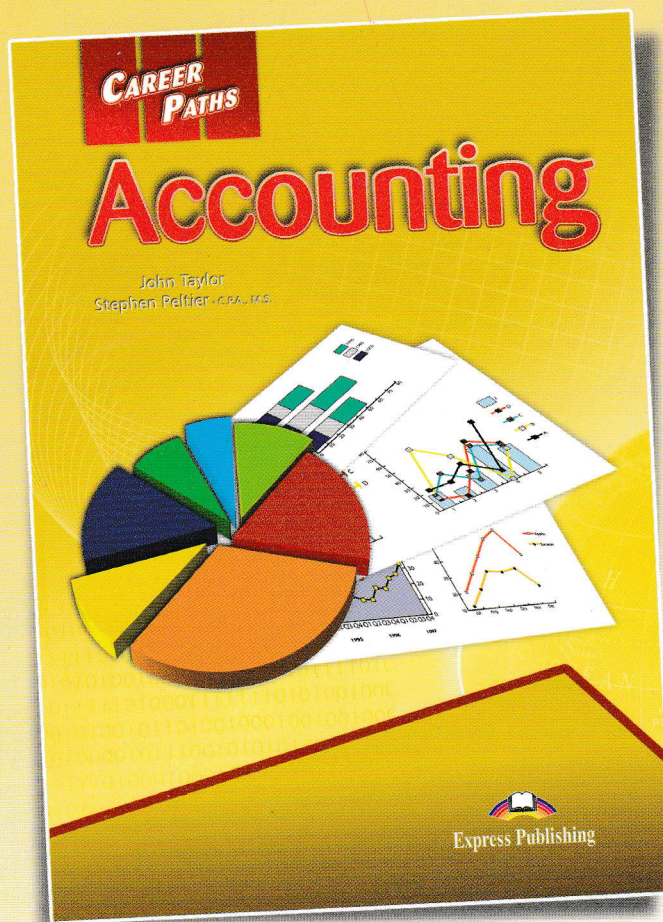


Teacher's Book

John Taylor

Stephen Peltier - C.P.A., M.S.



Express Publishing

**CAREER
PATHS**

Accounting

Teacher's Book

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Express Publishing

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Unit 1

1 Suggested Answers

- Accountants do a variety of jobs such as, bookkeeping, internal auditing, management accounting and financial advising to name just a few.
- The minimum educational requirement to sit for the CPA exam in the USA is generally a four year university degree. Most states require 150 university semester hours before you can sit for the CPA exam.

2 1 D 2 C 3 C

3 1 C 2 B 3 D 4 E 5 A

4 1 CPA 3 back-office 5 firm
2 file clerk 4 clients

5 Suggested Answer

A management accountant specializes in the area of business operations. Usually they study the operations and help to maximize company profits.

6 1 F 2 F 3 T

7 1 must be 3 around 5 right
2 excited 4 back-office 6 check in

8 Suggested Answer

- A: Hello. You must be Ms. Davenport. I'm Andrew Sandler.
 B: Andrew! Hi. How are you?
 A: Great, thanks. I'm really excited to start working with your firm.
 B: Good. We're glad to have you. Let me show you around. Obviously, this is the back-office.
 A: This is where I'll be working, right?
 B: That's right. All the bookkeepers work here.
 A: So can I get started now?
 B: Well, first you need to check in with the accounting manager. I'll introduce you.

9 Suggested Answer

New Employee Information

Employee Name: Andrew Sandler

Position: Bookkeeper

Responsibilities: Recording incoming and outgoing expenses.

Unit 2

1 Suggested Answers

- The symbol = is said as either 'is' or 'equals', and the symbol ÷ is said as 'divided by'.
- The ways to say big numbers can either be by using the full number for example one thousand three hundred and eighty five (1385) or by shortening it to thirteen eighty five.

2 1 T 2 F 3 T

3 1 times 3 minus 5 add
2 is 4 hundred 6 and

4 1 plus 4 multiplied by 7 equals
2 less 5 over
3 Subtract 6 divided by

5 Suggested Answer

Another way to say the symbol 'and' is to say 'plus' or 'add'.

6 1 B 2 D

7 1 seem 3 multiplied 5 supposed to
2 over 4 problem 6 sure

8 Suggested Answer

- A: Ben, could you look at this for me?
 B: Sure, what is it?
 A: Well, I checked these numbers twice, but they still seem wrong. I'm not sure why.
 B: Let's see ... Three thousand five hundred over seven hundred is five.
 A: Right. And then I multiplied each entry by five.
 B: Oh, I see the problem. You weren't supposed to divide thirty-five hundred by seven hundred.
 A: Are you sure?
 B: Yes. You were supposed to multiply them.

9 Suggested Answer

From: Peter Brown

To: Ben Piper

Dear Ben,

I found an **error** in your calculations. The correct equation is $3500 \times 700 = X$. But you **divided** when you should have **multiplied**.

Also, you subtracted 300 from 500. The correct equation is $500 + 300 = X$. you need to **add** 500 and 300.

Let me know if you need any more help.

Sincerely,

Peter Brown

Unit 3

1 Suggested Answers

- 1 Offices needs supplies such as paper clips, binders, note pads, file cabinets, staplers and various other stationary items.
- 2 Office supplies vary in cost, depending on the items required, for example a note pad may cost \$2 whereas a file cabinet could be \$99. Discounts are usually made for buying in bulk.

2 1 F 2 T 3 F

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

- 4 1 file cabinet, white board
2 dry eraser, stapler

5 Suggested Answer

The cost of buying two staplers, ten note pads, fifty binders and a desk lamp - plus tax is \$137.50.

6 1 C 2 D

- 7 1 order 3 sent 5 received
2 hear 4 catch 6 apologize

8 Suggested Answer

- B: Mega-Office Supply. How may I help you?
A: Hi. This is Peter from A1 Accountants. There's a problem with order #652.
B: Sorry to hear that. What's the problem?
A: You sent four binders; but we ordered forty.
B: I'm sorry, I didn't quite catch that. What did you say?
A: I said we received four binders; but we ordered forty.
B: I see. Well, I apologize for the error. We'll ship the rest today.
A: Thank you!

9 Suggested Answer

Original Order: 40 binders
Units shipped: 4
Number of missing units: 36
Please accept our apology for our error on your last order.
Thank you for your patience.
Sincerely: John Stevens
President, Mega-office supply

Unit 4

1 Suggested Answers

- 1 Accountants use many electronic devices to help

them with their work, these may include a calculator, a computer, a printer, a copier or scanner and a flash drive.

- 2 Accountants use calculators to calculate many equations, computers to store information and again calculate long equations with different formulae. Printers, copiers and scanners are used to create hard copies of files and flash drives to store electronic copies of files.

2 1 D 2 C 3 C

3 1 B 2 D 3 E 4 C 5 A

- 4 1 desktop computer 4 copier
2 Flash drives 5 fax machine
3 mobile telephone

5 Suggested Answer

The advisors think that Mr. Wenton's plans are realistic and are happy to help him start the company.

6 1 T 2 F 3 F

- 7 1 recommendations 4 clients
2 Which 5 anyone
3 I mean 6 go with

8 Suggested Answer

- A: Thanks for the recommendations. They all look good except for one.
B: Which one is that?
A: It's the floppy drive. I mean, why do I need a floppy drive?
B: Well, some of your clients might have computers that use them.
A: Hmm ... I don't know anyone that still uses those.
B: OK. You could just use a CD-ROM drive.
A: I think most people use flash drives.
B: That's true, but some people still use CD-ROM.

9 Suggested Answer

- One laptop computer
One desktop computer with a CD-ROM drive
One printer
One fax machine
One mobile phone
One copier

Unit 5

1 Suggested Answers

- 1 The basic tasks in bookkeeping are gathering documents and receipts etc. for all transactions,

analyzing the effect of every transaction, recording these in a journal and inputting the information into accounting software. End of period procedures also need to be performed, along with adjusted trial balances and finally the closing of the books at the end of the fiscal year.

- 2 Some documents a bookkeeper uses are purchase invoices, payroll master files, time cards, credit card statements and any other financial documents relating to sales and purchases.

2 1 C 2 C 3 B

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

- 4 1 adjusted trial balance 4 Payroll
2 fiscal year 5 time card
3 end-of-period procedures

5 Suggested Answer

Classification mistakes are corrected in the 4th step, when performing end-of-period procedures.

6 1 F 2 T 3 F

- 7 1 moment 4 department
2 source documents 5 input
3 get them 6 Record

8 Suggested Answer

- A: Do you have a moment, Mr. Smith?
B: Certainly, Nancy. What can I help you with?
A: One question – how do I collect the source documents?
B: Actually, you don't collect them.
A: Really? How do I get them?
B: The department managers give them to you at the end of every month.
A: Ah, I see. And then I just input the data in the accounting software?
B: That's right. Record the data from the source documents in the accounting software.

9 Suggested Answer

Duties/Frequency
Department managers:
Provide source documentation to finance dept / every month end.
Accountants:
Record data from source documents in accounting software / every month end.

Unit 6

1 Suggested Answers

- 1 Accountants have to follow Generally Accepted Accounting Principles (GAAP) in the USA, however in Europe they follow the rules set by the International Accounting Standards Board (IASB).
2 In the USA the GAAP is a rules based approach which accountants have to follow, however within Europe, the IASB is a principles based approach whereby there are not exact rules but guidelines to follow.

2 1 T 2 F 3 T

- 3 1 IASB 3 consistent
2 GAAP 4 disclosure

- 4 1 rules-based approach
2 Governing bodies
3 principles-based approach
4 FASB
5 broad-scale uniformity

5 Suggested Answer

The majority of companies use both the GAAP and the IASB standards.

6 1 C 2 A

- 7 1 memo 3 clear 5 method
2 advantages 4 flexible 6 systems

8 Suggested Answer

- B: Did you read the memo this morning?
A: You mean the one that says we have to follow both GAAP and IASB?
B: Yes. Why do we have to follow both?
A: Well, both have advantages and disadvantages.
B: Like what?
A: GAAP has clear instructions. But it is restrictive. IASB is flexible. But it can be inconsistent.
B: Why not just pick one method to use?
A: Well, we have clients in both the US and Europe. It's better to use both systems that they are familiar with.

9 Suggested Answer

	GAAP	IASB
Advantages	Clear instructions	Flexible
Disadvantages	Restrictive	Can be inconsistent
Primarily used in	USA	Europe

Unit 7

1 Suggested Answers

- The information that goes on income statements is information regarding sales revenue and expenses, the gross and operating margins and net income.
- Companies use income statements to examine the profit and loss of the company and compare it to previous fiscal years' accounts.

2 1 T 2 F 3 T

3 1 D 2 E 3 B 4 A 5 C

4 1 operating margin 3 Net income
2 Selling 4 income statement

5 Suggested Answer

To show the bottom line, cost of goods sold, general and administrative expenses and taxes all have to be deducted from the sales revenue.

6 1 D 2 A

7 1 right down 3 compare 5 can we
2 latest 4 way 6 improve

8 Suggested Answer

- A: Hi, Paula. Would you like some coffee?
B: No thanks. Let's get right down to business.
A: OK. Have you seen the latest P & L?
B: No, I haven't. What's the problem?
A: Look at this! Our bottom line has really dropped. Just compare this to last year.
B: I see. Sales revenue is way down. But cost of goods sold is the same.
A: So, what can we do?
B: Well, first we need to improve our sales...

9 Suggested Answer

INCOME STATEMENT		
	2010	2011
Sales Revenue	800,000	600,000
Less Cost of Goods Sold	500,000	500,000
Gross Margin	300,000	100,000
Less General & Administrative Expenses	90,000	90,000
Operating Margin	210,000	10,000
Less Taxes	10,000	7,000
Net Income	200,000	3,000

Unit 8

1 Suggested Answers

- Information such as company assets and liabilities and owners' equity all show on balance sheets.
- Companies use balance sheets to find out their financial status at particular moments in time.

2 1 C 2 B 3 D

3 1 E 2 A 3 C 4 B 5 D

4 1 accounts payable 4 sum
2 debt 5 fixed assets
3 Inventory

5 Suggested Answer

The term fixed assets is used to describe assets such as land or property, machinery and motor vehicles which belong to a company and are viewed as a permanent fixture.

6 1 T 2 F 3 F

7 1 Excuse me 3 only 5 bad idea
2 owe 4 borrow 6 pay off

8 Suggested Answer

- A: Excuse me, but we have a problem.
B: What's that?
A: I was looking at this month's balance sheet. Our accounts payable shows that we owe \$15,000.
B: Why is that a problem?
A: Well, we only have \$10,000 in the bank.
B: I see. We have to borrow some money to pay the difference.
A: Isn't it a bad idea to take on more debt?
B: No. Our accounts receivable shows \$15,000. We can use that to pay off some debt next month.

9 Suggested Answer

Balance Sheet As of August 31st, 2011			
Assets		Liabilities	
Cash (bank account)	10,000	Accounts Payable	15,000
Accounts Receivable	15,000	Debt	25,000
Inventory	10,000	Total Liabilities	40,000
Fixed Assets	100,000	Owners Equity	
		Total Equity	95,000
Total Assets	135,000	Total Liabilities and Equity	135,000

Unit 9

1 Suggested Answers

- 1 A cash flow statement is a record of all the inflow and outflow of cash from a company.
- 2 Some of the things that are recorded on cash flow statements are revenues, expenses, payments of dividends to stockholders and cash distributions to owners and other financing activities.

2 1 T 2 F 3 F

3 1 C 2 D 3 E 4 A 5 B

- 4 1 cash distributions 4 dividends
 2 stockholder 5 inflow
 3 outflow

5 Suggested Answer

The balances of a cash flow statement and an income statement may show a huge difference because, quite often, although sales are made they may not be paid for until some time later. The sales would show on the income statement; however, they would not show on the cash flow statement as this only shows cash received.

6 1 D 2 C

- 7 1 What's up 3 generated 5 telling
 2 sounds 4 actual 6 make up

8 Suggested Answer

A: Hi, James. Could I talk to you for a second?

B: Sure Helen. What's up?

A: Well, our income statement shows a net income of \$200,000.

B: That sounds about right.

A: But the cash flow statement shows only \$100,000 generated from sales.

B: Oh, well, the cash flow statement only counts cumulative cash – the actual cash we spend and receive.

A: So ... Are you telling me that we haven't received some of the payments on our accounts receivable?

B: Exactly. But our accounts receivable should make up for it by next month.

9 Suggested Answer

From: James Turner, CPA

To: Lisa Stanard, Manager

I received your email about the different numbers on the income statement and the cash flow statement. Let me explain why they are different.

When a sale is made, it is inputted onto the income statement and counts as revenue; however, it often takes months for the payment to actually arrive. For example we may have generated \$100,000 in sales but only received a payment of \$20,000. The cash flow statement only records cumulative cash, therefore it will only show revenue of \$20,000.

If you need further clarification, don't hesitate to contact me.

Regards

James Turner.

Unit 10

1 Suggested Answers

- 1 Some words that describe changing amounts are fluctuating, increasing, decreasing, plummeting, hovering, declining, rising, and dropping.
- 2 You can say something increased using words and phrases such as; rose dramatically, skyrocketed and went up. Additionally you can use words and phrases such as; fell sharply, plummeted dramatically and went down to say something decreased.

2 1 T 2 T 3 F

3 1 C 2 A 3 B 4 E 5 D

- 4 1 recovered 3 hovered
 2 declined 4 sharply

5 Suggested Answer

A sharp decline in the cost of goods enabled the company to lower their prices.

6 1 D 2 D

- 7 1 plummeted 4 makes sense
 2 not sure 5 that high
 3 mostly 6 due to

8 Suggested Answer

A: Here's the sales report, Mr. Porter.

B: Ah, yes, thank you. Wow. Sales revenue really plummeted in April.

A: Yes, it did. I'm not sure why.

B: Well, it was mostly a result of our price increases.

A: That makes sense. But why did sales increase so much from October to December?

B: Well, that's the holiday season.

A: Yes, but I've never seen sales go that high. What else caused it?

B: It's probably due to Mike's Toy Shop going out of business. They were major competition.

9 Suggested Answer

2010 Annual Sales Report

Prepared by John Hart

Between January and March, sales revenue hovered around \$35,000.

In April, the cost of goods increased slightly. As a result, we increased our prices and sales revenue plummeted.

In July, sales revenue, although previously stabilized dropped dramatically. This was a result of a new competitor opening for business close by.

From October through December, we experienced an expected seasonal increase; however the increase was bigger than expected due to a competitor going out of business.

Unit 11

1 Suggested Answers

- Accountants use records to perform calculations to determine the financial health of a company.
- Some of the ways that accountants interpret financial records are that they calculate 'return on sales' by dividing the net income by the revenue, and calculate 'return on equity' by dividing the net income by the equity.

2 1 B 2 C 3 D

3 1 E 2 C 3 A 4 B 5 D

4 1 year-over-year growth rate 3 interpret
2 uncollectible 4 eat away at

5 Suggested Answer

Year over year growth rate is calculated by dividing the current year's profit by the previous year's profit.

6 1 F 2 F 3 F

7 1 curious 3 assess 5 spend time
2 detailed 4 slows 6 do paperwork

8 Suggested Answer

A: Here's my weekly sales report.

B: Wonderful. Thank you.

A: I'm curious. Why do we have to keep such detailed records?

B: Because they help us assess the company's health. Why do you ask?

A: Well, it slows me down. I'd rather spend time selling than doing paperwork.

B: I know what you mean. It takes time to do paperwork. But it's worth it.

A: How so?

B: Accurate records help us see if anything is eating away at our profits.

9 Suggested Answer

2011 Financial Statement

Profit 2010	11,750
Profit 2011	13,500
Sales revenue	56,500
Net income (profit)	13,500
Owner's equity	41,000

Return on Sales

$$13,500 \div 56,500 = 0.24$$

Return on Equity

$$13,500 \div 41,000 = 0.33$$

Year-Over-Year Growth Rate

$$13,500 \div 11,750 = 1.15$$

Unit 12

1 Suggested Answers

- If you write a check for more money than is in your account, your account will be overdrawn; you may then be charged an overdraft fee.
- The penalties for overdrawing a bank account can vary, but usually banks have set fees per overdraft.

2 1 C 2 A 3 B

3 1 C 2 D 3 E 4 A 5 B

4 1 Inform 2 withdrawal 3 charges

5 Suggested Answer

An overdraft charge of \$35 will show on Capital Incorporated's next statement.

6 1 F 2 F 3 F

7 1 overdraft notice 4 transfer
2 account number 5 Certainly
3 as well 6 that's it

8 Suggested Answer

B: First Venture Bank. How may I help you?

A: Hi. This is Wendy from Capital Incorporated. I just received an overdraft notice from you.

B: I can help you with that. What is your account number?

A: It's 58756. We have a second account with you as well.

B: Let me see ... Your company's other account has a balance of \$1000.00.

A: Good. Can I transfer \$500 into the overdrawn account?

B: Certainly. Is there anything else I can help you with today?

A: No, that's it. Thanks.

9 Suggested Answer

FROM: Wendy Sturgess, Accountant

TO: Thomas Johnson, Manager

RE: an overdraft

Dear Thomas,

I'm writing to inform you of an overdraft and what I did to compensate for it.

I contacted the bank and had them confirm that our other account had a balance of \$1000. I then transferred \$500 of this to the overdrawn account to clear the overdraft and charges.

Cordially,

Wendy Sturgess

Unit 13

1 Suggested Answers

1 Companies set prices by using markups. They look at their costs then decide how much of a profit margin they want, add this percentage to the costs and this sets the price.

2 Companies can get into trouble if they set their prices below what it costs them to produce or manufacture the item at.

2 1 A 2 B 3 B

3 1 B 2 C 3 A 4 D

4 1 out of business 3 cost-plus method
2 predatory 4 below cost

5 Suggested Answer

Some businesses use the illegal practice of dumping; they do this in order to drive other competitors out of business.

6 1 F 2 F 3 T

7 1 happen to 3 surprise 5 below cost
2 getting sued 4 decent 6 your point

8 Suggested Answer

A: Did you hear about Smithson Technologies?

B: No. Did something happen to them?

A: They're getting sued.

B: Really? I hadn't heard that. Why?

A: The lawsuit says they were dumping. It doesn't surprise me. Their prices seemed too low.

B: Personally, I think it's great when a company can offer a decent product for less money.

A: But if they're selling below cost, it's against pricing laws.

B: I see your point. Maybe they were trying to drive their competitors out of business.

9 Suggested Answer

FROM: George Youngman, Accountant

TO: Peter Burns, Manager

RE: dumping

Dear Peter,

As you requested here is some information about pricing laws. Basically, many countries have passed laws against businesses selling products at prices below cost. As this practice can put competitors out of business, legally, businesses can only lower prices down to their costs, or they can be sued.

Cordially,

George Youngman

Unit 14

1 Suggested Answers

1 There are many different types of taxes, these include, excise tax, inheritance tax, corporate tax, sales tax, property tax and more.

2 Accountants help with taxes by ensuring records are accurate and using these records to prepare tax forms for the IRS.

2 1 T 2 F 3 F

3 1 A 2 C 3 E 4 D 5 B

4 1 tax forms 4 Excise tax
2 IRS 5 Value-added tax
3 specialize

5 Suggested Answer

Calvin Dean and Associates are dedicated to the area of tax accounting. This is their specialty.

6 1 D 2 C

7 1 clarify 4 apply to
2 have no idea 5 do business
3 materials 6 to worry about

8 Suggested Answer

- B: How are you today, Mr. Jackson?
 A: I'm good. Could you clarify something for me?
 B: Sure. What is it?
 A: Well, I have no idea what value-added tax is.
 B: It's like sales tax. When a company sells material or parts to another, they pay a tax.
 A: So, does that apply to my company?
 B: No. You only do business in the United States, which hasn't adopted a value-added tax yet.
 A: Oh, I see. So that's not something I need to worry about.

9 Suggested Answer

FROM: Donald Benton, Manager
 RE: value-added tax

What is value-added tax? Does it apply to us?
 DB

[reply]

FROM: Dave Gray, Accountant
 Mr. Benton,

Value-added tax is similar to sales taxes, when a company sells material or parts to another company they have to pay value-added tax. However I have to add that the USA hasn't adopted value-added tax yet, so it is not applicable to your company at the moment as you only do business within the USA.

Cordially,
 Dave Gray

Unit 15

1 Suggested Answers

- Assets that lose value quickly are items such as cars, trucks and machinery that go through a lot of wear and tear.
- Some assets that are eventually worth nothing are items such as computers and cell phones and other electrical items, this is because technology moves at a fast pace and newer, better models are introduced to the market.

2 1 D 2 A 3 D

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

- accelerated depreciation
- straight-line depreciation
- depreciation schedule
- depreciable assets
- obsolescence

5 Suggested Answer

The term depreciation relates to the loss of value of an item. Usually this is a term used when discussing the assets of a company.

6 1 F 2 T 3 F

7 1 just bought 4 How about
 2 account for 5 simplest
 3 accurate 6 sounds good

8 Suggested Answer

- B: Hello, Tony. What can I do for you?
 A: Well, I just bought a new air conditioner. Is it an expense or a depreciable asset?
 B: An air conditioner? That's a depreciable asset.
 A: OK. So, I need to account for depreciation to keep my books accurate.
 B: Right. Which depreciation schedule do you want to use?
 A: I don't know. I want something simple and easy.
 B: How about using the straight-line method? That's the simplest.
 A: That sounds good to me.

9 Suggested Answer

Dear Lee,
 I received your request for information about depreciation. Here are some details about depreciation and the different depreciation schedules that you can use. Basically, there are two depreciation methods we can use. The first is straight-line depreciation which evenly distributes depreciation over the entire recovery period; we usually use this method for assets that suffer obsolescence such as computers and other electrical goods. The second is accelerated depreciation which accounts for more wear and tear during the first years of the use of a tangible asset. Both these methods are useful and both end with the same salvage value.
 Cordially,
 Edward Grimes CPA

Unit 1

Accountant (M): Hello. You must be Ms. Davenport. I'm Jason Williams.

Supervisor (F): Jason! Hi. How are you?

Accountant: Great, thanks. I'm really excited to start working with your firm.

Supervisor: Good. We're glad to have you. Let me show you around. Obviously, this is the back-office.

Accountant: This is where I'll be working, right?

Supervisor: That's right. All the bookkeepers work here.

Accountant: So can I get started now?

Supervisor: Well, first you need to check in with the accounting manager. I'll introduce you.

Unit 2

Accountant 1 (F): Don, could you look at this for me?

Accountant 2 (M): Sure, what is it?

Accountant 1: Well, I checked these numbers twice, but they still seem wrong. I'm not sure why.

Accountant 2: Let's see ... Three thousand five hundred over seven hundred is five.

Accountant 1: Right. And then I multiplied each entry by five.

Accountant 2: Oh, I see the problem. You weren't supposed to divide thirty-five hundred by seven hundred.

Accountant 1: Are you sure?

Accountant 2: Yes. You need to multiply them.

Unit 3

Representative (M): Mega-Office Supply. How may I help you?

Bookkeeper (F): Hi. This is Stacy from Equity Accountants. There's a problem with order #626.

Representative: Sorry to hear that. What's the problem?

Bookkeeper: You sent thirteen desk lamps; but we ordered thirty.

Representative: I'm sorry, I didn't quite catch that. What did you say?

Bookkeeper: I said we received thirteen desk lamps; but we ordered thirty.

Representative: I see. Well, I apologize for the error. We'll ship the rest today.

Bookkeeper: Thank you!

Unit 4

Accountant (M): Thanks for the recommendations. They all look good except for one.

Consultant (F): Which one is that?

Accountant: It's the floppy drive. I mean, why do I need a floppy drive?

Consultant: Well, some of your clients might have computers that use them.

Accountant: Hmm ... I don't know anyone that still uses those.

Consultant: OK. You could just go with a CD-ROM drive.

Accountant: I think most people use flash drives.

Consultant: That's true, but some people still use CD-ROM.

Unit 5

Accountant 1 (F): Do you have a moment, Mr. Smith?

Accountant 2 (M): Certainly, Nancy. What can I help you with?

Accountant 1: One question - how do I collect the source documents?

Accountant 2: Actually, you don't collect them.

Accountant 1: Really? How do I get them?

Accountant 2: The department managers give them to you at the end of every month.

Accountant 1: Ah, I see. And then I just input the data in the accounting software?

Accountant 2: That's right. Record the data from the source documents in the accounting software.

Unit 6

Accountant 1 (M): Did you read the memo this morning?

Accountant 2 (F): You mean the one that says we have to follow both GAAP and IASB?

Accountant 1: Yes. Why do we have to follow both?

Accountant 2: Well, both have advantages and disadvantages.

Accountant 1: Like what?

Accountant 2: GAAP has clear instructions. But it is restrictive. IASB is flexible. But it can be inconsistent.

Accountant 1: Why not just pick one method to use?

Accountant 2: Well, we have clients in both the USA and Europe. It's better to use both systems that they are familiar with.

Unit 7

Accountant 1 (F): Hi, Peter. Would you like some coffee?

Accountant 2 (M): No thanks. Let's get right down to business.

Accountant 1: OK. Have you seen the latest P & L?

Accountant 2: No, I haven't. What's the problem?

Accountant 1: Look at this! Our bottom line has really dropped. Just compare this to last year.

Accountant 2: I see. Sales revenue is way down. But cost of goods sold is the same.

Accountant 1: So, what can we do?

Accountant 2: Well, first we need to improve our sales...

Unit 8

Accountant 1 (F): Excuse me, but we have a problem.

Accountant 2 (M): What's that?

Accountant 1: I was looking at this month's balance sheet. Our accounts payable shows that we owe \$15,000.

Accountant 2: Why is that a problem?

Accountant 1: Well, we only have \$10,000 in the bank.

Accountant 2: I see. We have to borrow some money to pay the difference.

Accountant 1: Isn't it a bad idea to take on more debt?

Accountant 2: No. Our accounts receivable shows \$15,000. We can use that to pay off some debt next month.

Unit 9

Manager (F): Hi, David. Could I talk to you for a second?

Accountant (M): Sure. What's up?

Manager: Well, our income statement shows a net income of \$200,000.

Accountant: That sounds about right.

Manager: But the cash flow statement shows only \$100,000 generated from sales.

Accountant: Oh, well, the cash flow statement only counts cumulative cash – the actual cash we spend and receive.

Manager: So ... Are you telling me that we haven't received some of the payments on our accounts receivable?

Accountant: Exactly. But our accounts receivable should make up for it by next month.

Unit 10

Accountant (F): Here's the sales report, Mr. Porter.

Manager (M): Ah, yes, thank you. Wow. Sales revenue really plummeted in April.

Accountant: Yes, it did. I'm not sure why.

Manager: Well, it was mostly a result of our price increases.

Accountant: That makes sense. But why did sales increase so much from October to December?

Manager: Well, that's the holiday season.

Accountant: Yes, but I've never seen sales go that high. What else caused it?

Manager: It's probably due to Mike's Toy Shop going out of business. They were major competition.

Unit 11

Salesperson (F): Here's my weekly sales report.

Accountant (M): Wonderful. Thank you.

Salesperson: I'm curious. Why do we have to keep such detailed records?

Accountant: Because they help us assess the company's health. Why do you ask?

Salesperson: Well, it slows me down. I'd rather spend time selling than doing paperwork.

Accountant: I know what you mean. It takes time to do paperwork. But it's worth it.

Salesperson: How so?

Accountant: Accurate records help us see if anything is eating away at our profits.

Unit 12

Banker (M): First Venture Bank. How may I help you?

Accountant (F): Hi. This is Wendy from Capital Incorporated. I just received an overdraft notice from you.

Banker: I can help you with that. What is your account number?

Accountant: It's 58756. We have a second account with you as well.

Banker: Let me see ... Your company's other account has a balance of \$1000.00.

Accountant: Good. Can I transfer \$500 into the overdrawn account?

Banker: Certainly. Is there anything else I can help you with today?

Accountant: No, that's it. Thanks.

Unit 13

Accountant 1 (F): Did you hear about Smithson Technologies?

Accountant 2 (M): No. Did something happen to them?

Accountant 1: They're getting sued.

Accountant 2: Really? I hadn't heard that. Why?

Accountant 1: The lawsuit says they were dumping. It doesn't surprise me. Their prices seemed too low.

Accountant 2: Personally, I think it's great when a company can offer a decent product for less money.

Accountant 1: But if they're selling below cost, it's against the pricing laws.

Accountant 2: I see your point. Maybe they were trying to drive their competitors out of business.

Unit 14

Accountant (F): How are you today, Mr. Jackson?

Client (M): I'm good. Could you clarify something for me?

Accountant: Sure. What is it?

Client: Well, I have no idea what value-added tax is.

Accountant: It's like sales tax. When a company sells materials or parts to another, they pay a tax.

Client: So, does that apply to my company?

Accountant: No. You only do business in the United States, which hasn't adopted a value-added tax yet.

Client: Oh, I see. So that's not something I need to worry about.

Unit 15

Accountant (F): Hello, Tony. What can I do for you?

Client (M): Well, I just bought a new air conditioner. Is it an expense or a depreciable asset?

Accountant: An air conditioner? That's a depreciable asset.

Client: OK. So, I need to account for depreciation to keep my books accurate.

Accountant: Right. Which depreciation schedule do you want to use?

Client: I don't know. I want something simple and easy.

Accountant: How about using the straight-line method? That's the simplest.

Client: That sounds good to me.

Unit 1

1 Suggested Answers

- 1 Jobs such as bookkeeping, clerking, and accounting get done in the back office.
- 2 Some common accounting tasks are payroll, cash collections, cash disbursements and procurement.

2 1 C 2 A 3 D

3 1 A 2 B 3 D 4 C

- 4 1 gross wages, procurement
- 2 gross earnings, cash collections
- 3 Total wages, checking account

5 Suggested Answer

Payroll accountants carry out tasks such as calculating salaries and total wages for every employee. They also prepare pay stubs for each pay period which show the employees' year-to-date earnings and taxes.

6 1 T 2 T 3 T

- | | |
|--------------------------|------------------|
| 7 1 Welcome aboard | 4 usually work |
| 2 to have you | 5 sometimes help |
| 3 accounting departments | 6 my favorite |

8 Suggested Answer

B: Hi, Jason! Welcome aboard. Let me show you around.

A: Great. I'm really excited to be here.

B: Well, we're happy to have you. Now, our back office is divided into different accounting departments.

A: OK. Which one do you work in?

B: Well, I usually work in payroll, but I sometimes help the other departments.

A: I would love to work in payroll. That was my favorite accounting task in school.

B: Well, that's possible. We like to place people where they are comfortable.

A: Where do new hires usually start?

B: Well, actually, we train them in all the departments.

9 Suggested Answer

The Back Office

This office is where the clerks, bookkeepers and accountants are based.

The Accounting Departments

The office is divided into different accounting departments for payroll, cash collection, cash disbursements and procurement.

Our Training Procedures

New hires are trained in each department for a period

of time, when their best skills have been identified; they are assigned to a regular department.

Unit 2

1 Suggested Answers

1 Some ways in which accountants are the same are that whatever business sector they work in they are all guided by the same principles or rules of accounting.

2 The guiding principles that all accountants should follow are conservatism, objectivity, relevance and full disclosure.

2 1 B 2 B 3 B

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

- | | |
|-------------------|----------------|
| 4 1 optimistic | 4 conservatism |
| 2 business entity | 5 Objectivity |
| 3 partnership | |

5 Suggested Answer

The guiding principle of 'full disclosure' is synonymous with openness and honesty as this principle relates to hiding or withholding nothing and the inclusion of all available information.

6 1 F 2 T 3 F

- | | |
|----------------------|-------------------------|
| 7 1 unbiased | 5 affect how |
| 2 watch making | 6 worth more than |
| 3 sorry to interrupt | 7 wouldn't be objective |
| 4 can't allow | |

8 Suggested Answer

A: So, Todd, Let's talk about a guiding principle of accounting: Objectivity.

B: OK. Well, objectivity means that accountants must be unbiased.

A: Uh-huh. What do you mean by that?

B: Um, let's say I work for a company. How about Infinite Time?

A: Infinite Time. That's the watch making company, right?

B: That's right, they ...

A: You know - sorry to interrupt - I'm wearing an Infinite Time watch.

B: I see that. It's very nice. Now, I can't allow my opinions about Infinite Time to affect how I keep their records.

A: Hmm ... like if you said the company is worth more than it is because you like their watches?

B: Exactly. That would be my opinion. But it wouldn't be objective.

9 Suggested Answer

FROM: John Hall, Accountant Manager
TO: Dan Osborne, CPA

Next month you will be reviewing some records from Classy Clothing Inc. I know that you have worked with that company in the past. I just wanted to remind you to maintain objectivity. Basically, don't allow your feelings about the company or its products either positive or negative, to influence their records, only use verifiable numbers. Remember the accounts should be accurate and without bias.

Sincerely,
John Hall

Unit 3

1 Suggested Answers

- 1 A controller has many responsibilities; these include the preparation and distribution of internal and external financial reports, overseeing all bookkeeping activities and ensuring quality assurance, additionally ensuring that financial records are kept up to date.
- 2 The qualifications a controller usually holds are a bachelor's or master's degree in accounting. Additionally employers may ask that they are a Certified Public Accountant and have several years experience with various accounting systems.

2 1 T 2 T 3 T

3 1 E 2 D 3 A 4 B 5 C

- 1 drug screening
- 2 background check
- 3 External financial records
- 4 chief financial officer
- 5 attention to detail

5 Suggested Answer

The employer is looking for personal qualities such as honesty, integrity, giving attention to detail and flexibility in terms of travelling and occasional weekend work.

6 1 A 2 C

- 1 your strengths 4 full accounting system
- 2 expect the same 5 at your previous
- 3 major weaknesses 6 just followed that

8 Suggested Answer

A: I have your resume. It says you were a controller for four years?

B: I was – at Benjamin Landon and Associates.

A: And how did you like it?

B: It was a good job. I left to go back to school and get a master's degree.

A: I see. So, tell me, what do you think are your strengths?

B: Honesty and integrity. I take my work seriously and expect the same from others.

A: OK. And what are your major weaknesses?

B: Um, I haven't designed a full accounting system yet.

A: You didn't do that at your previous controller job?

B: No. They had a system in place that they really liked, so I just followed that.

9 Suggested Answer

Notes

Applicant's name: Kenneth Everett

Education: Master's degree in accounting.

Work Experience: Four years as a controller for Benjamin Landon and Associates.

Strengths/Weaknesses: Kenneth lists strengths as his honesty and integrity, his weakness is he is yet to design a full accounting system.

Unit 4

1 Suggested Answers

- 1 Liquid means that a company can meet all its financial obligations without selling any assets.
- 2 The most liquid assets a company has are cash and cash equivalents such as bank deposits.

2 1 F 2 F 3 T

3 1 B 2 C 3 E 4 A 5 D

- 1 expenditures 3 zero cash balance
- 2 safety reserve 4 unproductive

5 Suggested Answer

Cash accounts are useful because they allow companies to pay unexpected expenses; also they can be useful for taking advantage of opportunities like investing or buying out a competitor.

6 1 B 2 B

- 1 liquidity 5 something that will
- 2 buy them out 6 be conservative
- 3 see your point 7 at least we don't
- 4 sitting around

8 Suggested Answer

- B: I'm glad we have so much cash in reserve.
 A: Really? Don't you think it's excessive?
 B: Well, no. I think we need that liquidity in case something unexpected happens.
 A: What are you thinking of?
 B: Well, I heard that one of our competitors' sales are plummeting. Maybe we can buy them out.
 A: I see your point. But in my opinion, it's not good to have that much cash sitting around.
 B: You think it's unproductive?
 A: Exactly. Why not invest it in something that will generate revenue?
 B: Hmm ... The way I see it, it's better to be conservative and prepared for unexpected expenses.
 A: Well, at least we don't have a zero cash balance.

9 Suggested Answer

FROM: Oliver Smith, CFO
 TO: William Reed, CPA
 RE: cash in reserve

I have a suggestion for a better use of the money that we currently have in reserve. Rather than the money just sitting around being unproductive I think it would be much better to invest the money in something that will bring in some revenue. Thank you for considering my idea.
 Cordially,
 Oliver Smith

Unit 5

1 Suggested Answers

- Some assets that are not physical objects are a company's reputation, brand recognition, popularity, patent rights and trade secrets.
- Accountants record these assets in two ways, as either a legal intangible or a competitive intangible.

2 1 F 2 F 3 T

3 1 C 2 A 3 E 4 D 5 B

4 1 B 2 A 3 A 4 B

5 Suggested Answer

Goodwill is the most important intangible asset and consists of a company's reputation, popularity and location.

6 1 B 2 C

- 7 1 that you value 4 have a lot
 2 hope to get 5 Like what
 3 only have sales 6 has been at

8 Suggested Answer

- A: I have some questions about your company.
 B: OK. I'd be happy to answer them.
 A: I see that you value your company at one million dollars.
 B: Right. That's what we hope to get from selling it.
 A: But you only have sales of \$500,000 per year. Why do you think the company's worth a million?
 B: We have a lot of intangible assets.
 A: Really? Like what?
 B: Well, our company has been at this location for almost a hundred years.
 A: That's worth something. But, in my opinion, it's not worth half a million.

9 Suggested Answer

To: James Kent, Owner, Kent Investments

I spoke to the controller from Denver Toy Company. I recommend that you purchase the company. Here's why.
 The owners are asking a price of one million dollars. At the moment they have sales of \$500,000, the remainder of the price is for intangible assets such as location. They have been there for nearly a hundred years, and they have human capital, loyal customers and a great reputation. I consider the asking price equal to all assets.

Sincerely,
 Harry Webb, CPA

Unit 6

1 Suggested Answers

- Some of the key points on a P & L statement are sales volume and revenue, cost of goods sold, gross margin, operating expenses, margin, fixed expenses and finally EBIT (earning before interest and tax).
- Managers use P & L statements to examine the profit and loss of the company and compare it to previous fiscal years' accounts.

2 1 B 2 D 3 D

3 1 D 2 B 3 A 4 C

- 4 1 Retailers, Variable expenses
 2 profit center, Margin per unit
 3 sales volume, earnings before interest and tax

5 Suggested Answer

The factors that caused the change in EBIT from 2009 to 2010 were the cost of goods, which dropped when a supplier lowered prices and the sales revenue which increased as the price per unit was raised.

6 1 F 2 T 3 F

7 1 we couldn't plan 4 apply that principle
2 made a great decision 5 huge increase
3 needed to get 6 about luck

8 Suggested Answer

A: I'm impressed. We've never had such a huge increase in a profit center.
B: I know. We really got lucky in 2010.
A: I'm sorry, what do mean by that?
B: I mean that we couldn't plan something like that.
A: Why not? I think the managers made a great decision raising the price.
B: They did. The wholesalers were making huge profits, and we needed to get some of that for ourselves.
A: Can we apply that principle to other divisions?
B: We can. But they wouldn't have such a huge increase in EBIT unless another supplier lowered their prices.
A: Ah, I see what you mean about luck. We can't predict when that might happen.

9 Suggested Answer

To: Management and Accounting Staff
Earnings went way up on our last P & L statement. There are a few reasons for this and a few ways we can try to have similar success in the future. Managers noticed that wholesalers were making a huge profit from our units as they had a 300% markup on their prices. They took the decision to raise our prices to the wholesaler in order to gain a little of that profit for ourselves. Additionally, due to a supplier lowering their prices, our cost of goods went down. So, although we can't predict lower prices from our suppliers we can keep an eye on wholesalers' markups and use these to our advantage.

Unit 7

1 Suggested Answers

- Crimes that take place in the accounting profession are crimes such as fraud, forgery and embezzlement.
- Organizations can guard against these crimes by ensuring that there are two signatures on cash disbursements, make surprise inventories, rotate

employees and ensure that two managers approve any write-offs.

2 1 B 2 C 3 C

3 1 A 2 D 3 B 4 E 5 C

4 1 accounting controls, Fraud
2 forgery, shoplifting
3 deceit, pilfering

5 Suggested Answer

Some internal threats are misappropriation of funds, pilfering, falsification of records, and employees who take kick-backs. Some external threats are shoplifters and suppliers who short-ship.

6 1 F 2 T 3 F

7 1 pilfering 5 sounds good
2 doesn't seem to be 6 new policy memo
3 How about having 7 set up a meeting
4 clerks notify us

8 Suggested Answer

A: I just found out we have a major problem with inventory fraud.
B: Really? How do you know?
A: I compared the actual inventory to what is recorded in our general ledger. We're missing a lot of inventory.
B: Oh, no. Do you think some employees are pilfering?
A: That doesn't seem to be the problem. I think some of the suppliers have been short-shipping.
B: OK. What do you think we should do about it?
A: How about having someone match every receiving report with the purchase orders?
B: That's a good idea. And we can also have the receiving clerks notify us of any shipments that are short of product.
A: That sounds good to me. I'll write a new policy memo about the purchase orders.
B: All right. I'll set up a meeting with the receiving clerks.

9 Suggested Answer

RE: preventing fraud

Here are some steps that we want everyone to take to prevent fraud. Every receiving report must be matched with the purchase orders. If receiving clerks find that any shipments are short of product, please notify your managers immediately.

Unit 8

1 Suggested Answers

- Some transactions that don't involve cash are purchases made on credit cards or, in business, sales made on credit.
- Accountants record non-cash transactions using a method called accrual basis accounting.

2 1 A 2 C 3 B

3 1 C 2 A 3 B 4 D

- paid for ahead of time, Accounts receivable
- Accrual basis accounting, accounts payable
- Prepaid expense assets, Cash basis accounting

5 Suggested Answer

The three kinds of accrual basis accounts are accounts receivable, accounts payable and prepaid expenses.

6 1 T 2 F 3 F

- record transactions
- matching revenues
- there are delays
- make a sale
- transaction immediately
- what do you think
- keep an eye on

8 Suggested Answer

- B: So, you wanted to talk about accounting methods?
 A: Yes. I'm not sure if I should use cash basis or accrual basis accounting.
 B: OK. Well, cash basis accounting is good for tracking cash flow.
 A: That makes sense. It's because you only record transactions when cash is exchanged, right?
 B: Exactly. But accrual basis accounting is better for matching revenues and expenses.
 A: What do you mean by that?
 B: Well, there are delays with cash flow. You might make a sale but not receive cash for a month.
 A: Oh, I see. But with accrual basis accounting I could record that transaction immediately.
 B: That's right. So, what do you think?
 A: Well, I'd rather keep an eye on cash flow. Let's use cash basis accounting.

9 Suggested Answer

Notes

Cash basis accounting

Good for tracking cash flow.
 Only record transactions when exchanging cash
 May be delays in payments

Accrual basis accounting

Better for matching revenues and expenses
 Transactions recorded immediately - no delays

Unit 9

1 Suggested Answers

- Expenses that a business doesn't pay right away could be taxes that are owed for certain year that are not due payable until the following year, or interest on a loan that isn't due payable until the end of the loan period.
- Accountants record these expenses in two types of payable accounts, either as Income tax payable or accrued expenses payable.

2 1 F 2 T 3 F

3 1 C 2 B 3 A 4 D

- income tax payable
- via
- bonus
- accrued expense payable

5 Suggested Answer

Companies with unbilled expenses should calculate them and record the amounts in an accrued expenses payable account.

6 1 B 2 C

- executives and salespeople
- don't pay them
- end of the year
- don't actually have to
- last year's bonuses
- That makes sense
- exactly accurate

8 Suggested Answer

- A: Larry, could you help me with these expense accounts?
 B: Sure, Vicki. What's up?
 A: I need to know how to account for bonuses.
 B: You mean the bonuses we pay to executives and salespeople?

A: Right. We don't pay them until the end of the year, so how do I know how much they will be?

B: Well, you don't actually have to know. I can give you estimates.

A: How do you estimate them?

B: I use the amounts of last year's bonuses as a guide.

A: OK. That makes sense. But the amounts vary every year, right?

B: They do. The estimates won't be exactly accurate, but that's not a problem.

A: So then, how do I record them?

B: You need to record them in the accrued bonuses payable account.

9 Suggested Answer

TO: accountants

RE: bonuses

Bonuses are paid to salespeople and executives at the end of the year. We account for this by using last year's bonuses as a guide to estimate the approximate amount of this year's bonus. Record this estimate in the accrued expenses payable account.

Unit 10

1 Suggested Answers

1 Some businesses take out loans to expand their operations or move in a new direction. Some businesses who are having trouble with cash flow may also take out a loan in order to tide them over an uncomfortable period.

2 Businesses can raise capital by using leverage, offering assets as collateral to a bank in return for a loan. If however you default on the loan, the bank will have a claim on your assets.

2 1 F 2 T 3 T

3 1 D 2 E 3 C 4 A 5 B

4 1 tax deductible 4 senior claim
2 pay off 5 take out
3 collateral

5 Suggested Answer

Some attractive terms to look for when considering a bank loan are, low interest rates, low fees and a reasonable origination fee along with tax deductible interest and no penalties for early settlement of the loan.

6 1 A 2 B

- | | |
|-----------------------------|--------------------|
| 7 1 renegotiating the terms | 5 pay it off early |
| 2 other details | 6 really takes off |
| 3 Are there penalties | 7 shop around |
| 4 forgot to mention | |

8 Suggested Answer

A: I met with a banker and got a loan offer.

B: That's great! What are the terms?

A: The fees and interest rate are really low.

B: Good. Now, will the interest be tax deductible?

A: It will. The only negative is that they said something about renegotiating the terms in 5 years.

B: Oh, that's not a good thing.

A: No, but all the other details are great.

B: Hmm ... Are there penalties for paying it off early?

A: Oh, yeah, I forgot to mention that. There are. But I don't plan to pay it off early, so it's OK.

B: Well, what if your business really takes off and you want to get rid of some debt?

A: That's a good point. Maybe I should shop around.

9 Suggested Answer

Mr. Moody,

I am writing in regards to the loan papers you asked me to review. I recommend that you don't take this loan offer. Let me explain why. Although the fees and interest rate are really low and the interest is tax deductible, the bank wants to renegotiate terms in 5 years time. Also if you decide to pay off the loan early there are penalties to pay. This may not seem important at this time, however if the business really takes off and you want to get rid of some debt, it will be at a cost to the company.

Sincerely,

Patrick Thompson, CPA

Unit 11

1 Suggested Answers

1 Repairs are one expense that can vary from month to month. Also advertising, some months the company may need to advertise more than others.

2 Regarding repairs, some months everything could run smoothly then at other times equipment may break down or fail. The same is applicable to advertising, if sales are down then the company may advertise more to keep their product in the public eye.

2 1 F 2 F 3 T

3 1 B 2 E 3 C 4 A 5 D

4 1 temporary 3 discontinue
2 campaign 4 employee benefits

5 Suggested Answer

The costs of the Profit Sharing Plan decreased in 2010 as the Board of Directors discontinued the plan in September due to declining sales revenue.

6 1 A 2 C

7 1 huge increase 5 additional revenue
2 standard stuff 6 generated enough profit
3 sharp increase 7 charitable contributions
4 it boosts sales

8 Suggested Answer

A: Did you see my report on last year's expenses?
B: I did. We really had a huge increase in overall variable expenses, didn't we?
A: Yes, we did. How do you feel about that?
B: Well, most of it is pretty standard stuff, but the advertising ... how could it go up so much?
A: Yeah, that's a pretty sharp increase.
B: No kidding. From \$10,000 to \$30,000 - that's huge!
A: Well, TV advertising is expensive, but it boosts sales.
B: That's true. I think the additional revenue covered the expense.
A: It did. And it generated enough profit that we were able to increase our charitable contributions.

9 Suggested Answer

From: Dean James, CFO
To: Elizabeth Potter, President

Ms. Potter,
As you know our variable expenses rose considerably last year. But this is nothing to be concerned about. Let me explain. The rise was mainly due to TV advertising costs. Although it was a rise of \$20,000, the sale revenue generated by the advertising has more than covered this expense. In fact, our higher profits enabled us to increase our charitable donations. Best wishes,
Dean James, CFO

Unit 12

1 Suggested Answers

1 End-of-period procedures are a series of checks and tasks that are carried out by accountants to close the books for a particular period; this can be monthly, quarterly or annually, depending on the company and their policies.

2 Some problems that may occur during end-of-period procedures are errors in the original recording of transactions that are found and have to be adjusted; also the CPA may find things out of the ordinary, such as a company or client not making payments as often as they should.

2 1 F 2 T 3 F

3 1 B 2 D 3 E 4 C 5 A

4 1 adjusting entries 3 caught my attention
2 out of the ordinary 4 flow of transactions

5 Suggested Answer

The CFO is made aware that there is an unusually large balance in accounts receivable, further investigation showed that Gentle Giant Manufacturing did not make any payments in the last period and that this should be looked into further.

6 1 A 2 D

7 1 receivable account 5 out of the ordinary
2 not been making 6 were delayed
3 this entire period 7 That's a relief
4 I'm not saying

8 Suggested Answer

A: Is something wrong?
B: Maybe. See, you have a really big receivable account for one of your customers.
A: Have they not been making payments?
B: No. They've only made one payment this entire period.
A: Is it Thompson and Nash Distributing?
B: Yes. I'm not saying they are going to stiff you. I'm just saying it's out of the ordinary.
A: Actually, I talked to their CFO last week. Their payments were delayed because of an accounting error.
B: Oh, I see. That's a relief.

9 Suggested Answer

FROM: Valerie Ashford, Owner
TO: Nicolas Simpson, CPA

I got your message. You are right. The amount in accounts receivable seems a little off. I spoke to their CFO last week. Here's the problem: There was an error in their accounting procedures and payments were delayed because of this. The payments will be made as soon as possible to bring their account up to date. Thanks for all you hard work!
Best wishes,
Valerie Ashford

Unit 13

1 Suggested Answers

- There are many advantages to using accounting software. It is not necessary to pay accountants to do the work and it allows companies to analyze their financial data (e.g. data mining) to improve their performance. Using this software also means that businesses can comply more easily with any reporting requirements they might have.
- There are different types of accounting software for different parts of the market. There are simple and cheap programs for individuals and very small businesses to use. Then there are increasingly sophisticated products for larger businesses and corporations which help them to meet their regulatory requirements and perform sophisticated analysis to improve their businesses.

2 1 T 2 T 3 F

3 1 D 2 B 3 A 4 E 5 C

- | | |
|-------------------|-----------------|
| 4 1 user licenses | 4 user-friendly |
| 2 up and running | 5 tutorials |
| 3 remote access | |

5 Suggested Answer

Up to 50 people are allowed to use one copy of PBL Unlimited.

6 1 A 2 B

- | | |
|--------------------------|-----------------------|
| 7 1 accounting software | 5 almost every topic |
| 2 haven't used | 6 think it's designed |
| 3 advertisement says | 7 prefer to get |
| 4 really useful features | |

8 Suggested Answer

- B: So, Tim, have you thought about which accounting software we should get?
- A: Well, I'm thinking about getting PBL Unlimited.
- B: Hmm ... I haven't used PBL Unlimited. I like the Virtual Accountant, though.
- A: This advertisement says PBL Unlimited has some really useful features.
- B: But the Virtual Accountant is really easy to use. It has tutorials on almost every topic.
- A: That's cool. But I think it's designed for homes, not businesses.
- B: You don't think it would work for the business?
- A: Well, I would prefer to get something with more features.

B: What features does PBL Unlimited have?

A: Oh, it has everything! It has inventory tracking, data mining, and a lot more.

9 Suggested Answer

FROM: Tim Godwin, CPA

TO: Laura Sanchez, Accounting Manager

I know you want to buy new software for our department. I just wanted to let you know about a really great program that I used at a previous job. It is called PBL Unlimited and it has loads of really useful features such as inventory tracking and data mining.

Thanks for your time!

Tim

Unit 14

1 Suggested Answers

- Businesses experience extraordinary gains or losses in a variety of situations. Sometimes when products are discontinued a company is left with a lot of old stock that must be sold at a lower price. On other occasions a business might be faced with a lawsuit and be required to pay damages. These things have to be reflected in companies' accounts.
- When a business experiences an extraordinary gain or loss in my country this must be reported separately at the bottom of an income statement. Other important costs that are not so uncommon or large may be shown as separate items in the main section of the accounts.

2 1 T 2 T 3 F

3 1 B 2 D 3 E 4 A 5 C

- | | |
|-----------------------|-----------------|
| 4 1 severance package | 3 Discontinuity |
| 2 damages | 4 restructuring |

5 Suggested Answer

A business might need to reduce the value of old product lines in its accounts once they stop making them.

6 1 C 2 D

- | | |
|-----------------------|-----------------------|
| 7 1 Let's have a look | 4 Those are from |
| 2 to make sure | 5 had several layoffs |
| 3 what's this line | 6 report those as |

8 Suggested Answer

- A: Excuse me, Miss Carter, could you look at this income statement I drafted?
 B: Sure, Nathan. Let's have a look.
 A: Thanks. I want to make sure I got it right.
 B: Um, what's this line under expenses? Is that severance packages?
 A: Yes it is. Those are from when we downsized two months ago.
 B: Yes, I remember. We had several layoffs. But you can't report those as regular expenses.
 A: Really? Why not?
 B: Well, if you do, people will see those major losses as a regular expense.
 A: So how do you account for them?
 B: Well, at the bottom of the statement, put another section called extraordinary gains and losses.
 A: OK. So, do I record anything that doesn't happen regularly in that section?
 B: Exactly. See, you're getting it.

9 Suggested Answer

There are a few types of extraordinary gains and losses: abandoned product lines; damaged or impaired assets; costs involved in downsizing or restructuring; and lawsuits.
 These amounts need to be reported separately because we do not want people to see them as regular expenses.

Unit 15

1 Suggested Answers

- Some people say that making profit is unethical because they believe that businesses engage in immoral business practices such as exploiting their workers and harming the environment.
- Yes, I think making profit is unethical. It is the workers that do all the work but the profits get given to those who own the company and often don't do any work at all. Not only that, but businesses often damage the environment with their activities.
 No, I don't think making profit is unethical. Most business owners operate ethical and environmentally friendly businesses. They are given a return for the efforts that they make. And, if they make a loss they are the ones who have to pay for it.

2 1 T 2 F 3 F

3 1 C 2 E 3 A 4 B 5 D

- 4 1 immoral 4 ethical
 2 criticize 5 low road
 3 environmentally friendly

5 Suggested Answer

Profit is described as a reward for the efforts that business owners make.

6 1 B 2 D

- 7 1 have a good point
 2 exploit their employees
 3 once in a while
 4 get upset
 5 live barely above
 6 deserve more

8 Suggested Answer

- A: Actually, I think they might have a good point.
 B: What? Why would you say that?
 A: Well, you know, sometimes businesses exploit their employees.
 B: Yeah, maybe that happens once in a while, but not very often.
 A: Some people get upset because they see wealthy owners with employees who live barely above the poverty line.
 B: But the owners deserve more profit because they have more risk.
 A: What do you mean by that?
 B: Think about losses. Who has to pay when a business suffers a loss?
 A: Well, obviously, the owner does.
 B: So, since they are at risk, they deserve to earn more.

9 Suggested Answer

I am writing in response to the article about profit that you published last month. The article stated that making a profit is unethical. I agree. Let me explain why. Many businesses make a killing out of exploiting their workers, some of whom struggle to stay above the poverty line.
 Sincerely,

I am writing in response to the article about profit that you published last month. The article stated that making a profit is unethical. I disagree. Most owners operate ethical and environmentally friendly business. The profit they make is merely a return for their efforts. As long as it is gained responsibly there is nothing immoral about it.
 Sincerely,

Unit 1

Accountant 1 (M): Hello, Miss Wilson. I'm Jason Tate. Today is my first day.

Accountant 2 (F): Hi, Jason! Welcome aboard. Let me show you around.

Accountant 1: Great. I'm really excited to be here.

Accountant 2: Well, we're happy to have you. Now, our back office is divided into different accounting departments.

Accountant 1: OK. Which one do you work in?

Accountant 2: Well, I usually work in payroll, but I sometimes help the other departments.

Accountant 1: I would love to work in payroll. That was my favorite accounting task in school.

Accountant 2: Well, that's possible. We like to place people where they're comfortable.

Accountant 1: Where do new hires usually start?

Accountant 2: Well, actually, we train them in all the departments.

Accountant 1: Oh, so, I'll be working in each of them?

Accountant 2: Right. Once you get a feel for things, we'll give you a regular assignment.

Unit 2

Interviewer (F): Hello, everyone. Thanks for tuning in. I'm talking to accountant Todd Weston.

Accountant (M): Hello Linda. Thanks for having me.

Interviewer: So, Todd. Let's talk about a guiding principle of accounting: Objectivity.

Accountant: OK. Well, objectivity means that accountants must be unbiased.

Interviewer: Uh-huh. What do you mean by that?

Accountant: Um, let's say I work for a company. How about Infinite Time?

Interviewer: Infinite Time. That's the watch making company, right?

Accountant: That's right, they ...

Interviewer: You know - sorry to interrupt-I'm wearing an Infinite Time watch.

Accountant: I see that. It's very nice. Now, I can't allow my opinions about Infinite Time to affect how I keep their records.

Interviewer: Hmm ... like if you said the company is worth more than it is because you like their watches?

Accountant: Exactly. That would be my opinion. But it wouldn't be objective.

Unit 3

Human Resources Employee (F): Hi. You must be Travis King.

Controller Applicant (M): I am. Thank you for calling me in today.

HRE: OK. Let's get started. I have your resume. It says you were a controller for four years?

CA: I was - at Benjamin Landon and Associates.

HRE: And how did you like it?

CA: It was a good job. I left to go back to school and get a master's degree.

HRE: I see. So, tell me, what do you think are your strengths?

CA: Honesty and integrity. I take my work seriously and expect the same from others.

HRE: OK. And what are your major weaknesses?

CA: Um, I haven't designed a full accounting system yet.

HRE: You didn't do that at your previous controller job?

CA: No. They had a system in place that they really liked, so I just followed that.

Unit 4

Accountant 1 (F): Hey, Randy, did you see the balance on our cash account?

Accountant 2 (M): I did. I'm glad we have so much cash in reserve.

Accountant 1: Really? Don't you think it's excessive?

Accountant 2: Well, no. I think we need that liquidity in case something unexpected happens.

Accountant 1: What are you thinking of?

Accountant 2: Well, I heard that one of our competitors' sales are plummeting. Maybe we can buy them out.

Accountant 1: I see your point. But in my opinion, it's not good to have that much cash sitting around.

Accountant 2: You think it's unproductive?

Accountant 1: Exactly. Why not invest it in something that will generate revenue?

Accountant 2: Hmm ... The way I see it, it's better to be conservative and prepared for unexpected expenses.

Accountant 1: Well, at least we don't have a zero cash balance.

Accountant 2: Yes. That would be really bad.

Unit 5

Controller (M): Good morning, Miss Davidson. How are you?

Buyer (F): Fine, thank you. I have some questions about your company.

Controller: OK. I'd be happy to answer them.

Buyer: I see that you value your company at one million dollars.

Controller: Right. That's what we hope to get from selling it.

Buyer: But you only have sales of \$500,000 per year. Why do you think the company's worth a million?

Controller: We have a lot of intangible assets.

Buyer: Really? Like what?

Controller: Well, our company has been at this location for almost a hundred years.

Buyer: That's worth something. But, in my opinion, it's not worth half a million.

Controller: No, but there are other intangibles like our human capital and our loyal customers.

Buyer: Hmm ... I need some time to think about this.

Unit 6

Controller (M): Hello, Tara. Did you get my memo this morning?

Director (F): I did. We reviewed it during our board meeting.

Controller: What did you think?

Director: I'm impressed. We've never had such a huge increase in a profit center.

Controller: I know. We really got lucky in 2010.

Director: I'm sorry, what do mean by that?

Controller: I mean that we couldn't plan something like that.

Director: Why not? I think the managers made a great decision raising the price.

Controller: They did. The wholesalers were making huge profits, and we needed to get some of that for ourselves.

Director: Can we apply that principle to other divisions?

Controller: We can. But they wouldn't have such a huge increase in EBIT unless another supplier lowered their prices.

Director: Ah, I see what you mean about luck. We can't predict when that might happen.

Unit 7

Accountant 1 (M): Hello, Jennifer.

Accountant 2 (F): Hi, Tom. You look so serious. What's up?

Accountant 1: Well, I just found out we have a major problem with inventory fraud.

Accountant 2: Really? How do you know?

Accountant 1: I compared the actual inventory to what is recorded in our general ledger. We're missing a lot of inventory.

Accountant 2: Oh, no. Do you think some employees are pilfering?

Accountant 1: That doesn't seem to be the problem. I think some of the suppliers have been short-shipping.

Accountant 2: OK. What do you think we should do about it?

Accountant 1: How about having someone match every receiving report with the purchase orders?

Accountant 2: That's a good idea. And we can also have the receiving clerks notify us of any shipments that are short of product.

Accountant 1: That sounds good to me. I'll write a new policy memo about the purchase orders.

Accountant 2: All right. I'll set up a meeting with the receiving clerks.

Unit 8

Accountant (F): Hi, Andrew. How's it going?

Client (M): Good. The new business opens next week.

Accountant: Wonderful! So you wanted to talk about accounting methods?

Client: Yes. I'm not sure if I should use cash basis or accrual basis accounting.

Accountant: OK. Well, cash basis accounting is good for tracking cash flow.

Client: That makes sense. It's because you only record transactions when cash is exchanged, right?

Accountant: Exactly. But accrual basis accounting is better for matching revenues and expenses.

Client: What do you mean by that?

Accountant: Well, there are delays with cash flow. You might make a sale but not receive cash for a month.

Client: Oh, I see. But with accrual basis accounting I could record that transaction immediately.

Accountant: That's right. So, what do you think?

Client: Well, I'd rather keep an eye on cash flow. Let's use cash basis accounting.

Unit 9

Accountant 1 (F): Larry, could you help me with these expense accounts?

Accountant 2 (M): Sure, Vicki. What's up?

Accountant 1: I need to know how to account for bonuses.

Accountant 2: You mean the bonuses we pay to executives and salespeople?

Accountant 1: Right. We don't pay them until the end of the year, so how do I know how much they will be?

Accountant 2: Well, you don't actually have to know. I can give you estimates.

Accountant 1: How do you estimate them?

Accountant 2: I use the amounts of last year's bonuses as a guide.

Accountant 1: OK. That makes sense. But the amounts vary every year, right?

Accountant 2: They do. The estimates won't be exactly accurate, but that's not a problem.

Accountant 1: So then, how do I record them?

Accountant 2: You need to record them in the accrued expenses payable account.

Unit 10

Accountant (F): Good afternoon, Mr. Foster. What can I do for you?

Client (M): Well, I met with a banker yesterday and got a loan offer.

Accountant: That's great! What are the terms?

Client: The fees and interest rate are really low.

Accountant: Good. Now, will the interest be tax deductible?

Client: It will. The only negative is that they said something about renegotiating the terms in 5 years.

Accountant: Oh, that's not a good thing.

Client: No, but all the other details are great.

Accountant: Hmm ... Are there penalties for paying it off early?

Client: Oh, yeah, I forgot to mention that. There are. But I don't plan to pay it off early, so it's OK.

Accountant: Well, what if your business really takes off and you want to get rid of some debt?

Client: That's a good point. Maybe I should shop around.

Unit 11

Controller (F): Good morning, Mr. Martin. Did you see my report on last year's expenses?

CFO (M): I did. We really had a huge increase in overall variable expenses, didn't we?

Controller: Yes, we did. How do you feel about that?

CFO: Well, most of it is pretty standard stuff, but the advertising ... how could it go up so much?

Controller: Yeah, that's a pretty sharp increase.

CFO: No kidding. From \$10,000 to \$30,000 – that's huge!

Controller: Well, TV advertising is expensive, but it boosts sales.

CFO: That's true. I think the additional revenue covered the expense.

Controller: It did. And it generated enough profit that we were able to increase our charitable contributions.

CFO: That's always good for public relations.

Controller: So, do you think we'll be offering executive bonuses again next year?

CFO: I think so. It seems to have worked.

Unit 12

Client (F): Hi, Erin. Have you been able to finish the end-of-period procedures yet?

Accountant (M): I'm almost done. I should have your report for you by tomorrow morning.

Client: Great. Thanks for your help. How does it look?

Accountant: Well, it looks good, for the most part.

Client: Uh-oh. Is something wrong?

Accountant: Maybe. See, you have a really big receivable account for one of your customers.

Client: Have they not been making payments?

Accountant: No. They've only made one payment this entire period.

Client: Is it Thompson and Nash Distributing?

Accountant: Yes. I'm not saying they are going to stiff you. I'm just saying it's out of the ordinary.

Client: Actually, I talked to their CFO last week. Their payments were delayed because of an accounting error.

Accountant: Oh, I see. That's a relief.

Unit 13

Accountant 1 (F): So, Tim, have you thought about which accounting software we should get?

Accountant 2 (M): Well, I'm thinking about getting PBL Unlimited.

Accountant 1: Hmm ... I haven't used PBL Unlimited. I like the Virtual Accountant, though.

Accountant 2: This advertisement says PBL Unlimited has some really useful features.

Accountant 1: But the Virtual Accountant is really easy to use. It has tutorials on almost every topic.

Accountant 2: That's cool. But I think it's designed for homes, not businesses.

Accountant 1: You don't think it would work for the business?

Accountant 2: Well, I would prefer to get something with more features.

Accountant 1: What features does PBL Unlimited have?

Accountant 2: Oh, it has everything! It has inventory tracking, data mining, and a lot more.

Accountant 1: It would be good to have a program that allows a lot of users, too.

Accountant 2: Yeah, and PBL Unlimited allows up to fifty.

Unit 14

Accountant 1 (M): Excuse me, Miss Carter, could you look at this income statement I drafted?

Accountant 2 (F): Sure, Nathan. Let's have a look.

Accountant 1: Thanks. I want to make sure I got it right.

Accountant 2: Um, what's this line under expenses? Is that severance packages?

Accountant 1: Yes it is. Those are from when we downsized two months ago.

Accountant 2: Yes, I remember. We had several layoffs. But you can't report those as regular expenses.

Accountant 1: Really? Why not?

Accountant 2: Well, if you do, people will see those major losses as a regular expense.

Accountant 1: So how do you account for them?

Accountant 2: Well, at the bottom of the statement, put another section called extraordinary gains and losses.

Accountant 1: OK. So, do I record anything that doesn't happen regularly in that section?

Accountant 2: Exactly. See, you're getting it.

Unit 15

Accountant 1 (M): Hey Anna, did you read that article I gave you?

Accountant 2 (F): Yes, I did. I can't believe some people think profit is unethical.

Accountant 1: Actually, I think they might have a good point.

Accountant 2: What? Why would you say that?

Audioscripts

Accountant 1: Well, you know, sometimes businesses exploit their employees.

Accountant 2: Yeah, maybe that happens once in a while, but not very often.

Accountant 1: Some people get upset because they see wealthy owners with employees who live barely above the poverty line.

Accountant 2: But the owners deserve more profit because they have more risk.

Accountant 1: What do you mean by that?

Accountant 2: Think about losses. Who has to pay when a business suffers a loss?

Accountant 1: Well, obviously, the owner does.

Accountant 2: So, since they are at risk, they deserve to earn more.

Unit 1

1 Suggested Answers

- 1 Income statements can cause confusion to non-accountants as they do some unusual things with numbers. Amounts to be deducted are put in brackets rather than using a minus sign and important things are underlined twice for emphasis.
- 2 Certain accounting terms can cause confusion because it is not very clear what they are: earnings really means profit. Many people might not know exactly what goes into particular categories such as 'cost of goods sold'.

2 1 C 2 B 3 A

3 1 E 2 C 3 B 4 A 5 D

- 4 1 second-nature 4 combine
 2 double underline 5 minus sign
 3 customs

5 Suggested Answer

Accountants use the words earnings or net income instead of profit.

6 1 F 2 F 3 T

- 7 1 You notice there are 4 just see one line
 2 things that bothered 5 don't break it up
 3 shown all instances 6 report the sum

8 Suggested Answer

- A: No, I'm just having trouble understanding some parts of them.
 B: Oh, I know what you mean. We accountants kind of have our own language.
 A: Could you explain to me how you set up this income statement?
 B: Absolutely. You notice there are no minus signs?
 A: Yes. That's one of the things that bothered me.
 B: Well, I've shown all instances where we subtract by putting the number in parentheses.
 A: Oh, I see that now.
 B: OK, so, another thing you might have noticed is that we don't give a lot of details on the entries.
 A: Is that why I just see one line for sales revenue?
 A: Exactly. We don't break it up into direct sales, retail sales, etc. We just report the sum of all sales.
 B: OK. That makes sense. But, you know, I don't see profit anywhere on this report.

9 Suggested Answer

From: Chuck Daley
 To: All staff
 Subject: Accounting language

This is just a reminder for our non-accounting staff about some of the jargon and conventions we use in financial statements. A key point is that there are no minus signs: when a number is to be subtracted we put it in parentheses. Also we don't usually use the word profit. Instead accountants use net income or earnings. When we want to emphasize something important it will often be underlined or put in bold. Finally, many of the terms we use report combined figures for sales or costs over a particular period.

Unit 2

1 Suggested Answers

- 1 Balance sheets include a variety of financial information including a comparison of a company's assets and liabilities. Details are given on these categories, for instance amounts of cash or equipment are listed under assets, and debts listed under liabilities.
- 2 Balance sheets tell us a lot about companies. They can be used to calculate how much a company is worth and what its growth potential might be. It can also be used to see if a company is worth investing in, or if it has any problems.

2 1 T 2 T 3 F

3 1 C 2 B 3 D 4 A

- 4 1 Growth potential
 2 statement of financial condition
 3 side-by-side comparison
 4 security valuation

5 Suggested Answer

The liabilities figure in a balance sheet includes things like accounts payable and debts owed to creditors.

6 1 D 2 D

- 7 1 clean it up 4 complicated formula
 2 be able to pay 5 about three times
 3 That'll give us 6 makes me feel better

8 Suggested Answer

- A: Great. On the balance sheet, I noticed that our debt is almost twice what it was last period.
 B: Right. That's because we took a short term loan to cover some unexpected expenses.

- A: Oh, that's right. Still, I'm a little worried about it.
 B: Are you thinking we should clean it up?
 A: Maybe. Do you think we'll be able to pay those debts?
 B: Let's see ... we can calculate our working capital. That'll give us a good idea.
 A: OK. Is that a complicated formula?
 B: Not at all. Just subtract current liabilities from current assets.
 A: Oh, I see. That makes sense.
 B: It looks like our assets are still about three times our liabilities.
 A: Great. That makes me feel better. How should we start paying off our debt?
 B: We should try to collect our accounts receivable and use those funds to pay our debts.

9 Suggested Answer

We have an unusually high debt level at the moment. This is a result of a short-term loan we had to take out to cover some unexpected expenses. However, our working capital is still good: our assets are still about three times our liabilities. I suggest that we try and collect our accounts receivable and use those funds to pay off our debts.

Unit 3

1 Suggested Answers

- 1 Fraud is common in my country, as in most countries. Lots of individuals have been caught for committing fraud, and many more are probably still doing it. But, of course, the worst frauds are committed by large corporations. Two famous examples include Enron and Worldcom.
- 2 People commit fraud in a variety of ways. Sometimes they simply pay themselves money and then try to cover this up by inventing payments to suppliers. In other cases employees find ways to take some of the revenue that a business brings in.

2 1 F 2 T 3 T

3 1 C 2 B 3 A 4 D 5 E

- 1 cooking the books, administrative leave
- 2 under the table payoffs, juggling the accounts

5 Suggested Answer

Those who are caught committing fraud face severe penalties: they are likely to receive large fines and long jail sentences.

6 1 B 2 D

- 1 possibly justify 4 begging to get caught
- 2 during his vacation 5 that looked false
- 3 write off personal 6 about seven times

8 Suggested Answer

- A: Amusement park tickets? Seriously? How can you possibly justify that as a business expense?
 B: You can't. And didn't he say something about going to an amusement park during his vacation?
 A: He did. He's obviously using the business to write off personal expenses.
 B: And he's just begging to get caught. You know what they say - pigs get fat; hogs get slaughtered.
 A: That's right. So did you find any entries that looked false?
 B: Well, there was this one for office supplies.
 A: So what? Every business buys office supplies.
 B: Yeah, but this entry was about seven times bigger than all the past office supply purchases.
 A: Whoa. So either he's buying a few years' worth of office supplies, or ...
 B: Or he's making a false entry to cover something up.

9 Suggested Answer

I've been reviewing our client's books and there are a number of things that concern me. Our client appears to be using the business to write off personal expenses. There is an entry for amusement park tickets. There is also an unusually large entry for office supplies: it is seven times larger than the usual amount. I think there is a strong possibility of fraud being committed at this company. What do you think?
 Yours sincerely,

Unit 4

1 Suggested Answers

- 1 Solvency is having enough money to be able to pay your debts. It might not be in the form of cash that could be used to pay debts straight away, but as long as the value of a company's assets is greater than its debts it is solvent.
- 2 Solvency can be predicted by looking at a businesses normal operations and seeing how much costs it incurs and what revenues it brings in. As long as its current assets are expected to remain considerably greater than its liabilities a company is likely to remain solvent.

2 1 F 2 T 3 F

3 1 B 2 C 3 A 4 D 5 E

4 1 repetitive 4 catastrophe
2 operating cycle 5 indicator
3 current ratio

5 Suggested Answer

An investor can be sure that a company will not go bankrupt by calculating its current ratio. As long as this is above 2 the company should be safe from bankruptcy.

6 1 B 2 C

7 1 That's disappointing
2 not necessarily bad
3 in some cases
4 company's ability
5 the lower the number
6 consider looking at

8 Suggested Answer

A: Well, it's a manufacturing company called Essential Products Manufacturing.
B: OK. How do its numbers look?
A: Um, well, I calculated its current ratio with that formula you sent me. It was one point four five.
B: Hmm ... That's disappointing. It's pretty low.
A: Really? Another accountant told me it's not necessarily bad if the current ratio is below two.
B: Well, in some cases it's not. But just remember, the ratio shows the company's ability to pay its debts.
A: So, the lower the number, the more risk of not paying debts and going bankrupt?
B: Yes, exactly. A higher ratio means a stronger, more stable company.
A: So, what do you think I should do?
B: I think you should consider looking at a different company.

9 Suggested Answer

I've looked at the company as you requested. It only has a current ration of 1.45 which is pretty low. I think solvency is a real issue for this company. I recommend that you should consider looking at another company.

Unit 5

1 Suggested Answers

1 Direct costs are those costs that vary as the amounts of goods produced changes. For example, if a company makes more cars it will have to buy more metal and pay its workers to work longer.

2 Direct costs are those costs that do not vary according to how many things are produced. Including things like rent and other overheads like insurance.

2 1 T 2 T 3 F

3 1 A 2 D 3 E 4 B 5 C

4 1 A 2 A 3 B 4 A 5 B

5 Suggested Answer

A cost like rent could be accounted for in a manufacturing company by allocating it to a cost driver, such as how much space a machine takes up in a factory.

6 1 D 2 B

7 1 is not based on 4 Someone told me
2 should I account for 5 as production costs
3 Just pair them with 6 it's pretty complicated

8 Suggested Answer

A: So then, what would be an indirect cost?
B: Let's see ... do you own your manufacturing plant?
A: No, I rent it.
B: Well, your rent is not based on how many paper clips you manufacture. It's an indirect cost.
A: Oh, I see. So, how should I account for these different types of costs?
B: It's easy with the direct costs. Just pair them with the money that you get from selling your products.
A: Right. But what about the indirect costs? Someone told me there's a method called ABC. What is that?
B: It's a way to allocate indirect costs as production costs.
A: Can you show me how to do that?
B: Well, it's pretty complicated. Let me explain ...

9 Suggested Answer

This is just a quick note to explain the different types of costs. Direct costs (which we sometimes call variable costs) are those which vary with the amount you produce. You just pair these with the money that you get from selling your products. Indirect (or fixed) costs don't change with the amount that you produce. This includes things like rent. To record these you can use ABC (activity based costing) to allocate these costs to particular cost drivers. For instance, rent could be attributed to how much space a machine takes up inside your factory. Let me know if you have any further questions.

Unit 6

1 Suggested Answers

- Businesses need to make a budget so that they can be successful. Without a plan they are likely to do badly against their competition.
- Businesses use budgets in a variety of ways. They use them to measure progress by seeing how things turn out in reality compared to their budget. They also use them to decide how to allocate resources within a company.

2 1 T 2 T 3 T

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

- 4 1 concrete goals 4 short-term
2 positive outlook 5 model
3 Business budgeting

5 Suggested Answer

Budgets are useful when thinking about the past as a businesses can compare its goals to its accomplishments at the end of a period.

6 1 B 2 A

- 7 1 a little trickier 4 in some areas
2 educated guesses 5 only if it will help
3 ways to lower 6 That's the general idea

8 Suggested Answer

- B: All right, next let's look at our costs. We have to adjust our costs in order to maximize our profits.
A: Hmm ... that's a little trickier.
B: Yes, it is. We'll have to use estimates and educated guesses with some of the costs.
A: OK, then what?
B: Then we adjust costs according to our sales forecasts.
A: So we might have to look for ways to lower our costs if the sales forecasts are low?
B: Exactly. And if the forecasts are high, we might be able to increase our spending in some areas.
A: But only if it will help increase our profits, right?
B: Of course. That's the general idea of budgeting.

9 Suggested Answer

As part of creating a budget it is necessary to forecast the economic outlook in the future. Then certain costs, perhaps those of raw materials that are used in a production process, as well as revenues must be estimated. If the economic climate turns out

to be better than was forecast the budget should be adjusted and spending increased in certain areas in order to increase profits.

Unit 7

1 Suggested Answers

- Businesses get audited to ensure that their financial statements are an accurate representation of a company's financial position and results. In this way investors can have confidence and economies can grow as resources are directed to where they are most valuable. Audits are also important to ensure that businesses are paying government the correct amounts of taxes.
- A variety of problems can show up in audits. Sometimes cases of fraud might come to light. More commonly costs may be put into the wrong categories in error, giving a misleading picture of a company's results and financial health.

2 1 A 2 B 3 C

3 1 E 2 B 3 A 4 D 5 C

- 4 1 clerical error 4 erroneous
2 capitalized 5 material adjustments
3 clean opinion

5 Suggested Answer

The auditor was surprised by the lack of professional skepticism shown by the internal auditor.

6 1 F 2 T 3 F

- 7 1 I'm listening 4 trying to get bonuses
2 reporting false sales 5 didn't actually earn
3 Just compare your 6 look into this further

8 Suggested Answer

- B: Well, there are a few things we need to discuss.
A: OK. I'm listening.
B: First of all, there seems to be a problem with the sales people reporting false sales.
A: Wow. Are you sure about that?
B: Yes, completely sure. Just compare your actual revenue to the sales reports.
A: Why would they do that?
B: Well, it looks to me like they were trying to get bonuses that they didn't actually earn.
A: I'm definitely going to look into this further. What else do we need to discuss?

9 Suggested Answer

I've recently performed an audit on the Endless Magic Toy Company. I'm afraid I can't give a clean opinion for these accounts without some material adjustments to their financial statements. There are a number of anomalous entries. For instance, the sales people appear to be reporting false sales. Also some new assets have been written off as an expense when they should have been capitalized and depreciated over their useful life.
Sincerely,

- A: Hmm ... I don't think I can. I mean, how could I get my rent or electric bills lowered?
B: Yeah, that's not an option for most people.
A: So, are there any other options?
B: Well, how about trying to lower your variable expenses?
A: You mean see if I can find cheaper production methods?

9 Suggested Answer

Well, one way you can lower your break-even point is to raise prices, assuming that your customers will continue to buy your product. Alternatively, lowering fixed costs such as rent or electric bills would also reduce your break even point, though this could be difficult too. Finally, you might look to reduce your variable costs by finding cheaper production methods.

Unit 8

1 Suggested Answers

- The break-even point is where the revenue from sales just covers all those costs that were incurred in making them.
- The break-even point is important as this is the boundary between making a loss or a profit. If you are above the break-even point you are in the profit zone; but below it a company is in the loss zone. Knowledge of the break-even point allows a company to plan to always make a profit and avoid making losses.

2 1 F 2 F 3 F

3 1 B 2 E 3 D 4 C 5 A

4 1 margin ratio 3 locked in
2 break-even point 4 delicate

5 Suggested Answer

Companies must balance pricing and costs in order to make a profit.

6 1 D 2 C

7 1 aren't willing to pay 4 for most people
2 I'd lose customers 5 how about trying
3 how could I get 6 see if I can find

8 Suggested Answer

B: Higher prices would mean higher revenue and a larger margin ratio.

A: Oh, right, I see. A higher margin ratio would lower the break-even point.

B: Right. Although raising prices sometimes lowers revenue because people aren't willing to pay.

A: Yeah, I can't do that. I have a lot of competition. I'd lose customers if I raised prices too much.

B: OK. Another option is to lower your fixed costs, if you can.

Unit 9

1 Suggested Answers

- Globalization is the steady increase in linkages between the world's economies. This is seen through the increase in trade and capital movements between countries and the reduction in barriers that would tend to reduce those flows.
- Globalization is slowly starting to affect accounting in my country. The need for companies to be able to undertake business in other countries means that some companies are now adopting the standards of organizations that promote international accounting standards.

2 1 F 2 T 3 F

3 1 C 2 D 3 E 4 B 5 A

4 1 IASC 3 free circulation
2 globalized standards 4 adopt

5 Suggested Answer

The main benefit of global accounting rules would be that companies would be able to make better strategic decisions within the global economy.

6 1 D 2 B

- require training
- make the transition
- They can't afford it
- I see your point
- probably doesn't matter
- Everything is going global

8 Suggested Answer

- A: What? Are you kidding? It would be so much easier to work with companies from all over the world!
- B: Yes, you're right that it would help large companies expand. But it would hurt smaller businesses.
- A: I'm not sure what you mean.
- B: Well, a new standardized accounting system would require training and probably new employees.
- A: Yeah, it might cost a little to make the transition. So what?
- B: So small companies don't have as much money. They can't afford it.
- A: OK. I see your point, but I still think it would be good for business. It might take time for everyone to catch up.
- B: Yeah, and some might never catch up.
- A: You know, it probably doesn't matter what we think anyway.
- B: What do you mean?
- A: Everything is going global. I think it's inevitable.

9 Suggested Answer

In your recent article you argued that globalized accounting standards are a good idea. I agree completely. They would allow those firms that wish to engage in the global market to maximize their prospects. It would also allow companies to make better strategic decisions within the global economy.

OR

In your recent article you argued that globalized accounting standards are a good idea. I'm afraid I disagree. Whilst these standards might benefit a few large corporations such changes would be difficult for mid-sized and small businesses that have fewer resources than larger companies. Changing to a new standardized accounting system could be very costly for them. They would certainly have to re-train their existing staff and possibly hire new staff too. These costs could put many of them out of business.

Unit 10

1 Suggested Answers

- Some of the new forms of communication in the 21st Century include emails and text messages as well as video-conferencing.
- Accountants can use modern technology to interact with their clients. They can send emails and text messages, removing the need to meet a client in person and even providing an automatic record of their correspondence.

2 1 F 2 T 3 T

3 1 B 2 A 3 D 4 E 5 C

- linguistic cues, Body language
- slang, instant clarification
- Non-verbal cues, Verbal cues

5 Suggested Answer

Emails and texts offer instant records of correspondence, unlike other forms of communication (with the exception of letters).

6 1 A 2 C

- | | |
|------------------------|-----------------------|
| 7 1 Unbelievable | 4 I'm really busy |
| 2 a little frustrated | 5 several times a day |
| 3 likes to communicate | 6 emailing him |

8 Suggested Answer

- A: Wow! Unbelievable!
- B: What's wrong?
- A: I'm getting a little frustrated with this new client.
- B: What did he do?
- A: He only likes to communicate in-person.
- B: OK. I do that with a lot of my clients. What's the problem?
- A: The problem is that I'm really busy, and I don't have time to meet with him several times a day.
- B: Why don't you try emailing him?

9 Suggested Answer

Just to let you know that even though I am really busy there are still many ways that you can stay in touch with me. For instance you can send me an email or a text message. These have the advantage that we will have a record of our correspondence too. Alternatively you can contact me on my telephone during office hours.

Unit 11

1 Suggested Answers

- One company might buy out another for strategic reasons: it might wish to have a presence in a marketplace where it is not currently represented, for instance on another continent. Alternatively, it might believe that a company is under-valued on the stock market and that it can make better returns with the assets of that company, either in a sale or by continuing its operations in a more cost efficient manner.
- A company decides that a buyout will be profitable by carefully analyzing the target company's financial statements. They look at

current assets and liabilities and perform ratio analysis to ensure that the company can pay its debts, that it has sufficient liquidity to pay for its operations and so on.

2 1 F 2 T 3 T

3 1 E 2 A 3 B 4 C 5 D

- 4 1 venture
2 advisory
3 cost effective
4 supply and distribution channels
5 astronomical

5 Suggested Answer

A regional competitor has recently built a factory close to the factory that Valerie proposes to buy.

6 1 A 2 C

- 7 1 too conservative 4 exactly my point
2 don't understand why 5 conflict breaks out
3 stay out of the way 6 But consider this

8 Suggested Answer

A: Well, no. Honestly, I think you were too conservative in your analysis.

B: Really? Um, what did you disagree with?

A: Well, I don't understand why you think political instability would affect our business.

B: Hmm ... well, sometimes corporations think if they stay out of the way, politics won't affect them.

A: That's exactly my point. I mean, we aren't going to make any political statements.

B: But the thing is, if conflicts break out, it could end up blocking supply and distribution channels.

A: OK, I see your point, but I'm not sure I agree.

B: OK. But consider this: even if I'm wrong about the politics, there's still a problem with debt to equity.

9 Suggested Answer

I don't think we should go ahead with the buyout. The political instability where the factory is located could cause problems with supply and distribution channels. We cannot afford to take that risk. Moreover, the company's financial health is not good. It has a considerable amount of debt and relatively little equity, as well as a very large inventory compared to cash and accounts receivable. Frankly this company appears unable to sell its stock.

Unit 12

1 Suggested Answers

- 1 Companies buy and lease almost all their physical assets. Equipment may be leased or bought, as well as things like company cars or even buildings. Things that are consumed during the production process, such as raw materials, must, of course, be bought as they cannot be given back once used.
- 2 A company decides on whether to buy or lease an asset based on a number of factors. Leasing might be a good idea if a company is short of cash or is unsure about how long it needs an asset for, since many items can be leased for relatively short periods of time. Buying an item might be preferred if this helps with a company's tax situation or if the item is likely to have a large resale value even after it has been used.

2 1 F 2 T 3 T

3 1 C 2 A 3 D 4 B 5 E

- 4 1 lease term, financier
2 lessee, economic value
3 Run the numbers, lessor

5 Suggested Answer

The disadvantage of leasing something is that a company loses any economic value that might be left in the item at the end of its useful life. Leasing also means a company misses out on favorable tax treatment.

6 1 A 2 B

- 7 1 how to maximize
2 more liquidity
3 a major purchase
4 could wipe out
5 throw money away
6 understand the dynamics

8 Suggested Answer

A: I really need to figure out how to maximize my cash on hand.

B: OK. So you need to have more liquidity?

A: Right. But, the thing is, I also need to make a major purchase – fleet vehicles.

B: Wow. Yeah, that could wipe out a lot of your cash. What about leasing?

A: Leasing? No, I don't want to throw money away on lease payments.

B: Um, well, I'm not sure you really understand the dynamics of leasing.

A: What do you mean by that?

B: I just mean that there are some advantages to leasing.

9 Suggested Answer

I strongly recommend that you lease those new vehicles. Leasing will allow you to maximize your cash in hand as you won't have to pay a large down-payment to buy them with finance. You will be protected from the vehicles becoming obsolete and if the economic climate changes for the worse you will be able to stop leasing them.

OR

I strongly recommend that you buy those new vehicles. You will gain some tax advantages from buying them and depreciating them in your accounts. In addition, you will be able to sell them at the end of their useful life and receive whatever economic value they still have.

- | | | | |
|-----|---------------------|---|-----------------------|
| 7 1 | trying to avoid | 4 | I wonder if we should |
| 2 | What other policies | 5 | was thinking |
| 3 | I read that | 6 | a good chance |

8 Suggested Answer

B: Yeah, it looks like the government of Haven Island is trying to avoid that.

A: Good for them. What other policies do they have?

B: Well, I read that they also offer tax breaks to businesses that move there.

A: Wow. I wonder if we should move there.

B: I was thinking the same thing.

A: But, you know, I'm not sure that would be ethical.

B: Why would it not be ethical?

A: All of our customers would still be here in the UK.

9 Suggested Answer

I think we should move our business to Haven Island, they offer huge tax breaks there. Not only that but they apply a flat tax rate so as you make more money you won't be punished for it. And we wouldn't have to worry about tax avoidance laws.

OR

I really don't think we should move our business to Haven Island. OK we would probably pay a lot less tax, but I really don't think that it would be ethical. After all, all our customers would still be here in the U.S.

Unit 14

1 Suggested Answers

- 1 Tax accounting firms find clients much like any other company. They advertise their services on the Internet, in trade magazines and so on.
- 2 When advertising an accounting firm it is good to mention what qualifications and experience the staff have. The company's privacy policy should also be mentioned along with exactly what services the company offers.

2 1 T 2 F 3 T

3 1 D 2 A 3 E 4 B 5 C

- | | | | |
|-----|----------------|---|-----------|
| 4 1 | tedious | 4 | outsource |
| 2 | review process | 5 | in-house |
| 3 | privacy policy | | |

5 Suggested Answer

Completed tax forms are checked for accuracy by a senior accountant.

Unit 13

1 Suggested Answers

- 1 People and businesses who earn more pay increasingly higher amounts of tax. Someone who makes little money may pay a very small proportion of their income as taxes, whereas wealthy individuals and corporations pay a much higher rate. This is known as progressive taxation.
- 2 Companies can avoid paying taxes by locating themselves in a different country with lower tax rates.

2 1 F 2 T 3 F

3 1 A 2 C 3 B 4 D 5 E

- | | | | |
|-----|----------------------|---|-------------|
| 4 1 | tax avoidance | 4 | flat tax |
| 2 | impose | 5 | tax bracket |
| 3 | progressive taxation | | |

5 Suggested Answer

The Free Capital Association offers to pay at least 50% of any fees and taxes when someone invests in a company on Haven Island.

6 1 C 2 A

6 1 D 2 D

- 7 1 speak directly
 2 What about privacy
 3 don't share anything
 4 verify the status
 5 complex situation
 6 make an appointment

8 Suggested Answer

B: That's correct. And you would be able to speak directly to the CPA working on your files.
 A: OK. What about privacy? I think my old accountant got my name on some mailing list.
 B: Well, you definitely don't have to worry about that with us. We don't share anything with third parties.
 A: Is there a way I could verify the status of your CPAs?
 B: Yes, ma'am. In fact we encourage it. All you have to do is check with the accountancy board.
 A: OK. It's just that I'm in a really complex situation right now.
 B I understand. I guarantee we can handle it.
 A: Well, I think I'd like to make an appointment.

9 Suggested Answer

Brandon Hicks & Associates provide tax accountancy advice and they have an excellent privacy policy: no information provided to them is shared with third parties except for their quality assurance personnel. Their CPA's all have at least five years experience and they encourage their clients to check their status with the board of accountancy. Finally, they do not outsource any of their work. They seem like a good company to do business with.

Unit 15

1 Suggested Answers

- 1 Traditionally accountants have worked inside companies to produce their accounts, or as auditors to check other companies' accounts.
 2 In the future accountants will be able to do many different types of jobs that relate to accounting and finance, such as mergers and acquisitions, investment decisions and even risk management.

2 1 T 2 F 3 T

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

- 4 1 risk assessment
 2 audit opinion
 3 service-based economy
 4 public practice
 5 electronic commerce

5 Suggested Answer

Societal and economic changes are bringing about new opportunities for accountants.

6 1 B 2 C

- 7 1 opening up all kinds 4 options available
 2 I doubt it 5 they are involved
 3 punching numbers 6 a lot of new doors

8 Suggested Answer

A: Well, I feel that all the standardized rules will make our job tedious and boring.
 B: No, I disagree. Globalization is opening up all kinds of new opportunities for accountants.
 A: I doubt it. We'll still be stuck in back offices punching numbers.
 B: No, really, there are so many new career options available to us.
 A: What kind of options?
 B: Well, for example, a lot of companies are using accountants for things like risk assessment.
 A: Risk assessment? So does that mean they are involved in decision making?
 B: Uh-huh. I'm telling you, globalization is opening a lot of new doors.
 A: Wow. That's great.

9 Suggested Answer

My career opportunities have never looked better. I want to progress and make lots of money. My preference is to move into risk management: there I can really use my skills with numbers to move ahead in my career.

Unit 1

Manager (F): Hello, Lillian. Can I talk to you about our financial reports?

Accountant (M): OK. Was there a problem?

Manager: No, I'm just having trouble understanding some parts of them.

Accountant: Oh, I know what you mean. We accountants kind of have our own language.

Manager: Could you explain to me how you set up this income statement?

Accountant: Absolutely. You notice there are no minus signs?

Manager: Yes. That's one of the things that bothered me.

Accountant: Well, I've shown all instances where we subtract by putting the number in parentheses.

Manager: Oh, I see that now.

Accountant: OK, so, another thing you might have noticed is that we don't give a lot of details on the entries.

Manager: Is that why I just see one line for sales revenue?

Accountant: Exactly. We don't break it up into direct sales, retail sales, etc. We just report the sum of all sales.

Manager: OK. That makes sense. But, you know, I don't see profit anywhere on this report.

Accountant: Oh, it's there on the bottom, the double-underlined figure.

Manager: That says "earnings." Is that the same as profit?

Accountant: Yes. We don't usually use the term profit.

Unit 2

Manager (M): Hello, Karen. Could I talk to you about those reports that you submitted last week?

Accountant (F): Sure. Is there a problem?

Manager: Well, I'm not sure. A couple things caught my eye, but I'm not sure how to interpret them.

Accountant: OK. I'll see if I can help.

Manager: Great. On the balance sheet, I noticed that our debt is almost twice what it was last period.

Accountant: Right. That's because we took a short term loan to cover some unexpected expenses.

Manager: Oh, that's right. Still, I'm a little worried about it.

Accountant: Are you thinking we should clean it up?

Manager: Maybe. Do you think we'll be able to pay those debts?

Accountant: Let's see ... we can calculate our working capital. That'll give us a good idea.

Manager: OK. Is that a complicated formula?

Accountant: Not at all. Just subtract current liabilities from current assets.

Manager: Oh, I see. That makes sense.

Accountant: It looks like our assets are still about three times our liabilities.

Manager: Great. That makes me feel better. How should we start paying off our debt?

Accountant: We should try to collect our accounts receivable and use those funds to pay our debts.

Unit 3

Accountant 1 (F): Hi Randall, what are you working on?

Accountant 2 (M): I'm reviewing the books for Harris Donaldson Consulting. Have you seen these?

Accountant 1: Oh, yeah, I have. There's some weird stuff in there.

Accountant 2: No kidding. I'm looking through Mr. Donaldson's expenses.

Accountant 1: What did you find?

Accountant 2: Well, there was an entry for amusement park tickets.

Accountant 1: Amusement park tickets? Seriously? How can you possibly justify that as a business expense?

Accountant 2: You can't. And didn't he say something about going to an amusement park during his vacation?

Accountant 1: He did. He's obviously using the business to write off personal expenses.

Accountant 2: And he's just begging to get caught. You know what they say – pigs get fat; hogs get slaughtered.

Accountant 1: That's right. So did you find any entries that looked false?

Accountant 2: Well, there was this one for office supplies.

Accountant 1: So what? Every business buys office supplies.

Accountant 2: Yeah, but this entry was about seven times bigger than all the past office supply purchases.

Accountant 1: Whoa. So either he's buying a few years' worth of office supplies, or ...

Accountant 2: Or he's making a false entry to cover something up.

Unit 4

Controller (M): Hank Bally. Can I help you?

Manager (F): Hi, Hank, this is Vanessa Moore.

Controller: Hi, Vanessa. Did you get my email?

Manager: I did. Thank you. Can I get your opinion on a specific company I've been looking at?

Controller: Sure. Tell me a little bit about it. What do they do?

Manager: Well, it's a manufacturing company called Essential Products Manufacturing.

Controller: OK. How do its numbers look?

Manager: Um, well, I calculated its current ratio with that formula you sent me. It was one point four five.

Controller: Hmm ... That's disappointing. It's pretty low.

Manager: Really? Another accountant told me it's not necessarily bad if the current ratio is below two.

Controller: Well, in some cases it's not. But just remember, the ratio shows the company's ability to pay its debts.

Manager: So, the lower the number, the more risk of not paying debts and going bankrupt?

Controller: Yes, exactly. A higher ratio means a stronger, more stable company.

Manager: So, what do you think I should do?

Controller: I think you should consider looking at a different company.

Manager: OK. Thanks for your help.

Unit 5

Client (M): Hi, Sarah. Thanks for helping me set up my books.

Accountant (F): No problem. That's what I'm here for. Let's start by listing your direct and indirect costs.

Client: Direct and indirect costs? I'm sorry ... I'm not sure I understand.

Accountant: Well, direct costs are tied directly to a product or service.

Client: OK. Can you give me an example?

Accountant: Um, your company makes paper clips, right? The cost of the metal is a direct cost.

Client: So then, what would be an indirect cost?

Accountant: Let's see ... do you own your manufacturing plant?

Client: No, I rent it.

Accountant: Well, your rent is not based on how many paper clips you manufacture. It's an indirect cost.

Client: Oh, I see. So, how should I account for these different types of costs?

Accountant: It's easy with the direct costs. Just pair them with the money that you get from selling your products.

Client: Right. But what about the indirect costs? Someone told me there's a method called ABC. What is that?

Accountant: It's a way to allocate indirect costs as production costs.

Client: Can you show me how to do that?

Accountant: Well, it's pretty complicated. Let me explain ...

Unit 6

Manager (F): I could really use your help with the new budget.

Accountant (M): No problem. I'm happy to help.

Manager: Our last budget was so complicated. Honestly, I'm not sure where to start with this one.

Accountant: As complicated as it seems, we just have to follow a few basic steps.

Manager: What are those steps?

Accountant: Well, the first thing we need to do is look at our sales forecasts.

Manager: OK. That's easy. We just discussed them at our last meeting.

Accountant: All right, next let's look at our costs. We have to adjust our costs in order to maximize our profits.

Manager: Hmm ... that's a little trickier.

Accountant: Yes, it is. We'll have to use estimates and educated guesses with some of the costs.

Manager: OK, then what?

Accountant: Then we adjust costs according to our sales forecasts.

Manager: So we might have to look for ways to lower our costs if the sales forecasts are low?

Accountant: Exactly. And if the forecasts are high, we might be able to increase our spending in some areas.

Manager: But only if it will help increase our profits, right?

Accountant: Of course. That's the general idea of budgeting.

Unit 7

Auditor (M): Good morning, Miss Grant.

COO (F): Good morning. So how does it look?

Auditor: Well, there are a few things we need to discuss.

COO: OK. I'm listening.

Auditor: First of all, there seems to be a problem with the sales people reporting false sales.

COO: Wow. Are you sure about that?

Auditor: Yes, completely sure. Just compare your actual revenue to the sales reports.

COO: Why would they do that?

Auditor: Well, it looks to me like they were trying to get bonuses that they didn't actually earn.

COO: I'm definitely going to look into this further. What else do we need to discuss?

Auditor: The second thing is about some new equipment you bought a few months ago.

COO: OK. What about it?

Auditor: You wrote off the purchase price as an expense. It needs to be capitalized.

COO: But ... no, I disagree. I think GAAP allows us to expense a few new machines.

Auditor: I'm sorry, but GAAP requires that you depreciate them through their useful life.

COO: I'm going to have to ask for another opinion on that.

Unit 8

Client (M): Hi, Lauren. Thanks for the email.

Accountant (F): You're welcome. Did it make sense?

Client: Yes, it did. But I have a question. How can I lower my break-even point?

Accountant: Well, one option is to raise your prices.

Client: How would that lower my break-even point?

Accountant: Higher prices would mean higher revenue and a larger margin ratio.

Client: Oh, right, I see. A higher margin ratio would lower the break-even point.

Accountant: Right. Although raising prices sometimes lowers revenue because people aren't willing to pay.

Client: Yeah, I can't do that. I have a lot of competition. I'd lose customers if I raised prices too much.

Accountant: OK. Another option is to lower your fixed costs, if you can.

Client: Hmm ... I don't think I can. I mean, how could I get my rent or electric bills lowered?

Accountant: Yeah, that's not an option for most people.

Client: So, are there any other options?

Accountant: Well, how about trying to lower your variable expenses?

Client: You mean see if I can find cheaper production methods?

Accountant: Yes, exactly. That would also raise your margin ratio and lower your break-even point.

Unit 9

Accountant 1 (M): I read an interesting accounting article yesterday.

Accountant 2 (F): Oh, yeah? What was it about?

Accountant 1: Globalization. Some people say there needs to be a uniform set of accounting rules.

Accountant 2: You say that like it bothers you.

Accountant 1: Well, it does. I mean, I'm worried it could put some people out of business.

Accountant 2: What? Are you kidding? It would be so much easier to work with companies from all over the world!

Accountant 1: Yes, you're right that it would help large companies expand. But it would hurt smaller businesses.

Accountant 2: I'm not sure what you mean.

Accountant 1: Well, a new standardized accounting system would require training and probably new employees.

Accountant 2: Yeah, it might cost a little to make the transition. So what?

Accountant 1: So small companies don't have as much money. They can't afford it.

Accountant 2: OK. I see your point, but I still think it would be good for business. It might take time for everyone to catch up.

Accountant 1: Yeah, and some might never catch up.

Accountant 2: You know, it probably doesn't matter what we think anyway.

Accountant 1: What do you mean?

Accountant 2: Everything is going global. I think it's inevitable.

Unit 10

Accountant 1 (M): Wow! Unbelievable!

Accountant 2 (F): What's wrong?

Accountant 1: I'm getting a little frustrated with this new client.

Accountant 2: What did he do?

Accountant 1: He only likes to communicate in-person.

Accountant 2: OK. I do that with a lot of my clients. What's the problem?

Accountant 1: The problem is that I'm really busy, and I don't have time to meet with him several times a day.

Accountant 2: Why don't you try emailing him?

Accountant 1: I have, but he won't reply. He just comes to the office and asks to see me.

Accountant 2: Yeah, that would be annoying. You know, a few of my clients like to use text messaging. It's really convenient.

Accountant 1: I would love to do that, but this client told me he hates text messaging.

Accountant 2: Wow. Um, why don't you try to talk by telephone?

Accountant 1: I have. He just prefers to talk in-person.

Accountant 2: Well, you know, in-person is the most effective mode of communication.

Accountant 1: I know. You can see body language and hear verbal and tonal cues. But it also takes more time.

Accountant 2: I guess there's not much you can do about it.

Unit 11

CPA (M): Derek Chapman. Can I help you?

Head of Acquisitions Department (F): Hi, Derek. It's Valerie Harris.

CPA: Oh, hi, Valerie. I got your email about the buyout you're considering. Did you get my reply?

HAD: That's what I wanted to talk to you about.

CPA: OK, sure. Did you have some more questions?

HAD: Well, no. Honestly, I think you were too conservative in your analysis.

CPA: Really? Um, what did you disagree with?

HAD: Well, I don't understand why you think political instability would affect our business.

CPA: Hmm ... well, sometimes corporations think if they stay out of the way, politics won't affect them.

HAD: That's exactly my point. I mean, we aren't going to make any political statements.

CPA: But the thing is, if conflict breaks out, it could end up blocking supply and distribution channels.

HAD: OK, I see your point, but I'm not sure I agree.

CPA: OK. But consider this: even if I'm wrong about the politics, there's still a problem with debt to equity.

HAD: That's true. But what if it's merely due to poor management by the owner?

CPA: That's certainly possible. But what if it's because the business isn't viable?

HAD: I guess I have to give this some more thought.

Unit 12

Client (F): Thanks for meeting with me, Will.

Accountant (M): No problem, Cathy.

Client: I really need to figure out how to maximize my cash on hand.

Accountant: OK. So you need to have more liquidity?

Client: Right. But, the thing is, I also need to make a major purchase – fleet vehicles.

Accountant: Wow. Yeah, that could wipe out a lot of your cash. What about leasing?

Client: Leasing? No, I don't want to throw money away on lease payments.

Accountant: Um, well, I'm not sure you really understand the dynamics of leasing.

Client: What do you mean by that?

Accountant: I just mean that there are some advantages to leasing.

Client: But if I lease the vehicles I'd lose their economic value at the end of the lease terms, right?

Accountant: Yes, that's true. But if you lease, you won't have to pay a down-payment.

Client: That's a good point. I mean, that would help me keep more cash on hand.

Accountant: Exactly. Plus, leasing would protect you from obsolescence.

Client: You mean it would protect me from the vehicles getting old and becoming obsolete?

Accountant: Right. Your lease term will end before that happens.

Unit 13

Accountant 1 (F): This is amazing! Have you heard of Haven Island?

Accountant 2 (M): No. What's that?

Accountant 1: It's this island territory near South America. They have all kinds of great tax policies.

Accountant 2: Really? Like what?

Accountant 1: Well, they don't use progressive taxation. Instead, they have a flat tax.

Accountant 2: That sounds pretty good. You know, our profits went way up last year, but so did our taxes.

Accountant 1: Yeah, it looks like the government of Haven Island is trying to avoid that.

Accountant 2: Good for them. What other policies do they have?

Accountant 1: Well, I read that they also offer tax breaks to businesses that move there.

Accountant 2: Wow. I wonder if we should move there.

Accountant 1: I was thinking the same thing.

Accountant 2: But, you know, I'm not sure that would be ethical.

Accountant 1: Why would it not be ethical?

Accountant 2: Well, there's a good chance that all our customers would still be here in the UK.

Accountant 1: OK. I still don't see a problem with that.

Accountant 2: The problem is that we'd be getting revenue from people here, but not paying any taxes on it.

Unit 14

Accountant (M): Brandon Hicks and Associates. Can I help you?

Caller (F): Hi. I'm calling for some information about your company.

Accountant: Absolutely, ma'am. What services are you looking for?

Caller: Well, I need help with my tax situation.

Accountant: We specialize in tax accounting.

Caller: Yes, I saw that in your advertisement. Could you tell me a little more?

Accountant: Certainly. You should know that we don't outsource any of our work.

Caller: So everything is done in-house?

Accountant: That's correct. And you would be able to speak directly to the CPA working on your files.

Caller: OK. What about privacy? I think my old accountant got my name on some mailing list.

Accountant: Well, you definitely don't have to worry about that with us. We don't share anything with third parties.

Caller: Is there a way I could verify the status of your CPAs?

Accountant: Yes, ma'am. In fact we encourage it. All you have to do is check with the accountancy board.

Caller: OK. It's just that I'm in a really complex situation right now.

Accountant: I understand. I guarantee we can handle it.

Caller: Well, I think I'd like to make an appointment.

Unit 15

Accountant 1 (F): Hi, Stacy. Did you read that article on globalization?

Accountant 2 (M): Yes. You know, I'm a little worried about what it will do to the accounting profession.

Accountant 1: What do you mean by that?

Accountant 2: Well, I feel that all the standardized rules will make our job tedious and boring.

Accountant 1: No, I disagree. Globalization is opening up all kinds of new opportunities for accountants.



Audioscripts

Accountant 2: I doubt it. We'll still be stuck in back offices punching numbers.

Accountant 1: No, really, there are so many new career options available to us.

Accountant 2: What kind of options?

Accountant 1: Well, for example, a lot of companies are using accountants for things like risk assessment.

Accountant 2: Risk assessment? So does that mean they are involved in decision making?

Accountant 1: Uh-huh. I'm telling you, globalization is opening a lot of new doors.

Accountant 2: Wow. That's great.

Accountant 1: And there's more – mergers, acquisitions, electronic commerce ... Accountants do a lot of different things.

Accountant 2: But we still won't get to work with people very much, will we?

Accountant 1: Actually, accountants are starting to get positions in management.

Accountant 2: That's really encouraging. I didn't think I could work up to management as an accountant.