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ЭКОНОМИЧЕСКИЙ ФАКУЛЬТЕТ

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Part 2

Management: Financial Statement Analysis, Accounting in Management, Insurance

Text 1.

1. Pre-reading exercise.

Skim through the text and identify which logical part deals with each of the following subjects:

a) Definition of financial statement analysis
b) Analysis of risk
c) Functions of financial statement analysis
d) Introduction
e) Increasing use of debt
f) Technical vs. Interpretive aspects of analysis

Financial Statement Analysis: An overview

I ___________________________

Banks frequently invest much of their assets in loans made to commercial customers. For this reason, banks depend on their commercial loan officers to make sound judgments about the financial stability of the businesses applying for loans. Financial statement analysis gives the loan officer much of the information required to make sound lending decisions. When making loan decisions, the loan officer must be concerned with the needs of the business as well as the community. Through careful financial statement analysis and sound lending decisions, the commercial loan officer can contribute to the profitability of the bank and to the growth of local businesses while meeting the needs of the community. Text 1 provides a broad overview of financial statement analysis as it applies to credit analysts, defines financial statement analysis, discusses the concept of risk, and presents the functions of financial statement analysis.

II _________________________

The reason for studying financial statement analysis is the increasing use of debt to finance business. The analysis of a firm's debt and its capacity to safely acquire more debt is the main subject. The importance of debt markets continues to grow because debt allows owners of businesses to obtain capital without diluting then equity. That is, for a firm with rapidly increasing sales and profits, shareholders wish to defer bringing in new shareholders and thereby dividing the profits. By borrowing at an interest rate unrelated to these growing profits, the firm can avoid new sales of common stock. This deferral of sharing of a growing base can bring greater rewards in the future when additional stock is sold.

The Glass-Steagall Act of 1933 segregated the commercial banks from the equity markets, leaving the tightly regulated investment banking firms to serve as the sole source of equity financing. Because of the competition among investment bankers, commercial banks, insurance companies, and others, innovative debt instruments became common in the aggressive debt markets. One example of debt instrument innovation is commercial paper. Commercial paper permits the most creditworthy companies to borrow on a short-term basis directly from individuals and institutions, bypassing the commercial banks. With the advent of this borrowing instrument, commercial banks lost an important portion of their prime credit-worthy borrowers to the direct market. Another example of debt instrument innovation is revolving credit, which allows principal to be advanced and repaid as needed. A third example is subordinated-convertible debt that offers equity incentives in exchange for reduced interest rates. Convertible debt is usually subordinated to other senior lenders, but purchasing it is still safer than purchasing common stock of higher-risk firms. Later, as dividends increase and the market price rises nearly to the conversion equivalent price, it can be converted to equity at a present price.

Another major factor behind an increase in demand for debt was the advent of corporate, income taxes. Corporate treasurers quickly recognized that being able to deduct interest expenses made borrowing a less expensive source of capital, after taxes, than equity with its nondeductible dividends.

Commercial banks, becoming more aggressive in their pursuit of income sources relaxed their credit standards, especially in the markets for loans to developing countries and for real estate development. Moreover, intensified corporate acquisition and the related leveraged buyout v activity in the 1980s: increased the demand for corporate debt. In many corporate acquisitions and leveraged buyouts, most of a company's equity is replaced by debt. In the case of the RJR buyout, the issuance of new debt was $27 billion. In a paradox of defense against unfriendly acquisitions, some corporations acquired substantial debt to make themselves less likely takeover candidates. These substitutions of debt for common stock reportedly have removed an average of $100 billion from the stock markets annually over the .entire decade of the 1980s. Therefore, for nearly 20 years the debt markets have been the major supplier of net . new capital to businesses.

III ____________________

A critical component of the commercial lending process, financial statement analysis helps the loan officer decide whether a loan should be made and under what terms and conditions. The commercial lending process normally begins with an interview between the commercial client and the loan officer and continues through the stages of credit investigation, financial statement analysis, loan structuring and pricing, loan negotiation, loan documentation and closing, and loan follow-up. Thus, financial statement analysis is an important factor not only in the lending decision, but also in the monitoring process after the loan is closed.

Financial statement analysis focuses on the company's past and current financial performance as reflected in its financial statements, rather than on such factors as the company's management style and credit history. Nevertheless, such nonfinancial considerations do help establish the direction and depth the financial statement analysis should take.

Financial statement analysis involves the systematic examination and interpretation of information to assess a company's past performance for the purpose of predicting future viability. Financial statement analysis helps pinpoint unique characteristics — operating or financial — that affect a business's likelihood of success or failure. It presents a picture of the company that includes the following:

Financial Structure — the assets the company maintains and the Jiabilities /t has incurred to acquire and keep those assets, including the company's capacity or flexibility to deal with both planned and unplanned change;

Operating Cycle — the stages the business goes through to bring its products or services to the market, and

Trends and Comparative Performance — the direction that the business operation is going as evidenced by comparison of financial results from more than one year and with other companies in the same industry and size.

IV_________________

Commercial credit analysts examine the financial information available to them by applying techniques based on sound logic and accounting principles. They perform many technical operations that include calculating ratios, reformatting information for clarity, evaluating the company's goals, comparing statistics with those of other businesses, and projecting future operating results.

This technical manipulation on f the data is only a small part, however, of what is needed to complete a comprehensive and effective financial statement analysis of a company. Once the credit analyst has crunched the numbers (calculated ratios, analyzed trends, and compared firms), the results must be interpreted to determine the reasons behind the numbers. The goal is to learn not only what is happening, but -why it is happening. It is also important to consider how past events and current trends might affect the company's future repayment ability.

The crux of financial statement analysis, then, is to understand and correctly interpret the results of the technically manipulated data. To accomplish this, the analyst must first obtain considerable background information about

- the company's ownership,
- its management,
- its lines of business
- its competition and the markets in which the company operates,
- its operational aspects
- the characteristics of the industry
- the company's position within the industry,
- pertinent government regulations
- the company's susceptibility to adverse changes in the general economy, and
- the extent to which demographic trends and consumer preferences may affect the company's operations.

Understanding these organizational and environmental factors provides meaning to the abstract numbers derived in the technical examination. This information, along with the financial information, helps the loan officer reach a conclusion as to the risks of a proposed loan.

V ____________ _______

The bank's role as commercial lender provides a limited return on funds of depositors. It earns its contracted-for rate of interest on the loan regardless of the borrower's profitability. This' limited return-coupled with the thin margin between the bank's interest return and its cost of funds and its typical high leverage-requires the bank to take only a restrained risk in the extension of credit.

Nevertheless, risk is an inescapable part of commercial lending. The principal risk-called credit risk by bankers-is that the borrower will not meet the terms of the loan and that secondary repayment sources, such as collateral, will be insufficient to cover the losses. Credit management attempts to manage the credit risk in the lending portfolio by establishing lending, analysis, and work-out guidelines or policies appropriate for the institution. Financial statement analysis is one of the parts of credit decision making: assessing the risk that companies will not be able to repay their loans as agreed. The loan officer can frequently lessen the hazard of loss by accurately appraising a customer's creditworthiness-ability to repay-and then ensuring that the loan is properly secured, structured, and monitored.

To evaluate risk, attempt to identify the uncertainties the commercial borrower faces to see if its financial strengths and weaknesses are balanced. If the borrower's strengths exceed its weaknesses by a margin sufficient to cover the perceived uncertainties, the loan represents an acceptable credit risk. This concept is often expressed as a formula:

Strengths - *Weaknesses> Uncertainties = Acceptable credit risk.*

Some of the risks that will be examined throughout the book include

- *liquidity* — the ability of a firm (1) to respond quickly unexpected financial problems and opportunities, (2) to increase assets if sales grow, and (3) to repay short-term debt from normal conversion of assets to cash;
- *net cashflow* — the generation of cash for long-term purposes such as fixed asset replacements, net additions to current assets, and repayment of long-term debt;
- *operating profit* — the evidence of operation successful enough to reassure investors about the firm's survival and growth in the future; and
- *leverage* — the extent of debt, as a source of the funds used to operate the business, and loan repayment requirements, relative, respectively, to the equity cushion and variability of cash flow.

VI ______________

The scope and focus of financial statement analysis will vary somewhat depending on the specific purpose of the examination. For example, whether the company is seeking long-term or short-term financing or whether the analysis is being done as part of the ongoing monitoring of an existing loan will affect the nature of the financial statement analysis.

Determining the Depth and Focus of the Analysis

Both the size of the requested loan (relative to the size of the firm) and its terms affect the financial statement analysis. A large loan will require relatively more effort on the part of the bank to assure itself that an analysis of sufficient depth has been completed. This is not to say that a small loan cannot have great uncertainty surrounding its repayment. Nevertheless, the smaller interest "payment on the small loan may not profitably permit extended analysis, and thus the financial statement analysis may have to be more cut-and-dried

Companies requesting loans generally need to finance either current assets (such as accounts receivable and inventory) or fixed assets (equipment, buildings, or land). A basic tenet of lending dictates that a temporary or seasonal increase in current assets should be financed by short-term loans, while increases in fixed assets should be financed by long-term loans.

Here is why: the principal on short-term loan is payable in full with the conversion of inventory and accounts receivable assets to cash during the operating cycle. Normally, this occurs within one year; therefore, short-term loans are Listed on the balance sheet in the current liabilities section. An example of this is the farmer borrowing seed money and repaying the loan at harvest. In contrast, long-term loans are usually payable over the. life of the asset they helped finance. They have maturities of one year or longer and are reported is long-term liabilities. An example of his is the fanner financing a tractor over three or four years. Thus, in most cases, the term of the loan and the type of the analysis will be determined by the purpose of the loan,

Monitoring Process

Financial statement analysis is an important part of both the initial decision to approve a loan and the ongoing monitoring process during the entire period that a loan is outstanding. It is particularly useful in identifying problem loan situations early on. With early detection of a problem situation, the bank can often help the company take prompt action to turn the situation around. In addition, banks often monitor their larger borrowers-to whom they may have given credit lines-even when the borrowers have no loans currently outstanding.

The Loan Approval Process

The loan approval process in most institutions involves one or more decision makers, sometimes in the form of a committee, who approve the loan. Generally, the loan officer is referred to as the person, or one of the persons, with loan approval authority who signs for the loan. The credit analyst has the responsibility of preparing information for these decision makers in the desired format and according to the policies of the individual institution. Sometimes, the analyst works closely with the senior credit officer or loan officer toprepare the analysis in written form. At other times, the analyst works directly with the prospective borrower and then makes a presentation to the decision makers, sometimes assembled into a loan committee. This is often the case when the analyst and loan officer are one and the same person, but with insufficient authority to commit the bank to the specific loan.

In cither case the written credit analysis is a digest of both the facts concerning the financial and nonfinancia! information, as the analyst (and, sometimes, as the loan officer) sees them, and the evaluation of those facts for the purpose of predicting the likelihood of future repayment of the loan, as the analyst interprets it. The full-fledged credit presentation, possibly dwelling on economic conditions or market competition, goes beyond the scope of this book, which concentrates on examination of the financial statements themselves. While these are viewed in light of the nonfinancial information, the primary focus is on how the information they impart can be useful to the full credit analysis, a larger issue. Thus, financial statement analysis is a subset of credit analysis.

(from "Analyzing Financial Statements" *by*
Thomas P. Carlin, Albert R. McMeen)

2. Scanning exercise

Scan text 1 to find information on four aspects:

g) Monitoring process;

h) Net cash flow and operating profit;

i) Financial structure;

j) Trends and comparative performance

3. Vocabulary study exercise

GLOSSARY

financial statement analysis
commercial lending process
loan officer
financial structure
operating cycle
trends and comparative performance
lines of business
pertinent government regulations
credit risk
liquidity
net cash flow
operating profit
leverage
monitoring process
loan approval process
interpretive aspects of analysis
subset of credit analysis
generally accepted accounting principles (GAAP)
to evaluate risk
the loan approval process

a) *find English equivalents for the following:*

Вкладывать значительные объемы своих кредитов, выдаваемые коммерческими банками; финансовая стабильность предприятий; принять правильное решение о предоставлении кредита; вносить вклад в рост доходности банка; отвечать потребностям общества; циклические колебания; рыночная ценность имущественного залога; снижение доверия инвесторов; искать дополнительные капиталы для расширения производства; ценная реакция; выдавать краткосрочные кредиты под запланированные выпуски акций; недостаточно капитализированный заемщик; общепринятые принципы бухгалтерского учета; использовать одинаковые концепции в бухгалтерском учете; издавать финансовые отчеты; деление прибыли; процесс предоставления коммерческого кредит; анализ финансовой отчетности; операционный цикл; тенденции и сравнительные результаты работы; оценить риск, чистый денежный поток; операционная прибыль; ликвидность; автоматически возобновляемый кредит; часть коммерческого кредита.

b) *find Russian equivalents for the following:*

To invest much of assets in loans; to make sound judgment about the financial stability; to apply for loans; to make sound lending decisions; to contribute to the profitability of the bank; to meet the needs of the community; cyclical swings; market value of collateral; a drop in confidence by investors; the collapse of the stock market; to extend short-term credit against planned stock issues; under-capitalized borrowers, loan portfolios; increasing use of debt to finance business; to divide the profits; to serve as the sole source of equity financing; innovative debt instruments; revolving credit; to be converted to equity ; at a present price; advent of corporate income taxes; to deduct interest expenses; technical manipulation of the data.

c) *match the following notions with the correct definitions or phrase:*

1.credit risk	a) Even through many firms today do not issue financial statements backed up by an independent audit, most banks require that firms prepare their statements in accordance with ________
2.Trends and Comparative Performance	b) The __________ normally begins with an interview between the commercial client and the loan officer and continues through the stages of credit investigation, financial statement analysis, loan structuring and pricing, loan negoliation, loan documentation and closing, and loan follow-up.

3. operating profit	c)____________ involves the systematic examination and interpretation of information to assess a company's past performance for the purpose of predicting future viability.
4. net cash flow	d) _____________ — the assets the company maintains and the liabilities it has incurred to acquire and keep those assets, including the company's capacity or flexibility to deal with both planned and un planned change
5. liquidity	e) _____________ — the business goes through to bring products or services to the market
6. leverage	f) _____________ — the direction that the business operation is going, as evidenced by comparison of financial results from more than one year and with other companies in the same industry and size.
7. Operating Cycle	g) _____________ — the ability of a firm (1) to respond quickly to unexpected financial problems and opportunities, (2) to increase assets if sales grow, and (3) to repay short-term debt from normal conversion of assets to cash:
8. commercial lending process	h) _____________ — the generation of cash for long-term purposes such as fixed asset replacements, net additions to current assets, and repayment of long-term debt
9. Financial Structure	i) ______________ — the extent of debt, as a source of the funds used to operate the business, and loan repayment requirements, relative, respectively, to the equity cushion and variability of cash flow
10. Financial statement analysis	j) ______________ — the evidence of operation successful enough to reassure investors about the firm's survival and growth in the future;
11. generally accepted accounting principles (GAAP)	k) ______________ — the principal risk-called by bankers — is that the borrower will not meet the terms of the loan and that secondary repayment sources, such as collateral, will be insufficient to cover the losses.

4. Discussing exercise.

a) => Define financial statement analysis and explain how financial statement analysis helps structure the commercial lending decision.
b) => Prepare a list of factors that contribute to the stability of an organization seeking a loan. For example, a company with little debt can better withstand a recession because it has less interest and loan principal payments than a company with significant debt.
c) => Consider how the concept on uncertainty affects a loan officer's assessment of risk. For example, can the economy, weather, or election results be accurately predicted? What aspects of society can be forecasted? In your opinion, what trends can be studied to narrow the uncertainty gap?

5. Summarizing exercise

d) Sum up the main points presented in Text 1. Write the plan of the text in the form of statements.
e) Develop your plan into the summary.

6. Translation exercise

Translate into English. Divide the text into logical parts. Suggest a plan of the text in the form of statements in English. Use the following word-combinations:

The Great Depression; capital funds on the equity markets; short-term lending from commercial banks; unregulated stock market; cyclical swings; the lack of diligent analysis; market value of collateral; the state of the economy; severe financial distress; reliable financial information; a drop in confidence by investors; collapse of the stock market; to seek additional capital to expand; a chain reaction; short-term credit against planned stock issues; to face with undercapitalized borrowers; defaulting loans; to call in loan portfolios; to cool the booming economy; to cause large capital losses; the Securities and Exchange Commission;

generally accepted accounting principles (GAAP): the American Accounting Association; the American Institute of Certified Public Accounts; the Financial Accounting Standards (FASB); the engage in financial statement analysis; lo eliminate the personal interaction; bank and borrower relationship; to prepare statements in accordance with GAAP.

Рождение Современного Анализа Финансовой Отчетности

До Большой Депрессии предпринимателям выдавалось меньшее количество кредитов, чем это имеет место сегодня. В то время большинство деловых фирм рассчитывало на рынки акционерного капитала или на краткосрочные кредиты от коммерческих банков. Значительная роль, которую играет нерегулируемый рынок акций, его циклические колебания, и недостаток прилежного анализа кредиторами, выдавшими кредит исключительно на основе рыночной ценности имущественного Йпога или состояния экономики, периодически создавала серьезные финансовые бедствия. Последовательная и надежная финансовая информация была доступна в ограниченных количествах, поэтому снижение акции в 1929 году нанес сокрушительный удар по многим сотням, новых предпринимателей, искавших дополнительные капиталы для расширения производства. Цепная реакции распространилась на сектор коммерческих банкой, поскольку банки выдали краткосрочные кредиты под запланированные выпуски акции, которые никогда не были произведены по причине разрушения рынка акций. Таким образом, коммерческие банки столкнулись с недостаточно капитализированными заемщиками, не выполнявшими во многих случаях кредитных обязательств, что заставляло банки нервно требовать возврата кредитных средств. В результате неудачи банков и предпринимателей быстро охладили расцветающую экономику и привели к большим потерям капитала, закончившимся Большой Депрессией 1930-х.

Следствием Большой Депрессии стало создание правительством США Комиссии по Ценным бумагам и Биржам (SEC), которая издала инструкции о формах представления фирмами информации о финансовом состоянии и результатах своих действий. Среди множества инструкций SEC была одна, предписывающая создать правила для бухгалтерского учета в бизнесе, называемые общепринятыми принципами бухгалтерского учета (GAAP). Первоначально согласованные Американской Ассоциацией Бухгалтерского учета и Американским Институтом Дипломированных бухгалтеров, GAAP в настоящее время регулируется Управлением по Стандартам Финансового Учета (FASB) в г. Стамфорд, Штат Коннектикут.

После введения GAAP появились веские причины, чтобы заняться анализом финансовой отчетности. Не устраняя личных взаимодействий, важных для отношений любого банка и заемщика, GAAP сделал возможным исследовать прошлую работу фирмы последовательно год за годом. С введением GAAP, появилась также разумная перспектива того, что различные фирмы будут использовать одинаковые концепции в бухгалтерском учете своих действий.

Case Study

FIRST NATIONAL BANK OF CHICAGO: COMMITMENT TO QUALITY CUTS COSTS, ADDS CUSTOMERS

The First National Bank of Chicago has proven the skeptics wrong. The disbelievers have said it is nearly impossible to measure quality in service industries, such as banks, airlines, and insurance companies. For proof that service performance can be measured, analyzed, and improved upon, a doubter need only visit this banking institution.

1л 1981, the First National Bank of Chicago (First Chicago) decided to prove that quality could be measured in a service environment. The objective was to increase its share of the market by positioning itself as the quality provider of corporate cash management services. Cash management services are noncredit services such as corporate checking, funds transfer, and shareholder service—services that most major banks provide their customers.

Management at First Chicago believed that a strategy focused on quality is the best way any company can respond to competition. They were also pleasantly surprised lo find that an emphasis on quality helps control costs. At First Chicago, the installation and execution of its quality program has resulted in savings of $7 to $10 million annually.

Facts on First Chicago. First Chicago the 11th largest bank holding company and the 10th largest bank in the United States when it undertook the quality improvement program, was founded in 1863. It is the oldest and largest national bank operating under its original name and charter. First Chicago has the second highest primary capital ratio among major money center bank holding companies. The bank is also the third largest issuer of bank credit cards in the United States.

There are 13,000 employees working worldwide for First Chicago Corporation, is listed on the New York, Midwest, Pacific, London, and Tokyo exchanges with 11,700 shareholders. The 57 offices worldwide are organized into three strategic business areas: global corporate banking; consumer banking; and middle-market banking. First Chicago Corporation is the parent company of American National Corporation, the fifth largest bank holding company in Illinois with assets of $4.5 billion.

The Need for Quality Becomes Clear. In the old days, the noncredit services of the banking industry were set up as cost centers, and their products were viewed as "giveaway" services. The noncredit services were usually located in the bowels of a bank. They were often referred to flatly as the "back office".

But now outside influences are dramatically affecting banks' "front offices". The financial services aspect of banking—for instance, the corporate loan area and trade services—has been affected by US and foreign regulations and substitute products like commercial paper and money market funds. Banks are also being pushed by new competitors in the arena. These competitors include foreign banks, nonbanks. investment banks, and data processing firms.

Since 1971, the required return on equity of the banking industry has been on a free-fall decline. So if banks want to stay alive, they must change their business mix, pricing, and/or cost to recover from the current free fall.

First Chicago has elected to distinguish itself by focusing on products that generate a high return on equity. Included in its plan of attack is a focus on the high quality of services. For example, service and quality are the key controllable buying determinants in noncredit services, as determined by a major independent research firm. So First Chicago is determined to be the best in the noncredit services business.

"Satisfying customer needs and expectations is the number one reason for being in any business", says Aleta Holub, vice president of quality assurance at First Chicago. "Customer responsiveness and loyalty to products and services will ultimately determine a company's success or failure. Customers' standards are constantly rising. A company's failure to respond to raised expectations is like denying the force of the tide. It can leave you high and dry on the beach, while customers sail off to competitors' ports".

Step One in Launching the Quality Effort. The first step the bank took in launching its quality process was to alter its organizational framework. Separate strategic business units were created, each based on an individual product family. For instance, the Money Transfer unit's product family includes all domestic and international payment services. The Corporate Trust business unit deals with the indenture trustee and shareholder services product family. The product family under the Documentary Products unit is all import. export, and standby letters of credit, and international documentary collections. Operating under the philosophy that bringing the producer and consumer of a product closer together encourages better quality, the strategic business unit managers suddenly became entrepreneurs. The managers were vested with the power to control not only expenses, but also pricing, product features, promotion, and quality. The new structure provides all the essential elements for the managers to meet customer requirements.

"The strategic business unit framework brought our managers closer to our customers and made them more directly accountable for the quality of our products", says Ffolub.

Using Specialized Customer Service Personnel. Each business unit has its own customer service representatives to handle inquiries and problems and act as conduits, communicating customer concerns to the business unit. Through this decentralized customer service approach, the customer talks to a knowledgeable service representative who is a product specialist. Because the customer service function and production area are in the same location, the representatives are more efficient and responsive. With the customer dealing specifically with a product specialist, a closer relationship is possible, which encourages the customer to offer feedback on enhancements and new products.

Looking at Performance from a Customer's Perspective. The noncredit services area of First Chicago designed a quality program widely considered one of the best in American business. This area's efforts were revolutionary in the financial industry and have now been duplicated by other financial institutions.

"We wanted to ensure thai we were doing the right things right the first lime", says Holub. "By asking and listening to our customers, we learned that what they wanted and expected most from us was timeliness. accuracy, and responsive service. These are issues not unlike those faced by other service industries—for example, surely on-time, accurate, and responsive service are quality elements that customers want and expect from airlines, insurance companies, doctors, and so on".

The next step was to make certain these customer concerns—timeliness, accuracy, and customer service responsiveness—were being met by the bank. If the customers' requirements were not being met, the bank's quality initiatives could not progress. An extensive performance-measurement system, using nearly 700 charts, was developed to track weekly every business unit's performance in relation to its products and the corresponding customer concerns. For example, the accurate processing of money transfers and the turn-around time for letters of credit are measured. By concentrating on the attributes of each major product and service, the bank learns how to fix a quality problem or sustain a quality advantage.

"A customer-based assessment of quality allows a company to recognize if its customers are satisfied with the current attributes of its products", says Holub.

The Guidelines for Quality Measurement. Using the customer's perspective and industry standards, a management team established minimum acceptable performance (MAP) levels for each indicator, as well as goals for exceptional performance. "These goals are **a** point of pride and a source of competition among the business unit managers", Holub explains.

The minimum acceptable performance and goal lines for each chart are set by the strategic business unit manager and approved by senior management. To encourage performance improvement, the minimum acceptable performance and goal lines are continually adjusted upward, "so that the carrot is always just in front of the rabbit", Holub says. To help increase management's commitment to the performance-measurement program, a management bonus system was put in place, with bonuses tied to attainment of minimum acceptable performances and goals for each business unit.

Each unit's performance charts are reviewed weekly with senior departmental management. All this measuring is not done simply to encourage in-house competition. The measuring provides early warning when something is wrong, so that corrective action can be taken.

"For example, when the chart showing (he lime taken to answer telephone-initiated money transfers started to reflect a downtrend, die business unit manager analyzed the operation", explains Holub. "The manager discovered that calls were backing up during peak periods and slowing down the average, so personnel were shifted around to accommodate peak times. Soon after, performance improved to better than its previous level".

Both bank customers and suppliers are invited to weekly performance-measurement meetings. First Chicago receives valuable feedback from customers by having them sit in during these sessions. And since suppliers began attending, meir service levels are better.

"A two-fold benefit is gleaned by inviting both customers and suppliers to attend these meetings", says Holub. "First, the bank has an additional forum in which to leam about customers' expectations and concerns involving their products and service. We regularly use that knowledge to refine and improve both. More important, we are sending a loud and clear (and sincere) message that the customer is our central interest.

"The second benefit is that service levels from our vendors have also improved. Vendors are invited to see how well they are doing in relation to the bank's performance objectives".

At the weekly performance meetings, competing vendors sit next to each other. For instance, the IBM representative may sit beside the competitor from Tandem Computers Inc. Each vendor has the chance to view the other's graphically shown performance, and then to prepare ways to top the other. The outcome is that the bank receives its "fair share plus" of its vendors' attention and service.

Quality Circles at First Chicago. The performance-measurement system is not the extent of the quality effort at the bank. First Chicago currently has more than 30 active quality circles. These small groups of employees arc brought together to identify problems or opportunities and to recommend actions to improve performance. For example, one of First Chicago's money transfer group quality circles spotted a potential improvement in the processing of money transfers initiated by telephone. This group discovered that 67 percent of the authorization cards used to verify authorized initiators and confirmers of money transfer requests were being returned by customers with incomplete or inaccurate information. This caused additional checking and confirmation, which resulted in delays in processing time.

The group analyzed the problem and presented the following recommendations:

- Send a sample card with instructions to customers.
- Transfer card-update responsibility to the customer service unit.
- Develop a way to provide confirmation personnel with additional information on the verification screen.

All three recommendations were approved and implemented, and cards are now being returned with more complete and accurate information. The combination of properly completed cards and improved information flow has improved processing time in the unit by more than one-third.

Measuring the Individual Employee. Yet another successful element of the First Chicago quality process is a program the bank refers to as its Behavioral Engineering Systems Training Program. This program evaluates individual employee performance and is reflected in the overall measurement program. It permits a manager to look at how each staff member is performing so he can identify the source of a problem and work with that person to fix the problem. "This is not a big brother is watching' kind of tliiM^J;", Holub stresses. "We measure for improvement, not perfection. The Behavioral Engineering Systems Training Program sets employee performance goals, measuring timeliness, accuracy, rate, and completeness. The base-line performance is identified by the manager, who then sets a goal 10 to 15 percent above that for each employee. Employees record their performance each day so they can see how they rank in relation to the base and to the standard. The system offers immediate feedback and positive reinforcement when progress is made".

Monthly Performance Awards for Service Products Group. Positive strokes such as "most improved", "best sustained superior performance," and "most effective in improving quality in a changing environment" were all given at First Chicago's 1986 Non-credit Services Annual Performance Awards banquet. First Chicago realizes the importance of recognizing the accomplishments of employee teams within the business units. These "teams", however, vary in structure. Some employees form a team from their normal work group and address problems affecting their department's productivity. Then there are teams consisting of employees from different departments who tackle the larger issues needing attention. A team can also be a form of recognition for accurate performance by a number of employees. For instance, if an employee consistently makes no errors over a specified time period, she may be honored by "making" a team. This type of team is an honor group, so to speak, not a problem-solving group.

A dozen employee teams-—one for each month— receive this recognition monthly and attend a banquet each year.

"Our objective is to improve the quality of First Chicago's services, to recognize groups of employees who have contributed to that improvement, and to further develop teamwork", says Holub.

Each month's winning team receives a plaque and a paid group outing of its choice. The outing is usually dinner, the theater, or a sports event. The group decides on what type of event, and there is a maximum of $100 per person with a ceiling of $1,000 per group. Each team member also receives a certificate, and everyone's name is entered in a grand prize drawing, held during the annual banquet. The grand prize is round-trip airfare for two to anywhere in the United States plus $500 spending money.

The winning team last year for the month of March was the Crossed Account Project team. This team handled the problem of deposits being credited to the wrong account. When deposits are credited incorrectly, one account has too high a balance; the other, too low. This calls for float (uncollected funds) adjustments in both accounts. In this situation, customers may make incorrect cash management choices if they access balance information before the adjustments can be made. Crossed accounts can become a common occurrence if not corrected.

"Our customers were not pleased, and the problems caused our customer service area hours of unnecessary research to rectify the accounts", says Elverage D. Alien of check collection/production, who nominated the winning team.

The Crossed Account Project team identified the causes of crossed accounts, established procedures to eliminate them, and reduced these accounts and the corresponding float adjustments from 649 in May 1985 to 37 the following March. That's a 94 percent decrease. Moreover, by the end of the year, the team had cut the number of crossed accounts to just eight.

"This is certainly proof that if you analyze what is causing a problem and initiate corrective action, the result is substantial performance improvement". Holub comments.

The 1986 August performance award went to the Disbursement Services Error-Free team, which was an honor team.

"They did it right every time", Holub says of the team. To be eligible for the team, employees in the production area of disbursement services had to be error free for at least 12 months. Employees were graded on their accuracy in corporate check handling, corporate/official reconcilement, demand deposit services, information services, shipping, and sorting. Twenty-four of the 64 employees, or 38 percent, received the award. One person met the standard of 12 months, while 21 employees were error free for 13—24 months and two for 25—35 months.

"The sustained excellent performance of all these employees has helped us maintain a high quality of service to our customers", says Holub.

A final winning team example is the Heritage of Woodridge Controlled Disbursement team. This team consisted of 13 employees in disbursement services and four in check collection. It won the 1986 December performance award by beating the check-clearing information delivery times of other major Chicago banks.

"Through their hard work and extraordinary efforts, we surpassed our major local competitors' delivery times by one half to one hour", boasts Holub. "This type of accomplishment makes First Chicago much more competitive in the marketplace and gives us an important point of differentiation".

Why Quality Is Worth It at First Chicago. The quality emphasis at the bank has had a measurable effect on performance. The quality initiatives are carefully planned, and the quality measurement program is energetically supponed. As proof of improvement, back in 1982 one of the bank's operations experienced an average of one error in every 4,004) transactions. Today, the figure is one in 10,000.

"The success of the quality program within the noncredil services area alone is telling proof that providing excellent products and services, and containing costs, can be mutually compatible efforts", says Richard L. Thomas, president of First Chicago. "In fact, we have learned firsthand that an emphasis on quality is one of the most effective ways to control costs".

For example, Thomas says, it generally costs First Chicago just under $10 to perform a money transfer. But that's a transfer done right the first time; if the money goes to the wrong place or doesn't make it on schedule, the cost of fixing an error can quickly rocket to $400 or more, depending on the amount of money involved, the complexity of the case, and so on. So maybe it should be of no great shock that First Chicago's quality effort has saved millions of dollars.

Another reason cost savings are critical is because more and more corporate treasurers are looking at the total costs of using one bank's cash-management service over another. The bank with the lowest per-item price might actually be more expensive to use if its error rate is high. So when a bank reduces its error rate. the overall cost a customer pays is reduced. And high quality, customer satisfaction, and competitive prices also mean repeat business, referrals, and new business, which makes the quality effort even more attractive.

First Chicago also realized the importance of communicating the quality commitment to its customers. So annually, the bank puts together a comprehensive booklet of key performance measurement charts for customers to see what the bank monitors and how it performs in those areas.

"We recognize that when we make errors, both we and our customers have to spend time and money tracking and solving problems". Holub says. "By creating a quality program based on customer-sensitive issues, and backing it up with real, quantifiable measurements, we have made a genuine commitment to provide service excellence".

(from "Fundamental Management")

Glossary

to measure quality in service industries
service environment
quality provider
corporate cash management services
corporate checking
funds transfer
shareholder service
to respond to competition
to control costs
quality program
primary capital ratio
issuer of bank credit cards
common stock
global corporate banking
consumer banking
middle-market banking
cost center
noncredit services
corporate loan area

trade services
money market funds
required return on equity
key controllable buying determinants
customer responsiveness
customer loyalty to products
customers' standards
launching the quality effort
specialized customer service personnel
quality measurement
customer's perspective
minimum acceptable performance (MAP)
to the performance-measurement program
a management bonus system
quality circles

Questions for discussion:

a) Would you consider what first National Bank has done to be an illustration of total quality management? Give reasons.
b) In what ways would MRP. and economic order quantity techniques be useful in assisting First Chicago to achieve its operations and quality goals'?

Text 2

1. **Pre-reading exercise** *Skim through the text*

to find the following:

1) The concept of management's involvement in statement preparation;
2) Four types of auditor's opinion;
3) The concept of comparative analysis;
4) The major aspects of a company's operations in accordance with major categories of ratios reflection.

Sequential steps of financial statement analysis

The fashioning of a financial statement analysis starts with a preliminary investigation of a company and moves to an in-depth examination of its operating performance and financial structure as evidenced by its historical and projected financial statements. Most banks have a systematic approach for obtaining the various documents, organizing and presenting the information contained therein, and then-evaluating and interpreting the data using the standard analytical techniques. The basic steps in financial statement analysis are presented in detail in the following text in the order in which they are normally considered. A brief overview of the entire financial statement analysis process follows.

Obtaining and Spreading the Statement

Banks always ask prospective commercial borrowers to submit detailed financial data, usually prepared in conformity to GAAP, in support of their loan requests. Most banks have established guidelines as to the type and number of financial statements, that should be obtained to do a comprehensive examination. Generally, a bank requires three or more year-end income statements; balance sheets, and statements of cash flows as well as comparable interim statements available since the year end. The lender may also specify one to five years of forecast 'financial statements (sometimes called pro forma statements) and. especially for seasonal lending, a monthly cash budget. Other financial data that lenders may ask commercial borrowers to submit in support of their loan requests include:

- a business or marketing plan,
- lax returns.
- operating and capital budgets,
- inventory summary or listing,
- accounts receivable agings,
- backlog and contract status reports,
- accounts payable agings, and 4 sales and expense breakdowns.

If any of this documentation is not readily available, it will usually be prepared at the loan officer's request. In some cases, the credit analyst may have to construct some of the items-such as the statement of cash flows or sash budget-on the basis of available data.

Management's Involvement in Statement Preparation

There are different goals among various users of financial statements, and these goals can shape the appearance of the financial statements. The interests of entrepreneurial owners versus those of nonowning managers is a prime example of how these goals can conflict.

Entrepreneurial owners want the financial statement prepared so as to confirm their own understanding of the firm's performance for the year and to meet certain requirements for paying taxes to the Internal Revenue Service. Outside of conforming to the tax rules, the information in the financial statements is useful essentially for the owners' purposes. Even if the financial statements do not show much income or liquidity and show only the historical purchase price of fixed assets, the entrepreneurs' shrewd understanding of their business and that of their competitors allows them to discern how well they are doing and their chances for continued success.

In contrast to these motivations are those of the professional managers. As corporations grow larger, different areas of the company are often decentralized into departments or divisions whose performance is measured separately. These divisions are headed by managers who do not have their personal wealth at stake in the corporation. Managers attempt to achieve specific targets laid out by the board of directors or. by the shareholders of a small corporation. Often, these guidelines are integrated into the results presented in the financial statement and are set up by owners or shareholders in an attempt to align the efforts of managers with their own interests. Frequently, bonus programs are offered to managers to obtain this alignment, the bonuses being based on such established benchmarks of financial performance as net income. While the managers may have a different set of goals in mind, such as job security, the bonus program focuses their attention on the results reported in the Financial.statemenls.

Moreover, the professional (nonowing) manager of public corporations must be responsive to government regulations. One of the most important of these regulations is supplying financial and nonfinancial information to shareholders. Therefore, the objectives of the non-owning managers include providing a "report card" on their activities for the purposes of both earning compensation and complying with information requirements of shareholders, investors, lenders, and regulators.

The opportunity to prepare one's own report card creates temptations that are difficult to resist. As George Foster states in Financial Statement Analysis, "No matter how detailed the set of rules issued by accounting policy bodies, creative managers or their advisers will find means of structuring transactions that do not give rise to reported expenses or reported liabilities even though, in spirit, expenses or liabilities exist. This is but one of several reasons why the disclosures in annual reports need not represent either a complete or an unbiased representation of the underlying transactions and events affecting the firm.

Throughout a financial statement analysis, the analyst must remember that the statements are those of management and that accountants reviewed them only to see that they conform to broad standards and meet certain statistical tests of validity. In the preparation of the financial statements, owners and managers have a great deal of leeway by which they can make themselves look good. One way management can make its efforts look better is to choose the best time of the year for preparing the statements. For instance by having the fiscal year end in the summer, when inventories and receivables are much lower than in December (their peak), retail businesses can produce financial statements that indicate a more favorable financial condition.

Examining the Auditor's Opinion

Auditors review financial statements to test whether they are in accordance with the principles and policies promulgated by the Securities and Exchange Commission and by the Financial Accounting Standards Board. In contrast management is templed to prepare the financial statements to present the company's performance in the most favorable light. Another pressure helping to make the results of an audit relatively muddy is the auditors' desire to continue to be the accounting firm for the business they are auditing. Because of these factors, the result of an audit is more appropriately described by the word fair than it is by the word financial analysts would like to see: accurate.

After examining the financial statements of management, auditors must express an opinion on the quality of the statements. Four types of opinions are given: *unqualified opinion, qualified opinion, disclaimer opinion, and adverse opinion.*

An *unqualified opinion* means that the management receives the highest accolade for presenting fairly the financial position and results of operations and changes in financial position for the period involved". Footnoted disclosures accompanying an audited statement may result in significant information being available to a firm's creditors. In effect, the footnotes allow the auditor to comment on the statements relative to the GAAP standards. A financial statement that the auditors have declared to conform to GAAP standards has the best credentials that an analyst can obtain. Securing such a financial statement should be required for every unsecured loan request over

The audit itself does not prevent' management from misrepresentation. In conclusion, the accountant's job is a complicated, maybe even impossible, one. Although many regulatory authorities attempt to keep financial reporting to investors at a high standard, financial statements need to be approached from a wary perspective.

A *qualified opinion* means that the statement present fairly the financial position and results of operations, but that there are certain qualifications about the scope of the auditor's engagement at the audited firm or that there arc uncertainties about the future which cannot be resolved or the effect of which — cannot be, estimated. These reservations, usual phrased "except for" and "subject to".

A *disclaimer opinion* means that because of limitation in the score of the auditing firm's engagement or because of uncertainties about the future that cannot be resolved or the effect of which cannot be estimated, the accountants cannot express an opinion. A disclaimer opinion includes the *review and complication opinions,* which means that the auditors consolidated the statements and prepared the acknowledgments without independently verifying the data, an important part of any audit.

An *adverse opinion* means that the statements do not present fairly the financial position or results of operations in conformity with genera]ly accepted accounting principles. This type of opinion is rarely encountered.

For analysis purposes, the qualified opinion is comparable to an unqualified opinion and, depending on the reason for the qualification, is usually suitable. A financial statement with the disclaimer opinion would be considered unaudited, but could be prepared substantially in accordance with GAAP and should be treated as discussed in the next section. The adverse opinion is of questionable value.

Unaudited Statements

Audited financial statements differ from unaudited statements in one highly important way-the degree of confirmation of asset, liability, sales, and expense account balances. For example, in the normal course of an audit engagement, inventory levels are physically sampled, and statistically selected accounts receivable are confirmed.

Confirmation is not done, or is not done with the same thoroughness or independence, in the preparation of unaudited statements.

Many firms do not have their financial statements prepared by an outside accountant or accounting firm because they claim not to be able to justify the cost of a full audit, approximately $15,000 or more. Instead, statements are generated in house from books and records that have not been independently verified. The following questions may be suggested to the credit analyst:

- How experienced or competent is the preparer?
- Are the financial records of the firm accurate and complete?
- Have all the liabilities been identified and reported?
- Even if the person who prepares the information is qualified and the data are both available and reliable, how independent is the preparer?

The professional standards .of certified public л .accountants require independence from the client or disclosure of business or family relationships that might inhibit the exercise of independent judgment.. The presence of audited financials (and their implications) gives a certain comfort level to the creditors of the enterprise. The reliance by creditors on analysis of less than audited statements needs to be' clearly understood, and the bank must be protected with collateral or personal guarantees of the owners or other appropriate consideration.

A readily available alternative source of financial information is the firm's income tax return submitted to the Internal Revenue Service. Some play down the accuracy of these returns, claiming that the income errs on the conservative side. Nevertheless, these statements are prepared for- the IRS, which will prosecute fraudulent submissions. Assuming the properreporting, there is significant information in the tax return, which should be certified as aconformed, or exact, copy.

Spreading the Financial Statements

Basically, statement spreading the process by which financial statements is recorded is recorded an a standard form, or spreadsheet. Many banks use a standard spreadsheet for income statements, balance sheets, and statements of cash flows. Use of a spreadsheet enables the analyst to review a number of years all at once, to spot trends in the company's account balances, and to make comparisons.

Since the key to successful financial statement analysis lies in the credit analyst's ability to determine not simply what has happened in the past or even why it happened, but what it bodes for the future, all available financial information needs to be interpreted and integrated. However, it cannot be overemphasized that financial statement analysis does not purport to be an exact science that can be used to predict with certainty a company's future. Unknown factors abound, and subjective judgment is necessarily involved in drawing conclusions from the analyzed data and making the final credit decision.

Balance Sheet Analysis

The balance sheet is the first part of the financial statements to be analyzed in this text. It is a point-in-time financial picture of the company-usually as of the last day of the company's fiscal year. The basic structure of the balance sheet can be stated as a simple equation:

Assets = Liabilities + Net worth.

Balance sheet analysis entails an evaluation of the company's assets followed by an evaluation of its liabilities (debt) and, the difference between the two, its net worth (or equity).

Income Statement Analysis

Next to be analyzed is the income statement also called a profit and loss statement or earnings statement. One of the most important sources of information about a company, it begins with total revenues (or sales) and then categorizes the various expenses leading to the net profit (or loss) for the period. The accountant's goal is to analyze the net profit or net income, that is, to estimate the wealth generated by the firm during the period. The analysis consists of examining the quality and consistency of revenue and truthfulness of the expenses.

Statement of Cash Flow Analysis

The third financial statement to be analyzed is the statement of cash flow (stemming from the sources and uses, of funds statement and, its predecessor, the sources and applications of funds statement). As its name implies, this model of the company's business operations shows how a company obtains and uses its cash resources, ignoring the accrual accounting, wealth-generating model.

Since debt is repaid with cash, the statement of cash flow helps-'the' lender determine both the company's funding needs and its sources of repayment. The statement of cash flow shows in-; flows and outflows of cash categorized as operating funds flows, investing activities, and 'financing activities. Like an income statement, it is dynamic (normally covering a fiscal year).

Every client should be required to submit as part of its financial documentation a statement of cash flows prepared, if possible, in accordance with the Statement of Financial Accounting Standards (SFAS) No.95. Some clients, especially those submitting statements that have not been reviewed by outside auditors, can not or will not prepare a statement of cash How. In this case the analyst may approximate the information hi the spreading process.

Ratio Analysis

Ratios are not only the best known and most widely used of all the financial statement analysis tools, they are also the most overrated and most widely used. Ratios allow the lender to study the relationship and trends over time between various components of financial statements, such as assets and liabilities or expenses and revenues. While ratios are easily calculated, their correct interpretation is more problematic. The specific ratios used by a particular bank may vary, but the major categories of ratios reflect the major aspects of a company's operations that a lender needs to consider.

- *Liquidity* — the ability to meet current obligations and convert assets to cash,
- *Leverage* — the relationship between liabilities and the company's net worth.
- *Solvency, or Coverage* — the company's capacity to meet its continuing payment obligations.
- *Profitability* — the company's ability to sell its products or provide a service at a price
- that exceeds its expenses.
- *Activity* — the efficiency with which a company uses its assets (which will vary over tune. particularly for a company that is cyclical in nature).

Trend Analysis

Determining trends and making industry comparisons are two basic analytical techniques that will be discussed in detail throughout the text. Trend analysis compares information over comparable periods or at comparable tunes for the same company. It is used to detect favorable or unfavorable changes in operating policies as reflected in revenues, expenses, and asset or liability accounts.

Comparative Analysis

Comparative analysis parallels the ratios and other financial information of at least two companies, preferably of the same size and industry. This allows the analyst to draw conclusions about the relative performance of the firms. By using the Annual Statement Studies by Robert Morris Associates, many firms may be matched to the subject firm and statistical conclusions drawn.

Preparing Forecasts

Forecasts are basic to the loan analysis and put into numerical form something that the granting of any loan implicitly assumes-that the borrower will be able to repay the principal. Two tools used in this analysis are short-term and long-term forecasts. Some analysts call them cash budgets and pro formas, the latter term being used especially to describe a one-year forecast of the three financial statements.

The types of projections shown herein forecast the future based upon the technique of percentage of sales relationships: everything is forecast based upon its historic relationship to sales. Therefore,- the entire forecast is predicated on (1) an accurate-as-possible prediction of the sales levels and (2) the company's operating structure not changing in ways that disturb the historical relationships between sales and expenses or asset levels, as identified by the analyst.

Cash Budget

The *cash budget* is an important financial statement analysis tool. Presented in the form of a one-year financial forecast, a cash budget forecasts a company's, cash receipts and payments, generally on a month-to-month basis. The cash budget enables the lender to gauge a business's peak credit needs and its ability to generate sufficient cash to repay short-term loans over the term of its operating cycle, the cash budget also helps a lender determine whether, a company's borrowing needs are long term or short term. Cash budgets are especially useful .in determining the financial needs of borrowers with seasonal operating cycles (such as a toy store that rings up half of its total sales in the last two months of each year).

Long-term Forecasts

The examination of three- to five-year forecasts of income statements and balance sheets forces the analyst to apply what has been learned from analysis of the historical financial statements to the future, given an estimated level of sales. Examination of a company-provided forecast involves evaluating the company's underlying assumptions as well as the expected economic, competitive, and regulatory environment in which the company will operate.

Other Advanced Analytical Techniques

Besides the essential analytical tools described above, several more-advanced analytical techniques are available. These techniques include:

- *working investment analysis,* which measures the impact of sales growth on financing requirements and a company's ability to expand sales;
- *sustainable growth analysis,* which measures a company's ability to expand its sales without changing its proportional use of debt;
- *sensitivity analysis,* which uses multiple scenarios to examine a company's areas of greatest vulnerability, and
- *industry factor,* which considers the variability of the borrowing firm's cash flows by comparing them to the cash flows of other companies in its industry

These techniques are invaluable in reining and focusing the financial statement analysis process and in evaluating a company's ability to grow. With practice, credit analysts will gain skill in using them and in interpreting the results as well as in determining what types of advanced analysis are useful in a particular situation.

Accounting Methods

Generally accepted accounting principles (GAAP) prescribe methods of reporting accounting or financial information in order to facilitate comparisons among companies. Nevertheless, in preparing financial statements, many different accounting techniques are accepted. For example, financial statements can be prepared on a cash or an accrual basis, using LIFO (last in, first out) or FIFO (first in, first out) inventory valuation methods, and using accelerated depreciation or straight-line depreciation of fixed assets.

Although the accounting methods used are usually described in the footnotes to accountant-prepared financial statements, differences in accounting methods can make it difficult to make valid comparisons even between companies in the same industry. Comparing financial statements of a company over time may also yield invalid conclusions if the company has changed any of its accounting methods during the period being analyzed. Moreover, many accounting rules allow leeway in recognizing income and charging expenses; thus, the analyst must be on the alert for management's self-serving selection of these alternatives to make its performance look better than it is.

Financial Condition

In assessing a business's financial condition, the accountant is concerned with the reporting of assets (what is owned), liabilities (what is owed), and owner's equity (the investment by the stockholder). There are two very important points to note here. The first is that assets are normally recorded at historical cost, the market value at the time of purchase.

The other key point is the concept of liquidity, which refers to the ability to quickly convert an asset to cash (at or near market value) or to how soon a liability will have to be paid in cash. Assets and liabilities are listed on the balance sheet and on the spreadsheet in descending order of liquidity. If on the one hand a borrower collects its accounts receivable within the 30 days that is standard within its particular industry, the receivable would be judged quite liquid. On the other hand, if the company's new warehouse was designed to meet its specialized needs and constructed next to its factory, the warehouse is quite illiquid by comparison with the accounts receivable. The company could sell the ware house, but to find a buyer quickly for such a distinct structure the company probably would have to offer a discount or some other financial incentive

The owners equity account can be viewed from two perspectives:

- *accounting,* the owner's initial and subsequent investments and whatever net income has been retained in the business from its inception; or
- *financial,* the net difference between the value of assets and the obligations of liabilities. This latter definition causes analysts to be aware of the value of the assets in the marketplace, which is

important for collateral protection as well as for the potential revenue that may be produced from any firm's assets.

(from "Analyzing Financial Statements" *by* Thomas P. Carlin, Albert R. Mc.Meen)

2. Scanning exercise

Scan text 2 to find information on 4 aspects;

a) The definition of statement spreading;
b) The concept of an adverse opinion;
c) LIFO and FIFO inventory valuation methods used in accounting methods;
d) The difference between accounting and financial perspectives (see Financial Condition)

3. Vocabulary Study exercise

Glossary

spreading for financial statements
tax returns
statement preparation
management's involvement
inventory summary
Internal Revenue Service
purchase price of fixed assets
professional (nonowing) manager of public corporations
fiscal year
retail business
the Securities and Exchange Commission (SBC)
the Financial Accounting Standards Board (FASB)
unqualified opinion
qualified opinion
disclaimer opinion
adverse opinion
unaudited statements
conformed copy
balance sheet
assets
liabilities
net worth
income statement
statement of cash flow
liquidity
leverage
solvency
coverage
profitability
activity
cash budget
long-term forecast
Annual Statement Studies
working investment analysis
sustainable growth analysis
sensitivity analysis
industry factor
accounting perspective
financial perspective

a) find Russian equivalents for the following:

a preliminary investigation of a company; an in-depth examination; to submit in support of loan requests; a business or marketing plan; backlog and contract status reports; an interest of entrepreneurial owners; to have personal wealth at stake in the corporation; to be responsive to government regulations; an unbiased representation; to received the highest accolade fro smth.; the scope of the audor's engagement at the audited form; to present the financial position fairly to be approached from a wary perspective; the degree of confirmation of assets and expense account balances; to estimate wealth generated by the firm; to show inflows and outflows of cash; the ability to meet current obligation; to meet continuing payment obligations; on a month-to-month; basis; to measure the impact of sales growth.

b) find English equivalents for the following word-combinations:

Анализ финансовой отчетности; бизнес-план; налоговые отчеты; операционные бюджеты; бюджеты капитала; перечень или сводка товарных запасов; расшифровка счетов дебиторов; огчет о задолженностях и состоянии контрактов; расшифровка счетов кредиторов; перечень продаж и расходов; налоговая служба; Комиссия по Ценным бумагам и биржам; Правление по стандартам бухгалтерского учета в Финансах; безоговорочное мнение; мнение с оговоркой; мнение с правовой оговоркой; неблагоприятное мнение; запрос на необеспеченный кредит; обзор и компиляция мнений; не ревизуемые отчеты; подтвержденная копия; табулирование финансовых отчетов; анализ балансового отчета; активы; обязательства; чистая стоимость; отчет о доходах; чистая прибыль; отчет о потоках денежных средств; анализ коэффициентов; платежеспособность; прибыльность; деятельность; анализ тенденций; сравнительный анализ; долгосрочные планы; анализ инвестиций в оборотные средства; анализ устойчивого роста; анализ чувствительности; фактор промышленности.

c) match the following notions with the correct definition or phrase:

1. industry factor	a) ____________ — of public corporations must be responsive to government regulations.
2. the statement of cash flow	b) _____________ — means that the management receives the highest accolade for presenting fairly the financial position and results of operations and changes in financial position for the period involved.
3. Balance sheet analysis	c) _____________ — means that the statements present position and results of operations, but that there are certain qualifications about the scope of the auditor's engagement at the audited firm or that there are uncertainties about the future which cannot be resolved or the effect of which- cannot be estimated.
4. activity	d) ____________ — means that because of limitations in the scope of the auditing firm's engagement or because of uncertainties about the future that cannot be resolved or the effect of which cannot be estimated, the accountants cannot express an opinion
5. income statement	e) ____________ — means that the statements do not present fairly ht the financial position or results of operations in conformity with _generally accepted accounting principles
6. an adverse opinion	f) _____________ — is the process by which information from financial statements is recorded on a standard form, or spreadsheet.
7. the professional (nonowning) manager	g) _____________ — entails an evaluation of the company's assets followed by an evaluation of its liabilities (debt) and, the difference between the two, its net worth (or equity)
8. sensitivity analysis	h) Next to be analyzed is the ____________ also called a profit and loss statement or earnings statement.
9. an unqualified opinion	i) The third financial statement to be analyzed is_______________ (stemming from the sources and uses of funds statement and. its predecessor, the sources and applications of funds statement

10. a disclaimer opinion	j) _________ — the efficiency with which a company uses its assets (which will vary over time, particularly for a company that is cyclical in nature).
11. statement spreading	k) _________ – which considers the variabilis,- of the borrowing firm's cash flows by comparing them to the cash flows of other companies in its industry
12. a qualified opinion	1) _________ — which uses multiple scenarios to ermine a company's areas of greatest vulnerability
13. leverage	m) _________ , which measures a companv's ability to expand its sales without changing its proportional use of debt
14. liquidity	n) __________ , which measures the impact of sales growth on financing requirements and a companv's ability to expand sales;
15. sustainable growth analysis	o) __________ , Coverage – the company's capacity to meei its con inuining payment obligation".
lb. profitability	p) __________ — the companv's ability to sell its products or provide a seivice at a price that exceeds its expenses
17. solvency	q) ___________ — the ability to meet current obligations and convert assets to cash
18. working investment analysis	r) ___________ — the relationship between liabilities and the company's net worth

4, Translation exercise

Translate from Russian into English. Use the following word-combinations:

both the technical manipulation and the interpretation of financial information; to obtain the requisite financial statements; to evaluate the various income statement and balance shee.t accounts; to spread them: to assess the company's sources and uses of cash; to conduct trend analysis; to create or review the company s momivy cash budget; to determine the company's seasonal or other short-term funding needs to select from several more-advanced analytical techniques; to undergo rapid growth.

Анализ Балансового отчета

Анализ финансовой отчетности включает как техническую манипуляцию, так и интерпретацию финансовой информации, чтобы оценить прошлую работу компании, и будущую жизнеспособность, лля определения риска предоставления кредита. Эта оценка выражена в форму ic:

Силы - Слабостъ> Неопределенности = Приемлемый риск кредита.

На рамки экспертизы могут повлиять размер, цель и срок кредита или. в случае проблемного кредита, определенные обстоятельства, окружающие этот кредит. Анализ финансовой отчетности включает следующие последовательные шаги:

1) Получение необходимых финансовых отчетов.
2) Оценка различных счетов балансового отчета и отчета о доходах и последующее их представление в крупноформатной таблице.
3) Оценка предшествующих отчетов с акцентом ни результатах работы компании, видным из отчета о доходах, и на сё финансовой структуре, видной из её балансовых отчетов.
4) Рассмотрение отчетов компании о денежных потоках с оценкой источников и использования денег компании.
5) Использование коэффициентов для анализа тенденций (сравнения результатов компании во времени) и сравнительного анализа (сравнении результатов компании с аналогичными компаниями в том же секторе промышленности).
6) Особенно для краткосрочных кредитов, создание или рассмотрение ежемесячного денежного бюджета компании (проектируемых прихода и расхода) с иелью определения сезонных или других краткосрочных потребностей финансирования компании.
7) Планирование будущей работы фирмы и таким образом её способности возместить рассматриваемый кредит. Это включает создание или обзор планируемых финансовых отчетов

компании (или гипотетических отчетов), ценность которых зависит в значительной степени от реалистичности планирования продаж.

8) Наконец, кредитор может выбрать из нескольких более современных аналитических методов те, которые могут показать, например, способность компании быстро расти.

После завершения всех аналитических шагов, аналитик должен интерпретировать информацию в свете нефинансовой силы и слабостей компании и полного окружения, в котором компания работает.

5. Question for analysis

What is accounting?

Accounting contains elements both of science and art. The important thing is that it is not merely a collection of arithmetical techniques but a set of complex processes depending on and prepared for people. The human aspect, which many people, especially accountants, forget, arises because:

1. Most accounting reports of uny significance depend, to a greater or lesser extent, on people's opinions and estimates.
2. Accounting reports are prepared in order to help people make decisions.
3. Accounting reports are based on activities which have been carried out by people.

But what specifically is accounting? It is very difficult to find a pithy definition that is all-inclusive but we can say that accounting is concerned with: The provision of information in financial terms that will help in decisions concerning resource allocation, and the preparation of reports in financial terms describing the effects of past resource allocation decisions. Examples of resource allocation decisions are: Should an investor buy or sell shares? Should a bank manager lend money to a firm? How much tax should a company pay? Which collective farm should get the extra tractor?

As you can see, accounting is needed in any society requiring resource allocation and its usefulness is not confined to 'capitalist' or 'mixed' economies.

An accountant is concerned with the provision and interpretation of financial information. He does not, as an accountant, make decisions. Many accountants do of course get directly involved in decision making but when they do they are performing a different function.

Accounting is also concerned with reporting on the effects of past decisions. But one should consider whether this is done for its own sake or whether it is done in order to provide information which it is hoped will prove helpful **so** in current and future decisions. We contend that knowledge of the past is relevant only if it can be used to help in making current and future decisions, for we can hope that we shall be able to influence the future by making appropriate decisions but we cannot redo the past. Thus the measurement of past results is a subsidiary role, but because of the historical development of accounting and, perhaps, because of the limitations of the present state of the art 'backward looking' accounting sometimes appears to be an end in itself and not as a means that will help in achieving a more fundamental objective.

(from "Foundation in Accounting" *bv*
Lewis, H. and Gillespie,)

6. Discussing exercise

According to the author "accounting contains elements both of science and art". Support Lhe idea that accounting involves a human element. In your opinion what are the main proposes of accounting?

7. Writing exercise

Write a short article which might be the answer to lhe question posed in the heading.

Text3

1. Pre-reading exercise

Skim through Text 3 and identify which logical part deals with each of the following topics:

a) GAAP account revaluation;
b) Management oobjectives;
c) The balance sheet and its concept;
d) The company's market place;
e) Size of company
f) Working investment analysis;
g) Financial policies;

The Balance Sheet

I ________________________

The balance sheet provides a financial picture of a company at a given time. It categorizes all of a company's resources as assets, liabilities, and owners' equity. The company uses its assets, including facilities and equipment, to manufacture or purchase products for inventory that, when sold, converts to cash or creates accounts receivable. A company's assets are financed by the company's liabilities (also called debt) and owners' equity (also called net worth or, simply, equity).

The basic structure of the balance sheet is represented by the simple equation

Assets = Liabilities + Equity.

This equation helps the credit analyst understand each business constantly occurring changes in financial structure. Sine equations must always be in balance, a change on one same or other side to maintain the balance. For example, an increase in assets (whether fixed assets or inventory) must be balanced by a decrease in another asset account (such as accounts receivable) or an increase in liabilities (such as bank debt) or equity. Thus, a company can only obtain assets by liquidating other assets, creating new liabilities, or raising additional equity. Liabilities can be paid by liquidating assets or by increasing other liabilities or equity. Any combination of increasing or decreasing assets, liabilities, and equity can complete a transaction, provided the equation remains in balance.

- **The balance sheet** is traditionally the financial statement that bankers focus on. As is discussed later, some bankers think that this focus supports lending based too much on collateral, physical assets which may be sold to repay the loan if the business venture fails. Furthermore, if many current assets and few current liabilities along with low debt relative to equity characterise a borrower's balance sheet, management's character and abilities are less likely to be tested; thus, the banker may take a more relaxed view of the company's creditworthiness.

The balance sheet review consists of evaluating each asset account in terms of its value and liquidity (capacity for being quickly converted into cash at or near market value). In general, high liquidity reduces the risk of insolvency, the inability to pay bills as they come due. Thus, each asset is considered to be potential collateral in a lending situation. Each liability account is evaluated in terms of its repayment requirements and the expected sources of repayment. Equity may be evaluated in terms of a future source of cash through sales of stock.

The asset and liability structure of a company's balance sheet depends on the numerous industry factors. In reviewing a balance, sheet the credit analyst should recognize that the type of business, the industry, and the company's managerial style each affects the distribution of assets, liabilities, and equity in characteristic ways. These same factors, as well as the conditions in the company's markets, the stage in the company's development, its management's financing philosophy, and the availability of financing-debt and equity-also affect the company's balance sheet structure.

II________________________

A lender must also understand the larger environment in which a company operates. This includes the marketplace, the regulatory environment, the effect of the nation's economy on the business, and the business vulnerability to the almost innumerable uncertainties that every company faces to some extent — be it the vagaries of the weather or technological and social change.

Market Characteristics

To put a company's financial results in perspective requires the credit analyst to understand the structure of the market in which the company competes. Here are some questions to guide the analyst's investigations:

- Does the company have many competitors or only a few?
- How easy is it for new competitors to enter the market? Does product differentiation play a major role in a company's success in this industry?
- To what extent can the company control the price of its products?
- Is the company an industry leader, or must it be ready to follow the leader's strategy on price. regardless of its own costs?
- To what extent do demographic and consumer preference trends affect the company?
- Is the market for the company's product expanding, stable, or contracting?

If a company's sales fluctuate with the seasons, it faces an external factor called seasonally. A boat dealer, for example, usually sees heavy sales from spring through summer, with, business almost nonexistent for the remainder of the year. General merchandise retailers, on the other hand, encounter heavy sales in November and December due to holiday shopping. Recognizing seasonality is particularly important when analyzing interim income statements.

Products and services also have their own life cycles. They begin as an idea, are transformed into an entity for sale, and are marketed until they stop selling profitably. The business then

discontinues the product or service. The product life cycle may be very short for a fad product or very long for a staple product. Consider at what stage of a company's life cycle its products or services are. This may be difficult to determine because unforeseen consumer trends and new technology may shorten a product's life cycle. For example, the demand for citizens band (CB) radios skyrocketed in the 1970s, then dropped precipitously after a few years when consumer interest waned. Nevertheless, evaluation the probability of continued profitable sales for a company's product or service is critical to an effective examination.

Economic Environment

Interest rates, inflation, tax policies, and the ups and downs of the national economy affect all companies to some extent. Some industries, however, are particularly vulnerable to changes in the general economy. For example, the automobile, construction, and capital goods industries are considered to be cyclical because they are so sensitive to economic downturns and recoveries. This sensitivity results in fluctuations in revenues between operating cycles caused by a reaction to the expansion or contraction of general business activity.

Regulatory Environment

Another important consideration is the extent to which government regulations affect a company. Even industries that are not subject to a high degree of regulation may be subject to import quotas, export bans, price supports, or subsidies. Other companies are subject to clean air and clean water regulations, which have added tremendously to their cost of doing business. Besides federal regulations, state and local laws may be an important consideration for some companies.

III.______________

Management policies and objectives are other factors that distinguish companies and affect their need for financing and their ability to repay loans. The operating policies of some businesses emphasize profits or cash flow over growth. Some firms have relatively strict accounts receivable and inventory controls, while others tend to incur more debt and favor

higher accounts receivable and inventory in their quest to capture a larger share of the market - which, in turn, may lead to greater stability.

Growth-oriented companies might cut their selling prices without the benefit of lower costs in order to increase sales. Other companies are less concerned with short-term profits than with long-term maximization of equity. Understanding its objectives can help an analyst put a company's Financial statements in perspective and evaluate the company's success in achieving its goals. In fact, using the financial statements to judge the company's success in reaching management's stated goals is a necessity for a complete credit analysis.

Some companies are created because of legal and tax consideration. As mentioned when discussing joint venture above, many organizations set up separate companies for the sole up separate companies for the sole purpose of owning property or other fixed assets that are then leased back to the organizations to lower their taxes. Other businesses, concerned with how their financial statements appear to creditors and investors, might create a separate company to provide off-balance-sheet financing for a portion of the organization's activities.

Only after understanding the objectives of the company can the credit analyst begin to answer the questions vital to a financial statement analysis:

- How successful is the company?
- Can the company meet its objectives?
- What financial needs does the company have as a result of trying to meet its objectives?
- Should the bank attempt to satisfy all or part of the financial needs of the company, and if so, how?

IV ______________________

A company's relative size, frequently indicated by the extent of its management organization, its stature in the community, and its clout in the marketplace, may also affect its financing needs and its ability to repay debt. The sophistication (or lack thereof) of a company's financial statements may also reflect its size.

One Manager

The manager of a small business is generally the entrepreneur who began the business. The owner-manager typically does not have all the expertise needed to run a company. He or she may have technical or sales expertise, but lack accounting or financial ability, or vice versa. Managers of small businesses often do not hire full-time financial experts, but instead use clerical bookkeepers or an accounting service. Therefore they may rely on their accountant or their banker to provide financial expertise and direction, a problematic course for the banker, given the conflict of interest in protecting both the client and the depositor's money.

Small businesses often direct their products or services to limited markets. The operation either introduces a new product to undeveloped markets or is a minor participant in a larger, more established market. Additionally, small companies often have unsophisticated operations and, unless their owners are wealthy, limited capital resources. Public equity markets are typically unavailable to them, and borrowing long-term money is difficult even in the venture capital market.

Moreover, the lack of management depth increases the risk of the business to a great degree. If an accident or ill health befalls the owner, the business will be likely to fail. If macroeconomic variables affect its market, a small firm is frequently unable to weather the problem due to the limited skills of its only manager.

Thus the bank usually serves a critical role in the funding of necessary capital for a small company's growth. The bank expects, in return, not only compensation for its risk (that is, payment of interest), but also substantial protection in terms of collateral, loan agreements, and a continued flow of information from the company. Even then, a bank encounters a relatively high degree of risk simply because the failure rate of small businesses is so high.

Multiple Managers Functioning in Different Areas

A successful small business typically grows into a medium-sized business. To improve its management, the company will begin to hire functional specialists, such as a controller or marketing experts. Hopefully, the company creates management-depth so that, in the absence of the chief executive officer, two or more officers are available to deal with macroeconomic crises, like recessions.

As it becomes more sophisticated, the multiple manager company may diversify its lines of business. For example, a company that began by making paper cups may expand production to make milk cartons, or a retailer of women's clothing may take on a line of men's clothing as well. Such diversification usually requires additional capital. The company may also obtain access to venture capital equity markets or attract private investors. Access to private and public debt sources also increases.

As long as the company continues to grow, it will normally continue to have significant financing needs, and banks will continue to be a major source of funds, especially in seasonal businesses. This funding role is often shared among several banks if the business outgrows the local bank's individual lending capacity and comes, by virtue of its expansion, to have financial requirements greater than the lending policy limits of its initial bank. As the company grows, it also typically begins to fine-tune its financial operations to provide better and more useful information, especially audited financial statements that it gives to its financial sources.

Company Decentralized into Division

A medium-sized company eventually may become a large company. By then, its management is usually more functionally specialized. Besides employing a treasurer, the company may employ several financially astute people to deal exclusively with its ongoing capital needs and its long-range financial planning. Further, the managers in charge of divisions within the company may have significant knowledge of overall operations. They greatly reduce the risk that the company will fail; their combined knowledge helps the company see its way through times of crises and macro-economic stress. Altogether, that, makes lending money to larger companies less of a risk. In contrast, smaller companies have only one or, at best, a few functional specialists on whom to rely in hard times.

When a large company becomes a major economic force, able to control or influence its industry's markets, it may substantially affect product pricing and developmental trends. Operationally, large companies tend to be sophisticated and use the latest and most complex technology, possibly including the use of robotics and computer-based cost accounting. Large companies generally have the capitalization, visibility, and operating record to enable them to draw from a wide variety of financial resources, including public debt or equity markets. At this point, the bank is likely to be a secondary provider of funds since public debt markets offer large, successful firms a pricing advantage over borrowing from commercial banks.

V______________________

A company's objectives and managerial decisions affect the company's balance sheet mix. Generally, a company's financial policies can be characterized as conservative or aggressive. Even companies within the same industry an have quite different balance sheet characteristics if their basic managerial policies differ. Companies with conservative financial philosophies tend to emphasize short accounts-receivable terms, low inventories, surplus cash, and marketable securities balances as well as little debt as a source of financing, even if these policies reduce sales somewhat. Avoidance of risk-taking generally results in a balance sheet in which equity predominates over debt-a condition approved of by lenders. Conservative managers usually place less reliance on trade credit and take very strict control of their accounts receivable rather than extend payment terms as a marketing tool to encourage sales, since conservative management places most of its emphasis or equity, the company's growth is limited by the availability of internally generated equity (through retaining profits) and, selling new common stock.

A more-aggressive financial philosophy would emphasize enhancing returns on equity by increasing the amount of debt rather than equity since stockholders usually expect a higher return in line with the higher risk they take. Also, the more assertive policy would encourage sales by extending payment terms, maintaining lots of inventory in order to more promptly respond to customer orders, and purchasing the latest in fixed assets to permit growth. The resulting balance sheet would probably show higher debt, lower equity. and greater investments in accounts receivable, inventory, and fixed assets.

Less-stringent credit requirements and more-liberal credit terms invite a significant increase in accounts receivable. A management team that emphasizes the importance of never losing a possible sale must also maintain a heavy inventory. Such policies require financing, which often is accomplished with liabilities rather lhan with equity because most companies do nut generate profits quickly enough to pay for the assets that rapid growth requires. In general, new and smaller businesses take a more aggressive nance because of their limited access to equity.

VI________________

One way to determine a company's management philosophy is to analyze its current assets and liabilities. Working investment analysis focuses on the current assets of a company and how their growth is financed as sales grow. It also provides a quick means of projecting the financing required when a company's current assets increase to support its growth in sales.

As **a** company's sales grow, the base level of its current assets (cash, accounts receivable, and inventory) normally grows proportionately. Sometimes it is said that sales growth causes spontaneous growth in current asset accounts. Accounts payable and accruals also evidence spontaneous growth as materials and labor provided by suppliers increase. Therefore, the increase in current liabilities provides some financing for the growing accounts receivable and inventory levels; however, that portion of current assets not supported by the company's increasing payables and accruals must be financed by other sources, specifically borrowings or retained earnings. This assumes that the company has not already earmarked its profits to reduce existing debt or to purchase capital equipment and that the profits are available to support the increased working investment requirements.

If the company exhibits growth in current asset accounts that is proportionally greater than the increase m sales, management is exhibiting an aggressive approach. This approach will require more financing than the conservative one.

VII _______________

The financial statements provided to the analyst by a prospective borrower do not necessarily show the only possible picture of the firm's financial condition. Why is this so? The firm's accountants create the financial statements for all the stake holders: owners, managers, employees, customers, and lenders-and each of these has very different purposes for reviewing the statements. Moreover, for obvious reasons, a public firm's management will want to make the financial statements make its efforts for the year look as good as possible.

Further, the firm's accountants, even if independent, are not preoccupied with the lender's concerns. Generally accepted accounting principles (GAAP) require accountants to use the concept of going concern to value assets. Going concern means that GAAP do not require accountants to determine the market value of the assets, but they do require accountants to keep the original cost (unless it has declined) capitalized on the balance sheet for future expensing on the income statement. That is, in the case of fixed assets, the balance sheet becomes somewhat of a repository of historical values, less depreciation or amortization of the expense onto the income statement. Therefore, one of the basic instincts of the lender, that the balance sheet represents actual value (liquidation or market), is contrary to the accountant's intent.

From an economic or financial point of view, assets are investments in the sense that they are expected to produce future revenue streams. Assets can become obsolete and unable to produce revenue despite **their** apparent physical strengths and capabilities. Assets also may retain substantial value in the face of depreciation being taken over many years, based upon a pessimistic estimate of the original useful life by the management. The analyst must consider unexpected variations in an asset's future revenue stream when determining what value to place on the spreadsheet.

Thus, to successfully determine the debt capacity of a prospective borrower, an analyst must be prepared to disassemble the financial statements-even certified ones-that the borrower supplied. The objective is to calculate the collateral value of the firm in case it fails and its assets have to be sold to satisfy the liabilities.

2. Scanning exercise

Scan the Text to find information on four aspects:

h) Risk of insolvency;
i) The concept of going concern to value assets;
j) Economic environment;
k) Management depth.

3. Vocabulary Study exercise

Glossary

accounts receivable
assets
liabilities
equity
collateral
risk of insolvency
seasonality
government regulation
management depth
ongoing capital needs
knowledge of overall operations
avoidance of risk-taking
spontaneous growth in current asset accounts
aggressive financial philosophy
conservative financial policy
the concept of going concern
capitalized original cost
spreadsheet

a) find Russian equivalents for the following:

to have relatively strict accounts receivable; without the benefit of lower cost in order to increase sales; to provide off-balance-sheet financing for a portion of the organization's activities; to set up separate companies for the sole purpose of owning property; long-term maximization of equity; to satisfy all or part of the financial needs of the company; to be unable to weather the problem due to the limited skills of its only one manager; substantial protection in terms of collateral; to hire full-time financial experts; to use clerical bookkeepers; to diversify the line of business; ю obtain access to venture capital equity markets; to employ a treasures; to keep the original cost capitalized on the balance sheet; to use the concept of going concern to values assets; future expensing on the income statement.

b) find English equivalents for the following word-combination:

Отражать картину финансового состояния компании в настоящее время; после продажи конвертировать в денежные средства; получить активы, только ликвидируя другие активы; привлекать дополнительные собственные капиталы; составить проводку, если уравнение остается сбалансированным; уменьшать риск неплатежеспособности; с точки зрения потенциального имущественного залога в ситуации в ситуации предоставления кредита; уязвимость бизнеса перед почти неисчислимыми неопределенностями; быть чувствительными к экономическим спадам и подъемам; приводить к колебаниям доходов между операционными циклами; испытывать влияние импортных квот, экспортных запрещений, ценовой поддержки или субсидий; будущее списание в отчете о доходе; концепция действующего предприятия для оценки активов; поддерживать первоначальную стоимость в балансовом отчете.

4. Summarizing exercise

a) Sum up the main points presented in Text 3. Write the plan of the text in the form of statements.
b) Develop your plan into the summary.

5. **Translation exercise**

Translate from Russian into English. Consult the text if necessary.

1. Балансовый отчет отражает картину финансового состояния компании на текущее время. Он представляет по категориям все ресурсы компаний, как активы, обязательства и собственные капиталы владельцев.

2. С экономической или финансовой точки зрения, активы являются инвестициями в том смысле, что они, как ожидается, произведут будущие потоки дохода. Активы могут стать устаревшими и неспособными произвести доход, несмотря на их очевидную физическую сохранность и возможности. Активы также могут сохранить существенную ценность перед лицом амортизации, взятой за много лет, основанной на пессимистической оценке руководством первоначального полезного срока жизни. Аналитик должен рассмотреть неожиданные изменения в потоке будущих, доходов актива для определения какую стоимость поместить в крупноформатную таблицу.

3. Балансовый отчет традиционно является финансовым отчетом на котором банкиры сосредотачивают внимание. Некоторые банкиры полагают, что это внимание позволяет гарантировать кредиты *имущественным залогом* физических активов, которые могут быть проданы для возмещения кредита, если предприятие терпит неудачу.

4. Обзор балансового отчета состоит из оценки каждого счета актива в терминах стоимости и ликвидности (способности быстро конвертироваться в денежные средства по или близко к рыночной цене). Высокая ликвидность уменьшает риск *неплатёжеспособности,* неспособности оплатить счета, когда настает срок оплаты. Каждый актив рассматривается с точки зрения потенциального имущественного залога в ситуации предоставления кредита.

5. Увеличение активов (будь то основные средства или товарные запасы) должно быть сбалансировано уменьшением в другом счете актива (типа счета дебиторов) или увеличением обязательств (типа долга банку) или собственных капиталов. Таким образом, компания может получить активы только ликвидируя другие активы, принимая новые обязательства или привлекая дополнительные собственные капиталы.

6. Основная структура балансового отчета представлена простым уравнением:

Активы = Обязательства + Собственные капитачы.

Это уравнение помогает аналитику кредита понять постоянно происходящие изменения в финансовой структуре каждого бизнеса.

7. Один из способов определить философию руководства компании состоит в том, чтобы проанализировать текущие активы и обязательства. Анализ инвестиций в оборотные средства сосредотачивается на текущих активах компании и на способах финансирования их роста по мере роста продаж. Он обеспечивает также быстрые способы проектирования потребностей финансирования при увеличении текущих активов компании для поддержки роста продаж.

8. По мере роста продаж компании, базовый уровень текущих активов (денежные средства, счета дебиторов, и товарные запасы) обычно растет пропорционально. Иногда говорят, что рост продаж вызывает *самопроизвольный рост* счетов текущих активов. Счета кредиторов и начисления также испытывают спонтанный рост, как материапы и труд, предоставленные увеличившимся числом поставщиков.

9. Финансовые отчеты, предоставляемые аналитику предполагаемым заемщиком, не обязательно показывают единственно возможную картину финансового состояния фирмы. Почему это так? Бухгалтера фирмы создают финансовые отчеты для всех заинтересованных сторон: владельцев, менеджеров, служащих, клиентов и кредиторов, и каждый из них рассматривает отчеты с различными целями. Кроме того, по очевидным причинам, руководство акционерной фирмы захочет приложить усилия, чтобы финансовые отчеты за год выглядели настолько хорошо, насколько это возможно.

10. Общепринятые принципы бухгалтерского учета (GAAP) требуют, чтобы бухгаттера использовали концепцию *действующего предприятия* для оценки активов Действующее

предприятие означает, что GAAP не требует, чтобы бухгалтера определяли рыночную стоимость активов, но они требуют, чтобы бухгалтера поддерживали первоначальную стоимость (если она не *снизилась) капитализированной* в балансовом отчете для будущего списания в отчете о дохода. То есть, в случае основных средств, балансовый отчет становится чем-то вроде склада исторических ценностей, за ьычетом расходов на амортизацию долга или амортизацию оборудования ь отчего о доходах. Поэтому, одно из основных инстинктивных предположений кредитора, что балансовый отчет представляет фактическую ценность (ликвидационную или рыночную), противоречит намерению бухгалтера.

II. Увеличение текущих обязательств обеспечивает некоторое финансирование возрастающих счетов дебиторов и уровней товарных запасов; однако, га часть текущих активов, которая не поддержана увеличением счетов кредиторов компании и начислений должна финансироваться из других источников, а именно, заимствованиями или нераспределенной прибылью. Это предполагает, что компания еще не направила прибыль на уменьшение существующего долга или покупку капитального оборудования и. что прибыль является доступной для поддержки потребностей увеличения инвестиций в оборотные средства.

6. Questions for analysis

CONGEPT OF THE SPREADSHEET

Note: *If possible, refer to your own bank's spreadsheet format. If you wish to use the worksheets, the first one, dealing with the balance sheet, is found in Exhibit 1. It may be a good exercise for you to obtain a financial statement and a blank copy of the spreadsheet you will be using and try to follow along.*

Most frequently, financial statement analysis begins with scrutinizing each account cm the audited statements and placing the information into a format used for all credit analysis within the bank-the *spreadsheet.* The advantages of using spreadsheets include ease of dealing with rounded and common-sized numbers consistent treatment of accounts for all borrowers, and ease of spotting trends.

Балансовый отчет **Balance Sheet**

Fig. 1

Название компании Дата балансового отчета Округлено до:							Company Name Balance Sheet date Rounded to:
АКТИВЫ	***$***	***%***	***$***	*%*	***$***	*%*	ASSETS
1. Денежные средства							Cash
2. Рыночные ценные бумаги							Marketable Securities
3. Счета дебиторов -торговля							Accounts Receivable - Trade
4. Товарные запасы: сырье							Inventories: Raw Materials
5. Товарные запасы: незаверш. нр-во							Inventories: Work in Process
6. Товарные запасы: готовые товары							Inventories: Finished Goods
7. Всего товарные запасы					I		Subtotal Inventories
8.1 Недоплаченные расходы							Prepaid Expenses
9. Прочие текущие							Other Current
10. **ВСЕГО текущие активы**							**Total Current Assets**
11. Собственность, заводи оборудование							Property, Plant & Equipment
12. Капитальный лизинг оборудования							Capital leased Equipment
13. Оперативный лизинг оборудования							Operating Leased Equipment
14. (Минус амортизация)							(Less Depreciation)
15. Всего Чистая собств., завод и оборуд.							Subtotal Net Prop., Plant & Equip.
16. Инвестиции и авансы							Investments and Advances
17. Долгосрочн. Рыночные ценные							Long Term Marketable

бумаги							Securities
18. Филиалы и прочие счета дебиторов							Affiliate & Sundry Receivables
19. Чист, активы / прекращенные пр-ва							Net Assets / Discont. Operations
20. Прочие нетекущие активы							Other Noncurrent Assets
21. Нематериальные активы (патенты и права)							Intangibles (Paterns &Rights)
22. Гуд-вил (результат слияния компании)							Goodwill (Resulting from Mergers)
23. **Всего основные средства**							**Total Fixed Assets**
24. ВСЕГО АКТИВЫ							**TOTAL ASSETS**
ОБЯЗАТЕЛЬСТВА							**LIABILITIES**
25. Векселя к оплате							Notes Payable
26. Счета кредиторов - торговля							Account Payable
27 Налоги и начисленные расходы							Taxes and Accrued Expenses
28. Прочие текущие							Other Current
29. Текущая часть ДС Долга (операционно!о)							Cur. Portion L - T Debt (Operating)
30. **Всего текущие операционные обязательства**							**Total Current Operating Liabs**.
31. Текущая часть ДС Долга (остаток)							Cur. Portion L-T Debt (Remaining)
32. Доходы будущих периодов							Dettered or Unearned Income
33. Долгосрочный долг - необеспеченный							Long Term Debt - Unsecured
34. Долгосрочный долг - гарантированный							Long Term Debt - Secured
35. Обязательства капитацьного лизинга			!				Capital Lease Obligations
36. Текущая цена оперативного лизинга							Present Value of Operating Leases
37. Прочие нетекущие расходы							Other Noncurrent Liabilities
38. Всего приоритетный срочный долг							**Total Senior Term Debt**
39. Подчиненный долг							Subordinated Debt
40. Нефинансиров. пенсион. обязательства							Unfunded Pension Obligations
41. Отложенные налога (часть долга)							Deterred Taxes (Debt Portion)
42. ВСЕГО ОБЯЗАТЕЛЬСТВА							**TOTAL LIABILITIES**
СОБСТВЕННЫЕ КАПИТАЛЫ							**EQUITY**
43. Отложенные налоги (часть собств. капит)							Deterred Taxes (Equity Part)
44. Пакет акций меньшинства							Minority Interest
45. Привилегированные акции							Preferred Stock
46. Обыкновенные акции							Common Stock
47. Нераспределенные доходы							Retained Earnings
48. (Акции другие выкуп, в кассе)							(Treasure Stock & Other Red.)
49. Чистая стоимость							**Net worth**
50. ВСЕГО							**TOTAL FOOTING**

➔ Discuss the possible advantages of using spreadsheets. Arc there any disadvantages? Discuss the issue.

Text 4

1. Skimming exercise

The text is divided into 8 logical parts. Define the best suitable for each logical part:

a) Accounts Receivable
b) Inventory
c) Other Current Assets
d) Concept of Current Assets
e) Notes Receivable
f) Marketable Securities
g) Prepaid Expenses
h) Cash

Analysis of current asset accounts

I ________________________

Current assets are commonly defined as assets that will be converted to cash by normal operations of the firm within a period not to exceed one year. This definition came from the agricultural background of a one-year operating cycle. That is, from seed to cultivation to harvest to sale, most growing of crops takes place in a one-year cycle. This cycle distinguishes these one-year assets from those, like the barn and plow that obviously hung around for far longer. In this accounting model of the world, horses were inventory only to horse dealers; common fanners would carry their horses as fixed assets.

A topical controversy in the accounting field is how current is current? For example, tobacco growers/processors/companies are permitted to carry tobacco as current inventory, though tobacco remains in process for periods substantially in excess of one year. Liquor producers are another example. Because one-year period has many exceptions, when studying certain industries, analysts should be on the lookout for assets that do not meet the criterion.

Current assets are discussed below as they are shown on the balance sheet, in order of their fungibility and liquidity-cash first, followed by marketable securities, accounts receivable, inventory, and prepaid expenses.

II________________________

In keeping with the priority of liquidity, cash is listed first on the balance sheet. Companies can hold cash in various forms, some of which are restricted for special purposes. For example, some companies may keep only a small amount of petty cash on the premises to take care of small disbursements that cannot be paid by check or credit card. Retailers require more cash to be on hand for making change, therefore, their high cash position may not be an advantage.

Cash is most frequently represented by deposits in checking accounts that are available for use in a company's operations or in temporary interest-bearing investments. In analyzing a company's cash account, the availability of the cash is the most important consideration. For example, restrictions may apply if interest-bearing deposits arc pledged against debt. Thus, if a company pledges its accounts, the cash becomes unavailable for daily operations. Compensating balances, which may be required for support of bank credit facilities, may also be unavailable for operations.

A company with foreign bank accounts may find that other governments make it difficult to transfer deposits to domestic operations. Moreover, deposits of foreign currency are subject to exchange fluctuations, and funds borrowed for construction purposes may be restricted. In assessing the assets available to a business, carry as a noncurrent asset cash that is not readily available. The amount of time that elapses between the disbursement and collection of cash (for example, between purchasing inventory or paying expenses and collecting accounts receivable) helps determine a company's cash, requirements.

In summary, low or restricted cash balances increase the risk of insolvency, the inability to pay bilk as they come due.

III ____________________

The second category of assets on a balance sheet is *marketable securities.* Companies often invest their excess cash temporarily in certificates of deposit, bankers' acceptances,, U.S. government securities, or high-grade corporate-commercial paper. These investments earn income in the form of interest until cash is needed in the business. Analysts should carefully analyze the current value of a company's marketable securities account as well as its types of investments and their relative liquidity. To have the full confidence of the analyst, these securities should

- be readily marketable.
- have a short term to maturity, and
- pose no risk of losing principal.

Other securities do not meet these criteria. If management claims to have temporary investments in securities. even including stock traded on a major stock exchange, stocks that are not actively traded, slocks in closely held corporations, and stocks held in affiliates, these investments are classified as marketable securities by accountants. For the credit analyst, they should be classified as "other assets" and carried noncurrent for the following reasons:

- Stocks are subject to wide swings in value.
- Stocks may be being held to further the in vestment interests of management; they could end up as the first step in an acquisition and otherwise be indicative of long-term interests.
- Stocks represent ownership interest in corporations, not in assets. In case of a problem, stock owners receive proceeds only after all creditors are satisfied.

These stocks should not be carried as current marketable securities on the balance sheet. However, unless it is large, this account is normally not a significant consideration in financial statement analysis.

IV ________________________________

When a company sells merchandise or services on credit, it provides payment terms that allow the purchaser to pay within a specified time and may offer a discount as incentive for early payment. Credit sales are shown as *accounts receivable* on the balance sheet until they are collected. Other receivables, such as those created by credit extended to company officers, employees, or affiliates and by sales of other assets, should not be included in this account, which is reserved for trade accounts receivable.

Both the size and quality of this balance sheet account are of prime interest. The size of a company's accounts receivable is influenced by

- the amount of credit sales,
- the company's credit terms and collection policies, and the
- customers' payment habits.

The more liberal the credit terms offered, the larger the accounts receivable will be. For example, suppose a company's sales total $30,000 per month, its terms are net 30 (that is, payment is required in 30 days), and all its customers pay within the established time frame. The company's accounts receivable will never exceed $30,000. However, if the company were to extend terms to 60 days, its accounts receivable could easily double to $60,000. Increasing terms always increases the likelihood of loss because of the possibility of unexpected events occurring. For the same reason, lax collection practices tend to result in delayed or lost payments. In the last example, if the company ignored overdue accounts and allowed customers to pay in 90 days rather than within the stipulated 60-day terms, its accounts receivable could increase by another $30,000 to $90,000. Liberal extension of credit to noncreditworthy customers or lax collection policies can undermine the quality of a company's accounts receivable.

A lagging economy can also result in slowed payments on accounts receivable. When an overall downturn in economic activity occurs, companies generally earn less profit and their liquidity is reduced. A chain reaction of slowed payments results as companies paid more slowly by their own customers, in turn slow their payments to creditors. Since a company's liquidity is reduced when its receivables convert to cash less readily, less cash is generated for the business's operations.

If accounts receivable have increased rapidly, the income statement should be examined to see whether there has been a corresponding increase in sales. If not, the increase in receivables may indicate credit terms are being extended to stimulate sales.

From the lender's standpoint, accounts receivable normally represent a good source of collateral because they generally are more liquid than the inventory which they replace. With a large customer base, the repayment risk is spread out. And a company's credit terms give an idea of the approximate time before accounts receivable convert into cash. Accounts receivable also represent good collateral because they can be collected to repay debt.

Access to an *aging-of-accounts-receivahle* statement makes it easier to evaluate receivables. Studying this statement is a means of determining the punctuality of a company's accounts in relation to the credit terms allowed, the success of the company's collection efforts, and the overall quality of the accounts receivable. The company should be able to supply a statement showing the aging of each accounts receivable, both individually and by category. This information is important because the older the receivable, the less likely it is to be paid.

Companies should age their accounts periodically to monitor the quality of their receivables over time and to spot current repayment trends. In many service industries, the accounts receivable should be broken out into (1) completed work and (2) work in process. For example, a CPA firm may list accounts receivable for audits in process as well as those that are completed. Analyzing several different agings of receivables for the same company enables the analyst to detect whether the past-due receivables have become more current. If the trend is negative, the analyst determines the causes and investigates what actions management has taken to reverse the slowing trend.

V ___________________ .

A note receivable is an outstanding note with a specific repayment agreement. Notes receivable are not a normal part of the operations of most businesses, and thus usually do not constitute a significant asset account. However, some businesses accept notes for the sale of merchandise. For instance, a heavy-equipment dealer may accept notes with extended payment terms for the sale of large pieces of equipment.

If a note is not due within 12 months, then only the maturities due in the next 12 months are included under the company's current assets. The remaining maturities are carried on the balance sheet as noncurrent assets.

An evaluation of the quality of any notes begins with their payment status. If a customer took the note out to pay a past-due accounts receivable, for example, then a collection problem already exists and the note may be of questionable value. The company's liquidity is reduced if it cannot collect the note on a timely basis. If the company's notes receivable start to become a significant account, the analyst should investigate the company's credit policies.

The next step is to evaluate any built-in interest rate charged to the customer. Since GAAP assume that the rate being charged corresponds to the market rate, only a sharp deviation will raise a warning. The problem with this limited concern for the note-receivable rate of interest is that a rate lower than market can reduce the value of this asset to the firm. For example, consider the automobile companies that offer 2.5 percent annual rate of financing on a five-year car loan in order to induce potential purchasers. Clearly, the purchaser sees this as an inducement for the same reason the lender would find the value of the note compromised below the face value. In effect, the automobile manufacturer is giving a discount to the buyer and also reducing the value of the note. By the way, in this case at least, the firms have had to account for these notes at a discount from face value.

Companies can also assign notes as collateral. However, before a bank accepts notes as collateral, it obtains financial information about the debtor to determine whether the note will be paid within its specified terms.

VI ______________________

Finished Goods Inventory

Finished goods are salable merchandise. For the retailer or wholesaler, finished goods have been purchased for resale and constitute the vast bulk of the inventor. For a manufacturing company, the *finished goods inventory* includes any finished products not yet sold, but it is primarily made up of the raw materials used in the manufacturing process and the work-in-process inventories discussed immediately below. For service companies, consumable supplies used in the business of providing a service are considered inventor), but are not salable directly, so would be considered raw materials even though they would be finished goods for a retailer. For example, replacement tires kept on hand by a trucking company would be classified as raw materials inventory.

For a retailer or wholesaler, the risk that the finished goods inventory will not sell is primarily related to the style sensitivity of the merchandise. Л manufacturer's finished inventory is subject to this same risk. Therefore, an analyst should assess a company's inventory account in terms of the present and future marketability of its inventory. Some kinds of merchandise have predictable and long-term marketability.

For example undergarments are staple items that tend to bold their value because they are a basic clothing, item subject to continuous consumer demand, if, however, a company's inventory consists of trendy video games that are subject to obsolescence, a sudden drop in market demand could render the inventors valueless. In evaluating a company's inventory account, determine if it includes obsolete inventory that failed to meet market demand. If so, the value of the company's inventory may be overstated. Obsolete inventory does not represent liquidity for the company for good collateral value 1 or a leader to liquidate to repay debt.

Whenever management decides to compete more aggressively by keeping inventory stock high, it takes the risk that the demand for the product will suddenly drop. Sometimes companies keen large inventories because obtaining supplies is difficult or entails lengthy waits before delivery, as is the case with orders from overseas.

Raw Materials Inventory

In addition to finished goods inventory, manufacturers typically hold some *raw materials* inventory to be used in the manufacturing process. Analysts evaluate these inventory accounts on the same basis as they do finished goods - that is, in terms of their marketability. The end use of raw materials determines their marketability. If the raw materials have multiple uses and could be liquidated by being sold to various manufacturing industries, their marketability is much better than that of a raw material used in a single manufacturing process.

A large raw materials inventory account can result from speculation in inventory. A company may try to hedge on prices by buying inventory in bulk at a low price in the hope of selling it later at a higher price or avoiding having to purchase it a higher price in the future. If the price of the goods decreases unexpectedly instead of increasing, a large loss may result. Often, companies are not in a position to hold onto excess inventory because they need liquidity. Moreover, holding onto inventory can be expensive, especially during periods of high interest rates, if bank financing is required.

Work in Process

This inventory is the most problematic from the lender's viewpoint; it may be very hard to salvage in case of a liquidation. The amount of *work in process* inventory depends primarily on the length of the production process. If the production process is short, then the value of the company's work in process will be small in relation to its raw materials and finished goods inventories.

However, if the process is complex, as in manufacturing large or heavy equipment, then a more significant proportion of a company's assets may be tied up in work in process.

Partially completed products not only require additional investment before they reach the value of finished goods, but also usually have a market value that is less than the invested costs. Therefore, the lender should assign a low value, if any, to work-in-process inventor,' for loan collateral purposes.

A company that makes customized products on order usually has a large work-in-process inventory and no finished goods inventory since its products are delivered to the buyer immediately upon completion. Because the general marketability of custom-made products is very low, a manufacturer should require substantial deposits or progress payments while manufacturing the products in order to reduce the risk of custom orders not being accepted. Custom-made inventory usually has little collateral value in the eyes of a credit analyst.

VII______________________

Other outlays of funds that have neither produced benefits nor been expensed on the income statement are capitalized into *prepaid expenses.* Examples of prepaid expenses include insurance premiums paid annually and lease rentals paid in advance. Prepaid expenses probably provide little liquidity, although they do provide a future reduction in current cash outlays.

Carrying the prepaid expenses in the current side of the balance sheet is probably best; unfortunately^ many companies combine prepaid expenses with current receivables due from officers and affiliates, which are not very liquid. Thus, as a practical matter, the combined account is almost always carried noncurrent, unless the analyst is able to separate the accounts.

VIII ______________________

Other current assets is usually an insignificant account. For example, an analyst would list an income tax refund due in this account on the spreadsheet. As mentioned above, stock securities, which management may have listed in the marketable securities account, may be carried here if management intends them to be temporary investments only.

Cash-value life insurance, which represents

cash deposits built up in a whole-life insurance policy, is another item that might show up in the other current assets account. A company can use this available cash in the business if the cash value is unencumbered by a loan from the insurance company or other financial institution.

The insurance policy's real liquidity depends on the death of the insured. The analyst must determine who is insured and the face value of the policies. The lender should also evaluate the adequacy of the insurance coverage in terms of the importance of the insured persons to the company and the liabilities that would need to be paid from the proceeds of the insurance policy.

2. Scanning exercise

Scan through the text to find information:

a) Access to an aging-of-accounts-receivable statement;
b) Finished goods inventory;
c) Cash-value life insurance;
d) The amount of work in process inventory.

3. Vocabulary Study exercise

Glossary

current assets
priority of liquidity
listed cash
deposits in checking accounts
a company's cash account
support of bank credit facilities
marketable securities
certificates of deposit
banker's acceptance
government securities
high-grade corporate commercial paper
to earn income in the form of interest
current value of a company's marketable securities account
to have a short term to maturity
the amount of credit sales
customer's payment habits
a lagging economy
an aging-of-accounts-receivable statement
a note receivable
finished goods inventory
raw materials inventory
work in process
prepaid expenses
other current assets
cash-value life insurance

a) *find the following Russian word-combinations in Text 4 and translate them into Russian:*

Актуальная полемика об области бухгалтерского учета; обсуждаться в порядке взаимозаменяемости и ликвидности; конвертировать в денежные средства; однолетний операционный цикл; текущие активы; держать денежные средства в различных формах; выплаты, произведенные чеком или кредитной картой; быть представленными в виде депозитов на текущих счетах; временные инвестиции под процент; денежные средства, недоступные для ежедневных операций; компенсационные балансы; рыночные ценные бумаги; высоколиквидные корпоративные коммерческие бумаги; депозитные сертификаты; иметь короткий срок погашения; широко обращаться на рынке; быть подтвержденным большим колебанием цен; быть показателем долгосрочных интересов; относить к текущим рыночным ценным бумагам в балансовом отчете; счета дебиторов; количество продаж в кредит; сроки кредитов компаний; замедлить платежи кредиторам; отстающая экономика; вексель дебитора; чувствительность товаров к моде; товарные запасы сырья; незавершенное производство; прочие текущие активы; предоплаченные расходы (будущих расходов); страхование жизни в денежных средствах.

b) find the following English word-combinations in the text and translate them into Russian.

To be converted by normal operations; a one-year operating cycle; in the accounting model of the world; a topical controversy in the accounting field; to meet the criterion; in order of someone's fungibility and liquidity-cash first; to be listed first in the balance sheet; temporary interest-behaving investments; the availability of the cash; to be pledged against debt; to become unavailable for daily operations; compensating balances; to transfer deposits to domestic operations; to be subject to exchange fluctuations; to determine a company's cash requirements; to be readily marketable; to pose no risk of losing principles; to be subject to wide swings in value; to be indicative of long-term interest; to provide payment terms; to sell merchandise or services on credit; to offer a discount as incentive for early payment; collection policies; an income statement; to monitor the quality of someone's receivables over time; to spot current repayment trends; to reverse the slowing trend; to be due within 12 months; to pay a past-due accounts receivable; to collect the note on a timely basis; to be related to the style sensivity of merchandise; the general marketability of custom-made products; to have little collateral value in the eyes of credit analyst; to be paid from the proceeds of the insurance policy.

4. Discussing exercise

➔ The text states that "whenever management decides to compete more aggressively by keeping inventory stock high, it takes the risk that the demand for the product will suddenly drop". Do you agree or disagree with this statement? Identify the major challenges facing management policy and discuss the problem.

➔ Discuss the ways in which "a lagging economy can result in slowed payments on accounts receivable".

➔ The text proves the statement "the more liberal the credit terms offered the larger the accounts receivable will be". Discuss the disadvantages of liberal extension of credit policy.

5. Summarizing exercise

f) Sum up the main points presented in Text 4. Write the plan of the text in the form of statements.
g) Develop your plan into the summary.

6. Translation exercise

Translate from Russian into English paying attention to special vocabulary. The following word-combinations can be of use:

To use to account for inventory; to be tracked by the accounting system; the choice of the accounting convention; to determine the collateral value; basic methods of valuing inventory; last-in, first-out (LIFO); first[L]in, first-out (FIFO); to replace the used inventory; at current values cost; actual physical inventory; a by-product of a method; to account for the inventory on the balance sheet; at older prices; to expense the old inventory cost first; the current value of inventory on the balance sheet; to value inventory; the difference between the FIFO and LIFO valuations; LIFO reserve; retained earnings; to balance the statement; to be made somewhat complicated over time; inflation and growing inventories; average cost.

Метод оценки товарных запасок

Принятое правило учета товарных запасов не предполагает, что каждый предмет товарных запасов фактически прослеживается системой бухгалтерского учета. Выбор правил бухгалтерского учета также важен для определения ценности имущественного залога. Имеются два основных метода оценки товарных запасов: "последним поступил, первым выбыл" (LIFO) и "первым поступил, первым выбыл" (FIFO). LIFO относит к расходам текущую, наиболее позднюю стоимость товарных запасов потому, что фирма должна будет заменить используемые товарные запасы по текущей стоимости. (Напомним, что фактические физические товарные запасы не учитываются при выборе правила бухгалтерского учета.) К сожалению, побочным продуктом этого метода является то, что товарные запасы в балансовом отчете учитываются по старым ценам.

FIFO сначала списывает старые товарные запасы; этот метод отражаез текущую ценность товарных запасов в балансовом отчете. Если фирма использует LIFO при оценке товарных запасов, аналигик должен найти сноску по товарным запасам, которая даст различие между оценками по LIFO и FIFO. Добавьте эту разницу, известную как резерв LIFO. к балансовой стоимости LIFO в крупноформатной таблице, а также добавьте различие между суммами FIFO и LIFO к нераспределенному доходу, чтобы сбалансировать отчет. Таким образом будет определена текущая ценность товарных запасов. С течением времени ситуация несколько осложняется инфляцией и возрастающими товарными запасами. Средняя стоимость является альтернативой, определяющей стоимость запасов между LIFO и FIFO.

Text 5

1. Skimming exercise

Skim through Text 5 and identify which logical part deals with each of the following topics:

a) Due form Officers of Partners
b) Deferred Changes
c) Fixed Assets' Cost Basis
d) Intangibles
e) Investments in Affiliates
f) Due from Affiliated Concerns

Analysis of Noncurrent Assets

I____________________

The assets described up to this point are all classified as current assets. Noncurrent assets, in contrast, are not expected to convert to cash within 12 months. The principal category of noncurrent assets is fixed assets. plant and equipment. Other noncurrent assets are loans due from company officers and affiliates, investments in other companies, deferred charges, and intangible assets.

Fixed assets include equipment, buildings, vehicles, tools, computers, office equipment, leasehold improvements, and furniture - that is, any items of a fairly permanent nature that are required for the normal conduct of a business. The fixed-asset account may be highly significant or small, depending on the type of business. The valuation of fixed assets is an important consideration in analyzing this account.

Financial statements prepared in accordance with GAAP report the value of fixed assets at *book value.* Book value is predicated on accounting conventions that carry assets' values based on their original *historical cost* (the purchase price paid by the company) min-s allowable depreciation to date, Unfortunately, however, historically based book values may be of little worth to lenders. Lenders are concerned primarily with liquidation value - the amount that a company or creditor could realize if it had to disport of the assets quickly. Most assets have substantially less value in liquidation than their market value, wind; is defined as the price a company could reasonably expect to receive for an asset sold in the open market under normal economic conditions. Thus the liquidation value of assets may be either more or less than their book value.

A company's efficiency depends on the cost-effectiveness of the equipment it uses. More-efficient equipment may or may not reduce the cost of manufacturing products or providing services to a point that replacing existing equipment is cost-effective. However, as less-efficient equipment nears the end of its economic life, it may pay to replace it with state-of-the-art equipment. Old equipment can become technologically obsolete because of new production methods or because more-advanced equipment comes on the market. A company with inefficient equipment and the resultant higher costs may become less competitive in its pricing, resulting in a decline in sales.

Specialized equipment may have a lower resale value than more-commonly used equipment. The marketability of a company's fixed assets, rather than their book value (cost minus depreciation), determines their value as collateral. Thus multi-use fixed assets have-higher collateral value than single-purpose fixed assets, the actual value of which could be less than their cost or book value. For example, when a company incurs a large cost preparing a building to accept a highly specialized piece of equipment, it increases the cost (book value) of the building. However, a prospective buyer who plans to use the building for a different purpose will not want to pay extra for these added features

Any costs of improving a leased building-such as carpeting, special lighting, general renovations, and decorating-are not expensed on the income statement, but are capitalized onto the balance sheet as fixed assets and depreciated. However, these types of fixed assets, called leasehold improvements, usually stay with the building and become the property of the building's owner should the company ever move to a new location. For this reason, banks give leasehold improvements little or no value as collateral. It is not unusual for leasehold improvements to constitute the major category of fixed assets for certain types of service companies. One of the best solutions is for the analyst to sock to outside independent appraisers who have achieved credibility in identifying the proper value range of an asset. If the borrower has completed a recent appraisal of its physical assets, this can be an excellent starting point.

II ______________________

This noncurrent asset account represents a company loan to one of its officers or owners. Although they are usually shown as accounts receivable on financial statements, such loans often do not represent a liquid asset convertible to cash and available for business opera-lions. Company officers normally pay the company last because they control the company. Therefore, a1l such loans are spread in the noncurrent asset category and not in current accounts receivable.

The credit analyst should also determine why the loan was made and the prospects for repayment. For example, an officer may haw-taken a loan from the company in lieu a salary or bonus. Tins loan is. in effect, an expense not recognized by the company, thus improving its profitability. Moreover, the company officer need not claim the loan as income, thus avoiding additional personal taxes, assuming the loan does not slay on the books too long. An officer may even purchase stock in the company through the use of a note; this is a sham, creating an asset account as an offset to an equity account. Valid loans to company officers should be examined closely by the lender to determine whether the officer has sufficient personal **liquidity** to repay this receivable.

III _________________

Affiliated companies arc those related by common ownership, either one owning the other or both companies owned by the same individual or other company. *Amounts due from affiliates,* like those due from officers or partners, are usually disclosed as accounts receivable on the company's financial statements. However, this receivable is frequently nonliquid because of the nature of the affiliation and the absence of pressure to pay such debts. Therefore, an analyst should consider it as a noncurrent asset and also determine its purpose. For example, the analyst should find out if

* normal sales exist between the companies, if
* one company has lent money to die other one, and if
* the affiliate has the ability to repay the receivable, regardless of the reason behind the account

If a company wants to borrow money from the bank m order to lend it to an affiliated company, obtain financial statements on the affiliate as well as on the company in order to evaluate its ability to back up repayment. Extensive intercompany borrowings or investments bear watching, particularly in a closely held company where the distinction between the owner's and the company's finances may be blurred.

IV_________________

When one company owns less than 20 percent of another, the *affiliate* status of the two companies is not necessarily recognized. Ownership of debt or equity may be carried in the long-term marketable securities account. From an analysis viewpoint, it would be desirable to know the extent of management's involvement in the investment. If a substantial block of assets appears in the marketable securities account, the analyst should be stimulated to question the possibility of external involvement, consolidation, orde facto affiliation.

Ownership of from 20 percent up to 50 percent of the common stock of another company normally requires the *equity method of accounting* for the investment. This method reflects the original amount of investment in the affiliate in addition to the owner's accumulated share in the earnings or losses of the affiliate since the investment was made. Any dividends that have been received are deducted from the investment. Thus, this account represents the net historical book value of the investment. Any earnings or dividends will she', up as other income on the income statement. Unfortunately, accounting for an affiliate in this manner can disguise how much the other firm can loose, because the investment cannot be reduced below zero.

Since the most important issue is control or influence by management. GAAP require consolidation if management controls the company or owns 50 percent or more of the company. Therefore, the analyst must always be alert to the possibility that management is using GAAP for its own best interests.

V _____________________

Deferred charges usually represent services that have already been performed and on which payment has been made, carried in accounts payable, or accrued. However, even though there is Hi tie or no possibility of re-fund, these expenditures have been capitalized and not yet expensed. This happens because GAAP's accrual accounting wishes to match the outlay's expense to the future anticipated benefit. An obvious example would be a fee paid to a banker for committing to a three-year revolving loan. Such a commitment would provide value to the firm over the entire three years and perhaps should be expensed (charged against income) over the three years.

The above examples show that the nature of deferred charges is different from that of prepaid expenses. For prepaid expenses, either the services have not been performed or the products have not been delivered. Prepaid expenses are more like a deposit, since cash lias been paid out against the benefits of future services or products. Moreover, prepaids are usually refundable if the service or product is not used, and carrying the value on the balance sheet evidences that. This is clearly not the case in deferred expenses, where the outlay is irreversible and the service or product has been received. As a result, the company's balance sheet overstates its assets and equity when these deferred expenses are incurred but not expensed.

Some companies show their start-up expenses as deferred charges because they will result in future sales benefits. However, from a liquidation viewpoint, the value of start-up expenses is questionable. Developmental expenses related to real estate, such as architectural fees and surveys, are usually carried as deferred charges. Whether this account represents value in liquidation or liquidity foi operations depends upon the company's prior track record. If the firm has consistently performed, capitalizing developmental expenditures to better match them with the revenues produced is good practice. Such expenditures may represent an intangible that could be sold to another firm. Thus, an analyst should thoroughly investigate any sizable amount in the deferred charges account.

VI ______________________________

Intangibles is one of the most misunderstood raid maligned accounts on the balance sheet. It is standard procedure to categorize the whole account as a nonentity on bank spreadsheets, with the resulting reduction of the net worth accounts creating a new one called *tangible net worth.* Deducting the intangibles from the book net worth to produce tangible net worth compounds the problem of calculating net worth on the basis of assets at historical cost. This procedure springs from an era when bunks financed primarily manufacturing firms (hat owned substantial long-lived physical assets. Today, due to the rapid pace of technological advancement, physical assets can lose their value more quickly than in the past. Meanwhile, intangible assets, covering everything from intellectual copyrights to a favorable long-term lease contract, can have significant value. Therefore, disregarding the intangibles account can obscure important information about the company, its operations, and its real value in liquidation.

The failure of *Cue Magazine* illustrates how important intangibles can be. When *Cue Magazine,* a "what's playing around town" periodical, went into bankruptcy, its primary salable asset was an intangible-the costs that it could incurred to acquire its subscribers. Because it felt that it catered to a similar audience. *New York Magazine* paid millions of dollars *for Cue's* subscription list so that it could enlarge its own list. However, an intangible cannot appeal' on the balance sheet unless cash or other good and valuable consideration has been given. Thus, curiously enough, while it could not exist on *Cue's* balance sheet, it legitimately appeared on *New* York's.

To proceed in a proper evaluation, an analyst must find out what items are included in the intangibles account, including patents, trademarks, or operating rights. *Patents* give a company the exclusive right to manufacture a product. The intangibles account reflects only the purchase price of the patent or the legal cost of recording internally developed patents, although the value of a patent for a highly successful product will be far greater than these costs. A *trademark* represents the registered name of a product or service. Trade-marks can be bought and sold or used in exchange for royalty payments. Again, the balance sheet account reflects only the purchase price or legal cost of recording the trademark, although the current value of a trademark may be far greater.

Operating rights, special rights granted by government regulatory agencies, are required in certain industries. For example, telephone companies, airlines, and television stations all must obtain operating rights for their areas of business. Because companies can sell or lease these rights, the rights often represent a far greater value to a company than is shown on the balance sheet. The balance sheet value of this right may also be understated in terms of its liquidating value.

Many service companies have a substantial part of their net worth tied up in intangibles, and routine removal will not accomplish much toward the objective of determining what these assets will bring in liquidation. Instead, the analyst should put forth at least an equal effort in evaluating these assets as in evaluating the physical kinds of inventory mentioned above.

Another intangible that frequently shows up on balance sheets is called *goodwill,* an accounting term used for capitalizing acquisitions when the price paid to purchase another company exceeds the market value of its physical assets. Goodwill represents payment in consideration of the acquired company's established customer base, reputation, and future earnings potential. Again, traditional credit theory discards the possibility of evaluating such a figure.

In theory, the amount a company pays in excess of book value when acquiring another firm should lose value over time because the new owners will make their own imprint on the acquired firm. Therefore, CAAP generally require amortisation, or gradual expensing over many years, of goodwill and other intangibles over no more than forty years. However, management be given leeway an- intangibles that are less than 10 percent of a company total assets. The JR.S takes the opposite approach and does not pc/init expensing of goodwill until the actual asset acquired is sold again!

Today's analyst will eliminate many favorable lending opportunities unless he or she makes the effort to evaluate intangibles.

2. **Scanning exercise**

Scan through the text to find information on four aspects:

a) Amounts due from affiliates;
b) Original historical cost of fixed assets;
c) Tangible net worth;
d) The nature of deferred charges is different from that of prepaid expenses.

3. **Vocabulary Study exercise**

Glossary

noncurrenl assets
fixed assets
book value
original historical cost
liquidation value
market value
cost-effectiveness of the equipment
to near the end of someone's economic life
to become technologically obsolete
marketability of a company's foxed assets
multi-use fixed assets
single-purpose foxed assets
due from officers or partners
current accounts receivable
due from affiliated concerns
amounts due from affiliates
affiliate status
equity method of accounting
deferred charges
prepaid expenses

start-up expenses
from a liquidation viewpoint
intangibles
tangible net worth
patents
a trademark
operating rights
goodwill

a) find the following Russian word-combinations in text 5 and translate them into English:

Внеоборотные активы, основные средства; отложенные платежи; кредиты управляющим компании и филиалам; нематериальные активы; счет основных средств; оценки стоимости основных средств; быть основанной на первоначальной исторической стоимости активов; цена закупки, оплаченная компанией; за вычетом допустимой амортизации на дату отчета; интересоваться стоимостью при ликвидации; рыночная цена; зависеть от рентабельности оборудования; стать технологически устаревшим из-за новых методов производства; товарность основных средств компании: определять ценность как имущественный залог; многоцелевые основные средства; специализированные основные средства; нести большие затраты при подт отовкс здания к установке; затраты на улучшение арендованного здания; служить превосходной отправной точкой; показаны как счета дебиторов в финансовых отчетах; включаться в текущие счета дебиторов; суммы, причитающиеся от афилиированных лиц; статус двух компаний; метод собственных капиталов; показывать начальные расходы как отложенные платежи; с точки зрения ликвидации; материальная чистая стоимость; вычитание нематериальных активов из балансовой чистой стоимости; долгосрочные физические активы; игнорирование счета нематериальных активов; зарегистрированное название изделия или услуги; права на ведение деятельности; патенты; торговая марка; будущий потенциал дохода; оплата с учетом установившейся клиентской базы приобретенной компании.

b) find the following English word-combinations in the text and translate them into Russian.

The principal category of noncurrenl assets; the fixed-assets account; the valuation of fixed assets; to report the value of fixed assets at book value; to be based on original historical cost; allowable depreciation to date; lo be concerned primarily with liquidation value; to dispose of the assets quickly; in the open market; under normal economic conditions; to depend on the cost-effectiveness of the equipment; to replace something with state-of-the-art equipment; a company with inefficient equipment; a decline in sales; to determine the value as collateral; to accept a highly specialized piece of equipment; to increase the book value of the building; costs of improving a leased building; general renovation; to be capitalized into the balance sheet as fixed assets; leasehold improvements; to look to outside independent appraisers; to be an excellent starting point; to be shown as accounts receivable of financial statements; to be spread in the noncurrent asset category; the prospects for repayment; to claim the loan as income; to avoid additional personal taxes; to purchase stock in the company through the use of a note; valid loans to company officers; as an offset to an equity account; the absence of pressure to pay such debts; to obtain financial statements on the affiliate; extensive intercompany borrowings; to match the outlay's expense to the future anticipated benefit; to show start-up expenses as differed charges; to deduct the intangibles from the book net worth; to own substantial long-lived physical assets; to disregard the intangibles account; to obscure important information about the company; to represent the registered name of a product or service; to give the exclusive right to manufacture a product: to use for capitalized acquisitions; to exceed the market value of its physical assets; the acquired company's established customer base; future earnings potential.

4. Summarizing exercise

a) Sum up the main points presented in Text 5. Write the plan of the text in the form of statements.
b) Develop your plan into the summary.

5. Discussing exercise

➔ The text is states that "one of the best solutions for the analyst is to look to outside appraisers". Why? Provide your own reasoning.

➔ Discuss the advantages of the equity method of accounting.
➔ Discuss the issue why disregarding the intangibles account can obscure important information about the company , its operations, and its real value in liquidation.

6. Translation exercise

Translate from Russian into English paying attention to special vocabulary. The following word-combinations can be of use:

To merit unsecured loans; stable cash flow; to determine debt payment capacity; to evaluate assets in terms of ...; to provide a "back door" out of the transaction; cash flow analysis; in contrast to the idea; the concept of going concern; from the collateral viewpoint; to be reviewed in terms of marketability; to add to the firm's liquidity; an item's fungibility; to be converted into cash at market value; assets on the balance sheet; to be presented in order of liquidity; to be sold and then collected; to be used with raw materials and labor; to be unencumbered; to be pledged to other lenders; to affect asset quality; the controllability of the assets; environmental or other regulatory risk; to take into account in seizing the asset.

Даже большие банки имеют немного заемщиков, которые заслуживают необеспеченные кредиты. В то время, как некоторые кредиторы полагают, что надежный и устойчивый поток денежных средств является — ключом к определению способности возвращать долги, другие кредиторы оценивают активы с точки зрения их ценности как имущественного долга, обеспечивающего "заднюю дверь" из сделки, если, анализ потока денежных средств оказался негодным. В отличие от этой идеи, одним из основных принципов, руководящих бухгалтерами,, является концепция действующего предприятия.

С точки зрения активы, должны рассматриваться с учетом их реализуемости их на рынке (способности добавить ликвидность фирме). Важной частью надежности цены имущественного залога является диапазон *использования* изделия, то есть полезность для других. Как пример, промышленный реактивный самолет может иметь ограниченное использование для строителя недвижимости в случае спада в этой промышленности; однако, нефтяная компания может его использовать, если, конечно, нет общего спада экономики С1раны. Почти все имеет некоторый диапазон использования. Например, цена судна может значительно упасть во время спада международной торговли, но кое-что можно вернуть, так как оно может быть разрезано на металлолом.

Еще одним основным фактором в анализе ценности является ликвидность. Этот показатель измеряет как быстро актив может быть конвертирован в денежные средства по или близко к рыночной стоимости. Активы в балансовом отчете представлены в порядке их ликвидности:

- Дебиторская задолженность, её просто необходимо получить;
- Товарные запасы которые должны быть проданы и затем получены денежные средства; и
- Основные средства, которые должны использоваться с сырьем и рабочей силой, чтобы создать что-то полезное, которое после этою должно быть продано, а деньги получены.
- Наконец, экспертиза активов должна также определить следующее:
- Не заложены ли активы (а именно, не заложены другим кредиторам). Хотя обременения не затрагивают качество актива, они затрагивают возможность кредитора использовать актив, если необходимо.
- Насколько быстро актив может терять ценность из-за износа, поломок и устаревания.
- Управляемость актива - может ли он быть легко перемещен иди спрятан трудным заемщиком.
- Имеется ли риск для окружающей среды или любой другой законодательный риск, который кредитор должен принять во внимание при овладении активом.

Text 6

1. Skimming exercise

Skim through Text 6 and identify the best suitable for each logical part:

a) Commercial Paper
b) Accruals
c) Income Taxes Payable
d) Concept of Current Liabilities
e) Other Current Liabilities
0 Accounts Payable
g) Current Maturities of Long-term Debt
h) Notes Payable to Banks

Current Liabilities

I__________________________

Current liabilities are subject to the same questions raised before concerning how current is current . The issue here is tied to the cash generating cycle of the firm, the cash budget. A company normally pays its current liabilities (or short-term debt) when current assets are converted to cash.

A company's current liabilities may include notes payable to banks, commercial paper, accounts payable, accruals, loan repayments to officers or affiliates, and current-year income taxes. Thus, this area is more important for short-term loan analysis than for long-term loan analysis. The liquidity of the borrower's assets and the relationship between assets and current liabilities may change significantly over a long period. To pay snort-ten n liabilities, however, the firm will need to have sufficient cash on hand or convert assets to cash quickly enough to nay the current liabilities as they come due. Thus, review of the timing of a liability's repayment terms is the essence of debt evaluation.

From the loan applicant's viewpoint, the level of current liabilities, and especially their relationship to current assets, is a sensitive point because borrowers know that bank analysis frequently focuses on it. Therefore, borrowers take care to arrange the fiscal year end to occur at a time when short-term financing needs will be the lowest. Think about suggesting to Macy's executives that they close the financial statements on November 30. At that time of year, most of the retailer's assets are invested in inventory; the retailer is just beginning to enter its busiest season, when 35 percent of its total sales occur in just 30 days. Thus, short-term borrowings are bound to be high as the firm strains to provide the supply and variety of merchandise demanded by its customers. Liquidity will look very low.

Before charge accounts were common, retail stores frequently made their fiscal year-end report on January 31 (after an "inventory' reduction sale"). However, now that charge accounts are common, if stores chose that alternative, their receivables would be unacceptably high. Therefore, most retail stores current])' release year-end statements either at June30 or July 31. These dates allow the stores to collect most of their accounts receivable from their Christinas selling season and also to have low inventories (because July is in their slowest quarter). The absence of accounts receivable and inventory permits the stores to use their cash to pay down liabilities and present a financial statement that looks better than one with assets and liabilities high relative ю equity.

II__________________________

Notes payable to banks frequently represent the short-term financing of a company's current assets (accounts receivable and inventory). A company with seasonal financing needs may have a seasonal line of credit. For example, a retail company may use a bank loan to increase its inventory prior to Christmas. As the company sells its inventory, it creates accounts receivable or cash. When these accounts are collected or cash sales accumulate, the bank loan is repaid. Therefore, short-term bank debt may fluctuate, depending on when in the cash conversion cycle a company prepares its balance sheet. Further, most lending institutions expect that during the slow part of the year the borrower will evidence its nonseasonal self-sufficiency by paying back all lines of credit. This period is called a *clean-up period.*

If a company's bank debt represents a seasonal or revolving line of credit, the analyst must determine its terms, including payout requirements, if applicable. Since the company may have loans from more than one bank, the evaluation should cover the purpose, expiration date, interest rate, and security pledged on each credit line. The evaluation should also assess the adequacy of these lines of credit for the company's needs. A company may have *asset-based financing,* which is a term for loans secured by certain assets. Asset-based financing is usually maintained at a set percentage level in relation to the assets financed.

Current corporate finance theory attempts to quantify the obvious tendency for firms that are rapidly growing and are not seasonable to require permanent increases in inventories and accounts receivable. Such firms do not earn sufficient profits to cover their growth requirements.

While some institutions have funded this requirement for inventories and accounts receivable with long-term debt, thereby matching long-term funding with long-term needs, this may not.be the best solution. A problem occurs because long-term loans usually have a built-in amortization rate, and this rate may not be consistent with the rate of profits or cash flow needed to repay the loan, just as mentioned in the last paragraph. Further, inventories and accounts receivable needs may continue to grow. While lines of credit at one time were considered synonymous with seasonal borrowing, today banks offer a line of credit to support accounts receivable where no clean-up period is expected and repayment at year end is expected to come from renewal of the credit line or other refinancing. (Sometimes this type of loan is called a one-year revolving credit.)

Ultimately, slowed growth and profits over a period of time should result in less use of the credit' line and a gradual lowering of the credit-line amount each time it comes up for renewal. A credit line typically has one year or less maturity, is secured by accounts leceivable al a minimum, and typically provides advances made against a borrowing base. While, this is technically a mismatch of financing - short-term financing for a long-term need banks prefer the control that a one-year

commitment provides, given that the companies using this type of service tend to be undercapitalized.

III ___________________________

Commercial paper usually represents unsecured short-term borrowings from investors for up to 270 days in amounts of $100,000 or more. This form of financing is usually only available to well-regarded companies with an established credit rating (as conferred by such investment services as Moody's Investors Service or Standard & Poor's). Another alternative is that a bank may issue a letter of credit to back the commercial paper issue of smaller firms that cannot obtain such a rating. In any case, the credit rating agencies always require open bank credit lines to back up outstanding commercial paper.

The incentive to use commercial paper is that firms usually pay lower interest rales than bank prime rates for commercial paper.

From a legal viewpoint, commercial paper includes all publicly issued debt, and an analyst may occasionally note this account title in the long-term section of the liabilities. Accountants usually do not make mistakes on debt maturities, so in this event it is safe to assume that the legal definition is being used in contrast to the financial one.

IV ____________________________________

Trade *accounts payable* represent normal credit extended by suppliers for purchases of inventory and services. Trade accounts payable owed by one company are shown as accounts receivable on its creditors' financial statements. Find out the normal credit terms and then make a judgment about whemer the borrower is showing the ability to take advantage of discounts, which may work out to be a high effective rate of interest.

Accounts payable represent a permanent source of "interest free" funding for the company because, as the company pays its accounts, financing always remains available for new purchases. If, however, a company does not pay its accounts on a timely basis, its suppliers may refuse to extend it credit for new purchases. The company then either has to pay cash or finds itself without a source *of* inventory to continue its operations. Stretching the amount of time between making purchases and paying for them is referred to as "riding the trade" and could indicate mismanagement or inadequate liquidity.

V____________________________________

Accruals represent unpaid costs that the company has expensed through the income statement. These expenses usually are those paid at regular intervals, such as salaries and wages, utilities, and withholding taxes. For example, if a balance sheet is prepared in the middle of a pay period, the wages owed as of that date are shown as an accrual.

An analyst should look for significant amounts in this account. If a comparative analysis reveals any unusual buildup, a liquidity crisis could be in the making. Accruals of prior quarters' withholding taxes are especially crucial because of potential Internal Revenue Service priority to a company's assets. Most banks do not lend money to companies with delinquent tax liabilities.

VI ________________________

Current maturities of long-term debt represent the principal portion of installment payments on long-term debt due (annually, quarterly, or monthly) over the next 12 months. Unlike other current liabilities, which depend on the conversion of current assets for repayment, these current maturities are usually paid from a company's net cash flow. The analytical problem with this account is that some firms have cash flow or net cash conversion cycles shorter than one year. This means that all of the other current asset and liability accounts, mentioned above, will likely be of shorter maturity than this account. Ln the case of a food service company, for example, the cycle could be as short as a week. Comparing the current maturities of long-term debt for a whole year to those shorter accounts may be misleading with regard to the liquidity problems of the firm.

Analysis of amortizing debt should include identification of its terms, conditions, security, and to whom it is owed. Some loans are structured so that no principal repayments are made until the end when the entire balance of the loan becomes due. An analyst must be alert to any such "bullet" loans or other "balloon" payments (substantial and irregular principal repayments) in this account since they may require refinancing. If refinancing is likely to be needed, the lender needs to determine the likelihood of such refinancing being available.

VII ________________________

Income taxes payable represents the actual tax liability due, probably by the next tax payment date. The tax liability shown in this account seldom matches the income tax expense from the income statement for two reasons.

First, companies pay estimated income tax for the current year on a quarterly basis. Thus the year-end tax liability is far less than the total lax liability, ln fact, any taxes owed for previous quarters should put the credit analyst on notice for potential IRS liens.

Second, the income-taxes-payable account does not include any of the noncurrent deferred taxes that may be recorded on the income statement - as provision for taxes — but are not due since they are only a theoretical liability for a future period. Taxes due on a deferred basis are recorded as a reserve item.

VIII ________________________

Other current liabilities are usually insignificant in relation to total current liabilities. This account is usually made up of reductions to asset accounts as deferred or unearned income, unfilled subscriptions, or deposits of some kind. For example, if a company manufactures custom-made or high-priced products, it may require deposits before processing or shipping orders. Such deposits, which are classified as a current liability, can be an important source of financing for these firms.

Any firm that operates under contracts and calculates its income on the percentage-of-completion basis, like a construction firm, may have *deferred income.* Under percentage-of-completion accounting, profits in excess of the originally budgeted amount are not recognized until the contract is completed. This can be an especially harsh treatment for firms doing business with governmental bodies that traditionally are slow to officially approve the completion of the contract. In some of these cases, a cash payment may even have been made, but the income cannot be recognized. Assuming the contract is completed without unexpected mishap, this liability will actually become part of net worth.

In liquidation, customer deposits can also affect the value of inventory', especially if the deposits were for inventory in stock and a security interest was granted to the depositor. Cash held for year-end disbursement to a profit-sharing plan would also be reported in this account.

2. Scanning exercise

Scan *through the text to find information on 4 aspects:*

a) A clean-up period;

b) Loan applicant's viewpoint;
c) Deferred income;
d) Asset-based financing.

3. Vocabulary Study exercise

Glossary

current liabilities
the cash budget
the cash generating cycle
a short-term debt
notes payable to banks
commercial paper
accounts payable
accruals
loan repayments to officers or affiliates
current-year income taxes
short-term loan analysis
long-term loan analysis
the liquidity of the borrow's assets
from the loan applicant's viewpoint
the short-term financing of a company's current assets
a seasonal line of credit
a short-term bank debt
nonseasonal self-sufficiency
a clean-up period
payout requirements
expiration date
interest rate
asset-based Financing
a built-in authorization rale
renewal of the credit line
a gradual lowering of the credit-line amount
to issue a letter of credit
credit rating agencies
trade accounts payable
purchase of inventory and services
a high effective rate of interest
"siding the trade"
to indicate mismanagement
inadequate liquidity
salaries and wages
utilities
withholding taxes
to reveal any unusual build up
a liquidity crisis
accruals of prior withholding taxes
potential Internal Revenue service priority to...
current maturities of long-term debt
installment payments of long-term debt
analysis of amortizing debt
to have deferred income
percentage-of-tompetition accounting
customer deposits
a profit-sharing plan

a) find the following Russian word-combinations in Text 6 and translate them into Russian:

Текущие обстоятельства; цикл получения денежных средств; бюджет денежных средств;оплачивать текущие обязательства, векселя банкам; коммерческие бумаги; счета кредиторов; начисления; выплаты кредита управляющим или филиалам; налоги на доход текущего года; анализ краткосрочного кредита; ликвидность активов заемщика; соотношение между активами и текущими обязательствами; возможность достаточно быстро конвертировать активы в деньги; являться сутью оценки домов; с точки зрения заявителя на кредит; уровень текущих обязательств; установить конец бюджетного года; потребности краткосрочного финансирования; часть активов розничного продавца; обеспечить поставку и разнообразие товаров; готовить годовые отчеты; отсутствие счетов дебиторов и товарных запасов; краткосрочное финансирование текущих активов компании; компания с потребностями сезонного финансирования; иметь сезонную кредитную линию; использовать кредит банка; конверсионный цикл денежных средств компании; испытывать межсезонное самообеспечение; период подчистки; возобновляется кредитная линия; финансирование, основанное на активах; кредиты, гарантированные некоторыми активами; поддерживаться на уровне установленного процента от финансируемых активов; современная теория корпоративных финансов; количественно определить очевидные тенденции потребностей; иметь встроенную вставку амортизации; соответствовать норме прибыли; постепенное понижении сумм кредитования; гарантировать счета дебиторов по минимуму; предусматривать авансы, оплаченные под сумму заимствования; рассогласование финансирования; необеспеченное краткосрочное заимствование от кредиторов; с юридической точки зрения; торговые счета дебиторов; закупка товарных запасов и услуг; показывать как счет дебитора в финансовых объемах кредитора; выяснять нормальные сроки кредита; постоянные источник беспроцентного финансирования; списать через отчет о доходах; показывать как начисления; приоритет налоговой службы по отношению к....; текущие погашения долгосрочного долга; иметь отлаженные доход; стать частью чистой стоимости; план распределения прибыли в конце года.

b) find the following English word-combinations in the text and translate them into Russian.

To pay short-term liabilities; to have sufficient cash on hand; to convert assets to cash; the timing of a liability's repayment terms; the essence of debt evaluation; to be a sensitive point; to arrange the fiscal year end; to be invested in inventory; percent of total sales; to provide the supply and variety of merchandise; the absence of accounts receivable; to fluctuate; the cash conversion cycle; by paying back all lines of credit; to represent a seasonal or revolving line of credit; to maintain at a set percentage level; in relation to the assets finances; to qualify the obvious tendency for firms; permanent increases in inventories and accounts receivable; matching long-term funding with long-term needs; to be consistent with the rate of profits; against a borrowing base; a mismatch of financing; to represent unsecured short-term borrowing; to back the commercial paper issue of smaller firms; to back up outstanding commercial paper; to be shown as account receivable on creditors financial statements; to find out the normal credit terms; to take advantage of discounts; to represent a permanent source of " interest free" funding; to pay accounts on a timely basis; to extend credit for new purchases; to represent unpaid costs; to expense through the income statement; to be paid at regular intervals; to be prepaid in the middle of a pay period; to be shown as an accrual; to look for significant amounts in die account; to lend money to companies with delinquent tax liabilities; to depend on the conversion of current assets for repayment; to be paid from a company's net cash flow; to be made up of reductions to assets accounts; under percentage-of-competition accounting; to be granted to the depositor; for year-end disbursement to a profit-sharing plan.

4. Summarizing exercise

a) Sum up the main points presented in Text 6. Write the plan of the text in the form of statements.
b) Develop your plan into the summary.

5. Discussing exercise

➔ The text states that the area of current liabilities is more important for short-term loan analysis than for long-term analysis. Explain why and discuss the problem of short-term loan analysis.

→Discuss the problem o a mismatch of financing (short-term financing for a long-term need). What are the advantages of a credit line?

→Explain why comparing the current maturities of long-term debt for a whole year to those shorter accounts may be misleading with regard to the liquidity problems of the firm.

6. Translation exercise

Translate from Russian into English. Try to use the following word-combinations:

quasi net worth; to fall on the right-hand side of the balance sheet; to be not clearly debt or equity; the issue of committed annual payments and repayment dates; GAAP; to set up equity accounts; to be segregated from net worth; foreign subsidiary currency revaluation reserves; complexity of the company's operations; to be owed to some other entity; quasi net worth accounts; to interfere with the firm's debt repayment capacity; to be spread as debt; to be debt in the strict sense; to be considered equity; to have a significant impact on ratios.

Квази чистая стоимость

Квази чистая стоимость включает счета, которые лежат на правой стороне балансового отчета, но не ясно, являются ли они долгом или собственными капиталами, потому что вопрос обязательных ежегодных платежей и дат выплаты трудно определить. В некоторых случаях GAAP предусмотрены счета собственных капиталов, отделенные от чистой стоимости для определенных целей, подобно резервам иностранных отделений для переоценки валюты. Часто, эти счета созданы, чтобы сообщить читателю относительно сложности операций компании, не давая понять, что фонды заимствованы у некоторого другого юридического лица.

Аналитик должен тщательно исследовать счета этой квази чистой стоимости, чтобы независимо определить могут ли они влиять на способность фирмы выплачивать долги. Если они влияют, то эти счета должны быть занесены в таблицу как долг, даже при том, что они не могут быть долгом в строгом смысле. Аналогично, если эти счета не влияют, то они должны рассматриваться как собственные капиталы. Это может иметь существенное воздействие на коэффициенты, включающие чистую стоимость.

Text 7

1. Skimming *Skim through text 7 and identify which logical part deals with each of the following subtitles:*

a) Subordinated Debt
b) Reserves
c) Concept of Long-term Liabilities
d) Contingent
e) Long-term Debt Covenants an Security

Long-term Liabilities

I ____________________________

Long-term debt represents liabilities with maturities in excess of 12 months, h is usually used to finance land, buildings, and equipment and occasionally to allow permanent increases in inventory levels and accounts receivable. Purchasing another company or buying back a firm's stock off the market may also be financed with long-term debt.

Previous distinctions between long-term debt (with maturities over live years) and intermediate-term debt (with maturities of more than one year but less than live years) are combined on the balance sheet.

Distinguishing between them is less valuable today because the variety of long-term amortization terms available makes the detailed study of these terms, while a more-complex process, more indicative of debt capacity than merely determining the final maturity date. For example, traditional long-term debt did not amortize over its term; today this debt would be called a *bullet loan* because it comes due all at once. Many publicly issued bonds are structured in this fashion. Naturally, the strong firm that arranges such debt will refinance it a couple of years before its maturity. The analytical problem is that the strength of the firm or of the market may not permit such a refinancing and bring on a catastrophic crisis.

Except for the top-rated public firms, some *amortization* — repayment of a portion of the debt before maturity — of long-term debt principal over the course of its maturity is almost always required. This amortization schedule is of prime analytical importance. The analyst should prepare an independent schedule of the principal repayments required by the reported debt. The resulting schedule should confirm that the repayments are within the company's normal net cash flow expectations. If they are not within cash flow expectations in any future years (frequently the amortization requirements are shown only for five years into the future), discussions about refinancing should begin immediately.

Repayment of longer-term liabilities normally comes from net cash flow and not just from the conversion of current assets to cash. Therefore, a company's long-term debt burden must be analyzed in relation to future net cash flow. Again, debt analysis should cover the terms, purpose, interest rate, and security pledged for all outstanding loans.

II ________________________

When a business incurs long-term debt, it usually enters into a loan agreement, which an analyst should obtain. It will detail such provisions as terms and conditions of repayment, including default provisions. The analyst must determine whether other creditors have restricted the company from incurring the proposed debt or placed other restrictions on the firm, such as meeting certain ratio requirements. If the firm is near any of the limits stated in the loan agreement — in the *covenants* - then negotiations with that lending institution should begin with the object of obtaining a waiver of this restriction. Alternatively, the company may offer a plan to allow it to properly maintain its required ratios.

The balance sheet or loan agreement may also distinguish between secured and unsecured debt. A secured loan is one against which an asset has been pledged in case of default on the loan. If the current lending institution is not the party secured, efforts may be made to join the other lending institution in a joint security agreement. Otherwise, the asset's pledged status should be noted on the spreadsheet.

Occasionally, the borrower may sign a lending agreement covenant which stipulates that it will not pledge its assets to any other party. This is called a *negative pledge.* Falling short of actually pledging collateral, this technique gives the borrower greater freedom in disposing of or selling the asset without requiring individual releases from the lender. The lender is protected because, assuming the covenant is properly recorded under the Uniform Commercial Code, no other lender can presume to lake a lien on anything that it does not directly finance. Indeed, if another lender does not file on directly financed assets within

Contingent liabilities can pose a significant threat to the viability of a company's operation. A prime example of contingent liabilities causing problems is the potentially ruinous asbestos liability faced by Johns-Manville Corporation. After the company filed for protection under the bankruptcy statutes, its shareholders lost their investment in favor of plaintiffs in asbestos legal suits. The fact that the creditors were relatively protected by this bankruptcy agreement demonstrates that senior creditors have an advantage.

Another category of contingent liabilities includes contracts undertakings, such as guarantees, contractual commitments, and letters of credit. In the ordinary course of business, these are frequently referred to as executory agreements or contracts. (Operating lease agreements are a special case of this type of contract and were discussed above.) It is clear that these legal commitments can bankrupt a firm; here are some examples:

- For a construction firm, legal commit
  ments could arise from a simple error in estimating costs on a particular job.
- For an importer, the signing of a letter of credit to import materials commits payment whether the products shipped were the correct ones, were salable, or were otherwise usable.
- To enable a supplier to obtain credit,
  large purchasers occasionally guarantee the obligations of the smaller supplier to assist the latter to obtain needed working capital. Paying in advance would use up cash, but also would be reflected on the balance sheet, while the contingency is not.
- In a joint venture, a parent company, but less-than- 50-percent owner, may provide an earnings maintenance agreement for creditors, but avoid the appearance of any notation on its own balance sheet, since these agreements are considered contingent.

The analytical problem is that contingent liabilities are not placed on the balance sheet because no specific amount can be feasibly estimated. Nevertheless, careful reading of any contingency footnotes is still important. Moreover, credit analysts must stay abreast of news events concerning their borrowers, their borrower's customers and suppliers, the relevant industries, and any pending government regulations or public policy issues that might affect a borrower. If a nonofficial estimate of the liability can be obtained, it probably should be viewed cautiously.

10 days of delivery, the "spreading nonlien" takes precedence. If such a negative pledge al ready exists with another institution, then the analyst should be aware that these assets would not be available to pledge and would be valuable only to the general creditor pool m a bankruptcy.

III ___________________________

Subordinated debt is a junior liability (usually held by company officers or affiliated companies) that can only be repaid when specified debt obligations — the terms of the subordination agreement — have been met.

Entrepreneurs frequently lend funds to their companies, rather than finance solely with equity, because for tax purposes subordinated debt pays interest, which firms can deduct as an expense. In contrast, no deduction may be taken for dividends paid to common stockholders. From the bank's point of view, these liabilities are the equivalent of equity. For example, a bank may extend a loan to a company only on the condition that any debt held by the owner or other stockholders be subordinated to the bank debt. If debt is subordinated to the bank, the bank should hold the original agreement and notes and thoroughly understand their terms.

On the other hand, the company may have publicly issued convertible subordinated debt: naturally, having physical possession of the debentures, as noted above, would not be practical. Since the intention of the investor in convertible subordinated debt may be to eventually convert the debt obligation to stock if the firm does well, the concept just established in regard to having to repay the value of debt is abandoned. In the case where the subordinated debt holders may be presumed to intend to convert their debt to stock, the bank may wish to treat the debt as equity. This would be particularly likely if the stock price rises above the conversion price on the debt.

While the holders of this security will be junior to the bank that is a senior lender, subordinated debentures have certain entitlements to interest payments. Therefore, the analyst may want to look at whether these entitlements would have a deleterious effect on cash flow.

For most cases, this aspect of subordinated debt forces analysts to retain the debt character of this account because it is entitled to interest payments — and conceivably principal payments — no matter what the profits are.

IV _____________________________

Contingent liabilities can pose a significant threat to the viability of a company's operation. A prime example of contingent liabilities causing problems is the potentially ruinous asbestos liability faced by Johns-Manville Corporation. After the company filed for protection under the bankruptcy statutes, its shareholders lost their investment in favor of plaintiffs in asbestos legal suits. The fact that the creditors were relatively protected by this bankruptcy agreement demonstrates that senior creditors have an advantage.

Another category of contingent liabilities in-' eludes contracts undertakings, such as guarantees, contractual commitments, and letters of credit. In the ordinary course of business, these are frequently referred to as executory agreements or contracts. (Operating lease agreements are a special case of this type of contract and were discussed above.) It is clear that these legal commitments can bankrupt a firm; here are some examples:

- For a construction firm, legal commitments could arise from a simple error in estimating costs on a particular job.
- For an importer, the signing of a letter of credit to import materials commits payment whether the products shipped were the correct ones, were salable, or were otherwise usable.
- To enable a supplier to obtain credit, large purchasers occasionally guarantee the obligations of the smaller supplier to assist the latter to obtain needed working capital. Paying in advance would use up cash, but also would be reflected on the balance sheet, while the contingency is not.
- In a joint venture, a parent company, but less-than- 50-percent owner, may provide an earnings maintenance agreement for creditors, but avoid the appearance of any notation on its own balance sheet, since these agreements are considered contingent.

The analytical problem is that contingent liabilities are not placed on the balance sheet because no specific amount can be feasibly estimated. Nevertheless, careful reading of any contingency footnotes is still important. Moreover, credit analysts must stay abreast of news events concerning their borrowers, their borrower's customers and suppliers, the relevant industries, and any pending government regulations or public policy issues that might affect a borrower If a nonofficial estimate of the liability can be obtained, it probably should be viewed cautiously.

V ______________

A business's *equity reserves* represent a liability that will become due sometime in the future. Although they, like contingent liabilities, are not a formal debt currently owed to a creditor, their cost has been estimated by some method approved by GAAP and recognized on the balance sheet as a liability that will theoretically become due sometime in the future. For example, losses on bad accounts receivable that have not vet been recognized are estimated into a bad-debt reserve. Expensing through the income statement creates and adds to the reserve; when the cost is actually realized, the reserve should be large enough that additional expensing will not be required and current income will not be distorted.

Another example of using reserves, one that is currently newsworthy, is for corporations to discontinue operations or offer substantial severance payments to encourage reduction of their staff. A reserve for discontinued operations can be created if a manufacturer plans to discontinue a product line, especially it equipment and other assets are unusable in its other processes and the company has to liquidate the equipment for less than its book value. This liquidation may create a loss in an amount that the company can reasonably estimate and recognize in advance. The company can expense the difference between the book value of the equipment and the actual selling price through the income statement and create the reserve.

When it actually liquidates the asset, the company charges any loss to the reserve rather than to its income statement. Although the reserve does not represent a liability actually owed, the fixed assets must be spread so that they are reduced in value by at least the reserve amount. The fixed assets are then worth less than accounting book value for collateral purposes. In the case of severance reserves, the outlay will have to actually be paid in cash, but the reserve should be present for only a short time.

2. Scanning exercise

Scan through the text to find information on 4 aspects:

a) A negative pledge;
b) A bullet loan;
c) Amortization (repayment of a position of the debt before maturity);
d) A business's equity reserves

3. Vocabulary Study exercise

Glossary

long-term liabilities
long-term debt
intermediate-term debt
variety of long-term amortization terms
a bullet loan
publicly issued bonds
a portion of the debt before maturity
amortization schedule
an independent schedule of the principal repayments
conversion of current assets to cash
a company's long-term burden
terms and conditions of repayment
dclault provisions
in the covenants
long-term covenants and security

a waiver of the restriction
a secured loan
in case of default on the loan
current lending
the asset's pledged status
a negative pledge
actually pledging collateral
to be recovered under Uniform Commercial Code
general creditor pool in a bankruptcy
subordinated debt
specified debt obligations
the terms of subordination agreement
to deduct as an expense
from the bank's point of view
equivalent of equity
to extend a loan to a company
publicly issued convertible subordinated debt
physical possession of the debentures
to be junior to the bank
a deleterious effect an cash flow
contingent liabilities
viability of a company's operation
legal suits
contracts undertaking
guarantees
contractual commitment
letter of credit
executory agreements
a businesses equity reserves
bad accounts receivable
a reserve for discontinued operations

a) *find the follow inn Russian word-combinations in Text 7 and translate them into English:*

Долгосрочный долг; обязательства с погашениями; финансировать постоянные увеличений уровней товарных запасов; среднесрочный долг; разнообразие применяемых сроков долгосрочной амортизации; простое определение даты полного погашения, долг-ядро; погашать всё сразу; выпущенные на рынок облигации; финансовое состояние фирмы: акционерная фирма с высшим рейтингом: трафик амортизации; независимый график выплат основной суммы; учтённый долг; лежать в пределах нормальных ожидаемых потоков чистых денежных средств компании; преобразование текущих активов в деньги; бремя долгосрочных обязательсчи компании; кредиты в обороте; особые условия и гарантии долгосрочных долгов; кредитное соглашение; условия неплатежа: оговорить ограничения па фирму; кредитное соглашение; требовал ь поддержание некоторых коэффициентов; с целью получения отказа от ограничения; необеспеченный долг; гарантированный кредит; в случае неплатежа по кредиту; являться стороной получения залога; в совместном соглашении залога; статус заложенного актива; отрицательный залог; фактически имущественный залог, получение оiдельного освобождения от кредитора: зарегистрировать по Единому Коммерческому Кодексу; наложить обременение: «распространение необременения»; общий пул кредиторов при банкротстве; подчиненный долг; младшие обязательства; соглашение о подчинении; финансировать исключительно через собственные капиталы; вычитать как расходы; являться эквивалентом собственных капиталов; иметь первоначальное соглашение; конвертируемый подчиненный долг; конвертировать долговое обязательство в акции; держатели подчиненного долга; некоторые права в отношении выплаты процентов; условные обязательства; угроза жизнеспособности компании; юридические обязательства; простая ошибка в оценке штрат; резервы собственных капиталов; подлежать оплате когда-нибудь в будущем; убытки по плохим счетам дебиторов; резерв на прекращение производства.

b) find the following English word-combinations in the text and translate them into Russian.

To allow permanent increases in inventory levels; buying back a firm's stock off the market; to be more indicative of debt capacity; to determine the final maturity date; to come due all at once; to be required by the reported debt; to be within the company's normal cash flow expectations; to be shown only for five years into the future; to be analyzed in relation to the future net cash flow; outstanding loans; to incur long-term debt; to enter into a loan agreement; such provision as...; from incurring the proposed debt: to meet certain ration requirements; to maintain required ratios; in a joint security agreement; to be noted on the spreadsheet; to sigh a lending agreement covenant; to stipulate; to pledge someone's assets to any other party; without requiring individual releases from the lender; to assume the covenant; to take lien on; to file on directly financed assets; within 10 days of delivery; to finance solely with equity; to pay interest to be paid to common stockholders; to be subordinated to the bank debt; to hold the original agreement; to have publicly issued convertible subordinated debt; the intention of the investor in...; to convert the debt obligation to stock; to treat the debt as equity; to rise above the conversion price of the debt; to have certain entitlements; to interest payments; to file for protection; under the bankruptcy status; to be protected by bankruptcy agreement; a simple error in estimating costs on; to become due sometime in the future; a formal debt currently owed to a creditor; to be estimated into a bad-debt reserve; expensing through the income statement.

4. Summarizing exercise

a) Sum up the main points presented in Text 7. Write the plan of the text in the form of statements.
b) Develop your plan into the summary.

5. Discussing exercise

→ Do you agree with the statement that contingent liabilities can pose a significant threat to the viability of a company's operation? Why? Discuss the problem of legal commitments that can bankrupt a firm.
→ The text states that amortization schedule is of prime analytical importance. Why? Provide your reasoning.
→ Discuss the advantages of a negative pledge. Do you agree that this technique gives a borrow greater freedom? Why? Give reasoning.

6. Translation exercise

Translate from Russian into English. Try to use the following word-combinations:

A company's balance sheet; gaining a thorough understanding; to be the first step in; financial statement analysis; general managerial policies; liability repayment terms; the relationship between debt and equity; predict the consequences of...; to liquidate a substantial borrower; in terms of value and liquidity; the ability to convert an asset to cash quickly; at or near market values; the company's debt repayment capability; the need for collateral; to secure debt; an evaluation of each liability account; the current repayment requirements of the company; to compare the bank's overall risk as a creditor with...; book values; real values; the value of liabilities; to work diligently to protect equity; to repay the company's liabilities; to represent ihe cushion between...; greater uncertainty in…; cushion to protect liabilities; absolutist statements about leverage; to be tempered with references to cash flow; assessment of risk in the business's operations; to spread a company's individual balance sheet accounts tender; the company's past balance sheets; absolute changes in dollars; percentage change in the distribution of assets; a corporative analysis.

1. Полное понимание балансового отчета компании является первым шагом в анализе финансовой отчетности. Зная тип компании, промышленности и общей организаторской политики, аналитик кредита должен иметь общее представление, как выглядит балансовый отчет компании. Рассматривая стоимости активов, сроки выплаты обязательств и отношения между долгом и собственными капиталами, кредитные аналитики могут лучше предсказывать последствия необходимости ликвидации крупного заемщика, потерпевшего неудачу.

2. Оценка каждого счета актива по их стоимости и ликвидности (способности быстро конвертировать актив в денежные средства по или около рыночной стоимости) помогает аналитику кредита в определении способности компании выплатить долг и потребности в имущественном залоге, гарантирующем долг. Кроме того, оценка каждого счета обязательств помогает определить потребности выплат текущих долгов компании в связи с возможностью возникновения новых потребностей финансирования. Оценка обязательств компании относительно счетов собственных капиталов позволяет аналитику кредита сравнить полный риск банка, как кредитора, с риском, перед которым стоит инвестор.

3. Следует осознавать, что, в то время как стоимость активов колеблется (что означает, что их балансовая стоимость не отражает реальной ценности), стоимость обязательств обычно не колеблется так сильно. Собственные капиталы важны по двум причинам. Во-первых, чем большее суммы собственных капиталов, тем старательнее владельцы будут работать, чтобы защитить собственные капиталы и возместить обязательства компании. Во вторых, собственные капиталы представляют собой буфер между балансовой стоимостью активов компании и се обязательствами.

4. Большая неуверенность в ценности активов может потребовать, чтобы больший буфер защищал обязательства. Однако, абсолютные показатели рычага должны быть соразмерены с потоком денежных средств и оценкой риска в действиях бизнеса. Ясно, что большой рычаг работает на фирму со стабильными денежными потоками, такую как коммунальные службы.

5. Как только аналитик проанализировал и составит таблицы индивидуальных счетов балансового отчет; компании, кредитор может начинать делать сравнения с прошлыми балансовыми отчетами компании. Анализируйте и абсолютные изменения в долларах, и процентные изменения в распределении активов обязательств и собственных капиталов. Сделать также сравнительный анализ счетов балансового отчета компании и временных тенденций со счетами других компаний.

Text 8

FINANCIAL STATEMENTS FOR CORPORATE FORMS OF BUSINESS ORGANIZATIONS

1.Pre-reading exercise.

Skim through the text and identify which logical part deals with each of the following subjects.

a) STOCKHOLDERS' EQUITY
b) FINANCIAL STATEMENTS FOR A CORPORATION
c) CHARACTERISTICS OF THE CORPORATION
d) TYPES OF STOCK
e) RECORDING STOCK TRANSACTIONS
f) CORPORATE CAPITAL
g) SPECIAL FEATURES OF PREFERRED STOCK

1 ____

A corporation has been defined as "an artificial being, invisible, intangible, and existing only in contemplation of the law." Prior discussions have referred to the fact that certain forms of "personal service" businesses are prohibited from adopting the corporate form of organization and thus must organize as either sole proprietorships or partnerships. The reason for this prohibition relates to the fact that limitations are placed on the liability of the owners of a corporation. This aspect will be discussed in greater detail shortly.

A corporation is a legal entity separate from its owners. A sole proprietorship and a partnership are relatively unstable. A partnership has a limited life because of the dissolution that results from the death or retirement of a partner or a change in the composition of the partnership. A sole proprietorship can also be looked upon as having a limited life since the death of the proprietor may result in dissolution and liquidation, especially if certain specific skills are not available to the proprietor's heirs.

With the exception of "personal service" businesses, practically any form of business may choose to organize as a corporation Corporations may be classified as **profit corporations** or **not-for-profit corporations.** A profit corporation engages in business activities and depends on profitable operations in order to continue in existence. A not-for-profit corporation includes charitable, governmental, philanthropic, educational, and recreational organizations that depend on contributions from their members or on gifts or grants from public and private sources.

Profit corporations may be further classified as public corporations or close corporations. A **public corporation** is a profit corporation whose ownership is widely distributed among the public, such as the General Motors Corporation. A **close corporation** is a profit corporation in which the stock is held by relatively few individuals, such as the immediate family of the individual or group of individuals who organized and operate the corporation.

Corporations may consist of service businesses, retail businesses, manufacturing businesses, and wholesale businesses. With the exceptions noted previously, practically any type of business may organize as a corporation. Regardless of the nature or purpose of the corporations, they are created by charter, in accordance with state statutes.

The primary difference in accounting for a corporation involves the capital of the organization. The capital section on the balance sheet of a corporation is known as **stockholders' equity.** Stockholder's equity represents the ownership of the assets of the corporation as shown by transferable-shares of stock. The owners of the corporation are called **stockholders** or **shareholders.** A corporation is said to have an **unlimited life** because ownership in the corporation is in the form of shares of stock, which are easily transferable; thus, the death of a stockholder has no effect on the continuance of the organization.

Although the stockholders are the owners of the corporation, they have no direct duties or responsibilities in the running of the organization. This activity is the responsibility of a **board of directors** elected to their positions by the stockholders. The directors then select a president and other corporate officers to carry on active management of the business.

2____

The primary source of corporate capital is the issuance of stock. The **incorporators** subscribe to shares of stock in the corporation. The **articles of incorporation** state the classes and the quantities of stock to be sold by the corporation. Sufficient stock is sold to permit the business to operate. The shares of stock that the corporation is permitted to sell at the time of its incorporation and at future dates are known as **authorized stock.** This is the maximum quantity of stock, of various classes, that the charter permits to be sold.

Successful operation of the business should generate profits. The profits, or income remaining, after the payment of corporate income taxes, may be retained in the business as an additional source of capital. A corporation will pay **dividends** (distribution of corporate profits to stockholders) out of after-tax dollars. These dividends will reduce the amount of earnings retained in the business. However, since a corporation is not obligated to pay dividends, all of the after-tax earnings may be retained by the business as a source of capital.

3 ____

As stated earlier, the capital section of the balance sheet is known as the stockholders' equity. In regard to this section, the balance sheet of the corporation is quite different from that of the sole proprietorship or partnership. All income not taken out of the other forms of businesses by the owners is transferred to the respective owners' capital accounts. In a corporation, a distinction is made between the investment made by the stockholders and the income retained by the corporation.

The following stockholders' equity section of a corporate balance sheet illustrates the difference:

Stockholders' Equity	
Capital Stock	
Common Stock	$180,000
Retained Earnings	40,000
Total Stockholders' Equity	$220,000

The *capital stock* section represents the investment made by the shareholders as a result of purchasing stock. The *retained earnings* section represents the income, after corporate income tax, that was retained in the business. This retained earnings balance will increase each year that the corporation earns a profit and retains it in the business. If the corporation sustains a loss, a reduction in the balance of the retained earnings account will result. The stockholders' equity section illustrated is in its simplest form. The capital stock section would have to be expanded if various classes of stock were sold (see the next section) or if other factors relating to the price stockholders pay for the stocks were considered.

4 ____

The articles of incorporation stipulate the quantity and kind of capital stock that will be sold by the firm. There are two principal kinds of stock that may be issued: (1) common stock and (2) preferred stock,

When more than one class of stock is issued, one kind is usually railed **common stock.** Common stock gives the stockholders the rights in vote for the directors of the corporation, to maintain their percentages of ownership in the corporation, known as **preemptive rights,** and to share in dividends; also, in the event of liquidation they may share in the distribution of corporate assets. The term "common" refers to the fact that the stock traditionally is sold at a price that can be afforded by practically all investors, at least when it is first issued by the corporation.

Issued stock refers to stock that is sold by the corporation and is in the hands of the shareholders. When common stock is traded on the open market, the price of the stock will vary based on supply and demand and other factors, such as the successful operation of the corporation. Common stock, as well as other classes of stock, is usually assigned an arbitrary money value known as **par value.** This par value is printed on the stock certificate, but does not necessarily represent the price for which the stock was sold by the corporation, which may be higher or lower than the par value. Stock may also be issued without par, in which case it is known as "no-par" stock. Some states require that no-par stock be assigned a **stated value** by the board of directors. The effect of this action is to cause a stated value stock to be similar to a par value stock in its treatment.

The second class of stock that a corporation may issue is generally known as **preferred stock.** The purchase price of preferred stock is usually higher than that of common stock. Preferred stock also has a par or stated value assigned to it. The difference in cost between common stock and preferred stock can be seen in their par values. A corporation may assign an arbitrary par value to its common stock of $10 per share, and a $50 par value to its preferred stock. Although purchasers will not necessarily pay the par value in either case, this example indicates the substantial difference in the anticipated selling prices of the two types of stock. A corporation may oiler different categories of preferred stock based on the benefits that each class provides to stockholders.

The term "preferred" indicates that there are certain advantages to owning this class of stock that justify the higher price. The following characteristics of preferred stock should be noted when deciding which class of stock to invest in:

1. Dividends are stated as a percentage on the face of the preferred stock certificate and are distributed to all classes of preferred stock before distribution to common stock. If the certificate indicates **cumulative preferred stock** the corporation is obligated to pay dividends to preferred stockholders for past years before distribution to common stockholders. If in past years a corporation has been unable to pay dividends, or has merely decided not to, then the arrearage for those past years, as well as current dividends, must be paid to the preferred stockholder before the current year's dividends can be paid on common stock. If the certificate indicates **noncumulative preferred stock,** then any dividends not paid at the end of a given year are lost. In a year in which dividends are paid there still exist preference rights for the preferred stock. Cumulative rights will obviously cause this form of preferred stock to be more costly to the investor than noncumulative stock. Many corporations refrain from offering noncumulative stock because of the disadvantage in the possible loss of dividends.

2. **Preferred stock** may also have a provision for participation in the dividend distribution beyond the stated dividend percentage on the certificate. **Participating preferred stock** participates dollar-for-dollar with the common stock in any dividend paid in excess of the stated rate on the preferred stock. Generally, when there are adequate funds to pay both preferred and common dividends, the common dividend is paid at the same rate as preferred. Any additional distribution is shared by the common and preferred stockholders based on a ratio of the number of shares of each class of stock.

3. Most preferred stock has what is known as a **callable provision**. At the option of the issuing corporation, the preferred stock may be bought back by the corporation at the stated price, usually above the original purchase price. The callable provision will be stated on the stock certificate. A corporation (usually when organizing) issues callable preferred stock, in addition to other classes of stock, in order to be able eventually to buy the stock back when profits are adequate to do so. The callable provision is exercised at the discretion of the corporation.

4. In the event of liquidation of the corporation, the preferred stockholders are entitled to receive a distribution of the assets of the corporation after the settlement of all outstanding obligations to creditors. The preferred stockholder "stands" behind the creditors, but in front of the common stockholder in the distribution upon liquidation. Preferred stockholders are entitled to payment in full of the par value of their stock, or even a higher stated liquidation value, before any payment is made to common stockholders. Also, if the stock is cumulative preferred, any arrearage must also be paid before payment to the common stockholders.

5. A provision less commonly found in a preferred stock indenture is a conversion clause, which permits the preferred stockholder to convert this stock into common stock. This provision makes the stock more attractive to future investors. The stock certificate indicates the conversion ratio. Should the company prosper and the value of the common stock increase, the holder of preferred stock may exercise this conversion privilege and benefit from the increased value of the company's common stock.

A final characteristic of preferred stock should be mentioned: preferred stock, regardless of its class, lacks voting rights. The advantage to the corporal ion in Issuing preferred stock is that capital can be raised without granting preferred stockholders control of the corporation through the election of the board of directors. Common stock is the only class of stock with voting rights.

6 ____

As stated previously, the articles of incorporation set the number and classes of stock that a corporation may sell. The number of shares of stock that the charter permits to be sold constitutes the authorized shares. When all or part of the authorized shares are sold, these shares are said to be issued. The shares remaining in the hands of the stockholders are known as the **outstanding stock.**

From time to time a corporation may, in addition to selling shares, go into the open market and buy back its own previously issued shares. Such shares become known as **treasury stock.** The difference between the number of shares issued and the number outstanding represents treasury stock. When a corporation buys back its own stock, the stock loses certain rights that the traditional stockholder enjoys. Treasury stock does not share in dividend distributions and, if the stock is common, voting rights are lost as well.

Entries on the corporate books are made only when the following kinds of stock transactions lake place:

1.Corporate sale of authorized stock.

2.Corporate purchase of its own stock in the open market.

3.Corporate sale of treasury stock.

7 ____________________________________

All forms of business organizations prepare financial statements at least once a year. These statements are required by the various governments (federal, state, and city) for income tax purposes. Business firms, as well as other interested parties, utilize the information provided by these statements.

The *income statement* for a corporation is identical to that of a sole proprietorship and a partnership.

Since the ownership of a corporation is in the form of shares of stock, no statement of capital is prepared. Income earned by a corporation and dividends paid are reflected in an account entitled "Retained Earnings." It becomes necessary, therefore, for a corporation to prepare a *retained earnings statement,* which shows the changes in retained earnings from the, beginning of the accounting period to the end of the accounting period.

(from "Accounting" by Peter J. Eisen)

2.Scanning exercise

Scan Text 8 to find information for aspects:

a)Preemptive rights

b)Dividends

c)Stockholders' equity

d)Cumulative preferred stock

3.Vocabulary study exercise

Glossary

articles of incorporation

authorized stock

board of directors

callable stock provision

close corporation

conversion clause

cumulative preferred stock

dissolution

incorporators

issued stock

liquidation

noncumulative preferred stock

not-for-profit corporation

outstanding stock

participating preferred stock

par value

preemptive rights

premium

profit corporation

public corporation

shareholder

sole proprietorship

stated value

stockholder

treasury stock

unlimited life

a)Match the following notions with the correct definitions or phrase:

1. ________________________ is the ownership of the assets of a corporation as evidenced by transferable shares of stock. On the balance sheet, the stockholders' equity section consists of the stock sold by the corporation and the retained earnings (income retained by the corporation).
2. A corporation is a/an ____________________________ existing only in contemplation of the law.
3. The formation of a corporation requires the _________________________ to file _______________________ that stipulate the nature of the business and the number and kinds of shares of stock to be sold.
4. At the top of the organizational structure are the ________________________, who elect the ______________________ to oversee the operations of the organization.
5. The board, in turn, appoints a president and other __________________________, who are responsible for the day-to-day operations.

6. Corporate stockholders have certain rights unique to this form of business organization: voting rights, __________________________, the right to receive a distribution of earnings or the corporation in the form of dividends, and the right to receive a pro-rata share of the assets in the event of ______________________.

7. There are generally two classes of stock that a corporation may issue: _____________________________ and ________________________.

8. The arbitrary assigned to ___________________ preferred stock is usually considerably higher because of certain features of the stock.

9. Although _________________________________ does not have voting rights, it may be participating and cumulative with regard to dividends. Also, the _______________________________ indicates the dividend obligation of the corporation on its face.

10. In the event of __________________________, the preferred stockholders are entitled to any dividend in arrears, and to a return of their investments before common stockholders are paid.

11. Of the two classes of stock, __________________________ has a considerably greater number of shares authorized because its lower par value makes it affordable to more investors.

12. The number of shares of a particular class of stock that may be sold is said to be "______________________" and the stock that is actually sold is said to be "________________________________".

13. _______________________ acquired by the corporation is reduced from the stock originally issued.

14. The _________________________ remaining in the hands of the stockholders is said to be "_________________________".

15. Regardless of the class of stock sold, any funds received from the sale in excess of the par or stated value are recognized as a/an ________________________ and recorded as an addition to the paid-in capital section of the _________________________________.

16. If the stock is sold for less than the par or stated value, the deficiency is recorded as a/an ______________________________, which is a reduction in paid-in capital.

*a)*stockholders; board of directors

*b)*common stock; preferred stock

*c)*preferred stock; stock certificate

*d)*stockholders' equity

*e)*executive officers

*f)*preemptive rights; liquidation

*g)*artificial being

*h)*authorized; issued

*i)*Incorporators; articles of incorporation

*j)*par value

*k)*common stock

*l)*corporate liquidation

*m)*net stock; outstanding

*n)*discount,

*o)*treasury stock

*p)*premium; balance sheet

b)Define the advantages and disadvantages of the corporation and compare them with those of the partnership

1. A professional management staff separate from the owners.

2. A separate legal existence that permits the acquisition and disposal of assets in the corporate name.

3. The cost and difficulty of organizing the corporation.

4. The separation of ownership and control of the firm.

5. Limited liability for the stockholders to the extent of their investments in the organization.

6. The higher rate of taxation on the corporation.

7. Virtually unlimited ability to raise necessary capital.

8. Unlimited life that is not affected by changes in corporate ownership.

9. Governmental regulation of the creation of the corporation, issuance of stock, and operations of the organization.

10. Negotiability of stock.

4.Discussing exercise

1.Prepare a list of ten assets that you personally own. Don't forget that an asset must be owned and have money value. Prepare a list of ten assets that a business organization would own. Provide comparative analysis.

2. Ms. Jones began a business on April 1, 2009, contributing to the business the following assets: Cash, $3,000; Office Supplies, $275; Office Equipment, $700; Furniture, $2,100. What is the total value of the assets that Ms. Taylor contributed to the business? What is the value of Ms. Jones' ownership (capital) in the business?

3.Two advantages of the corporate form of organization are practically unlimited ability to raise capital and (a) lack of governmental regulation of activities (b) unlimited life (c) lower rate of taxation on corporations. Choose the right version.

4.The primary difference in the accounting for a corporation, as opposed to a sole proprietorship or a partnership, lies in the area of (a) income (b) capital (c) liabilities. Choose the right version.

5.If a corporation is liquidated, after creditors are paid, a return on investment is made first to the holders of (a) common stock (b) preferred stock (c) treasury stock. Choose the right version.

6.The corporate form of organization cannot be adopted by certain forms of (a) charitable organizations (b) retail businesses (c) "personal service" businesses. Choose the right version.

7.The income earned by a corporation and the dividends paid are shown in an account entitled (a) "Common Stock" (b) "Retained Earnings" (c) "Stockholders' Equity". Choose the right version.

5.Summarizing exercise

a)Sum up the main points and concepts presented in Text 8. Right the plan of the Text in the form of statements.

b)Develop your plan into a summary.

Text 9

1. Skimming exercise

Skim through the text and (hid out it the best subtitle for each of the logical parts:

a) Claims;

b) Fire and accident insurance;

c) Marine insurance policies;

dj Insurance procedures;

e) Lloyd's of London

Insurance: an overview

I______________________________

Companies and individuals protect themselves against loss, damage, or injury by taking out *insurance policies,* which are contracts against possible future risks. The usual process of insuring a business or oneself is as follows:

A proposal form is completed by the firm or person who wants insurance *cover.* This tells the insurance company what is to be insured, how much the policy is worth, how long it is to run, and under what conditions insurance is to be effected, as the policy may not automatically cover the insured against *all risks. Underwriters,* who will pay compensation in the case of a claim, then work out *the premium,* i.e. the price of insurance.

The premium is usually quoted in pence per cent, i.e. pence per hundred pounds. This means that for every £100 of insurance you will have to pay x pence. So if you insure your stereo for £800 at 25p%, you will have to pay £2.00 per annum for the premium.

If the insurers are satisfied with the information given on the proposal form, they will issue a *cover note.* This is not Ihe *policy* itself, but an agreement thai the goods are covered until the policy is ready. Once the policy is sent it will tell the client that he is *indemnified* against loss, damage, or injury under the conditions of the policy. *Indemnification* means that the insurance company will *compensate* the client to restore him to his *original position* before the loss or damage. Therefore, if you insured your car for £4,000 and three months later it was damaged, you would not receive £4,000 for the car. but its *market price,* which might have depreciated by 20% to £3.200. The insurance company will also have the right of *subrogation,* which means they can now claim the wrecked vehicle and sell it for any price they can get.

In the case of injury or death to an insured person, or in the case of *Life Assurance,* where a fixed amount is to be paid over the years so that a total sum, or pension, will be paid at the end of a period, the principle of *benefit payment* comes into operation. This means that the injured person will be paid compensation based on loss of earnings or suffering. Life Assurance payments are calculated on annual contributions, plus interest the company received on investing the premiums.

Insurance companies are large institutional investors on the slock market, and by investing premiums they are able to cover claims for compensation or pay on Life Assurances policies which have matured.

II ________________________

Fire insurance companies offer three main types of insurance policy:

1. insurance of home and business premises and their contents;
2. 'special perils' policies, which protect the insured person against loss or damage due to special factors, e.g. flooding or earthquakes;
3 consequential loss insurance, which insures against loss of profit in the period after a fire. e.g. while a factory is being rebuilt.

Accident insurance covers four areas:

1. *Insurance of liability,* which covers employers' liabilities for industrial accidents, accidents to people attending functions on company business, and motor insurance.
2. *Property insurance,* which is part of the service fire offices provide, but also includes a wide range of protection against riots, terrorism, gas explosions, etc. Usually, the client takes out an *all risk* policy offering full protection.
3. *Personal accident insurance,* which offers compensation in the form of benefit payments to people injured or killed in outings, playing games, e.g. ice hockey, or travelling by train, coach or aircraft.
4. *Insurance of interest* protects firms against making costly mistakes. For example, publishers might want to cover themselves against libel, i.e. being sued for publishing something which damages someone's reputation. Accountants and lawyers protect themselves with insurance of interest. We can also include under this head *Fidelity Bonds,* under which firms insure against their employees defrauding them, or stealing from them.

III ___________________

Lloyd's is *not* an insurance company, but an *international insurance market* consistirig~6f over 260 approved *insurance brokers'* firms and more than 20.000 *underwriters* whose activites are controlled by Lloyd's Council which came into being after the Lloyd's Act 1982, and whose appointments are confirmed by the Governor of the Bank of England.

If insurance is to be effected through a Lloyd's underwriter (and remember there are other insurance associations as well as Lloyd's, e.g. The American Insurance Association), the transaction has to go through a Lloyd's broker who. working on a commission basis, will contact one or more underwriters on behalf of his client to get a competitive rate. Underwriters finance the insurance, which means they will pay the claims, and take the premiums as their fees. They usually work in *syndicates,* spreading the risk. There are more than four hundred syndicates with over 160 involved in *marine insurance,* 170 in *non-marine,* 50 in *aviation,* and 46 in UK *motor insurance.* Members of syndicates write the insurance details on a *Lloyd's slip* which is sent to the Lloyd's Policy Signing Office where it is checked and signed on behalf of the syndicate concerned. The underwriter gets a percentage of the premium he guarantees. If. for example, he accepts 15% of a £1,000 policy, he will be responsible for £150 compensation in the event of a claim aind will receive 15% of the premium.

Lloyd's members, as we have seen, are not restricted to marine insurance. Until 1971, they did not generally deal in long-term business, i.e. insurance for more than (en years on a single policy, and this meant that their activities in life assurance were limited. However, in 1971 Lloyd's Life Assurance Ltd. was established and now offers a wide range of life schemes.

Insuring with a Lloyd's member guarantees reliability as all members, like those of the Stock Exchange, have unlimited liability, and there is a fund that will compensate claimants inlne event of a members bankruptcy. In addition to members there are External Names, people who put up money to guarantee insurance and are paid a percentage of the premium. These people are *not* underwriters, but are recommended to syndicates by agents. The largest collective claim ever paid was probably the San Francisco earthquake of 1906. and the largest marine claim probably the *Olympic Bravery,* a new tanker that was written off in 1976, with underwriters paying $50 million in compensation. This explains why underwriters need to spread the risk by working in syndicates.

IV________________________________

Insurers will cover consignments under *all risk* policies which will allow compensation in the event of war, strikes, civil disturbances, etc. These policies are in the form of *valued policies* and are based on the stated value of the invoice, plus insurance, freight, and an extra percentage of 10%, 20%, or 30%. etc. profit margin for the consignment.

There are. however, *unvalued policies,* when the value of the goods have not been agreed in advance and are assessed at the time of loss. This means the consignor will, if his goods are damaged or destroyed, get the market price as compensation. The owner of the bill of lading has the right to claims of compensation.

All consignments can be covered against all risks in the form of a valued or unvalued policy. These policies will fall under five main headings:

1. *Time policy,* which insures goods or the vessel for twelve months, e.g. 1 May 1993 to 30 April 1994.
2. *Voyage policy,* which covers the cargo on a voyage from, say, London to Kobe.

Lloyd's List, a daily newspaper read throughout the world, gives details of shipping movements, marine and aviation casualties, fires, strikes, etc., and essential information concerning shipping and dry cargo markets. In addition *Lloyd's Shipping Index* offers daily details of the movements of more than 21.000 merchant vessels. *Lloyd's Loading List* provides UK and European exporters with information on cargo carriers to all parts of the world. *Lloyd's Register of Shipping,* though independent of Lloyd's, works closely with the organization, combining to produce vessel classification giving details of age, owners, and tonnage.

3. *Mixed policy,* which covers a voyage from A to B and then for a further period of time. This may be used when a ship is going from, say, Southampton to Bermuda, then doing a series of trips from Bermuda to ports along the North American coast.
4. *Floating policy,* which gives cover for a particular amount, say, £500,000 so that it will not be necessary to continually write a new policy for each cargo that the ship carries. As the cover nears its end, the insurance company advises their client, and the premium is paid to renew the policy.
5. *Open cover agreements,* which are made between the underwriter and shipper, with the latter informing the underwriter, on a declaration form, whenever the shipment is made, and receiving the policy or certificate after shipment. Forwarding agents often have this kind of agreement with insurance companies, allowing them to make shipments, then inform the insurance company *in arrears,* i.e. *after* the shipment has been made. But the arrangement might only cover certain areas, e.g. North African ports, and consequently they would have to make special arrangements if a shipment was outside the agreed area.

V________________________________

Companies and individuals make claims for loss, damage, or accident, by filling in a *claims form,* which tells the insurance company what has happened. If the insurers accept the claim, often after an investigation, they will then pay compensation.

The insurance company will not pay compensation if the claimant was negligent; or suffered the injury or loss outside the terms of the policy; or misled the insurers when obtaining insurance, e.g. overvalued the article; or insured the same thing twice; or gave false information on the proposal form.

As we have seen, *all risk,* policies generally cover against every eventuality. However, clauses should be studied carefully. If a policy is *free from particular average,* in the case of deliberate damage, i.e. damage caused to save the rest of the cargo, as in, say, , the case of a fire in a ship, only total loss will be paid by the insurance company, and part loss in the case of major disasters, e.g. fire or collision. If the policy has a *with particular average* clause, then partial loss will be compensated.

As in the case of large claims in non-marine insurance average adjusters, i.e. assessors, are called in to examine damage and estimate compensation. In a c.i.f. transaction, the exporters transfer their right to compensation, as the importer holds the bill of lading. In f.o.b. and c & f. transactions importers hold the insurance policy as they arrange their own insurance.

(from "Insurance" *by* A.Ashley)

2. Scanning exercise

Scan through the text to find information on 5 aspects:

a) Life Assurance concept;
b) Property insurance;
c) Lloyd's Shipping Index;
d) Floating policy;
e) Unvalued policies.

3. **Vocabulary Study exercise**

Glossary

an underwriter
the premium
a cover note
indemnification
Life Assurance
benefit payment
Fire insurance
Accident Insurance
insurance of liability
property insurance
personal accident insurance
insurance of interest
a claims form
a claimant
international insurance market
original position
negligent
an independent assessor
marine insurance
valued policies
unvalued policies
time policy
voyage policy
mixed policy
floating policy
open cover agreement
to cover against every eventuality
to be free from particular average
deliberate damage
Lloyd's of London
Lloyd's List
Lloyd's Shipping Index
Lloyd's Loading List
Lloyd's register of Shipping

a) match the following word combinations as they occur together in the text:

1. insurance	a) assessor
2. a proposal	b) assurance
3. a cover	c) damage
4. market	d) payment
5. an independent	e) list
6. life	f) policies
7. benefit	g) interest
8. fire	h) form
9. all risk	i) form
10. Fidelity	j) P»l'cy
11. a claims	k) price
12. insurance of	1) agreement
13. Lloyd's	m) insurance
14. deliberate	n) londs
15. open cover	o) note

b) complete the sentences matching the right word or word combinations:

1. assurance	a) On acceptance, the client is issued with a _______which gives him cover until the policy is ready.
2. insurance	b) However, most exporters ship under an ______ covers them against most eventualities and allows them compensation for loss or damage, plus ten percent.
3. Proposal Form	c) Numerous types of policies are available to offer __________ but the client has to decide which hazards apply to him.
4. indemnification	d) ________ is concerned with offering benefit payment either to dependants, in the case of death or incapacity, or in the case of endowment schemes, a lump sum or pension after a number of years' contributions.
5. insurance companies	e) ______________ offers shippers a variety of policies to cover shipments.
6. all risk valued policy	f) ______ is designed to cover a business or individual against risks such as loss, damage, or injury.
7. floating policies	g) _______ is the cover which allows compensation in the event of loss or damage, and is calculated on the market value or depreciation value of goods, not their original value.
8.marine insurance	h) As insurance is based on the principle of good faith, and supported by laws against fraud. ________ accept that the items being insured belong to the client, are not being insured more than once, are of the value stated, and that the client will follow the conditions of the *policy.*
9. cover against eventualities	i) Open cover and _______ are used when the exporter makes regular shipments. These give him a total amount of cover which decreases as each shipment's value is declared, but can be renewed.
10. cover note	j) To be insured, a client completes a __________ , the *premium* is then assessed and quoted, in the UK, in pence per cent

c) *match the following Russian word-combinations with their English equivalents. Consult a dictionary to expand our vocabulary.*

1. поручитель-гарант, страховщик Ллойдз; 2. оценщик размера страхового убытка; 3. определить сумму денежного возмещения; 4. эксперт по оценке истинной суммы заявленных исков; 5. рекламация; 6. предъявлять иск; 7. страховой сертификат; 8. застрахованное лицо; 9. страховщик; 10. страхователь (лицо, выплачивающее страховые взносы); 11. страхование от всех рисков; 12. страховая ответственность; 13. страхование оп чрезвычайных ситуаций; 14. страховые платежи; 15. страхование ответственности; 16. заключить страхование; 17. страхование с включением случаев частной аварии; 18. страховой полис; 19. фирменный страховой агент; 20. застрахованный по страхованию жизни; 21. полис страхового вклада; 22. полис пожизненного страхования; 23. льготный страховой полис; 24. страховая премия; 25. страхование от несчастного случая; 26.полис страхования от простоев производства; 27. морское страхование; 28. личное страхование от болезней; 29. страхование имущества; 30. страхование от потерь вследствие плохих погодных условий; 31. судоходный регистр Ллойдз; 32. Лист погрузки Ллойдз.

Assured; to assess damage; a cover note; Lloyd's Register of Shipping; Whole (of) life policy; insurance policy; insurance lied agent; qualifying policy; insurer; assessor; Lloyd's underwriter; claim; insurance adjuster; to make a claim; insured; insurance liability; liability insurance; insurance with average; insurance against all risks; insurant; to effect insurance; insurance on a contingency basis; endowment assurance policy; business-interruption policy; property insurance; accident insurance; private health insurance; pluvial insurance; premium; marine insurance; insurance payments; Lloyd's Loading List.

4, Summarizing exercise

a) Sum up the main points presented in Text 8. Write the plan of the text in the form of statements.
b) Develop your plan into the summary.

5. Discussing exercise

➔ Discuss the central insurance concept. Does insurance afford any possibility of gain or not?
➔ Companies and individuals make claims for loss, damage or accident. Why are insurance companies able to cover claims for compensation? Discuss this problem.
➔ May the assured person be placed in a better economic position that he or she occupied before the loss occurred? In your opinion, are these any disadvantages for Life Assurance policy? Discuss the problem.

Text 10

Task 1. Skimming exercise

Divide the text into logical parts and identify the topic of each logical part.

Insurance

Insurance, a mechanism for reducing financial risk and spreading financial loss, is a major social institution that is essential to the functioning of virtually any type of economy. In the United States, some 6.000 insurance companies collect well in excess of S200

Страхование как механизм уменьшения финансового риска и покрытия финансовых потерь является важный социальным институтом, необходимым для функционирования практически любого типа экономики. В США около 6000 страховых компаний собирают более 200 миллиардов долларов billion in annual premiums, employ more than 2 million people, and hold assets valued at close to $800 billion.

Insurance lends itself only to the treatment of pure risk. Pure risk involves uncertainty only as to loss (an automobile owner, for example, might or might not lose the automobile through a collision, fire, or other calamity), without affording any possibility of gain. Under the concept of indemnity, which is central to insurance, insurance is merely to cover a financial loss. The insured person is not to be placed in a better economic position that he or she occupied before the insured loss occurred.

An insurable pure risk must satisfy the following conditions; (1) the risk must have a sufficiently large number of homogeneous units of exposure (preferably thousands) to permit actuaries - the statisticians who work out insurance risks and costs mathematically -to predict the number and average size of insured losses for a given period; (2) if the risk produces one or more losses, each loss must be identifiable in time and space and must be measurable (that is, the insurer has to know when and where an insured loss has occurred and how much to pay); (3) the premium, charged on the risk must be low enough to attract a sufficient number of insured people, yet high enough to support the numbers of probable losses, and (4) the risk must be free of any potential catastrophe that could produce loss in excess of the ability of the insurer to respond. Condition (4) implies that the homogeneous units must be independently exposed to loss. That is, a loss of one should not lead to a loss of another. For this reason insuring of separated dwellings may be practical, whereas strike insurance covering employees subject to industrywide collective bargaining may not.

One useful way of classifying insurance is by major categories: life, health, and property. LIFE ASSURANCE proceeds when the assured dies or attains a given age. Life assurance, also normally is deemed to include annuities, which are the promise of the insurer to make periodic payments to an individual for life or for a certain period. HEALTH INSURANCE carries the promise of the insurer to pay specified health-care costs, such as hospital charges or doctor bills, or to make periodic payments to an individual who meets the policy's definition of disability. Property-liability includes all the insurance that does not tit under either of the other two categories.

страховых взносов за год. предоставляют работу более 2 миллионам человек и имеют активы, оцениваемые почти в 800 миллиардов долларов.

Страхование распространяется только на покрытие чистого риска, а чистый риск включает в себя неопределенность только в отношении потери (к примеру, владелец автомобиля может потерять и может не потерять автомобиль в результате столкновения, пожара или какого-либо другого несчастного случая). Согласно концепции о возмещении убытков, которая является основной в страховании, страхование должно просто покрыть финансовые потерн и не более. Застрахованное лицо не должно быть поставлено в лучшее экономическое положение, чем то, в котором оно находилось до того, как произошел страховой случай.

Страхуемый чистый риск должен соответствовать следующим условиям: 1) риск должен иметь достаточно большое количество однородных реализаций (предпочтительно тысячи), чтобы позволить статистикам страхового общества, работающим над страховыми рисками и рассчитывающих их объем, прогнозировать количество и среднюю величину застрахованных потерь на каждый данный период; 2) если риск связан с одной или более потерями, каждая потеря должна быть определена по времени и месту, должна быть измеряема (то есть, страхователь должен знать, где и когда произошел страховой случай и сколько нужно по нему платить); 3) страховой взнос по риску должен быть достаточно низким, чтобы привлечь значительное количество людей к страхованию, и в то же время достаточно высоким, чтобы возместить число возможных потерь; 4) риск должен быть свободен от любой потенциальной катастрофы, которая могла бы привести к потере превышающей возможное) и страхователя. Четвертое условие подразумевает, что однородные реализации должны быть независимы друг от друга в случае потерь. Другими словами, потеря одного предмета не должна привести к потере другого предмета. По этой причине страхование отдельных жилищ может иметь место, тогда как страхование наемных работников на случай забастовки, связанной с заключением коллективного отраслевого договора, нет.

Один из удобных способов классификации страхования — страхование по основным категориям: жизнь, здоровье, имущество. *Страхование жизни* включает в себя обещание страхователя выплатить предусмотренную полисом сумму в случае смерти застрахованного лица или достижения им определенного возраста. Страхование жизни.

Examples include insurance on a school building, automobiles and FIRE INSURANCE, ocean marine insurance, and legal liability insurance. (Another classification system divides insurance into group and individual policies. A group policy might be the contract purchased by an employer to provide health care to employees and theii families, or the contract to provide life insurance for each eligible employee. At least one-third of all insurance premiums relate to group insurance.) Within the three basic categories of insurance one can find several hundred different lines of insurance, with new lines being created and marketed each year, as the need for the new insurance arises. For example, insurance has recently been made available to cover the loss of communication satellites during launching, space travel, or reentry.

как правило, также включает ежегодные ренты, которые прсдставляют собой, согласно обязательству страхователя, периодические выплаты лицу в течение жизни или в течение определенного периода. *Страхование здоровья* связано с обязательством страхователя оплатить специальные расходы на здравоохранение, такие как больничные расходы, докторские счета или приводить регулярные выплаты отдельному лицу, которое подпадает под категорию полиса об инвалидности. *Страхование имущества* включает вес виды страхования, которые не входят ни в одну из вышеперечисленных категорий. Примерами могут быть страхование школьных помещений,автомобилей, *страхование на случай пожаров,* происшествий на море, а также страхование на случай нарушения правовых обязательств. По другой системеклассификации страхование подразделяетсяна страхование по индивидуальным и коллективным полисам. Коллективный полис может представлять собой контракт, приобретенный работодателем в целях обеспечения ухода за здоровьем наемных работников и их семей, или контракт, обеспечивающий страхование жизни каждого отдельного работника. Не менее одной трети всех страховых взносов относятся к коллективному страхованию. В рамках трех базовых категорий страхования можно, насчитать несколько сот различных направлений страхования, при этом ежегодно возникают и получают распространение новые направления страхования, так как в таком страховании существует

необходимость. Например, недавно стало возможным страхование с целью покрытия потерь связанных с запуском информационных спутников, космическими полетами и возвращением на Землю.

2. Scanning exercise

Scan through the text to find information on 5 aspects:

a) Pure risk;
b) Concept of indemnity;
c) Life assurance;
d) Health insurance;
e) Fire insurance.

3. Vocabulary Study exercise

Glossary

insurance
treatment of pure risk
uncertainty
annual premium
insurance companies
financial risk
financial loss
possibility of gain
concept of indemnity
to be central to insurance
collective bargaining
insurer
life assurance
to make periodic payments
health insurance
specified health-care costs
definition of disability
property-liability
legal liability insurance
fire insurance
a group policy
to cover the loss of communication satellites

a) match the following collocations as they occur together in the text:

1. insurance	a) gain
2. annual	b) loss
3. possibility of	c) position
4. pure	d) units
5. financial	e) period
6. insured	f) premiums
7. economic	g) indemnity
8. concept of	h) insurance
9. homogenous	i) actuaries
10. to permit	j) catastrophe
11. a given	k) person
12. potential	l) risk
13. strike	m) companies
14. collective	n) costs
15. health-care	o) bargaining

c) complete the sentence using the above mentioned collocations:

1. Insurance lends itself only to the treatment of. ___________________.
2. Under the________________ insurance is merely to cover a _____________ .
3. The ________________is not to be placed in a better __________________ .
4. Insuring separated dwellings may be practical, whereas ___________________ ._____________ covering employees subject to industriwide ___________________________________ may not.
5. The risk must have a sufficiently large number of _____________________________ ._____of exposure to ________________________________ .

6. Health insurance carries the promise of the insures to pay specified

7. The statisticians must predict the numbers and average size of insured losses for

8. Some _____________ ______________ collect well in

9. The risk must be free of any _______ . _________ that could produce loss in excess of the ability of the insurer to respond.
10. Pure risk involves uncertainty only as to loss without affording any _________ .

d) match the following Russian word-combinations with their English equivalents:

1. механизм уменьшения финансового риска; 2. функционирование практически любого типа экономики; 3. покрытие финансовых потерь; 4. неопределенность только в отношении потери; 5. покрытие чистого риска; 6. согласно концепции о возмещении убытков; 7. быть поставленным в лучшее экономическое положение; 8. застрахованное лицо; 9. страхуемый чистый риск; 10. прогнозировать количество застрахованных потерь; 11. быть свободным от любой потенциальной катастрофы; 12. заключение коллективного договора; 13. страхование здоровья; 14. страхование на случай пожаров; 15. включать ежегодные ренты; 16. страхование школьных помещений; 17. страхование по индивидуальным и коллективным полисам.

a) insurance into group and individual policies; b) health insurance; c) an insurable pure nsk; d) the insured person; e) insurance on a school building; f) functioning of virtually any type of economy; g) treatment of pure nsk; h) spreading financial loss; i) to be placed in a better economic position; j) to predict the number of insured losses; k) to include annuities; 1) to subject to collective bargaining; m) to be free of any potential catastrophe; n) under the concept of indemnity; o) fire insurance; p) a mechanism for reducing financial risk; q) uncertainty only as to loss.

4. Discussing exercise

➔ Explain why insurance is essential to the functioning of virtually any type of economy. Are these many lines of insurance nowadays?
➔ Discuss the concept of indemnity. Discuss the advantages and disadvantages of being an insured person.
➔ In your opinion which way of classifying insurance is the most useful? Discuss the conditions that an insurable risk must satisfy to be attractive and effective?

5. **Summarizing exercise**

a) Sum up the main points presented in Text 9. Write the plan of the text in the form of statements.
b) Develop your plan into the summary.

6. Translation exercise

Translate the Russian version of text 9 using Russian-English translation. Don't look at the English version. Try to use special vocabulary and collocations. After translation compare your version with the original text.

GLOSSARY

ability to meet current obligation – способность выполнять текущие обязательства

accounting model of the world – мировая модель бухгалтерского учета

accounting perspective – перспектива бухгалтерского учета

accounts payable – счета кредиторов

accounts receivable – счета дебиторов

accruals – начисления

accruals of prior withholding taxes – начисления подоходных налогов предшествующего квартала

activity – деятельность

advent of corporate income taxes – появление корпоративных налогов на доход

erse opinion – неблагоприятное мнение

affiliate status – статус афилиирования

aggressive financial philosophy – агрессивная финансовая философия

amount of credit sales – количество продаж в кредит

amounts due from affiliates – суммы, причитающиеся от афилиированных лиц

an aging-of-accounts- receivable statement – расшифровка сроков оплаты дебиторских счетов

an income statement – отчет о доходах

an in- depth examination – тщательная экспертиза

analysis of amortizing debt – анализ амортизации долга

Annual Statement Studies – Обзор Годовых Отчетов

asset-based financing – финансирование, основанное на активах

assets – активы

at a present price – по текущей цене

availability of the cash – доступность денежных средств

avoidance of risk- taking – нежелание принимать риск

backlog and contract status reports – отчеты о задолженностях и состоянии контрактов

balance sheet – балансовый отчет

banker's acceptance – банковский акцепт

book value – балансовая стоимость

built-in authorization rate – встроенная ставка амортизации

business or marketing plan – бизнес– план или план маркетинга

capitalized original cost – капитализированная первоначальная стоимость

cash budget – бюджет денежных средств

cash budget – бюджет денежных средств

cash generating cycle – цикл получения денежных средств

cash-value life insurance – страхование жизни в денежных средствах

certificates of deposit – депозитные сертификаты

clean-up period – период подчистки

collapse of the stock market – крах фондового рынка

collateral – имущественный залог

collection policies – политика взимания оплаты

commercial lending process – процесс предоставления коммерческого кредита

commercial paper – коммерческие бумаги

company's cash account – счет денежных средств компании

compensating balances – компенсационные балансы

concept of going concern – концепция действующего предприятия

conformed copy – подтвержденная копия

conservative financial policy – консервативная финансовая политика

cost-effectiveness of the equipment – рентабельность оборудования

coverage – покрытие

credit rating agencies – агентства оценки кредитного рейтинга

credit risk – кредитный риск

current accounts receivable – текущие счета дебиторов

current assets – текущие активы

current liabilities –текущие обязательства

current maturities of long-term debt – текущее погашение долгосрочного долга
current value of a company's marketable securities account – текущая ценность счета рыночных ценных бумаг компании

current-year income taxes – налоги на доход текущего года

customer deposits – депозиты клиента

customer's payment habits – привычки клиентов по оплате счетов

cyclical swings – циклические колебания

deferred charges – отложенные платежи
degree of confirmation of assets and expense account balances – степень достоверности балансов счетов активов и расходов

deposits in checking accounts – депозиты на текущих счетах

disclaimer opinion – мнение с правовой оговоркой

drop in confidence by investors – падение доверия инвесторов

due from affiliated concerns – долги афилиированных предприятий

due from officers or partners – долги управляющих или партнеров

equity – собственный капитал

equity method of accounting – метод собственных капиталов

expiration date – дата истечения кредита
Financial Accounting Standards Board (FASB) – Правление по Стандартам Бухгалтерского Учета в Финансах

financial perspective – финансовая перспектива

financial statement analysis – анализ финансовой отчётности

financial statement analysis – анализ финансовой отчётности

financial structure – финансовая структура

finished goods inventory – товарные запасы готовых товаров

fiscal year – финансовый (фискальный) год
fixed assets – основные средства

from a liquidation viewpoint – с точки зрения ликвидации

from the loan applicant's viewpoint – с точки зрения заявителя на кредит

future expensing on the income statement – будущее списание в отчете о доходах
geneal marketability of custom- made products – общая конкурентоспособность изгоовленных на заказ изделий
generally accepted accounting principles (GAAP) – общепринятые принципы бухгалтерского учёта

goodwill – гудвилл

government regulation – правительственные инструкции

government securities – правительственные ценные бумаги

gradual lowering of the credit- line amount – постепенное понижение сумм кредитования

high effective rate of interest – высокоэффективная процентная ставка

high-grade corporate commercial paper – высоколиквидные корпоративные коммерческие бумаги
in order of someone's fungibility and liquidity-cash first – в порядке взаимозаменяемости и ликвидности – сначала денежные средства

inadequate liquidity – неадекватная ликвидность

income statement – отчет о доходах
increasing us of debt to finance business – увеличение использования долга для финансиования бизнеса

industry factor – фактор промышленности

innovative debt instruments – инновационные долговые инструменты

installment payments of long- term debt – поэтапное погашение долгосрочного долга

intangibles – нематериальные активы

interest of entrepreneurial owners – интерес предпринимателей– владельцев

interest rate – процентная ставка

Internal Revenue Service – Налоговая Служба

interpretive aspects of analysis – интерпрецäионные аспекты анализа

inventory summary – перечень (сводка) товарных запасов

knowledge of overall operations – знание всех операций (предприятия)

lagging economy – отстающая экономика

leverage – рычаг

liabilities – обязательства

lines of business – профиль производства

liquidation value – ликвидационная стоимость

liquidity – ликвидность

liquidity crisis – кризис ликвидности

liquidity of the borrow's assets – ликвидность активов заемщика

listed cash – внесенные денежные средства

loan approval process – процесс одобрения предоставления кредита

loan officer – кредитный офицер (кредитор)

loan portfolios – кредитный портфель (пакет кредитных средств)
loan repayments to officers or affiliates – выплаты кредита управляющим или филиалам

long-term forecast – долгосрочный план

long-term loan analysis – анализ долгосрочного кредита

long-term maximization of equity – долгосрочная максимализация собственных капиталов

management depth – обширное руководство (управление)

management's involvement – участие менеджмента (руководства)

market value – рыночная стоимость

market value of collateral – рыночная ценность имущественного залога

marketability of a company's fixed assets – товарность основных средств компании

marketable securities – рыночные ценные бумаги

monitoring process – процесс текущего контроля

multi-use fixed assets – многоцелевые основные средства

net cash flow – чистый поток наличных денег

net worth – чистая стоимость

noncurrent assets – внеоборотные активы

nonseasonal self-sufficiency – межсезонное самообеспечение

note receivable – вексель дебитора

notes payable to banks – векселя банкам

on a month-to-month basis – помесячно

one-year operating cycle – однолетний операционный цикл

ongoing capital needs – текущие нужды капитала

operating cycle – операционный цикл

operating profit – операционная прибыль

operating rights – права на ведение деятельности

original historical cost – начальная историческая стоимость

other current assets – прочие текущие активы

patents – патенты

payout requirements – требование выплаты кредита
percentage-of-competition accounting – процесс учета прибыли процента от завершенной работы

pertinent government regulations – соответствующие правительственные законы
potential Internal Revenue service priority to – приоритет налоговой службы по отношению к …

preliminary investigation of a company – предварительное знакомство с компанией

prepaid expenses – предоплаченные расходы

prepaid expenses – предоплаченные расходы (будущих периодов)

priority of liquidity – приоритет ликвидности
professional (nonowing) manager of public corporations – профессиональный менеджер (не владелец) акционерных корпораций

profitability – прибыльность

profit-sharing plan – план распределения прибыли

purchase of inventory and services – закупка товарных запасов и услуг
purchase price of fixed assets – цена закупки основных средств

qualified opinion – мнение с оговоркой

raw materials inventory – товарные запасы сырья

renewal of the credit line – возобновление кредитной линии

retail business – розничный бизнес

revolving credit – автоматически возобновляемый кредит

riding the trade – поездка на торговле

risk of insolvency – риск неплатежеспособности

salaries and wages – тип жалованья и заработной платы

scope of the audor's engagement at the audited firm – масштаб (предел) аудиторской вовлеченности по отношению к ревизируемой (проверяемой) фирме

seasonal line of credit – сезонная кредитная линия

seasonality – сезонность (фактор сезонности)

Securities and Exchange Commission (SEC) – Комиссия по Ценным Бумагам и Биржам

sensitivity analysis – анализ чувствительности

short-term bank debt – краткосрочный банковский долг

short-term debt – краткосрочный долг

short-term financing of a company's current assets – краткосрочное финансирование текущих активов компании

short-term loan analysis – анализ краткосрочного кредита

single-purpose fixed assets – специализированные основные средства

solvency – платежеспособность

spontaneous growth in current asset accounts – самопроизвольный рост счетов текущих активов

spreading for financial statements – табулирование финансовых отчетов

spreadsheet – крупноформатная таблица

start-up expenses – начальные расходы

statement of cash flow – отчет о потоках денежных средств

statement preparation – подготовка отчета

subset of credit analysis – предшественник кредитного анализа

substantial protection in terms of collateral – существенная гарантия в виде ее имущественного залога

support of bank credit facilities – поддержка банковских кредитных мероприятий

sustainable growth analysis – анализ устойчивого роста

tangible net worth – материальная чистая стоимость

tax returns – налоговые поступления

technical manipulation of the data – техническая манипуляция данными

temporary interest- behaving investments – временные инвестиции под процент

topical controversy in the accounting field – актуальная полемика в области бухгалтерского учета

trade accounts payable – торговые счета кредиторов

trademark – торговая марка

trends and comparative performance – тенденции и сравнительные результаты выполненной работы (финансовой деятельности)

unaudited statements – неревизируемые отчеты

unbiased representation – неискаженное представление

under-capitalized borrowers – недостаточно капитализированный заёмщик

unqualified opinion – мнение без оговорок

utilities – коммунальные услуги

withholding taxes – подоходные налоги

without the benefit of lower cost in order to increase sales – без уменьшения себестоимости для увеличения объема сбыта

work in process – незавершенное производство

working investment analysis – анализ инвестиций в оборотные средства

Verbs

to apply for loans – подать заявление на предоставление кредита

to be approached from a wary perspective – подходить к проблеме с осторожностью

to be converted by normal operations – конвертировать в процессе нормальной работы

to be converted to equity – быть конвертируемым в акции

to be due within 12 months – подлежать к оплате в пределах 12 месяцев

to be indicative of long– term interest – быть показателем долгосрочных интересов

to be listed first in the balance sheet – быть внесенными первыми в балансовом отчете

to be paid from the proceeds of the insurance policy – быть выплаченным из поступлений страхового полиса

to be pledged against debt – являться залогом долга

to be readily marketable – широко обращаться на рынке

to be related to the style sensivity of merchandise – быть связанным с чувствительностью товаров к моде

to be responsive to government regulations – руководствоваться правительственными инструкциями

to be subject to exchange fluctuations – подчиняться обменным колебаниям

to be subject to wide swings in value – быть подверженным большим колебаниям в цене

to be unable to weather the problem due to the limited skills of its only one manager – быть неспособной справиться с проблемой из– за ограниченных навыков ее единственного менеджера

to become technologically obsolete – стать технологически устаревшим

to become unavailable for daily operations – становиться недоступным для ежедневных операций

to collect the note on a timely basis – своевременно получить оплату по векселям

to contribute to the profitability of the bank – вносить вклад в рост доходности банка

to deduct interest expenses – вычитать расходы по процентам

to determine a company's cash requirements – определить потребности компании в денежных средствах

to diversify the line of business – разносторонне диверсифицировать (разнообразить) профиль бизнеса

to divide the profits – разделять прибыль

to earn income in the form of interest – зарабатывать доход в форме получения банковского процента

to employ a treasures – нанять на должность казначея

to estimate wealth generated by the firm – оценивать богатство, полученное фирмой

to evaluate risk – оценить риск
to extend short-term credit against planned stock issues– увеличить число краткосрочных кредитов под запланированные выпуски акций

to have a short term to maturity – иметь короткий срок погашения

to have deferred income – иметь отложенный доход
to have little collateral value in the eyes of credit analyst – иметь небольшую ценность имущественного залога для кредитного аналитика
to have personal wealth at stake in the corporation – иметь личную рисковую собственность в корпорации
to have relatively strict accounts receivable – иметь относительно строго контролируемые дебиторские счета

to hire full-time financial experts – нанимать финансовых экспертов на полное рабочее время

to indicate mismanagement – указывать на неумелое руководство
to invest much of assets in loans – вкладывать значительные объёмы своих активов в ссуды (кредиты)

to issue a letter of credit – выставить аккредитив
to keep the original cost capitalized on the balance sheet – поддерживать первоначальную стоимость капитализированной в балансовом отчете
to make sound judgment about the financial stability – принять здравые суждения относительно финансовой стабильности

to make sound lending decisions – принять правильное решение о предоставлении кредита

to measure the impact of sales growth – измерять воздействие роста продаж
to meet continuing payment obligations – выполнять текущие и продолжающиеся платежные обязательства

to meet the criterion – отвечать (соответствовать) критерию

to meet the needs of the community – отвечать потребностям общества
to monitor the quality of someone's receivables over time – контролировать временные потоки дебиторской задолженности

to near the end of someone's economic life – приближаться к концу экономической жизни
to obtain access to venture capital equity markets – получить доступ на рынки венчурного капитала

to offer a discount as incentive for early payment – предлагать скидку как стимул предоплаты

to pay a past-due accounts receivable – оплатить просроченный счет дебитора

to pose no risk of losing principles – не нести риска потери основной суммы

to present the financial position fairly – справедливо представлять финансовое положение
to provide off-balance-sheet financing for a portion of the organization's activities – для обеспечения внебалансового финансирования части деятельности организации

to provide payment terms – предоставить рассрочку оплаты

to received the highest accolade for smth – получить самую высокую оценку за…

to reveal any unusual build up – показывать какое– либо необычное наращивание

to reverse the slowing trend – изменить замедляющую тенденцию
to satisfy all or part of the financial needs of the company – удовлетворять все или часть финансовых потребностей компании

to sell merchandise or services on credit – продавать товары или услуги в кредит
to serve as the sole source of equity financing – служить единственным источником финансирования акционерного капитала

to set up separate companies for the sole purpose of owning property – основывать независимые компании с единственной целью выкупа собственности

to show inflows and outflows of cash – показывать приход и расход наличных денег

to spot current repayment trends – определять текущие тенденции выплат

to submit in support of loan requests – представить в поддержку запросов на кредит
to transfer deposits to domestic operations – перевод депозитов для операций на внутреннем рынке

to use clerical bookkeepers – использовать конторских бухгалтеров– счетоводов
to use the concept of going concern to values assets – использовать концепцию дейсвующего предприятия для оценки активов