



## 11

# Gleaning information from financial statements



### Get Ready!

1 Before you read the passage, talk about these questions.

- 1 How do accountants use records to determine the health of companies?
- 2 What are some of the ways they interpret financial records?

### Reading

2 Read the email. Then, choose the correct answers.

- 1 What is the passage mainly about?
  - A opportunities for growth
  - B ways to interpret financial records
  - C methods for reducing return on sales
  - D options for increasing return on equity
- 2 Which equation is NOT presented in the email?
  - A Return on Equity
  - B Return on Sales
  - C Return on receivables
  - D Year-Over-Year Growth
- 3 What can be inferred about the company's customers?
  - A They keep detailed records.
  - B Some expect a high return on sales.
  - C They interpret financial information.
  - D Some do not pay for their purchases.

From: John Simmons, Senior Accountant  
To: Becky Johnson, Human Resources; Charles Stanley, Sales;  
Nicolas Long, Marketing

Good morning! Many employees complain about keeping records. We do keep lots of records, but there's a good reason. We need them to **assess** the health of the company. Here are some ways we **interpret** your records.

**Return on Sales**  
 $\text{Net Income} \div \text{Revenue} = \text{Return on Sales}$

**Return on Equity**  
 $\text{Net Income} \div \text{Equity} = \text{Return on Equity}$

**Year-Over-Year Growth Rate**  
 $\text{Profit 2011} \div \text{Profit 2010} = \text{Year-Over-Year Growth Rate}$

These equations and others help us examine **factors** that **eat away** at our profits. Last year we had **thin** profits. Because we had accurate records, we found out that it was due to **uncollectible** receivables.

### Vocabulary

3 Match the words (1-5) with the definitions (A-E).

1	— assess	4	— return on sales
2	— factor	5	— return on equity
3	— thin		

A not having much substance; small in quantity  
B net income in comparison to total revenue  
C something that has an influence on something else  
D net income in comparison to the value of the company  
E to test something



4 Fill in the blanks with the correct words and phrases from the word bank.

### Word BANK

interpret year-over-year growth rate  
uncollectible eat away at

- 1 The \_\_\_\_\_ shows that the company is expanding.
- 2 The company went out of business. Its debts are \_\_\_\_\_.
- 3 It's the accountant's job to \_\_\_\_\_ the financial records.
- 4 Declining sales will definitely \_\_\_\_\_ profits.

5 Listen and read the email again. How is year-over-year growth rate calculated?

### Listening

6 Listen to a conversation between a salesperson and an accountant. Mark the following statements as true (T) or false (F).

- 1 \_\_\_ The woman fills out a sales report monthly.
- 2 \_\_\_ The man thinks paperwork is a waste of time.
- 3 \_\_\_ The woman prefers paperwork over selling.

7 Listen again and complete the conversation.

Salesperson: Here's my weekly sales report.

Accountant: Wonderful. Thank you.

Salesperson: I'm 1 \_\_\_\_\_. Why do we have to keep such 2 \_\_\_\_\_ records?

Accountant: Because they help us 3 \_\_\_\_\_ the company's health. Why do you ask?

Salesperson: Well, it 4 \_\_\_\_\_ me down. I'd rather 5 \_\_\_\_\_ selling than doing paperwork.

Accountant: I know what you mean. It takes time to 6 \_\_\_\_\_. But it's worth it.

Salesperson: How so?

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

### Speaking

8 With a partner, act out the roles below based on Task 7. Then switch roles.

#### USE LANGUAGE SUCH AS:

I'm curious. Why do we ...

Because ... Why do you ask?

I'd rather ... than ...

**Student A:** You are a salesperson. Talk to Student B about:

- sales reports
- their purpose
- their uses

**Student B:** You are an accountant. Answer Student A's questions.

### Writing

9 Use the email and the conversation from Task 8 to fill out the financial statement.

**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

$$\frac{\text{Profit}}{\text{Sales revenue}} = \frac{13,500}{56,500} = 0.238$$

#### Return on Equity

$$\frac{\text{Net income}}{\text{Owner's equity}} = \frac{13,500}{41,000} = 0.329$$

#### Year-Over-Year Growth Rate

$$\frac{\text{Profit 2011} - \text{Profit 2010}}{\text{Profit 2010}} = \frac{13,500 - 11,750}{11,750} = 0.157$$



## 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.

### ACTIVITY 8

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