

Ю. В. Ковалюк, М. В. Ковалюк

**ENGLISH FOR SPECIFIC PURPOSES:
EXPAND AND TEST YOUR KNOWLEDGE.**

PART 1

Chernivtsi - 2024

УДК 811.111'42

В 84

ББК 81.2 Англ

Рекомендовано до друку кафедрою англійської мови факультету іноземних мов Чернівецького національного університету імені Юрія

Федьковича

(Протокол №2 від 9 лютого 2024 р.)

Науковий редактор:

Н. Г. Єсипенко, доктор філологічних наук, професор, завідувач кафедри англійської мови Чернівецького національного університету імені Юрія Федьковича

Ковалюк Ю. В., Ковалюк М.В. English for specific purposes: expand and test your knowledge. Part 1. Навчальний посібник. Чернівці, 2024. 335 с.

Навчальний посібник є збірником англійських новітніх текстів у галузі англійської мови для професійного вжитку. Запропоновано алгоритм роботи над текстом із серією вправ для розвитку лінгвістичної, професійно-орієнтованої, перекладацької та лінгвокультурної компетентностей студентів, які можна використовувати як в аудиторній, так і в позааудиторній роботі. Завдання спрямовані на розвиток і поглиблення англійської мови різногалузевого вжитку факультетів іноземних мов закладів вищої освіти. Посібник розрахований на здобувачів освіти усіх рівнів, а також для широкого загалу бажаючих вдосконалювати англійську мову для різногалузевого спрямування та лінгвокультурознавства.

PREFACE

This book presents a systematic program of study intended primarily for students majoring in English philology and translation.

It is composed of 15 units and 15 diagnostic tests. Each unit comprises three basic reading strategies: Before You Read, Reading and After You Read. The tasks are unified and interspersed throughout the unit according to the strategy they belong to. For example, the before you read strategy is followed by concept mapping, brainstorming, skimming the text, vocabulary previews, pre-questions, definition, characteristics and experience activities. We have taken great care to ensure that learners will be able to advance through the content with great ease due to a number of speech-stimulating, discussion and writing assignments. At the end of each unit there is a quiz with particular emphasis on comprehension, language and translation skills. This workbook has been designed to be effectively used both in the classroom and for self-study.

CONTENTS

PREFACE	3
DIAGNOSTIC TESTS	6
UNIT ONE	
ACCOUNTING SYSTEMS.....	38
UNIT TWO	
FINANCIAL STATEMENTS	56
UNIT THREE	
INCOME STATEMENT	74
UNIT FOUR	
ASSESSING PERFORMANCE.....	93
UNIT FIVE	
THE ADJUSTMENT PROCESS.....	110
UNIT SIX	
COST CONCEPTS.....	129
UNIT SEVEN	
RECORDING TRANSACTIONS.....	147
UNIT EIGHT	

ACCRUAL ACCOUNTING.....	164
UNIT NINE	
STATEMENT OF CASHFLOWS.....	181
UNIT TEN	
INVENTORY/COST OF GOODS SOLD.....	200
UNIT ELEVEN	
LONG-LIVED ASSETS.....	220
UNIT TWELVE	
ASSETS/FINANCIAL ANALYSIS.....	239
UNIT THIRTEEN	
MANAGERIAL ACCOUNTING.....	262
UNIT FOURTEEN	
STOCKHOLDERS' EQUITY	284
UNIT FIFTEEN	
BUDGETING.....	305
LIST OF ABBREVIATIONS.....	331
SUGGESTED READING AND RESOURCES.....	335

DIAGNOSTIC TEST # 1

1. The customary manner in which a business analyzes and records its is by first entering them into a journal.
 - (a) transactions
 - (b) communications
 - (c) dealings
 - (d) ventures
2. Journal entries are entered in order, meaning by date, with the earliest date first.
 - (a) sequential
 - (b) numerical
 - (c) chronological
 - (d) successional
3. Once the transactions have been entered into the journal they are or transferred into their individual General Ledger accounts.
 - (a) noted
 - (b) lifted
 - (c) allocated
 - (d) posted
4. All increase with a debit entry and decrease with a credit entry.
 - (a) advantages
 - (b) associates
 - (c) assets
 - (d) assurances
5. Liabilities either have a credit or no at all.
 - (a) scale
 - (b) balance
 - (c) debit
 - (d) debut
6. Capital accounts represent the owner's worth in the business.
 - (a) equity
 - (b) value

- (c) hammock
 - (d) net
7. accounts are accounts for your sources of business-generated income.
- (a) liability
 - (b) revenue
 - (c) balance
 - (d) drawing
8. The is the difference between what a business pays for an item wholesale and what the business sells it for retail.
- (a) markup
 - (b) makeup
 - (c) makeshift
 - (d) moreover
9. An accounts payable shows how much you owe each of your vendors.
- (a) lecture
 - (b) leeway
 - (c) ledger
 - (d) manual
10. Accounts shows how much money your customers owe you.
- (a) incoming
 - (b) receivable
 - (c) obtainable
 - (d) collectable

DIAGNOSTIC TEST # 2

1. A balance sheet shows the financial that a company has at a point in time and where they came from.
- (a) records
 - (b) resources
 - (c) returns
 - (d) revenues

2. It is an instant photograph that displays the company's financial at the end of a business month, quarter or year.
 - (a) explanation
 - (b) position
 - (c) publication
 - (d) station
3. The organization of a balance sheet reflects this basic: assets equal debts plus equity.
 - (a) arrangement
 - (b) assessment
 - (c) equation
 - (d) question
4. The of accounts is a listing of the accounts that are reflected in the financial statements.
 - (a) book
 - (b) chart
 - (c) table
 - (d) outline
5. Assets are often listed in the order of their — which means how easy it would be to convert each asset into cash.
 - (a) complexity
 - (b) liquidity
 - (c) security
 - (d) simplicity
6. Assets are divided into three categories: Current Assets, Fixed Assets, and Assets.
 - (a) Current fixed
 - (b) Different
 - (c) Fixed current
 - (d) Other
7. Current assets will likely be turned into cash or converted into a(n) within a year.
 - (a) bonus
 - (b) expense

- (c) option
 - (d) stock
8. Fixed assets are saleable, but are not expected to be converted to cash in the course of business.
- (a) average
 - (b) equal
 - (c) final
 - (d) normal
9. Liabilities are debts or stemming from goods or services received by the company.
- (a) obligations
 - (b) others
 - (c) outstandings
 - (d) owed
10. If the assets of a company are greater than its liabilities, then the equity of the business is the positive between the two numbers.
- (a) calculation
 - (b) difference
 - (c) dividend
 - (d) sum

DIAGNOSTIC TEST # 3

1. The statement of income and expenses reports the company's income and expenses for the time period: it is also called a-and-loss statement.
- (a) earnings
 - (b) gain
 - (c) profit
 - (d) win
2. The first item on the statement is the total amount of sales of products or services; this is often referred to as sales.
- (a) gross

- (b) mass
 - (c) overall
 - (d) whole
3. The main deduction from this revenue is called of sales, the amount of money the company spent to produce the same goods or services.
- (a) cost
 - (b) discount
 - (c) expense
 - (d) reduction
4. The next deduction is expenses — for example, administrative salaries and research costs, which do not vary directly with production.
- (a) fixed
 - (b) operating
 - (c) standard
 - (d) unproductive
5. Depreciation expenses the wear and on assets like machinery, equipment and furnishings.
- (a) age
 - (b) change
 - (c) repair
 - (d) tear
6. The depreciation charge for using these assets during the accounting period is a of their original cost.
- (a) foundation
 - (b) fractile
 - (c) fragment
 - (d) function
7. income is the money that the company earns by keeping its cash in savings accounts, term deposits, etc.
- (a) Illicit
 - (b) Inactive
 - (c) Interest

- (d) Internal
8. Finally, tax is deducted.
- (a) business
 - (b) commercial
 - (c) income
 - (d) value-added
9. The final entry is the line, which represents net earnings of the company during the accounting period.
- (a) balance
 - (b) base
 - (c) black
 - (d) bottom
10. Additionally, indicates how much shareholders would receive if the company distributed all of its net earnings as dividends.
- (a) EPS
 - (b) GDP
 - (c) GNP
 - (d) VAT

DIAGNOSTIC TEST # 4

1. Archer North notes that the history of performance appraisal is quite brief; its roots in the early 20th century can be traced to Taylor's pioneering Time and studies.
- (a) Motion
 - (b) Motive
 - (c) Motor
 - (d) Movement
2. As a distinct and formal management procedure used in the evaluation of work performance, appraisal really from the time of the Second World War — not more than 60 years ago.
- (a) dates
 - (b) emanates

- (c) originates
 - (d) springs
3. Yet in a broader sense, the practice of appraisal is a very ancient art; in the scale of things historical, it might well claim to being the world's second oldest profession!
- (a) give
 - (b) lay
 - (c) make
 - (d) set
4. There is, says Dulewicz (1989), "a basic human tendency to make judgements about those one is working with, as well as about oneself" — appraisal, it seems, is both and universal.
- (a) endemic
 - (b) eternal
 - (c) inevitable
 - (d) invincible
5. In the absence of a carefully structured system of appraisal, people will tend to judge the work performance of others, including subordinates, naturally, informally and
- (a) aggressively
 - (b) arbitrarily
 - (c) impeccably
 - (d) inherently
6. The human to judge can create serious motivational, ethical and legal problems in the workplace.
- (a) capacity
 - (b) condition
 - (c) inception
 - (d) inclination
7. Performance appraisal systems began as simple methods of income
- (a) adjudication
 - (b) adjustment
 - (c) judgement

- (d) justification
8. The process was firmly linked to material outcomes: if an employee's performance was found to be less than ideal, a in pay would follow.
- (a) cut
 - (b) dent
 - (c) shave
 - (d) slice
9. On the other hand, if their performance was better than the supervisor expected, a pay rise was in
- (a) due
 - (b) form
 - (c) order
 - (d) view
10. Pay rates were important, but they were not the only element that had an impact on employee performance; it was found that other issues, such as and self-esteem, could also have a major influence.
- (a) esthetics
 - (b) ethics
 - (c) morale
 - (d) morals

DIAGNOSTIC TEST # 5

1. The purpose of an audit is to gather and evaluate evidence in order to form an opinion on the of a company's financial statements.
- (a) rationality
 - (b) realization
 - (c) reliability
 - (d) responsibility
2. The audit is usually no more than a page in length and is attached to the financial statements.

- (a) report
 - (b) response
 - (c) result
 - (d) review
3. Auditors are not responsible for the of the financial statements of an company.
- (a) evaluation
 - (b) examination
 - (c) position
 - (d) preparation
4. In the financial statements, the company implicitly states that all items, account balances and transactions are valid, complete and accurate.
- (a) essentially
 - (b) generally
 - (c) materially
 - (d) precisely
5. An error in is committed when the financial statements include an item that should not be included.
- (a) accuracy
 - (b) auditing
 - (c) completeness
 - (d) validity
6. An error in is committed when the financial statements do not include an item which should be included.
- (a) accuracy
 - (b) auditing
 - (c) completeness
 - (d) validity
7. An error in is committed when the financial statements include incorrect information about an item that should be included.
- (a) accuracy
 - (b) auditing

- (c) completeness
 - (d) validity
8. One of the principal goals of the auditor is to add to this assertion.
- (a) credentials
 - (b) credibility
 - (c) creditworthiness
 - (d) credulity
9. Audit risk is the risk that the auditor expresses an inappropriate audit opinion when the financial statements are significantly
- (a) misstated
 - (b) overstated
 - (c) restated
 - (d) understated
10. In addition to the financial statements, the auditor also examines the company's internal procedures for effectiveness.
- (a) coherence
 - (b) command
 - (c) control
 - (d) correspondence

DIAGNOSTIC TEST # 6

1. or cost accounting systems are part of a company's information system and are used for tracking costs and allocations to judge operational efficiency.
- (a) Corporate
 - (b) Domestic
 - (c) Management
 - (d) Monitoring
2. This is an accounting system, rather than one for outside reporting.

- (a) inner
 - (b) inside
 - (c) interior
 - (d) internal
3. There are no rules governing how a company should keep track of cash flows for cost accounting purposes.
- (a) amended
 - (b) fixed
 - (c) required
 - (d) restricted
4. budgeting is a form of forecasted cost accounting for long-term projects or expenditures.
- (a) Capital
 - (b) Major
 - (c) Overhead
 - (d) Terminal
5. Cost accounting applications are major financial in everyday corporate decision-making.
- (a) distractors
 - (b) drivers
 - (c) fetters
 - (d) operators
6. Cost accounting is important for estimating the of current and future activities.
- (a) foreseeability
 - (b) profitability
 - (c) sensibility
 - (d) variability
7. When good cost accounting procedures are, the company may find out that they have been producing a non-profitable product or service.
- (a) contracted
 - (b) discarded
 - (c) implemented

- (d) suggested
- 8. Cost accounting managers toward company goals.
 - (a) aggravates
 - (b) gravitates
 - (c) insulates
 - (d) motivates
- 9. It also measures the of managers and departments in the company.
 - (a) acceleration
 - (b) doings
 - (c) performance
 - (d) seniority
- 10. costs change in proportion to the level of production activity, while fixed costs remain unchanged.
 - (a) Varicose
 - (b) Various
 - (c) Variable
 - (d) Versatile

DIAGNOSTIC TEST # 7

- 1. clerks screen timecards, compute pay by subtracting allotments from gross earnings, close out files when workers retire, resign, or transfer; and advise employees on income tax withholding and other mandatory deductions; finally, they prepare and mail earnings and tax-withholding statements for employees' use in preparing income tax returns.
 - (a) Paycheck
 - (b) Paymaster
 - (c) Payment
 - (d) Payroll
- 2. The Index of Production is a fixed-weight measure of the physical output of the nation's factories, mines, and utilities; one

of the bigger wildcards in this report is utilities, which can be quite volatile due to swings in the weather.

- (a) Gross
- (b) Industrial
- (c) Primary
- (d) Resource

3. Annuity are the shares you own in variable annuity subaccounts during the period you're receiving income from the annuity; the number is fixed at the time that you buy the income annuity contract, or when you annuitize your deferred variable annuity.

- (a) bands
- (b) cells
- (c) tiers
- (d) units

4. A tax is a 'statement of supplementary details'; more specifically, it is a form on which you provide information and complete calculations, so that you can transcribe the results onto another form.

- (a) application
- (b) return
- (c) schedule
- (d) table

5. The SEC scrapped the so-called period rule, allowing companies poised to sell stock or bonds to promote the securities to investors; the Depression-era rule almost derailed Google Inc.'s \$3.47 billion initial public offering in August after Playboy published an interview with the company's founders.

- (a) dormant
- (b) gagged
- (c) quiet
- (d) tacit

6. The NYSE set about clarifying the procedure by which members may acquire securities and pay their employees a commission for

reselling them; last week an Exchange committee made ready to listen to the case of any member desiring to engage in the practice politely but correctly called '..... distribution'.

- (a) secondary
- (b) sequential
- (c) subsequent
- (d) subsidiary

7. The rule is 'one-way': that is, fully earnings per share should exclude those securities whose conversion, exercise, or other contingent issuance would have the effect of increasing the earnings per share amount.

- (a) diluted
- (b) extended
- (c) recognized
- (d) subscribed

8. China's central bank Sunday raised the amount banks must set aside in reserves, reducing the money available for lending, in the latest move to rein in the investment boom; the deposit reserve will be raised by 0.5 percentage point to 11 percent starting on May 15, the People's Bank of China said.

- (a) base
- (b) level
- (c) limit
- (d) ratio

9. The pattern, also called the 'coil', appears in three varieties, ascending, descending, and symmetrical; converging trendlines of support and resistance give all three patterns their distinctive shape, and this occurs, Kahn explains, because "the trading action gets tighter and tighter until the market breaks out with great force."

- (a) parabola
- (b) triangle
- (c) vector
- (d) wedge

10. The CFTC's market program is intended to preserve the economic functions of futures and option markets by identifying situations that could pose a threat of manipulation and initiating preventive actions.
- (a) reconnaissance
 - (b) reconnoitering
 - (c) scrutinization
 - (d) surveillance

DIAGNOSTIC TEST # 8

1. Accounting information systems are a part of an organization's day-to-day operations.
- (a) vigorous
 - (b) virtual
 - (c) visceral
 - (d) vital
2. Prices can vary from customized multimillion dollar systems to software that costs less than \$100.
- (a) prefabricated
 - (b) preinstalled
 - (c) prepackaged
 - (d) prepared
3. Customization allows for a good fit to the business's needs, smooth with other internal systems, and the ability to implement special security measures.
- (a) insertion
 - (b) intercalation
 - (c) interfacing
 - (d) interference
4. Advantages of non-custom software include low cost, immediate availability, quality, documentation on data flow, good compatibility with external systems, and from the vendor.

- (a) advice
 - (b) advise
 - (c) support
 - (d) supply
5. Disadvantages include lack of features, paying for features, and risk of vendor availability.
- (a) undesirable
 - (b) unexpected
 - (c) unordered
 - (d) unwanted
6. Good accounting systems allow users to run informal reports such as accounts receivable or to keep track of inventory.
- (a) aged
 - (b) listed
 - (c) timed
 - (d) unpaid
7. Accounting systems have to track in three business processes: order entry/sales, billing/accounts receivable/cash receipts, and purchasing/accounts payable/cash.
- (a) sequences
 - (b) steps
 - (c) transactions
 - (d) transfers
8. The order entry/sales process sales data and records the information.
- (a) captures
 - (b) contains
 - (c) controls
 - (d) copies
9. This process starts with a customer order, which initiates a credit
- (a) card
 - (b) check
 - (c) rating

- (d) report
10. After the customer is approved, the sales order department must let the warehouse know what goods to pick, and the shipping department needs to know that an order has been
- (a) filed
(b) initiated
(c) placed
(d) sent

DIAGNOSTIC TEST # 9

1. History is with assertions that 'this time the situation is different'.
- (a) labeled
(b) littered
(c) spangled
(d) spattered
2. If the dot com revolution severed the relationship of earnings and price, then the take off in credit derivatives created a world in which risk was distributed so thinly that no one would be caught if the cycle turned.
- (a) off
(b) out
(c) under
(d) up
3. Global Public Policy Committee communications leave us in no doubt that the from the recent market turmoil will be with us for a long time to come, if the billions in losses by some of the leading global financial institutions have not already done so.
- (a) ramifications
(b) rationalizations
(c) realizations
(d) rectifications

4. Knowing that the implementation of Basel II (used by banks to align their capital base with economic risk) has consumed hundreds of millions of dollars, it is ironic that even well-capitalized institutions have struggled with a problem as fundamental as
- (a) liquidity
 - (b) reality
 - (c) security
 - (d) stability
5. If a company needs profitability, retained as capital to offset any future losses, in order to maintain a viable business, then it also needs cash flow to ride the peaks and of the business cycle.
- (a) bluffs
 - (b) slides
 - (c) slopes
 - (d) troughs
6. The reason that some of the most sophisticated financial institutions have been caught unprepared by something as basic to business management as cash lies in several dynamics that have been in over several years.
- (a) order
 - (b) play
 - (c) step
 - (d) view
7. They took several years to materialize, but these dynamics a series of nearly unprecedented shocks during the early fall two years ago.
- (a) fomented
 - (b) instigated
 - (c) precipitated
 - (d) registered
8. Cash used to fund increased assets and retire obligations as they due is at the forefront of this egregious disruption of the market.
- (a) fall

- (b) grow
 - (c) turn
 - (d) wax
9. As cash begins to prevail, the levels of market cash flow tighten and exacerbate the drop in value of financial instruments; this is a dual hit which only concerted central bank intervention can mitigate.
- (a) binding
 - (b) hoarding
 - (c) squirreling
 - (d) strapping
10. The financial models used have been criticized as ignoring the voices that predicted a turning of the credit cycle as long ago as May of 2007, so that the stress testing parameters were much too narrow.
- (a) siren
 - (b) stentorian
 - (c) subprime
 - (d) sylvan

DIAGNOSTIC TEST # 10

1. Inventory accounting starts with the inventory on
- (a) deck
 - (b) hand
 - (c) record
 - (d) stock
2. Inventories cannot be until sold, and meanwhile they are considered an asset.
- (a) depleted
 - (b) eliminated
 - (c) expensed
 - (d) recorded
3. There are four generally accepted approaches to inventory valuation based on cost.

- (a) basic
 - (b) historical
 - (c) physical
 - (d) presumed
4. The identification method records actual cost flow: each individual item and its cost must be accounted for.
- (a) positive
 - (b) product
 - (c) specific
 - (d) total
5. The average method divides the total cost of inventory items by their total number at the end of any accounting period.
- (a) adjustable
 - (b) overall
 - (c) standard
 - (d) weighted
6. The moving average method uses an average cost for inventory items that is calculated and at the time of each sale.
- (a) added
 - (b) applied
 - (c) decided
 - (d) depicted
7. The method of inventory evaluation is based on the presumption that most companies normally sell the oldest items in their inventory before they sell the newer ones.
- (a) FEFO
 - (b) FIFO
 - (c) LIFO
 - (d) FILO
8. The method is based on the presumption that the most recent stock items purchased will be the initial items sold.
- (a) FEFO
 - (b) FIFO
 - (c) LIFO

- (d) FILO
- 9. The method presumes that the company will continue to keep their oldest items in inventory.
 - (a) FEFO
 - (b) FIFO
 - (c) LIFO
 - (d) FILO
- 10. The method attempts to ensure that perishable products are sold while they are still in good condition.
 - (a) FEFO
 - (b) FIFO
 - (c) LIFO
 - (d) FILO

DIAGNOSTIC TEST # 11

- 1. A final liquidity ratio, the defensive interval, determines how long a company would be able draw on assets to meet its day to day expenses; this can be especially useful when evaluating small technology companies or biotechnology companies that may have strong patents but no significant revenue as yet.
 - (a) quick
 - (b) real
 - (c) soft
 - (d) swift
- 2. A contract cannot be by one party unless both parties can be placed in the same situation and can stand upon the same terms as existed when the contract was made; the most obvious instance of this rule is where one party (by taking possession, etc) has received a benefit from the contract.
 - (a) reneged
 - (b) rescinded
 - (c) retracted
 - (d) revived

3. A property can have multiple loans or liens against it; the loan which is registered with county or city registry first is called the first position trust deed, and the lien registered second is called the second
 - (a) claim
 - (b) mortgage
 - (c) prerogative
 - (d) suit
4. evolve rules that depend on technical market indicators only; in contrast, fundamentalists evolve rules that only take fundamental indicators into account.
 - (a) Chartists
 - (b) Drafters
 - (c) Graphers
 - (d) Purists
5. A Section Plan, available only to companies with 25 or fewer employees, permits a maximum contribution of the lesser of 15% of compensation or \$30,000, and employees have the option of taking the employer contribution in cash, but must then pay income tax on it.
 - (a) 401(k)
 - (b) 403(b)
 - (c) 405(b)
 - (d) 408(k)
6. security is one held by an investor who is likely to hang onto it for a long time.
 - (a) An absorbed
 - (b) A consumed
 - (c) A digested
 - (d) An inhaled
7. With the sale of Chrysler complete, DaimlerChrysler will change its stock on Frankfurt and New York exchanges this week; starting Thursday, the automaker's stock ticker will be changed

from DCX to DAI on the DAX-30 index of companies in Frankfurt and on the New York Stock Exchange.

- (a) icon
- (b) logo
- (c) mark
- (d) symbol

8. The first tax prepared for the territory bears the date of October 6, 1800, and the names of only twelve taxable dwellers within the Holland Purchase appear on it; the hamlet cannot have been of much consequence to the collector of taxes, for the total amount he could collect there under that assessment was \$4.55.

- (a) account
- (b) bill
- (c) index
- (d) roll

9. The cost of equity decreases because of globalization for two important reasons: first, the expected return that investors require to invest in equity to compensate them for the risk they bear generally falls, and second, the agency costs that make it harder and more expensive for firms to raise funds become less important.

- (a) capital
- (b) interest
- (c) issuance
- (d) shares

10. Option grants usually have periods; companies usually set a three to five year period, which means that a grant of 3,000 options with a three year period will give you the right to purchase a thousand shares of the company's stock over each of the next three consecutive years.

- (a) assigment
- (b) entitlement
- (c) qualifying
- (d) vesting

DIAGNOSTIC TEST # 12

1. In financial accounting, financial assets are cash and other assets that convert directly into amounts of cash.
 - (a) discovered
 - (b) estimated
 - (c) known
 - (d) significant
2. In the balance sheet, financial assets are listed at the current value: for cash, this means the amount.
 - (a) dollar
 - (b) face
 - (c) stated
 - (d) total
3. Marketable securities are listed at current market value, while receivables are listed at net value.
 - (a) real
 - (b) realistic
 - (c) realizable
 - (d) realized
4. The objectives of cash management are accurate accounting for cash transactions, the prevention of losses through, and maintaining adequate cash balances.
 - (a) burglary
 - (b) robbery
 - (c) stealth
 - (d) theft
5. One major step in achieving control over cash transactions is separating cash handling from the accounting function.
 - (a) crucial
 - (b) financial
 - (c) internal
 - (d) managerial

6. The cash balance shown on the month-end bank statement will usually differ from the amount of cash shown in the depositor's ledger; this is a result of such items as checks and deposits in transit.
- (a) extraordinary
 - (b) outstanding
 - (c) preeminent
 - (d) preprocessed
7. The bank adjusts the cash balance per the books and the cash balance per the bank statement for any unrecorded items and thus produces the correct amount of cash to be included in the balance sheet at the end of the month.
- (a) concordance
 - (b) endorsement
 - (c) reconciliation
 - (d) summary
8. Under the allowance method, the portion of each period's credit sales expected to prove uncollectible is written by debiting Allowance for Doubtful Accounts and crediting Accounts Receivable.
- (a) down
 - (b) off
 - (c) out
 - (d) over
9. The most financial asset is cash, followed by cash equivalents, marketable securities, and receivables.
- (a) accessible
 - (b) fluid
 - (c) liquid
 - (d) valuable
10. Interest is a contractual amount that accumulates day by day; the amount of interest over a time period may be computed by the formula $\text{Principal} \times \text{Rate} \times \text{Time}$.
- (a) accruing

- (b) amassing
- (c) assigned
- (d) assumed

DIAGNOSTIC TEST # 13

1. Depreciation represents the expense related to the fixed assets still carried on the books of the company; sometimes the term 'reserve for depreciation' is used.
 - (a) Accumulated
 - (b) Acquired
 - (c) Consolidated
 - (d) Cumulative
2. A firm buying stock seldom had sufficient money balances to complete the required payments; instead it relied on its bank for loans, but as NYSE volume grew, banks and their regulators became alarmed at the amount of credit being extended to support securities transactions.
 - (a) day
 - (b) drop
 - (c) short
 - (d) spot
3. Many futures contract months of the same commodity trade simultaneously on the market, sometimes even years into the future; the contracts other than the current one are called the months, even though they are for future months.
 - (a) back
 - (b) front
 - (c) last
 - (d) past
4. A swaption gives the buyer the right to receive the swap's fixed rate of interest and pay the floating rate of interest; this is a bullish position in bonds, as you profit if rates fall in the future.
 - (a) call

- (b) put
 - (c) rate
 - (d) take
5. Reconciling to the General Ledger boils down to making sure you know what you owe and what you don't — it's crucial for maintaining business health; it is a fundamental task that can reduce working capital needs and minimize bank borrowings, but it can be a labor-intensive process.
- (a) assets
 - (b) bad debts
 - (c) cash flow
 - (d) payables
6. It is the consensus of the committee that all banking institutions are capable of providing the basic treasury management and banking services requested; some banks require a smaller balance for no fee services, but their interest rates are adjusted to offset any significant difference in cost.
- (a) affirmative
 - (b) compensating
 - (c) positive
 - (d) stabilizing
7. An employee stock plan gives you the right to buy a certain number of shares of your employer's stock at a stated price over a certain period of time; often, the shares 'vest' over a period of several years, meaning that some fraction of the shares can be exercised in the first year, another fraction in the second year, etc.
- (a) occupational
 - (b) opportunity
 - (c) optimum
 - (d) option
8. Section 1035 of the IRS Code allows the movement of non-qualified monies from certain financial products to others without an income tax consequence; this 1035 allows non-qualified

monies from an annuity to move to another annuity, or from a life insurance policy to another life insurance policy.

- (a) Conversion
 - (b) Exchange
 - (c) Rule
 - (d) Transfer
9. In the case of market orders in the active bonds, whose prices are reported on the right side of the quotation board, the broker after noting the latest price on the board, goes directly to the bond and effects a sale at the most favorable bid or asked price he can obtain.
- (a) box
 - (b) crowd
 - (c) floor
 - (d) quarter
10. Descending are a bearish indication formed when a stock begins a downward trend and makes successively lower lows as it declines.
- (a) bottoms
 - (b) elevators
 - (c) flights
 - (d) stairs

DIAGNOSTIC TEST # 14

1. Generally Accepted Accounting Principles are a set of accounting approved by the professional accounting industry.
- (a) standards
 - (b) suggestions
 - (c) syllabuses
 - (d) systems
2. GAAP are a combination of rules set by policy boards and the commonly accepted ways of recording and reporting financial information.

- (a) authoritative
 - (b) guideline
 - (c) optional
 - (d) overriding
3. They can become accepted either as a result of due or as a result of long term practice.
- (a) placement
 - (b) polling
 - (c) procedure
 - (d) process
4. Accountants cannot express the opinion that financial statements are "in conformity with generally accepted accounting principles" if such information includes any from these principles.
- (a) departures
 - (b) duplications
 - (c) projections
 - (d) quotations
5. After the Stock Market of 1929, the American Institute of Accountants introduced five broad principles of accounting which have won fairly general acceptance.
- (a) Bubble
 - (b) Bust
 - (c) Crash
 - (d) Plunge
6. It is relatively unimportant to investors what reporting method is used by a company, so long as they are assured that it is followed every year.
- (a) conclusively
 - (b) consistently
 - (c) constantly
 - (d) cooperatively
7. In 1934, the U.S. Congress created the Securities and Commission (SEC), giving it the authority to prescribe the methods used in preparing financial statements.

- (a) Earnings
 - (b) Economic
 - (c) Evaluation
 - (d) Exchange
8. In 1938, Congress permitted companies to use a new method, lifo, for income tax purposes.
- (a) inclusive
 - (b) introductory
 - (c) inventory
 - (d) investment
9. In 1939, the AIA recommended the phrasing, "present fairly in conformity with generally accepted accounting principles" in the standard form of the report.
- (a) auditor's
 - (b) financial
 - (c) management
 - (d) stockholders'
10. The P & L monograph of 1940 promulgated the "..... principle", which places primary emphasis on the correspondence of costs with the revenues that they produce.
- (a) alignment
 - (b) approximation
 - (c) concord
 - (d) matching

DIAGNOSTIC TEST # 15

1. is commonly found on the Cash Flow Statement as 'Investment in Plant, Property and Equipment' or something similar in the Investing subsection.
- (a) Capex
 - (b) Flox
 - (c) Invex
 - (d) Opex

2. While a Private Investment in Public transaction is marketed to a limited number of investors over a short period of time, a traditional public transaction may require a broader marketing process and, in the case of an add-on offering, the filing of a registration statement with the SEC prior to pricing.
 - (a) Companies
 - (b) Corporations
 - (c) Entity
 - (d) Equity
3. There are two major types of limitations on debt: the first has to do with how long debt problems can show up on your credit reports, and the second is the of limitations, which gives creditors a certain time period — in most states, three to six years — in which to sue you over a debt.
 - (a) code
 - (b) edict
 - (c) statute
 - (d) writ
4. A CGT asset is asset at a time if, at that time: (a) you own the asset and (i) you use it, or hold it ready for use, in the course of carrying on a business; or (ii) it is used, or held ready for use, in the course of carrying on a business by your affiliate, or by another entity that is connected with you.
 - (a) an active
 - (b) an integral
 - (c) an operating
 - (d) a tangible
5. Interest dividends paid by a bond fund may be taxable under the federal alternative tax (AMT) system if the bonds held by the fund are issued to cover the costs associated with certain private activity projects, such as housing projects, hospitals, airport expansion projects, or industrial parks.
 - (a) metropolitan
 - (b) municipal

- (c) preferred
 - (d) public
6. The distinction taken in courts of equity is between a title which the court considers to be so clear that it will enforce its acceptance by a purchaser, and one which the court will not go so far as to declare a title, but only that it is subject to so much doubt that a purchaser ought not to be compelled to accept it.
- (a) bad
 - (b) dead
 - (c) null
 - (d) void
7. If you don't specify an exchange code after entering a stock or index symbol, our database will match the symbol with its exchange — usually the TSE in Canada or the NYSE or Nasdaq in the United States.
- (a) inaugural
 - (b) initial
 - (c) primary
 - (d) principal
8. The takes the body of the butterfly — two options at the middle strike — and splits it between two middle strikes rather than just one; in this sense, it is basically a butterfly stretched over four strike prices instead of three.
- (a) collar
 - (b) condor
 - (c) long butterfly
 - (d) split spread
9. The insurer of a life annuity calculates its obligation only until the last regular payment preceding the annuitant's death; because the payments expire when you do, selecting this form of annuity is, in a sense, a bet that you expect to live longer than the average person.
- (a) limited

- (b) single
 - (c) standard
 - (d) terminal
10. The husband of televangelist Juanita Bynum denies treating her cruelly and says they have not been continuously separated since June, as her divorce petition alleges; in his, Bishop Thomas Weeks also asks for a divorce, but says he and Bynum spent one night together in August that boosted his hopes for reconciliation.
- (a) counterclaim
 - (b) deposition
 - (c) rebuttal
 - (d) testimony

UNIT ONE.

ACCOUNTING SYSTEMS

A. BEFORE YOU READ

1. CONCEPT MAPPING:

- a) Develop a "mind map" around the notion "ACCOUNTING" to comprehend the relationship between the new concepts and the concepts you know.

2. BRAINSTORMING:

- a) Examine the title of the selection you are about to read.
- b) List all the information that comes to mind about this title.
- c) Use these pieces of information to recall and understand the material.
- d) Use this knowledge to reframe or reorder what you know, or to note what you disagree with, for further research.

3. SKIMMING THE TEXT:

Scan the text to comprehend the content structure.

4. VOCABULARY PREVIEWS:

Look up unfamiliar words before reading and give their definition to improve your background knowledge and comprehension.

5. PRE-QUESTIONS:

Write out a series of questions you expect to be answered when reading.

- a) In what way are accounting systems necessary for my future business activities?
- b) What are the main components of an accounting system?
- c) What accounting system is the most efficient?

6. DEFINITION:

- a) What is accounting?
- b) What accounting systems do you know?
- c) What accounting systems have you mastered?

7. CHARACTERISTICS:

How would I describe accounting as the constituent of economics?

8. EXPERIENCE:

- a) Who plans the family budget?
- b) What economic department deals with accounting?

B. READING

- a) Highlight signal words, main idea sentences, phrases, headings and subtitles.
- b) Pay attention to specific plans of paragraph or text organization.
- c) Define the phrases in italics:

1.1. Internal controls: Foreign auditors in China are being squeezed on all sides

The big global accounting firms are not having an easy time of it in China. They have been caught up in the *accounting scandals* that have engulfed many Chinese firms that listed on America's stock exchanges: on May 9th, for example, *America's Securities and Exchange Commission* (SEC) took legal action against Deloitte's Shanghai arm in a case involving an unnamed Chinese client. The next day Chinese officials unveiled details of a plan that will force foreign

partners to hand control of the “Big Four” firms—Deloitte, Ernst & Young, KPMG and PwC—to Chinese colleagues by the end of 2017.

At first blush, the SEC seems to be overreaching by *pursuing auditors* based in China which are already regulated by local authorities. And the localisation scheme appears to be yet another example of the pitch being queered for foreign firms by an overweening Chinese state. But the snap judgments are misleading.

The American regulatory mandate abroad arises because many Chinese firms choose to list on America’s exchanges while still using auditors based in China. One such example is Longtop, a Chinese business-software firm that used Deloitte’s Shanghai arm to do its books. The auditor resigned a year ago after it claimed to have identified a number of “very serious defects” during its audit for the *financial year* that ended in March 2011. But Deloitte’s Chinese partners refuse to hand over the work papers arising from the Longtop audits to the SEC on the ground that doing so would violate local law. The Chinese invoke the need to defend both sovereignty and (more dubiously) “state secrets”.

The snag is that under the Sarbanes-Oxley law, American regulators are obliged to conduct periodic inspections of the auditors of all firms listed on American exchanges. The Public Company Accounting Oversight Board (PCAOB) is required to inspect all of the relevant accounting firms based abroad by year-end, but China has blocked access for years. James Doty, the agency’s boss, says China may now be willing to let his inspectors tag along during Chinese audits. In time, he hopes an accord can be reached on *joint inspections*.

The consequences could be dire if the Chinese continue to block co-operation. Paul Gillis, a former accountant now teaching at Peking University, points out that if the Chinese accountants are not audited by the PCAOB, the agency may be forced to *deregister* them all. That would force their clients listed in America eventually to face delisting themselves for not having a *registered auditor*. Worse yet, multinationals will not want their Chinese divisions audited by *deregistered firms*.

That is not the only threat. The new localisation rules will force the Big Four to hand over the reins to local partners soon. As long as this is done in an orderly fashion, this need not be a bad thing. Mr Gillis says local accountants are a bit inexperienced but insists they are as good as those in other countries. James Lee of the ICAEW, a body representing *chartered accountants*, adds that the new rules leave enough wiggle-room for the old lags to stay on the *payroll* as well-paid “principals” or consultants.

1.2. The Case for Global Accounting.

1.2.1. Make an English précis of the article.

1.2.2. Make a Ukrainian précis of the article.

For more than a decade, politicians and regulators around the world have claimed to want a common set of high-quality accounting standards that applied globally. The extent to which that rhetoric will become reality may soon become apparent.

Last week, the American government reaffirmed its commitment to common accounting rules, something that Timothy F. Geithner, the Treasury secretary, has argued was necessary for common global regulation of banks, among other things.

“China and the United States support the objective of a single set of high-quality global accounting standards,” the two countries said in a joint statement after a meeting in Beijing.

The Securities and Exchange Commission, the American regulator responsible for deciding what accounting rules apply in the United States, was represented in the American delegation in Beijing, but has not stated what it will do.

The commission is expected to publish a report on the question of adopting international accounting standards within the next several weeks, but it is not clear if any action will follow. There has been some speculation that the current S.E.C. chairwoman, Mary L. Schapiro, will step down after the election and would be happy to leave that decision to her successor.

The issue of American adoption of International Financial Reporting Standards, known as I.F.R.S. to accountants, for years has provoked intense debate and anger within the accounting world. Those standards, written by the London-based International Accounting Standards Board, are used by companies in many countries around the world, including all the countries in the European Union.

Some Americans argue that accepting international standards would reduce the quality of American financial statements. But some in Europe say that the best hope for assuring that the international standards are uniformly followed around the globe would be having the S.E.C. involved in enforcing them.

Ideally, comparable accounting around the world would make markets more efficient by letting investors compare companies from different countries. But that would be true only if the standards were of high quality and applied in a consistent manner.

The S.E.C. promised it would make a decision on adopting I.F.R.S. by the end of last year, and then said that would be delayed a few months. Sir David Tweedie, the former chairman of the international board, said in an interview that many in Europe would be angry if the United States did not soon agree to use the international standards, although it would be acceptable for the Americans to set a fixed date for adoption that was several years out.

“If the U.S. delays this indefinitely, or starts having lots of exceptions, I think the global standards will be damaged,” he said. “Other countries will do exactly the same thing.”

In one sense, it is clear that there will not be a single set of standards around the globe. Already some countries have announced exceptions and carve-outs to the rules for their companies. And the United States is virtually certain not to abandon its own rules, known as U.S. GAAP for “generally accepted accounting principles.”

1.3. Entrepreneurs Must Consider New Tax Matters.

1.3.1. Give a written translation of Paragraph I.

Tepid economic growth has left many people out of work or underemployed. While some wait for a better job, or any job at all, to come along, others will try to create their own jobs from scratch by starting a business.

What budding entrepreneurs may not realize is that there is a fair chance of creating tax headaches for themselves, too. Going into business is likely to mean more forms to fill out, tax authorities warn, and more complexity because the paperwork often relates to obscure nooks and crannies of federal and state tax codes.

“Tax and compliance issues are more complicated than ever before,” said Warren Hudak, head of the accounting firm Hudak & Company in New Cumberland, Pa. “Virtually every new employer has difficulty getting used to withholding taxes and the sheer volume of work that’s involved.”

Between what they must send in on behalf of their workers and their own income, sales and payroll tax obligations, “employers could be filing tax payments three, four, five times a month,” Mr. Hudak said. “It makes it very hard for a small-business guy who understands widgets to keep up with those things.”

Laura Zander recalls the bewilderment that she and her husband, Doug, felt when they left their jobs as software engineers in San Francisco during the dot-com bust and set up their “little, teeny yarn shop” in Truckee, Calif., in 2001. The shop evolved into Jimmy Beans Wool, which does about \$6 million in annual sales, mostly online, from the company’s new base in Reno, Nev.

“Things seemed overly complicated in the beginning,” she said. “There was a learning curve.”

One “unfortunate tax event,” she said, provided an expensive lesson. The couple mistakenly took a substantial write-off for the cost of inventory one year early on, when it turned out that the deduction was supposed to be taken gradually as the merchandise was sold. Correcting the error greatly raised their stated income and therefore their tax liability.

“The tax bill ended up being significantly more than we thought,” Ms. Zander said. “It totally smacked us in the face. It was something nobody told us, and I swear we asked four or five accountants.”

The treatment of inventory is one of many fussy, quirky procedures that tax authorities and legislatures require businesses to follow. James Markham, a tax specialist at Ernst & Young who focuses on issues that entrepreneurs face, refers to them as “the gotcha-type things.”

The chances that they will trip up a business increase as activities reach a certain level of complexity, such as when someone other than a family member goes on the payroll or sales cross state lines, Mr. Markham said. That is when accounting services become particularly important. Not only do errors cost money, but preventing them can carry a cost measured in wasted hours.

“You’re this entrepreneur,” he said, “and you’re saying, ‘What’s the best use of my time — document my tax position in case I’m audited or sell my product?’ ”

Tax issues for online businesses that sell into many states and abroad can be especially problematic, advisers caution. Some states, short of cash, are trying to force companies to collect tax on sales made to their residents, even when the companies are based elsewhere. Court challenges leave the success of the tactic in question, but if the trend catches on, companies could find it harder to comply with the various sets of rules and tax rates.

C. AFTER YOU READ

- a) What is the author trying to say?
- b) What is his point of view and his reason for writing the particular work?

D. LANGUAGE FOCUS

a) *Make it negative:*

1. The new localisation rules will force the Big Four to hand over the reins to local partners soon.

2. But that would be true only if the standards were of high quality and applied in a consistent manner.

b) *Paraphrase the following:*

1. Innovations in financial markets increased access to credit for households by making it very easy for individuals to tap the equity in their homes to fund consumption expenditures.
2. Already some countries have announced exceptions and carve-outs to the rules for their companies.

c) *Relate the action to the past/present/future:*

Tepid economic growth has left many people out of work or underemployed.

d) *Turn direct speech into indirect:*

1. Mr. Hudak said. "It makes it very hard for a small-business guy who understands widgets to keep up with those things."
2. Ms. Zander said. "It totally smacked us in the face. It was something nobody told us, and I swear we asked four or five accountants."

E. VOCABULARY ARRANGEMENT

- a) Arrange a semantic field of the words relating to the topic.
- b) Add words you probably already understand to connect relationships between what is known and unknown.
- c) Supply the English equivalent to the Ukrainian phrases from the list given below:

Olivia Kirtley is a *невиконавчий* director for U.S. Bancorp and Papa John's International. She is also the chair of the audit committee of both companies. She was the AICPA's first *головуючий* from business and industry. She offers the following tips for efficient and effective operation of audit committees:

The *ревізійна комісія* should have both high expectations and robust processes for receiving information relating to the period under review on all critical areas, including significant issues, judgments, and transactions. It should receive written materials in advance of the meeting, setting forth all the important matters so that the meeting can focus on the

most significant issues, whether these are *облік доходів*, accounting for *неординарних операцій*, or other matters. It is up to *фінансового директора* to be proactive in understanding the expectations of the audit committee and in developing the *комплект* of materials to be provided to committee members.

The audit committee and, particularly, its chair should develop a good working relationship with the CFO, seeking frank discussions about issues and *випробування*. This can be done by encouraging dialogue when important issues arise, and not just at *загальних зборах*. In addition, the chair should have a premeeting call to review materials and discuss matters that the committee should focus on during its meeting. The chair can ask any questions not evident from the advance meeting materials that may require additional review or work, allowing finance staff to prepare for questions that are likely to arise at the meeting. This helps build a *взаємні*, trusting relationship.

1. nonexecutive
2. challenges
3. chairman
4. revenue recognition
5. unusual transactions
6. package
7. CFO
8. general meetings
9. collaborative
10. audit committee

d) Suggest the correct translation:

The business valuation (A) practice area is maturing (B), and rapid growth is no longer the norm for the profession's established firms. Although demand (C) for valuation services is robust (D), it is harder for firms entering the field to earn superior returns unless they have a competitive advantage (E) such as some existing expertise (F) like industry or technical experience or they acquire valuation talent with a book of business. Flatter industry-wide (G) growth is not only the result of generally weak economic conditions but also the evolution of

the profession. Without a major innovation or external “shock,” such as new government regulation, most CPAs (H) know from experience that many industries in general eventually evolve (I) from times of high growth to moderate growth. These conditions mean that firms need to manage their practices smarter and work harder to maintain historical profitability (J).

F. INFORMATION FILE

Share new information with your fellow students.

G. ADVANCE ORGANIZERS

- a) Relate new reading material to something you already know, to your background or experiences.
- b) Ask your friend for assistance in developing the main points of the article.

H. GROUP DISCUSSIONS

- a) Group discussions in and out of class will help you to discover what you bring to your reading, what your fellow students bring, as well as shared experiences.
- b) If you find they have new background information, ask for more information from them.

I. QUIZ # 1

a. *Define the following sentences “True” or “False”:*

1. The Big Four comprises Deloitte, Ernst & Young, KMPG and PwC.
2. The scandal arose because Chinese firms used China-based auditors.
3. Longtop is an American business-software firm.

4. American regulators are not obliged to conduct periodic inspections of the auditors under the Sarbanes Oxley law.
5. China facilitates PCAOB activities.
6. For more than 10 years, politicians and regulators have demanded a common set of accounting standards.
7. The commission will publish
8. Accounting standards written by the London-based International Accounting Standards Board are used by companies mainly in the EU.
9. Accepting international standards could diminish the quality of American financial statements.
10. Tax authorities and legislatures require businesses to follow treatment of inventory procedures.

b. Give the opposite:

reaffirm, common, current, reduce, consistent, abandon, complexity, withhold, substantial, deduction,

c. Decode the following terms:

regulator, joint, meeting, adopt, speculation, enforce, acceptable, underemployed, budding, widget.

d. Translate the following into English:

1. У загальнонаціональній системі бухгалтерського обліку зазначені елементи взаємодіють та забезпечують виконання нею функції регулювання бухгалтерського обліку підприємств та організацій.
2. Існує багато визначень бухгалтерського обліку як системи на рівні підприємства, проте структурі цієї системи не приділено достатньої уваги.
3. Найбільше дискусій в науковому середовищі викликає поділ бухгалтерського обліку на фінансовий та управлінський.
4. Одні науковці розглядають управлінський облік як окрему облікову систему, значно ширшу за систему бухгалтерського обліку.

5. Інші науковці виступають за цілісність облікової системи та розгляд управлінського і фінансового обліку в межах єдиної системи бухгалтерського обліку.
 6. Система бухгалтерського обліку — це певний логічний комплекс, який сформований на основі плану рахунків заданої оптики (виробничої, дохідної, прибуткової, витратної).
 7. Облікова інформаційна система включає в себе вісім функціональних елементів, які притаманні загальній інформаційній системі: сприйняття, реєстрація, пошук, зберігання, обробка, передавання, представлення і прийняття рішень.
 8. Накопичення, узагальнення зберігання інформації є одним із етапів формування інформації про господарську діяльність підприємства у системі бухгалтерського обліку.
 9. Виявлення, вимірювання та реєстрація господарських фактів і є оперативним обліком, тобто підсистемою бухгалтерського обліку.
 10. Ведення аналітичного обліку здійснюється протягом обліку всього господарського циклу, і можуть бути використане з метою складання управлінської (внутрішньогосподарської) звітності.
- e. *Check the terms in the dictionaries. Learn and use in your discussion.*

accounting firm	international	tax liability
accounting rule	accounting standards	tax payment
accounting standard	board	tax rate
annual sales	merchandise	to delist
cost of inventory	payroll	to do one's books
deduction	stated income	to withhold taxes
financial statements	stock exchange	write-off
inspection	tax authorities	
	tax bill	
	tax headache	

f. *Revise/learn and use in your discussion.*

abandon	engineer	payment
about	engulf	payroll
abroad	enough	peking
acceptable	entrepreneur	people
access	error	periodic
accord	especially	pitch
activity	even	plan
add	event	point
adopt	eventually	politician
adoption	ever	position
adviser	every	prevent
agency	evolve	principle
agree	exactly	problematic
already	example	procedure
although	exception	product
anger	exchange	promise
angry	expected	provide
announce	expensive	provoke
annual	extent	public
another	face	publish
apparent	fair	pursuing
appear	family	quality
applied	fashion	queer
apply	federal	question
argue	few	quirky
arise	filing	raise
arising	fill	rate
arm	financial	reach
around	find	reaffirm
article	fixed	reality
assure	focus	realize
audit	follow	recall

auditor	force	reduce
authority	forced	refer
bad	foreign	refuse
bank	former	register
base	form	regulate
based	fussy	regulation
because	gaap	regulator
become	global	regulatory
been	globally	rein
before	globe	relate
beginning	good	relevant
behalf	gotcha-type	report
beijing	government	reporting
between	gradually	represent
bewilderment	greatly	require
big	ground	resident
bill	growth	resign
bit	guy	responsible
block	hand	rhetoric
blocked	happy	rule
blush	hard	sales
board	head	same
body	headache	scandal
books	high-quality	scheme
boss	hope	scratch
both	husband	secretary
budding	ideally	secrets
business	identify	seem
business-software	important	sell
bust	income	send
but	increase	sense
can	indefinitely	serious
carry	inexperienced	services
carve-out	insist	set

case	inspect	several
cash	inspection	sheer
catch	inspector	shop
caught	intense	short
caution	internal	side
certain	international	significantly
chairman	interview	single
chairwoman	into	smack
challenge	investors	small-business
chance	invoke	snag
chartered	involve	snap
china	involved	so
chinese	issue	software
choose	job	some
claim	joint	someone
clear	judgment	something
client	keep	sovereignty
co-operation	known	specialist
code	law	speculation
colleague	learning	squeeze
collect	leave	standard
come	left	start
commission	legal	state
commitment	legislature	statement
common	lesson	stay
company	let	step
comparable	level	still
compare	liability	substantial
complexity	likely	success
compliance	line	successor
complicated	list	such
comply	listed	support
conduct	local	suppose
consequence	localisation	swear

consider	london-based	tactic
consistent	long	tag
consultant	lots	teach
continue	make	teeny
control	mandate	threat
cost	manner	totally
could	many	treasury
country	market	treatment
couple	mean	trend
court	measure	trip
cranny	meeting	true
create	member	try
creating	million	turn
cross	misleading	two
cumberland	mistakenly	under
current	money	underemployed
curve	month	understand
damaged	multinational	uniformly
date	must	union
day	necessary	united
debate	need	university
decade	new	unnamed
decision	next	unveiled
deduction	nobody	use
defect	nooks	used
defend	now	various
delayed	number	very
delegation	objective	violate
delisting	obligation	virtually
detail	obliged	volume
different	obscure	wait
difficulty	official	want
dire	often	warn
division	one	waste

do	online	we
document	only	week
dot-com	orderly	well-paid
dubiously	other	widget
during	out	wiggle-room
early	over	will
easy	overly	willing
economic	overreaching	withhold
efficient	overweening	within
election	own	work
elsewhere	paper	worker
employer	paperwork	world
end	particularly	yarn
enforce	partner	year

J. FAMOUS ECONOMIST

Follow her example:

JOAN ROBINSON (1903-83)

Joan Robinson made major contributions in two areas of economics. Early in her career, she focused the attention of economists on market forms in between perfect competition and monopoly. Later she was instrumental in defending and expanding the theories of Keynes, and became one of the founders of Post-Keynesian economics. Robinson was born Joan Maurice in Surrey, England, in 1903. Her family was upper middle class, and put a high premium on education and independent thinking. Her father was a military general, an author, and later in life, head of one of the colleges making up the University of London. Her mother was the daughter of a Cambridge University professor. Robinson attended St Paul's, a leading school in London for girls, where she studied history, then Girton College at

Cambridge University, where she studied economics. She became interested in economics in order to learn why poverty and unemployment existed in the world, and because she thought economics could help solve these problems.

With the exception of a few years spent in India with her husband, Robinson spent the half century following her 1925 graduation teaching and lecturing at Cambridge. However, because she was a woman, she did not become a full-time member of Cambridge University until 1948.

In the 1930s, Robinson was an active participant in the “Cambridge Circus,” a small group of economists helping Keynes to develop his General Theory. She then helped defend Keynes from his many critics, and worked on expanding and developing his ideas along several lines. In 1974 Robinson was made President of the American Economic Association, becoming its first female President and one of its few non-American Presidents. She is the first woman to have made the list of finalists for the Nobel Prize in Economics.

As an undergraduate, Robinson studied Marshall’s Principles of Economics, the standard textbook at the time. What she found especially unsatisfactory was the conclusion of this work – that producers and consumers jointly maximized their well-being. This conclusion seemed incompatible with the actual British economy of the 1920s, which was plagued with high unemployment and industries operating at low capacity. Robinson was also dissatisfied with the fact that Marshall and other economists focused on just two extreme types of industries – perfect competition and monopoly. The real world, she thought, was somewhere in between these two extremes. The Economics of Imperfect Competition (Robinson 1933) analyzed these real-world industries that fall part way between a highly competitive industry with many small firms and an industry made up of only one firm.

To explain decision-making by the firm, Robinson used the concept of marginal revenue, the additional revenue a firm gets when it produces and sells one more thing. For competitive firms, marginal revenue would always equal price, since firms can always sell more

goods without having to run a sale or lower the price they charge. But under imperfect competition firms faced downward-sloping marginal revenue curves. To sell more, goods had to be put on sale. But when firms run sales, consumers pay less than they would have otherwise paid, and the firm loses this revenue. Taking into account both the lower price and the greater sales, firms might cut prices in an attempt to sell more goods, but this does not mean that they will actually get any more revenue. Conversely, firms might receive more revenue if they increased their prices and sold fewer goods. By showing how raising prices and producing less could yield more revenue for the large firm, Robinson was able to explain why imperfect competition was characterized by insufficient production and underutilized resources. Imperfect competition could thus explain the high rates of unemployment prevailing in Britain during the 1920s and during the Great Depression of the 1930s.

UNIT TWO.

FINANCIAL STATEMENTS

A. BEFORE YOU READ

1. CONCEPT MAPPING:

a) Develop a "mind map" around the notion "FINANCIAL STATEMENTS" to comprehend the relationship between the new concepts and the concepts you know.

2. BRAINSTORMING:

- a) Examine the title of the selection you are about to read.
- b) List all the information that comes to mind about this title
- c) Use these pieces of information to recall and understand the material.
- d) Use this knowledge to reframe or reorder what you know, or to note what you disagree with, for further research.

3. SKIMMING THE TEXT:

Scan the text to comprehend the content structure.

4. VOCABULARY PREVIEWS:

Look up unfamiliar key words before reading to improve your background and comprehension.

5. PRE-QUESTIONS:

Write out a series of questions you expect to be answered when reading.

6. DEFINITION:

- a) What is financial statement?
- b) Where do financial statements fit?
- c) What group of activities does the internal auditor undertake?

7. CHARACTERISTICS:

How would I describe preparation of financial statements?

8. EXPERIENCE:

- a) What experience have I had with financial statements?
- b) What can I imagine about working as an auditor?

B. READING

- a) Highlight signal words, main idea sentences, phrases, headings and subtitles.
- b) Pay attention to specific plans of paragraph or text organization.
- c) Define the phrases in italics:

2.1. Financial reports.

Lord Justice Thomas had heard enough. One of Britain's most senior judges had sat through two hours of excuses from the country's leading *fraud-busting agency* about mistakes in a case involving a pair of London's most *flamboyant* property entrepreneurs, the Tchenguiz brothers.

Key documents had disappeared, financial reports had been overlooked and senior investigators who best knew the case had quit, the Serious Fraud Office's barristers said as they pleaded last month for an extension to prepare a legal challenge in one of its most high-profile cases.

Begrudgingly, Lord Justice Thomas approved the extension into May, tossing in this rebuke: “There is only one explanation for this: sheer incompetence.” He gave the SFO until April 29 to explain its side of the story to the court.

His pronouncement was the latest embarrassment for a two-and-a-half year probe started in the wake of the 2008 global *credit crisis*. An effort to unravel the rot in Iceland’s bloated banking system led to suspicions about Vincent and Robert Tchenguiz, symbols of a frothy *easy-money decade* in Britain. But the investigation has come under pressure – in part because the SFO, meant to enforce rigour in business practices, misread its own files.

In this case, the Tchenguizes allege a level of incompetence that crystallises wider concerns about the SFO’s abilities to keep up with both the fast pace of modern finance and the *sophisticated fraud* that flourishes alongside it.

An investigation into the Tchenguizes was never going to be a quiet affair. They had amassed multibillion-pound fortunes through a string of business deals spanning property, hotels, supermarkets and pubs. Their love of fast living and lavish parties, whether in their Chelsea mansions or cruising along the Côte d’Azur, made them tabloid supernovas.

Their stars had dimmed by the end of 2008. They were left with losses running into hundreds of millions of pounds as stock markets around the world went into free fall. But it was their relationship with Kaupthing, an Icelandic bank at the centre of that country’s financial crisis, that soon attracted regulators. Robert, 52, had sat on the board of Kaupthing’s largest shareholder, Icelandic *financial services group* Exista, and the brothers had borrowed hundreds of millions of pounds from the bank shortly before it collapsed in October 2008.

Kaupthing’s demise, which helped push Iceland to the brink of bankruptcy, drained millions from UK retail depositors. The SFO, working with authorities in Reykjavik, launched an investigation in 2009. This was just the kind of *flagship case* that Richard Alderman,

then the agency's media-savvy director, believed it was important to pursue to show the agency would crack down on potential wrongdoers, no matter how wealthy or well connected.

The probe, centred on the processes that allowed large loans to be made by Kaupthing in the run-up to its failure, resulted in the brothers grabbing headlines for all the wrong reasons.

2.2. Distortions in Baffling Financial Statements.

2.2.1. Make an English précis of the article.

2.2.2. Make a Ukrainian précis of the article.

This has been a bad year for banks. With sovereign debt no longer trusted and widespread fears of a new recession in Europe, share prices of banks have fallen sharply.

But in some cases, the financial statements look ever so much rosier. JPMorgan Chase reported net income of \$15.3 billion during the first three quarters of this year, 22 percent higher than in the period a year earlier and a record for the first nine months of any year.

There are explanations for that — and JPMorgan Chase deserves praise for calling attention to reasons to think the numbers are misleading. But at base the problem is a simple one: Accounting for financial institutions is a mess. And it is getting worse.

Under the rules, banks have a choice of three ways to report the value of identical securities. Even if two banks are using the same valuation method for the same security, they can come up with different values, and it is very difficult for an investor to get any feel at all for just how optimistic, or pessimistic, a bank's estimates might be.

This year's strange financial reports are being caused, in large part, by an accounting rule that has the counterintuitive result of increasing reported profits — and revenues — just because people are losing faith in the ability of the bank to meet its obligations. I'll get into the details later.

The banks hate that rule now, but a few years ago they pushed for it. They did not foresee there would be a day when banks' own creditworthiness would be called into question.

Sometimes the worst thing that can happen is that you get what you ask for.

And it is not just the earnings numbers that can be misleading. Bank leverage can be obscured by allowing totally unrelated positions to offset each other, so that rather than showing the bank has placed two bets, the financial statements seem to indicate there is no bet at all.

Revenue figures can also be all but meaningless. Did a bank's revenues soar? If so, that could mean what it would mean in a normal company — that it is doing more business, and possibly gaining market share on its rivals. But it could mean nothing of the kind. It could reflect the good news that the bank is making money from trading, or the bad news that investors are growing worried that the bank may collapse.

Baffling financial statements can have negative effects well beyond confusing investors. Regulators can also be perplexed. A few months ago the European bank stress tests concluded that Dexia, a French-Belgian bank, was among the best capitalized in Europe. A few weeks later, it essentially failed.

Perhaps the most perverse effect seen this year, however, came at Goldman Sachs, which has not had good numbers to report. In the name of preventing unreasonable swings in earnings figures, it has essentially placed bets that its rivals' credit standing will not deteriorate. The result would be to make Goldman more vulnerable if there were another financial crisis because it would have to pay out substantial sums if other firms collapsed.

2.3. Panel Clears Accounting Firms in Olympus Fraud.

2.3.1. Give a written translation of Paragraph I.

An unofficial panel of experts cleared the global accounting groups KPMG and Ernst & Young of any responsibility for a \$1.7

billion accounting fraud at the Olympus Corporation on Tuesday, though the role of the firms remained under official review.

The scandal, one of corporate Japan's worst, had raised questions over the role of the two audit firms, which signed off on company accounts before the 13-year fraud finally surfaced in October.

But the panel of lawyers set up by Olympus to look at the role of auditors said in a report on Tuesday that internal auditors were to blame, saying five of them, former and current, were responsible for 8.4 billion yen (\$109 million) in damages.

The panel effectively found the fraud, identified by a separate investigation as having been hatched by two former top executives in the 1990s to conceal losses, had been too well covered up for the external audit firms to have uncovered it.

"The masterminds of this case were hiding the illegal acts by artfully manipulating experts' opinions," the report said.

Neither KPMG's Japanese unit, KPMG AZSA, which was the firm's external auditor until 2009, nor Olympus' current auditor, Ernst & Young ShinNihon, was found to have violated its legal duties, the panel said.

Ernst & Young and KPMG, however, still face possible sanctions by the country's accounting industry body and financial regulator, which have undertaken investigations into the matter.

Olympus is expected to bring a damages lawsuit against the five as early as Tuesday, the Nikkei business daily reported.

The company is already suing its president and 18 other executives, past and present, for up to 3.6 billion yen in compensation for the accounting scam, which has halved Olympus' share price and put it under pressure to raise capital.

New lawsuits against internal auditors would only add to what is already an extraordinary chapter in Japanese corporate governance, with Olympus being mostly run and internally audited by people it is suing for mismanagement or a failure of duty.

Olympus said last week that all board members subject to the lawsuit would quit at an emergency shareholders meeting to be held in March or April.

A decision, however, to clear the auditing firms could bolster Olympus' chances of staying listed on the Tokyo Stock Exchange, a critical prerequisite for its campaign to remain an independent company with access to equity capital.

Suing Ernst & Young ShinNihon would most likely leave it without an auditor and make it hard to meet bourse requirements.

But Japan's Financial Services Agency is still looking into the auditors' roles. The exchange has yet to conclude whether Olympus should remain listed.

Olympus has admitted that it used improper accounting tricks to conceal immense investment losses under a scheme that began in the 1990s, when Japanese stock markets had fallen heavily and the yen strengthened markedly.

The scandal came to light after Olympus fired its British chief executive, Michael Woodford, in October, prompting him to publicly blow the whistle on the firm's dubious bookkeeping.

C. AFTER YOU READ

- c) What is the author trying to say?
- d) What is his point of view and his reason for writing the particular work?

D. LANGUAGE FOCUS

e) *Make it negative:*

1. Under the rules, banks have a choice of three ways to report the value of identical securities.
2. Baffling financial statements can have negative effects well beyond confusing investors.

f) *Paraphrase the following:*

The result would be to make Goldman more vulnerable if there were another financial crisis because it would have to pay out substantial sums if other firms collapsed.

g) Relate the action to the past/present/future:

But the panel of lawyers set up by Olympus to look at the role of auditors said in a report on Tuesday that internal auditors were to blame, saying five of them, former and current, were responsible for 8.4 billion yen (\$109 million) in damages.

h) Turn direct speech into indirect:

1. “The masterminds of this case were hiding the illegal acts by artfully manipulating experts’ opinions,” the report said.
2. Begrudgingly, Lord Justice Thomas approved the extension into May, tossing in this rebuke: “There is only one explanation for this: sheer incompetence.”

E. VOCABULARY ARRANGEMENT

- a. Arrange a semantic field of the words relating to the topic.
- b. Add words you probably already understand to connect relationships between what is known and the unknown.
- c. Supply the English equivalent to the Ukrainian from the list given below:

“In a post-M&A dispute, valuation analysis is not a traditional USPAP (Uniform Standards of Professional Appraisal Practice) *оцінка* but more akin to a *оцінка збитків*. The CPA will need to have *спеціальні знання* to understand how to recalculate the *купівельна ціна*, but it is much simpler than what is done under SSVS1 (Statement on Standards for Valuation Services no. 1),” says Kennedy. The valuation aspects are very straightforward and almost fundamental, except for the issue of whether the buyer is *уповноважений* a multiple of the misstatement.

“CPAs typically misunderstand that much of what we do is damage analysis and not pure valuation,” explains Litvak. “In order to do the damage analysis in a post-M&A *суперечка*, you have to have a

valuation background. But on the valuation issues, you do not necessarily have to *переоцінювати* the company—you have to value the alleged misstatement and determine if the damages are *співвідношення ціни та якості* or to be calculated at the multiple. So you're doing your damage analysis based on the misstatement. This is a common mistake, and performing a *повну* valuation instead of a damage analysis does not provide the best insight and information for the trier of fact. The way to prove the *зотівкові* damages is to value the misstatements, using both accounting and valuation analysis.

1. benefit-of-the-bargain
2. damage analysis
3. dispute
4. dollar for dollar
5. entitled to
6. expertise
7. full-scale
8. purchase price
9. revalue
10. valuation

d) Suggest the correct translation:

Sole owners with CPA staff who opt to turn to a trusted (A) employee or employees to take over the practice will be driven by several factors. The first issue will be familiarity with the clients and the staff. In many cases trusted employees have already serviced the clients, and there is some familiarity and, hopefully, confidence as well. Furthermore, they are accustomed to the priorities (B) and preferences (C) of the firm owner so that the possibility of service change and disruption is minimized. The surprise factor is much more contained, and the concern about unknowns is dramatically reduced. In the event of a temporary or permanent disability or leave for personal/family reasons, a turnover (D) to an appropriate (E) staff professional can be a practical and expedient (F) choice.

In a small multipartner (G) firm, when a partner can no longer continue due to death or permanent disability, the option of turning to

a trusted employee cuts both ways. The concern about lack of previous experience is mitigated by the continuing involvement of the other owners. The continuing owners may not want the stress of training and monitoring the new potential owner so there may be push-back (H) from the other owners on any type of internal program. As a result, turning to another firm may be the solution (I) if the original firm's continuing owners don't have the capacity (J) and/or interest in dealing with the trusted employee in this manner.

F. INFORMATION FILE:

Share new information with your fellow students.

G. ADVANCE ORGANIZERS:

Relate new reading material to something you already know, to your background or experiences. Ask your teacher for assistance in developing these issues.

H. GROUP DISCUSSIONS:

- a) Group discussions in and out of class will help you to discover what you bring to your reading, what your fellow students bring, as well as shared experiences.
- b) If you find they have new background information, ask for more information from them.

I. QUIZ # 2

a. *Define the following sentences "True" or "False":*

1. Their stars had dimmed by the end of 2009.
2. Exista financial services group is based in Ireland.
3. The pursuit was conducted to show the agency would bulldoze potential wrongdoers.
4. With sovereign debt no longer trusted and widespread fears of a new recession in Europe, share prices of banks have plummeted sharply.

5. It was JPMorgan Chase deserves who called attention to reasons to think the numbers are misleading.
6. They did not predict there would be a day when banks' own creditworthiness would be called into question.
7. Baffling financial statements can have negative effects well beyond confusing creditors.
8. Goldman Sachs' financial statements show that the bank has not performed well.
9. The accounting scam caused Olympus' share price drop significantly.
10. The scandal emerged after Olympus fired its British CEO.

b. Give the opposite:

widespread, report, foresee, soar, to fail, to deteriorate, vulnerable, unreasonable, former, immense.

c. Decode the following terms:

sovereign, praise, ability, to offset, to gain, baffling, swing, substantial, panel, to conceal.

d. Translate the following into English:

1. Основними формами фінансової звітності є баланс і звіт про фінансові результати.
2. Збір необхідних даних для їх оцінювання провадиться з використанням таких аудиторських процедур, як перевірка, спостереження, інспектування, запити і підтвердження, а також аналітичні процедури.
3. Встановлення достовірності фінансової звітності ґрунтується на підтвердженні попередньо здійсненої оцінки про достовірність відображення у системі рахунків бухгалтерського обліку та звітності інформації про активи, зобов'язання, власний капітал, а також про доходи, витрати і фінансові результати господарюючого суб'єкта.
4. Результати аудиту фінансової звітності можуть бути оформлені у вигляді загального аудиторського висновку про достовірність фінансової звітності (у межах загального аудиту).

5. Аудитор відповідає за складання фінансової звітності та висловлює свою думку про неї, відповідальність за підготовку і надання фінансової звітності несе керівництво підприємства-клієнта.
6. Аудит фінансової звітності не звільняє керівництво підприємства від відповідальності за недостовірне відображення даних у ній.
7. Баланс – дозволяє отримати наочну і неупереджену уяву про майнове і фінансове становище підприємства в грошовій оцінці на визначену дату.
8. Звіт про фінансові результати - надає інформацію про активність та результативність діяльності підприємства за певний проміжок часу та є основою, на підставі якої будуються прогнози майбутньої діяльності підприємств.
9. Звіт про рух грошових коштів - надає можливість оцінити здатність підприємства генерувати майбутні грошові потоки, робити висновки щодо спроможності підприємства погашати свої зобов'язання.
10. Підтвердження достовірності фінансової звітності аудитором має надзвичайне значення для прийняття будь-якими користувачами обґрунтованих ефективних управлінських рішень, які повинні прийматися на підставі достовірно наданої обліково-аналітичної інформації.

e. Check the terms in the dictionaries. Learn and use in your discussion.

accounting fraud	equity capital	net income
accounting scam	external audit	reported profits
bourse	financial regulator	to report good
creditworthiness	identical securities	numbers
dubious bookkeeping	internal auditor	to sign off on
		accounts
		valuation

f. Revise/learn and use in your discussion.

ability	figure	perverse
about	file	pessimistic
access	finally	place
act	finance	plead
add	fired	position
admit	firm	possible
affair	first	possibly
after	flagship	potential
against	flamboyant	pound
agency	flourish	practice
all	foresee	praise
allege	former	prepare
allow	fortune	prerequisite
along	fraud	present
alongside	fraud-busting	president
already	free	pressure
also	frothy	prevent
amass	gain	price
among	get	probe
another	give	problem
any	global	process
approve	good	profit
artfully	governance	prompt
article	grab	pronouncement
ask	group	property
attention	grow	publicly
attract	halve	pub
audit	happen	pursue
authorities	hard	push
bad	hatch	put
baffling	hate	quarter
bank	have	question
banking	headline	quiet
bankruptcy	hear	quit

barrister	heavily	raise
base	held	raised
believe	hide	rather
best	high-profile	reason
bet	high	rebuke
beyond	hotel	recession
billion	hour	record
blame	how	reflect
bloat	however	regulator
blow	hundred	relationship
board	identical	remain
body	identify	remained
bolster	illegal	report
bookkeeping	immense	requirements
borrow	important	responsibility
both	improper	responsible
bourse	incompetence	result
bring	increase	retail
brink	independent	review
business	indicate	rigour
call	industry	rival
calling	institution	role
campaign	internal	rosy
can	internally	rot
capital	into	rule
capitalize	investigation	run
case	investigator	run-up
begrudgingly	investment	running
cause	investor	same
centre	involve	sanction
centred	judge	saying
challenge	just	scam
chance	justice	scandal
chief	keep	scheme

choice	kind	security
clear	large	seem
cleared	last	senior
collapse	late	separate
collapsed	launch	serious
come	lavish	services
company	lawsuit	set
compensation	lawyer	share
conceal	leading	shareholder
concern	leave	sharply
conclude	legal	sheer
concluded	level	shortly
confusing	light	should
connected	likely	show
corporate	list	side
corporation	listed	sign
could	living	simple
counterintuitive	loan	soar
country	long	some
court	look	sometimes
covered	lose	soon
crack	losses	sophisticated
crisis	make	sovereign
critical	making	spanning
cruising	manipulate	stand
crystallise	mansion	star
current	markedly	start
daily	market	statement
damage	mastermind	staying
day	matter	still
deal	may	stock
debt	mean	story
decade	meaningless	strange
decision	media-savvy	strengthen

demise	meet	stress
depositor	meeting	string
deserve	member	subject
detail	mess	substantial
deteriorate	method	sum
different	might	supermarket
difficult	million	supernova
director	misleading	surface
disappear	mismanagement	suspicion
distortion	misread	swing
document	mistake	symbol
down	modern	system
drained	money	tabloid
dubious	month	test
during	mostly	thing
duty	much	think
each	multibillion-pound	toss
early	name	totally
earnings	negative	trading
easy-money	neither	trick
effect	net	trust
effectively	never	two-and-a-half
effort	new	uncovered
embarrassment	news	undertake
emergency	nine	unit
end	normal	unofficial
enforce	nothing	unravel
enough	now	unreasonable
entrepreneur	number	unrelated
equity	obligation	until
essentially	obscure	used
estimate	office	valuation
ever	official	value
exchange	offset	violate

excuse	only	vulnerable
executive	opinion	wake
expected	optimistic	way
expert	overlook	wealthy
explain	own	week
explanation	pace	well
extension	pair	whistle
external	panel	wide
extraordinary	part	widespread
face	party	without
failure	past	working
faith	pay	world
fall	people	worry
fast	percent	wrong
fear	perhaps	wrongdoer
feel	period	year
few	perplexed	

J. FAMOUS ECONOMIST

Follow his example:

MILTON FRIEDMAN (1912–2006)

The two main themes in the work of Friedman are that money matters and that freedom matters. Money matters because only changes in the money supply can affect economic activity. Money also matters because inflation results from too much money in the economy. Freedom matters because economies run better when governments do not attempt to control prices, exchange rates or entry into professions. And freedom is also important as an end in itself. Friedman was born in Brooklyn, New York, in 1912 to poor immigrants from the Austro-Hungarian Empire. Shortly after he was born, his parents moved to Rahway, New Jersey, which is where

Friedman grew up. At Rahway High School, Friedman developed a love for mathematics and planned to be an insurance actuary. But while attending Rutgers College (then a small private school, now a large State University in New Jersey), he developed an interest in economics, and decided to major in both economics and mathematics.

After receiving his bachelor's degree in 1933, Friedman went to the University of Chicago to pursue graduate work in economics. However, a generous fellowship led him to transfer to Columbia University the following year. When Friedman completed all his course work at Columbia, he returned to the University of Chicago, where he worked as a research assistant to Henry Schultz. He then went to work in Washington, first providing consumption statistics as part of Roosevelt's New Deal administration and then working for the National Bureau of Economic Research. At the National Bureau, Friedman teamed up with Simon Kuznets to study the market for

independent professionals such as lawyers, doctors, and accountants. This study eventually became his PhD dissertation from Columbia, and then a book (Friedman 1946). One finding of this work – that physicians earn high salaries because the medical profession was able to impose high entry barriers and reduce the supply of doctors – was regarded as highly controversial and delayed publication of Friedman's book for many years.

After teaching briefly at the University of Wisconsin and then University of Minnesota, Friedman returned to the University of Chicago in 1946, where, with George Stigler, he developed the Chicago School of Economics (Reder 1980). Regular Newsweek columns from 1966 to 1984 (some of which are collected in Friedman 1975), a best-selling economics book (Friedman 1962a), and a ten-part TV series (Friedman 1980), helped make "Milton Friedman" a household name.

In 1967 Friedman became President of the American Economic Association, and in 1976 he received the Nobel Prize for Economics. The award committee singled out three aspects of Friedman's work for special mention – his study of the consumption function, his arguments

about the problems with employing stabilization policy, and his contributions to monetary theory and history. Friedman retired from Chicago in 1977 to become a senior scholar at the Hoover Institute in California. Among economists, Friedman is best known for his crusade against the Keynesian revolution. This involved arguing against the use of stabilization policies to control either inflation or unemployment. For a number of reasons, Friedman held that fiscal policy would not work and active monetary policy would worsen the business cycle and lead to greater inflation. Friedman's work on the consumption function, the role of money in the economy, and the natural rate of unemployment, all had the effect of countering the interventionist vision of Keynes and his followers. It also supported his own vision of an economy that functions best without outside interference by economic policy-makers.

UNIT THREE.

INCOME STATEMENT

A. BEFORE YOU READ

1. CONCEPT MAPPING:

Develop a "mind map" around the notion "INCOME" to comprehend the relationship between the new concepts and the concepts you know.

2. BRAINSTORMING:

- a) Examine the title of the selection you are about to read.
- b) List all the information that comes to mind about this title.
- c) Use these pieces of information to recall and understand the material.
- d) Use this knowledge to reframe or reorder what you know, or to note what you disagree with, for further research.

3. SKIMMING THE TEXT:

Scan the text to comprehend the content structure.

4. VOCABULARY PREVIEWS:

Look up unfamiliar key words before reading to improve your background and comprehension.

5. PRE-QUESTIONS:

Write out a series of questions you expect to be answered when reading:

6. DEFINITION:

- a) What is income statement?
- b) What are the functions of the income statement?
- c) What data does the income statement consolidate?

7. CHARACTERISTICS:

- a) What sections does the income statement comprise?
- b) Does the income statement for sole proprietorship include the same revenues and expenses as the one for corporation?
- c) What is the scope of an accountant's activities?

8. EXPERIENCE:

- a) What experience have I had with income statement?
- b) What can I imagine about the corporation's purpose of using the income statement?
- c) What is the income statement's significance for any new business?

B. READING

- a) Highlight signal words, main idea sentences, phrases, headings and subtitles.
- b) Pay attention to specific plans of paragraph or text organization.
- c) Define the phrases in italics:

3.1. Erste: income statement

Just when it seemed that the perilous waters of central and east European banking were becoming a little safer, along comes a hurricane from Austria's Erste Bank in the form of a €939m write-down on Romania and Hungary and the forecast of a €800m loss for 2011.

The announcement initially wiped 18 per cent off Erste's shares, though they later recovered to trade 'just' 12 per cent down. The bank won't pay a dividend for the year and won't be repaying an Austrian government *capital injection* any time soon. Sobering news for the whole sector.

Putting the best possible gloss on its shocking statement, Erste, the second largest bank in CEE, opened with the words, "Erste Group takes extraordinary charges with limited impact on *core capital*; substantially reduces euro zone *peripheral exposure*."

But nothing can disguise the seriousness of the measures the bank is taking, even if some steps are less drastic than others.

The bank said:

Erste Group has cut its sovereign exposure to Greece, Portugal, Spain, Ireland and Italy from EUR 1.9 billion at year-end 2010 to EUR 0.6 billion at 30 September 2011. 95% of this exposure is marked to market as at 30 September 2011. At the same time the combined sovereign exposure to Greece and Portugal declined to about EUR 10 million. In addition, Erste Group changes the presentation of its CDS portfolio (protection sold) from *amortised cost* to *market values*, leading to a one-off cumulative charge against *shareholders' equity* of EUR 280 million for the years prior to 2011. The impact on the 1-9 2011 *income statement* (profit and loss account) amounts to about EUR 180 million (post-tax).

Erste Group will write down its entire Hungary-related *goodwill* in the amount of EUR 312 million *pre-tax* (EUR 312 million *post-tax*). Furthermore, Erste Group will take charges for additional risk provisions totalling EUR 450 million pre-tax (EUR 450 million post-tax). This is due to unprecedented government intervention in the Hungarian banking market, an increase in the target NPL coverage ratio and a deterioration in asset quality.

Erste Group will partially write down its Romania-related goodwill by EUR 700 million pre-tax (EUR 627 million post-tax) to reflect the slower than expected *economic recovery*. This measure does not impact *regulatory capital* or *tangible equity*. Following a

successful buyout of the SIF [privatisation fund] *minority shareholders* – as announced on 14 September 2011 – the remaining goodwill will be supported by a substantially larger share of BCR’s *cash flow*.

There follows a mere €10m write-down on accounting changes. Then more of the really gloomy stuff:

Based on the above, Erste Group is set to report a *net loss* of about EUR 920-970 million in 1-9 2011. Adjusted for extraordinary charges (excluding the banking taxes in Austria and Hungary) Erste Group expects to post a *net profit* of about EUR 700 million in 1-9 2011. Due to the continued strong underlying *operating profitability*, Erste Group’s core tier 1 ratio (total risk) at year-end 2010 of 9.2% is expected to be unchanged at year-end 2011.

In response to the significantly deteriorated outlook for the euro zone economies and as a precautionary measure Erste Group will postpone the early repayment of the state portion of the participation capital (EUR 1.2 billion) by at least one year. The management board of Erste Group will propose to the AGM not to pay a dividend for FY 2011 but to continue servicing *participation capital*.

Perhaps making a virtue out of a necessity, Erste says it has “decided to address the issues of the day head on”. Well, yes. What else should a bank board do?

3.2. Environmental impact: Green account stuck in the red.

3.2.1. Make an English précis of the article.

3.2.2. Make a Ukrainian précis of the article.

It is one thing to create a small enterprise whose specific mission is to conserve natural resources. But for large companies, trying to embed environmental sustainability into their existing operations meets with different hurdles – particularly if they are in the business of marketing cheap goods or meeting growing demand for energy.

Most leading companies have adopted sustainability strategies, yet they still have to balance these strategies with the commercial

pressures to increase output and sales which, in turn, intensifies their impact on the planet.

Another part of the problem that companies face is that a financial value for many of the natural resources on which their operations depend has, so far, not been established.

Take water conservation. While water prices are rising in many places, some argue that its true value needs to be set in order to create genuine incentives for business to conserve water.

Some companies are starting to take internal steps to measure the real value of what they use. PepsiCo's ReCon water conservation tool allows sophisticated measurements of the real cost of water in its operations.

The tool tracks the water brought into a facility and shows where it was used and how processes such as heating it or disposing of it affect its cost, helping the company establish a stronger business case for investments in water conservation.

Some companies are attempting to measure their entire environmental footprint.

Puma Group, the sports lifestyle company that is part of PPR, a French multinational holding company, now issues an environmental profit and loss account.

In 2010, this showed a €145m (\$182.9m) environmental impact, of which the lion's share – €83m – was accounted for by the raw materials needed for its products, such as leather, cotton and rubber.

Companies in this year's BITC CR Index and awards are also working to link the value of natural resources more closely with the success of their businesses.

Moreover, the awards highlight companies that are driving environmental sustainability, not just internally but across their sector, while also encouraging customers, clients or suppliers to embrace environmental best practices.

For Anglian Water, which supplies customers in the east of England, this means not only looking inside the company but also to its customers. The company – which has experienced water stress at close hand in its East Anglian base – is addressing these challenges through a programme it calls “Love Every Drop”, with several initiatives that help consumers reduce their environmental impact.

For example, to reduce sewer and drain blockages, which are responsible for a range of negative environmental effects, the company launched a “Keep it Clear” social marketing campaign informing customers on how to avoid them.

In Peterborough, this has led to the number of blockages falling by some 80 per cent.

3.3. Companies try to reduce humanity’s footprint.

3.3.1. Give a written translation of Paragraph I.

The Worldwatch Institute, an environmental group, argues in a recent report that, with the rate at which natural resources are consumed more than doubling in the past 50 years and up to 2bn more aspiring consumers, humanity is “outstripping its resource base at an unprecedented global scale”.

It is a message many companies are taking seriously. The question is whether their environmental strategies are sufficiently ambitious. Be it water stewardship or carbon reduction, it is hard these days to find a leading brand that does not proclaim a range of environmental goals. With the concept of sustainable business well established, many

companies claim to be working to minimise their impact on the planet while developing more sustainable products and services.

Increasingly, such efforts are seen less as part of building a reputation as a responsible business and more as part of risk management strategies and the development of more robust supply chains. This is borne out by a 2011 McKinsey survey in which the share of executives citing operational efficiency and lowering costs as their company's top reasons for addressing sustainability had risen 14 percentage points since 2010 to 33 per cent – overtaking corporate reputation, which was chosen by 32 per cent of respondents.

Sustainable business spending is set to increase rapidly. According to Verdantix, an analyst firm that advises companies on environmental and energy strategies, this growth will be 20 times faster in the UK in 2012 than the country's gross domestic product growth, with the lion's share of the spending going on strategic energy management.

Some companies are even putting hard numbers on their environmental footprint. Last year, Puma, the sportswear business owned by French luxury group PPR, became one of the first multinationals to publish estimates of the real cost of its carbon dioxide emissions. Its "environmental profit-and-loss" account statement measures and prices its use of ecosystem services and its ecological footprint.

Sustainability can also be a catalyst for product improvements. When SC Johnson, the US cleaning products manufacturer, reformulated its Windex using its Greenlist – a rating system that evaluates the health and environmental impact of its ingredients – it

removed from it a large number of volatile organic compounds. At the same time, it increased the product's cleaning power by 30 per cent.

Private equity firms are waking up to the potential of finding these kinds of efficiencies in the operations of the companies that they acquire. When PwC polled senior corporate executives, 72 per cent of the private equity community respondents said sustainability was a priority or important to their firms – and 68 per cent of the respondents from corporate organisations agreed.

Investors are also increasingly interested in the environmental performance of the companies they put money into. On behalf of institutional investors managing combined assets of more than \$78tn, the Carbon Disclosure Project receives reports on the greenhouse gas emissions and climate change strategies of thousands of organisations and has launched a similar project to understand the risks posed to companies by global water stress and the opportunities presented by water stewardship.

C. AFTER YOU READ

- a) Depending upon the content area, a discussion of the author of the particular work can be helpful to the understanding of it.
- b) What is the author trying to say?
- c) What is his point of view and his reason for writing the particular article?
- d) What do I know?
- e) What did I learn?

D. LANGUAGE FOCUS

a) *Make it negative:*

1. Most leading companies have adopted sustainability strategies, yet they still have to balance these strategies with the commercial

pressures to increase output and sales which, in turn, intensifies their impact on the planet.

2. Sustainability can also be a catalyst for product improvements.

b) *Paraphrase the following:*

1. Increasingly, such efforts are seen less as part of building a reputation as a responsible business and more as part of risk management strategies and the development of more robust supply chains.

2. Private equity firms are waking up to the potential of finding these kinds of efficiencies in the operations of the companies that they acquire.

c) *Relate the action to the past/present/future:*

1. Sustainable business spending is set to increase rapidly.

2. Some companies are starting to take internal steps to measure the real value of what they use.

d) *Turn direct into indirect:*

The bank said: Erste Group has cut its sovereign exposure to Greece, Portugal, Spain, Ireland and Italy from EUR 1.9 billion at year-end 2010 to EUR 0.6 billion at 30 September 2011. 95% of this exposure is marked to market as at 30 September 2011. At the same time the combined sovereign exposure to Greece and Portugal declined to about EUR 10 million.

E.VOCABULARY ARRANGEMENT

a) Arrange a semantic field of the words relating to the learning to the topic.

b) Add words you probably already understand to connect relationships between what is known and the unknown.

c) Supply the English equivalent to the Ukrainian from the list given below:

Практикуючі бухгалтери who opt to turn to another firm to take over their practice, whether temporarily or permanently, will typically do so because there is more talent of the type required in the

competitor's firm than in their own practice. In this circumstance, a greater sense of *фінансової безпеки* is achieved by turning to the *конкурента*.

When evaluating a competitor for a practice continuation *угода*, it is important to conduct *аналіз фінансово-господарської діяльності*. Focus on technical and professional *сумісність*; *розцінки* and philosophies; capacity to handle the required work and supervise personnel; areas of expertise and competency; employee turnover; *оборот клієнтів*; financial commitment; partner demographics; and overall reputation. Conditions may change between the time the practice continuation agreement is executed and the time it is actually put into effect.

Measuring the key areas noted above might be very difficult for the family or agents (anyone representing the former owner) of the practitioner requiring *загальну суму ризику, покриту договором страхування*—especially when they are emotionally invested in the conditions that merited the *поглинання*. Frequently, the agreement will provide for an annual or semiannual confirmation of the conditions and commitment so there is less risk when the agreement needs to be activated.

1. agreement
 2. billing rates
 3. client turnover
 4. compatibility
 5. competitor
 6. coverage
 7. due diligence
 8. financial security
 9. practitioners
 10. takeover
- e. Suggest the correct translation:

Keeping the clients happy is the key to a successful practice. Clients will need to deal with the absence of their trusted adviser (A) in their own way. The fact that their trusted adviser selected a

particular professional or professional organization to take over should carry significant clout (B). The clients will, however, need to see for themselves whether the fit (C) is right. The fit will be determined (D) by many factors. Communication and organization of any transition are crucial barometers.

Develop a business plan for both a temporary and a permanent takeover in tandem with drafting (E) the agreement or before you draft one. The plan will help all parties anticipate the kinks and properly plan for the date of activation. As part of the plan, the notifications to the clients and referral sources should be prearranged and agreed upon. The worst time to craft (F) a notification and announcement is during a crisis. The business plan should be reviewed at least annually (G) and made a part of the periodic confirmation of the agreement noted above. The practitioner must regularly share information so that, if a horrific event triggers a PCA (H), the party who needs to step in has as much information as possible, since it is likely the original owner of that firm is not available for guidance.

Other items in the business plan should include, but not be limited to: how the billings (I), collections (J), work processing and governance issues will be addressed; how staff will be notified, paid and retained; how bills will be covered; and how day-to-day operations will be handled.

F. INFORMATION FILE

Share new information with your fellow students.

G. ADVANCE ORGANIZERS

Relate new reading material to something you already know, to your background or experiences. Ask your teacher for assistance in developing these issues.

H. GROUP DISCUSSIONS

- a) Group discussions in and out of class will help you to discover what you bring to your reading, what your fellow students bring, as well as shared experiences.
- b) If you find they have new background information, ask for more information from them.

I. QUIZ # 3

a. Define the following sentences “True” or “False”:

1. The announcement initially wiped 19 per cent off Erste’s shares.
2. The bank won’t pay a dividend for the next year.
3. Erste Group will full write down its goodwill in Hungary and partially in Romania.
4. Erste Group is expected to put off the early repayment of the state portion of the participation capital.
5. Sustainability strategies have been adopted by most leading companies.
6. Leather, cotton and rubber proved to be prevalent raw materials needed for Puma’s production.
7. In Petersburg, this has led to the number of blockages falling by some 80 per cent.
8. Nearly each leading brand proclaims a range of environmental goals.
9. Sustainable business spending is set to increase slowly.
10. Sustainability could catalyse product improvements.

b. Give the opposite:

to intensify, true, to encourage, experienced, responsible, blockage, to aspire, to minimize, to agree.

c. Decode the following terms:

to conserve, to embed, impact, sustainability, genuine, sophisticated, tool, footprint, challenge, to proclaim.

d. Translate the following into English:

1. Суб'єкти малого підприємництва середню кількість працівників наводять у річному звіті, яку визначають у

- порядку, установленому спеціально уповноваженим центральним органом виконавчої влади у галузі статистики.
2. Представництва іноземних суб'єктів господарської діяльності показники про середню кількість працівників не подають.
 3. Показники окремого балансу включаються до Фінансового звіту суб'єкта малого підприємництва.
 4. Суб'єкти малого підприємництва можуть систематизувати інформацію, яка міститься у прийнятих до обліку первинних документах, в реєстрах бухгалтерського обліку без застосування подвійного запису.
 5. У статті "Незавершені капітальні інвестиції" відображається вартість незавершених на дату балансу капітальних інвестицій в необоротні активи.
 6. До підсумку балансу включається залишкова вартість, яка визначається як різниця між первісною (переоціненою) вартістю вказаних необоротних активів і сумою їх зносу на дату балансу.
 7. До підсумку балансу включається справедлива або залишкова вартість, яка дорівнює різниці між первісною (переоціненою) вартістю і сумою накопиченої амортизації.
 8. У статті "Готова продукція" відображається собівартість виробів на складі, обробка яких завершена.
 9. У статті "Дебіторська заборгованість за товари, роботи, послуги" відображається заборгованість покупців або замовників за реалізовані їм продукцію, товари, роботи або послуги.
 10. Кошти, які не можна використати для операцій протягом одного року, починаючи з дати балансу, або протягом операційного циклу внаслідок обмежень, відображаються у складі інших необоротних активів.

e. Check the terms in the dictionaries. Learn and use in your discussion.

asset quality	goodwill	risk management
---------------	----------	-----------------

buyout cds portfolio core tier 1 ratio environmental profit and loss account extraordinary charges financial value	output participation capital private equity firm privatisation fund profit and loss account real value	risk provisions sovereign exposure target npl coverage ratio to manage assets total risk write-down
---	--	---

f. Revise/learn and use in your discussion.

according account acquire across addition additional address adjusted adopt advise affect against agree investor allow also ambitious amount analyst announcement announce argue aspire attempt	finding firm first flow following footprint forecast form from fund furthermore gas genuine give global gloomy gloss goal goods goodwill government greenhouse gross group	presentation presented pressure price prior priority private problem process proclaim product programme project propose provisions publish put quality question range rapidly rate rating ratio
--	---	--

avoid	grow	raw
award	growth	real
balance	hand	really
bank	hard	reason
banking	head	receive
base	health	recent
behalf	heating	recover
billion	help	recovery
blockage	helping	red
board	highlight	reduce
brand	holding	reduction
building	how	reflect
business	humanity	reformulate
buyout	hurdle	regulatory
call	hurricane	remaining
campaign	impact	remove
capital	important	repay
carbon	improvement	repayment
case	incentive	report
cash	income	reputation
catalyst	increase	resource
cent	increased	respondent
central	increasingly	response
chain	index	responsible
challenge	inform	rise
change	ingredient	rising
charge	initially	risk
cheap	initiative	robust
cite	injection	rubber
claim	inside	safe
cleaning	institute	sales
clear	institutional	same
client	intensify	say
climate	interested	scale

close	internal	second
closely	internally	sector
combined	intervention	seem
come	investment	senior
commercial	investor	seriously
community	issue	seriousness
company	kind	services
compound	large	servicing
concept	late	set
conservation	launch	several
conserve	leading	sewer
consumed	least	shocking
consumer	leather	should
continue	lifestyle	show
continued	limited	significantly
core	link	similar
corporate	lion	since
cost	little	slow
cotton	look	small
country	loss	sobering
coverage	lower	social
create	luxury	sophisticated
cumulative	make	sovereign
customer	making	specific
cut	management	spending
day	managing	sports
decline	manufacturer	sportswear
demand	many	starting
depend	mark	state
deteriorate	market	statement
deterioration	marketing	steps
developing	material	stewardship
development	means	still
different	measure	strategic

dioxide	measurement	strategy
disguise	meeting	stress
dispose	mere	strong
disclosure	message	stuff
dividend	million	substantially
domestic	minimise	success
doubling	minority	successful
down	mission	such
drain	money	sufficiently
drastic	more	supplier
driving	multinational	supply
drop	natural	support
due	necessity	survey
early	need	sustainability
ecological	negative	sustainable
economic	net	system
economy	news	take
ecosystem	nothing	taking
effect	now	tangible
efficiency	number	target
effort	operating	they
else	operational	thing
embed	opportunity	though
embrace	order	thousand
emission	organic	time
encourage	organisation	tool
energy	outlook	top
enterprise	output	total
entire	overtaking	track
environmental	own	trade
equity	part	true
establish	partially	try
established	participation	trying
estimate	particularly	turn

euro	past	unchanged
evaluate	pay	underlying
even	percentage	understand
every	performance	unprecedented
example	perilous	use
executive	peripheral	used
existing	place	using
expected	planet	value
expect	point	virtue
experienced	poll	volatile
exposure	portfolio	waking
exposure	portion	water
extraordinary	pose	wipe
face	possible	word
facility	post	work
falling	postpone	write
far	potential	write-down
fast	power	year
financial	practices	year-end
find	precautionary	zone

J. FAMOUS ECONOMIST

Follow his example:

PAUL SAMUELSON (1915–2009)

Paul Samuelson is a paradoxical figure. More than anyone else he bears responsibility for the mathematical bent of economics in the late twentieth century. Yet Samuelson made a name for himself, and a great deal of money, by writing an immensely successful introductory economics textbook. Yet again, Samuelson has written on virtually

every area within economics. For someone so mathematical, such breadth is both remarkable and unique.

Samuelson was born in 1915 in Gary, Indiana; but his parents soon moved to Chicago, so Samuelson was educated in the Chicago public school system. He then enrolled at the University of Chicago. Intending to major in mathematics, Samuelson took a course in economics and immediately recognized how mathematics could revolutionize economics.

As a result of winning a Social Science Research Council Fellowship, Samuelson had his graduate education paid for; yet there was a price to be paid. According to the fellowship rules, he could not continue at the University of Chicago. Samuelson chose to attend Harvard, which awarded him a PhD in 1941. His doctoral dissertation is regarded by most economists as providing the mathematical foundations for contemporary economics. Samuelson liked Harvard, and he wanted the school to offer him a full-time teaching position. But Harvard decided not to keep him on. Determined to stay in Cambridge, Samuelson accepted a position at the Massachusetts Institute of Technology (MIT). He remained at MIT for his entire professional career, becoming a full professor at the age of 32. In 1947 Samuelson received the first John Bates Clark Medal from the American Economic Association, awarded annually to the most promising economist under the age of 40. During 1951 he served as President of the Econometric Society, and during 1961 he served as President of the American Economic Association. In 1970 Samuelson was awarded the Nobel Prize for Economics. In all his professional work, Samuelson sought to provide mathematical underpinning for economic ideas, believing that economic theory without formalization was unsystematic and unclear. Unlike Marshall, who felt that converting prose into mathematical equations was a waste of time, Samuelson held the reverse to be true – converting mathematical equations into prose was wasteful. Mathematical formalism for Samuelson clarified the nature of models and arguments, and established the validity of economic theories. Through the influence of

Samuelson (1947b, 1987), economic instruction at the graduate level has increasingly come to employ the tools and techniques of linear algebra plus differential and integral calculus, and communication among economists has become increasingly mathematical.

Yet Samuelson has not supported rigor for the sake of rigor, or formalism for the sake of formalism. Rather, he has looked at mathematics as a tool. Mathematics illuminates arguments and proves economic theorems that can be empirically tested. Concern with the relevance and testability of economic theories underlay the methodological dispute between Samuelson and Milton Friedman in the post-war years. Friedman (1953) had argued that the truth of economic assumptions was unimportant; the only thing that mattered was whether the predictions made by these assumptions were correct. Samuelson (1963) responded that the factual inaccuracy of assumptions could never be a virtue in science. He also showed that the distinction between assumptions and predictions is never very clear; what counts as an assumption and what counts as the consequence of some assumption is quite arbitrary. The unrealistic assumptions praised by Friedman could therefore be thought of as unrealistic or false predictions derived from a different set of assumptions. Finally, Samuelson pointed out that, according to the principles of logic, true premises can only produce true conclusions, but false premises could produce both, and what one wants in economics is true conclusions.

UNIT FOUR.

ASSESSING PERFORMANCE

A. BEFORE YOU READ

1. CONCEPT MAPPING:

Develop a "mind map" around the notion "PERFORMANCE" to comprehend the relationship between the new concepts and the concepts you know.

2. BRAINSTORMING:

- a) Examine the title of the selection you are about to read.
- b) List all the information that comes to mind about this title.
- c) Use these pieces of information to recall and understand the material.
- d) Use this knowledge to reframe or reorder what you know, or to note what you disagree with, for further research.

3. SKIMMING THE TEXT:

Scan the text to comprehend the content structure.

4. VOCABULARY PREVIEWS:

Look up unfamiliar key words before reading to improve your background and comprehension.

5. PRE-QUESTIONS:

Write out a series of questions you expect to be answered when reading:

6. DEFINITION:

- a) What is financial performance?
- b) How would I define performance accounting?
- c) What are the main performance indicators?

7. CHARACTERISTICS:

- a) How would I describe the benefits performance accounting?
- b) What are the stages of performance accounting?

8. EXPERIENCE:

- a) What experience have I had dealing with performance accounting?
- b) What can I imagine about working as financial analyst?

B. READING

- a) Highlight signal words, main idea sentences, phrases, headings and subtitles.
- b) Pay attention to specific plans of paragraph or text organization.
- c) Define the phrases in italics:

4.1. Profit Strong, G.M. Names a New Chief

The automaker's second-quarter profits — \$1.3 billion on worldwide revenue of \$33.2 billion — exceeded expectations and came as G.M. was putting the finishing touches on an *initial public stock offering*.

The success of the *stock sale* will determine how much American taxpayers will recoup from their 61 *percent investment stake* in G.M., which resulted from the government bailout of the company a year ago. Under the current terms, the Treasury Department would be expected to sell about a fifth of its shares, bringing the taxpayers' stake in G.M. below 50 percent, people briefed on the matter said Thursday.

As striking as G.M.'s financial performance was in the second quarter, the company underscored its rapid pace of change when its chief executive, Edward E. Whitacre Jr., said he would be leaving on Sept. 1 — a clear indication of the federal government's shrinking role in overseeing the company. Federal officials said they had no involvement in the G.M. board's choice of one of its members, Daniel F. Akerson, as Mr. Whitacre's successor.

"I believe we've accomplished what we set out to do," Mr. Whitacre said. "We're going to have a smooth, seamless transition here."

The reversal of fortune for G.M. since it emerged from its *government-sponsored bankruptcy* last summer has been head-turning. During last year's second quarter, in the midst of the worst United States auto market in 30 years, the company lost \$12.9 billion on *global revenue* of \$23 billion.

But since it was cleansed of debt and health care and other costs during its reorganization in Chapter 11, G.M. has been solidly profitable now for six months — a positive factor in how investors respond to its return as a *public company*.

In addition, the departure of Mr. Whitacre and the naming of a successor settles a potentially distracting question about the company's long-term leadership as it courts investors.

Mr. Whitacre, a 68-year-old former AT&T chief, was recruited by President Obama's auto task force, initially as the hands-on chairman

of the G.M. board, along with a majority of other directors. After three months, the board fired the acting chief executive, Fritz Henderson, and handed that job to Mr. Whitacre as well.

Mr. Whitacre had made no secret that he would return to retirement in Texas as soon as G.M. stabilized its operations and was on its way toward a stock sale. “It was obvious that I was not going to be at G.M. for the long haul,” he said Thursday.

Mr. Whitacre was willing to keep the chief executive job through the end of the year, but there was increasing sentiment on the G.M. board that naming a longer-term successor would help the *stock offering’s* reception by potential investors, according to a person familiar with the board’s deliberations.

4.2. Tesco chief forgoes annual bonus.

4.2.1. Make an English précis of the article.

4.2.2. Make a Ukrainian précis of the article.

Philip Clarke, chief executive of Tesco, has forgone his annual bonus after the retailer’s first profit warning in 20 years.

Tesco’s annual report shows that Mr Clarke gave up his bonus, which would have been £372,000. However, he was still paid £1.16m. Declining to take his bonus meant his pay halved from £2.26m in the year to February 2011.

Mr Clarke said: “I decided at the beginning of the year that I would decline my annual bonus for 2012. I wasn’t satisfied with the performance in the UK and I won’t take the bonus.

“I’m confident that we’re tackling the right issues and building a better Tesco for customers, colleagues, shareholders,” he added.

Other directors also saw their bonuses slashed. Laurie McIlwee, finance director, saw his short-term cash bonus fall from £765,000 in the 2010-11 year to £115,000, and his short-term deferred shares cut from £632,000 to £115,000.

Tesco said that executive directors would receive 13.54 per cent of their maximum bonus. The retailer’s top 5,000 managers will also see their annual bonus cut to 16.9 per cent of the maximum. The top

managers received the maximum pay out last year. For a store manager, this would mean an annual bonus cut from about £10,000 a year to about £2,000. Tesco said it was still paying £110m in staff bonuses.

The moves come amid increasing shareholder pressure over executive pay. Mr Clarke's move – following Tesco's worst sales performance for decades over the crucial Christmas and New Year trading period – could put pressure on other senior executives to follow suit.

One top 10 shareholder said of Mr Clarke's decision: "Passing the bonus is probably admirable given the circumstances."

The UK's number one retailer by sales also revealed in its annual report that former chief executive Sir Terry Leahy would not receive the second tranche of his share awards because the US business had not met its targets.

He is eligible to receive 2.9m shares in four tranches from 2011 to 2014, worth about £9m at Tuesday's share price.

However, the supermarket group said the targets related to Fresh & Easy's earnings before interest and tax, and return on capital employed, had not been met.

"So no part of this award has vested to date. The next assessment of performance will be in respect of 2012/13. It is currently considered unlikely that any portion of these awards will vest," the annual report said.

Tim Mason, chief executive of Fresh & Easy, and deputy chief executive, saw his total pay fall from £3.1m to £1.63m, which included £559,000 of benefits.

4.3. Icap chief's pay cut by 25%.

4.3.1. Give a written translation of Paragraph III.

Michael Spencer, founder and chief executive of ICAP, has had his annual pay cut by more than a quarter as the FTSE 100 interdealer broker responds to investor unrest about its executive pay levels.

ICAP promised to review its pay policy after a third of shareholder votes at last year's annual meeting went against its remuneration report, which included a total award to Mr Spencer of £7.6m.

The intervening months have brought a swell of unhappiness about executive pay, with large protest votes by investors in companies including Aviva and Barclays.

ICAP's annual report for the latest financial year, published on Friday, awarded Mr Spencer a payout of £5.5m, with cash and share bonuses supplementing his £360,000 basic salary.

It also laid out a new structure for calculating future bonus awards following "a consultation programme with key shareholders on ICAP's approach to remuneration".

The total bonus pool for executive directors was reduced from £15.8m to £8.5m, despite ICAP meeting most of its internal targets in the year to March.

The pool would have been in line with last year's had the remuneration committee awarded the maximum permitted under the compensation structure.

The committee said it had taken into account "the overall financial and trading performance of the group", which reported falls in both revenue and pre-tax profit of 3 per cent and 7 per cent respectively in the period. It also cited the impact of payouts to Mark Yallop, who left as chief operating officer last September.

Under ICAP's new compensation structure, which will be effective from the 2013 financial year, a third of the total bonus pool will continue to be determined through a "qualitative" assessment of performance by the remuneration committee.

However, the committee will no longer have discretion over the remaining part, which will be decided according to a strict framework.

This does not allow for any "quantitative" bonus element if the company's pre-tax profit is less than £75m, while above this level the executive directors will receive a percentage of earnings determined by a fixed "profit curve".

“Unless there is a significant improvement in the financial markets, these are very tough targets,” said a person close to the company. Investors will vote on the new pay policy at ICAP’s AGM on July 11.

A person close to the Association of British Insurers, which represents institutional investors, welcomed the bonus cut.

“There have been quite a few recent cases where companies have reduced bonuses, or where individual directors have waived them. That’s something we’d encourage.”

However, analysts said the level of executive pay at ICAP was far less relevant to the company’s valuation than other factors such as regulatory threats and the weak performance of some recent acquisitions.

“Cutting pay in a difficult year is definitely a positive because it shows that management is concerned about growing profits going forward,” said Richard Perrott, an analyst at Berenberg Bank.

“[But] longer term, more important is the overall compensation-to-income ratio, not just the management pay.”

C. AFTER YOU READ

What is the author trying to explain?

D. LANGUAGE FOCUS

a) Make it negative:

1. The pool would have been in line with last year’s had the remuneration committee awarded the maximum permitted under the compensation structure.
2. A person close to the Association of British Insurers, which represents institutional investors, welcomed the bonus cut.
3. After three months, the board fired the acting chief executive, Fritz Henderson, and handed that job to Mr. Whitacre as well.

b) Paraphrase the following:

1. Philip Clarke, chief executive of Tesco, has forgone his annual bonus after the retailer’s first profit warning in 20 years.

2. However, the committee will no longer have discretion over the remaining part, which will be decided according to a strict framework.
 3. Mr. Whitacre had made no secret that he would return to retirement in Texas as soon as G.M. stabilized its operations and was on its way toward a stock sale.
- c) *Relate the action to the past/present/future:*
1. The moves come amid increasing shareholder pressure over executive pay.
 2. The intervening months have brought a swell of unhappiness about executive pay, with large protest votes by investors in companies including Aviva and Barclays.
- d) *Turn direct into indirect:*
1. Mr Clarke said: "I decided at the beginning of the year that I would decline my annual bonus for 2012. I wasn't satisfied with the performance in the UK and I won't take the bonus.
 2. "I'm confident that we're tackling the right issues and building a better Tesco for customers, colleagues, shareholders," he added.

E. VOCABULARY ARRANGEMENT

- a) Arrange a semantic field of the words relating to the learning to the topic.
- b) Add words you probably already understand to connect relationships between what is known and the unknown.
- c) Supply the English equivalent to the Ukrainian from the list given below:

The new publication from Protiviti profiles eight international companies that have taken a fresh look at the broader role the *внутрішнього аудиту* function plays in their business. One *переважаюча* theme runs through the profiles: Internal auditors are gaining valuable exposure to other areas of the business, expanding the reach of internal audit and building a stronger understanding of

управління ризиком and effective *внутрішній контроль* throughout the organization.

At one featured company, Bristol-Myers Squibb, Senior Vice President and *виконавчий директор з аудиту* Sandra Cartie has transformed the internal audit department. Rebranded as Audit Services, the department provides a rare opportunity for an individual with two to five years of experience to join Bristol-Myers Squibb, learn about *світові ринки* and operations, and interact with the company's *керівниками вищого рангу*. Audit Services provides a platform for both personal and *професійний ріст*, including the opportunity to build not only financial, strategic, operational, compliance, and IT skills, but also verbal and written communication skills. After three years in the department, the auditors' maturity and knowledge can set them apart from their *колег*. "This is a *конкурентна перевага*, and it positions our auditors to potentially move up faster and be recognized on the company's key talent list," Cartie said.

1. Chief Audit Executive
2. competitive advantage
3. global markets
4. internal audit
5. internal control
6. peers
7. prevalent
8. professional growth
9. risk management
10. top executives

d) Suggest the correct translation:

Leaders of market-dominating (A) CPA (B) firms report that the Golden Age for the CPA profession, the period of high growth from 2002 through 2007, will not be repeated. Additional revenue (C) sources must be sought for CPA firms to achieve profitable growth (D). I have long believed that CPA firms are well positioned to be the dominant providers of comprehensive wealth management services

(E) in America because defeated Wall Street strategies and deflated (F) insurance brands have made CPAs the only remaining advisor (G) your best clients trust.

Now, research from IBISWorld, one of the largest publishers of U.S. industry analyses, shows there's another reason to embrace wealthcare (H): substantial revenue and profit growth over the next four years. To illustrate, let's compare the potential growth prospects for wealthcare services against the aggregate (I) growth of traditional services offered by CPA firms.

"Wealthcare" encompasses both financial planning and wealth management services. Financial planning clients are generally those with no significant estates (J), while wealth management clients require an exceptional level of care because of multigenerational asset control matters, estate issues, complex taxation or closely held business problems. In other words, financial planning clients are in the process of building an estate and wealth management clients have estates large enough to transcend their own lifetimes.

F. INFORMATION FILE

Share new information with your fellow students.

G. ADVANCE ORGANIZERS

Relate new reading material to something you already know, to your background or experiences. Ask your teacher for assistance in developing these issues.

H. GROUP DISCUSSIONS

- a) Group discussions in and out of class will help you to discover what you bring to your reading, what your fellow students bring, as well as shared experiences.
- b) If you find they have new background information, ask for more information from them.

I. QUIZ # 4

a. *Define the following sentences “True” or “False”:*

1. The success of the stock sale will determine how much American taxpayers will compensate from their 61 percent investment stake in G.M.
2. Federal officials were involved in the G. M. board’s choice of one of its members.
3. During last year’s second quarter the company lost \$12.9 billion on gross revenue of \$23 billion.
4. Mr. Whitacre had made no secret that he would return to retirement in Arkansas.
5. Philip Clarke has given up his annual bonus after the retailer’s first profit warning in 20 years.
6. Tesco cut an annual bonus from about £10,000 a year to about £2,000 for its store managers.
7. Tesco is number one retail store in UK by sales.
8. ICAP’s annual report for the latest financial year awarded Mr Skinner a payout of £5.5m.
9. The committee will no longer have power over the remaining part.
10. Regulatory threats and the weak performance were far more important than the level of executive pay at ICAP.

b. *Give the opposite:*

decline, to protest, award, effective, strict, relevant, recent, overall, reversal, long-term.

c. *Decode the following terms:*

to forgo, slash, tranche, assessment, unrest, cut, head-turning, to underscore, to shrink, to oversee.

d. *Translate the following into English:*

1. Планування і контроль є не тільки важливими регулюючими чинниками.
2. Вони створюють необхідну інформаційну базу для оцінки діяльності організаційних підрозділів підприємства й окремих працівників, на якій будується механізм їхньої мотивації.

3. Оцінка діяльності – це логічне продовження контрольних операцій.
4. Через таку оцінку стимулюється реакція працівників на результати своєї діяльності і можливі відхилення фактичних показників від установлених (планових, нормативних, граничних) чи бажану динаміку останніх.
5. Оцінка діяльності здійснюється завдяки певній системі показників, які не можуть бути однаковими для різних підрозділів, зважаючи на специфіку їхнього функціонування, але є деякі загальні вимоги до змісту і формування таких показників. Коротко розглянемо ці вимоги.
6. Показники підрозділів мають бути узгоджені з показниками роботи підприємства, утворювати з ними єдину систему показників і водночас ураховувати специфіку діяльності підрозділу.
7. Необхідність взаємозв'язків показників по вертикалі впливає з єдності цілей діяльності підрозділів усіх рівнів – випуск продукції згідно з установленими потребами з мінімальними витратами.
8. Змістовна ув'язка показників по вертикалі не означає прямого їхнього перенесення на нижчі рівні в незмінному вигляді.
9. Такий порядок у побудові системи планово-оцінних показників підрозділів, що іноді трапляється на практиці, не має сенсу.
10. Продуктивність праці та інших ресурсів на рівні підприємства обчислюється на основі обсягу товарної продукції у грошовому виразі, на рівні підрозділів це може бути обсяг продукції у трансфертних цінах, нормо-годинах, натуральних вимірниках.

e. Check the terms in the dictionaries. Learn and use in your discussion.

acquisitions annual bonus	compensation-to- income ratio	remuneration report
------------------------------	----------------------------------	---------------------

annual report bailout bonus pool compensation structure	earnings before interest and tax financial markets financial performance payout pre-tax profit	return on capital employed stock sale waive worldwide revenues
---	--	--

f. Revise/learn and use in your discussion.

above accomplished according account acquisition acting add addition admirable against allow along also amid analyst annual approach article assessment association auto automaker award awarded bailout	far federal few finance financial finishing fire first fixed follow following force forgo forgone former fortune forward founder four framework future give global government	profitable programme promise protest public publish put quarter question quite rapid ratio receive recent reception recoup recruit reduce regulatory related relevant remaining remuneration reorganization report
--	--	--

bank	government-	represent
bankruptcy	sponsored	respect
basic	group	respectively
because	grow	respond
beginning	halve	result
believe	hand	retailer
below	hands-on	retirement
benefit	haul	return
billion	have	reveal
board	head-turning	revenue
bonus	health	reversal
brief	help	review
bring	impact	right
broker	important	role
building	improvement	salary
business	include	sale
calculate	increase	satisfy
capital	indication	seamless
care	individual	second-quarter
case	initial	secret
cash	initially	see
cent	institutional	sell
chairman	insurers	senior
change	interdealer	sentiment
chief	interest	set
choice	internal	settle
circumstance	intervene	short-term
cite	into	show
cleanse	investor	shrinking
clear	involvement	significant
close	issue	since
colleague	just	slash
come	keep	smooth
committee	key	solidly

company	lay	some
compensation	large	something
concern	last	soon
confident	leadership	stabilize
consider	level	staff
consultation	line	stake
continue	long	still
cost	long-term	stock
could	longer-term	store
court	majority	strict
crucial	management	striking
current	manager	strong
currently	market	structure
curve	matter	success
customer	maximum	successor
cut	mean	such
date	meeting	suit
debt	member	summer
decade	midst	supermarket
decide	months	supplement
decision	move	swell
decline	much	tackle
deferred	new	take
definitely	next	targets
deliberation	obvious	task
department	offering	term
departure	officer	threat
deputy	official	through
despite	operating	top
determine	operation	total
determined	overall	touch
difficult	oversee	tough
director	pace	toward
discretion	part	trading

distract do during earnings effective element eligible emerge employed encourage end exceed executive expectation expected factor fall familiar	pay paying payout people percent percentage performance period permit person policy pool portion positive potential potentially pressure price probably profit	tranche transition treasury under underscore united unlikely unrest valuation very vest vote waive warning way worldwide worth
--	---	--

J. FAMOUS ECONOMIST

Follow his example:

FRANCO MODIGLIANI (1918–2003)

Franco Modigliani is best known for two innovations in macroeconomics. To explain total consumer spending, he developed the life-cycle theory of household savings and consumption. To explain business behavior, Modigliani helped formulate the famous Modigliani–Miller theorems. These theorems explain why corporate decisions about obtaining funds for investment, and about repaying

investors, should not affect the market value of a firm. Modigliani was born in Rome, Italy, in 1918 to Jewish parents. His father was a doctor and Modigliani, wanting to follow in his father's footsteps, enrolled at the University of Rome to study medicine. Realizing that he could not stand the sight of blood, he decided to switch from the study of medicine to the study of law. Finding the law curriculum relatively easy, Modigliani earned extra money translating economic articles from German into Italian. A national essay competition on price control sparked his interest because he had previously translated several articles on this subject. Modigliani entered the contest. Not only did the essay win first prize; the judges were so impressed with his essay that they told him he would make an excellent economist. After receiving his law degree in 1939 Modigliani decided to leave Italy, primarily because of the conflict between his beliefs and those of the Fascist government of Mussolini. After a short stay in France, he arrived in the United States and enrolled in the social science PhD program at the New School for Social Research. The New School was a refuge for intellectuals fleeing the tyranny of Europe in the 1930s and early 1940s, and became known as a sort of "university in exile" (Rutkoff 1986). While at the New School, Modigliani came under the influence of Jacob Marschak, who taught him macroeconomic theory as well as the importance of formulating testable economic hypotheses. Modigliani received his PhD in 1944 and then taught economics for several years at the New School.

In 1949 Modigliani accepted a job at the University of Illinois, and in 1952 he went to the Carnegie Institute of Technology. After several visiting professorships in the late 1950s, Modigliani finally settled down at MIT, where he taught from 1962 until his retirement. In 1976 Modigliani was elected President of the American Economic Association, and in 1985 he was awarded the Nobel Prize for Economics. The Nobel committee cited the life-cycle hypothesis and the Modigliani–Miller theorems as his most significant contributions.

Modigliani formulated the life-cycle hypothesis with Richard Brumberg while returning to Illinois following a conference on savings

at the University of Minnesota. Brumberg, a graduate student of Modigliani's, died tragically of a brain tumor shortly after their famous paper was published; thus Modigliani (1963, 1966) was forced to develop and test the hypothesis on his own.

The key assumption of the life-cycle theory is that rational individuals will try to keep their level of consumption fairly constant from year to year. Personal income, of course, will vary due to changing circumstances. In good economic times people will make more money; in bad economic times and during retirement people will earn much less. Even though income changes from year to year, people want to keep their lifestyle from changing every year. This requires that people gear their consumption to their expected lifetime income (or the expected average income over their life). They will thus save larger fractions of their income when they make relatively more money and will save little in years when their income is relatively low. On this view, the main purpose of savings is to accumulate money to spend later in life (during retirement).

UNIT FIVE.

THE ADJUSTMENT PROCESS

A. BEFORE YOU READ

1. CONCEPT MAPPING:

Develop a "mind map" around the notion "BOOKKEEPING" to comprehend the relationship between the new concepts and the concepts you know.

2. BRAINSTORMING:

- a) Examine the title of the selection you are about to read.
- b) List all the information that comes to mind about this title.
- c) Use these pieces of information to recall and understand the material.
- d) Use this knowledge to reframe or reorder what you know, or to note what you disagree with, for further research.

3. SKIMMING THE TEXT:

Scan the text to comprehend the content structure.

4. VOCABULARY PREVIEWS:

Look up unfamiliar key words before reading to improve your background and comprehension.

5. PRE-QUESTIONS:

Write out a series of questions you expect to be answered when reading.

6. DEFINITION:

- a) What is adjustment in accounting?
- b) Where does adjustment fit?
- c) What is debt valuation?

7. CHARACTERISTICS:

- a) How is adjustment important for accrual accounting?
- b) What is year-end adjustment?
- c) Why are adjustments needed at the end of an accounting period ?

8. EXPERIENCE:

- a) What experience have I had with accruals?
- b) What can I imagine about working as a risk manager?

B. READING

- a) Highlight signal words, main idea sentences, phrases, headings and subtitles.
- b) Pay attention to specific plans of paragraph or text organization.
- c) Define the phrases in italics:

5.1. Bank Accounting Adjustments.

All companies emphasize the positive and underplay the negative. But banks may be taking this habit too far in their first-quarter earnings releases, many of which came out this week.

Exhibit A is Bank of America's first-quarter *earnings release*, which came out on Thursday morning. At the top of the release are a set of bullet points, the second of which says the following: "Results Include Negative *Valuation Adjustments* of \$4.8 Billion Pretax, or

\$0.28 Per Share, From the Narrowing of the Company's *Credit Spreads*.”

The bank put that in the second-most prominent spot on the page for a reason. But first, what does it mean?

The short answer is that the bank took a \$4.8 billion hit from an *accounting adjustment*. The conceptual thinking behind the accounting is hard to grasp, but it goes like this: If a bank's own *debt securities* are falling in price, it effectively means its liabilities – the amount it owes — are worth less. Accounting rules say that's positive for the balance sheet, and the decline in liabilities can therefore show up as a gain in the income statement. But in the first quarter, certain Bank of America debt securities were worth more, which means those liabilities increased in value, and that therefore produced a loss, of \$4.8 billion, in earnings.

Not all of a bank's debt gets adjusted in this way. And, yes, it seems absurd that falling debt prices – a sign that investors think a bank is less *creditworthy* – should lead to a gain in profit.

The unusual prominence of these adjustments in first-quarter releases – Citigroup and Morgan Stanley did it, too — deserves scrutiny. By giving the \$4.8 billion hit *top billing*, Bank of America is asking analysts and investors to effectively ignore that loss when calculating *core earnings*.

Yes, the hits are bigger this quarter than in the past, so the desire to flag them is understandable. But investors also deserve consistency. Banks should also give *big gains* from this type of adjustment equal prominence. And in the third quarter of last year, when Bank of America recorded a \$1.7 billion gain from this source, the boost didn't make into the headline bullet points.

Perhaps more serious is that the debt accounting adjustments may not reflect what is going on in the real world – and may divert investors from more meaningful measures of creditworthiness. The accounting adjustments are partly based on the prices of *credit default swaps*, *derivatives contracts* investors can buy to protect themselves against the default of a company. The cost of buying default protection on

Bank of America fell in the first quarter, something its chief financial officer, Bruce R. Thompson, was highlighting in the release when he said: “The narrowing of our credit spreads reflects the significant progress we’ve made to strengthen the balance sheet.”

But banks don’t borrow money in the *swaps market*. And real debt markets may not feel so good about Bank of America. The evidence for that? In the bank’s first-quarter numbers, the cost of the bank’s long-term debt jumped to 2.99 percent in the first quarter, from 2.8 percent in the fourth quarter. Mr. Thompson didn’t mention that in the release.

5.2. Public Pensions Faulted for Bets on Rosy Returns.

5.2.1. Make an English précis of the article.

5.2.2. Make a Ukrainian précis of the article.

While Americans are typically earning less than 1 percent interest on their savings accounts and watching their 401(k) balances yo-yo along with the stock market, most public pension funds are still betting they will earn annual returns of 7 to 8 percent over the long haul, a practice that Mayor Michael R. Bloomberg recently called “indefensible.”

Now public pension funds across the country are facing a painful reckoning. Their projections look increasingly out of touch in today’s low-interest environment, and pressure is mounting to be more realistic. But lowering their investment assumptions, even slightly, means turning for more cash to local taxpayers — who pay part of the cost of public pensions through property and other taxes.

In New York, the city’s chief actuary, Robert North, has proposed lowering the assumed rate of return for the city’s five pension funds to 7 percent from 8 percent, which would be one of the sharpest reductions by a public pension fund in the United States. But that change would mean finding an additional \$1.9 billion for the pension system every year, a huge amount for a city already depositing more than a tenth of its budget — \$7.3 billion a year — into the funds.

But to many observers, even 7 percent is too high in today's market conditions.

"The actuary is supposedly going to lower the assumed reinvestment rate from an absolutely hysterical, laughable 8 percent to a totally indefensible 7 or 7.5 percent," Mr. Bloomberg said during a trip to Albany in late February. "If I can give you one piece of financial advice: If somebody offers you a guaranteed 7 percent on your money for the rest of your life, you take it and just make sure the guy's name is not Madoff."

Public retirement systems from Alaska to Maine are running into the same dilemma as they struggle to lower their assumed rates of return in light of very low interest rates and unpredictable stock prices.

They are facing opposition from public-sector unions, which fear that increased pension costs to taxpayers will further feed the push to cut retirement benefits for public workers. In New York, the Legislature this year cut pensions for public workers who are hired in the future, and around the country governors and mayors are citing high pension costs as a reason for requiring workers to contribute more, or work longer, to earn retirement benefits.

In addition to lowering the projected rate of return, Mr. North has also recommended that the New York City trustees acknowledge that city workers are living longer and reporting more disabilities — changes that would cost the city an additional \$2.8 billion in pension contributions this year. Mr. North has called for the city to soften the blow to the budget by pushing much of the increased pension cost into the future, by spreading the increased liability out over 22 years.

Ailing pension systems have been among the factors that have recently driven struggling cities into Chapter 9 bankruptcy. Such bankruptcies are rare, but economists warn that more are likely in the coming years. Faulty assumptions can mask problems, and municipal pension funds are often so big that if they run into a crisis their home cities cannot afford to bail them out.

The typical public pension plan assumes its investments will earn average annual returns of 8 percent over the long term, according to

the Center for Retirement Research at Boston College. Actual experience since 2000 has been much less, 5.7 percent over the last 10 years, according to the National Association of State Retirement Administrators. (New York State announced last week that it had earned 5.96 percent last year, compared with the 7.5 percent it had projected.)

Worse, many economists say, is that states and cities have special accounting rules that have been criticized for greatly understating pension costs. Governments do not just use their investment assumptions to project future asset growth. They also use them to measure what they will owe retirees in the future in today's dollars, something companies have not been permitted to do since 1993.

As a result, companies now use an average interest rate of 4.8 percent to calculate their pension costs in today's dollars, according to Milliman, an actuarial firm.

5.3. Pension funds' share.

5.3.1. Give a written translation of Paragraph II.

In New York City, the proposed 7 percent rate faces resistance from union trustees who sit on the funds' boards. The trustees have the power to make the change; their decision must also be approved by the State Legislature.

"The continued risk here is that even 7 is too high," said Edmund J. McMahon, a senior fellow at the Empire Center for New York State Policy, a research group for fiscal issues. And Jeremy Gold, an actuary and economist who has been an outspoken critic of public pension disclosures, said, "If you're using 7 percent in a 3 percent world, then you're still continuing to borrow from the pension fund."

The city's union leaders disagree. Harry Nespoli, the chairman of the Municipal Labor Committee, the umbrella group for the city's public employee unions, said that lowering the rate to 7 percent was unnecessary.

"They don't have to turn around and lower it a whole point," he said.

When asked if his union was more bullish on the markets than the city's actuary, Mr. Nespoli said, "All we can do is what the actuary is doing. He's guessing. We're guessing."

Vermont has lowered its rate by 2 percentage points, but for only one year. The state recently adopted an unusual new approach calling for a sharp initial reduction in its investment assumptions, followed by gradual yearly increases. Vermont has also required public workers to pay more into the pension system.

Union leaders see hidden agendas behind the rising calls for lower pension assumptions. When Rhode Island's state treasurer, Gina M. Raimondo, persuaded her state's pension board to lower its rate to 7.5 percent last year, from 8.25 percent, the president of a firemen's union accused her of "cooking the books."

Lowering the rate to 7.5 percent meant Rhode Island's taxpayers would have to contribute an additional \$300 million to the fund in the first year, and more after that. Lawmakers were convinced that the state could not afford that, and instead reduced public pension benefits, including the yearly cost-of-living adjustments that retirees now receive. State officials expect the unions to sue over the benefits cuts.

When the mayor of San Jose, Calif., Chuck Reed, warned that the city's reliance on 7.5 percent returns was too risky, three public employees' unions filed a complaint against him and the city with the Securities and Exchange Commission. They told the regulators that San Jose had not included such warnings in its bond prospectus, and asked the regulators to look into whether the omission amounted to securities fraud. A spokesman for the mayor said the complaint was without merit.

In Sacramento this year, Alan Milligan, the actuary for the California Public Employees' Retirement System, or Calpers, recommended that the trustees lower their assumption to 7.25 percent from 7.75 percent. Last year, the trustees rejected Mr. Milligan's previous proposal, to lower the rate to 7.5 percent.

This time, one trustee, Dan Dunmoyer, asked the actuary if he had calculated the probability that the pension fund could even hit those targets.

Yes, Mr. Milligan said: There was a 50-50 chance of getting 7.5 percent returns, on average, over the next two decades. The odds of hitting a 7.25 percent target were a little better, he added, 54 to 46.

Mr. Dunmoyer, who represents the insurance industry on the board, sounded shocked. “To me, as a fiduciary, you want to have more than a 50 percent chance of success.”

If Calpers kept setting high targets and missing them, “the impact on the counties won’t be bigger numbers,” he said. “It will be bankruptcy.”

In the end, a majority decided it was worth the risk, and voted against Mr. Dunmoyer, lowering the rate to 7.5 percent.

C. AFTER YOU READ

- a) Depending upon the content area, a discussion of the author of the particular work can be helpful to the understanding of it.
- b) What is the author trying to say?
- c) What is his point of view and his reason for writing the particular work?

D. LANGUAGE FOCUS

a) *Make it negative:*

1. The typical public pension plan assumes its investments will earn average annual returns of 8 percent over the long term.
2. Public retirement systems from Alaska to Maine are running into the same dilemma as they struggle to lower their assumed rates of return in light of very low interest rates and unpredictable stock prices.
3. Lowering the rate to 7.5 percent meant Rhode Island’s taxpayers would have to contribute an additional \$300 million to the fund in the first year, and more after that.

b) *Paraphrase the following:*

1. Worse, many economists say, is that states and cities have special accounting rules that have been criticized for greatly understating pension costs.
 2. Union leaders see hidden agendas behind the rising calls for lower pension assumptions.
 3. Now public pension funds across the country are facing a painful reckoning.
- c) *Relate the action to the past/present/future:*
1. As a result, companies now use an average interest rate of 4.8 percent to calculate their pension costs in today's dollars, according to Milliman, an actuarial firm.
 2. Faulty assumptions can mask problems, and municipal pension funds are often so big that if they run into a crisis their home cities cannot afford to bail them out.
- d) *Turn direct speech into indirect:*
1. And Jeremy Gold, an actuary and economist who has been an outspoken critic of public pension disclosures, said, "If you're using 7 percent in a 3 percent world, then you're still continuing to borrow from the pension fund."
 2. Mr. Dunmoyer, who represents the insurance industry on the board, sounded shocked. "To me, as a fiduciary, you want to have more than a 50 percent chance of success."

E. VOCABULARY ARRANGEMENT

- a) Arrange a semantic field of the words relating to the learning to the topic.
- b) Add words you probably already understand to connect relationships between what is known and the unknown.
- c) Supply the English equivalent to the Ukrainian from the list given below:

According to IBISWorld classifications, "accounting services" represent CPA firm revenues from загальної бухгалтерії, податкового консультування, податків на дохід підприємств and auditing services. "Payroll and bookkeeping services" include those

services generally provided by non-CPA firms, though when done by CPA firms they are included under accounting services. The final IBISWorld classification, *послуги з підготовки податкових декларацій*, represents most non-CPA providers of products like TurboTax and standard tax preparation services provided by H&R Block, Jackson Hewitt and independent non-CPA tax preparation firms. I'll refer to the combined tax, accounting, auditing and other services as TAAO.

IBISWorld analyzed the CPA and non-CPA providers of the broad range of professional services and reports that TAAO services represented an estimated \$119.5 billion in *загального доходу* for 2011 – \$66.2 billion for accounting services, \$8.7 billion for tax preparation services, and \$46.2 billion for *фонд заробітної платні* and bookkeeping services. That's down 2 percent from \$121.4 billion in revenues generated from TAAO services in 2006.

On an *з поправкою на інфляцію* basis, revenues from accounting services were flat from 2006 through 2011 – generating \$64.6 billion in 2006 and \$64.4 billion in 2011, respectively. This poor *результат* from an area in which the majority of CPA firm revenues are generated is due to very steep *спади* in *економічній активності*.

1. corporate taxes
2. declines
3. economic activity
4. general accounting
5. inflation-adjusted
6. payroll
7. performance
8. tax consulting
9. tax preparation services
10. total revenues

d) Suggest the correct translation:

Looking forward, IBISWorld forecasts (A) real growth in TAAO services for CPA and non-CPA service providers (B) will average (C)

about 3 percent a year through 2016. This is an improvement over the recent past, but a far cry from the dramatic growth the profession experienced early in the last decade. Such historically low growth rate projections (D) are common in mature industries, which are characterized by fierce (E) price competition, slow aggregate (F) growth and high concentration among a few participants.

In contrast to the slowing TAAO industry, the U.S. Bureau of Economic Analysis reports the aggregate financial services industry generated a staggering (G) \$822 billion in revenues in 2011, representing about 5 percent of the U.S. economy. The vast financial services industry includes subsectors such as property and casualty insurance (H), health insurance, commercial banking, institutional portfolio management (I), custody and clearing services (J), investment banking and other services in which most CPAs would never compete.

Using IBISWorld's industry segmentation and analysis, wealthcare revenues include all retail segments of the financial services industry, including personal life insurance sales, retail securities brokerage, personal financial planning, investment advice and other personal and small business financial services. Retail segments are those that serve the needs of American families and businesses and exclude institutional class services like pension plan portfolio management and investment banking.

With just under \$205 billion in revenues for 2011, wealthcare represents nearly one quarter of total financial services revenues, according to IBISWorld data. This is 71 percent greater than those revenues generated from TAAO services.

F. INFORMATION FILE

Share new information with your fellow students.

G. ADVANCE ORGANIZERS

Relate new reading material to something you already know, to your

background or experiences. Ask your teacher for assistance in developing these issues.

H. GROUP DISCUSSIONS

- a) Group discussions in and out of class will help you to discover what you bring to your reading, what your fellow students bring, as well as shared experiences.
- b) If you find they have new background information, ask for more information from them.

I. QUIZ # 5

a. Define the following sentences "True" or "False":

1. Adjustments are positive for balance sheet.
2. Falling debt prices lead to a gain in profit.
3. Debt accounting adjustments reflect the actual performance of the company.
4. Americans typically earn less than 3 percent interest on their savings accounts.
5. Lowering investment assumptions has to do with asking for more cash from local taxpayers.
6. Public retirement systems from Alaska to Maryland are running into the same dilemma.
7. Economists project that more bankruptcies are likely to happen in the coming years.
8. An average interest rate of 5.8 percent is now used by companies to calculate their pension costs in today's dollars.
9. Vermont has also required business workers to pay more into the pension system.
10. Mr. Milligan's previous proposal to lower the rate to 7.5 percent was rejected by the trustees last year.

b. Give the opposite:

painful, sharp, unpredictable, spread, to afford, permit, resitance, to approve, to lower, initial.

c. Decode the following terms:

to yo-yo, haul, to mount, assumption, retiree, approach, agenda, to contribute, lawmaker, maker.

d. Translate the following into English:

1. Помилки при заповненні облікових реєстрів виникають з різних причин: внаслідок втоми, недбалості працівника, несправності калькулятора або комп'ютера.
2. Однак у тексті та цифрових даних первинних документів, облікових реєстрів і звітів підчистки й необумовлені виправлення не допускаються.
3. Помилки можуть бути локальні -> перекручування інформації тільки в одному обліковому реєстрі (наприклад, неправильно проставлена дата), і транзитні — якщо помилка автоматично проходить через декілька облікових реєстрів.
4. Найчастіше помилки трапляються в тексті операції, тоді вони призводять до неправильної кореспонденції рахунків - проводки.
Записавши суму в дебет одного рахунка, бухгалтер забуває записати її в- кредит другого рахунка і навпаки.
5. Дану групу помилок можна легко проконтролювати шляхом правильного застосування методу подвійного запису.
6. Для пошуку числових помилок підрахуйте на калькуляторі числа, а потім повторіть той же підрахунок, але із знаком мінус.
7. Помилки в первинних документах, облікових реєстрах і звітах, створених ручним способом, виправляються коректурним способом, тобто неправильні текст або цифри закреслюються і над закресленим надписуються правильні текст або цифри.
8. Виправлення помилки має бути зумовлено надписом "Виправлено" та підтверджено підписом осіб, що підписали цей документ, із зазначенням дати виправлення.
9. Порядок виправлення помилок у документах і реєстрах, що створені машинним способом, встановлюється вказівками з

організації бухгалтерського обліку з використанням обчислювальної техніки.

10. Якщо події після дати балансу свідчать про наміри підприємства припинити діяльність або про неможливість її продовження, то фінансова звітність складається без застосування принципу безперервності діяльності.

e. Check the terms in the dictionaries. Learn and use in your discussion.

401(k) balance	debt markets	rate of return
annual return	earnings release	reinvestment rate
asset growth	gain	retirement benefits
benefits cuts	liabilities balance	savings account
bond prospectus	sheet	securities fraud
cost-of-living	loss in earnings	to cook the books
adjustments	pension fund	
debt accounting	public pension	
adjustments	disclosures	

f. Revise/learn and use in your discussion.

absolutely	fraud	protection
absurd	fund	public
account	further	public-sector
accuse	future	push
acknowledge	gain	put
across	give	quarter
actual	gold	rare
added	good	rate
addition	government	real
additional	governor	realistic
adjusted	gradual	reason
adjustment	grasp	receive
administrator	greatly	recently
adopt	group	reckon
advice	growth	recommended

afford	guarantee	recorded
after	guess	reduced
against	guy	reduction
agenda	habit	reflect
already	hard	regulator
among	haul	reinvestment
amount	have	reject
analyst	headline	release
announce	high	reliance
annual	highlight	report
answer	hire	represent
approach	hit	required
approve	huge	research
around	hysterical	resistance
ask	ignore	rest
association	impact	result
assume	include	retiree
assumption	income	retirement
average	increase	return
bail	increasingly	rising
balance	indefensible	risk
bank	industry	rule
bankruptcy	initial	run
based	instead	running
behind	insurance	same
benefit	interest	saving
betting	investment	say
billing	issue	scrutiny
billion	labor	second
blow	last	securities
board	late	see
bond	laughable	seem
book	lawmaker	senior
boost	lead	serious

borrow	leader	set
budget	liabilities	setting
bullet	liability	share
bullish	life	sharp
calculate	light	sheet
call	living	shock
calling	local	short
cash	long	should
center	long-term	show
certain	look	sign
chairman	loss	significant
chance	low-interest	sit
change	majority	slightly
chief	make	soften
commission	many	somebody
committee	market	something
company	mask	sound
compare	may	source
complaint	mean	special
conceptual	meaningful	spokesman
condition	measure	spot
consistency	mention	spread
continued	merit	statement
contract	million	state
contribute	missing	still
contribution	money	stock
convince	morning	strengthen
core	mount	struggle
cost-of-living	much	struggling
could	municipal	success
country	name	such
credit	narrow	sue
crisis	national	supposedly
critic	negative	sure

criticize	new	swap
cut	next	system
debt	now	take
decade	number	taking
decide	observer	target
decision	odd	term
decline	offer	then
default	officer	think
deposit	official	thinking
derivative	often	third
deserve	omission	this
desire	opposition	those
dilemma	outspoken	three
disability	owe	time
disagree	own	today
disclosure	page	top
divert	painful	totally
do	part	touch
dollar	partly	treasurer
during	past	trip
earn	pay	trustee
economist	pension	turn
effectively	percent	type
emphasize	percentage	typical
empire	permit	typically
employee	persuade	umbrella
end	piece	underplay
environment	plan	understandable
equal	point	understate
even	perhaps	union
every	policy	united
evidence	positive	unnecessary
exchange	power	unpredictable
expect	practice	unusual

experience	president	use
face	pressure	using
factor	previous	valuation
fall	price	value
faulty	probability	very
fear	problem	vote
feed	produce	want
feel	profit	warn
fellow	progress	warning
fiduciary	project	watching
file	projected	way
financial	projection	week
finding	prominence	worker
fireman	prominent	world
firm	property	worth
first-quarter	proposal	would
fiscal	proposed	year
flag	prospectus	yearly
follow	protect	

J. FAMOUS ECONOMIST

Follow his example:

JAMES M. BUCHANAN (1919–)

James Buchanan is an important figure in economics because of his role in developing the field of public choice, which examines the links between economics and politics. Buchanan has employed economic analysis to study politicians and political decision-making. At the same time he has stressed that understanding the political process is important for the study of economics. Buchanan was born into a poor rural family in the village of Gum, Tennessee, in 1919. His grandfather was elected Governor of Tennessee in 1891 on the populist

Farmers Alliance ticket. Buchanan (1992) credits his mother, a voracious reader, with developing his academic abilities through home instruction and by helping him with his homework assignments. Buchanan planned to attend Vanderbilt University and become a lawyer, but the Great Depression destroyed these dreams. Middle Tennessee State Teacher's College, in nearby Murfreesboro, was the only school he could afford. Buchanan majored in mathematics, English literature, and social science, and then went on to earn a Master's degree in Economics at the University of Tennessee in Knoxville. Following a brief stint in the navy, Buchanan used the G.I. Bill to enroll at the University of Chicago and pursue a PhD in Economics.

In 1948 Buchanan received his PhD and began a teaching job at the University of Tennessee. Since then he has held positions at a number of US and European institutions, including UCLA, the University of California at Santa Barbara, the London School of Economics, and Cambridge University. But Buchanan has spent most of his adult life teaching at three schools in Virginia. From 1958 to 1969 he taught at the University of Virginia and established the Thomas Jefferson Center for Political Economy there. From 1969 to 1983, he taught at Virginia Polytechnic Institute and founded the Center for the Study of Public Choice. Then Buchanan moved his center to George Mason University, where it has remained ever since. In 1986, he was awarded the Nobel Prize for Economics, primarily for changing the way that economists study government and politicians. Due to the work of Buchanan, economists now look at the world of politicians and policy-making more skeptically and with greater cynicism.

Many of his life experiences contributed to Buchanan's anti-state economics and his libertarian sentiments. Growing up in the rural South made him feel like "a member of a defeated people". Then there were his officer training school experiences in New York. There was also the general libertarian atmosphere at the University of Chicago. Last, but certainly not least, Buchanan felt that in the US Presidential

election of 1960 a rich man had purchased the presidency for his son. Buchanan's major contribution to economics is his role in developing the area of public choice, a study of exchange in the political realm. Public choice emerged out of the field of public finance, which studies the relationship between governments and individuals. Just as economists assume that economic man is rational and seeks to maximize utility, the public choice school holds that politicians and government bureaucrats should be viewed in the same light. Political exchange, like economic exchange, will be made with the expectation of gain.

UNIT SIX.

COST CONCEPTS

A. BEFORE YOU READ

1. CONCEPT MAPPING:

Develop a "mind map" around the notion "COST" to comprehend the relationship between the new concepts and the concepts you know.

2. BRAINSTORMING:

- a) Examine the title of the selection you are about to read.
- b) List all the information that comes to mind about this title.
- c) Use these pieces of information to recall and understand the material.
- d) Use this knowledge to reframe or reorder what you know, or to note what you disagree with, for further research.

3. SKIMMING THE TEXT:

Scan the text to comprehend the content structure.

4. VOCABULARY PREVIEWS:

Look up unfamiliar key words before reading to improve your background and comprehension.

5. PRE-QUESTIONS:

Write out a series of questions you expect to be answered when reading.

6. DEFINITION:

- a) What is inventory / cost / price?
- b) What are key cost elements?
- c) How are GAAP defined?

7. CHARACTERISTICS:

- a) For whom is cost designated?
- b) How are costs classified?

8. EXPERIENCE:

What experience have I had with cost accounting?

What can I imagine about working for a government agency?

B. READING

- a) Highlight signal words, main idea sentences, phrases, headings and subtitles.
- b) Pay attention to specific plans of paragraph or text organization.
- c) Define the phrases in italics:

6.1. CFO round table: Managing uncertainty.

Business was about as good as it could get for A&A Manufacturing in early 2008. The New Berlin, Wis., company was busy cranking out custom-engineered protective covers, cable carriers, and those roll-up doors you see on the sides of fire trucks. The workforce couldn't keep up with the orders.

“We were working at full capacity—an enormous amount of hours—and we were trying to hire people,” recalled Lawrence Kean, A&A's secretary, treasurer, and CFO.

But that summer the global economy *took a nosedive*. Orders slowed to a trickle. Suddenly A&A was staring at an *inventory* of metal and plastic materials that it had ordered atop a *bursting commodities bubble*.

“We had to make some painful reductions in service and work our way out of purchase orders,” Kean said.

Few companies were prepared for what became the worst economic crisis since the Great Depression, but many have learned from it. Some—including A&A—have grown stronger because of it.

The global economy remains cloaked in uncertainty. There has been tepid economic improvement in the United States. A *debt cloud* looms over Europe, growth is slowing in emerging economies such as China, and new regulations and game-changing technology have been introduced almost every step of the way. In between, there have been disruptive political uprisings and natural disasters the world over. The unpredictability is changing how companies manage risks and develop growth strategies.

Managing through that ambiguity was the theme of a recent CFO round table hosted by the JofA and moderated by Arleen Thomas, CPA, CGMA, the AICPA senior vice president—Management Accounting. She was joined by three other CPAs who hold the CGMA designation: Carl Berquist, executive vice president and CFO of global hotelier Marriott International; Brenda Morris, CFO of Love Culture, a fast-growing young women’s clothing retailer; and Kean, whose experiences in 2008 helped build the foundation for a stronger company that is expanding globally.

Their insights were particularly timely. As companies navigate the increasingly complex waters of the *global marketplace*, CFOs are becoming a more influential part of the *strategic-planning process*.

“Over the last 10 years, I’ve seen the CEO start to use the CFO more for strategic guidance,” said Morris, who has spent the past decade as CFO of several companies. “There’s more dependence on really understanding the financial and operational risks that impact the business.

And most of the time, the CFO ... can provide really good input and guidance.

“I also think most CFOs are just stepping up and being more strategic in nature than maybe they used to be,” she continued. CEOs

are increasingly seeing CFOs as a more important resource in managing key initiatives and helping define the direction of the business, Morris said. “That’s what I really love to work on.”

6.2. Japan's Industrial Production, Economic Outlook.

6.2.1. Make an English précis of the article.

6.2.2. Make a Ukrainian précis of the article.

Japan posted a smaller-than-expected current-account surplus in April, highlighting weak global demand that is depressing exports.

The excess in the widest measure of the nation’s trade was 333.8 billion yen (\$4.2 billion), the Ministry of Finance said in Tokyo today. The median estimate of 22 economists surveyed by Bloomberg News was for a surplus of 440.8 billion yen. Gross domestic product in the first quarter grew an annualized 4.7 percent, a separate report showed.

A 5.6 percent appreciation in the yen against the dollar since mid-March, higher energy costs and falling exports have eroded the nation’s trade position. The economy might have peaked in the first quarter, with analysts surveyed by Bloomberg News predicting the expansion will moderate this year as rebuilding projects to recover from last year’s earthquake are expected to taper off.

“We can’t be optimistic going forward as things are getting worse overseas day by day,” said Azusa Kato, an economist at BNP Paribas SA in Tokyo. “Japan will probably maintain growth in the coming quarters because of reconstruction demand but it’s not going to be as fast as last quarter.”

European Crisis

Spain was downgraded by Fitch Ratings yesterday to within two steps of junk, adding to the turmoil in Europe that has sent at least eight of the 17 euro-area economies into recession and damped European demand for foreign goods. The crisis is hurting Japanese exporters such as Sony Corp. (6758), whose stock fell below 1,000 yen in Tokyo trading this week for the first time since 1980.

“Economic activity in Japan’s major trading partners is the biggest risk to Japan’s external balance,” Kiichi Murashima, chief economist

at Citigroup Global Markets Japan Inc. in Tokyo, said before the report.

A strong yen raises prices for exporters and reduces the value of their repatriated income. Every one-yen appreciation versus the U.S. currency leads to a 2.4 percent drop in operating profit at Nissan Motor Co. (7201) and 3.3 percent at Toyota Motor Corp. (7203), according to a Goldman Sachs Group Inc. (GS) (GS) report in April.

Toyota President Akio Toyoda, speaking June 4 as chairman of the Japan Automobile Manufacturers Association, said the yen is a “major concern.” Carlos Ghosn, Nissan’s chief executive officer, said in April the currency is the unpredictable “1,000-pound gorilla” that makes all Japanese automakers suffer.

Trade Slump

The trade portion of the nation’s current account was in deficit for the first time since January, today’s report showed. The revised GDP figure beat analysts’ forecasts after capital spending and private consumption were better than the government initially estimated last month.

All of the nation’s 50 reactors have been idled for maintenance or safety checks following the March 2011 earthquake and tsunami that caused the worst atomic accident since Chernobyl at Tokyo Electric Power Co.’s Fukushima Dai-Ichi power station. To replace nuclear power, Japan’s 10 regional power utilities imported record amounts of liquefied natural gas in the fiscal year ended March, and doubled their use of petroleum.

Kansai Electric Power Co. Inc. (9503) may get approval as early as this week to start two idled reactors at its Ohi plant, the Nikkei newspaper reported last week. Prime Minister Yoshihiko Noda said at a news conference June 4 that reactors need to be restarted for economic development.

Income Surplus

While the nation’s income surplus, the portion of the current account that includes earnings from overseas investment, is preventing any immediate swing to Japan becoming a deficit nation, Masaaki

Kanno, chief economist at JPMorgan Securities Japan Co. in Tokyo, forecasts that change may come in 2015. The BOJ's Shirakawa disagrees with "such views," citing the size of the income surplus.

Japan's net international investment position of 253 trillion yen was more than 50 percent of nominal GDP as of 2011, suggesting that "the Japanese current account surplus will continue for the time being," Shirakawa said at a conference in Tokyo last week.

6.3. GAO releases preliminary assessment of oil-spill cleanup costs.

6.3.1. Give a written translation of Paragraph I.

The U.S. Government Accountability Office (GAO) released a preliminary assessment of the federal financial risks, cost reimbursement and notification policies, and procedures regarding the cleanup of the Deepwater Horizon oil spill in the Gulf of Mexico. The assessment included recommendations on steps the government can take to increase efficiency in the process and increase how much can be spent on the cleanup.

The BP oil spill occurred on April 20 when there was an explosion onboard the Deepwater Horizon drilling unit in the Gulf of Mexico, which did not end until the oil well was cemented shut 152 days later, on Sept. 19. The spill caused billions of dollars of damage to the environment as well as to the livelihood of many fishermen in the area and others who had depended on the local tourism industry. In June, BP established an irrevocable trust in which it will place \$20 billion by 2014, primarily for the purpose of paying claims made with regard to the oil spill.

The GAO said that although the current estimates for the cost of the cleanup suggests that it will be in the tens of billions of dollars, there are some complications regarding the amount that the federal government can spend on the process. The Oil Pollution Act of 1990, enacted by Congress after the Exxon Valdez spill in 1989, authorizes the use of the Oil Spill Liability Trust Fund, established to help pay for spills using federal tax revenues for immediate response costs.

However, the fund has a \$1 billion cap on the amount it can spend on the cleanup of each oil spill. Because BP already reimbursed \$518.4 million of the \$581 million the fund had already spent on the cleanup as of Oct. 12, the GAO advised amending the \$1 billion expenditure cap to allow it to subtract whatever was reimbursed from how much it should be allowed to spend under the cap.

In addition, the GAO found that the Coast Guard National Pollution Funds Center's policies and procedures for obtaining reimbursement for the costs of the oil spill did not always reflect current practices and were not sufficiently detailed to ensure they could be followed consistently. For example, the procedures for identifying and notifying responsible parties are dated 1996 when the Coast Guard was part of the Department of Transportation; it is now part of the Department of Homeland Security. The GAO recommended that the current policies be updated to reflect the current organizational structure and to update its policies as well to provide detailed guidance and procedures for identifying and documenting all responsible party notifications.

C. AFTER YOU READ

- a) Depending upon the content area, a discussion of the author of the particular work can be helpful to the understanding of it.
- b) What is the author trying to say?
- c) What is his point of view and his reason for writing the particular work?

D. LANGUAGE FOCUS

a) *Make it negative:*

1. The economy might have peaked in the first quarter, with analysts surveyed by Bloomberg News predicting the expansion will moderate this year as rebuilding projects to recover from last year's earthquake are expected to taper off.

2. The revised GDP figure beat analysts' forecasts after capital spending and private consumption were better than the government initially estimated last month.

b) *Paraphrase the following:*

1. The GAO recommended that the current policies be updated to reflect the current organizational structure and to update its policies as well to provide detailed guidance and procedures for identifying and documenting all responsible party notifications.

2. . In June, BP established an irrevocable trust in which it will place \$20 billion by 2014, primarily for the purpose of paying claims made with regard to the oil spill.

c) *Relate the action to the past/present/future:*

1. The trade portion of the nation's current account was in deficit for the first time since January, today's report showed.

2. The unpredictability is changing how companies manage risks and develop growth strategies.

d) *Turn direct into indirect:*

"We can't be optimistic going forward as things are getting worse overseas day by day," said Azusa Kato, an economist at BNP Paribas SA in Tokyo. "Japan will probably maintain growth in the coming quarters because of reconstruction demand but it's not going to be as fast as last quarter."

F. VOCABULARY ARRANGEMENT

a) Arrange a semantic field of the words relating to the learning to the topic.

b) Add words you probably already understand to connect relationships between what is known and the unknown.

c) Supply the English equivalent to the Ukrainian from the list given below:

As with TAAO services, wealthcare industry revenues have decreased more than 5 percent since 2006. The *обвал ринку* and recession led to declining *оцінки інвестиційних портфельів* and reduced family incomes. However, wealthcare industry revenues are

estimated to grow more than 17 percent on an inflation-adjusted basis to \$240.9 billion by 2016, based on IBISWorld data.

Though both healthcare and TAAO industries are rising from *економічного спаду* with slower *темпами росту* than those in the Golden Age, there are four reasons why healthcare services should be considered by CPA firms for higher growth than general industry forecasts:

Wealthcare services generally carry higher *межу коливання ціни* and greater profitability than traditional TAAO services. This leads to enterprise value multiples that are often two to three times higher than those of TAAO services.

Lagging distrust of major financial institutions following the financial collapse has caused many *заможних* families to seek alternative sources of financial advice and planning services. The CPA profession and its independent financial advisors are winning this battle of perceived competence and trust at the expense of the traditional *управління активами* providers.

CPAs are poised to be America's retirement and wealth de-accumulation experts. The risks and complexity found as clients approach the retirement "red zone" (the five years before and five years after the actual retirement date) grow beyond the *можливості* of their *біржового маклера, місцевого банкіра* and life insurance agent. These people tend to consolidate their advice needs to a single financial advisor who can help them through retirement and estate matters.

1. affluent
2. capabilities
3. community banker
4. economic slumps
5. growth rates
6. investment portfolio valuations
7. margins
8. market collapse
9. stockbroker

10. wealth management

d) Suggest the correct translation:

Account reconciliation (A) is an underappreciated (B) yet critical control to help ensure an organization's financial integrity (C). Weaknesses and inefficiencies in the reconciliation process often lead to mistakes on the balance sheet and overall inaccuracies in the financial close (D).

Since the enactment of Sarbanes Oxley (SOX) in 2002 and other rules and regulations that have followed, ensuring the accuracy of account reconciliations has become increasingly important. In the past, if an external auditor found a material error (E) during review of a company's financial statements, it could still be corrected by the company with an adjusting (F) entry. In most cases, the controller (G) wouldn't have to issue a restatement (H), nor would the auditor have to report the error.

With the advent of SOX, the call for compliance (I) has risen to another level. If the auditor finds a material error, the company may be required to disclose a failure (J) of controls. And, if the auditor finds a misstatement while reviewing the quarterly or annual SEC reports that the company cannot prove it would have found on its own, then the error is determined to be a material misstatement and a material weakness that could also require disclosure.

F. INFORMATION FILE

Share new information with your fellow students.

G. ADVANCE ORGANIZERS

Relate new reading material to something you already know, to your background or experiences. Ask your teacher for assistance in developing these issues.

H. GROUP DISCUSSIONS

- a) Group discussions in and out of class will help you to discover what you bring to your reading, what your fellow students bring, as well as shared experiences.
- b) If you find they have new background information, ask for more information from them.

I. QUIZ # 6

a. *Define the following sentences “True” or “False”:*

1. The workforce couldn't keep up with the reservations.
2. The global economy remains trapped in uncertainty.
3. Economists admit moderate economic improvement in the United States.
4. CFOs are used more for strategic guidance by CEOs.
5. The crisis is damaging Japanese exporters such as Sony Corp.
6. Toyota President was worried about the national currency of Japan.
7. Analysts argue that Japan could become a deficit nation by 2015.
8. The spill caused millions of dollars of damage to the environment.
9. Federal tax revenues are not used to cover spill damages.
10. GAO is not satisfied with the Coast Guard National Pollution Funds Center's policies.

b. *Give the opposite:*

separate, moderate, expansion, to increase, to depend, consistently, update, detailed, growth, complex.

c. *Decode the following terms:*

to highlight, reconstruction, to downgrade, turmoil, maintenance, preliminary, complication, amendment, obtainment, ambiguity.

d. *Translate the following into English:*

1. Чітке розмежування витрат залежно від їхнього економічного призначення є визначальним моментом у практичній діяльності підприємства.
2. Національні стандарти бухгалтерського обліку визначають витрати як зменшення економічних вигод у вигляді вибуття

активів або збільшення зобов'язань, які призводять до зменшення власного капіталу.

3. Поточні витрати підприємства -- це грошове відбиття витрат живої та уречешленої праці на здійснення поточної торговельно-виробничої діяльності підприємства.
4. Під економічними витратами розуміють „затрати втрачених можливостей“, тобто суму грошей яку можна отримати при найбільш вигідному із всіх можливих альтернативних варіантів використання ресурсів.
5. Необхідність виділення різних класифікацій витрат є передумовою успішної організації планування, обліку, контролю, аналізу та ефективного управління витратами.
6. Об'єктивною потребою підприємств є подолання кризових явищ у національній економіці, вирішення проблем формування механізмів, спрямованих на удосконалення внутрішнього стану підприємства й нових форм і методів господарювання, відповідних організаційних структур, методів управління витратами, розроблення нової ринкової поведінки, спрямованої на стабілізацію витрат та подальше економічне зростання.
7. Поняття «затрати» пов'язане з чинниками, що впливають на результати виробничої діяльності того або іншого суб'єкта господарювання, а поняття «витрати»- з фінансовими аспектами даного виду діяльності.
8. Процес виробництва завжди пов'язаний з використанням робочої сили та засобів виробництва, які втілюються в продукті, що характеризується корисністю (споживною вартістю) та трудомісткістю, тобто затраченою певною кількістю праці.
9. Прямі витрати безпосередньо пов'язані з виготовленням певного різновиду продукції і можуть бути обчислені на її одиницю прямо.
10. До постійних належать витрати на утримання і експлуатацію будов і споруд, організацію виробництва, управління.

e. Check the terms in the dictionaries. Learn and use in your discussion.

appreciation capital spending cost reimbursement current-account surplus earnings from overseas investment expenditure cap	external balance federal tax revenues fiscal year immediate response costs income surplus operating profit	operational risk private consumption repatriated income to develop growth strategies to manage risk
---	--	--

f. Revise/learn and use in your discussion.

accident account accountability activity adding addition advised all allow allowed almost already although always ambiguity amend amount analyst annualize appreciation	fisherman follow forecast foreign forward foundation full fund game-changing gas give global globally gorilla government gross group growth guard guidance	primarily prime private probably procedure process product production profit project protective provide purchase purpose quarter raise rating reactor really rebuild
--	---	---

approval	have	recall
area	help	recent
assessment	highlight	recession
association	hire	recommendation
atomic	hold	recommend
atop	homeland	reconstruction
authorize	horizon	record
automaker	host	recover
automobile	hotelier	reduce
balance	hour	reduction
beat	identify	reflect
before	idle	regard
below	immediate	regarding
billion	impact	regional
bubble	important	regulation
build	imported	reimburse
burst	improvement	reimbursement
business	include	release
busy	income	remain
but	increase	repatriate
cable	increasingly	replace
cap	industrial	report
capacity	industry	resource
capital	influential	response
carrier	initially	responsible
cause	initiative	restart
cement	input	retailer
chairman	insight	revenue
change	international	revise
check	introduce	risk
chief	inventory	roll-up
claim	investment	round
cleanup	irrevocable	safety
cloak	join	secretary

clothing	junk	security
cloud	just	see
come	keep	senior
commodity	key	separate
company	last	service
complex	lead	several
complication	learn	show
concern	liability	shut
conference	liquefy	side
congress	livelihood	since
consistently	local	size
consumption	loom	slow
continue	maintain	smaller-than-
continued	maintenance	expected
cost	major	some
could	manage	speaking
crank	managing	spend
crisis	manufacturer	spending
currency	many	spill
current	marketplace	staring
custom-engineered	market	start
damage	material	state
damp	may	station
date	maybe	step
day	measure	step
debt	median	stock
decade	metal	strategic
deficit	might	strong
define	million	structure
demand	minister	subtract
department	ministry	such
dependence	moderate	suddenly
depressing	month	suffer
depression	nation	sufficiently

designation	national	summer
detailed	natural	surplus
develop	nature	survey
development	navigate	swing
direction	need	table
disagree	net	take
disaster	new	taper
disruptive	news	tax
document	newspaper	technology
dollar	nominal	tepid
domestic	nosedive	through
door	notification	time
double	now	timely
downgraded	nuclear	today
drill	obtain	tourism
drop	occurr	trade
each	office	trading
early	officer	transportation
earnings	onboard	treasurer
earthquake	operating	trickle
economic	operational	trillion
economist	optimistic	truck
economy	order	trust
efficiency	organizational	tsunami
emerging	outlook	turmoil
enact	overseas	uncertainty
end	painful	understanding
energy	part	unit
enormous	particularly	unpredictability
ensure	partner	unpredictable
environment	party	until
erode	past	update
established	pay	updated
estimate	paying	uprising

estimated	peak	use
euro-area	people	used
every	percent	utilities
excess	petroleum	value
executive	place	versus
expansion	plant	vice
expected	plastic	view
expenditure	political	water
experience	pollution	way
explosion	portion	weak
exporter	position	week
external	post	well
falling	power	wide
fast	practice	women
fast-growing	predict	work
federal	preliminary	workforce
figure	prepared	work
finance	president	world
financial	prevent	year
fire	price	yen
fiscal		yesterday

J. FAMOUS ECONOMIST

Follow his example:

DOUGLASS CECIL NORTH (1920–)

Douglass North has made contributions to three areas of economics. He has brought statistical methods to the study of economic history. He has examined and explained the role of institutions in regulating human behavior. And he has attempted to understand the historical forces that make economies rich or poor.

These three lines of research are not quite as diverse as they might first appear. North has explained economic growth in terms of adopting the right institutions. He has also used statistical techniques to test his institutional theories about the causes of economic growth. North was born in Cambridge, Massachusetts, in 1920. His father, a manager for the Metropolitan Life Insurance Company, was transferred frequently while North was growing up. As a result, North went to school in Connecticut, Ottawa, Lausanne, New York City, and on Long Island. He attended college at the University of California in Berkeley because his father had been transferred to San Francisco and North did not want to be far from his family. At Berkeley, North triple majored in political science, economics, and philosophy. He seriously considered going to law school after graduation, but the start of World War II put this plan on hold. Three years at sea gave North the opportunity to do a great deal of reading and reflecting, and he decided to become an economist rather than a lawyer. Returning to Berkeley after the war, North received his PhD in 1952, writing a dissertation on the history of life insurance in the United States. From the 1950s until 1983 North taught at the University of Washington. He then became Professor of Economics and History at Washington University in St. Louis. In 1993, North and Robert Fogel were made joint recipients of the Nobel Prize for Economic Science. In announcing this award the Nobel Prize committee cited the pioneering work of North and Fogel in the development of cliometrics, which involves the application of mathematical and statistical methods to the study of economic history. Until the late twentieth century, economic history was primarily a descriptive area within economics, one shunning statistical analysis. Consequently, North and Fogel encountered great resistance when, during the 1960s, they brought mathematical methods to this field. But they continued to push their project and eventually succeeded in revolutionizing the study of economy history. North and Fogel required that all work in economic history yield testable or refutable predictions, and that these predictions actually be tested against an alternative, null hypothesis that some factor was not important. This

was to be done by gathering relevant historical data and then analyzing this data with the same statistical tools used by all other economists.

The new institutionalism of North straddles both traditional economics and traditional institutional economics. Yet, it occupies an uneasy place relative to both. The behavioral assumptions that North employs are quite different from the assumptions made by most economists. For North, individuals are socialized to behave according to rules, and these institutional constraints are an important influence on behavior. This view has made traditional economists uneasy with his work. On the other hand, the work of North is highly quantitative and formal. This had made traditional institutionalists skeptical of his work.

UNIT SEVEN.

RECORDING TRANSACTIONS

A. BEFORE YOU READ

1. CONCEPT MAPPING:

Develop a "mind map" around the notion "TRANSACTION" to comprehend the relationship between the new concepts and the concepts you know.

2. BRAINSTORMING:

- a) Examine the title of the selection you are about to read.
- b) List all the information that comes to mind about this title.
- c) Use these pieces of information to recall and understand the material.
- d) Use this knowledge to reframe or reorder what you know, or to note what you disagree with, for further research.

3. SKIMMING THE TEXT:

Scan the text to comprehend the content structure.

4. VOCABULARY PREVIEWS:

Look up unfamiliar key words before reading to improve your background and comprehension.

5. PRE-QUESTIONS:

Write out a series of questions you expect to be answered when reading:

6. DEFINITION:

- a) What is transaction/ journal / ledger / depreciation / cash receipts?
- b) Where does recordkeeping system fit?
- c) What is accounting cycle?

7. CHARACTERISTICS:

- a) How would I describe journalizing process?
- b) How does the bookkeeper transfer information from the journal to the ledger?
- c) Which accounting concept or principle specifically states that we should record transactions at amounts that can be verified?

8. EXPERIENCE:

- a) What experience have I had recording transactions?
- b) How do revenues and expenses enter into the determination of net income or net loss?

B. READING

- a) Highlight signal words, main idea sentences, phrases, headings and subtitles.
- b) Pay attention to specific plans of paragraph or text organization.
- c) Define the phrases in italics:

7.1. Financial accounting standards.

The new Statements of Financial Accounting Standards—SFASs 141(R), *Business Combinations*, and 160, *Noncontrolling Interests in Consolidated Financial Statements*—emerged in December 2007 from the extensive redeliberation of two FASB exposure drafts (ED) issued in June 2005. As the first major joint project between FASB and the International Accounting Standards Board (IASB), the business combinations project sought to demonstrate that the two standards-setting bodies can work together. Given the extent of the changes, evaluating the success of those endeavors may take time. In this case,

International Financial Reporting Standard (IFRS) 3 (revised in 2007), which is the IASB's companion statement on business combinations, reflects most of the changes in SFAS 141(R).

In a nutshell, the purchase method, now to be known as the *acquisition method*, has been further modified such that, in many *mergers*, it will no longer rely on *historical costs*. Combinations involving either an acquisition of less than 100%, or control that is achieved in steps, will see traditional *cost-based purchase accounting* replaced by estimates of the acquired company's fair value. The estimated fair value of contingent consideration agreements becomes part of the consideration that is recorded *at the acquisition date*, with subsequent changes in its *fair value reported in current earnings*, not as purchase-price adjustments. Additional *contingent assets and liabilities* will likely be recognized, and acquired in-process research and development (R&D) *will no longer be expensed* as if it was internally developed R&D, but instead it will be capitalized and initially subjected to periodic impairment testing.

The major changes incorporated in SFASs 141(R) and 160 can be divided into six categories, which also include some lesser changes. When appropriate, excerpts from respondent comments to the EDs are provided below.

Broader Definition of a 'Business'

SFAS 141(R)'s broader definition of a business brings mutual entities within its scope for the first time, according to the definitions in para. 3. This means that mutual entities can no longer use *pooling-of-interests accounting* when they merge. This seemingly innocuous change elicited a majority of negative responses arguing that combinations of mutual entities are true mergers—not acquisitions—with no consideration exchanged. One respondent to the ED noted: "With no consideration in a transaction, it is not practical to determine an accurate fair value of the acquired company to the acquirer. We are concerned ... the results may be misleading ... primarily because they do not reflect the combination's true economics."

Acquisitions Recorded at Full Fair Value

“Full fair value,” now referred to as the measurement principle (first described in para. 20), is the most controversial issue in the joint FASB-IASB business combinations project. Any “partial” controlling acquisition (less than 100%) will be reported not at the price paid, but at the acquirer’s estimated full fair value for the company as a whole. For example, an \$8 billion acquisition of 80% of a company could be reported at \$9.5 billion if that is the entity’s estimated fair value. Not only are all identifiable assets and liabilities consolidated at their full fair values, SFAS 141(R) bases goodwill on the excess of the total entity’s fair value over the fair value of the *identifiable net assets* (para. 34). [FASB board member Leslie Seidman’s wide-ranging dissent to SFASs 141(R) and 160 cites her objection to attributing goodwill to the minority, or noncontrolling, interest.]

7.2. Revenue-Recognition Decisions: A Slippery Slope?

7.2.1. Make an English précis of the article.

7.2.2. Make a Ukrainian précis of the article.

Consider this scenario: Capitol Motors is in its first year of operations and as of December 30 has total revenues of \$5 million, projected net income of \$200,000, and total assets of \$40 million (Capitol’s year-end is December 31). On December 31, a customer and Capitol Motors agree to terms on the purchase of a new automobile for \$25,000. The customer signs and completes all paperwork for the sale but asks Capitol to hold the full-payment check until he can complete financing with a local bank. Because the bank has already closed for the day, it will be January 2 before the customer can release the check to Capitol. The customer already has a \$30,000 line of credit approved by his bank. The Capitol Motors’ credit manager reviews the

customer's file and offers to finance the transaction through the dealership's financing company. The customer, however, wishes to use a local bank and declines the financing offer. The customer and Capitol agree to leave the automobile on the dealership lot overnight so it can be properly serviced (e.g., washed, fluid levels checked). Given these facts, should Capitol Motors record a sale as of December 31?

This case was presented to approximately 700 CPAs in continuing education courses taught by the author. On each occasion, a majority of CPAs indicated they would book the transaction as a December 31 sale. The two primary reasons given were the following:

All significant aspects of revenue-recognition requirements had been met;

The sale is immaterial to total revenue, therefore recording the transaction on December 31 would not be inappropriate.

The Revenue-Recognition Argument

Accountants have traditionally recognized revenues when realized and earned. Matched against these revenues are expenses incurred in generating the revenues. This is referred to as the realization/earnings/matching approach. FASB, however, is working on a revenue-recognition project that is expected to follow the asset/liability approach, under which revenue is recognized and measured based on the change in assets and liabilities. The intent here is not to debate the two approaches, but for the case at hand one could argue that revenues would be recognized regardless of the approach used.

As stated above, most of the CPE session participants agreed that the automobile dealership had "earned" the revenue because all significant aspects of the sale had been met. Under the asset/liability approach it is clear the dealership has increased an asset—at a minimum as accounts receivable—and therefore should recognize the revenue.

One might argue that because the servicing of the automobile is insignificant to the purchase price, the earnings process is complete.

Another possible situation deserves consideration, however: What if the customer changes his mind and decides not to purchase the automobile and never returns to the dealership? Can (or would) the dealer force the customer to purchase the automobile? One must, therefore, consider the possibility of a “right of return.”

7.3. Materiality: Whose Business Is It?

7.3.1. Give a written translation of Paragraph I.

It has long been established in the professional literature that financial statements are the responsibility of management. That responsibility includes establishing and maintaining accounting systems that record, process, summarize, organize, and control the myriad transactions that flow through businesses. Included in this mandate is maintenance of the integrity of the accounting system that summarizes the transactions into periodic financial statements.

The financial statements are supposed to be representations of what has transpired in the business and of its financial condition as of a certain date. The assignment of this responsibility to management is also set forth in engagement letters, representation letters, and in the auditor’s opinion for each audit engagement.

Auditors have a secondary responsibility for clients’ financial statements: obtaining reasonable assurance as to their fairness, as expressed in the auditor’s opinion. This is done after an examination of records, review and test of transactions, and outside verification of both balances and transactions. The audit also requires many estimates and judgments. In this process, auditors are required to evaluate evidence and to determine the materiality of information uncovered by the audit. The process of assessing materiality is not precisely defined in professional literature, although the responsibility for this judgment is clearly the auditor’s.

What happens, however, when the responsibilities of management and the auditor conflict or are confused?

A company’s management, having primary responsibility for the financial statements, knows of the auditor’s responsibility to express

his opinion and make materiality judgments. Suppose management decides to “game” the system. What are the consequences?

After a 40-year auditing career, and having served as an expert witness in several legal controversies (including engagements on behalf of the SEC Enforcement Division), the author has seen the consequences. The distortion of financial statements can be subtle or substantial. The results can be damaging to those who must rely upon financial statements that are flawed as a result of a system gone awry.

Materiality decisions involve the following issues:

Mechanical errors found during the course of an audit or review. These are mispostings, or computational or similar errors.

Deliberate “mistakes” caused by management that produce distortion in the financial statements.

Disagreements regarding an estimate (e.g., adequacy of bad-debt reserves) or the application of GAAP (e.g., whether cash flow is generated by operations or financing).

Management design of the extent and breadth of systems of internal control.

Auditor scope determinations. These are affected by risk tolerance and are often expressed as a materiality percentage.

C. AFTER YOU READ

- a) Depending upon the content area, a discussion of the author of the particular work can be helpful to the understanding of it.
- b) What is the author trying to say?
- c) What is his point of view and his reason for writing the particular work?

D. LANGUAGE FOCUS

a) *Make it negative:*

1. All significant aspects of revenue-recognition requirements had been met.
2. Accountants have traditionally recognized revenues when realized and earned.

3. One must, therefore, consider the possibility of a “right of return.”

b) Paraphrase the following:

1. Included in this mandate is maintenance of the integrity of the accounting system that summarizes the transactions into periodic financial statements.
2. One might argue that because the servicing of the automobile is insignificant to the purchase price, the earnings process is complete.

c) Relate the action to the past/present/future:

1. The customer signs and completes all paperwork for the sale but asks Capitol to hold the full-payment check until he can complete financing with a local bank.
2. This case was presented to approximately 700 CPAs in continuing education courses taught by the author.

d) Turn direct into indirect:

The chief marketing officer admitted: “What if the customer changes his mind and decides not to purchase the automobile and never returns to the dealership? Can (or would) the dealer force the customer to purchase the automobile?”

E. VOCABULARY ARRANGEMENT

- a) Arrange a semantic field of the words relating to the learning to the topic.
- b) Add words you probably already understand to connect relationships between what is known and the unknown.
- c) Supply the English equivalent to the Ukrainian from the list given below:

In business, as in most endeavors, passion is a key ingredient to success. Entrepreneurs who genuinely enjoy sales, operations, and *робота з клієнтами* are much more likely to build *прибуткові* firms than individuals who are simply "going through the motions" of business in the name of making money. But even the most enthusiastic managers will enjoy much greater success if their passion is governed

by sound фінансовою дисципліною, which stems from an understanding of their *фінансової звітності*.

There's plenty of debate about the *відносну цінність* of the three main financial statements: *звіт про фінансові результати*, *баланс*, and *звіт про рух грошових коштів*. Certainly all are important, but for small companies, the cash flow statement may be the most critical. The cash flow statement is a marriage of the two other financial statements: It combines *основну діяльність* (shown in the income statement) with changes in balance sheet accounts to show how the company's cold cash is "flowing."

The section of the cash flow statement labeled "cash flow from operations" is definitely the most important because it represents how much cash a company is generating from its *основних операцій*. The cash flow statement accounts for profits and losses as well as any "working capital".

1. balance sheet
2. cash flow statement
3. core operations
4. customer service
5. financial discipline
6. financial statements
7. income statement
8. operating activities
9. profitable
10. relative value

d) Suggest the correct translation:

On June 28, the U.S. Supreme Court ruled to uphold (A) much of the Patient Protection and Affordable Care Act (PPACA), President Obama's historic overhaul (B) of the nation's health care system.

The ruling put in motion the most significant expansion of the country's health care system in decades, including the most controversial provision (C) at the heart of the act – the individual mandate that will require U.S. citizens, beginning in 2014, to maintain

minimum health care coverage (D) or pay a penalty, which the court ruled as a tax.

The 5-4 decision was announced by Chief Justice John Roberts, who surprised many by splitting ranks with his fellow conservatives to uphold the law. The Court found the provision permitting the penalty to be constitutional within Congress' power under the taxing clause (E).

"Because the constitution permits such a tax, it is not our role to forbid it or to pass upon its wisdom or fairness (F)," Roberts said announcing the judgment.

Now, as the health care law goes forward, CPAs are examining how the provisions encapsulated (G) in the law – particularly the individual mandate requiring health insurance – will impact their individual clients, and how they conduct business with those clients.

"Essentially, the health care law means the accountant who does personal tax returns (H) has become the de facto first line of implementation on the individual mandate," said Marcus Newman, vice president and registered health underwriter (I) at GCG Financial, located in Bannockburn, Illinois. "The CPA will now have to ask clients if they have health insurance. It's a question that has to be asked, and if the answer is no, the enforcement (J) will then fall on the CPA to calculate that fine."

F. INFORMATION FILE

Share new information with your fellow students.

G. ADVANCE ORGANIZERS

Relate new reading material to something you already know, to your background or experiences. Ask your teacher for assistance in developing these issues.

H. GROUP DISCUSSIONS

- a) Group discussions in and out of class will help you to discover what you bring to your reading, what your fellow students bring, as well as shared experiences.
- b) If you find they have new background information, ask for more information from them.

I. QUIZ # 7

a. Define the following sentences “True” or “False”:

1. Business Combinations, and Noncontrolling Interests in Consolidated Financial Statements were elaborated to show the cooperation between FASB and IASB.
2. Any “partial” controlling acquisition will be reported at the price paid.
3. The projected net income of \$200,000 and total assets of \$40 million refer to Capital Motors company.
4. Capitol Motors is a fictitious company.
5. It is appropriate to record sales transactions on December 31.
6. Traditionally revenues were recognized in accounting when realized and earned.
7. Servicing an automobile does not affect the purchase price.
8. Financial statements are the responsibilities of management.
9. The audit requires estimates, not judgements.
10. The distortion of financial statements can be substantial.

b. Give the opposite:

complete, local, majority, appropriate, significant, subtle, substantial, deliberate, adequacy, breadth.

c. Decode the following terms:

project, dealership, servicing, verification, evidence, judgement, consequence, rely on, computational, tolerance.

d. Translate the following into English:

1. Бухгалтерський облік слугує базою даних в основному для управлінської та фінансової (бухгалтерської) звітності, й лише фрагментарно – для податкової, яку складають на основі даних податкового обліку.

2. Бухгалтерський облік на підприємстві ведеться безперервно з дня реєстрації підприємства до його ліквідації.
3. Питання організації бухгалтерського обліку на підприємстві належать до компетенції його власника (власників) або уповноваженого органу (посадової особи) відповідно до законодавства та установчих документів.
4. Відповідальність за організацію бухгалтерського обліку та забезпечення фіксування фактів здійснення всіх господарських операцій у первинних документах, збереження оброблених документів, реєстрів і звітності протягом встановленого терміну.
5. Підприємство самостійно визначає облікову політику підприємства та обирає форму бухгалтерського обліку як певну систему реєстрів обліку, порядку і способу реєстрації та узагальнення інформації.
6. Керівник підприємства зобов'язаний створити необхідні умови для правильного ведення бухгалтерського обліку та забезпечити неухильне виконання всіма підрозділами, службами та працівниками, причетними до бухгалтерського обліку.
7. Головний бухгалтер або особа, на яку покладено ведення бухгалтерського обліку підприємства забезпечує дотримання на підприємстві встановлених єдиних методологічних засад бухгалтерського обліку, складання і подання у встановлені строки фінансової звітності.
8. Первинні документи повинні бути складені протягом здійснення господарської операції, а при неможливості - безпосередньо після її закінчення.
9. Для контролю та впорядкування оброблення даних на підставі первинних документів можуть бути складені зведені облікові документи.
10. Регістри бухгалтерського обліку повинні мати назву, період реєстрації господарських операцій, прізвища і підписи або

інші дані, що дають змогу ідентифікувати осіб, які брали участь у їх складанні.

e. Check the terms in the dictionaries. Learn and use in your discussion.

accounts receivable	full fair value	purchase price
auditor's opinion	line of credit	purchase-price
bad-debt reserves	materiality	adjustments
book a transaction	judgments	revenue recognition
cash flow	merger	total assets
fair value	projected net income	total revenues

f. Revise/learn and use in your discussion.

accurate	entity	negative
achieve	error	net
acquire	established	noncontrolling
acquirer	establishing	noted
acquisition	estimate	nutshell
additional	estimated	objection
adequacy	evaluate	obtain
adjustment	evidence	occasion
affect	examination	offer
after	example	only
against	excerpt	operation
agree	excess	opinion
agreement	exchange	organize
all	expected	outside
already	expensed	over
application	expenses	overnight
approach	expert	paperwork
appropriate	exposure	participant
approve	express	percentage
approximately	expressed	periodic

argument	extensive	pooling-of-interests
assess	extent	possibility
assignment	fact	possible
assurance	fair	practical
attribute	fairness	precisely
author	file	presented
automobile	finance	price
awry	financial	primarily
balance	financing	primary
bank	flaw	principle
become	flow	process
below	fluid	produce
between	follow	professional
billion	force	project
board	further	properly
book	generate	provide
both	generate	purchase
breadth	give	purchase-price
bring	goodwill	realization
business	hand	realized
capitalize	happen	reasonable
career	historical	recognize
case	hold	redeliberation
cash	however	refer
category	identifiable	reflect
cause	immaterial	regarding
certain	impairment	regardless
change	in-process	release
check	inappropriate	rely
cite	include	replace
clear	income	reported
clearly	incorporate	reporting
client	increased	representation
close	incur	required

combination	indicate	requirement
comment	information	research
companion	initially	reserve
company	innocuous	respondent
complete	insignificant	response
computational	instead	responsibility
concern	integrity	result
condition	intent	revenue
conflict	interest	review
confuse	internal	risk
consequence	internally	sale
consider	international	scenario
consideration	involve	scope
consolidate	issue	seemingly
contingent	joint	servicing
continuing	judgment	session
control	leave	set
controversial	legal	several
controversy	letter	significant
course	level	sign
current	liabilities	similar
customer	likely	situation
damage	line	statement
date	literature	step
day	local	subject
dealer	long	subsequent
dealership	maintain	substantial
debate	maintenance	subtle
decide	major	success
decisions	majority	such
decline	make	summarize
define	management	suppose
definition	manager	supposed
demonstrate	mandate	system

describe	many	take
deserve	match	term
design	materiality	test
determination	means	testing
determine	measure	tolerance
develop	measurement	total
development	member	traditional
dissent	merge	traditionally
distortion	merger	transaction
divide	method	transpire
division	million	uncover
draft	minimum	use
earned	minority	value
education	misleading	verification
elicit	misposting	wide-ranging
endeavor	modified	witness
enforcement	mutual	year
engagement	myriad	year-end

J. FAMOUS ECONOMIST

Follow her example:

BARBARA R. BERGMANN (1927–)

Barbara Bergmann spent her career studying how labor markets work. These studies examined the causes of unemployment and poverty as well as the potential cures for these problems. They also examined why women receive such low wages. Bergmann identified discrimination in the labor market, mainly due to excluding women from certain jobs, as a major cause of low wages for women and of child poverty. To remedy these problems, she has advocated a strong affirmative action program. Bergmann was born in New York City in

1927 and grew up in the Bronx. Her father left the family while Bergmann was still a child, instilling in her a strong belief that women “should have their own money.” But when she received her BA in mathematics and economics from Cornell in 1948, she could not find a job and so could not be financially independent. Bergmann has said that she felt the problem was the job ads, which seemed to want only men for professional positions. At the suggestion of her mother, she enrolled at Teacher’s College, Columbia University. One year later she accepted a job offer from the Bureau of Labor Statistics. Encouraged by the economists at the Bureau to pursue graduate study, Bergmann went to Harvard, and received her PhD in economics in 1959.

In the early 1960s, Bergmann spent two years as a Senior Staff Economist on the Council of Economic Advisors, and three years at the Brookings Institution, a prestigious Washington think tank. From 1965 to 1988 she taught at the University of Maryland, before being hired by the American University in Washington, D.C., where she taught until her retirement. In the early 1970s she helped found the Eastern Economic Association (EEA), and in 1974 she became its first President.

Bergmann has made two main contributions to economics. First, she has argued that discrimination is a pervasive characteristic of labor markets. Second, she has argued against the traditional economic methodology of drawing conclusions from a set of unrealistic assumptions. Instead she has argued that economists need to go out into the real world and find out how economies actually work.

Bergmann has yet to receive the highest accolades and awards possible for an economist. She has not been made President of the American Economic Association and she has yet to make the list of Nobel Prize finalists. Part of this neglect certainly stems from the fact that she is a woman. Another likely factor is a feminist orientation that makes male economists rather uncomfortable. None the less, Bergmann has helped set the agenda for feminist economics, and her work has forced traditional labor economists to sit up and take notice.

UNIT EIGHT.**ACCRUAL ACCOUNTING****A. BEFORE YOU READ****1. CONCEPT MAPPING:**

Develop a "mind map" around the notion "ACCRUAL" to comprehend the relationship between the new concepts and the concepts you know.

2. BRAINSTORMING:

- a) Examine the title of the selection you are about to read.
- b) List all the information that comes to mind about this title.
- c) Use these pieces of information to recall and understand the material.
- d) Use this knowledge to reframe or reorder what you know, or to note what you disagree with, for further research.

3. SKIMMING THE TEXT:

Scan the text to comprehend the content structure.

4. VOCABULARY PREVIEWS:

Look up unfamiliar key words before reading to improve your background and comprehension.

5. PRE-QUESTIONS:

Write out a series of questions you expect to be answered when reading:

6. DEFINITION:

- a) What is adjustment / unearned revenue /classified balance sheet?
- b) How would I define single- and multistep income statement?
- c) What are explicit / implicit transactions?

7. CHARACTERISTICS:

- a) How would I describe accrual of unrecorded expenses?
- b) What do current assets and current liabilities look like?
- c) For which purpose do investors use working capital ratio?

8. EXPERIENCE:

- a) What experience have I had with accruals?

b) What can I imagine about managing working capital?

B. READING

- a) Highlight signal words, main idea sentences, phrases, headings and subtitles.
- b) Pay attention to specific plans of paragraph or text organization.
- c) Define the phrases in italics:

8.1. Maximizing the tax deduction for income in respect of a decedent.

To determine whether an item of income is IRD, one must first ascertain whether the income has been included on the decedent's individual income *tax return*. If it has not been subjected to *income tax*, one must determine how it would have been taxed to *the decedent*; a decedent's income reported by *the beneficiary* retains the same character it would have had in the hands of the decedent [IRC section 691(a)(3); Treasury Regulations section 1.691(a)-3]. The other consideration is the accounting method used by the decedent. In general, beneficiaries of *cash-basis decedents* must claim all IRD when actually received unless the income was constructively received on the decedent's date of death. On the other hand, the beneficiaries of an *accrual-basis decedent* must claim only qualified death benefits and deferred compensation owed to the decedent as IRD; other income, such as interest and wages accrued on decedent's date of death, would be reported on an accrual basis on the decedent's final Form 1040.

Specific examples of compensation owed to a beneficiary because of a decedent's death and treatment are as follows:

Wages and salaries. Salary or wages earned by a cash-basis decedent but unpaid as of his date of death constitute IRD. Bonuses for services rendered payable to a cash-basis decedent upon death are considered IRD if there was "substantial certainty" the *bonus* would have been awarded, unless paid directly to the recipient and thus considered a gift [O'Daniel's Estate v. Comm., 37 AFTR 1249

(1948)]. *Fringe benefits* are considered IRD unless they would not have been included in the decedent's *gross income*, such as payments for permanent loss or disfigurement. Postdeath payments to a third party are classified as IRD even though the decedent was not entitled to them [Estate of DiMarco v. Comm., 87 T.C. 653 (1986)].

Self-employment income. Outstanding income owed to a self-employed decedent (accounts receivable) is considered IRD but is not subject to self-employment tax.

Interest. IRD includes interest accrued but not paid to a cash-basis decedent.

Accrual-basis decedents do not consider accrued but unpaid interest as IRD, but instead claim the revenue on their final 1040.

Dividends. Decedents must be entitled to the dividend at death for the dividend to be considered IRD. A decedent would be entitled if the record date of the dividend precedes the decedent's date of death. If the record date is after the date of death, dividends are considered *ordinary income* to the decedent's beneficiary.

Rents and royalties. Rents accrued on a day-to-day basis since the last *rental payment* that remain unpaid on a cash basis at the decedent's date of death represent IRD. Unpaid royalties attributable to predeath time periods qualify for IRD treatment (Revenue Ruling 60-227, 1960-1CB262).

Example. Barney, a *cash-basis taxpayer*, died on June 30. Upon his death, Barney had accrued but not yet received \$150 in interest on bonds and \$500 from a rental house. Barney's beneficiary will include \$650 in IRD in his gross income when the interest and rent are received.

Sales proceeds. To be considered IRD, sales proceeds must meet the following requirements [Reg. IRC section 1.691(a)-2(b)]:

The decedent entered into the contract for sale of the property at hand;

The property must have been in a deliverable state upon the decedent's death (executor has only a passive or administrative role in the sale);

No material contingencies would have disrupted the sale; and

The decedent would have constructively or actually received the sale proceeds if he had lived (the sale could have been considered a receivable).

8.2. The True Federal Debt.

8.2.1. Make an English précis of the article.

8.2.2. Make a Ukrainian précis of the article.

Bruce Bartlett held senior policy roles in the Reagan and George H.W. Bush administrations and served on the staffs of Representatives Jack Kemp and Ron Paul. He is the author of the coming book “The Benefit and the Burden: Tax Reform – Why We Need It and What It Will Take.”

In our personal lives, we all understand that debts may take different forms. They aren’t limited only to credit cards or loans taken out from banks; they consist of various promises and financial obligations as well.

These might include commitments to pay for a daughter’s wedding or a child’s graduate school education, to provide the down payment on a sibling’s house or to care for aged parents. While these debts may not show up on anyone’s formal balance sheet, families are well aware of them, and failure to live up to them can be very costly indeed.

So, too, with the federal government. The national debt, which is the object of almost obsessive attention these days, is like a bank loan. It is an important part of national indebtedness, but only a small part. The vast bulk of the true debt is in the form of commitments to pay future benefits to retired federal employees, veterans, and Social Security and Medicare beneficiaries.

These commitments are generally invisible because the federal government operates on a cash basis. The federal budget is concerned only with income and outgo between two points in time — from Oct. 1 to Sept. 30, the fiscal year. Promises to pay benefits in the future

generally show up in the budget only when those benefits are actually paid.

For many years, it was almost impossible even to find a list of the federal government's financial commitments.

In 1949, the Hoover Commission recommended that the government move toward accrual accounting, which corporations are required to use, and book the full cost of programs on an annual basis. It wasn't until 1966 that Congress required the Treasury Department to publish the data.

But it was available only as an obscure mimeographed document, difficult to obtain, called the Statement of Liabilities and Other Financial Commitments of the United States Government, known only to budget experts.

In 1977, the General Accounting Office and the Treasury published the first consolidated financial statement of the United States government. It was limited in scope, and insufficient data existed to calculate many of the government's assets and liabilities, but it was an important start to providing a complete picture of federal indebtedness.

The successor to the consolidated financial statement is now called the Financial Report of the United States Government. The edition for the 2011 fiscal year was published on Dec. 23 by the Treasury's Financial Management Service to no fanfare.

The Obama administration, like previous administrations, had little interest in telling the American people that their debt problem was vastly worse than they thought. It buried the report on a day when most reporters were preparing for the holidays and unlikely to pore through a 254-page document filled with long columns of numbers punctuated with footnotes and accounting jargon.

8.3. Regulators are considering forcing companies to change their auditors.

8.3.1. Give a written translation of Paragraph I.

It was the year of the first X-ray, the first fatal car accident and the premiere of "La Bohème". And 1896 was also the year that Barclays,

a British bank, chose an ancestor of PwC as its auditor, a relationship unbroken to this day. Fidelity is the norm in auditing. GE, Procter & Gamble and Dow Chemical have also clocked up centuries with their auditors. The average tenure for an auditor of a British FTSE 100 company is 48 years. Two-thirds of Germany's DAX 30 have had their auditors for over 20 years.

Auditors say it helps to know their clients' business intimately. But companies that ran into trouble in the financial crisis—Lehman Brothers, AIG and GM, for example—were with their auditors for decades without obvious benefit to investors. And regulators are increasingly worried that chumminess with clients erodes auditors' independence. In August James Doty, the head of America's Public Company Accounting Oversight Board, floated an old idea, forcing firms to rotate audit firms after a set (and as yet undefined) period. Michel Barnier, the European Union's commissioner for the internal market, also raised mandatory rotation in a "green paper" last year and it is likely to feature in formal proposals this November.

The Big Four accounting firms—PwC, Deloitte, Ernst & Young and KPMG—say forced rotation will erode audit quality. There is some evidence for this. Audit problems can be gauged by factors like the size of the discretionary accruals that firms are allowed to make and the frequency with which accounts are restated. According to Billy Soo of Boston College, such red flags tend to pop up at the beginning of auditors' tenures, when accountants are too green to spot potential problems, and again well into the relationship—after about 14 years, he and colleagues calculate. But he says that the problems at the beginning are two to three times more common, and is sceptical about forced rotation.

Italy has had mandatory rotation since 1974; an auditor's term with a client is limited to nine years. A 2002 study found that 69% of Italian bosses were happy enough with this arrangement. But that's like polling foxes on which chicken coops they prefer. One of the authors, Mara Cameran of Bocconi University, found that mandatory

rotation tends to worsen audit quality. Other experiments have been too brief to produce firm conclusions.

Proposals abound for improving audit performance. Some are modest—greater use of explanatory paragraphs in audit reports, for example. Some are more dramatic: having auditors appointed by regulators, or stripping out audit firms from the multidisciplinary monsters the Big Four have become. Mandatory rotation would probably not do much harm; but it might well not do much good, either.

C. AFTER YOU READ

- a) Depending upon the content area, a discussion of the author of the particular work can be helpful to the understanding of it.
- b) What is the author trying to say?
- c) What is his point of view and his reason for writing the particular work?

D. LANGUAGE FOCUS

a) *Make it negative:*

1. They aren't limited only to credit cards or loans taken out from banks; they consist of various promises and financial obligations as well.
2. One of the authors, Mara Cameran of Bocconi University, found that mandatory rotation tends to worsen audit quality.

b) *Paraphrase the following:*

1. The successor to the consolidated financial statement is now called the Financial Report of the United States Government.
2. Audit problems can be gauged by factors like the size of the discretionary accruals that firms are allowed to make and the frequency with which accounts are restated.
3. The successor to the consolidated financial statement is now called the Financial Report of the United States Government.

c) *Relate the action to the past/present/future:*

1. In our personal lives, we all understand that debts may take different forms.
2. Proposals abound for improving audit performance.

d) Turn direct speech into indirect:

The Big Four accounting firms—PwC, Deloitte, Ernst & Young and KPMG—say: “Forced rotation will erode audit quality. There is some evidence for this. Audit problems can be gauged by factors like the size of the discretionary accruals that firms are allowed to make and the frequency with which accounts are restated.”

E. VOCABULARY ARRANGEMENT

- a) Arrange a semantic field of the words relating to the learning to the topic.
- b) Add words you probably already understand to connect relationships between what is known and the unknown.
- c) Supply the English equivalent to the Ukrainian from the list given below:

With the *сейфи* of many companies bulging with cash, an upsurge in corporate *злиття і поглинання* could easily be in the offing. And, just in time, a new study provides a caution for *акціонерів* who find themselves scratching their heads when, as frequently happens, an acquirer's stock takes a hit upon announcement of a corporate merger.

At the same time, the new research provides a vivid reminder of just how hazardous corporate acquisitions are for top management.

All too often, a quick *відмова* from the market is only the beginning of the acquiring company's *труднощі*, according to research in the current issue of the American Accounting Association's journal *Accounting Review*. The *початковий капітал* price drop frequently proves to be anything but a temporary *спад* and instead becomes the precursor to manipulation of earnings by company managers culminating in a financial *повторна заява* and dismissal of the CEO.

In the study of some 2,300 firms that made corporate acquisitions, three accounting professors from the University of Arizona's Eller

School of Management find that firms in the lowest *квартиль* in terms of stock market response to the news were about 50 percent more likely than other *компанії-покупці* to misstate and then have to restate their subsequent finances. This means that the firms failed to apply accounting rules properly or even engaged in outright *махінації*.

1. acquirers
2. coffers
3. fraud
4. initial stock
5. mergers and acquisitions
6. rebuff
7. restatement
8. setback
9. shareholders
10. woes

d) Suggest the correct translation:

To capture financial misreporting (A) related to negative market reaction and not to something else, the study restricts itself to misstatements started within a year of the mergers' conclusions, although the misreporting typically lasts for several years before being discovered and then restated. The professors allow for a one-quarter buffer (B) period between the M&A date and the beginning of the restatement measurement window to ensure that the acquirers' management had time to comprehensively (C) evaluate (D) the implications of the recent acquisition.

Overall, about 13 percent of the 2,300 companies in the sample issued financial restatements in the post-M&A period. Among companies in the lowest quartile in terms of market reaction, about 18 percent did so, compared to somewhat under 12 percent for the remaining three-fourths of the sample (E). While the study's findings are based on the first acquisition undertaken in the twelve-year period covered by the study, the results are robust (F) enough to remain unchanged even when the professors expand the scope of their analysis to include multiple transactions per acquirer.

Noting that "acquisitions are among the most significant corporate resource-allocation (G) decisions that managers make over their careers," the professors explain that, "unlike annual stock returns (H), which can vary for many reasons that are not controllable (I) by a firm's management, the announcement of an acquisition provides insight into shareholders' reaction to a specific managerial decision. . . . Managers who face heightened career concerns from a negatively received M&A transaction have strong incentives to report value creation in the acquisition implementation (J) stage. . . . Overall, [our] findings indicate that managers are more likely to issue misstated financial statements following poorly received M&A events in an attempt to improve post-M&A performance."

F. INFORMATION FILE

Share new information with your fellow students.

G. ADVANCE ORGANIZERS

Relate new reading material to something you already know, to your background or experiences. Ask your teacher for assistance in developing these issues.

H. GROUP DISCUSSIONS

Group discussions in and out of class will help you to discover what you bring to your reading, what your fellow students bring, as well as shared experiences.

If you find they have new background information, ask for more information from them.

I. QUIZ # 8

a. Define the following sentences "True" or "False":

1. Beneficiaries of cash-basis decedents must claim qualified death benefits and deferred compensation.
2. Beneficiaries of accrual-basis decedents must claim all IRD.
3. Interest and wages are reported on an accrual basis.

4. Post death third party payments are not classified as IRD.
5. Bruce Bartlet worked for three presidents.
6. Debts are usually limited to credit cards or loans taken out from banks.
7. The author compares the national debts to a bank loan.
8. Promises to pay benefits in the future are shown in the budget upon being paid.
9. Financial report of the US government succeeded the consolidated financial statement of the US government.
10. AIG and GM were among bankrupt companies in the US.

b. Give the opposite:

vast, invisible, obscure, limited, to restate, forced, brief, to improve, modest, to include.

c. Decode the following terms:

administration, obligation, commitment, edition, footnote, fidelity, float, mandatory, rotation, appoint.

d. Translate the following into English:

1. Накопичення великих запасів свідчить про спад ділової активності підприємства.
2. Великі понадпланові запаси призводять до заморожування оборотного капіталу, уповільнення його оборотності.
3. Крім того, виникають проблеми з ліквідністю, зростають складські витрати, що негативно впливає на кінцеві результати діяльності.
4. Водночас нестача виробничих запасів також негативно впливає на фінансовий стан підприємства, оскільки зростають ціни за терміновість постачання, зменшується виробництво продукції у зв'язку з його перервним характером, зростають ціни на сировинні ресурси, що призводить до зменшення величини прибутку.
5. Завдання фінансових менеджерів підприємства полягає в тому, щоб знайти оптимальне співвідношення між надмірно великими запасами, які спроможні привести до фінансових

труднощів, та надмірно малими запасами, небезпечними для стабільного виробництва.

6. Дане завдання може бути вирішене в умовах налагодженої системи аналізу й контролю за станом запасів на підприємстві.
7. Оскільки виробничі запаси займають найбільшу частку в структурі оборотних активів, стабілізація діяльності підприємства значною мірою залежить від їх стану, ефективного використання та оптимізації їх обороту.
8. Скорочення тривалості виробничого циклу призвело до зменшення залишків незавершеного виробництва внаслідок прискорення оборотності капіталу.
9. Ефективність управління використанням виробничих запасів можна оцінити за допомогою суми коштів додатково вивільнених з обороту чи додатково залучених в оборот для забезпечення виробничої діяльності підприємства.
10. Основними завданнями аналізу й контролю стану запасів є: забезпечення та підтримання ліквідності й поточної платоспроможності підприємства та контроль витрат виробництва через їх зменшення на створення та зберігання запасів.

e. Check the terms in the dictionaries. Learn and use in your discussion.

accrual basis	discretionary	internal market
audit performance	accruals	national debt
cash basis	down payment	qualified death
deferred	gross income	benefits
compensation	interest on bonds	

f. Revise/learn and use in your discussion.

accident	fanfare	precede
actually	fatal	prefer
administration	feature	premiere
administrative	federal	previous
again	fidelity	probably

aged	fill	problem
allow	final	proceed
almost	financial	produce
ancestor	find	program
annual	firm	promise
anyone	first	property
appointed	fiscal	proposal
arrangement	flag	provide
ascertain	float	public
asset	footnote	publish
attributable	forced	published
author	form	punctuate
available	formal	qualify
average	frequency	quality
award	fringe	raise
aware	future	receivable
balance	gamble	received
bank	gauge	recipient
basis	general	recommended
become	generally	record
beginning	gift	reform
beneficiary	good	regulations
benefit	government	regulator
bond	graduate	relationship
bonus	green	remain
boss	gross	render
brief	hand	rent
budget	happy	rental
bulk	harm	report
burden	head	reported
bury	holiday	reporter
business	house	represent
calculate	important	representative
can	impossible	required

card	improve	requirement
care	include	respect
cash	income	restate
century	increasingly	retain
certainty	indebtedness	retired
change	indeed	return
character	independence	revenue
chemical	individual	role
chicken	instead	rotate
chumminess	insufficient	rotation
claim	interest	royalty
classified	internal	ruling
client	intimately	salary
clocked	investor	sale
colleague	invisible	same
college	item	sceptical
column	jargon	school
commission	know	scope
commissioner	last	section
commitment	liabilities	security
common	like	self-employed
compensation	likely	self-employment
complete	limited	senior
concerned	list	serve
conclusion	little	service
congress	live	services
consider	loan	set
consideration	loss	sheet
consist	make	show
consolidated	management	sibling
constitute	mandatory	size
constructively	market	small
contingency	material	social
contract	maximize	spot

corporation	may	staff
cost	meet	start
costly	method	state
credit	mimeograph	statement
crisis	modest	stripping
date	monster	study
daughter	move	subject
day-to-day	much	subjected
decade	multidisciplinary	successor
decedent	national	such
deduction	need	take
deferred	number	tend
deliverable	object	tenure
department	obligation	term
determine	obscure	time
different	obsessive	toward
difficult	obtain	treasury
directly	obvious	treatment
discretionary	operate	trouble
disfigurement	ordinary	true
disrupted	other	two-thirds
dividend	outgo	unbroken
document	outstanding	undefined
dramatic	over	understand
earned	oversight	union
edition	parents	united
education	part	university
employee	party	unpaid
enter	passive	use
entitled	pay	used
erode	payable	various
estate	payment	vast
even	people	vastly
evidence	performance	very

example	period	veteran
exist	permanent	wages
experiment	personal	wedding
expert	picture	well
explanatory	point	X-ray
factor	policy	year
failure	polling	yet
family	potential	

J. FAMOUS ECONOMIST

Follow his example:

GARY BECKER (1930–)

Gary Becker is among the most original economists of the late twentieth century. His unique approach involves taking the economic assumption of rationality and applying it to a large number of social problems not normally studied by economists. This approach has led to many new areas of specialization within economics – the economics of crime and punishment, the economics of addiction, the economics of the family, human capital theory, and the economics of discrimination.

Becker was born in Pottsville, a small coal mining town in eastern Pennsylvania, in 1930 and grew up in Brooklyn, New York. His father was a small-business owner. Neither of his parents had more than an eighth-grade education. His father left school early to make money, and his mother did not continue her education because “girls were not expected to get much education”.

After graduating from high school he went to Princeton University, where he received a BA in economics. Becker majored in economics because he was attracted to the mathematical rigor of the subject. However, he was dissatisfied with his economic education at

Princeton because “it didn’t deal with important social problems”. Nevertheless, he decided to pursue graduate work in economics at the University of Chicago. There, Milton Friedman renewed Becker’s excitement about economics and how economic analysis could help understand real-world problems. Becker received an MA in 1953 and a PhD from the University of Chicago in 1955.

His doctoral dissertation on the economics of discrimination was supervised by Friedman and was cited by the Nobel Prize Committee as an especially important contribution to economics. Becker taught at the University of Chicago from 1954 to 1957, and then accepted a teaching position at Columbia University. Largely in response to the 1968 student riots, Becker left Columbia and returned to the University of Chicago in 1970. In 1983 the Sociology Department offered him a joint appointment, which he accepted. Since 1985 Becker has written a regular economics column in *Business Week*, explaining economic analysis and ideas to the general public. In 1992 he was awarded the Nobel Prize for Economic Science.

Becker has made two key contributions to economics. First, he has taken the assumptions economists make about human rationality and applied them to all forms of behavior, including matters that do not involve market transactions between individuals.

Becker analyzes marriage decisions and family relationships in a manner analogous to the traditional theory of the business firm. Individuals spend time searching for the spouse who will provide them with the maximum amount of utility, just as firms search for the best possible employee. Longer searches lead to better information about whether any possible spouse would be the most desirable one. Consequently, this theory predicts that those marrying young would be more likely to get divorced, a prediction that receives considerable support from data on marital stability. Also, just like a firm attempting to maximize profits, a family can maximize utility through specialization; thus the husband typically specializes in market production and the wife typically specializes in household production. One consequence of such specialization is that women receive lower

market wages. According to Becker, this is not due to discrimination, but rather is the result of decisions made within the household about which jobs will be performed by different family members.

Becker has expanded the range of economic analysis by looking at all individual choice as a form of rational decision-making. He has thus pioneered the study of discrimination, crime, education, and marriage by economists. Every time that he has ventured outside the traditional boundaries of economics he turns up unique and interesting results with clear and testable predictions. More important, his approach has opened up new avenues of research and new ways of viewing non-market human activities. For these reasons Becker remains the most creative economist of the late twentieth and early twenty-first centuries, as well as one of the most influential.

UNIT NINE.

STATEMENT OF CASH FLOWS

BEFORE YOU READ

1. CONCEPT MAPPING:

Develop a "mind map" around the notion "CASH FLOW" to comprehend the relationship between the new concepts and the concepts you know.

2. BRAINSTORMING:

- a) Examine the title of the selection you are about to read.
- b) List all the information that comes to mind about this title.
- c) Use these pieces of information to recall and understand the material.
- d) Use this knowledge to reframe or reorder what you know, or to note what you disagree with, for further research.

3. SKIMMING THE TEXT:

Scan the text to comprehend the content structure.

4. VOCABULARY PREVIEWS:

Look up unfamiliar key words before reading to improve your background and comprehension.

5. PRE-QUESTIONS:

Write out a series of questions you expect to be answered when reading:

6. DEFINITION:

- a) What are accounts payable / accounts receivable?
- b) Where do increases / decreases in cash fit?
- c) What is reconciliation statement?

7. CHARACTERISTICS:

- a) How would I classify activities affecting cash?
- b) What do noncash investing and financing activities look like?
- c) What are purposes of the cash flow statement?

8. EXPERIENCE:

- a) What experience have I had with using direct and indirect methods in accounting?
- b) What can I imagine about preparing a cash flow statement for a corporation?

B. READING

- a) Highlight signal words, main idea sentences, phrases, headings and subtitles.
- b) Pay attention to specific plans of paragraph or text organization.
- c) Define the phrases in italics:

9.1. The Cash Flow Statement: Problems with the Current Rules.

In recent years, the statement of cash flows has received increasing attention from readers of financial statements. The cash flow statement gives vital information about a company's *performance*, as well as its major activities during the year; however, some of the rules for preparation make the cash flow statement less useful than it should be.

The weaknesses with the cash flow statement can be divided into five sections:

1) differences between commercial and industrial companies versus *financial institutions*; 2) problems with *operating activities*; 3) problems with *investing activities*; 4) problems with *financing activities*; and 5) the role of *free cash flow*. The authors offer potential solutions to these problems that could improve the cash flow statement.

Financial Institutions Versus Commercial and Industrial Companies

In the case of financial institutions, the identification of the *core operating activities* is important, because they differ markedly from nonfinancial companies in this respect. Consider commercial banking institutions, where the core operations can be divided between *on-balance sheet activities* and *off-balance sheet activities*. The off-balance sheet activities consist primarily of *fee-based activities* for services rendered that do not create an asset or a liability. These create no problem for the cash flow presentation because they appear on the income statement and flow directly through the operating section of the cash flow statement.

The major problems are created by activities that have significant impact on the balance sheet. They are: 1) managing the *accounts of depositors*, which appears on the balance sheet as liabilities; 2) lending money to customers, which appears on the balance sheet as assets; and 3) trading in securities, which appears on the balance sheet as assets.

If these are a bank's core operations, one would expect them to be in the operating activities section of the cash flow statement. Instead, customer deposits are listed as financing activities, while loans to customers and securities activities appear in the investing activities section. As a result, the figure for "cash provided by operations" is meaningless. In other words, the breakdown of cash flows into operating, investing, and financing activities—as presently constituted for financial institutions—is not useful to readers of the financial

statements. A totally new form of presentation is needed to provide useful cash flow information.

It is somewhat ironic that FASB, in Statement of Financial Accounting Standards (SFAS) 102, Statement of Cash Flows—Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities—an amendment of FASB Statement No. 95—decided to use the fact that financial institutions’ securities trading is an operating activity as the basis for requiring that commercial and industrial companies treat securities similarly. This is unfortunate for users of financial statements, because it makes it easy for a company to manipulate cash from operations by moving funds between *trading securities* and *cash equivalents*, which are treated as part of cash rather than as investments.

9.2. Examining Preferences in Cash Flow Statement Format.

9.2.1. Make an English précis of the article.

9.2.2. Make a Ukrainian précis of the article.

Research has shown that a relationship exists between the presentation of financial information and users’ decisions. A study conducted by Stock and Watson (1984) concluded that judgment can be influenced by the accounting report format used. Hard and Vanecek (1991) concluded that different formats are appropriate depending on the user’s task.

Cash flow information is integral to investment and credit decisions. With SFAS 95, FASB has provided better access to cash flow information. While earnings information is extremely important, balance sheet and cash flow items have value to financial analysts as well. A survey of investors revealed that investors’ appreciation for the value of the cash flow information has increased significantly and is useful in the assessment of investment decisions (Epstein and Pava, 1992).

Since the issuance of SFAS 95, the debate has continued over the virtues of the direct versus the indirect format. Advocates for the direct format claim it better fulfills clients’ information needs because of the

breakdown of major classes of cash inflows and outflows (Collins, 1990). In addition, the format is simpler to understand and provides performance evaluation via the expected and actual cash flows (Bohannon and Edwards, 1993). Those in favor of the indirect method point out that one of the major reasons cited in SFAS 95 for requiring a statement of cash flows is to assist the users in determining the reasons for the difference between net income and associated cash receipts and payments to provide a basis for evaluating the quality of income (Carslaw and Mills, 1991).

Survey of User Preferences

Exhibit 2 presents a cross-tabulation of the survey results. In the manager category, 82% of CEOs, CFOs, and managers preferred the indirect method, compared with 70.3% of investors and analysts.

Overall, 78.9% of users prefer the indirect method. Although investors reported a preference for the indirect method, they showed a greater preference for the direct method than managers (29.7% versus 18%).

Findings

Exhibit 3 cross-tabulates the format by different respondents' perspectives. Exhibit 3 indicates the percent of respondents who agree or disagree under different reasons. An analysis of the five possible reasons for the preferred format is summarized as follows:

Familiarity with the format was more important to those preferring the indirect method. This may be because the indirect format more closely resembles the statement of change in financial position previously required. Managers considered familiarity slightly more important than did investors (85.7% versus 80.8%). For those preferring the direct method, however, investors placed more importance on familiarity than did managers (50% versus 39%).

Regarding the ability to see the difference between net income and cash from operations, 82.7% of managers ranked this factor as important, compared with only 72% of investors. Investors preferring the direct method also placed importance on seeing the difference

between net income and cash from operations. This information would appear in the supplemental reconciliation of net income and net cash.

The main difference between the indirect and direct methods is that cash paid can be determined using the direct method. It is no surprise that, for those preferring the direct method, this feature was considered very important (95.6% for managers and 100% for investors). For respondents preferring the indirect method, seeing cash paid was not important (30.8%).

Whether the indirect or direct method is preferred, one might expect consistency to be somewhat important. Respondents that preferred the direct method, however, did not put much emphasis on consistency (52.2% and 50%). Perhaps the need to see items such as cash paid is considered more important than the need for consistency.

Regardless of the method preferred, investors seemed to place more importance than did managers on change in accounts receivable and payable (92.3% versus 78.8% for indirect and 60.0% versus 38.1% for direct).

Respondents in different business sectors emphasized different factors. Of the four items that most likely reflect a preference for the indirect method, familiarity is, on average, more important (84%) than consistency (82.2%), seeing change in accounts receivable and payable (80.8%), and understanding the difference between net income and cash from operations (80.6%).

9.3. Reporting of Operating Activities.

9.3.1. Give a written translation of Paragraph I.

Although the accounting profession talks about the importance of comparability of financial information, the fact that interest paid is treated as an operating activity while dividends paid is treated as a financing activity makes it difficult, if not impossible, to compare the performance of companies that make different financing choices. Analysts have resorted to their own measures to make such comparisons. One of the most common is earnings before interest, taxes, depreciation, and amortization (EBITDA); however, other

means to compare exist, with no commonly agreed upon measure for all to use. Up to now, the accounting profession has simply ignored the issue. The only analytical measure that has been dealt with by the accounting profession is earnings per share, because this must be presented on the income statement.

A second problem affecting the operating activities involves the financing of receivables. Years ago, receivables were financed through borrowing, with receivables pledged as collateral. The monies received were treated as a financing activity, which was appropriate. In recent years, however, increasing concern on keeping debt off the balance sheet has led companies to replace the above treatment with sales of receivables, with and without recourse. Economically, these activities still represent a form of financing. The accounting rules, however, allow these transactions to be treated as operating activities instead of financing activities. This makes these transactions doubly attractive to companies: They keep the borrowing off the balance sheet and inflate cash provided by operations. Economically, the pledge of accounts receivable is the same as the sale of accounts receivable, but they are treated differently in the cash flow statement. This treatment is inconsistent.

Another problem that causes distortions in operating cash flows stems from the treatment of dividends received as an operating activity rather than as an investing activity. When a company has significant investments in affiliated companies, it has the ability to manipulate its own “cash provided by operations” by increasing the dividends it receives from such companies. This simple technique has been used by many companies to inflate operating cash flows. Furthermore, dividend income comes from investments. If the former is shown in the section of operating activities, and the latter placed in investing activities, the financial statement reader will not be able to visualize the whole picture of investment strategy.

Another inconsistency involves “capital leases.” It is true that, on day one, a lease is a noncash transaction. However, the payment for the lease principal and interest in later days is undoubtedly a cash flow

event in a single transaction. And yet, the payment for the principal is treated as a financing activity in one section, while the payment for the interest is shown as an operating activity in another. One transaction is broken into two parts; it has lost its wholeness. It would be more informative if both were brought together as one transaction under financing activities.

Another potentially serious distortion to operating cash flows comes from the rule that requires taxes to be treated as an operating activity, even when the gain being taxed is included in investing activities. For example, consider a company that has low operating profit but has a large gain from the sale of investments. The bulk of the pretax income is from this gain, and therefore the bulk of the income tax expense is related to this gain. On the statement of cash flows, however, the gain is removed from operating activities and included under investing activities instead, as part of the proceeds from the sale of the investments. But the income tax expense on that gain remains in the operating activities sections, generating substantial negative cash from operations. This clearly is misleading, and violates the matching rules required on the income statement.

Another serious distortion involves deferred employee compensation. Many companies pay deferred compensation in the form of stock options that are off the balance sheet when issued. When the company later redeems the options by paying cash, the move is treated as a financing activity—as though it were a capital allocation, when in reality this payment is not any different from wages. As such, it should be treated as an operating activity.

Finally, as mentioned earlier, SFAS 102 requires cash flows from trading securities to be treated as an operating activity, rather than an investing activity, allowing companies to easily shift cash flows between years by switching securities between “trading securities” and “cash equivalents.”

C. AFTER YOU READ

- a) Depending upon the content area, a discussion of the author of the particular work can be helpful to the understanding of it.
- b) What is the author trying to say?
- c) What is his point of view and his reason for writing the particular work?

D. LANGUAGE FOCUS

a) Make it negative:

- 1. Familiarity with the format was more important to those preferring the indirect method.
- 2. This may be because the indirect format more closely resembles the statement of change in financial position previously required.

b) Paraphrase the following:

- 1. Regardless of the method preferred, investors seemed to place more importance than did managers on change in accounts receivable and payable (92.3% versus 78.8% for indirect and 60.0% versus 38.1% for direct).
- 2. On the statement of cash flows, however, the gain is removed from operating activities and included under investing activities instead, as part of the proceeds from the sale of the investments.

c) Relate the action to the past/present/future:

- 1. Many companies pay deferred compensation in the form of stock options that are off the balance sheet when issued.
- 2. And yet, the payment for the principal is treated as a financing activity in one section, while the payment for the interest is shown as an operating activity in another.

d) Turn direct into indirect:

Researchers maintain: "A relationship exists between the presentation of financial information and users' decisions. The judgment can be influenced by the accounting report format used. Different formats are appropriate depending on the user's task. Cash flow information is integral to investment and credit decisions. With SFAS 95, FASB has provided better access to cash flow information. While earnings

information is extremely important, balance sheet and cash flow items have value to financial analysts as well.”

E. VOCABULARY ARRANGEMENT

- a. Arrange a semantic field of the words relating to the learning topic.
- b. Add words you probably already understand to connect relationships between what is known and the unknown.
- c. Supply the English equivalent to the Ukrainian from the list given below:

With the changing technological landscape, what must accountants do to stay *конкурентноспроможними* in the future, and how will technology change the future role of the accountant?

Increase Value-Add Services to Retain Clients – Compliance work is getting more and more standardized and streamlined due to technological *прогресу*. If you can shift time and resources from these *купівлі-продажу* services, focus more on becoming an *незамінний* advisor. Here are some рекомендації on how to become a *надійним* business advisor to clients. It is no light commitment and might require a *моделі* shift by some, but balancing compliance work and helping clients make strategic decisions to protect and grow their business is the role of the accountant for the *очікуваному майбутньому*.

Craig Weeks, a consultant to accounting firms, shares what he has seen in the industry and what role he thinks accountants should play, “One *виклик* the accounting field faces today is coming to grips with the incredible amount of financial detail their clients are both receiving and generating. The new frontier for accounting/tax related information services is filtering, *збір, встановлення пріоритетів*, and then presenting the most vital data in a format that is readily usable by the management team.”

1. competitive
2. advances

3. commoditized
4. indispensable
5. tips
6. paradigm
7. foreseeable future
8. challenge
9. assembling
10. trusted

d. Suggest the correct translation:

Differentiate Your Firm – It is normal now for the buying process to begin online with a search engine (A). What makes your firm different from the firms listed ahead of you in search results or from the firms down the street? Do something to stand out when speaking with prospects (B), and prospects will spread the word. For the initial (C) meeting, familiarize yourself with their industry beforehand, provide something more to take home than your marketing brochure (D) (maybe a one page document with a few areas of focus and strengths (E)), and follow-up with a handwritten thank you note.

Many firms, like WithumSmith+Brown in Red Bank, NJ, have embraced the opportunity to utilize (F) technology to differentiate their overall services to current clients. Justin O’Horo, Senior Manager at WS+B, calls it his duty: “Our responsibilities as CPAs command that we are our clients’ most trusted business advisors (G), and with the abundance of technology solutions (H) available it is critical that we use the right applications (I) to help us maintain that status... [We are] relying on a multitude of additional platforms for the dual purposes of adding efficiency and effectiveness to our required procedures while simultaneously providing value-added (J) service to our clients.”

F. INFORMATION FILE

Share new information with your fellow students.

G. ADVANCE ORGANIZERS

Relate new reading material to something you already know, to your background or experiences. Ask your teacher for assistance in developing these issues.

H. GROUP DISCUSSIONS

- a) Group discussions in and out of class will help you to discover what you bring to your reading, what your fellow students bring, as well as shared experiences.
- b) If you find they have new background information, ask for more information from them.

I. QUIZ # 9

a. *Define the following sentences "True" or "False":*

1. The readers can learn about financial performance of a company from the cash flow statement.
2. The on-balance sheet activities are fee-based.
3. Lending money to customers appears on the balance sheet as assets.
4. Dividing cash flow into operating, investing and financial activities is beneficial for the users of financial statements.
5. Accounting report formats can influence judgement.
6. It is the direct format that is simpler to understand.
7. About 79% of users prefer the indirect method.
8. The difference between net income and cash from operations is more important for investors than managers.
9. Cash paid can be determined using both direct and indirect methods.
10. Stock options are off balance sheet when issued.

b. *Give the opposite:*

influence, appropriate, integral, significantly, major, indirect, supplemental, to determine, impossible, to ignore.

c. *Decode the following terms:*

presentation, to conduct, virtue, to fulfil, cross-tabulation, preference, familiarity, rank, feature, respondent.

d. Translate the following into English:

1. Звіт про рух грошових коштів – це звіт, який відображає надходження і видаток грошових коштів у результаті діяльності підприємства у звітному періоді (місяць, квартал, рік).
2. Рух коштів відображається в звіті про рух грошових коштів в розрізі трьох видів діяльності підприємства: операційної, інвестиційної та фінансової.
3. Звіт про рух грошових коштів надає додаткову інформацію для користувачів фінансової звітності щодо змін, що сталися у балансі підприємства, а також відносно того, наскільки суттєвими є статті доходів та витрат.
4. Звіт про рух грошових коштів, у поєднанні з іншими фінансовими звітами, надає змогу оцінити здатність підприємства генерувати майбутні позитивні грошові потоки та зробити висновки щодо спроможності підприємства погашати свої зобов'язання та сплачувати дивіденди.
5. Інформація про зміни в грошових коштах – це інформація про джерела надходжень грошових коштів протягом звітного періоду та напрями їх використання.
6. Всім підприємствам необхідно мати в наявності грошові кошти для оплати рахунків за послуги, виплати заробітної плати працівникам, придбання матеріальних цінностей тощо.
7. Грошові кошти на рахунку в банку та в касі підприємства – це найбільш ліквідний актив підприємства.
8. Еквіваленти грошових коштів – це короткострокові високоліквідні фінансові інвестиції, які вільно конвертуються у певні суми грошових коштів і які характеризуються незначним ризиком зміни їх вартості.
9. Внутрішні зміни у складі грошових коштів відбуваються на підприємстві як наслідок управління грошовими коштами і

не є частиною операційної, інвестиційної та фінансової діяльності.

10. Величина прибутку підприємства, обрахована за методом нарахування, розглядається як найкращий показник, що вимірює результативність діяльності підприємства.

e. Check the terms in the dictionaries. Learn and use in your discussion.

accounts receivable amortization capital allocation capital lease cash equivalents cash payments cash provided by operations cash receipts collateral commercial banking institution	customer deposits deferred employee compensation depreciation dividends earnings before interest earnings per share gain taxed income tax expense	inflows and outflows interest paid operating cash pretax income receivables reconciliation sale of investments statement of cash flows stock options trading securities
---	---	--

f. Revise/learn and use in your discussion.

ability able access account activity actual addition advocate affect affiliated ago agree agreed	expect expected expense extremely fact factor familiarity favor feature fee-based figure financed financial	pledged point position possible potential potentially prefer preference preferred preparation presentation presented presently
--	---	--

all	financing	previously
allocation	flow	primarily
allow	follow	principal
amendment	familiarity	problem
amortization	form	proceeds
analysis	format	profession
analyst	former	profit
analytical	free	provide
appear	from	put
appreciation	fulfill	quality
appropriate	fund	ranked
assessment	furthermore	reader
asset	gain	reality
assist	generate	reason
associated	give	receipt
attention	hard	receivable
attractive	however	received
author	identification	recent
average	ignored	reconciliation
balance	impact	recourse
banking	importance	redeem
basis	important	reflect
borrowing	impossible	related
both	improve	relationship
breakdown	include	remain
bulk	income	remove
business	inconsistency	render
capital	inconsistent	replace
case	increased	report
cash	increasing	reported
category	indicate	reporting
cause	indirect	represent
certain	industrial	required
change	inflate	resemble

choice	inflow	resort
cite	influence	respect
claim	information	respondent
class	informative	result
classification	instead	reveal
clearly	institution	role
client	integral	rule
closely	interest	sale
collateral	involve	sales
come	ironic	same
commercial	issuance	section
common	issue	sector
commonly	item	security
company	judgment	see
compare	keep	serious
compared	keeping	services
comparison	large	share
compensation	latter	sheet
concern	lease	shift
conclude	lending	should
conduct	liability	significant
consider	likely	significantly
consist	listed	similarly
consistency	loan	simple
constitute	main	simply
continued	major	single
core	make	slightly
create	manager	solution
created	managing	some
credit	manipulate	somewhat
cross-tabulate	many	standard
cross-tabulation	markedly	statement
current	match	stem
customer	may	still

day	meaningless	stock
deal	means	strategy
debate	measure	study
debt	mention	substantial
decision	method	such
deferred	misleading	summarize
depend	money	supplemental
depositor	move	surprise
determine	moving	survey
differ	much	switch
difference	need	technique
different	needed	totally
differently	negative	trade
difficult	net	transaction
direct	new	treat
directly	noncash	treated
disagree	nonfinancial	treatment
distortion	now	true
divided	off	under
dividend	offer	understand
doubly	operating	understanding
during	operation	undoubtedly
earnings	option	unfortunate
easily	outflows	use
easy	own	useful
economically	part	user
emphasis	pay	value
emphasized	payable	versus
employee	paying	via
enterprise	payment	violate
equivalent	percent	virtue
evaluate	performance	visualize
evaluation	perhaps	vital
even	perspective	wages

event	picture	weakness
examine	place	well
example	place	wholeness
exist	pledge	year

J. FAMOUS ECONOMIST

Follow his example:

LEON WALRAS (1834–1910)

Leron Walras is known primarily for developing general equilibrium analysis. He took a very abstract and theoretical problem about how all markets in an economy are related, applied sophisticated mathematics to the problem, and arrived at a solution. His solution showed that all the markets in the economy could simultaneously achieve equilibrium.

Walras was born in Evreux, France (around 90 kilometers west of Paris) in 1834. His father, a teacher and an economist, stressed that mathematics would come to be used increasingly in the social sciences. Walras revered his father and wanted to live up to the high expectations that his father set for him. So, after graduating from high school, Walras applied to the prestigious Ecole Polytechnique. Ironically, he was turned down because he lacked the necessary background in mathematics and twice failed the entrance examination. As a result, Walras wound up at the Ecole des Mines studying engineering rather than social science. Not really interested in engineering, he spent his time reading literature, philosophy, art, history, and the social sciences. Eventually he dropped out of school. Walras then started writing novels, but he was not successful at this endeavor either.

In 1858, during an evening walk, his father suggested that making the social sciences akin to the natural sciences was one of the major jobs remaining to be accomplished in the nineteenth century. Walras promised his father he would give up writing novels and devote his life

to developing a scientific economics. Inspired by his reading of Cournot, as well as by his father, he decided to make this scientific economics a mathematical economics.

Progress towards this end, however, was slow and hard. Walras wrote articles for economics journals, but all he had to show for his efforts was a pile of rejection letters. None the less, Walras learned more mathematics and he continued to praise the virtues of making economics more quantitative. During the 1860s, while working on his mathematical economics, Walras supported himself as a newspaper columnist and as an administrator for a railway company. Finally, his efforts began to pay off. In 1870 he received a teaching position with the law faculty of the Lausanne Academy. Walras was not happy teaching at Lausanne. Neither his few students nor his law faculty colleagues were especially interested in mathematical economics. However, Walras persevered and continued to write. He sent his articles, free of charge, to others, financing this work with the inheritance he received following the death of his mother. These articles helped Walras achieve international recognition and numerous awards for his contribution to economic science. Towards the end of his life he was made an honorary member of the American Economic Association. Walras made several important contributions to economics. Along with Jevons and Menger, he was one of several independent discoverers of the notion of marginal utility. He was one of the first and strongest advocates of methodological individualism, the belief that all explanations of economic phenomena should be based upon individual acts of choice. But Walras is best known for constructing a general equilibrium economic model, which views the economic system as a set of interrelated mathematical equations. Walras then explained how to solve this set of equations for all prices and quantities. The notion that different sectors of an economy are related to each other has a long history in economics; the idea goes back at least as far as Cantillon and Quesnay. Walras added two important things to this vision – a mathematical representation of how

all markets were interrelated, and an argument that economies would move towards equilibrium in all markets.

Walras forced economists to focus on the interrelationships among different markets. He formalized the notion of general equilibrium, and showed economists how it was possible to study an interrelated economy as a set of mathematical equations. He raised the important issues of convergence to equilibrium and the stability of economic equilibrium, and he attempted to explain how economies could reach general equilibrium. For these achievements, Walras must certainly be regarded among the half dozen most important figures in the history of economics.

UNIT TEN.

INVENTORY/COST OF GOODS SOLD

A. BEFORE YOU READ

1. CONCEPT MAPPING:

Develop a "mind map" around the notion "INVENTORY" to comprehend the relationship between the new concepts and the concepts you know.

2. BRAINSTORMING:

- a) Examine the title of the selection you are about to read.
- b) List all the information that comes to mind about this title.
- c) Use these pieces of information to recall and understand the material.
- d) Use this knowledge to reframe or reorder what you know, or to note what you disagree with, for further research.

3. SKIMMING THE TEXT:

Scan the text to comprehend the content structure.

4. VOCABULARY PREVIEWS:

Look up unfamiliar key words before reading to improve your background and comprehension.

5. PRE-QUESTIONS:

Write out a series of questions you expect to be answered when reading.

6. DEFINITION:

- a) What is inventory valuation / gross profit?
- b) What is the objective of lower-of-cost-market method?
- c) What are the basic concepts of inventory accounting?

7. CHARACTERISTICS:

- a) How would I describe the effects of inventory errors on financial statements?
- b) What does perpetual inventory system look like?
- c) What are the steps of calculating the cost of the merchandise acquired?

8. EXPERIENCE:

- a) What experience have I had with evaluating inventory turnover?
- b) What can I imagine about determining inventory costs for a manufacturing company?

B. READING

- a) Highlight signal words, main idea sentences, phrases, headings and subtitles.
- b) Pay attention to specific plans of paragraph or text organization.
- c) Define the phrases in italics:

1.1. The end of artificial scarcity.

Without something like a war — or an extra-terrestrial pursuit — the system can only be rebalanced by a boom in *credit supply* and/or *artificial scarcity* enforced by manufacturers themselves. Only the most profitable survive, whilst those that are inefficient shut down — leading to a temporary *shortage of goods*.

Refining in the US today is an excellent example of this phenomenon. Faced with the prospect of *diminishing margins* — as more and more cheap US crude became available — it made sense for

the least efficient refineries to shut down to restore scarcity in the *end product market* (especially in the most profitable and important markets which set prices). This has now been achieved. Capacity is insufficient to meet demand in specific *bottle-necked areas*, despite barrels of *crude inventory* piling up all over the country.

Yet even these moves have not been enough to restore equilibrium. The disparity between those markets which are being made artificially scarce and those which can't be managed is becoming ever more evident.

What's more, with shipping rates now negative, it's become ever easier to restore supply to those areas where supply is being restricted artificially. The scarcity manipulators are finding it harder and harder to convince the world there is a shortage of goods.

It's worth pointing out that every industry has its own manipulation technique in this regard:

Too many commodities = *stockpile surplus in dark inventory*.

Too many garments, clothes and retail goods = create fashion to make old product seem outdated.

Too many pharmaceuticals = create patents to reward inventors.

Too much free music = create copyright laws to restrict free access.

Too much free media = enforce paywalls and subscriptions.

Too much food = convince society to constrain itself by making thin beautiful. Destroy food rather than give it away for free.

Too much free energy = stop subsidising it, let inventory go to waste, bankrupt it.

Yet it is logical that eventually the dam will bust. All these goods will flow onto the market for free. Once they do, only those offering "quality" will be able to justify any charges at all. And even these will gradually become deflated as the system becomes ever more efficient at making quality product. And when that happens money itself will die, because who needs to save for their old age, if over the time the system is going to provide ever more "stuff" you need for free or almost for free. Not convinced?

We'd argue the signs that this is happening are already appearing.

In Greece, Peer2Peer networks have moved in to help the cash constrained meet their daily needs via direct barter mechanisms. Meanwhile, over in Spain some villages are working for free, as they find that their direct living needs are provided for in other ways and that the system is looking after them despite the debt crisis. A couple of choice examples, we know. But there will be more.

On the extreme end, an entire sub-culture known as *freeganism* has developed around the premise that society wastes too many goods, and that if you outwit the system (legally) you can meet most of your basic needs for free.

Platforms like freecycle, meanwhile, have even ensured that the philosophy can be adhered to without the need to scourge through society's bins. All the while, society's moral conscience gets increasingly concerned about how much the system wastes day-to-day.

We'll bring you our thoughts on what it means to work in a post-scarcity environment in a follow-up post. We'll also explain why defaulting on debt might not even matter anymore — since your needs will likely be met regardless.

10.2. Merger Lawsuits Yield High Costs and Questionable Benefits.

10.2.1. Make an English précis of the article.

10.2.2. Make a Ukrainian précis of the article.

Del Monte Foods agreed in November 2010 to sell itself for \$5 billion. Shareholders filed a lawsuit, which was settled in October 2011 for \$89 million.

Robert M. Daines is the Pritzker Professor of Law and Business at Stanford Law School. Olga Koumrian is a principal at Cornerstone Research, a financial and economic consulting firm.

Shareholder objections to mergers have become commonplace, requiring many companies to settle lawsuits for millions of dollars. Last October, Del Monte Foods agreed to settle such litigation for \$89

million. This April, Delphi Financial Group agreed to a \$49 million settlement.

Litigation can be effective in protecting shareholder interests in some deals, but questioning every deal seems to impose excessive costs on the companies involved and their shareholders. Shareholder plaintiffs now challenge virtually every large merger. According to a study by Cornerstone Research and Robert M. Daines, companies that were sold for more than \$100 million in 2010 and 2011 reported more than 1,500 lawsuits filed against them and the directors of the target companies. At least 91 percent of these mergers were challenged. This year, 175 lawsuits have been reported for 36 of the 40 deals announced from January to April. The allegations in each case are similar—the shareholders of the target company were paid too little and did not receive enough information about the deal, and their boards did not adopt a good sale process.

Merger litigation intensified in the recent recession. Though deal activity slowed drastically in 2008 and 2009, more than 70 percent of large mergers in 2008 and more than 90 percent in 2009 were litigated. Merger activity recovered somewhat in 2010 and 2011, but plaintiff lawyers' strategy of challenging almost every deal persisted. The same merger deal is subject to filings by many plaintiffs and in multiple courts. In 2011, any given deal faced an average of six lawsuits.

In an effort to avoid the extra cost of parallel litigation in multiple courts, some companies are changing their bylaws to mandate all shareholder litigation be brought in a court of their choosing.

Still, boards face enormous pressure to complete the deal quickly, and plaintiffs capitalize on this time pressure when they request the courts to stop or delay the merger. More than 80 percent of lawsuits challenging deals in 2010 and 2011 were settled—20 percent in the first month and 60 percent before the deal was closed. Of the 36 companies announcing mergers in January to April 2012, 12 have already settled litigation.

Most boards decide to settle for an amount covered by directors insurance. This is a significant change from 1999 and 2000, when less

than 30 percent of merger-related lawsuits settled and more than half were dismissed by plaintiffs.

The cost of these suits is pretty clear. Companies typically agree to pay plaintiffs' lawyer fees (about \$1.2 million on average in the last two years) and must usually cover their own legal costs.

What is less clear is how shareholders are benefiting from litigation. A decade ago, more than half of the settlements included cash payments to shareholders of the companies being acquired, while only a few—10 percent—required companies to make additional disclosures before a shareholder vote. However, in the last two years, these numbers have reversed: a modest 5 percent of settlements produce more cash for shareholders, while more than 80 percent of suits required only additional disclosures. In the last year, 162 such suits have been settled, but only two deals were voted down by shareholders after additional disclosures were made.

Not all cases settle for minimal amounts. The largest shareholder settlement of the last two years was reached in October 2011 in the Del Monte Foods buyout. The company and its merger advisory firm agreed to pay \$89 million to shareholders and \$25 million to plaintiffs' lawyers. Vice Chancellor J. Travis Laster of the Delaware Court of Chancery rebuked the Del Monte board for not scrutinizing its financial advisers for conflicts of interest.

The most recent large settlement, \$49 million announced last month by Delphi, related to a deal that the Delaware Chancery Court criticized for permitting what it viewed as another conflict of interest—a premium offered to Delphi's founder and chief executive for the share class he owned compared with the price to common shareholders.

The issue of real, or perceived, conflicts of interest on the part of executives or advisers arose in a small minority of deals. A broader question is whether the rising cost of merger litigation requires legal reform. Although boards have insurance and other means to defray the cost of merger litigation, these costs are also ultimately borne by

shareholders (who must pay for the insurance premiums). Broader action may be needed to make a difference.

In 1995, Congress passed the Private Securities Litigation Reform Act to limit frivolous lawsuits brought under the federal securities laws. The act required plaintiffs to present some proof of fraud before they could initiate a suit.

Similar federal reform may be needed to tame the recent upswing in deal litigation. While litigation is sometimes necessary and valuable, challenging every deal is unlikely to be in shareholder interests.

10.3. Impact on the Income Approach to Valuation.

10.3.1. Give a written translation of Paragraph I.

For many companies in the homebuilding industry, particularly those holding significant amounts of real estate, the purchase of their land holdings during different portions of the business cycle can make assumptions about earnings very difficult. For example, holdings that were purchased prior to the boom in real property prices and that are now being sold can create the appearance of a very high earnings base. That creates the illusion of a very high company value under the earnings-capitalization model if adjustments are not made.

The earnings-capitalization model estimates the value of a company by “capitalizing” the company’s base earnings. Base earnings are generally calculated by taking an average of adjusted accounting earnings. In this application, historical earnings are of interest only to the extent that they are representative of expected future earnings. Adjusted accounting earnings or normalized earnings are used to predict the future benefits that will accrue to the owners of the company. If historical earnings do not approximate future earnings, then an adjustment is necessary to arrive at a satisfactory estimate of future earnings.

A discounted cash flow method might also be used. Typically, projections are made for a few years, then a terminal value is calculated. However, the distortions resulting from the purchase of land at different times in the business cycle and the timing of future

increases in land values can lead to similar problems in forecasting and in distinguishing holding gains. With proper adjustments, using these two methods can give the valuator a corroboration of the estimated value.

Comparing the recent past to the expected future of the residential construction industry suggests that significant adjustments are necessary. Separate adjustments are necessary for each of the following:

Removal from the earnings base of the effect of realized holding gains due to the dramatic increase in the value of real estate in the past few years.

Recognition of deferred tax liabilities for unrealized holding gains on assets held where their fair market value is in excess of their tax basis.

Building in the potential of future price declines and consequent holding losses until there is a market bottom.

C. AFTER YOU READ

- a) Depending upon the content area, a discussion of the author of the particular work can be helpful to the understanding of it.
- b) What is the author trying to say?
- c) What is his point of view and his reason for writing the particular work?

D. LANGUAGE FOCUS

a) *Make it negative:*

1. The company and its merger advisory firm agreed to pay \$89 million to shareholders and \$25 million to plaintiffs' lawyers.
2. That creates the illusion of a very high company value under the earnings-capitalization model if adjustments are not made.

b) *Paraphrase the following:*

1. Comparing the recent past to the expected future of the residential construction industry suggests that significant adjustments are necessary.

2. Base earnings are generally calculated by taking an average of adjusted accounting earnings.
3. All the while, society's moral conscience gets increasingly concerned about how much the system wastes day-to-day.

c) *Relate the action to the past/present/future:*

1. For many companies in the homebuilding industry, particularly those holding significant amounts of real estate, the purchase of their land holdings during different portions of the business cycle can make assumptions about earnings very difficult.
2. If historical earnings do not approximate future earnings, then an adjustment is necessary to arrive at a satisfactory estimate of future earnings.

d) *Turn direct into indirect:*

The Congressman stated: "The Private Securities Litigation Reform Act The act required plaintiffs to present some proof of fraud before they could initiate a suit."

E. VOCABULARY ARRANGEMENT

- a) Arrange a semantic field of the words relating to the learning to the topic.
- b) Add words you probably already understand to connect relationships between what is known and the unknown.
- c) Supply the English equivalent to the Ukrainian from the list given below:

First of all, do you have an ideal client profile of whom you actually want to win as a new client? You need to know whom you are going to target before you start contacting people. Otherwise, you can end up winning the wrong type of new business client at the wrong margin.

Compile a list to include e-mail addresses of all those you would like to have as new clients. Most practitioners can readily *зіставляти* such a target list from businesses they have quoted for before (what I call "near misses"), good referral contacts and *бази даних* which have previously been bought in and edited for *продаж товарів по*

телефону purposes or similar. Look at local industrial estates and *бізнес парки* and collate data on those firms you think you would like to look after.

Decide what makes you special as an accountant and advisor. The *пропозиція* of ‘giving excellent service’ or being ‘proactive’ is now past its *терміном придатності*. These terms are often bandied around without being clearly defined, and *потенційні* clients don’t really know what they mean. What exactly do you mean by excellent client service? It needs to be more than, “We get accounts filed on time”. Surely this is *необхідно* for any accountant to deliver as a basic offering. Also, it should be a given that every accountant will be proactive and give excellent service - why would a client seek out an advisor who is merely *середній*?

Businesses are in dire need of better management information and meetings to discuss *ділова стратегія* and planning. *Управління грошовими потоками* is also key for many businesses in these times. Make sure your service offering asks what they really need and how you can help. No one is really interested in how well you can complete a set of accounts or tax returns - once again this is a given.

1. business parks
2. business strategy
3. cashflow management
4. collate
5. databases
6. essential
7. offering
8. prospect
9. sell-by date
10. telemarketing

d) Suggest the correct translation:

When you meet a potential client, listen more and talk less. Business owners will be more impressed by your interest in listening to their issues and learning about their business. Accountants who

drone on about how wonderful they are and tell clients what they think they need can be a real turn off to many potential clients.

Have a clear and visible pricing strategy (A). Offer fixed fees (B); this is now standard for the more successful firms, as is payment by standing order (C) or direct debit (D). This approach is a winner for both client and accountant and manages both parties' cashflow.

Make sure your menu of services is up to date and written in simple language so the prospective client can understand what you can actually help with. Test the menu this on your team and make sure everyone working for you also knows everything you do as a firm.

Look at your Web site. This is your brochure (E) to the outside world. Is it up to date? Do you have a system of inviting people to register on it so you can capture (F) their data and send them regular updates (G) and free newsletters, etc.?

Telemarketing can be effective for those wanting to win new clients at the smaller range of the spectrum. However, if your ideal client profile is for larger clients than this then it may prove more cost effective to have your own marketing campaign. Telemarketing is very cost effective in the current market and it is worth considering as a supplement (H) to your marketing plan (I) - particularly if you haven't tried it before and are looking to win a higher volume of clients a lower fee level. A word of caution: Many clients who are attracted to the cheap, "low balling" (J) accountant will have little loyalty. They need little more than a basic compliance service and they change their accountants frequently. Ask yourself if this is the type of business model you want to build for your firm in the long term?

F. INFORMATION FILE

Share new information with your fellow students.

G. ADVANCE ORGANIZERS

Relate new reading material to something you already know, to your background or experiences. Ask your teacher for assistance in developing these issues.

H. GROUP DISCUSSIONS

- a) Group discussions in and out of class will help you to discover what you bring to your reading, what your fellow students bring, as well as shared experiences.
- b) If you find they have new background information, ask for more information from them.

I. QUIZ # 10

a. Define the following sentences “True” or “False”:

1. Freeganism adherents argue that society wastes too many goods.
2. Litigation can only be effective partially because it imposes excessive costs.
3. Low pay is the main reason for allegations.
4. In 2010, any given deal faced six lawsuits on average.
5. There were 36 companies announcing mergers in the first quarter of 2012.
6. Shareholders do not usually benefit from litigation.
7. Shareholder’s priority is to challenge every deal.
8. The earnings capitalization model estimates the value of a company by capitalizing the company’s total earnings.
9. Terminal value is employed in the discounted cash flow method.
10. Adjustment is necessary if base earnings do not approximate future earnings.

b. Give the opposite:

principal, commonplace, to impose, excessive, drastically, to persist, to recover, enormous, to capitalize, to dismiss.

c. Decode the following terms:

lawsuit, litigation, settlement, plaintiff, allegation, filing, bylaw, court, disclosure, to rebuke.

d. Translate the following into English:

1. Оборотні активи – це грошові кошти та їх еквіваленти, що не обмежені у використанні, а також інші активи, призначені

для реалізації чи споживання протягом операційного циклу чи протягом дванадцяти місяців з дати балансу.

2. Для здійснення процесу виробництва продукції суб'єктам господарювання необхідні засоби виробництва, які складаються із засобів праці та предметів праці.
3. За характером функціонування у виробничому процесі та способі перенесення вартості на створений продукт засоби праці набирають економічної форми в необоротних, а предмети праці - в оборотних активах.
4. Оборотні активи - це такі активи у формі предметів праці, які можуть бути перетворені у грошові кошти протягом одного календарного року або одного виробничого циклу.
5. Постійна наявність оборотних фондів забезпечує безперервний процес виробництва.
6. Характерною особливістю оборотних активів є їх повне використання в кожному виробничому циклі та повне перенесення своєї вартості на готову продукцію.
7. Основне призначення виробничих оборотних фондів полягає у забезпеченні безперебійного процесу виробництва у предметах праці, фондів обігу - у забезпеченні грошовими коштами процесу обороту на підприємстві.
8. Використання комерційного кредиту набуло значного розвитку в період становлення ринкової економіки та створення суб'єктів господарювання різних форм власності.
9. Кредиторська заборгованість - це короткострокові зобов'язання підприємств, які виникають за розрахунками з бюджетом, постачальниками за товари (роботи, послуги), за невідфактурованими поставками, за короткостроковими кредитами тощо.
10. Рациональна структура джерел формування оборотних коштів (власних, позикових і залучених) здійснює позитивний вплив на виробничий процес та організацію фінансової діяльності на підприємстві.

e. Check the terms in the dictionaries. Learn and use in your discussion.

adjusted accounting earnings adjustment base earnings deferred tax liabilities fair market value	future earnings high earnings base historical earnings market bottom	normalized earnings tax basis terminal value unrealized holding gains
--	---	--

f. Revise/learn and use in your discussion.

able about access achieved acquire act action activity additional adjust adopt adviser advisory after against age ago agree all allegation almost already also	efficient effort end energy enforce enforced enormous enough ensure entire environment equilibrium estate estimate estimated even eventually ever every evident example excellent excess	particularly pass past patent pay payment paywall peer2peer perceived percent permit persist pharmaceuticals phenomenon philosophy pile plaintiff point portion post post-scarcity potential predict
--	--	--

although	excessive	premise
amount	executive	premium
announced	expected	present
appearance	explain	pressure
application	extent	pretty
approach	extra	price
approximate	extra-terrestrial	principal
area	extreme	private
argue	face	problem
arise	fair	process
around	fashion	produce
arrive	federal	product
artificial	fee	profitable
artificially	filing	projection
assets	financial	proof
assumption	find	proper
available	finding	property
average	firm	prospect
avoid	flow	protect
bankrupt	follow-up	provide
barrel	following	purchase
barter	food	pursuit
base	forecast	quality
building	founder	question
benefit	fraud	questionable
between	free	quickly
billion	freecycle	rate
bin	freeganism	real
board	frivolous	realize
boom	gain	rebalanced
bottle-necked	garments	rebuke
bottom	generally	receive
bring	get	recent
broad	give	recession

business	good	recover
bust	gradually	refinery
buyout	group	reform
bylaw	half	regard
calculate	happening	regardless
capacity	hard	related
capitalize	historical	report
case	holding	representative
cash	holdings	request
challenge	homebuilding	required
challenging	illusion	research
chancellor	impact	residential
chancery	important	restore
change	impose	restrict
changing	included	restricted
charge	income	result
cheap	increase	retail
chief	increasingly	reverse
choice	industry	reward
choose	inefficient	rising
clear	information	sale
closed	initiate	same
clothes	insufficient	satisfactory
commodities	insurance	save
common	intensify	scarce
commonplace	interest	scarcity
company	inventor	scourge
compare	inventory	scrutinize
complete	involve	securities
concerned	justify	seem
conflict	know	sell
congress	land	sense
conscience	law	separate
consequent	lawsuit	set

constrain	lawyer	settle
constrained	lead	settlement
construction	leading	share
consulting	legal	shareholder
convince	let	shortage
convinced	liabilities	shut
copyright	limit	significant
cornerstone	litigate	sign
corroboration	litigation	similar
cost	little	slow
country	living	small
couple	logical	society
court	loss	specific
cover	make	stockpile
covered	making	stop
create	manage	strategy
credit	mandate	study
crisis	manipulation	sub-culture
criticized	manipulator	subject
crude	manufacturer	subscription
cycle	many	subsidise
daily	margin	such
dam	market	suggest
dark	matter	suit
day-to-day	may	similar
deal	mean	supply
debt	meanwhile	surplus
decade	mechanism	survive
decide	media	system
decline	meet	take
default	merger	tame
deferred	merger-related	target
deflated	method	tax
defray	million	technique

delay	minimal	temporary
demand	minority	terminal
despite	model	time
destroy	modest	today
developed	money	typically
die	month	ultimately
difference	moral	unrealized
different	much	upswing
difficult	multiple	used
diminishing	music	usually
direct	necessary	valuable
director	need	valuation
disclosure	negative	valuator
discount	network	value
dismiss	normalize	view
disparity	now	village
distinguishing	number	virtually
distortion	objection	vote
dramatic	offer	war
drastically	offering	waste
due	once	way
during	outdated	work
each	outwit	working
earnings	own	world
economic	owner	worth
effect	parallel	year
effective	part	

J. FAMOUS ECONOMIST

Follow his example:

WILLIAM STANLEY JEVONS (1835–82)

William Stanley Jevon is best known for developing a theory of relative prices, or exchange values, based upon the notion of marginal utility. In contrast to early nineteenth century classical economists, who held that the costs of production determined relative prices, Jevons argued that relative prices depend upon subjective assessments by people of the satisfaction to be gained from purchasing different goods. Jevons also made contributions to growth theory and business cycle theory. Jevons was born into an upper middle class family in Liverpool, England, in 1835. His father was an iron merchant and his mother came from a prosperous family of bankers and lawyers. The family wealth enabled Jevons to receive an excellent education. At first he was tutored at home; then he attended private schools and University College, London, where he studied metallurgy and mathematics (with the world-famous Augustus DeMorgan). When the British railway boom ended, the family iron business went bankrupt. To help his family deal with their financial problems, Jevons abandoned his studies in 1854. He then trained as an assayer and took a job at the Sydney Mint in Australia.

A dispute over the funding of a railway line for New South Wales initially sparked his interest in economics, and Jevons was soon reading the great classical economists, especially Smith, Malthus, and Mill. A powerful desire to make the world better, especially a wish to help nations grow and prosper, prompted Jevons to continue his education. Returning to England in 1859, and to University College in 1860, Jevons studied mathematics, political economy, philosophy, and history. Although he was disappointed with his political economy courses and felt that he got more from reading on his own than from attending lectures, he continued with his studies and received both an undergraduate and a master's degree in political economy from University College.

Jevons then accepted a position at Owens College in Manchester, where he taught for the next thirteen years. In 1876, he left Owens College to become Professor of Political Economy at University College, London. This appointment had light teaching and few

administrative duties, thus allowing Jevons the time to pursue his own writing. But by 1880 Jevons again found it difficult to juggle both his teaching duties and his writing ambitions, so he resigned from University College in order to focus more on writing. Unfortunately, by that time his health had deteriorated due to overwork, and two years later he collapsed while swimming and drowned.

The first book that Jevons published, *The Coal Question* (1865), was alarmist and Malthusian. It forecast a severe energy shortage for England. Jevons began by estimating the existing supply of coal in England. He then estimated the rate at which coal consumption was increasing. Putting these two estimates together, Jevons found a continually increasing demand for a depleting supply of coal reserves. The consequences could only be sharply rising coal prices. Even worse, at some point the dwindling supply of coal would stop economic growth in England. Jevons was not optimistic that energy substitutes for coal could be found. Nor did he think conservation efforts could do anything but push back slightly the date at which economic growth would come to an end. More surprisingly, Jevons ignored two obvious policy solutions – a tax on coal and a prohibition on British coal exports. Instead, he advocated repaying the national debt so that, when the day of reckoning came, and the existing supply of resources was exhausted, there would be no other burdens on future generations.

Despite his linkages to the future through worries about the depletion of energy resources, and despite his linkages to the past as a business cycle historian, the major contribution of Jevons to economics remains his development of marginal utility theory and his use of this theory to explain consumption and work decisions. In all his work, Jevons was a pioneer, and the many advances due to Jevons make him one of the three or four most important nineteenth century economists.

UNIT ELEVEN.**LONG-LIVED ASSETS****A. BEFORE YOU READ****1. CONCEPT MAPPING:**

Develop a "mind map" around the notion "ASSET" to comprehend the relationship between the new concepts and the concepts you know.

2. BRAINSTORMING:

- a) Examine the title of the selection you are about to read.
- b) List all the information that comes to mind about this title.
- c) Use these pieces of information to recall and understand the material.
- d) Use this knowledge to reframe or reorder what you know, or to note what you disagree with, for further research.

3. SKIMMING THE TEXT:

Scan the text to comprehend the content structure.

4. VOCABULARY PREVIEWS:

Look up unfamiliar key words before reading to improve your background and comprehension.

5. PRE-QUESTIONS:

Write out a series of questions you expect to be answered when reading:

6. DEFINITION:

- a) What is asset / liability / expense / expenditure?
- b) What are the main types of long-lived assets?
- c) How would I define fair market value of an asset?

7. CHARACTERISTICS:

- a) How would I describe the depreciation methods used in accounting?
- b) What does the effect of depreciation on cash flow look like?
- c) What is the difference between financial statement depreciation from income tax depreciation?

8. EXPERIENCE:

- a. What experience have I had with measuring the acquisition cost of tangible assets?
- b. What can I imagine about a job at KMPG?

B. READING

- a) Highlight signal words, main idea sentences, phrases, headings and subtitles.
- b) Pay attention to specific plans of paragraph or text organization.
- c) Define the phrases in italics:

11.1. Systems failure: how to regulate the financial system as a whole.

Banks mimic other banks. They expose themselves to similar risks by making the same sorts of loans. Each bank's appetite for lending rises and falls in sync. What is safe for one institution becomes dangerous if they all do the same, which is often how financial trouble starts. The scope for nasty spillovers is increased by direct linkages. Banks lend to each other as well as to customers, so one firm's failure can quickly cause others to fall over, too.

Because of these connections, rules to ensure the soundness of each bank are not enough to keep the banking system safe. Hence the calls for "macroprudential" regulation to prevent failures of the financial system as a whole. Although there is wide agreement that macroprudential policy is needed to limit *systemic risk*, there has been very little detail about how it might work. Two new reports help fill this gap. One is a discussion paper from the Bank of England, which sketches out the elements of a macroprudential regime and identifies what needs to be decided before it is put into practice*. The other paper, by the Warwick Commission, a group of academics and experts on finance from around the world, advocates specific reforms**.

The first step is to decide an objective for *macroprudential policy*. A broad aim is to keep the financial system working well at all times.

The bank's report suggests a more precise goal: to limit the chance of bank failure to its "social optimum". Tempering the *boom-bust credit cycle* and taking some air out of *asset-price bubbles* may be necessary to meet these aims, but both reports agree that should not be the main purpose of regulation. Making finance safer is ambitious enough.

Policymakers then have to decide on how they might achieve their goal. The financial system is too willing to provide credit in good times and too shy to do so in bad times. In *upswings* banks are keen to *extend loans* because *write-offs* seem unlikely. The willingness of other banks to do the same only reinforces the trend. Borrowers seem less likely to default because with lots of credit around, the value of their assets is rising. As the boom gathers pace, even banks that are wary of making *fresh loans* carry on for fear of ceding ground to rivals. When recession hits, each bank becomes fearful of making loans partly because other banks are also reluctant. Scarce credit hurts asset prices and leaves borrowers prey to the cash-flow troubles of customers and suppliers.

Since the cycle is such an influence on banks, macroprudential regulation should make it harder for all banks to lend so freely in booms and easier for them to lend in recessions. It can do this by tailoring *capital requirements* to the *credit cycle*. Whenever overall credit growth looks too frothy, the macroprudential body could increase the minimum capital buffer that supervisors make each bank hold. Equity capital is relatively dear for banks, which benefit from an implicit state guarantee on their debt finance as well as the tax breaks on *interest payments* enjoyed by all firms. Forcing banks to hold more capital when exuberance reigns would make it costlier for them to supply credit. It would also provide society with an extra cushion against bank failures.

Each report adds its own twist to this prescription. The Bank of England thinks extra capital may be needed for certain sorts of credit. If *capital penalties* are not targeted, it argues, banks may simply cut back on routine loans to free up capital for more *exotic lending*. The Warwick report says each bank's capital should also vary with how long-lived its assets are relative to its funding. Firms with big maturity

mismatches are more likely to cause systemic problems and should be penalised. The ease of raising cash against assets and of rolling over debt varies over the cycle, and capital rules need to reflect this. Regulators should also find ways to match different risks with the firms which can best bear them. Banks are the natural bearers of credit risk since they know about evaluating borrowers. Pension funds are less prone to sudden withdrawals of cash and are the best homes for *illiquid assets*.

The Warwick group is keen that macroprudential policy should be guided by rules. If credit, asset prices and GDP were all growing above their long-run *average rates*, say, the regulator would be forced to step in or explain why it is not doing so. Finance is a powerful lobby. Without such a trigger for intervention, regulators may be swayed by arguments that the next credit boom is somehow different and poses few dangers. The bank frets about *regulatory capture*, too, but doubts that any rule would be right for all circumstances. It favours other approaches, such as frequent public scrutiny, to keep regulators honest.

11.2. Testing level for impairment of long-lived assets.

11.2.1. Make an English précis of the article.

11.2.2. Make a Ukrainian précis of the article.

Under IFRS, if an impairment indicator exists for a long-lived asset, then the recoverable amount of the individual asset is compared to its carrying amount. However, in many cases, the recoverable amount of the individual asset cannot be estimated because the asset does not generate cash inflows independently of other assets. In such cases, the recoverable amount is estimated for a group of assets, or “cash-generating unit” (CGU). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Assets that do not generate independent cash flows, such as company headquarters or central facilities (“corporate assets” in IAS 36), are allocated to CGUs on a reasonable and consistent basis.

Under US GAAP, if an impairment indicator exists, a long-lived asset may be grouped with other assets and liabilities so that the impairment test is performed at the lowest level for which identifiable (net) cash flows are largely independent of the cash flows of other assets and liabilities. A long-lived asset (e.g., corporate headquarters) that does not have identifiable cash flows that are largely independent of the cash flows of other assets and liabilities and of other asset groups is allocated to an asset group that includes all assets and liabilities of the company.

In practice, there may not be a significant difference between the levels at which impairment tests are performed for long-lived assets under IFRS as compared to under US GAAP. This is because net cash flows frequently are dependent on other assets (and are therefore tested together under US GAAP), because the cash inflows depend on other assets (which would make them a cash-generating unit, tested together under IFRS). However, it is important to note that IFRS focuses only on inflows, whereas US GAAP focuses on net cash flows. Thus, there might be situations when assets are grouped together to test for impairment under US GAAP, but must be disaggregated into distinct cash-generating units under IFRS. In addition, the difference in how corporate assets are treated under IFRS as compared to US GAAP will be a change for many companies.

Under IFRS, a media and entertainment company may face challenges in identifying its CGUs. While a company may separately monitor cash inflows from individual radio stations, broadcast licenses, book titles, magazine titles or music masters, the cash flows might be dependent on other assets.

Example 1: Identifying a cash-generating unit

A publishing company may monitor the cash inflows from each newspaper masthead separately, but if each of the newspapers contains mostly advertisements that are bundled with other mastheads owned by the publisher, such cash inflows may be interdependent. When identifying the cash-generating unit for each masthead, it is helpful to make the assessment in two steps:

□ Step 1 — Identify the smallest aggregation of assets for which a stream of cash inflows can be identified — Management monitors the cash inflows from each masthead; this means that each newspaper might be a CGU.

□ Step 2 — Assess whether the cash inflows generated are independent of other cash inflows — The newspapers contain advertisements that are “mostly” bundled with other mastheads owned; this means that the cash inflows are not largely independent, and therefore, the mastheads would form one CGU on a combined basis.

11.3. Recoverable amount.

11.3.1. Give a written translation of Paragraph I.

To measure VIU, cash flow projections are based on the most recent financial budgets or forecasts approved by management, extrapolating the projections thereafter using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. However, if the budgets or forecasts extend beyond five years, = there is a presumption in IFRS not to use the projections after five years, unless a longer period can be justified. A longer cash flow period can be justified if this represents the characteristics of the assets more appropriately, and reliable forecasts can be made.

For example, if management prepares forecasts for seven years, it is generally appropriate to only use the specific forecasts for the first five years, and then an extrapolation (steady, declining, or, if justified, increasing) thereafter. However, using more than five years of specific forecasts might be justified if management can accurately project those cash flows. This might be the case for a license, publishing right, broadcast right or copyright for which management can reliably forecast cash flows.

The cash outflows that management uses to determine fair value under US GAAP (which reflect market participant assumptions) must be adjusted to company-specific assumptions before such cash flows can be used to determine VIU under IFRS.

Consider the following examples:

□ If the company would have lower costs than other market participants due to synergies that would not be available to other market participants, the cash outflows in the fair value calculation used for US GAAP must be decreased to the company-specific amount for the VIU calculation.

□ If the company has higher costs than other market participants, because the company would benefit from a reorganization to which management has not yet committed, the amounts in the fair value calculation used for US GAAP must be increased to the company-specific amount for the VIU calculation. In addition, IFRS specifically requires VIU to be estimated using pre-tax cash flows. Therefore, if post-tax amounts were used in the cash flow forecasts used to determine fair value under US GAAP, the amounts will need to be adjusted to pretax amounts for the VIU calculation.

The discount rate would also have to be adjusted from that of a market participant (which was used to determine fair value under US GAAP) to a companyspecific rate for the VIU calculation. IAS 36 requires the use of pre-tax discount rates when determining VIU. In practice, post-tax costs of equity are generally used in the computation of the discount rate.

Discounting post-tax cash flows at a post-tax discount rate should give the same results as discounting pre-tax cash flows at a pre-tax discount rate, when there are neither temporary differences nor available tax losses at the measurement date.

In practice, using a post-tax discount rate, grossedup by a standard rate of tax, is often a reasonable estimate of the pre-tax rate. When determining value in use for a media or entertainment intangible asset or CGU, the valuation expert considers trends in consumer demand, for example, toward new media and individual entertainment. Advertising revenues and trends continue to be an area of focus, as advertising revenues shift between different types of media, and are subject to the cyclical trends of the economy.

C. AFTER YOU READ

- a) Depending upon the content area, a discussion of the author of the particular work can be helpful to the understanding of it.
- b) What is the author trying to say?
- c) What is his point of view and his reason for writing the particular work?
- d) What do I know?
- e) What do I want to learn?
- f) What did I learn?

D. LANGUAGE FOCUS*a) Make it negative:*

1. While a company may separately monitor cash inflows from individual radio stations, broadcast licenses, book titles, magazine titles or music masters, the cash flows might be dependent on other assets.
2. The newspapers contain advertisements that are “mostly” bundled with other mastheads owned.
3. The discount rate would also have to be adjusted from that of a market participant (which was used to determine fair value under US GAAP) to a company-specific rate for the VIU calculation.

b) Paraphrase the following:

1. Equity capital is relatively dear for banks, which benefit from an implicit state guarantee on their debt finance as well as the tax breaks on interest payments enjoyed by all firms.
2. For example, if management prepares forecasts for seven years, it is generally appropriate to only use the specific forecasts for the first five years, and then an extrapolation (steady, declining, or, if justified, increasing) thereafter.

c) Relate the action to the past/present/future:

1. IFRS specifically requires VIU to be estimated using pre-tax cash flows.
2. This means that the cash inflows are not largely independent, and therefore, the mastheads would form one CGU on a combined basis.

d) Turn direct speech into indirect:

1. The Warwick report says: “Each bank’s capital should also vary with how long-lived its assets are relative to its funding. Firms with big maturity mismatches are more likely to cause systemic problems and should be penalised.”
2. Analysts hold: “Banks are the natural bearers of credit risk since they know about evaluating borrowers.”

E. VOCABULARY ARRANGEMENT

- a) Arrange a semantic field of the words relating to the learning to the topic.
- b) Add words you probably already understand to connect relationships between what is known and the unknown.
- c) Supply the English equivalent to the Ukrainian from the list given below:

Six percent of chief financial officers (CFOs) said they plan to hire *постійних* accounting and finance employees during the third quarter of 2010, while 9 percent *очікують* staff скорочення, according to the Robert Half Financial Hiring Index. The majority of *опитуваних*, 83 percent, do not expect to make changes to their *кадрового* levels.

While the projected net 3 percent decrease is down slightly from the second-quarter forecast, CFOs remain optimistic about the *перспективи* for their businesses. Some 84 percent of respondents said they are very or somewhat confident in their firms' growth prospects for the next three months, the same figure reported the previous quarter.

The Robert Half Financial Hiring Index is based on telephone interviews with more than 1,400 CFOs across the United States. It was conducted by an independent research firm and developed by Robert Half International, a Menlo Park, CA-based *кадрового забезпечення* services firm specializing in accounting and finance. Robert Half has been tracking financial *наймання* activity in the U.S. since 1992.

"Though most CFOs are optimistic about future growth for their companies, many remain cautious in their hiring outlook and are keeping a close watch on economic *тенденції*," said Max Messmer, *президент* and CEO of Robert Half International. "At the same time, some firms are managing increased business activity by bringing in temporary professionals or making strategic full-time hires."

1. anticipate
2. chairman
3. full-time
4. hiring
5. outlook
6. personnel
7. reductions
8. respondents
9. staffing
10. trends

d) Suggest the correct translation:

The West South Central states (Arkansas, Louisiana, Oklahoma, Texas) should experience the most active hiring in the third quarter, survey (A) results indicate. Twelve percent of CFOs anticipate adding full-time accounting and finance staff and 6 percent plan to decrease (B) personnel levels, yielding a net 6 percent of companies planning to hire in the next three months.

"Companies in the West South Central states report demand (C) for accounting operations professionals who can help them ensure timely (D) payment and collection of bills (E) as business activity gains momentum," Messmer said. "Manufacturing (F), health care, and energy are among the sectors driving hiring activity within the region."

Firms in the Mountain states (Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming) and New England states (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont) also expect hiring activity above the national average. A

net 2 percent of executives in both of these sections of the country said they plan to boost (G) staff levels in the coming quarter.

CFOs in the transportation industry are most optimistic about their hiring plans for the third quarter, with a net 5 percent forecasting personnel increases (H). Hiring among manufacturing firms also is expected to outpace (I) the national average, with a net 3 percent of executives in the sector (J) anticipating adding staff.

F. INFORMATION FILE

Share new information with your fellow students.

G. ADVANCE ORGANIZERS

Relate new reading material to something you already know, to your background or experiences. Ask your teacher for assistance in developing these issues.

H. GROUP DISCUSSIONS

- a) Group discussions in and out of class will help you to discover what you bring to your reading, what your fellow students bring, as well as shared experiences.
- b) If you find they have new background information, ask for more information from them

I. QUIZ # 11

a. *Define the following sentences "True" or "False":*

1. Banks' activities are similar.
2. Macroprudential policy helps banks limit systemic risk.
3. Sound financial system is the major goal of macroprudential policy.
4. In upswings banks are reluctant to extend loans.
5. Economic cycle is one of major factors influencing banks.
6. Pension funds are best places for illiquid assets.
7. GAAP focuses on inflows and outflows.

8. Seven years period is more appropriate than 5 years period for making a financial forecast.
9. Discount rate is computed using post-tax costs of equity.
10. Net cash flows do not depend on other assets.

b. Give the opposite:

Independently, reasonable, distinct, separately, to extend, reliable, specific, inaccurate, temporary, available.

c. Decode the following terms:

to generate, facility, headquarters, bundled, interdependent, aggregation, masthead, to extrapolate, synergy, trend.

c. Translate the following into English:

1. Довгострокові кредити залучаються підприємствами для фінансування довгострокових активів, зокрема основних засобів (їх придбання, реконструкція, модернізація), нового будівництва, інших видів необоротних активів, а також окремих видів оборотних активів, у яких кошти заморожуються на довгостроковий період.
2. Земля є матеріальним активом і, оскільки термін її використання не обмежений, - це єдиний матеріальний актив, що не підлягає амортизації.
3. Будівлі, споруди, устаткування, офісне обладнання підлягають амортизації.
4. У фінансовій звітності довгострокові матеріальні активи відображаються як матеріальні основні фонди або основні виробничі фонди.
5. Нематеріальні активи використовуються у діяльності підприємства, але не мають фізичної матеріальної форми і в той же час не є поточними активами.
6. Довгострокові активи відображають в обліку за їх первісною вартістю, яка містить у собі всі витрати, пов'язані з придбанням, доставкою і доведенням активів до робочого стану.
7. У первісну вартість землі включають: купівельну вартість; комісійні, сплачені агентам з торгівлі нерухомістю, податки

при придбанні, гонорар адвокатам, витрати на підготовку землі до будівництва.

8. Первісна вартість обладнання та устаткування звичайно містить купівельну вартість за рахунком-фактурою, витрати на встановлення і монтаж тощо.
9. У міжнародній практиці актив визнається в балансі, якщо існує достатня впевненість у тому, що майбутня втілена в ньому економічна вигода буде одержана підприємством.
10. Згорання статей активів та зобов'язань є неприпустимим, крім випадків, передбачених відповідними положеннями бухгалтерського обліку.

e. Check the terms in the dictionaries. Learn and use in your discussion.

cash inflows cash-generating unit credit boom credit risk discount rate equity capital fair value financial budgets	growth rate impairment indicator intangible asset long-lived assets market participant maturity net cash flows	post-tax amounts pre-tax cash flows pre-tax rate recoverable amount tax breaks tax losses withdrawal
--	--	--

f. Revise/learn and use in your discussion.

academic accurately achieve addition add adjusted advertisement advertising advocate after	explain expose extend extra extrapolate extrapolation exuberance face facility failure	outflow overall own owned pace paper participant partly payment penalise
---	---	---

against	fair	penalty
aggregation	fall	pension
agree	favour	perform
agreement	fear	period
aim	fearful	policy
air	few	pose
all	fill	powerful
allocate	finance	practice
also	financial	precise
although	find	prepare
ambitious	firm	prescription
amount	first	presumption
appetite	flow	prevent
approach	focus	prey
appropriate	forced	price
appropriately	forecast	problem
approved	form	project
area	free	projection
argue	freely	prone
argument	frequent	provide
around	frequently	public
assess	fresh	publisher
assessment	fret	publishing
assumption	from	purpose
available	frothy	put
average	funding	quickly
back	gap	radio
bad	gather	raising
bank	generally	rate
banking	generate	reasonable
based	generated	recent
basis	give	recession
bear	goal	recoverable
bearer	good	reflect

because	ground	reforms
become	group	regime
benefit	grouped	regulate
best	growing	regulation
between	growth	regulator
beyond	guarantee	regulatory
big	guided	reign
body	hard	reinforce
book	headquarters	relative
boom	help	relatively
boom-bust	helpful	reliable
borrower	high	reliably
break	hit	reluctant
broad	hold	reorganization
broadcast	home	report
bubble	honest	represent
budget	however	requirement
buffer	hurts	result
bundle	identifiable	revenue
calculation	identified	right
call	identify	rise
capital	illiquid	rising
capture	impairment	risk
carry	implicit	rival
carrying	important	rolling
case	include	routine
cash	increase	rule
cash-flow	increased	safe
cash-generating	increasing	same
cause	independent	scope
ceding	independently	scrutiny
central	indicator	seem
certain	individual	separately
challenge	inflows	seven

chance	influence	shift
change	institution	should
characteristic	intangible	shy
circumstance	interdependent	significant
combined	interest	similar
commission	intervention	simply
committed	justified	since
company	keen	situation
company-specific	keep	sketch
compare	know	small
computation	largely	society
connection	leave	somehow
consider	lend	sort
consistent	lending	soundness
consumer	less	specific
contain	level	specifically
continue	liabilities	spillover
copyright	license	standard
corporate	likely	start
costlier	limit	state
credit	linkage	station
cushion	little	steady
customer	loan	step
cut	lobby	stream
cycle	long-lived	subject
cyclical	long-run	subsequent
dangerous	look	such
date	loss	sudden
dear	lot	suggest
debt	low	supervisor
decide	macroprudential	supplier
decided	made	supply
declining	magazine	sway
decrease	main	sync

default	make	synergy
demand	management	system
depend	many	systemic
dependent	market	tailoring
detail	master	taking
determine	masthead	target
difference	match	tax
different	maturity	tempering
direct	may	temporary
disaggregated	means	test
discount	measure	treat
discounting	measurement	trend
discussion	media	trigger
distinct	meet	trouble
doubt	might	twist
due	mimic	unit
each	minimum	upswing
ease	mismatch	use
economy	monitor	used
element	mostly	valuation
enjoy	music	value
enough	must	vary
ensure	nasty	very
entertainment	natural	wary
equity	necessary	wide
estimate	need	will
estimated	needed	willing
evaluate	net	willingness
even	new	withdrawal
example	newspaper	without
exist	note	work
exotic	objective	working
expert	optimum	world

J. FAMOUS ECONOMIST

Follow his example:

CARL MENGER (1840–1921)

Carl Menger is regarded as the founding father of the Austrian School of Economics. This is because he is responsible for developing two pillars of Austrian economics. First, Menger helped to establish a subjective theory of value. Second, he argued that economic knowledge can come only from deducing the consequences of assumptions that are known to be true. Menger was born in 1840 in Neu-Sandec, Galicia (then part of Austria but now part of Poland). Very little is known about his upbringing or his education. His father was a lawyer, and Menger followed in his father's footsteps by studying law and political science, first at the University of Vienna and then at the University of Prague. In 1867 he received a doctorate in law from Kracow University. After graduating, Menger worked first as a financial journalist for the leading Viennese newspaper and then in the press office of the Austrian Prime Minister. It was during this time that he worked on the *Principles of Economics*.

With his reputation growing due to the *Principles*, Menger was appointed to a lectureship in the Law Faculty at the University of Vienna in 1873. Three years later he was promoted to the position of Professor Extraordinarius; but he soon resigned this position in order to tutor Crown Prince Rudolph and travel with him throughout Europe. In 1879, Menger accepted a teaching position in Vienna, and thereafter led the life of an academic economist – devoting all his energy and efforts to teaching and writing. Although he was made a member of the upper chamber of the Austrian Parliament in 1900, Menger preferred his work in economics to taking part in any political deliberations or debates. Menger made two important contributions to economics. One involved value theory and the other concerned economic methodology. Menger was one of the first economists to discover the marginal utility theory of value and the principle of

diminishing marginal utility, and he was one of the earliest advocates of a subjective theory of value. Menger was also involved in a heated debate over the nature of economics and the proper way to do economic analysis.

During the late nineteenth century, classical economics was held in low esteem on the European continent. Especially dissatisfying was the highly abstract and theoretical nature of British economics. Menger sought to bring economics back to the real world. His starting point in this endeavor was a recognition that goods have value because they meet human needs. In contrast to the classical British economists, Menger argued that value was determined by subjective factors (utility or the beliefs of people about what gives them pleasure) rather than by objective factors (the costs of production). For Menger, value did not exist objectively within goods themselves. Rather, value arises because people make judgments about the worth of particular goods. Diamonds and gold are not valuable in and of themselves. They have value only because human beings desire them and find them useful. Value, for Menger, thus comes from the satisfaction of human needs. Human needs create a demand for goods; they also become the driving force for the development of institutions such as private property and money that help them to meet their needs. Finally, human needs result in economic exchange and help determine prices. Furthermore, Menger argued that, since human needs were greater than the goods available to satisfy these needs, people would choose rationally among all alternative goods made available to them.

Major economists usually leave a legacy of ideas and theories that come to be accepted by other economists and that form part of the economic wisdom taught to future generations. A few make their mark because they dared to step outside the mainstream and were able to inspire a group of students or followers. Menger is the rare figure who fits into both categories. His emphasis on the individual, and his argument that we must explain the economic world as responses to subjective individual assessments, make Menger a founder of the Austrian School of Economics. But with his discovery of utility as a

source of value and his discovery of the principle of diminishing marginal utility, Menger also fits into the former category.

UNIT TWELVE.

ASSETS/FINANCIAL ANALYSIS

A. BEFORE YOU READ

1. CONCEPT MAPPING:

Develop a "mind map" around the notion "INVESTMENT" to comprehend the relationship between the new concepts and the concepts you know.

2. BRAINSTORMING:

- a) Examine the title of the selection you are about to read.
- b) List all the information that comes to mind about this title.
- c) Use these pieces of information to recall and understand the material.
- d) Use this knowledge to reframe or reorder what you know, or to note what you disagree with, for further research.

3. SKIMMING THE TEXT:

Scan the text to comprehend the content structure.

4. VOCABULARY PREVIEWS:

Look up unfamiliar key words before reading to improve your background and comprehension.

5. PRE-QUESTIONS:

Write out a series of questions you expect to be answered when reading.

6. DEFINITION:

- a) What is a basket purchase?
- b) Where do depreciable / residual / disposal / salvage / scrap value fit?
- c) What is the essence of straight-line depreciation?

7. CHARACTERISTICS:

- a) How would I describe contrast between income tax and shareholder reporting?
- b) What does capital improvement look like?
- c) What is the impairment of asset?

8. EXPERIENCE:

- a) What experience have I had with performing financial analysis?
- b) What can I imagine about my job in the IRS?

B. READING

- a) Highlight signal words, main idea sentences, phrases, headings and subtitles.
- b) Pay attention to specific plans of paragraph or text organization.
- c) Define the phrases in italics:

12.1. Rising demand for collateral spells a moneymaking opportunity.

Collateral acts as the financial equivalent of WD-40, oiling the cogs of global markets by providing lenders with some security in the event of a default. Demand for it is rising. Regulators are pushing *over-the-counter derivatives* towards central counterparties (CCPs), which are usually pickier than banks about the quality of *collateral* they will accept. Creditors are becoming warier about lending on an unsecured basis when things are so uncertain. That creates a vicious circle: as more borrowing is secured, fewer assets are available to other creditors in the event of default.

A recent report by Morgan Stanley and Oliver Wyman suggested the move to clear derivatives trades alone could generate demand for \$500 billion-\$800 billion of extra collateral. But there is a finite supply of *safe assets*, and that pool is dwindling as the creditworthiness of certain governments becomes more questionable. Many *pension schemes*, insurers and asset managers balk at the drag on returns associated with holding lots of safe assets to post as collateral. The only solution is to shake every last drop of WD-40 from the can.

One technique is “*collateral optimisation*”, a way of ensuring that safe assets are deployed as efficiently as possible. This means making sure *high-quality government bonds*, say, are not needlessly tied up as collateral for trades where *lower-quality assets* would be acceptable. It also means clearing trades in a manner that lessens collateral requirements—for example, by bunching transactions in a single CCP so that offsetting trades result in a reduction in overall margin requirements.

Big banks and asset managers will have to do a better job of keeping track of margin requirements and the available stock of eligible collateral they have. The spreadsheets and e-mails previously used to monitor and communicate collateral requirements may be ditched in favour of dedicated applications. Smaller outfits will seek outside help. Investment banks are spending tens of millions of dollars on building sophisticated systems for managing client collateral. Banks and custodians will battle it out to provide a variety of collateral-related services in future, with third-party vendors and even CCPs themselves also vying for business.

At a price, some firms may be able to wash their hands of the requirement to hold a portfolio of eligible assets altogether. “Collateral transformation” directly addresses a firm’s shortage of safe collateral by, in effect, swapping a riskier asset for one that can be posted as *margin*. The service amounts to a repurchase, or “repo”, transaction: an entity like an *asset manager* hands a bank a corporate or *mortgage-backed bond* and the bank supplies government bonds or cash in return. These assets can then be posted at a CCP on behalf of the asset manager.

Banks may not have enough safe assets of their own to satisfy widespread demand from asset managers, pension funds and the like, so they may seek to broker deals with others. Strong demand for safe assets could produce an attractive return for firms that have excess cash to lend out, particularly if low interest rates persist.

Yet the use of collateral transformation on such a wide scale also carries risks. Firms that lend out safe collateral will need to apply

rigorous haircuts on the riskier collateral they accept to ensure they have ample security if a counterparty implodes. Otherwise there is a chance that lenders may find themselves on the hook for billions of dollars of margin in the middle of a *market meltdown*. Even the search for a safer form of borrowing entails dangers.

12.2. The prospects of big bank bail-outs are intensifying calls for a central fund.

12.2.1. Make an English précis of the article.

12.2.2. Make a Ukrainian précis of the article.

Blink and you might miss it. Amid the headlines over Spain's deepening banking crisis, two smaller members of the euro area quietly moved along with plans to recapitalise their own banking systems. Portugal, which is already on life support, said it will inject €6.6 billion (\$8.2 billion) into three of its largest banks. To its east, the Cypriot government said it too may need European help to raise €1.8 billion to recapitalise its second-largest bank.

The growing number of capital calls across banks on Europe's periphery is leading to a freeze in funding markets, as investors fret that banks may be hiding big losses and as banks lose trust in one another. "The interbank market is totally closed," says the boss of one large European bank, adding that he is keeping excess cash at the European Central Bank (ECB) rather than lending it to other banks.

It is also causing jitters in government-bond markets as risk-averse institutional investors such as pension funds and insurers worry that governments in the periphery may be swamped by mounting losses in their banking systems. Money is flooding into the safest option, Germany, where the government borrowed five-year money at just 0.41% on June 6th. Despite these signs of panic, the ECB left rates on hold at its June meeting.

The crisis is intensifying calls for the establishment of some sort of banking union, with centralised powers and funding to regulate and supervise banks as well as to recapitalise ailing ones and to insure retail

deposits. On June 6th the European Commission took the first steps towards this with a proposed framework for dealing with failing banks that includes plans for sharing some of the costs of recapitalising cross-border banks.

The crisis is most acute in Spain, mainly because the sums of money involved are largest. On June 5th Cristóbal Montoro, the budget minister, said the country needed help from European institutions to recapitalise its banks because the “door to markets” was closed to the Spanish government. This was preventing it from issuing €19 billion of bonds to recapitalise Bankia, a troubled agglomeration of local savings banks that incurred huge losses on property loans. Two days later the Spanish government sold €611m of ten-year bonds at 6.04%, compared with 5.74% in April.

Were the capital hole in Spain limited to €19 billion the country would probably have little trouble raising the money, although an idea to bypass markets and hand bonds directly to the bailed-out bank fizzled out. Yet many people now think this sum is just the tip of the iceberg. Analysts at Credit Suisse reckon that Spanish banks may have to set aside another €150 billion against losses, mainly on loans to property developers. To remain solvent after such losses the Spanish banking system may have to raise €50 billion-70 billion, or 4.5-6.5% of Spanish GDP, analysts reckon.

That figure looks relatively manageable when set against Ireland’s recapitalisation of its banks, which has so far amounted to almost half of its GDP. Yet the call for government cash in Spain comes at a time when the country is already struggling to retain the confidence of bond investors amid growing capital flight. Almost €100 billion, about one-tenth of GDP, was pulled out of the country’s banks and bond markets in the first quarter.

Losses are also mounting elsewhere in Europe’s banking system. Portugal, which won praise on June 4th from the European Union and the International Monetary Fund for its austerity programme, is injecting capital into its banks to fill a shortfall identified in stress tests

conducted last year by the European Banking Authority. Cyprus too needs to inject money into its banks before July.

Yet as quickly as banks are filling their existing capital holes, new ones seem to be appearing. Analysts at Nomura note that non-performing loans are rising in several European countries, including Italy and Germany. They reckon that a severe recession in Europe could cost the region's 90 biggest banks €420 billion in losses and consume about a third of their capital, with big shortfalls in Britain, France and Germany in addition to those already emerging in Spain (see chart).

A deep recession is not inevitable, and banks would probably be able to generate some of that capital from profits or asset sales. The real worry is that local regulators will allow banks to hide losses rather than force them to set aside provisions and perhaps ask for capital from their governments. That would further undermine investors' confidence and could accelerate capital flight from weak banks and weak economies.

Signs that this is happening are already apparent. Confidence in the Bank of Spain has been badly dented by the revelation of large losses at Bankia just weeks after senior bank supervisors trotted around financial capitals to assure investors that Spanish banks were well capitalised. This loss of confidence is also infecting healthy banks and has prompted the bosses of several Spanish banks to call for capital injections into the country's weaker ones.

It also reinforces calls for strengthening bank oversight. The commission's proposals for dealing with failing banks are a small step in this direction. Under its scheme, big cross-border banks would have to draw up resolution plans and issue debt that could be "bailed in" or converted into shares to recapitalise them if they fail. It also proposes the creation of national funds worth at least 1% of bank deposits that could help to deal with failing banks. In a step towards greater integration of banking oversight, it said these funds might be used to help banks in other European countries.

These proposals are unlikely to go down well with investors in bank bonds, who are at greater risk of loss, nor with governments with well-regulated banks, which would be in danger of paying for the losses of poorly regulated ones. Yet strengthened oversight and the ability to recapitalise banks quickly with combined euro-zone resources are essential to break the vicious spiral linking failing banks and overindebted governments.

12.3. Using Business Analytics Software.

12.3.1. Give a written translation of Paragraph II.

Traditional CAATTs have largely been the realm of data-extraction software that allows an auditor to efficiently manage large sets of data and effectively stratify it for testing. These CAATTs are primarily used in performing substantive tests, performing tests of details, and responding to specific risks. Business analytics software, however, can play a significant role in the audit engagement when it is used to assist the auditor in performing the preliminary analytical reviews in the risk-assessment process. Comprehensive analytics can provide one of the best sources of audit evidence to support an auditor's risk assessment. Ultimately, the result of the risk-assessment process will drive the overall audit approach, so effective risk-assessment procedures are the foundation for a high-quality financial statement audit. Effective analytics will not only help identify audit areas that present higher risks, they can also be the basis for assessing certain audit assertions as lower risk.

The availability of business analytics software tools has grown over the past several years. ProfitCents, iLumen, and ProSystem fx Profit Driver are examples of business analytics software tools. The features, pricing, and support for these different applications can vary widely. "Tools for Financial Analysis: Boost Your Consulting Practice to a Higher Level," by James Estes, Richard S. Savich and Maya Ivanova, in the November 2007 Journal of Accountancy, included a

survey of business analytics tools and is a good starting point for potential buyers.

Comprehensive analytics typically include developing expectations from multiple sources to help identify unusual or unexpected relationships. These expectations may include period-on-period variance analysis, regression analysis, ratio analysis, industry comparisons, as well as budget-to-actual and other predictive tests. A good analytics software tool should make it easy for an auditor to develop these expectations by automating the calculations and comparisons so that the auditor can focus on evaluating the relationships. These analytics are used for identifying both inherent and control risks in the engagement. For example, if a company's actual sales are significantly greater than the calculated trend and its gross margin percentage exceeds the typical industry range, then an auditor would likely identify these as flags for an inherent revenue-recognition risk, such as a bill-and-hold scheme, and as a risk of ineffective internal controls over cutoff procedures.

Most of the analytical review techniques that auditors can apply during the planning stage are simple when compared to the more-complex procedures performed when using data extraction and analysis software. With data-extraction software, the objective of the analysis is to parse volumes of data to identify records that meet specific criteria, such as stratification of accounts-receivable aging balances, and transactions meeting certain authorization thresholds. When applying CAATTs to preliminary analytics, however, we are looking for relationships that can be expressed as a simple ratio or a quantifiable trend. These relationships, although expressed in simple terms, can still be quite complex, depending upon how pervasive the relationship is within the financial statements or in relation to other key metrics.

Following are examples of the types of preliminary analytical review procedures that auditors can apply using business analytics software:

A comparison on a common-size basis of a company's asset mix to that of its industry peers to identify heightened risks, such as inventory obsolescence and uncollectible accounts.

A comparison of common-size financial statements from one period to the next and from one company to industry peers, in order to identify trends in the debt-to-equity structure that may indicate an eroding capital base or a heightened risk of insolvency.

A period-on-period trend analysis applied to various expense lines to identify patterns, such as special events held on a biannual basis or surges in sales at the quarter- or year-end.

A regression analysis to project the current-year expected values for financial account balances, based on historical trends that can be compared to the actual balances.

The last point above merits further discussion, because a regression analysis can be a powerful tool in understanding what factors drive a business. The goal of this type of procedure is to perform a one-year forecast on the financial statements using a sales growth-driven model. This allows the financial statements to be prepared pro forma based on actual sales growth trends. Sales growth tends to be one of the most pervasive drivers in most companies' financial statements, so this approach can highlight various relationships that may not be present in the financial statements but should be. This is similar in some respects to the concept of a "virtual" year-end close. The projection is used to estimate what the balances would be under the trend assumptions, and creates a baseline for making comparisons and judgments of the business's actual performance.

Business analytics software provides a tool that can automate the type of procedure described above. It is initially used to develop an auditor's expectations. Software can greatly enhance this process by removing much of the subjectivity and bias that can be introduced when performing a financial analysis. It can also take the complexity out of the statistical calculations used in performing a trend analysis. Auditors can save time on engagements by using software to automate

the calculation of historical trends, using statistical methods such as regression analysis. Historical trend analysis provides an objective baseline for identifying which financial statement line items warrant further investigation. Analytic software can then be used to supplement the trend analysis with comparisons to industry data from online databases to further support the preliminary analytical review. Finally, budget expectations or other calculated predictive tests, such as interest expense from an amortization schedule, can be factored in and compared to the trend analysis and industry data. All of these analytics can be brought together in one worksheet (see the Exhibit), providing an auditor with a comprehensive analysis, resulting in a higher level of confidence when relying on preliminary analytical review to support the risk assessment.

C. AFTER YOU READ

- a) Depending upon the content area, a discussion of the author of the particular work can be helpful to the understanding of it.
- b) What is the author trying to say?
- c) What is his point of view and his reason for writing the particular work?

D. LANGUAGE FOCUS

a) Make it negative:

1. Yet many people now think this sum is just the tip of the iceberg.
2. Losses are also mounting elsewhere in Europe's banking system.
3. Comprehensive analytics typically include developing expectations from multiple sources to help identify unusual or unexpected relationships.
4. Business analytics software provides a tool that can automate the type of procedure described above. It is initially used to develop an auditor's expectations.

b) Paraphrase the following:

1. These proposals are unlikely to go down well with investors in bank bonds, who are at greater risk of loss, nor with governments with

well-regulated banks, which would be in danger of paying for the losses of poorly regulated ones.

2. The goal of this type of procedure is to perform a one-year forecast on the financial statements using a sales growth–driven model.

c) *Relate the action to the past/present/future:*

1. A deep recession is not inevitable, and banks would probably be able to generate some of that capital from profits or asset sales.
2. Money is flooding into the safest option, Germany, where the government borrowed five-year money at just 0.41% on June 6th.

d) *Turn direct into indirect:*

1. Analysts at Credit Suisse reckon: “Spanish banks may have to set aside another €150 billion against losses, mainly on loans to property developers. To remain solvent after such losses the Spanish banking system may have to raise €50 billion-70 billion, or 4.5-6.5% of Spanish GDP.”
2. “The interbank market is totally closed,” says the boss of one large European bank, adding that he is keeping excess cash at the European Central Bank (ECB) rather than lending it to other banks.

E. VOCABULARY ARRANGEMENT

- a) Arrange a semantic field of the words relating to the learning to the topic.
- b) Add words you probably already understand to connect relationships between what is known and the unknown.
- c) Supply the English equivalent to the Ukrainian from the list given below:

The Securities and Exchange Commission has announced that it will sponsor a *зустріч за круглим столом* in July to discuss *переваги* or challenges in potentially incorporating International Financial Reporting Standards (IFRS) into the financial reporting system for U.S. issuers.

The July 7 event will feature three panels representing investors, smaller *публічні товариства*, and regulators. The panel discussions will focus on topics such as investor understanding of IFRS and the

вплив on smaller public companies and on the regulatory environment of incorporating IFRS.

“We must carefully consider and *обмірковувати* whether incorporating IFRS into our financial reporting system is in the best interest of U.S. investors and markets,” said SEC Chief Accountant James Kroeker. “This roundtable will provide an excellent opportunity for investors, preparers, and regulators to provide the SEC staff with valuable information that will help the Commission in its *безперервним* consideration of incorporating IFRS.”

The roundtable will be held in the auditorium at the SEC’s headquarters at 100 F Street, N.E., Washington, D.C. A final *порядок денний* including a list of participants and *головуючих на зборах* will be published closer to the event date. The roundtable will be open to the public with seating on a *порядку прибуття*, and will be available via webcast on the SEC website.

The SEC staff welcomes feedback on the topics to address at the roundtable and suggestions for potential roundtable participants. *Подання документів* to the Commission may be made either on paper or electronically; please use only one method.

1. agenda
2. benefits
3. deliberate
4. first-come, first-served basis
5. impact
6. moderators
7. ongoing
8. public companies
9. roundtable
10. submissions

d) Suggest the correct translation:

JPMorgan Chase has announced that it will end its popular debit card (A) rewards program for existing customers on July 19. Wells Fargo, SunTrust, and PNC have announced that they will either end their rewards programs or close them to new customers. Large banks

are reacting to a ruling (B) proposed by the Federal Reserve (C) in December to lower the interchange fees (D) that banks charge (E) merchants (F) to \$.12, from approximately \$.44, for an average single debit card transaction.

The Fed has indicated that it will issue a final ruling on the debit card swipe fee (G) on July 21. The ruling was mandated (H) by an amendment (I) to the Dodd-Frank Bill sponsored by Senator Richard Durbin (D-IL). Banks are expected to decrease their revenues by billions of dollars if the interchange fee decrease goes into effect and are using the opportunity to cut rewards (J) programs as one way of softening the blow.

Bank of America, Citi, and TD have yet to announce their plans regarding the rewards programs, but they are expected to follow the lead of the other big banks. Financial institutions with less than \$10 billion in assets are exempt from a limit on debit card swipe fees. Although bills pending in Congress with bipartisan support will postpone the Fed's ruling for one or two years, Wells Fargo has said its decision is final.

F. INFORMATION FILE

Share new information with your fellow students.

G. ADVANCE ORGANIZERS

Relate new reading material to something you already know, to your background or experiences. Ask your teacher for assistance in developing these issues.

H. GROUP DISCUSSIONS

- a) Group discussions in and out of class will help you to discover what you bring to your reading, what your fellow students bring, as well as shared experiences.
- b) If you find they have new background information, ask for more information from them.

I. QUIZ # 12

a. Define the following sentences “True” or “False”:

1. Collateral optimization means assets are used efficiently.
2. Government bonds are high quality securities.
3. Big banks now prefer dedicated applications to spreadsheets and emails to monitor collateral requirements.
4. Commercial banks spend millions of dollars on managing client collateral.
5. Mortgage backed bonds can be posted on a CCP.
6. Using collateral information is not risky.
7. Freeze in funding markets is caused by the growing number of capital.
8. Germany is the safest option for money.
9. Spain underwent the most acute crisis.
10. Analysts predict a recession in Europe.

b. Give the opposite:

periphery, to intensify, growing, confidence, severe, accelerate, comprehensive, high-quality, support, multiple.

c. Decode the following terms:

life support, to freeze, jitters, bypass, to reckon, austerity, to stratify, application, period-on-period, budget-to-actual.

d. Translate the following into English:

1. Метою фінансового аналізу підприємства є оцінка його фінансового стану з урахуванням динаміки змін, які склалися в результаті господарської діяльності підприємства за декілька останніх років, визначення чинників, які вплинули на ці зміни і прогнозування майбутнього фінансового стану підприємства.
2. Результати проведеного аналізу використовуються для підготовки рекомендацій щодо подальшої діяльності підприємства, його реструктуризації тощо.
3. Фінансовий аналіз підприємства складається з етапів аналізу ліквідності, аналізу ділової активності, аналізу платоспроможності й аналізу рентабельності.

4. Фінансовий стан підприємства – це сукупність показників, які відображають наявність, розміщення і використання ресурсів підприємства, реальні і потенційні фінансові можливості підприємства.
5. Фінансовий аналіз діяльності підприємства - це комплексне вивчення фінансового стану підприємства з метою оцінки досягнутих фінансових результатів, який проводиться за допомогою методів фінансового аналізу за даними бухгалтерської (фінансової) звітності підприємства.
6. Задовільний фінансовий стан - це стійка ліквідність, платоспроможність і фінансова стійкість підприємства, його забезпеченість власними оборотними коштами і ефективне використання ресурсів підприємства.
7. Незадовільний фінансовий стан характеризується неефективним розміщенням ресурсів і неефективним їх використанням, незадовільною платоспроможністю підприємства, наявністю простроченої заборгованості перед бюджетом, по заробітній платі недостатньою фінансовою стійкістю у зв'язку з несприятливими тенденціями розвитку виробництва і збуту продукції підприємства.
8. Фінансовий аналіз є частиною загального аналізу господарської діяльності, що складається з двох взаємозалежних розділів: фінансового аналізу і виробничо-управлінського аналізу.
9. Для потенційних партнерів дуже привабливим є той факт, що компанія проводить політику відкритості: публікує свої фінансові й аналітичні звіти в засобах масової інформації, готова надати дані про результати і плани роботи.
10. Перевага довгострокових джерел у структурі позикових засобів є позитивним фактом, що характеризує поліпшення структури балансу і зменшення ризику втрати фінансової стійкості.

e. Check the terms in the dictionaries. Learn and use in your discussion.

actual balance actual sales asset manager bill-and-hold scheme bond investor capital injection collateral debt-to-equity structure default derivatives	financial statement audit funding market government bonds institutional investors investment bank margin requirements non-performing loan overindebted government pension fund property loan	repurchase transaction revenue- recognition risk risk-assessment process risky asset safe assets savings bank solvent third-party vendor to recapitalize uncollectible accounts
---	--	--

f. Revise/learn and use in your discussion.

ability able accelerate accept acceptable across act actual acute add addition address after against agglomeration aging	factor fail failing far favour feature few figure fill filling finally financial find finite firm first	practice praise predictive preliminary prepare present prevent previously price pricing primarily pro probably procedure process produce
---	--	---

ail	five-year	profit
all	fizzle	programme
allow	flag	project
almost	flight	projection
alone	flooding	prompt
along	focus	property
already	force	proposal
also	forecast	proposed
although	form	prospect
altogether	foundation	provide
amid	framework	providing
amount	freeze	provision
ample	fret	pull
analysis	fund	push
analyst	funding	quality
analytical	further	quantifiable
analytics	future	quarter
another	give	questionable
apparent	global	quickly
appear	go	quietly
applications	goal	quite
apply	good	raise
approach	government	raising
area	government-bond	range
around	greatly	rate
aside	gross	rather
ask	growing	ratio
assertion	growth	real
assess	growth-driven	realm
assessment	haircut	recapitalisation
asset	half	recapitalise
assist	hand	recapitalising
associated	happen	recent
assumption	headline	recession

assure	healthy	reckon
attractive	heighten	recognition
audit	help	record
auditor	hide	reduction
austerity	high-quality	region
authority	highlight	regression
authorization	historical	regulate
automate	hold	regulator
automating	holding	reinforce
availability	hole	relation
available	hook	relationship
badly	how	relatively
bail-out	however	rely
bailed-out	huge	remain
balance	iceberg	removing
bank	idea	report
banking	identified	repurchase
bank	identify	requirement
base	implode	resolution
based	include	resource
baseline	included	respect
basis	incurred	respond
battle	indicate	result
because	industry	retail
become	ineffective	retain
best	inevitable	revelation
biannual	infect	revenue
bias	inherent	review
big	initially	rigorous
bill-and-hold	inject	rising
billion	injecting	risk
bond	institutional	risk-assessment
boost	insure	risk-averse
borrowed	insurer	role

borrowing	integration	safe
boss	intensify	sales
both	interbank	satisfy
break	interest	save
broker	internal	savings
budget	international	say
budget-to-actual	introduce	scale
building	inventory	schedule
bunch	investigation	scheme
business	investment	search
buyer	investor	second-largest
bypass	involve	secured
calculate	issue	security
calculation	issuing	seek
call	item	seem
capitalised	jitters	senior
carrier	job	service
cash	journal	set
cause	judgment	several
central	just	severe
centralised	keep	shake
certain	key	share
chance	large	sharing
chart	largely	shortage
circle	last	shortfall
clear	late	significant
clearing	leading	significantly
client	least	sign
close	left	similar
cog	lend	simple
collateral	lender	single
collateral-related	lending	small
combined	lessen	software
come	level	solution

commission	life	solvent
common-size	likely	some
communicate	limited	sophisticated
company	line	sort
compared	linking	source
comparison	little	special
complex	loan	specific
complexity	local	spell
comprehensive	look	spending
concept	lose	spiral
conducted	loss	spreadsheet
confidence	losses	stage
consulting	lot	start
consume	low	statement
control	lower-quality	statistical
converted	mainly	step
corporate	make	still
cost	making	stock
counterparty	manageable	stratification
country	manager	stratify
create	managing	strengthened
creation	manner	strengthening
credit	many	stress
creditor	margin	strong
creditworthiness	market	structure
crisis	means	struggle
criteria	meet	subjectivity
cross-border	meeting	substantive
current-year	meltdown	such
custodian	member	suggest
cutoff	merit	sum
danger	method	supervise
data	metrics	supervisor
data-extraction	middle	supplement

database	might	supply
day	million	support
deal	minister	sure
dealing	miss	surge
debt	mix	survey
dedicated	model	swamp
deep	monetary	swapping
deepening	money	system
default	moneymaking	take
demand	monitor	technique
dent	mounting	technique
depend	move	ten-year
deploy	multiple	tend
deposit	national	term
derivative	need	test
describe	needed	thing
despite	needlessly	think
detail	new	third-party
develop	next	thresholds
developers	non-performing	tied
different	note	time
direction	now	tip
directly	number	together
discussion	objective	tool
ditch	obsolescence	totally
dollar	offset	towards
drag	oiling	track
draw	online	trade
drive	only	transaction
driver	opportunity	transformation
drop	optimisation	trend
during	option	trot
dwindling	order	trouble
e-mail	other	trust

east	otherwise	type
easy	outfit	typical
economy	outside	typically
effect	over	uncertain
effective	overall	uncollectible
effectively	overindebted	undermine
efficiently	oversight	understanding
eligible	own	unexpected
elsewhere	panic	union
emerging	parse	unlikely
engagement	particularly	unsecured
enhance	past	unusual
enough	pattern	use
ensure	pay	used
entail	peer	usually
entity	pension	value
equivalent	people	variance
erode	percentage	variety
essential	perform	various
establishment	performance	vary
estimate	perhaps	vendor
euro	period	vicious
euro-zone	period-on-period	volume
evaluate	periphery	warrant
event	persist	wash
every	pervasive	way
evidence	picky	weak
example	planning	week
exceed	plan	well
excess	play	well-regulated
exhibit	point	wide
existing	pool	widely
expectation	poorly	widespread
expected	portfolio	worksheet

expense expressed extra extraction	possible post potential powerful	worry worth year year-end
---	---	------------------------------------

J. FAMOUS ECONOMIST

Follow his example:

FRANCIS YSIDRO EDGEWORTH (1845–1926)

Francis Edgeworth studied how economies could achieve the best or optimal distribution of resources. His main contribution was to apply advanced mathematical techniques in an attempt to answer this question. In this endeavor, Edgeworth developed many modern tools of microeconomic analysis – utility functions, indifference curves, contract curves, and the Edgeworth box.

Edgeworth was born in Edgeworthstown, Ireland, in 1845 into a famous and wealthy family. His grandfather was the educationist, Richard Lovell Edgeworth, and his aunt was the novelist Maria Edgeworth. Edgeworth received an excellent classical and humanistic education at the hands of private tutors. At the age of seventeen, he entered Trinity College, Dublin, to study languages. Then, in 1867, Edgeworth went to Oxford University to study the humanities. He obtained an MA degree in 1877 and also published his first book, a work on ethics that attempted to bring other moral theories under the rubric of utilitarianism. Edgeworth then began to study commercial law and mathematics.

In the late 1870s Edgeworth lectured at Bedford College in London. His neighbor, William Stanley Jevons, interested Edgeworth in mathematics and statistics, and how they could be applied to economics. Edgeworth quickly saw that mathematics could aid economic reasoning and could check the arguments made in ordinary English. He then began publishing articles and books that employed

mathematical techniques to demonstrate economic principles. These publications eventually earned him a teaching position at King's College, London, and then a highly prized chair – Drummond Professor of Political Economy at All Souls College, Oxford.

In 1891, Edgeworth became the first editor of the *Economic Journal*. Over the next thirty-five years, he molded and developed the journal, making it into one of the most distinguished and important economic journals in the world. During this time period he served either as editor or joint editor (with Keynes). In all his work, Edgeworth looked to the differential calculus as a “master key” that would unlock all the wisdom of economics. Starting with clear definitions and mathematically precise axioms, and proceeding with rigorous demonstrations of his conclusions, Edgeworth hoped to put economics on the same footing as mathematics and the hard sciences. Only then, he felt, could questions of economic policy be adequately addressed and solved. Edgeworth also felt mathematics was esthetically more elegant than mere prose, was more precise than prose, and was therefore philosophically superior to the verbal arguments of Adam Smith and the other classical economists. Ironically, his poor prose and his convoluted mathematics make Edgeworth difficult to read, even for those economists who have specialized training in mathematical economics. Edgeworth was primarily interested in the issues of exchange and distribution; in particular, he studied how the benefits of trade or exchange are distributed between individuals and between countries.

UNIT THIRTEEN.

MANAGERIAL ACCOUNTING

A. BEFORE YOU READ

1. CONCEPT MAPPING:

Develop a "mind map" around the notion “MANAGER” to

comprehend the relationship between the new concepts and the concepts you know.

2. **BRAINSTORMING:**

- a) Examine the title of the selection you are about to read.
- b) List all the information that comes to mind about this title.
- c) Use these pieces of information to recall and understand the material.
- d) Use this knowledge to reframe or reorder what you know, or to note what you disagree with, for further research.

3. **SKIMMING THE TEXT:**

Scan the text to comprehend the content structure.

4. **VOCABULARY PREVIEWS:**

Look up unfamiliar key words before reading to improve your background and comprehension.

5. **PRE-QUESTIONS:**

Write out a series of questions you expect to be answered when reading:

6. **DEFINITION:**

- a) What are direct / indirect costs?
- b) What is value chain?
- c) What is manufacturing overhead?

7. **CHARACTERISTICS:**

- a) How would I describe goals of managerial accounting?
- b) What do service / merchandising / manufacturing companies look like?
- c) What costs are relevant/irrelevant for decision making?

8. **EXPERIENCE:**

- a) What experience have I had with managerial accounting?
- b) What can I imagine about my working in a manufacturing company?

B. READING

- a) Highlight signal words, main idea sentences, phrases, headings and subtitles.

- b) Pay attention to specific plans of paragraph or text organization.
- c) Define the phrases in italics:

13.1. Managerial accounting basics.

A major purpose of managerial accounting is to support the achievement of goals. Hence, determining an *organization's strategic position goal* has *implications* for the operation of an organization's managerial accounting system. *Careful budgeting and cost control* with frequent and detailed performance reports are critical with a goal of cost leadership. When the product is difficult to distinguish from that of competitors, price is the *primary basis of competition*. Under these circumstances, everyone in the organization should continuously apply managerial accounting concepts to achieve and maintain cost leadership. The managerial accounting system should constantly compare *actual costs* with *budgeted costs* and signal the existence of significant differences.

Frequent and detailed comparisons of actual and budgeted costs are less important when a differentiation strategy is followed. This is especially true when products have short life cycles or production is highly automated. In these situations, most costs are determined before production begins and there is little opportunity to undertake cost reduction activities thereafter. With short product lives or automated manufacturing, exceptional care must go into the initial design of a product or service and the determination of how it will be produced or delivered. Here, detailed cost information assists in design and scheduling decisions.

When a differentiation strategy is followed, it often pays to work closely with customers to find ways to enhance the *perceived value* of a product or service. This leads to an analysis of costs from the customer's viewpoint. The customer may not want a costly feature. Alternatively, the customer may be willing to pay more for an additional feature that will reduce subsequent *operating costs*. In designing its 777 aircraft, Boeing invited potential customers to set up

offices in Boeing plants and to work with Boeing employees designing the aircraft. Many design changes were made to reduce *customer costs*. United Airlines, for example, convinced Boeing to move the location of the 777's fuel tanks to reduce *servicing costs*.

Competition and Its Key Dimensions

The move away from isolated national economic systems toward an interdependent global economic system has become increasingly pronounced. International treaties, such as the North American Free

Trade Agreement and the General Agreement on Tariffs and Trade, merely recognize an already existing and inevitable condition made possible by advances in telecommunications (to move data), computers (to process data into information), and transportation (to move products and people).

The labels of origins on goods (Japan, Germany, Canada, Taiwan, China, and so forth) only scratch the surface of existing global relationships. Behind labels designating a product's final assembly point are components from all over the world.

The move toward a global economy has heightened competition and reduced selling prices to such an extent that there is little or no room for error in managing costs or pricing products. Moreover, customers are not just looking for the best price. Well-informed buyers routinely search the world for the product or service that best fits their needs on the three interrelated dimensions of price/cost, quality, and service; hence, these are the three key dimensions of competition.

To customers, price/cost includes not only the *initial purchase price* but also subsequent operating and *maintenance costs*. To compete on the basis of price, the seller must carefully manage costs. Otherwise, reduced prices might *squeeze product margins* to such an extent that a sale becomes unprofitable.

Hence, price competition implies *cost competition*. Quality refers to the degree to which products or services meet the customer's needs. Service includes things such as timely delivery, helpfulness of sales personnel, and subsequent support. The Business Insight box below

takes a look at how Federal Express and United Parcel Service compete on the basis of quality, service, and price.

Managers of successful companies know they compete in a global market with instant communications. Because the competition is hungry and always striving to gain a *competitive advantage*, world-class companies must continuously struggle to improve performance on these three interrelated dimensions: price/cost, quality, and service. Throughout this text, we examine how firms successfully compete on these three dimensions.

13.2. Managerial accounting – basic cost concepts.

13.2.1. Make an English précis of the article.

13.2.2. Make a Ukrainian précis of the article.

An accounting system measures costs which are later used for a number of purposes such as: (i) profit determination, (ii) performance evaluation, (iii) inventory valuation and (iv) cost control. It is, therefore, very essential to understand what cost means and how it is calculated.

What is a cost? It is something of value given up in exchange for something else. It is price paid to acquire some goods or services. It includes money, materials, labor and time. But the term “cost” conveys multiple meanings and there are different costs for different purposes. This hub aims to provide an understanding of the cost terms and concepts that are used in literature of managerial accounting.

Difference Costs for different Purposes

Cost can be classified in terms of the functions it performs such as manufacturing costs, selling & administration costs and financial costs. Some costs can be directly and conveniently identified to a particular product such as direct material and direct labor. Others are indirect costs or shared costs or common costs.

Similarly, some costs increase or decrease in line with the volume of production but some remain fixed even if the plant is closed down. Some costs result in physical goods while others are just a service. Finally, management policy plays a great role in cost classification.

Depreciation is fixed by default but not if based on units produced or sum-of-digit method or even written-down-value basis. If a company enters into a long contract with an advertising firm, the advertisement cost becomes fixed.

Classification by functions

Most common basis for classification is functional. What is this cost for? So cost is segregated into Manufacturing Costs and non-manufacturing costs (Selling, Administration and Financial expenses.) The manufacturing costs are further categorized into direct material, direct labor and overheads. This is convenient and simple way of classification.

In the annual accounts published for creditors, stockholders and others, functional format is used to facilitate inter-company comparison. Besides, the company's law also requires disclosure of cost items in a certain manner. As a result, all annual reports look alike.

Identifiability or traceability criteria

Some costs can be traced directly and conveniently to a particular product. Often, these are result of a formula whereby one can estimate direct cost for a given product. All other costs are called indirect costs or shared cost or common cost.

In a garment factory, direct raw material and direct labor are direct costs. Some other items such as button and stitching yarn can also be traced to a particular product but it would be inconvenient besides being insignificant. So button, stitching yarn, electricity, depreciation would be indirect costs. While direct costs can be allocated straight to a product or a batch of products, some methodology is evolved for allocation of indirect costs such as machine hours, direct labor hours or raw material quantity etc.

Cost Behavior Criteria

What would be our cost next year if our production is doubled? It may remain the same or be exactly double or in between. All depends on cost behavior which refers to how a cost would respond or react to changes in production. If cost is fixed in nature as in a university, doubling the number of students would slightly increase the total cost

since same teachers, same rooms, same laboratories may accommodate the additional students. But if the major cost item is the direct materials as in edible oil, doubling production would nearly double the cost. In other cases, like electric power plant, operating costs would go up while fixed cost would remain the same.

FIXED COST:

A cost which is not related to production is called fixed costs. In other words, it is a cost that remains unchanged even with variations in output.

VARIABLE COST

Any cost which varies exactly in proportion to the change in activity (production or sale) would be term as variable cost. This is sometime called engineering cost or a formula cost and can be calculated in advance.

MIXED COSTS or SEMI-VARIABLE COSTS

In ordinary life we observe that even if we do not use the telephone for a month, the bill would still be there representing fixed charges like line rent. The amount of telephone bill would vary according the calls made plus fixed charges. Likewise, there are step fixed and step variable costs.

Inventoriability criteria

On way of classification is whether a particular cost would become a part of a product which is physical in nature and can be stored if not sold. So some costs can be categorized as product cost or manufacturing cost which includes direct material, direct labor and factory overheads. Other costs such as selling & admn costs are not added in the cost of manufacture. Such costs are termed as period costs.

Supposing a company manufactured 1000 chairs in one year of which only 200 were sold and rest were lying in the store. What value should be assigned to these remaining 800 chairs? For this purpose, units cost of manufacture would be worked out and stock at hand valued accordingly. If suppose, the same company had incurred Rs.100,000 by way of advertisements, this would not be added to finished goods stock but charged to P&L Account of the same year.

BOARD OF DIRECTORS MEETING FOR FINALIZING POLICY MATTERS.

INFLUENCE OF POLICY ON COST

A company may award a contract to an advertising company for year round advertisement of the company's product for a fixed amount. Another company may earmark 5% of the sales as selling expenses. In first case, the advertisement cost would be considered as fixed, in second case as variable.

Other Costs

There are a lot many other terms used for a certain type of cost as given below:

DISCRETIONARY COSTS

Such a cost arises because of a decision of the management to incur a certain amount for some purpose like amount to be spend on R&D or donation to charitable institutions etc.

COMMITTED COSTS

A cost which must be paid and is unavoidable like property taxes on building, depreciation and rental.

It is important to note a difference between discretionary costs and committed costs. While discretionary costs can be changed with ease, it is not that easy to change committed costs as (i) there may be limitation or restrictions under the legal agreements with some outsiders as in our-sourcing, and (ii) long term implication have to be considered by any change and its approval sought at board of directors' level.

ENGINEERED COSTS

This is ascertained after task analysis whereby any product is dismantled and its cost worked out part by part. This shows what the actual cost is now and not what it was in the past.

SUNK COST; A cost that has incurred in the past and cannot be now changed.

OPPORTUNITY COSTS: Benefit foregone when alternative is selected over another.

DIFFERENTIAL COSTS: Cost and revenues that differ among alternatives.

MARGINAL COSTS: Cost of producing an additional unit.

RELEVANT COSTS: A cost relevant to a particular decision.

13.3. International Management Accounting Concepts.

13.3.1. Give a written translation of Paragraph I.

International Management Accounting Concepts

The right type of management can instill a common value throughout an organization. By structuring systems correctly and providing sufficient training and development to employees, management can successfully implement a value throughout the organization. International management accounting is a process that tries to identify, measure, analyze, interpret and communicate information to achieve organizational goals.

International Management Accounting

International management accounting is a matching technique that attempts to control and report the financial assets of the organization. The process involves analyzing, planning, implementing and controlling programs designed to provide a financial reporting mechanism to managers within the organization so that these managers can make decisions. International management accounting covers the maintenance of accounts, developing financial statements, financial performance analysis and the management of cash flow for the organization.

Role of Management Accounting in Business Environment

A primary goal of international management accounting is to get information to the right managers within the organization. These managers can then set goals for the organization, evaluate the progress towards achieving these goals and take corrective or preventative measures necessary to meet the goals. A company generally performs better when the company makes decisions based on its accounting, such as how to keep merchandise inventories, how much to borrow or

what to purchase. This improved performance results from a better understanding of the financial health of the international organization.

International Climate

Many businesses operating today have an international connection. It is imperative for these companies to have a standardized management accounting system implemented within the basic operation of the organization. This allows the organization to have one common language applied to decisions and the management of performance. By implementing international management accounting with a specific decision support system, managers within the organization have specific context in which to make managerial decisions for the organization.

Goal

The rapid integration of the world economy drives international management accounting. By applying international standards, this type of accounting management allows the organization to adequately evaluate management performance results. Additionally, international management accounting offers organizations more information about currently available trends within an organization's industry. This provides the organization with new types of data analysis and integration with other organizations from different countries.

C.AFTER YOU READ

- a) Depending upon the content area, a discussion of the author of the particular work can be helpful to the understanding of it.
- b) What is the author trying to say?
- c) What is his point of view and his reason for writing the particular work?

D. LANGUAGE FOCUS

a) *Make it negative:*

1. Some costs can be directly and conveniently identified to a particular product such as direct material and direct labor.
2. Finally, management policy plays a great role in cost classification.

b) *Paraphrase the following:*

1. If cost is fixed in nature as in a university, doubling the number of students would slightly increase the total cost since same teachers, same rooms, same laboratories may accommodate the additional students.
2. This improved performance results from a better understanding of the financial health of the international organization.

c) *Relate the action to the past/present/future:*

1. The process involves analyzing, planning, implementing and controlling programs designed to provide a financial reporting mechanism to managers within the organization so that these managers can make decisions.
2. A company generally performs better when the company makes decisions based on its accounting, such as how to keep merchandise inventories, how much to borrow or what to purchase.

d) *Turn direct into indirect:*

The manager acknowledges: “The move toward a global economy has heightened competition and reduced selling prices to such an extent that there is little or no room for error in managing costs or pricing products. Moreover, customers are not just looking for the best price.”

E. VOCABULARY ARRANGEMENT

- a) Arrange a semantic field of the words relating to the learning to the topic.
- b) Add words you probably already understand to connect relationships between what is known and the unknown.
- c) Supply the English equivalent to the Ukrainian phrases from the list given below:

In Maine, Department of Health and Human Services Commissioner Mary Mayhew said the *переплати* from MaineCare, the state's Medicaid program, started in September, 2010, when the department switched to a new *звернень* processing system, according to WCSH6 in Portland.

Beginning in mid-March, the DHHS began adjusting payments to hospitals to account for the mistake, the Bangor Daily News reported. MaineCare payments to service providers began rising steadily in February, by nearly \$10 million each week. Mayhew indicated that analysts are trying to determine the cause of this increase, but if the trend continues, MaineCare will *перевершити* its *річний бюджет* by the end of the *фінансового року* by \$30 million. Last week, Maine Governor Paul LePage submitted a \$64.9 million *додатковий бюджет* to pay state *рахунки* and deal with the budget problems in the DHHS.

Maine Governor Paul LePage issued a statement calling the problems disturbing but not surprising. "We inherited a big mess, but we are going to get it fixed and find *рішення* that work for consumers, *постачальників*, and the *платників податків*," he said.

On the Bangor Daily News web site, 97 readers voiced opinions and often frustration in the comment section of the article on this issue. One reader posted a long comment that included: "...the accounting systems are such a mess!!!"

1. annual budget
2. bills
3. claims
4. fiscal year
5. overpayments
6. providers
7. solutions
8. supplemental budget
9. surpass
10. taxpayers

d) Suggest the correct translation:

Mobile computing (A) is one of the hottest trends in the consumer sector (B) today. Driven largely by video, web-browsing (C), gaming, and other just-for-fun applications, it has quickly moved from gadget (D) status to a must-have (E) for consumers.

With that must-have status has come an increasing acceptance (F) of mobile devices as business tools (G) – even in the sometimes change-averse (H) tax and accounting profession. Tax and accounting firms now have access to an expanding number of mobile devices and applications that can help them conduct daily business from outside the office. Forward-thinking (I) firms are already connecting to their colleagues and clients with mobile devices, their staff are bringing them into the office, and it's only a matter of time before mobile connectivity is as indispensable as the telephone.

This rise is especially evident in the services area, where traditional services are becoming a commodity (J) and Generation X and Y customers expect anytime, anywhere service. In this environment, the portability and anytime-anywhere access of mobile computing can be a firm differentiator – and a key tool for attracting both new clients and prospective new hires.

Over the last 18 months, it has become clear that mobile computing is here to stay.

F. INFORMATION FILE

Share new information with your fellow students.

G. ADVANCE ORGANIZERS

Relate new reading material to something you already know, to your background or experiences. Ask your teacher for assistance in developing these issues.

H. GROUP DISCUSSIONS

- a) Group discussions in and out of class will help you to discover what you bring to your reading, what your fellow students bring, as well as shared experiences.
- b) If you find they have new background information, ask for more information from them.

I. QUIZ # 13

a. Define the following sentences “True” or “False”:

1. Managerial accounting is responsible for goals’ achievement.
2. The focus of managerial accounting is significant differences between budgeted costs and actual costs.
3. Most costs are determined after production ends.
4. Usually, customers are looking for the best price.
5. To compete on the basis of price, the seller must carefully distribute costs.
6. Cost competition determines price competition.
7. Managers play a great role in cost classification.
8. Overheads belong to the manufacturing costs.
9. Depreciation is associated with direct costs.
10. Decision making based on company’s own accounting helps it perform better.

b. Give the opposite:

essential, conveniently, simple, disclosure, slightly, unchanged, to vary, legal, primary, rapid.

c. Decode the following terms:

to convey, volume, default, segregated, to facilitate, traceability, to incur, donation, to ascertain, to implement.

d. Translate the following into English:

1. У фінансовій бухгалтерії створюється інформація про поточні витрати в поелементному розрізі й доходи організації, про стан дебіторської й кредиторської заборгованості, про розміри фінансових інвестицій і доходи від них, стан джерел фінансування тощо.
2. Одне з основних завдань управлінської бухгалтерії – вірогідність обліку фінансових результатів діяльності підприємства, його майнового й фінансового стану.
3. Користувачами інформації при цьому є в основному зовнішні стосовно підприємства користувачі: державні податкові органи, біржі, банки, фінансові інститути, постачальники й покупці, потенційні інвестори.

4. Фінансова звітність не є комерційною таємницею підприємства, вона відкрита до публікації.
5. У системі управлінського обліку обов'язково виокремлюються такі об'єкти обліку, як „центри відповідальності”.
6. Управління витратами відбувається через діяльність людей, які повинні відповідати за доцільність виникнення певного виду витрат.
7. Центр відповідальності – це структурний елемент підприємства, у межах якого менеджер відповідальний за доцільність понесених витрат.
8. Об'єкт управлінського обліку становлять результати, які можуть також обліковуватися за місцями виникнення витрат і за носіями витрат.
9. У процесі зіставлення витрат і результатів різних об'єктів обліку виявляється ефективність виробничо-господарської діяльності.
10. Адміністрація підприємства самостійно встановлює склад, строки й періодичність подання внутрішньої звітності, що є також одним з об'єктів управлінського обліку.

e. Check the terms in the dictionaries. Learn and use in your discussion.

advertisement cost	fixed charges	overheads
batch of products	indirect costs	performance
committed costs	inventory valuation	evaluation
cost control	life cycle of a	performance report
cost leadership	product	profit determination
depreciation	managerial	property taxes
discretionary costs	accounting system	selling &
financial assets	manufacturing costs	administration costs
financial costs	manufacturing costs	shared costs
financial reporting	non-manufacturing	step fixed costs
mechanism	costs	step variable costs
	operating costs	

--	--	--

f. Revise/learn and use in your discussion.

accommodate	especially	operation
accordingly	essential	opportunity
achieve	estimate	ordinary
achievement	evaluate	organization
acquire	evaluation	origin
activity	even	output
actual	everyone	outsider
add	evolve	over
additional	exactly	overheads
additionally	examine	parcel
adequately	example	part
administration	exceptional	particular
advance	exchange	past
advantage	existence	pay
advertisement	existing	people
advertising	expenses	perceived
after	express	performance
agreement	extent	period
aim	facilitate	personnel
aircraft	factory	physical
airline	feature	planning
alike	federal	plant
allocated	final	play
allocation	finalize	plus
allows	finally	point
already	financial	policy
also	find	position
alternative	finish	possible
alternatively	firm	potential
always	fit	power
among	fixed	preventative

amount	flow	price
analysis	follow	pricing
analyze	foregone	primary
annual	format	process
another	formula	produced
applied	forth	producing
apply	free	product
approval	frequent	production
arise	fuel	profit
ascertained	functional	program
assembly	further	progress
asset	gain	pronounce
assigned	garment	property
assist	general	proportion
attempt	generally	provide
automated	get	published
available	give	purchase
award	global	purpose
away	go	quality
based	goal	quantity
basic	good	rapid
basics	great	raw
basis	hand	react
batch	health	recognize
become	heighten	reduce
begin	helpfulness	reduced
behavior	hence	reduction
behind	here	refer
below	highly	related
benefit	hour	relationship
besides	hub	relevant
best	hungry	remain
between	international	rent
bill	identify	rental

board	imperative	report
borrow	implement	reporting
box	implemented	represent
budgeted	implication	require
budgeting	imply	respond
building	important	rest
business	improve	restriction
but	improved	result
button	include	revenue
buyer	inconvenient	right
calculated	increase	role
call	increasingly	room
care	incur	round
careful	incurred	routinely
carefully	indirect	sale
case	industry	same
cash	inevitable	schedule
categorized	information	scratch
certain	initial	search
chair	insight	second
change	insignificant	segregated
changed	instant	selected
charge	instill	seller
charitable	institution	selling
circumstance	integration	services
classification	inter-company	servicing
classified	interdependent	set
closed	international	share
closely	interpret	short
committed	interrelated	should
common	inventory	show
communicate	invite	signal
communication	involve	significant
company	isolate	simple

compare	item	situation
comparison	keep	slightly
compete	key	specific
competition	know	spend
competitive	label	squeeze
competitor	labor	standardized
component	laboratory	statement
computer	language	step
concept	law	still
condition	leadership	stitching
connection	legal	stock
consider	level	stockholder
constantly	engineer	store
context	life	stored
continuously	likewise	straight
contract	limitation	strategic
control	line	strategy
convenient	literature	strive
conveniently	live	structure
convey	location	struggle
convinced	long	subsequent
corrective	look	successful
correctly	machine	successfully
cost	make	sufficient
cover	maintain	sum-of-digit
creditor	maintenance	support
critical	major	suppose
currently	make	surface
customer	manage	system
cycle	management	take
data	managerial	tank
decrease	manager	tariff
default	managing	task
degree	manner	tax

deliver	manufacture	technique
delivery	manufactured	telecommunication
depend	manufacturing	telephone
design	many	term
designate	margin	time
designed	market	timely
detailed	match	today
determination	material	total
determined	may	traceability
develop	meaning	trace
development	means	trade
differ	measure	training
difference	mechanism	transportation
different	meet	treaty
differentiation	meeting	trend
difficult	merchandise	true
dimension	merely	type
direct	method	unavoidable
directly	methodology	unchanged
director	might	under
disclosure	money	understand
discretionary	month	understanding
dismantled	more	undertake
distinguish	moreover	unit
donation	move	united
double	much	university
doubled	multiple	unprofitable
doubling	national	use
down	nature	used
drive	necessary	valuation
earmark	need	value
ease	new	valued
easy	next	variable
economic	non-manufacturing	variation

economy	north	vary
edible	note	very
electric	now	viewpoint
electricity	number	volume
else	observe	want
employee	offer	way
engineering	offices	well-informed
enhance	often	world-class
enter	oil	yarn
error	operating	year

J. FAMOUS ECONOMIST

Follow his example:

KNUT WICKSELL (1851–1926)

Throughout his life Knut Wicksell was a highly controversial figure. On principle he refused to marry the woman with whom he chose to live and raise a family. In 1909 he served two months in jail for a speech that mocked the story of the Immaculate Conception. And he championed the rights of women, birth control, and universal voting long before these ideas gained acceptance in Sweden.

The economics of Wicksell was likewise controversial. An early advocate of the marginal productivity theory of distribution, Wicksell, in contradistinction to other proponents of this theory, drew policy conclusions from the theory that required greater government intervention in economic life. And in contrast to virtually all his contemporaries, Wicksell held that inflation or unemployment would continue indefinitely unless appropriate economic policies were employed.

Wicksell was born in Stockholm, Sweden, in 1851 to middle class parents. Because his mother died when he was very young Wicksell was raised by an uncle and aunt. He received a good high school

education, showing talent in mathematics and natural sciences. In 1869, Wicksell enrolled at Uppsala University with the goal of becoming a Doctor of Philosophy and Professor of Mathematics. But his academic career turned out to be long and varied. He developed interests in poetry, feminism, and politics, and he published a collection of twenty-five poems in 1878. Then in the 1880s he became an ardent neo-Malthusian, and traveled throughout Sweden lecturing about the dangers of overpopulation and the need to control population growth through celibacy and birth control. As a result of these diversions, it was not until 1885 that Wicksell received a graduate degree in mathematics.

However, his interests continued their metamorphosis, moving from mathematics to economics and social reform. With an inheritance he received after the death of his father, Wicksell went to London in order to read the classics of economics at the British Museum. He returned to Sweden with a desire to teach and write about economics. But, at the time, economics was taught by the law faculty in Swedish universities. So Wicksell had to study law and obtain a law degree before he could receive an appointment teaching economics. In 1899, at the age of 48, Wicksell passed his law examinations and became a lecturer in political economy and law at Uppsala University. His academic career, understandably, was very short; Wicksell retired in 1916 at the age of 65. Wicksell made substantive contributions in three distinct areas of economics – marginal productivity theory, monetary theory, and public finance.

Wicksell and British economist Philip Wicksteed each (independently) solved the adding-up or product exhaustion problem. This involved describing when the marginal productivity theory could explain the distribution of all the output produced by one firm. Wicksell was an early proponent of the marginal productivity theory of distribution, which held that an individual's income depends upon their (marginal) contribution to firm revenues. One question left unanswered about this theory was whether the sum of all marginal productivities, and hence all incomes, was equal to the value of the output produced by the firm.

Wicksell demonstrated that whether this was true or not depended upon returns to scale. This economic notion concerns how output increases given a certain increase in inputs. To take a very simple example, consider a farm devoted exclusively to growing corn. If we double the number of acres used for growing corn and get exactly twice as much corn we have constant returns to scale. If we double the number of acres used, but output increases by less than 100 percent, we have decreasing returns to scale. Finally, if we double our acreage and our output of corn more than doubles we have increasing returns to scale.

Of major economists, Wicksell is one of the most underrated. One likely reason for this is that Wicksell made contributions in so many different and diverse areas. Another reason is that Wicksell did not develop any key economic notions, nor did he contribute to the mathematization of economic analysis. Finally, Wicksell himself must share some of the blame. He was too controversial, and too readily expressed great contempt for other economists and their theories.

UNIT FOURTEEN.

STOCKHOLDERS' EQUITY

A. BEFORE YOU READ

1. CONCEPT MAPPING:

Develop a "mind map" around the notion "EQUITY" to comprehend the relationship between the new concepts and the concepts you know.

2. BRAINSTORMING:

- a) Examine the title of the selection (the key sentence) you are about to read.
- b) List all the information that comes to mind about this title.
- c) Use these pieces of information to recall and understand the material.
- d) Use this knowledge to reframe or reorder what you know, or to note what you disagree with, for further research.

3. SKIMMING THE TEXT:

Scan the text to comprehend the content structure.

4. VOCABULARY PREVIEWS:

Look up unfamiliar key words before reading to improve your background and comprehension.

5. PRE-QUESTIONS:

Write out a series of questions you expect to be answered when reading:

6. DEFINITION:

- a) What are dividends / capital gains / charter?
- b) Where does sale of stock fit?
- c) What group of transactions does recognition of periodic net income or loss belong to?

7. CHARACTERISTICS:

- a) How would I determine the value of shareholder's equity reported in the balance sheet?
- b) What does invested capital look like?
- c) What are its parts?

8. EXPERIENCE:

- a) What experience have I had with valuating stockholder's equity?
- b) What can I imagine about my participation in the Public Company Accounting Oversight Board?

B. READING

- a) Highlight signal words, main idea sentences, phrases, headings and subtitles.
- b) Pay attention to specific plans of paragraph or text organization.
- c) Define the phrases in italics:

14.1. Social-media firms see champagne; others see bubbles.

Initial public offerings (IPOs) of *internet start-ups* are like buses: you wait ages for one to arrive, then several turn up at once. After years

in the doldrums, the IPO market for technology firms has suddenly sprung to life again in America.

LinkedIn, a social network for professionals, kicked things off last month with a *flotation* on the New York Stock Exchange (NYSE) that valued it at \$8.8 billion—572 times its profits last year—at the end of the first day of trading. Now a number of *web outfits*, including Groupon, which offers online coupons, and Pandora Media, an internet-radio firm, are queuing to join the party. Other start-ups could soon add themselves to the crowd, notably Zynga, the creator of addictive online games such as FarmVille, in which players grow turnips and breed pigs.

Web companies from China, Russia and elsewhere are also rushing to list on American exchanges. Shortly after LinkedIn's stunning debut, which saw its share price more than double, Yandex, Russia's largest search engine, floated its shares on the NYSE. Its price soared by more than 50% on the first day of trading. These first-day "pops", as bankers call them, have stoked fears that a new *internet bubble* is inflating and reignited a furious debate about how best to value web start-ups.

Groupon's potential price tag (\$15 billion, by one estimate) is already controversial. Labelled "the fastest-growing company ever" by ardent fans, the firm has turned a simple concept into a money-spinner. Customers sign up to receive offers from local firms. Groupon spices up the process by, say, having some offers expire unless a certain minimum number of people subscribe to them. This prompts people to nag their friends to shop at the same boutique or eat at the same diner—hence the "group" in Groupon.

The firm typically keeps roughly half of the money that customers fork out, with the rest going to the businesses that actually supply the goods and services. Last year its revenues were \$713m. In the first quarter of 2011 it took in a breathtaking \$645m. Although Groupon is less than three years old, it operates in 43 countries and has no fewer than 83m subscribers.

The snag is that the company is still bleeding red ink. It lost \$390m in 2010 and \$103m in the first quarter of this year. Critics find this alarming. Groupon retorts that it is simply spending heavily to scoop up subscribers while the market it created is in its infancy. In its *IPO prospectus*, it urges investors to focus on other measures, such as *free cashflow* (operating cashflow minus capital expenditure), which was positive last year, and the arcane-sounding “adjusted consolidated segment operating income”, which excludes such things as cash spent on online marketing.

“The path to success will have twists and turns, moments of brilliance and other moments of sheer stupidity. Knowing that this will at times be a bumpy ride, we thank you for considering joining us,” writes Groupon’s boss, Andrew Mason, in a letter to *potential stockholders*. Not everyone is reassured.

How should one value a *money-losing firm* in a new industry? PwC, a consultancy, ranks web firms according to their “value per user”. This is calculated by dividing a start-up’s estimated worth (derived from venture-funding rounds, equity transactions on secondary markets and so on) by the number of its users.

By this benchmark, Groupon scores well, just below Facebook and Renren, a Chinese social network with a listing in America (see chart). But such measures do not reflect the risks of Groupon’s model. The company may boast 83m users, but only 16m have actually bought a Groupon. Its success outside America has been patchy: just 9% of its subscribers in London have ever bought anything from it.

Facebook enjoys a powerful network effect; Groupon, less so. It must spend a fortune to keep signing up new subscribers. Hence its keenness to steer investors towards a measure that excludes marketing costs. Groupon’s growth has attracted big competitors such as LivingSocial as well as a host of smaller start-ups. These rivals could poach its users with cheaper deals. And they could offer retailers better terms, too, in the process threatening Groupon’s fat margins.

All this shows why setting an offering price for shares in an IPO is so tricky. “It’s more an art than a science,” says Paul Bard of

Renaissance Capital, an IPO research firm in America. Investment banks are supposed to be masters of that art. But some people, such as Peter Thiel, a big early investor in Facebook and LinkedIn, have accused the banks involved in the LinkedIn transaction of drastically underpricing the shares.

Bankers have sometimes been accused of *underpricing deals* so that their investment clients can make a swift killing on a firm's shares. However in this case Mr Thiel's gripe was that the banks failed to appreciate LinkedIn's tremendous potential. Perhaps it never occurred to the bankers involved that people would pay so much for such a *risky stock*.

Yet there is something to be said for erring on the side of caution when setting initial offer prices. Elizabeth Demers, a professor at INSEAD, a business school near Paris, points out that what companies lose in terms of *hard cash* in the early days can often be made up for in terms of the publicity they get when the news media applaud the explosive rise in their share prices. They can also launch secondary issues of other shares at the new price established by the IPO. Unless, of course, this really is a bubble, and it bursts.

14.2. Monitoring regulation, complexity, and human capital.

14.2.1. Make an English précis of the article.

14.2.2. Make a Ukrainian précis of the article.

Complexity and competition in the public accounting profession will rise as businesses demand more, better, faster, and cheaper.

Working in teams and harnessing data will become more critical. Services in areas of assurance, audit, tax, and advisory work will remain the core, while emerging international markets will open up risk and opportunities and, operationally, demand a balance between leveraging local talent and providing globally consistent services.

These were some of themes on the minds of leaders from eight major accounting firms who gathered Wednesday for a panel discussion at the AICPA's spring Council meeting in Washington.

Firm executives are bullish about the future of the profession and public company auditing. They are seeing signs of optimism and a willingness to invest and grow among their clients. And, while upbeat, the panelists were outspoken about the level of scrutiny public company auditors are under and its potential impact on the future of the profession.

Ten years after the Sarbanes Oxley Act of 2002 imposed new regulations on public company auditors, additional measures, such as mandatory audit firm rotation, are being debated in the U.S. and Europe.

“We’re going through a period of change,” said Bill Freda, vice chairman and senior partner at Deloitte LLP, pointing to what he described as an unprecedented level of stress in the public company audit space.

But Freda and the other panelists are confident the pendulum will swing back. Meanwhile, the firms are working to keep the discussion focused on changes that would make an impact on audit quality and protect investors and capital markets.

“If it enhances audit quality, we ought to be for it,” said John Veihmeyer, chairman and CEO of KPMG LLP. He said he worries some of the measures under discussion by the PCAOB and European Commission would not improve audit quality and would have unintended consequences, including a level of regulation and second-guessing that would create barriers to attracting and retaining top talent to accounting.

Variable optimism, global forces

The firm leaders, who have insight into the C-suite and board room through the public and private companies they serve, said they sense resilience and optimism. But Veihmeyer said the euro-zone crisis, uncertainty in Washington in the run-up to the presidential election, and the potential for a major eruption in the Middle East that would disrupt trade are weighing on the minds of business leaders.

The financial sector is stronger, private equity and deal-making are heating up, and companies appear to be ready to pull the trigger on

technology investments, said Chuck Allen, CEO of Crowe Horwath LLP.

But much of the global business outlook “depends on where you sit,” said Steve Howe, managing partner, Ernst & Young. Howe is seeing optimism in the U.S. His firm’s fastest growing market is Brazil and he sees great potential in the BRIC countries. But he called Europe a day-to-day concern. “It’s quite variable,” Howe said.

Consistent quality

As public accounting firms expand internationally, providing consistent quality across different and often sprawling markets will be a challenge, panelists said. One way Deloitte is meeting the challenge is through Deloitte University, a staff education initiative designed to cement a single global culture, Freda said.

Grant Thornton is focusing on continuous improvement to its methodologies in audit and tax, said Lou Grabowsky, the firm’s chief operating officer. Meanwhile the firm is tracking indicators of quality and developing processes to benchmark its professionals and discover roots of problems through data mining.

KPMG’s Veihmeyer said one of the biggest challenges facing leaders in public accounting is making sure their teams have enough time to serve complex clients.

Jean Hobby, a national assurance sector leader at PwC U.S., said globalization will put an increased importance on one aspect of the human capital equation: diversity.

“It’s now a necessity,” Hobby said. “Ten years from now it will be an absolute requirement.” Some gains in diversity in the profession will happen organically, she said, while others will need leadership to encourage.

14.3. Accounting firm payments to owners flunk independent investor test.

14.3.1. Give a written translation of Paragraph IV.

The recession and financial market turmoil will add to fiscal pressures.

The firm was founded in 1979 by three accountants. During the tax years at issue—2001, 2002, and 2003—the three founders served as the firm’s board of directors and sole officers. During those years, the firm made payments to three related entities, which then passed those payments on to the founders in proportion to their hours worked for the firm.

The payments to the related entities reduced the firm’s taxable income to zero or near zero. The firm initially characterized those payments as consulting fees, but during the trial in Tax Court, claimed they were compensation for the founders’ services. A corporation can deduct a “reasonable allowance for salaries or other compensation” (Sec. 162(a)(1)), but cannot deduct dividends.

The IRS disallowed the firm’s deductions for the “consulting fees,” reclassifying them as dividends, and also imposed Sec. 6662 accuracy-related penalties on the firm. The Tax Court upheld the IRS’s determinations.

On appeal, the Seventh Circuit, in an opinion authored by Judge Richard Posner, applied the “independent investor test” to the facts of the case. The Seventh Circuit characterized the premise of this test as “an investor who is not an employee will not begrudge the owner-employee his high salary if the equity return is satisfactory; the investor will consider the salary reasonable compensation for the owner-employee’s contribution to the company’s success” (slip op. at 4). However, in this case the payments reduced the firm’s income—and thus its equity return to investors—to zero. Thus, the court held, “the firm flunks the independent-investor test” (slip op. at 8).

The Seventh Circuit rejected the firm’s argument that the consulting fees were really disguised salary. The court noted that the firm did not otherwise treat them as labor expenses: It did not withhold payroll taxes, report them on W-2s, or disclose them on the officer compensation schedule of Form 1120, U.S. Corporation Income Tax Return.

The court also rejected the firm’s argument that the payments could not have been dividends because they were distributed in

proportion to the number of hours each founder worked rather than their ownership percentages. The court said this was irrelevant: “[I]f the fees were paid out of corporate income ... the firm owed corporate income tax on the net income hiding in those fees. A corporation cannot avoid tax by using a cockeyed method of distributing profits to its owners” (slip op. at 9–10).

The court affirmed the Tax Court’s decision that the payments were taxable dividends and not deductible business expenses and that the firm was liable for the accuracy-related penalty.

C. AFTER YOU READ

What is the author trying to say?

D. LANGUAGE FOCUS

a) Make it negative:

1. However, in this case the payments reduced the firm’s income—and thus its equity return to investors—to zero.
2. The firm initially characterized those payments as consulting fees, but during the trial in Tax Court, claimed they were compensation for the founders’ services.

b) Paraphrase the following:

1. But some people, such as Peter Thiel, a big early investor in Facebook and LinkedIn, have accused the banks involved in the LinkedIn transaction of drastically underpricing the shares.
2. The IRS disallowed the firm’s deductions for the “consulting fees,” reclassifying them as dividends, and also imposed Sec. 6662 accuracy-related penalties on the firm.
3. The court affirmed the Tax Court’s decision that the payments were taxable dividends and not deductible business expenses and that the firm was liable for the accuracy-related penalty.

c) Relate the action to the past/present/future:

1. Meanwhile the firm is tracking indicators of quality and developing processes to benchmark its professionals and discover roots of problems through data mining.

2. Facebook enjoys a powerful network effect; Groupon, less so.

d) *Turn direct into indirect:*

1. "It's now a necessity," Hobby said. "Ten years from now it will be an absolute requirement." Some gains in diversity in the profession will happen organically, she said, while others will need leadership to encourage.
2. All this shows why setting an offering price for shares in an IPO is so tricky. "It's more an art than a science," says Paul Bard of Renaissance Capital, an IPO research firm in America. Investment banks are supposed to be masters of that art.
3. . The court said this was irrelevant: "[I]f the fees were paid out of corporate income ... the firm owed corporate income tax on the net income hiding in those fees.

E. VOCABULARY ARRANGEMENT

- a) Arrange a semantic field of the words relating to the learning to the topic.
- b) Add words you probably already understand to connect relationships between what is known and the unknown.
- c) Supply the English equivalent to the Ukrainian phrases from the list given below:

The objective of this IFRS is to deal with the information that an *організіція* should disclose in its financial statements to enable users to evaluate the nature and financial effects of the business activities and the *економічних умов* in which the business operates.

A reportable segment is an *операційний сегмент* or aggregations of operating segments that meet specified criteria.

Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the *керівником* in deciding how to *розподіляти ресурси* and in *оцінці результатів*.

IFRS 8 requires a *організація, що звітує* to disclose in their financial statements a measure of operating segment profit or loss and of segment assets. The IFRS also requires a *узгодження* of total

reportable segment revenues, total profit or loss, *сумарних активів*, liabilities and other amounts disclosed within the financial statements for *нідзвітних* segments to corresponding amounts in the entity's financial statements.

The IFRS also requires an entity to report information about the revenues it derives from its products or services and disclose information concerning the countries in which it earns revenues. In addition, the IFRS requires descriptive information to be disclosed concerning the way the operating segments were determined as well as the products and services provided by the segments, the differences between the measurements used in reporting segment information and those used in the entity's financial statements as well as changes in the measurement of segment amounts from period to period.

1. allocate resources
2. assessing performance
3. chief operating decision maker
4. economic environment
5. entity
6. operating segment
7. reconciliation
8. reportable
9. reporting entity
10. total assets

d) Suggest the correct translation:

The banking world is buzzing (A) with the possibility that investor balance sheets are about to be vastly reshaped. American rule makers (B) in the accounting industry (C) are looking to change the way land and investments are valued.

According to Generally Accepted Accounting Principles (GAAP), such properties are currently held at historical cost (D), and depreciated (E) yearly. Soon, investors may be required to hold them instead at fair-value (F).

The Financial Accounting Standards Board (FASB) has tentatively voted to expand fair-value accounting (G) to land and buildings held for investment. No implementation date has been set at this time, but a ruling is expected in 2011.

If fair value becomes the rule, it will mean that hundreds of billions of dollars of commercial property will be accounted for in a way that will completely shuffle the balance sheets of real estate companies (H) – which is a change that will be reflected in net income.

The National Association of Real Estate Investment Trusts (NAREIT), a trade association (I), told Reuters that the companies most affected will be real estate investment trusts (REITs), which own approximately \$500 billion of commercial property (J).

F. INFORMATION FILE

Share new information with your fellow students.

G. ADVANCE ORGANIZERS

- a) Relate new reading material to something you already know, to your background or experiences.
- b) Ask your teacher for assistance in developing these issues.

H. GROUP DISCUSSIONS

- a) Group discussions in and out of class will help you to discover what you bring to your reading, what your fellow students bring, as well as shared experiences.
- b) If you find they have new background information, ask for more information from them.

I. QUIZ # 14

a. Define the following sentences “True” or “False”:

1. Pandora offers online coupons.
2. Zynga creates online games.
3. Yandex IPO was very successful.

4. LinkedIn is the fastest-growing company ever.
5. Consultancies rank web firms according to their “value per customer”.
6. Some banks, according to investors, may underprice shares.
7. Publicity may compensate for hard cash in some companies.
8. Quality, process and people help firms benchmark its professionals and discover problems.
9. Globalization is linked to diversity.
10. The firm made payments to four related entities.

b. Give the opposite:

public, global, additional, barrier, single, related, to deduct, reasonable, disguised, liable.

c. Decode the following terms:

assurance, bullish, outspoken, resilience, to benchmark, consulting, premise, payroll, percentage, penalty.

d. Translate the following into English:

1. Головною властивістю капіталу є те, що він характеризується чистою продуктивністю.
2. Чистою продуктивністю проекту капіталовкладень є така ринкова норма відсотка, при якій даний проект повинен якраз окупити витрачені на нього засоби.
3. В умовах, коли перспективи розвитку ринку є абсолютно визначеними, кожен суб'єкт підприємництва може одержати будь-яку суму грошей у позику або надати будь-яку суму грошей в позику за існуючою на ринку єдиній конкурентній ставці відсотка.
4. Комплексне оцінювання фінансового активу передбачає визначення його основних характеристик –ліквідності, ризиковості, дохідності тощо.
5. Дохід по активу визначається очікуваними грошовими потоками по ньому, тобто очікуваними відсотковими, дивідендними виплатами, а також сумами, отриманими від погашення чи перепродажу фінансового активу іншим учасникам ринку.

6. Розрізняють два основних види доходу по фінансовому активу: дохід від володіння та дохід від перепродажу активу на вторинному ринку.
7. Очікувані грошові потоки по фінансовому активу можуть бути більш або менш визначені як за величиною, так і за терміном надходження.
8. Відповідно, оцінювання очікуваних грошових потоків по активу полягає в обчисленні визначених або оцінюванні невизначених грошових потоків.
9. Отже, оцінюється не тільки величина очікуваного грошового потоку, а також ймовірність його надходження.
10. Якщо фінансовий актив є борговим зобов'язанням, ставка дисконтування визначається на основі існуючих процентних ставок по процентних зобов'язаннях і відображає очікувану дохідність фінансового активу.

e. Check the terms in the dictionaries. Learn and use in your discussion.

accuracy-related penalty adjusted consolidated segment allowance assurance consulting fees corporate income	corporate income tax deductible business expenses equity transactions marketing costs operating income payroll tax	public accounting firm public company auditors secondary markets taxable dividends taxable income venture-funding rounds
---	---	--

f. Revise/learn and use in your discussion.

absolute accuracy-related accused across act actually	fee financial find firm first-day fiscal	positive potential powerful premise presidential pressures
--	---	---

add	float	price
addictive	flotation	private
additional	flunk	problem
advisory	focus	process
affirm	focused	profession
age	focusing	professional
alarming	fork	professor
allowance	fortune	profit
anything	found	prompt
appeal	founder	proportion
appear	free	prospectus
applaud	friend	protect
applied	furious	provide
appreciate	future	public
arcane-sounding	gain	publicity
ardent	game	pull
area	gather	put
argument	get	quality
arrive	give	quarter
art	global	queue
aspect	globalization	quite
assurance	globally	rank
attract	goods	rather
attracting	great	ready
author	gripe	really
avoid	grow	reasonable
back	growing	reassure
balance	growth	receive
banker	half	recession
barrier	happen	reclassify
begrudge	hard	red
benchmark	harness	reduced
big	heating	reflect
billion	heavily	regulation

bleeding	hide	reignited
board	high	rejected
boast	host	related
boss	hour	remain
boutique	human	report
breathtaking	impact	requirement
breed	importance	research
brilliance	imposed	resilience
bubble	improve	rest
bullish	improvement	retailer
bumpy	include	retain
burst	income	retort
bus	increased	return
business	independent	revenue
calculate	indicator	ride
call	industry	rise
capital	infancy	risk
case	inflate	risky
cash	initial	rival
cashflow	initially	room
caution	initiative	root
cement	ink	rotation
certain	insight	roughly
chairman	international	round
challenge	internationally	run-up
champagne	internet	rushing
change	internet-radio	salary
characterize	invest	same
chart	investment	satisfactory
cheap	investor	say
chief	involve	schedule
claim	irrelevant	school
client	issue	science
cockeyed	join	scoop

commission	joining	score
company	judge	scrutiny
compensation	just	search
competition	keenness	second-guessing
competitor	keep	secondary
complex	kick	sector
complexity	killing	see
concept	labor	segment
concern	last	senior
confident	launch	sense
consequence	leader	serve
consider	leadership	service
consistent	letter	setting
consolidated	level	several
consultancy	leverage	share
consulting	liable	sheer
continuous	life	shop
contribution	like	shortly
controversial	list	should
core	listing	show
corporate	local	side
corporation	lose	sign
cost	major	signing
council	make	simple
country	making	simply
coupon	managing	single
course	mandatory	sit
court	margin	snag
create	market	soar
creator	marketing	social
crisis	master	social-media
critical	may	sole
critic	meanwhile	soon
crowd	measure	space

culture	media	spend
customer	meeting	spending
data	method	spices
day	methodology	sprawl
day-to-day	middle	spring
deal-making	mind	staff
debate	minimum	start-up
debut	mining	steer
decision	minus	still
deduct	model	stock
deductible	moment	stockholder
deduction	money	stoke
demand	money-losing	stress
describe	money-spinner	strong
designed	monitoring	stunning
determination	month	stupidity
develop	nag	subscribe
different	national	subscriber
diner	near	success
director	necessity	such
disallow	need	suddenly
disclose	net	supply
discover	network	suppose
discussion	new	sure
disguised	news	swift
disrupt	notably	swing
distributed	noted	tag
diversity	now	talent
dividend	number	team
doldrums	occur	technology
double	offer	term
drastically	offering	test
each	officer	threatening
early	often	time

eat	old	top
education	online	toward
effect	only	tracking
election	open	trade
elsewhere	operate	trading
emerging	operating	transaction
employee	operationally	treat
encourage	opinion	tremendous
end	opportunity	trial
engine	optimism	tricky
enhance	organically	trigger
enjoy	otherwise	turmoil
enough	ought	turn
entity	outfit	turnip
equation	outlook	twist
equity	outside	typically
erring	outspoken	uncertainty
eruption	owe	underpricing
establish	owner	unintended
estimate	ownership	university
estimated	panel	unprecedented
euro-zone	panelist	upbeat
ever	partner	uphold
everyone	party	urges
exchange	pass	user
exclude	patchy	using
executive	pay	value
expand	payment	valued
expenditure	payroll	variable
expenses	penalty	venture-funding
expire	pendulum	wait
explosive	people	way
face	percentage	web
fact	perhaps	weighing

fail	period	well
fan	pig	willingness
fastest-growing	player	withhold
fat	poach	work
fear	point	worth

J. FAMOUS ECONOMIST

Follow his example:

ARTHUR CECIL PIGOU (1877-1959)

A. C. Pigou is known as the father of modern welfare economics, which studies how to make economies operate more efficiently as well as the trade-offs between efficiency and equity. Pigou is also one of the founders of modern public finance. This work developed the means to analyze how taxes impact the economy and the justification for government intervention in economic affairs.

Pigou was born in 1877 at Ryde, on the UK's Isle of Wight. His father was an officer in the British army; his mother came from a long line of Irish government officials. Pigou studied first at Harrow, an elite English private school, and then at King's College, Cambridge. He began studying history at Cambridge; but in his third year he came under the influence of Alfred Marshall and Henry Sidgwick, who convinced him to study political economy. Like Marshall, Pigou was attracted to economics for its practical value. He sought to teach his students that "the main purpose of learning economics was to be able to see through the bogus economic arguments of the politicians".

When Marshall retired from Cambridge in 1908, Pigou succeeded him in the Chair of Political Economy. From then until his retirement in 1943, Pigou was the main expositor of Marshallian economics at Cambridge.

World War I became a life-altering experience for Pigou. He continued teaching at Cambridge, but also served in the Ambulance

Corps close to the front line during vacations. Johnson (1960, p. 153) reports that “this experience was responsible for transforming the gay, joke-loving, sociable, hospitable young bachelor of the Edwardian period into [an] eccentric recluse.” Besides being a recluse, Pigou was also known as an extremely frugal human being, especially when it came to clothing. He frequently wore tatty, stained clothing, and showed up “at the Marshall Library one day in the fifties proudly wearing a suit bought before the First World War”.

The main economic contributions of Pigou fall into two broad categories. First, his analysis of externalities provides the foundation for modern public finance, environmental economics and welfare economics. Second, Pigou was the first major opponent of the macroeconomic revolution started by Keynes.

Pigou’s (1906, 1912) first works in economics were on industrial relations and import duties. These studies led to an interest in how government policy could increase national well-being. Pigou (1912) raised this general question, and then spent most of his life trying to answer it. In so doing, he invented a good deal of modern public finance, especially the arguments and rationale for government intervention in the economy.

More output would increase general welfare, since people desire to have things, and the more things they have (in general) the better off they are. Redistributive economic policies would likewise increase general welfare. This conclusion followed from Pigou’s belief that the satisfaction derived from money declines as one has more and more money. Another few hundred dollars means little to Bill Gates, who is fabulously wealthy, but to someone who is unemployed this extra money may make the difference between life and death. Consequently, the loss of welfare from taxing the rich must be less than the gain in economic welfare from giving that money to the poor. Progressive taxation and transfer programs to aid the poor could thus be justified as improving the overall well-being of the nation.

Pigou spent most of his career within the shadows of two giant Cambridge economists, Marshall and Keynes. For this reason, his

contributions have seemed small by comparison. While not achieving the stature of either Keynes or Marshall, the influence of Pigou remains large. The way that economists analyze and justify government intervention in economic affairs stems from Pigou. It is for this reason that Pigou became the father of modern public finance and modern welfare theory. It is also for this reason that the field of environmental economics rests squarely upon his shoulders.

UNIT FIFTEEN.

BUDGETING

A. BEFORE YOU READ

1. CONCEPT MAPPING:

Develop a "mind map" around the notion "BUDGET" to comprehend the relationship between the new concepts and the concepts you know.

2. BRAINSTORMING:

- a) Examine the title of the selection you are about to read.
- b) List all the information that comes to mind about this title.
- c) Use these pieces of information to recall and understand the material.
- d) Use this knowledge to reframe or reorder what you know, or to note what you disagree with, for a further research.

3. SKIMMING THE TEXT:

Scan the text to comprehend the content structure.

4. VOCABULARY PREVIEWS:

Look up unfamiliar key words before reading to improve your background and comprehension.

5. PRE-QUESTIONS:

Write out a series of questions you expect to be answered when reading:

6. DEFINITION:

- a) What are overheads / budgeted balance sheet / cash budget?
- b) Where does budgetary control fit?
- c) Where does system of a standard costing belong to?

7. CHARACTERISTICS:

- a) How would I describe differences between budgets and forecasts?
- b) What do advantages of budgetary control system look like?
- c) What are the main variances for sale, materials and overheads?

8. EXPERIENCE:

- a) What experience have I had with budgeting?
- b) What can I imagine about my work within the Financial Reporting Council ?

B. READING

- a) Highlight signal words, main idea sentences, phrases, headings and subtitles.
- b) Pay attention to specific plans of paragraph or text organization.
- c) Define the phrases in italics:

15.1. Introduction to budgeting.

A major element of financial data activity rests in the act of budgeting. Budgeting is the process of *allocating finite resources* to the prioritized needs of an organization. In most cases, for a governmental entity, the budget represents the legal authority to spend money. Adoption of a budget in the *public sector* implies that a set of decisions has been made by the governing board and administrators that culminates in matching a government's resources with the entity's needs. As such, the budget is a product of the planning process.

The budget also provides an important tool for the control and evaluation of sources and the uses of resources. Using the accounting system to enact the will of the governing body, administrators are able to execute and control activities that have been authorized by the budget and to evaluate financial performance on the basis of comparisons between *budgeted and actual operations*. Thus, the

budget is implicitly linked to *financial accountability* and relates directly to the financial reporting objectives established by the GASB.

The planning and control functions inherent to any organization, including schools, underscore the importance of *sound budgeting practices* for the following reasons:

The type, quantity, and quality of goods and services provided by governments often are not subject to the market forces of supply and demand. Thus, enacting and adhering to the budget establishes restrictions in the absence of a *competitive market*.

These goods and services provided by governments are generally considered critical to the *public interest and welfare*.

The scope and diversity of operations in an organization make comprehensive financial planning essential for good decisionmaking.

The financial planning process is critical to the expression of citizen preferences and is the avenue for reaching consensus among citizens, members of the governing board, and staff on the future direction of the governmental unit's operations.

The link between financial planning and budget preparation gives the budget document a unique role in governmental organizations. Budgets in the public arena are often considered the definitive policy document because an adopted budget represents the financial plan used by a government to achieve its goals and objectives. When a unit of government legally adopts a financial plan, the budget has secured the approval of the majority of the governing board and reflects *public choices* about which goods and services the unit of government will or will not provide, the prioritization of activities in which the unit of government will be involved, the relative influence of various participants and interest groups in the budget development process, and the governmental unit's plan for acquiring and using its resources.

In an educational environment, budgeting is an invaluable tool for both planning and evaluation. Budgeting provides a vehicle for translating educational goals and programs into financial resource plans—that is, developing an instructional plan to meet student performance goals should be directly linked to determining *budgetary*

allocations. The link between instructional goals and financial planning is critical to effective budgeting and enhances the evaluation of budgetary and educational accountability.

15.2. Objectives of budgeting.

15.2.1. Make an English précis of the article.

15.2.2. Make a Ukrainian précis of the article.

Objectives of Budgeting

Performance evaluation allows citizens and taxpayers to hold policymakers and administrators in governmental organizations accountable for their actions. Because accountability to citizens often is stated explicitly in state laws and state constitutions, it is a cornerstone of budgeting and financial reporting. GASB recognizes the importance of accountability with the following objectives in GASB Concepts Statement 1, Objectives of Financial Reporting, paragraph 77.

Financial reporting should provide information to determine whether current-year revenues were sufficient to pay for current-year services.

Financial reporting should demonstrate whether resources were obtained and used in accordance with the entity's legally adopted budget. It should also demonstrate compliance with other finance-related legal or contractual requirements.

Financial reporting should provide information to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity.

Meeting these objectives requires budget preparation that is based on several concepts recognizing accountability. Accountability is often established by incorporating these objectives into legal mandates that require state and local public sector budgets to be balanced so that current revenues are sufficient to pay for current services; be prepared in accordance with all applicable federal, state, and local laws; and provide a basis for the evaluation of a government's service efforts, costs, and accomplishments.

Although some form of a balanced budget requirement is generally necessary to ensure long-term fiscal health in any organization, variations such as the use of fund balance reserves to pay for current services may be appropriate over a short period. Generally, however, all departures from this fundamental objective must be in accordance with applicable state and local laws and policies.

Given the importance of demonstrating compliance with the approved budget, the financial reporting system must control the use of financial resources and ensure that budgetary appropriations and allocations are not exceeded. To demonstrate compliance, accounting systems are usually operated on the same basis of accounting used to prepare the approved budget. Thus, the actual financial information captured by the accounting system is in a form comparable to the approved budget. Through budgetary integration, the financial accounting system becomes the primary tool to prove financial accountability.

Finally, the budget is evaluated for its effectiveness in attaining the organization's stated goals and objectives. Evaluation typically involves an examination of how funds were expended, the outcomes that resulted from the expenditure of funds, and the degree to which these outcomes achieved the stated objectives. This phase is fundamental in developing the subsequent year's budgetary allocations. In effect, budget preparation not only is an annual exercise to determine the allocation of funds, but also is part of a continuous cycle of planning and evaluation to achieve the stated goals and objectives of the organization.

15.3. Inflation Surges in the Euro Zone.

15.3.1. Give a written translation of Paragraph I.

Over the past 30 years, governmental entities in the United States have used a variety of budget approaches and formats. The development of more advanced budget philosophies reflects growth in both the scope and the complexity of governmental operations and the

simultaneous need for systems that are capable of translating the variety of policy decisions into financial plans. For more information on budgetary approaches, The National Advisory Council on State and Local Budgeting provides additional guidelines. Various budgeting models continue to be commonly used and fall predominantly into categories of (1) line-item, or "traditional," budgeting; (2) performance budgeting; (3) program and planning ("programming") budgeting (PPB); (4) zero-based budgeting (ZBB); and (5) site-based budgeting. In addition, many governments use a variety of hybridized versions to address the specific needs of the organization. Although these approaches are considered distinct in terms of the underlying preparation process, actual formats of the prepared budgets may be quite similar; for example, the format of a site-based budget may be quite similar to the format of a line-item budget. Each of the five basic approaches has relative advantages and limitations.

Line-Item Budgeting

Line-item budgeting is still the most widely used approach in many organizations, including schools, because of its simplicity and its control orientation. It is referred to as the "historical" approach because administrators and chief executives often base their expenditure requests on historical expenditure and revenue data. One important aspect of line-item budgeting is that it offers flexibility in the amount of control established over the use of resources, depending on the level of expenditure detail (e.g., fund, function, object) incorporated into the document.

The line-item budget approach has several advantages that account for its wide use. It offers simplicity and ease of preparation. It is a familiar approach to those involved in the budget development process. This method budgets by organizational unit and object and is consistent with the lines of authority and responsibility in organizational units. As a result, this approach enhances organizational control and allows the accumulation of expenditure data at each functional level. Finally, line-item budgeting allows the accumulation

of expenditure data by organizational unit for use in trend or historical analysis.

Although this approach offers substantial advantages, critics have identified several shortcomings that may make it inappropriate for certain organizational environments. The most severe criticism is that it presents little useful information to decisionmakers on the functions and activities of organizational units. Since this budget presents proposed expenditure amounts only by category, the justifications for such expenditures are not explicit and are often unintuitive. In addition, it may invite micro-management by administrators and governing boards as they attempt to manage operations with little or no performance information. However, to overcome its limitations, the line-item budget can be augmented with supplemental program and performance information.

Performance Budgeting

A different focus is seen in performance budgeting models. In a strict performance budgeting environment, budgeted expenditures are based on a standard cost of inputs multiplied by the number of units of an activity to be provided in that time period. The total budget for an organization is the sum of all the standard unit costs multiplied by the units expected to be provided. Although this strict approach may be useful for certain types of operations, many organizations require a more flexible performance approach. For example, expenditures may be based simply on the activities or levels of service to be provided and a comparison of budgeted and historical expenditure levels.

The performance approach is generally considered superior to the line-item approach because it provides more useful information for legislative consideration and for evaluation by administrators. Further, performance budgeting includes narrative descriptions of each program or activity—that is, it organizes the budget into quantitative estimates of costs and accomplishments and focuses on measuring and evaluating outcomes. Finally, the performance approach eases legislative budget revisions because program activities and levels of service may be budgeted on the basis of standard cost inputs.

However, performance budgeting has limitations owing to the lack of reliable standard cost information inherent in governmental organizations. Further, the performance approach does not necessarily evaluate the appropriateness of program activities in relation to reaching an organization's goals or the quality of services or outputs produced. Consequently, the performance approach has become most useful for activities that are routine in nature and discretely measurable (such as vehicle maintenance and accounts payable processing)-activities that make up only a relatively modest part of the total educational enterprise. But in sum, performance budgeting may offer considerable enhancement to the line-item budget when appropriately applied.

Program and Planning (Programming) Budgeting (PPB)

Program budgeting refers to a variety of different budgeting systems that base expenditures primarily on programs of work and secondarily on objects. It is considered a transitional form between traditional line-item and performance approaches, and it may be called modified program budgeting. In contrast to other approaches, a full program budget bases expenditures solely on programs of work regardless of objects or organizational units. As these two variations attest, program budgeting is flexible enough to be applied in a variety of ways, depending on organizational needs and administrative capabilities.

Program budgeting differs from approaches previously discussed because it is much less control- and evaluation-oriented. Budget requests and reports are summarized in terms of a few broad programs rather than in the great detail of line-item expenditures or organizational units. PPB systems place a great deal of emphasis on identifying the fundamental objectives of a governmental entity and on relating all program expenditures to these activities. This conceptual framework includes the practices of explicitly projecting long-term costs of programs and the evaluation of different program alternatives that may be used to reach long-term goals and objectives. The focus on long-range planning is the major advantage of this approach, and

advocates believe that organizations are more likely to reach their stated goals and objectives if this approach is used.

However, several limitations exist in the actual implementation of this approach, including changes in long-term goals, lack of consensus regarding the fundamental objectives of the organization, lack of adequate program and cost data, and the difficulty of administering programs that involve several organizational units. Yet despite its limitations, program budgeting is often used as a planning device while budget allocations continue to be made in terms of objects and organizational units—a process that has been adopted in many schools throughout the nation. As with performance budgeting, PPB information may be used to supplement and support traditional budgets in order to increase their informational value.

Zero-Based Budgeting

The basic tenet of zero-based budgeting (ZBB) is that program activities and services must be justified annually during the budget development process. The budget is prepared by dividing all of a government's operations into decision units at relatively low levels of the organization. Individual decision units are then aggregated into decision packages on the basis of program activities, program goals, organizational units, and so forth. Costs of goods or services are attached to each decision package on the basis of the level of production or service to be provided to produce defined outputs or outcomes. Decision units are then ranked by their importance in reaching organizational goals and objectives. Therefore, when the proposed budget is presented, it contains a series of budget decisions that are tied to the attainment of the entity's goals and objectives.

The central thrust of ZBB is the elimination of outdated efforts and expenditures and the concentration of resources where they are most effective. This is achieved through an annual review of all program activities and expenditures, which results in improved information for allocation decisions. However, proper development requires a great deal of staff time, planning, and paperwork.

Experience with the implementation of this approach indicates that a comprehensive review of ZBB decision packages for some program activities may be necessary only periodically. Additionally, a minimum level of service for certain programs may be legislated regardless of the results of the review process. As a result, ZBB has had only modest application in schools, although the review of program activities makes ZBB particularly useful when overall spending must be reduced.

Site-Based Budgeting

Site-based budgeting is widely considered the most practical for budgeting within the school district environment, by providing greater control and reporting of school-level data. This budgetary approach (which may be used in combination with any of the four discussed above) emphasizes the decentralization of budgetary decisionmaking. Site-based budgeting places local managers and other staff at the center of the budget preparation process, making them responsible for both the preparation and the maintenance of the budget.

Site-based budgeting is popular in many school settings. Within a school system, site-based budgeting generally involves granting increased budgetary authority to the school. Resources are allocated to the site, with budget authority for programs and services granted to the school's principal and staff. Campuses are normally allocated a certain level of resources that they have the authority to allocate to educational and support services. These budgetary allocations are meant to cover those areas over which campus decisionmakers have control. For example, schools that have authority over staffing decisions may be allocated funds for staff costs using the site-based budgeting approach. In contrast, school districts that make staffing decisions centrally may not allocate funds to the individual school site for staff costs.

The main advantage of site-based budgeting is that those who best understand the needs of a particular organization are empowered to make resource allocation decisions. This decentralization of budgetary authority may also increase local accountability. Another potential advantage of site-based budgeting is the increased level of

participation of the public and staff in budget development. Many site-based budgeting systems create committees composed of staff and community members to determine budgetary allocations. These committees give members a voice from the inception of the budget process, rather than merely when the budget is presented for public review and approval.

Although site-based budgeting may provide substantial benefits, it also has limitations. First, organizations with limited resources may not be capable of granting a meaningful level of site-based budgetary authority. Even if an organization does have discretionary resources, it may be difficult to determine the areas of the budget for which local decisionmakers should be held accountable. Finally, site-based budgeting may be burdensome to some local managers, may increase conflict between staff or departments, or may limit the organization's ability to ensure quality and sufficiency in the services it provides. These problems can be avoided somewhat through the careful design of site-based budgeting guidelines and through training for new budget stakeholders.

Outcome-Focused Budgeting

Consistent with the evaluation objective, government budgeting is becoming increasingly outcome-focused. Fiscal austerity, coupled with intense competition for governmental resources, has precipitated an effort to ensure more effective use of resources at all levels of government. Outcome-focused budgeting is the practice of linking the allocation of resources to the production of outcomes. The objective is to allocate government's resources to those service providers or programs that use them most effectively.

Outcome-focused budgeting is closely linked to the planning process in governments. For a government entity to focus on outcomes, goals and objectives must be identified and tied to budget allocations for the achievement of those objectives. This premise argues that mission-driven (synonymous with outcome-focused) governments are superior to those that are rule-driven because they are more efficient, are more effective in producing desired results, are more innovative,

are more flexible, and have higher employee morale (Osborne and Gaebler 1993). In the context of increased governmental scrutiny of governmental costs, including schools, this model may receive more emphasis in the future.

C. AFTER YOU READ

What is the author trying to say?

D. LANGUAGE FOCUS

a) Make it negative:

1. Financial reporting should demonstrate whether resources were obtained and used in accordance with the entity's legally adopted budget.
2. Meeting these objectives requires budget preparation that is based on several concepts recognizing accountability.
3. Since this budget presents proposed expenditure amounts only by category, the justifications for such expenditures are not explicit and are often unintuitive.
4. Program budgeting differs from approaches previously discussed because it is much less control- and evaluation-oriented.

b) Paraphrase the following:

1. This premise argues that mission-driven (synonymous with outcome-focused) governments are superior to those that are rule-driven because they are more efficient, are more effective in producing desired results, are more innovative, are more flexible, and have higher employee morale.
2. Decision units are then ranked by their importance in reaching organizational goals and objectives.

c) Relate the action to the past/present/future:

1. Performance evaluation allows citizens and taxpayers to hold policymakers and administrators in governmental organizations accountable for their actions.
2. Accountability is often established by incorporating these objectives into legal mandates that require state and local public

sector budgets to be balanced so that current revenues are sufficient to pay for current services.

3. Line-item budgeting is still the most widely used approach in many organizations, including schools, because of its simplicity and its control orientation.

d) *Turn direct into indirect:*

Experts argue: “However, several limitations exist in the actual implementation of this approach, including changes in long-term goals, lack of consensus regarding the fundamental objectives of the organization, lack of adequate program and cost data, and the difficulty of administering programs that involve several organizational units.”

E. VOCABULARY ARRANGEMENT

- a) Arrange a semantic field of the words relating to the learning to the topic.
- b) Add words you probably already understand to connect relationships between what is known and the unknown.
- c) Supply the English equivalent to the Ukrainian from the list given below:

The worldwide economic crisis has put a *загальну увагу* on corporate risk, but a large percentage of companies around the globe do not have strong risk *наглядових протоколів* according to a *спільного* research report by the American Institute of Certified Public Accountants and the *Ліцензованого* Institute of Management Accountants.

The organizations undertook the study to examine the current *розвиток* of *управління ризиком підприємства* – defined as the strategic, financial, operational, and compliance protocols – in organizations around the globe.

In a *дослідженні* of U.S. CPA executives, 84 percent of respondents rated their companies’ risk oversight process as ranging from very immature to moderately mature. Sixty-one percent of global executives offered a similar assessment of their organizations’ enterprise risk management in a separate survey.

“While the report reveals that companies are more cognizant of risk, they are still falling significantly short in *введенні* risk management processes,” said Carol Scott, AICPA vice president of business, industry and government. “The financial crisis underscored the potential *наслідки* for companies that have *слабкий* risk oversight.”

1. chartered
2. consequences
3. enterprise risk management
4. instituting
5. joint
6. lax
7. maturity
8. oversight protocols
9. spotlight
10. survey

d) Suggest the correct translation:

The report, Enterprise risk oversight: a global analysis, is the first in a series of global thought leadership research papers being developed by the AICPA and CIMA.

Forty-five percent of the U.S. respondents said their companies had no enterprise-wide (A) risk management process in place and no plans for implementing one. This compares with 37 percent of the global respondents who reported the same situation in their organizations.

A majority (B) of both of U.S. (60 percent) and of global (75 percent) respondents said the volume (C) and complexity of risk are greater than they were five years ago. However, less than half of both groups (40 percent of U.S. and 47 percent of global respondents) described their organization as being risk averse (D).

Charles Tilley, chief executive of CIMA, said, “The report findings (E) clearly show that organizations need to start putting processes in place to deal with the perceived increase in the complexity (F) and volume of risk. As the events during the last few years show,

companies can't take a head-in-the-sand approach (G) to risk management or simply hope for the best.”

More U.S. organizations (65 percent) formally assign the responsibility (H) for risk oversight to the audit committee (I) than do global organizations (57 percent). Some of the difference is “likely attributable” to differences in board governance structures (J) that exist around the world, according to the report.

The report shows that the U.S. falls behind the rest of the world in risk-management training. While two thirds (67 percent) of global respondents said there was minimal or no training in this area, 78 percent of U.S. executives surveyed offered the same response.

F. INFORMATION FILE

Share new information with your fellow students.

G. ADVANCE ORGANIZERS

Relate new reading material to something you already know, to your background or experiences. Ask your teacher for assistance in developing these issues.

H. GROUP DISCUSSIONS

- a) Group discussions in and out of class will help you to discover what you bring to your reading, what your fellow students bring, as well as shared experiences.
- b) If you find they have new background information, ask for more information from them.

I. QUIZ # 15

a. *Define the following sentences “True” or “False”:*

1. Act of budgeting is a key element of financial data activity.
2. Budget is a product of organizational process.
3. Financial planning is essential for budgeting.
4. There is no link between financial planning and budget preparation.

5. Performance evaluation is one of budgeting objectives.
6. Service efforts, costs and accomplishments can be provided by financial reporting.
7. Accounting systems are usually operated not on the same basis.
8. Budget approaches and formats used by governmental entities in the USA have been unified over the past 30 years.
9. Line-item approach is most prevalent in organizations.
10. Lack of reliable standard costs is one of limitations of performance budgeting.

b. Give the opposite:

to assist, sufficient, balanced, same, complexity, distrust, advantage, simplicity, flexibility, shortcomings.

c. Decode the following terms:

cornerstone, entity, contractual, accomplishments, objective, applicable, attain, outcome, scope, guidelines.

d. Translate the following into English:

1. Розрахунок бюджету підприємства - це основний процес при плануванні майбутньої діяльності і прогнозуванні доходів і витрат компанії.
2. Для організації ефективної системи планування діяльності структурних підрозділів підприємства на основі розробки бюджетів, доцільно створювати таку наскрізну систему бюджетів, яка охоплює весь грошовий оборот підприємства.
3. Сума бюджетів структурних підрозділів, кредитного і податкового бюджетів складає зведений бюджет підприємства.
4. Доцільною є активна участь всіх структурних підрозділів у підготовці бізнес-плану і консолідованого бюджету.
5. При складанні бюджетів структурних підрозділів і служб підприємства необхідно керуватися принципом декомпозиції. Цей принцип полягає в тому, що кожен бюджет більш низького рівня є деталізацією бюджетів більш високого рівня, тобто бюджети цехів і відділів входять у зведений бюджет підприємства.

6. Оптимальним вважають такий бюджет, у якому розділ доходу дорівнює видатковій частині.
7. При дефіциті зведеного бюджету виникає необхідність його коригування за допомогою збільшення доходів чи зниження витрат.
8. З метою підвищення ефективності фінансового планування потрібно використовувати інструменти фінансового контролінгу, як системи інформаційного забезпечення координації всіх підсистем управління, що передбачає використання методів і процедур із бюджетування, стратегічного планування, управлінського обліку, фінансової діагностики, інвестор-рїлейшнз й управління ризиками внутрішнього контролю.
9. Основним завданням фінансового планування в сучасних умовах господарювання є збалансування видатків, забезпечення передумов рентабельної роботи підприємства, фінансової стійкості, платоспроможності, кредитоспроможності та ліквідності боргових зобов'язань впродовж планового періоду.
10. Дотримання принципів фінансового планування дає змогу підприємству досягти фінансової стабільності та забезпечити високу конкурентоспроможність в ринковому середовищі.

e. Check the terms in the dictionaries. Learn and use in your discussion.

accountability	budgeted	fund balance
accounts payable	expenditures	reserves
allocation of funds	cost of inputs	governmental entity
budget preparation	current-year	historical
budgetary allocations	revenues	expenditure
budgetary	current-year	long-term costs
appropriations	services	vehicle maintenance
	discretionary	
	resources	

f. Revise/learn and use in your discussion.

ability	effect	outcome
able	effective	outdated
above	effectively	output
absence	effectiveness	over
accomplishment	efficient	overall
accordance	effort	overcome
accumulation	element	owing
achieve	elimination	package
achieved	emphasis	paperwork
achievement	emphasize	part
acquire	employee	participant
act	empower	participation
action	enact	particular
activity	enacting	particularly
actual	enhancement	past
addition	ensure	pay
additional	enterprise	payable
additionally	entity	performance
address	environment	period
adequate	essential	periodically
adhere	established	phase
administer	estimate	philosophy
administrative	evaluate	place
administrator	evaluated	plan
adopted	evaluation	planning
adoption	evaluation-oriented	policy
advanced	examination	policymaker
advantage	example	popular
advisory	exceed	potential
advocate	execute	practical
aggregate	executive	practice
all	exercise	precipitate
allocate	exist	predominantly

allocated	expected	preference
allocating	expended	premise
allocation	expenditure	preparation
allow	explicit	prepare
also	explicitly	prepared
alternative	expression	present
among	fall	previously
amount	familiar	primarily
analysis	federal	primary
annual	few	principal
annually	finally	prioritization
another	finance-related	prioritized
applicable	financial	problem
application	finite	process
applied	fiscal	processing
approach	flexibility	produce
appropriate	flexible	product
appropriately	focus	production
appropriateness	force	program
appropriation	form	project
approval	format	proper
approved	forth	proposed
area	framework	prove
arena	full	provide
argue	function	provider
aspect	functional	public
assess	fund	quality
assist	fundamental	quantitative
attached	further	quantity
attain	future	quite
attainment	generally	ranked
attempt	give	rather
attest	goal	reach
augmented	good	reason

austerity	goods	receive
authority	governing	recognize
authorized	government	reduced
avenue	governmental	refer
avoid	granted	reflect
balance	granting	regarding
balanced	great	regardless
base	group	relate
based	growth	relation
basic	guideline	relative
basis	health	relatively
believe	historical	reliable
benefit	hold	reporting
best	hybridize	represent
between	identified	request
board	implementation	require
body	implicitly	requirement
broad	imply	reserve
budget	importance	resource
budgetary	important	responsibility
budgeted	improved	responsible
burdensome	inappropriate	restriction
called	inception	rest
campus	include	result
capability	incorporated	resulted
capable	increase	revenue
captured	increased	review
careful	increasingly	revision
case	indicate	role
category	individual	routine
center	inflation	rule-driven
central	influence	same
centrally	information	school-level
certain	informational	scope

change	inherent	scrutiny
chief	innovative	secondarily
choice	input	sector
citizen	instructional	secured
closely	integration	series
combination	intense	service
committee	interest	set
commonly	introduction	setting
community	invaluable	several
comparable	invite	severe
comparison	involve	short
competition	involved	shortcomings
competitive	justification	should
complexity	justified	similar
compliance	lack	simplicity
composed	law	simply
comprehensive	legal	simultaneous
concentration	legally	site
concept	legislated	solely
conceptual	legislative	sound
conflict	less	source
consensus	level	specific
consequently	likely	spend
considerable	limit	spending
consideration	limitation	staff
consider	line	staffing
consistent	link	stakeholder
constitution	linked	standard
contain	linking	state
context	little	statement
continue	local	still
continuous	long-range	strict
contractual	long-term	subject
contrast	low	subsequent

control	main	substantial
cornerstone	maintenance	such
cost	major	sufficiency
council	majority	sufficient
couple	make	sum
cover	making	summarize
create	manage	superior
critical	manager	supplement
criticism	mandate	supplemental
critic	many	supply
culminate	market	support
current	match	surge
current-year	may	system
cycle	meaningful	taxpayer
data	mean	tenet
deal	measurable	term
decentralization	measuring	throughout
decision	meet	thrust
decisionmaker	member	thus
defined	merely	tie
definitive	method	time
degree	micro-management	tool
demand	minimum	total
demonstrate	mission-driven	traditional
department	model	training
departure	modest	transitional
depend	modified	trend
description	money	type
design	morale	typically
desire	multiplied	underlying
despite	narrative	underscore
detail	nation	understand
determine	national	unintuitive
development	nature	unique

device	necessarily	unit
different	necessary	use
difficult	need	used
difficulty	new	useful
direction	normally	user
directly	number	usually
discretely	object	value
discretionary	objective	variation
discuss	obtain	variety
distinct	offer	various
district	operate	vehicle
diversity	operation	version
divide	order	voice
document	organization	way
each	organizational	welfare
ease	organize	wide
educational	orientation	widely

J. FAMOUS ECONOMIST

Follow his example:

JOSEPH SCHUMPETER (1883–1950) Professor of Economics at the University of Chernivtsi

For Joseph Schumpeter economics was all about change. He studied both short-run economic fluctuations and the long-run tendencies of capitalism. In these studies he identified the phases and causes of business cycles. He also examined the factors contributing to the rise and decline of capitalism.

Schumpeter was born to middle class parents in Triesch, Moravia (then part of the Austro-Hungarian Empire and now part of the Czech Republic) in 1883. His father, who owned a textile factory, died when he was very young. His mother soon remarried and moved to Vienna, where Schumpeter attended high school with the aristocratic elite. He

received an excellent education in the humanities, but inadequate grounding in mathematics and science. As a law student at the University of Vienna, Schumpeter took several courses in economics. A seminar taught by BoEhm-Bawerk sparked his interest in the long-term future of capitalism.

After receiving a doctorate of law in 1906, Schumpeter went to Cairo to practice law and to manage the finances of an Egyptian princess. In 1909 he accepted a teaching job at the University of Czernowitz (then in the Austrian Empire, but now in Ukraine), and two years later was appointed to a chair in political economy at the University of Graz.

Schumpeter then became interested in politics. In 1918 he became a member of the German Socialization Commission, which argued for socializing German industry in order to make it more efficient. In 1919, he became Finance Minister of Austria. His political career, however, was both short and unsuccessful. He proposed an unpopular tax on capital to control inflation. A flippant remark about the Austrian dollar (“a crown remains a crown”) in the face of rampant inflation was viewed as insensitive to the plight of most Austrians.

And there was much criticism of his plans to nationalize Austrian firms. Unable to succeed in the real world, Schumpeter decided to return to academic life. In 1925, he accepted an appointment as Professor of Economics at the University of Bonn. Seven years later he accepted a position at Harvard, where he remained until his death in 1950. In 1949, Schumpeter served as President of the American Economic Association, thus becoming the first non-American to be so honored.

For Schumpeter, all capitalist economies had two prominent characteristics – they were unstable, and they experienced rapid growth. Schumpeter sought to analyze and understand these features of capitalism. Schumpeter (1939) was one of the first economists to study business cycles, the regular fluctuations that economies experience. He identified three different cycles occurring simultaneously. First, there were short-run fluctuations of three to four

years, which Schumpeter called “Kitchin Cycles,” after economist Joseph Kitchin who first discovered them. These cycles were due to changes in business inventories. For one to two years, businesses would expand their inventories in order to keep ahead of rising sales. But when the growth of sales slowed, inventories would begin to pile up in warehouses. As a result, businesses would cut back production for a year or so in order to reduce their inventory backlog. When inventories finally returned to more desirable levels, and sales picked up, businesses would again seek to expand their inventories.

A second cycle was associated with changes in business investment in new plant and equipment. These cycles lasted eight to eleven years, and Schumpeter called them “Juglar Cycles,” after Clement Juglar who first discovered them. Usually when people speak of “the business cycle,” they refer to these economic fluctuations. Expansions lasting four to five years, Schumpeter thought, were due to the desire of businesses to expand and modernize their capital equipment. But after most businesses have expanded and modernized, they have little need for new investment. Consequently, spending on plant and equipment is cut back during the next four or five years. Over this period, capital equipment becomes worn out and outdated, thus setting the stage for another investment boom of four to five years.

Finally, Schumpeter thought that capitalism undermines the family. Capitalism is all about satisfying individual wants, while the family requires sublimating one’s desires and compromising.

If everyone just focuses on satisfying their own wants, it is hard to see how long-term relationships can last. One such relationship, the family, is important for capitalism because it is a main reason for saving. Families save so that, if anything happens to the main breadwinner, other family members will be provided for. By undermining the motivation to save, capitalism destroys its own foundation – the capital needed for future growth.

Long-term economic growth has always been a central economic concern. Adam Smith and most classical economists saw capitalism as the best way to achieve rapid growth. By the late nineteenth century,

however, economists came to focus more on the question of economic efficiency, and they lost interest in the issue of growth. The main contribution of Schumpeter has been to redirect the attention of economists to the issue of long-term economic growth. In so doing, he stressed the importance of non-economic factors like innovation and the entrepreneur for a healthy, thriving, and growing capitalism.

LIST OF ABBREVIATIONS

AGM – annual general meeting

AICPA - American Institute of Certified Public Accountants

BCR – Banca Comercială Română

BITC CR index – Business in the Community’s Corporate Responsibility index is the UK's leading voluntary benchmark of corporate responsibility.

CAATT – Computer-Assisted Audit Tools and Techniques

CCPs – central counterparties

CDS – credit default swap

CEE – Central and Eastern Europe

CEO – chief executive officer

CFO – chief financial officer

CGMA – Chartered Global Management Accountant

CGU – cash-generating unit

CIMA – Chartered Institute of Management Accountants

CPA – Certified Public Accountant

CPE – continuing professional education

DHHS – Department of Health and Human Services

EBITDA – earnings before interest, taxes, depreciation, and amortization

ECB – European Central Bank

ED – exposure drafts

EUR – euro

FASB – Financial Accounting Standards Board

FTSE – Financial Times and the London Stock Exchange (UK stock index)

FY – fiscal year

GAAP – Generally Accepted Accounting Principles

GAO – Government Accountability Office

GASB – Governmental Accounting Standards Board

GDP – gross domestic product

GM – General Motors (an automobile manufacturing company)

IASB – International Accounting Standards Board

ICAEW – Institute of Chartered Accountants in England and Wales

IFRS – International Financial Reporting Standards

IPO – initial public offering

IRC – Internal Revenue Code

IRD – income in respect of a decedent

IT – Information Technology

LLP – limited liability partnership

NAREIT – The National Association of Real Estate Investment Trusts

NPL – non-performing loan

NYSE – New York Stock Exchange

PCAOB – The Public Company Accounting Oversight Board

PPACA – Patient Protection and Affordable Care Act

PPB – program and planning budgeting

R&D – research and development

REIT – real estate investment trust

SEC – Securities and Exchange Commission

SFAS – Statement of Financial Accounting Standards

SFAS – Statements of Financial Accounting Standards

SFO – Serious Fraud Office

SIF – Specialized Investment Fund
SOX – Sarbanes Oxley Act (a United States federal law that set new or enhanced standards for all U.S. public company boards, management and public accounting firms)

SSVS1 – Statement on Standards for Valuation Services no. 1

TAAO – Texas Association of Assessing Officers

USPAP – Uniform Standards of Professional Appraisal Practice

ZBB – zero-based budgeting

SUGGESTED READING AND RESOURCES

1. Bolen J. Business English Vocabulary Builder: Idioms, Phrases, and Expressions in American English. Jackie Bolen. 2020. 66 p.
2. Dubicka I. Market Leader 3rd Edition Extra Advanced Coursebook with DVD-ROM Pack (3rd Edition). Pearson Education ESL, 2016. 216 p.
3. Key Issues in English for Specific Purposes in Higher Education / Ed. by Yasemin Kirkgöz & Kenan Dikilitaş, Vol. 11. Switzerland: Springer International Publishing, 2018. 353 pp.
4. Kenny, N., Işık-Taş, E. E., & Jian, H. English for Specific Purposes Instruction and Research: Current Practices, Challenges and Innovations. Switzerland: Palgrave Macmillan, 2020.129 p.
5. Laurence A. Introducing English for Specific Purposes. Routledge, 2018. 220 p.
6. Richards M. A. Advanced Business English Idioms Visual Guide: Master Sales & Marketing Conversations – Volume 1. PATMAR; 1st edition, 2023. 744 p.