1

Business finance

A

Capital

When people want to **set up** or start a company, they need money, called **capital**. Companies can **borrow** this money, called a **loan**, from banks. The loan must be paid back with **interest**: the amount paid to borrow the money. Capital can also come from issuing **shares** or **equities** – certificates representing units of ownership of a company. (See Unit 29) The people who **invest** money in shares are called **shareholders** and they **own** part of the company. The money they provide is known as **share capital**. Individuals and financial institutions, called **investors**, can also **lend** money to companies by buying **bonds** – loans that pay interest and are repaid at a fixed future date. (See Unit 33)

Money that is **owed** – that will have to be paid – to other people or businesses is a **debt**. In accounting, companies' debts are usually called **liabilities**. Long-term liabilities include bonds; short-term liabilities include debts to suppliers who provide goods or services **on credit** – that will be paid for later.

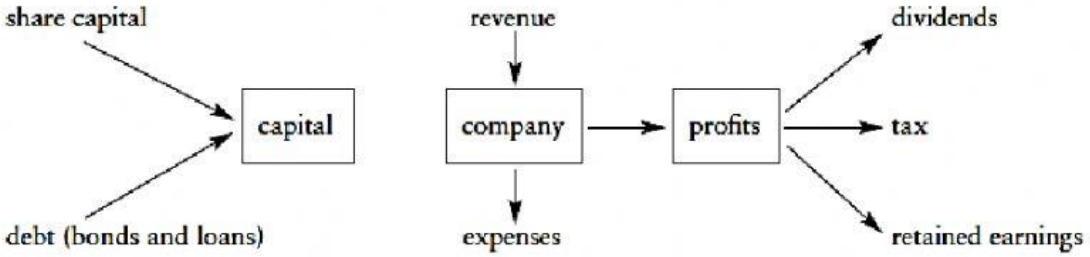
The money that a business uses for everyday expenses or has available for spending is called **working capital** or **funds**.

BrE: shares; AmE: stocks BrE: shareholder; AmE: stockholder

B

Revenue

All the money coming into a company during a given period is **revenue**. Revenue minus the cost of sales and operating **expenses**, such as rent and salaries, is known as **profit**, **earnings** or **net income**. The part of its profit that a company pays to its shareholders is a **dividend**. Companies pay a proportion of their profits to the government as **tax**, to finance government spending. They also **retain**, or keep, some of their earnings for future use



C

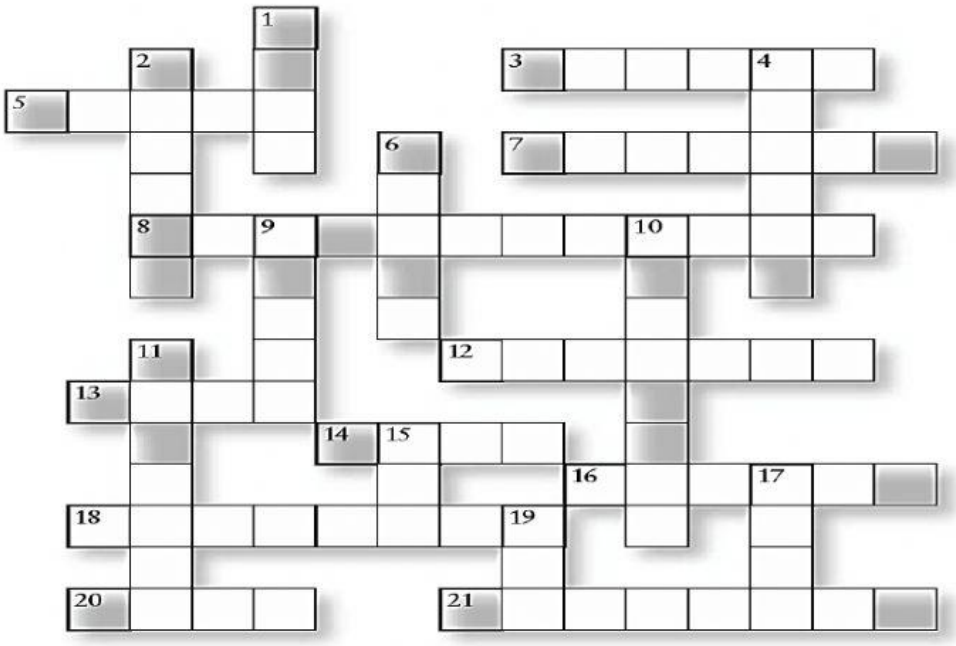
Financial statements

Companies give information about their financial situation in **financial statements**. The **balance sheet** shows the company's **assets** – the things it owns; its liabilities – the money it owes; and its capital. The **profit and loss account** shows the company's revenues and expenses during a particular period, such as three months or a year.

BrE: profit and loss account; AmE: income statement

LIVEWORKSHEETS

2.1 Complete the crossword. Look at A, B and C opposite to help you.



Across

3 Small companies often try to get bank loans when they need to_____ money. (6)
5 We don't have sufficient _____ to build a completely new factory. (5)
7 and 6 down Details of a company's liabilities are shown on the _____. _____. (7,5)
8 We're going to raise more money by selling new shares to our existing _____ (12)
12 We had to raise €50,000 _____ in order to start the business. (7)
13 We're going to pay back some of the people who lent us money, and reduce our _____ (4)
14 I decided to buy a $10,000 _____ instead of shares, as it's probably safer. (4)
16 Another term for profit is net _____ (6)
18 I think this is a good investment: it pays 8% _____ (8)
20 When they saw our financial statements, the bank refused to _____ us any more money. (4)
21 Profit is the difference between revenue and _____ (8)

Down

1 The profit and _____ account shows if a company is receiving more money than it's spending. (4)
2 If you don't like taking risks, you should only _____ in very successful companies. (6)
4 A company's retained earnings belong to its _____ (6) 6 See 7 across.
9 Anything a company uses to produce goods or services is an _____ (5)
10 The company made such a big profit, I expected a higher _____ (8)
11 We sold a lot more last year, so our _____ went up. (7)
15 We _____ our suppliers $100,000 for goods bought on credit. (3)
17 Everyone who buys a share _____ part of the company. (4)
19 Thirty per cent of our profits goes straight to the government in _____ (3)



"It's been a great year – let's hope we can keep the shareholders from finding out."

Over to you

Think of the company you work for, or one that you are interested in. How was it financed when it was set up, and how is it financed now?

LIVEWORKSHEETS