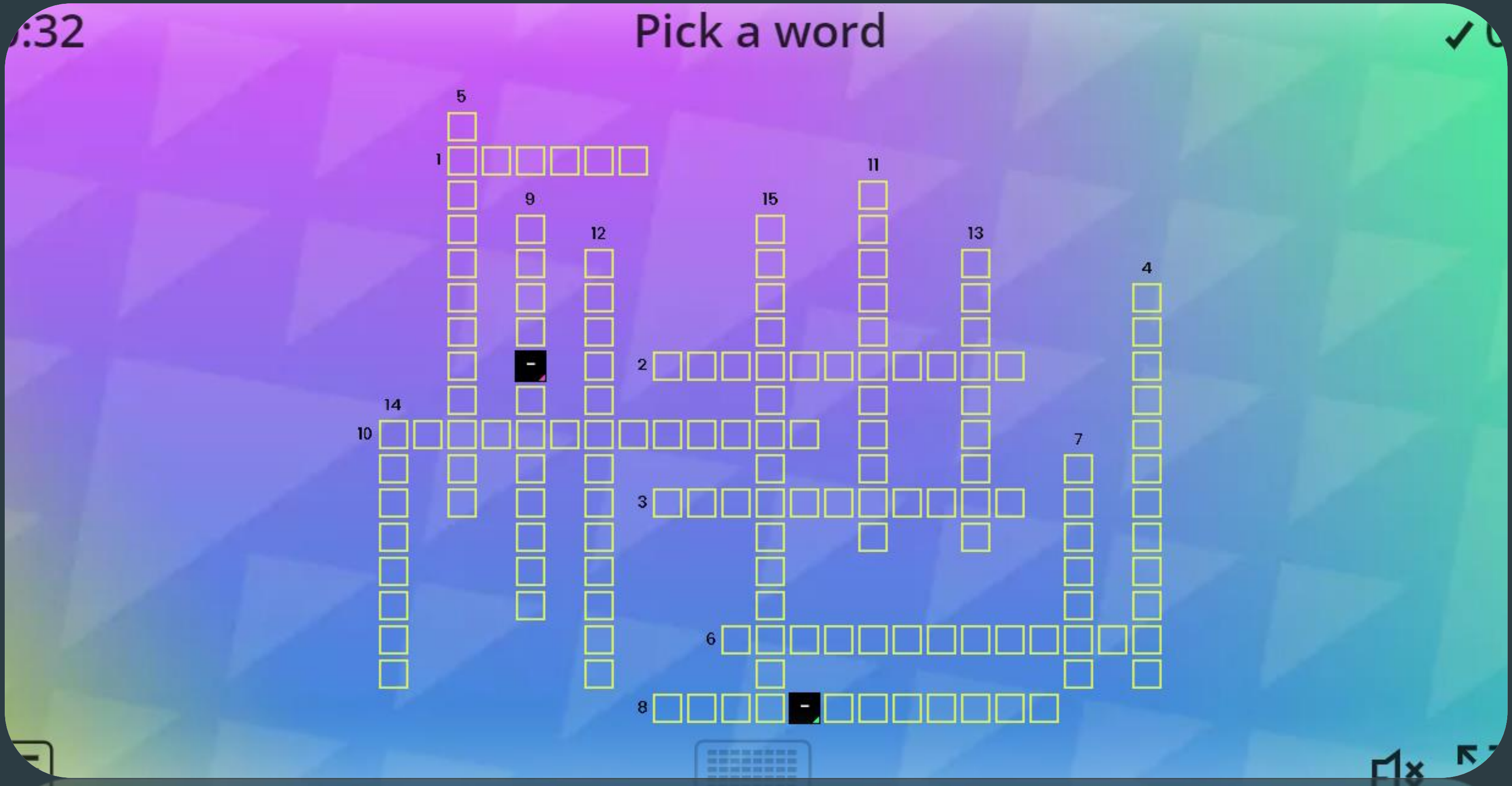
Unit 5 - Raising Finance

Pages 47 - 53

Practice-words on 29 p.

https://wordwall.net/resource/71011592/job-vocabulary



What can we do with money?

Discussion

- **Check the meaning of these words:**
  - Lender
  - Loan
  - Collateral
  - Assets
  - To have a stake in sth

- **What do you think you would need to offer a bank to get a loan?**
- **What types of loans are there?**

- Loans
  - Short-term (1 year, small equipment)
  - Long-term (3-7 years, big equipment)
  - Intermediate (3 years, medium equipment)

Discussion

Check the meaning of these words:

- credit rating
- Lump sum
- Installment / Instalment

1. What should someone do if a request for a loan is turned down?
2. After getting the loan what kinds of things could we negotiate?
3. What's Patrick's final piece of advice?

Page 48 - Vocabulary: Idioms

Idiom: a phrase or a group of words with figurative (not literal meaning)

- Exercise A:

1. rope
2. trees
3. muck
4. license
5. fool
6. object

- Exercise B:

a) 2
b) 1, 4
c) 3
d) 5
e) 6

Reading Comprehension
RAISING FINANCE

Pages 49-50

p.49, Key to exercises A and B

1. A
2. B
3. B
4. C
5. A
6. C

(to go into **administration** = to become bankrupt / insolvent)

Few growing companies are able to finance expansion from cash flow alone. They need to raise finance from external sources.

It is really important to strike a balance between equity and debt.

With debt, the bank giving the loan requires interest payments and capital repayments and the business assets or personal assets of the shareholders and directors can be at risk if these are not met. The bank can put the business into administration or bankruptcy if it defaults on the loan or if business is not going well. With equity, the institution lending the money has a stake in the business and, therefore, a greater incentive to see the business succeed as it takes the risk of failure along with all the other shareholders. If the company is successful, the lender benefits and makes profits on the eventual sale of the equity stake.

The main aim is to keep the financial risk of the company at an optimal level so that it isn't exposed to excessively high borrowings, but neither is the share capital diluted unnecessarily.

p.49, Key to exercises C and D

- ex. C

1. C
2. G
3. A
4. B
5. F
6. E
7. D

- Ex. D

1. Lease
2. Grant
3. Invoice discounting
4. Venture capital

Raising Finance - new terminology (1)

- **Capital equipment (line 3)=** long-lasting goods/assets, e.g. machines, trucks, office furniture etc.
- **Management buy-in (MBI, line 11)** - when an outside manager (or management team) buys enough shares of another company to replace its existing management team and starts controlling it
- **Management buy-out (MB0, line 112)** - where a company's management team buys the assets and operations of the business they manage and become its owners
- **Business angel (line 25)** – a person who invests in a business in hope of earning profit, but does not expect to be involved in its management.
- **Clearing bank (line 26)** - a bank that does business with other banks through a central organization called a clearing house
- **Invoice discounting (line 28)** - when a business is allowed to borrow money from a bank based on the invoices they received, even before the invoices are paid by debtors
- **Hire purchase UK (line 29)** - paying in installments (Installment plan US)
- **Equity (line 35)** =*akcijski kapital* – one of the equal parts of a company's value that belongs to its shareholders

Raising Finance - new vocabulary (2)

- **Assets (line 43)** – property, possessions of a company *(imovina, aktiva)*
- **To default on sth (line 47)** – to fail to fulfill sth
- **Equity stake (line 54)** - the part of a company that a person or organization owns, represented by the number of shares they have *(udeo u vlasništvu)*
- **Preference share (line 69)** - a share which entitles the holder to a fixed dividend, whose payment takes priority over that of ordinary share dividends. (*prioritetne / povlašćene akcije*)
- **To ascribe (line 129) -** to attribute, assign *(pripisati)*
- **Indemnity (line 130)** – insurance, security or protection against a loss or other financial burden (*obeštećenje*)
- **Due dilligence (line 133)** – a detailed examination of a company's financial records done before becoming involved in a business operations of that company *(temeljna finansijska analiza,* u drugim kontekstima *nužna zaštita, dužna pažnja)*

Financial statements

- Why do companies have to keep track of its financial transactions?

- Who are the stakeholders in a company’s financial performance, both inside and outside the company?

- Who is in charge of issuing financial statements?

Terminology of financial statements

1. **Assets**
2. **Liabilities**
3. **Equity**
4. **Revenue**
5. **Profit**

a) Things that a company owes to creditors (debts)

b) Things that a company owns (tangible, *intangible*, *current*, *fixed etc.)*

c) The difference between what a company owns and what it owes (*net worth*)

d) The income a company earns, minus expenses

e) The total income a company earns

Financial statements

1. INCOME STATEMENT
2. THE BALANCE SHEET
3. CASH FLOW STATEMENT(CFS)

a. gives a picture of everything that company owns (assets) and owes (liabilities) on a particular date.
b. shows performance over a fiscal quarter or a fiscal year
c. shows equation: assets = liabilities + shareholder's equity
d. also known as profit and loss account
e. shows cash inflows and outflows
f. shows equation: profit = revenue
- - expenses

Practice 116-118

page 116

1. **Match the jobs on the left with responsibilities on the right:**

2. bookkeeper	a) Writing down the details of transactions (debits and credits)
3. accountant	b) Keeping financial records, recording income and expenditure, valuing assets and liabilities etc.
4. auditor	c) Inspection and evaluation of accounts by a second set of accountants

2. **Divide the following nouns into two categories:**

tax	**profit**	**petty cash**	**expenditure**	**income**	**revenue**	**costs**	**overheads**

MONEY GOING INTO A COMPANY: Profit, income, revenue

MONEY GOING OUT OF A COMPANY: Tax, petty cash, expenditure, costs, overheads

p.117

3. Match the terms on the left with descriptions on the right:

1. creative accounting	a) Calculating an individual or a company's liability for tax
2. managerial accounting	b) Preparing budgets and other financial reports necessary for management
3. cost accounting	c) Using all available accounting procedures and tricks to disguise the true financial position of a company
4. tax accounting	d) Working out the unit costs of products, including materials, labor and other expenses

p.117, ex. 4

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1.
2.
3.
4.
5.
6.

b.

1. advisor / adviser
2. advice
3. advisable / advised
4. advised

p. 117- 118

- Ex. 5

1. lend
2. gain
3. make
4. cost
5. get
6. diversify

- Ex. 6

1. assets
2. turnover
3. liabilities
4. tax
5. loss
6. revenue
7. income
8. equity

Ex.118, ex. 7

1. creditors
2. balance sheet
3. profit and loss account
4. fixed assets
5. current assets
6. cost of sales
7. depreciacion
8. bookkepping
9. accounting
10. audit

Exercises on page 52

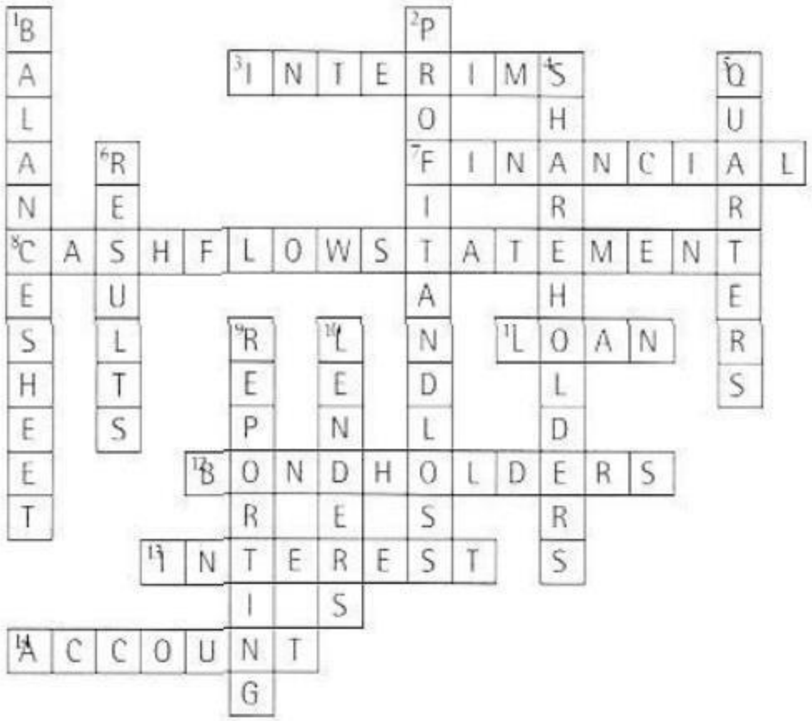
29.1 Fixed assets, current assets, current liabilities, long-term assets

29.2 cost control, direct cost, indirect costs, fixed costs, variable costs, allocate costs, cost centre, real cost, activity-based costing

29.3 1f, 2h, 3g, 4a, 5c, 6b, 7d, 8e

Exercises on page 54

33.1



33.3
1 financier
2 finance/financing
3 finances

33.2

Verb	Noun – thing	Noun – person/organization
'finance	'finance 'finances 'financing	fi'nancier
lend	loan 'lending	'lender

Exercises on page 56

34.1

exceptional items
interest payable
operating profit
P&L account
reporting period
retained earnings
selling and general expenses

1. reporting periods
2. operating profit
3. retained earnings
4. exceptional items

34.2

1. true
2. false
3. true
4. false
5. false

Exercises on page 58

35.1

Cash	11,000		
Securities	6,000		
Stocks	3,500		
Debtors	7,500		
Total current assets		**28,000**	
Building	94,000		
Land	31,000		
Equipment and machinery	9,000		
Total fixed assets (book value)		**134,000**	
Goodwill	15,000		
Total intangible		**15,000**	
TOTAL ASSETS			**177,000**

35.2
1 true
2 false
3 false
4 false

Exercises on page 60

36.1

Creditors	6,000		
Overdraft	2,000		
Interest payable	3,500		
Tax payable	5000		
Total current liabilities		**16,500**	
Bank loan repayable in 3 years	20,000		
Bonds repayable in 7 years	30,000		
Total long-term liabilities		**50,000**	
Share capital	100,000		
Retained earnings	10,500		
Shareholders' funds		**110,500**	
TOTAL LIABILITIES PLUS SHAREHOLDERS' FUNDS			**177,000**

36.2

1 false
2 false
3 true
4 true
5 false
6 false