Chapter 15

Finance, accountancy and banking

The facts

A firm might be having a lot of customers and making profit[1], yet go bankrupt[2] because of insufficient assets or cash flow problems! All firms need finance to pay for running costs[3] or to buy new premises[4] and equipment, develop new products, and for working capital[5].

Internal finance

The cash flow is what comes from the business's revenue or turnover[6] after paying expenses, interests and taxes, and after amortization or depreciation. The net profit at the end of the year is what the firm has earned; it can be retained in reserves, reinvested, and/or paid as dividends to the owners or shareholders. In all cases, a firm's accounts have to be balanced by year's end: if not, it cannot pay its debts and may have to file for bankruptcy.

External finance

It comes from outside sources, such as through borrowing (usually from banks), from private investors (owners of the firm, venture-capitalists[7]) etc, from government subsidies[8], or by issuing shares[9] on the Stock Markets[10].

Accountancy and bookkeeping[11]

Bookkeepers are in charge of all transactions and entries[12], invoices or bills[13], payroll[14], bank drafts[15] etc, and also of drawing up[16] inventories. Thus the Accounts or Accountancy department is provided with information about financial matters and for preparing the firm's annual financial statement. If the company is publicly owned[17], these accounts are published in the year's financial report, where stockholders[18] learn how their money was spent or invested. These accounts, which are presented according to various (and changing!) General Accounting Practices (e.g. the US GAP) are usually the cash flow statement, the balance sheet[19], the profit and loss account (= P&L)[20], and the shareholders' equity[21].

Banks and financial institutions

The commercial banks, with branches in various places are open to both small customers and businesses. The investment or merchant banks deal with big business and investors. Their numbers fluctuate as they concentrate and diversify their activities. The National Giro offers banking services in the UK's post-offices.

Banking services

All these institutions make and receive payments on bank accounts through cheques, standing orders, direct debits, transfers, cash points and credit cards. They provide loans, investment services, insurance, cash management[22], foreign currency exchanges, and e-banking. They help companies for mergers and takeovers, and for international payments thanks to bills of exchange, documentary bills and letters of credit etc. Although they play a powerful role in business, they can also run into huge difficulties mostly due to bad debts, and even go bankrupt! ■

CHECK THE FACTS

True or false? If false, give the correct statement.

1. If a company makes a profit, it cannot go bankrupt.
2. The cash flow is what comes from the company's turnover.
3. A company has to distribute all of its profits to its shareholders.
4. All accounts should be balanced at the end of the year.
5. The shareholders are informed about the company's investments thanks to the annual report.
6. Bookkeepers certify that the company's books are clean.
7. General accounting practices are universal.
8. The National Giro has branches all over Britain.
9. Banks have many different activities, and can even operate online.
10. They are so powerful that they can never go bankrupt.

LEXICAL WORK

Match the words or phrases from the text in the left-hand column with a meaning in the right-hand column.

1. expenses
2. depreciation
3. to check
4. direct debiting
5. a cashpoint
6. a loan
7. a takeover
8. to run into debt
9. standing over

a. a machine where you can take out money
b. diminishing the value of something
c. to borrow money
d. an amount of money borrowed from a bank
e. a permanent order
f. the fact that money is taken from your account
g. money which is spent
h. to verify
i. the fact of buying out a firm

Then translate the words or phrases above.