

Preview **The Profit and Loss Account (P&L)**

Study the incomplete P&L below. Complete the document with the following headings. Use a dictionary to help you.

Research and development costs Cost of materials Gross profit
Interest receivable Turnover Dividend

Consolidated Profit and Loss

for the year ended Dec 31 in \$m

	Forecast	Actual
Money in _____ 1 _____ (sales revenue)	700	704
Other earnings		
Gains on fixed assets and operations	250	244
2 _____ on investments	175	162
Costs of making goods		
3 _____ and all manufacturing expenses	(100)	a _____
Salaries and personnel costs	(200)	b _____
4 _____	825	c _____
Other costs and expenses		
Indirect costs or overheads	(25)	(22)
5 _____	(50)	d _____
Loss on fixed assets	(25)	(25)
Loss on foreign operations	(100)	(88)
Marketing and distribution costs	(100)	e _____
Gross profit minus other money out _____ Trading/Operating Profit	525	f _____
Money left when shareholders have been paid _____ Profit for shareholders (6 _____)	95	g _____
Retained profit	430	h _____

Listening

1 Now listen to a presentation of the actual results and complete the missing figures for gaps a-h.

2 Listen again and answer the following questions.

- 1 Why was gross profit higher than expected?
- 2 Where did the company decide to have parts made?
- 3 Which budgets went over the forecast limits?
- 4 What is expected to happen to the marketing budget in future?
- 5 How much will shareholders receive per share?
- 6 What prediction does the speaker make about retained profit?

Speaking

If you were a potential shareholder would you feel confident in investing in this company? Why? / Why not?

Listening 2

Creative accounting

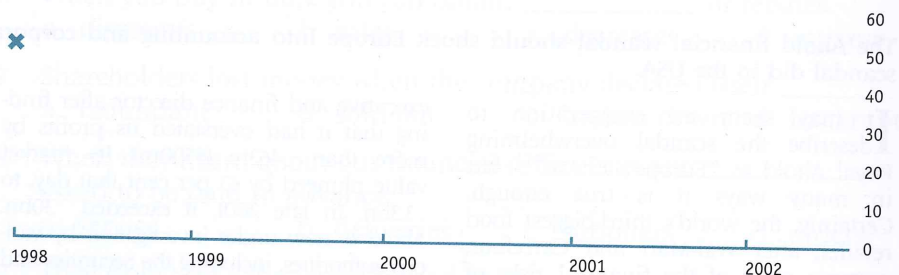
1 Companies sometimes make the figures in financial documents more attractive than they really are. They can do this by:

- a inventing revenues from companies that don't exist
- b not including debts of subsidiaries and acquisitions
- c hiding debts on the books of subsidiaries
- d overstating current profits by including possible future earnings

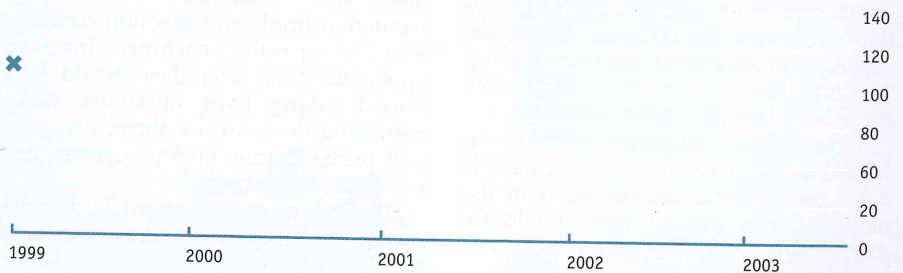
2 Listen to two investors talk about what happened to them when they invested in two media companies. Which of the above methods were used to drive up share prices in each case?

2 Listen again and complete the graphs.

NavTech
Stock price Euros (€), 1998-2002



Com.TV
Stock price Euros (€), 1999-2003



Speaking

Can you think of any other famous financial scandals?

We are very happy to announce that we achieved our sales forecasts of \$700m last year. What's more, the cheaper costs of outsourcing to Indonesia for many of our parts was even more cost-effective than we'd hoped – reducing our manufacturing expenses by \$30m – down to \$70m. Outsourcing in Indonesia also generated significant savings of \$10m in salaries. Therefore, gross profit is up at \$840m. This is a trend we hope will continue into the next quarter and many more to come.

On the other hand, trading or operating profit fell slightly – but there are clear reasons for this and we are confident that the next quarter will show a considerable upturn. Once again, research and development costs were higher than expected – up from \$50m to \$75m. We have now stabilised that budget and don't expect any increases over the next quarters.

The marketing costs of our global campaigns for three major new products also exceeded the budget and we did in fact need \$123m. But we are very pleased with projected sales figures for the products in question and marketing costs will fall drastically over the next quarters, where we will see a very healthy return on that investment. However, the immediate impact is a slight dip in trading profit to \$507m.

We are, however, paying the dividend we promised to shareholders of \$95m – which works out at 50 cents a share. This leaves us with a retained profit of \$422m. This figure will increase considerably over the next quarters.

Describing graphs worksheet

Put the words in the appropriate column.

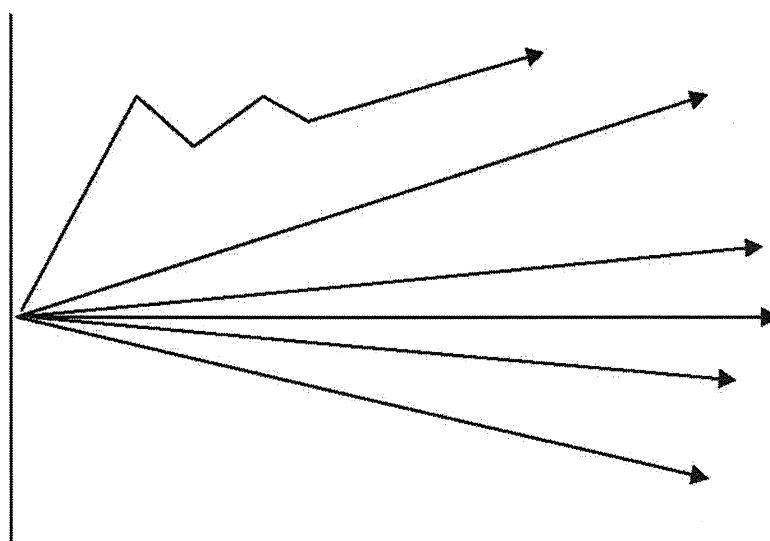
increase
fall
decrease
climb
drop
decline
lift
rise

Go up

Go down

Match the phrases below to the lines on the right.

remain steady
fluctuate
increase slightly
decrease sharply
decrease slightly
increase sharply
drop sharply
stay the same
go up a little
go down slightly



Rearrange the words into sentences & match to the graph.

1. Then / will / increase / for / rest of the year / the / profits / sharply

2. In / slightly / costs / decrease / next few years / will / the

3. Costs / the / been / sharply / for / rising last year / have

4. I / profits / will / for / next two months / think / the / drop

5. Profits / have / for / remained / last / six months / the / steady

