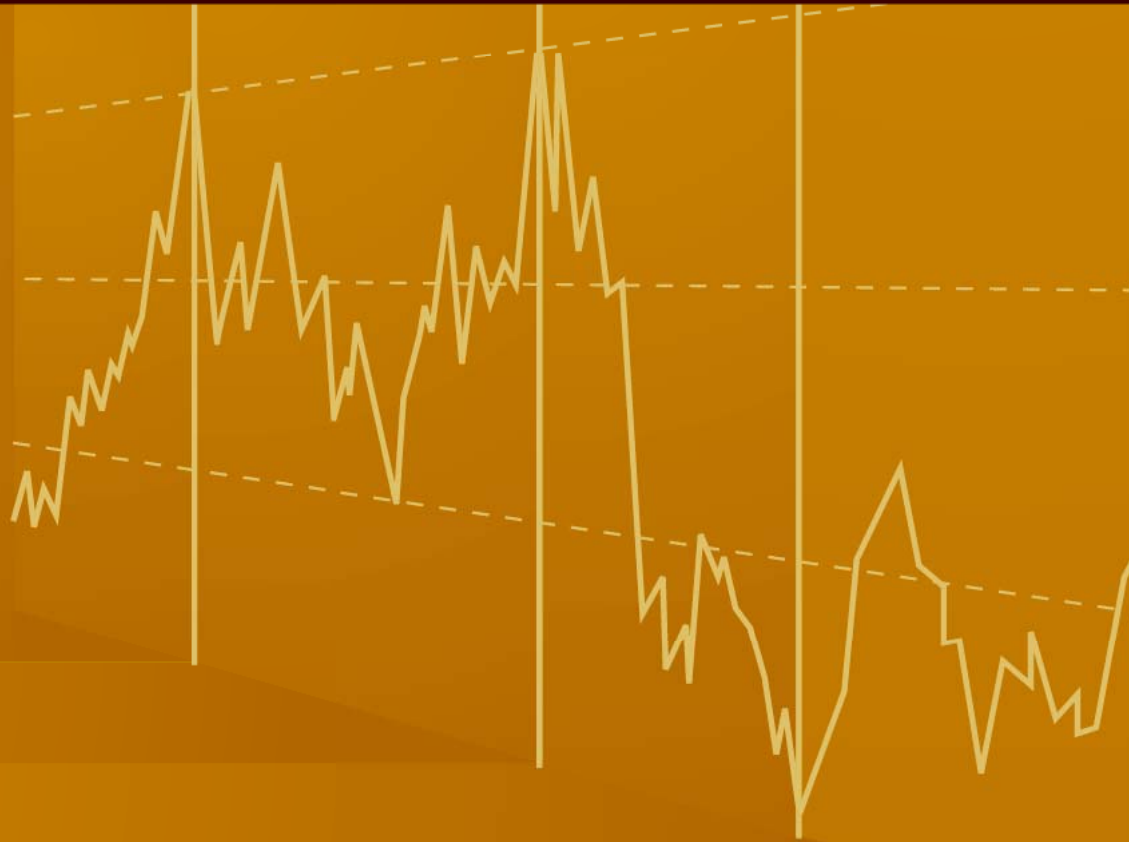


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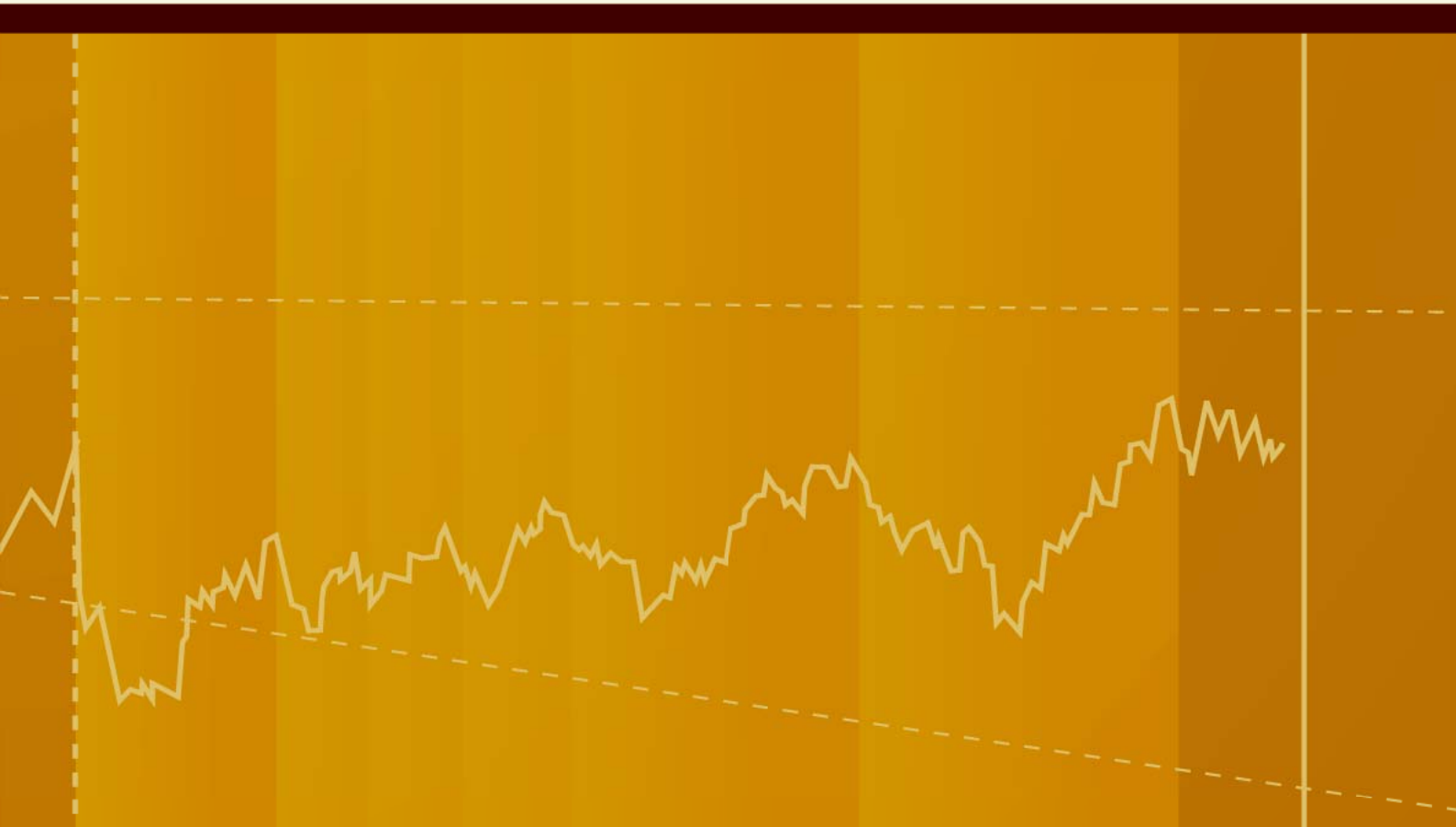


Unit 1

Financial Situations in a Corporation



A corporation is a complex legal entity organized around the principles of balancing risk and profitability while increasing in value for its stockholders—those members of the public who through the purchase of shares, help finance operations. A variety of financial instruments, such as bonds and long-term credit, provide further funding, but it is the selling of publicly traded stocks that necessitates management by a board of directors, compliance with a myriad of governmental regulations, strict self-policing to prevent insider trading, and intense scrutiny of profit and loss statements and other forms of financial reporting.



1-1

PROFIT AND LOSS

The following words will be found in the article. Read the words aloud with your instructor. Mark any word about whose meaning you are uncertain. Use the question “What does _____ mean?” to ask your instructor for help.

WORDS

1. break-even point	7. cost
2. output	8. loss
3. gross	9. sales
4. profit	10. profit and loss statement
5. fixed	11. income
6. overhead	12. net

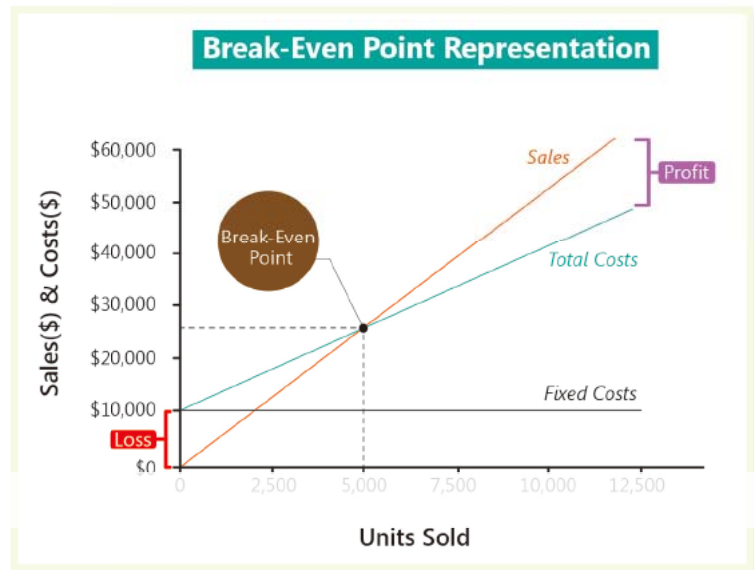


Article

The Profit and Loss Statement

01

This chart illustrates the **break-even point**¹ of any business. As you can see, the break-even point is the point in the annual **output**² where the number of units sold, or number of services provided, produces enough **gross**³ **profit**⁴ to cover total costs, including **fixed**⁵



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Loss⁸ occurs whenever fixed costs exceed **sales**⁹. Profit occurs whenever sales exceed total costs. As you can see in the graph on page 6, the break-even point for this company is reached when 5,000 units are sold. It is at this point that total sales (or gross profit) equal total costs. Now we'll look at a **Profit and Loss Statement**¹⁰.

A P&L statement starts with the gross **income**¹¹. Any discounts or allowances are subtracted to arrive at **net**¹² income. Cost of sales (in this case, purchases and shipping) is then taken to give gross profit. Gross profit margin is calculated as gross profit divided by total sales.

Overhead (which includes rent for your premises, marketing costs, wages, telephone, postage, stationery, etc.) is then subtracted. The remainder is operating profit.

Tax is then taken away from operating profit to arrive at net profit or loss. You may now calculate your net profit margin as net profit divided by total sales.

By looking at both the break-even point and the profit and loss statement, you can get a quick feel for the basic economics underlying profit and loss of a corporation. In the next section, we will look at stocks and how they affect the profits and loss of a company.

P&L Statement

Total sales		340,000
Purchases	120,000	
Shipping	13,500	
Total cost of sales	133,500	
Gross profit		206,500
Gross profit margin		61%
Overhead costs (Burn rate)	150,000	
Operating profit		56,500
Tax	14,000	
Net profit		42,500
Net profit margin		12.5%



Did You Know . . . ?

The business idioms “in the red” and “in the black” come from the traditional accounting practice of writing any losses to the company in red ink and any profits in black ink.

Vocabulary

Vocabulary Builder

1. break-even point (n. phr.)

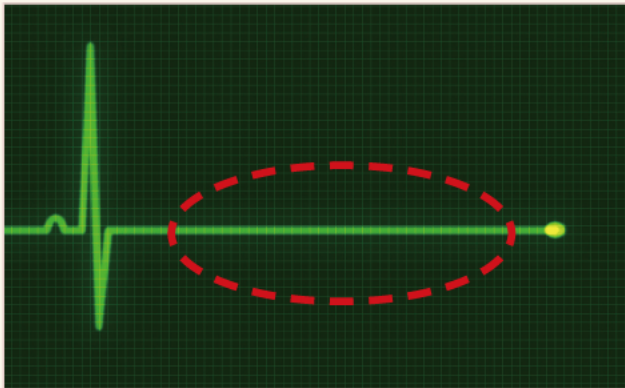
the point in the annual output where the number of units sold, or number of services provided, produces enough gross profit to cover total costs of operations

Earnings Information	Current	Year to Date
Annual Gross	4,389.30	
Deductions	0.00	
Adjustments	0.00	
Portions	0.00	
EARNINGS TOTAL	4,389.30	5,277.30
-Taxable Gross	351.14	418.18
able Gross	3,971.12	4,859.12

Statutory & Other Deductions	Current	Year to Date
Federal Withholding	311.17	311.17
Additional Federal Withholding	0.00	*****
State Withholding	135.96	135.96
Additional State Withholding	0.00	*****
MDI	0.00	55.06
Medicare	62.67	75.55
Medicare Buyout	0.00	0.00
State Disability Insurance	351.14	351.14
RS	0.00	0.00

3. gross (a.)

without deductions; total (as the amount of sales, salary, profit, etc.) before taking deductions for expenses, taxes, or the like



5. fixed (a.)

not fluctuating or varying

2. output (n.)

the quantity or amount produced in a given time



4. profit (n.)

the monetary surplus left after deducting wages, rent, cost of materials, etc.

This Period	
Previous Balance	0.00
Payment - Thank You	
Electric Metered Service	\$111.00
Sales Tax	-\$111.00
Operation Round Up	\$174.52
TOTAL DUE	\$10.47
	\$0.01
	\$185.00

6. overhead (burn rate) (n.)

the general fixed costs of running a business (e.g., rent and utilities), which cannot be attributed to a specific product or part of the operation

7. cost (expense) (n.)

an outlay or expenditure of money, time, labor, trouble, etc.

8. loss (deficit) (n.)

the amount by which costs exceed income

9. sales (n.)

the revenue generated when a business receives payment from a customer in exchange for goods or service

10. profit and loss statement (n. phr.)

a statement for a particular period of time showing a business's gross income, cost of goods, operating costs, and net profit or loss



11. income (revenue) (n.)

money that comes from sales to customers



12. net (a.)

remaining after deductions of charges or expenses

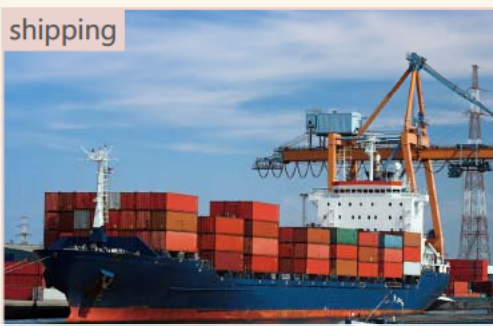
Additional Vocabulary

13. gross margin (n. phr.)

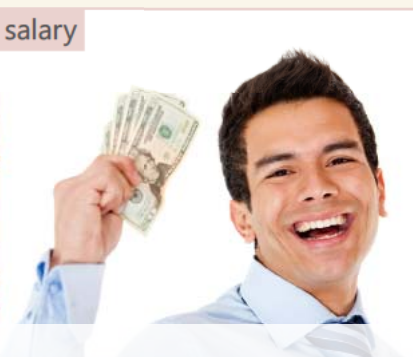
a percentage of the gross profit relative to the total sales

14. volume (n.)

the quantity of units of output the company sells, or the number of times its services are provided to customers



shipping



salary








stationery

Exercises

A. Complete the Chart

1. Place these English expressions into their correct category in the chart.

arrive at	equal	add	take away	include	give you
subtract	remainder	multiply by	divide by	times	minus

2. Work with a partner. One person should read each sentence aloud while the other writes them down as equations.

Read	Equations
a. Add 1 to 10.	
b. Multiply price by output.	
c. Include tax in net loss.	
d. The remainder of 120 minus 50 is 70.	
e. Divide profit by output.	



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▲ discount



B. True or False

Using the information presented in the article, decide if the following sentences are **True** or **False**.

Statement	True	False
1. Total Sales is similar in meaning to Gross Income .	<input type="checkbox"/>	<input type="checkbox"/>
2. Shipping is similar in meaning to Delivery .	<input type="checkbox"/>	<input type="checkbox"/>
3. Overhead is similar in meaning to Wages .	<input type="checkbox"/>	<input type="checkbox"/>
4. Loss and Deficit are not similar in meaning.	<input type="checkbox"/>	<input type="checkbox"/>
5. Output and Income are not similar in meaning.	<input type="checkbox"/>	<input type="checkbox"/>

C. Match

Choose the ending on the right that best completes the sentence starting on the left.

- | | |
|---|--|
| 1. The burn rate of a company _____ | a. after all costs and taxes have been paid. |
| 2. Gross income is the same as _____ | b. needs to be calculated as a loss. |
| 3. Net profit is calculated as profit _____ | c. total income before subtracting taxes paid. |
| 4. "Fixed costs" and "overhead" are _____ | d. by which costs exceed income. |
| 5. A loss is the amount _____ | e. other ways of saying "burn rate." |

D. Make Questions

Cover the sentence beginnings on the left of exercise C. Make questions using the sentence endings on the right for your partner to answer.

Example

What are other ways of saying "burn rate"?

Other ways of saying "burn rate" are ...

