



English for the Students of Accounting

Abolfazl Khodamoradi (Ph.D.)
Ruhollah Javadi

In the Name of God

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Introducing Accounting

Unit 1



Objectives

In this unit you will learn briefly about:

- the basic concept of accounting
- the difference between accounting and bookkeeping
- different users of accounting information

■ Accounting

The purpose of **accounting**¹ is to provide information that will help you make correct financial decisions². Your **accountant's** job is to give you the information you need to run your business as efficiently as possible to maximize your profits and keep your costs low.

Accounting plays a role in businesses of all sizes. A one-person business or a multinational **corporation** uses the same basic accounting principles. Accounting is legislated. It affects your **taxes**, your income, your costs etc.

Accounting is the language of business. It is the process of recording, classifying, and summarizing **economic events** through certain **documents** or **financial statements**. Like any other language, accounting has its own terms and rules. To understand how to interpret and use the information that accounting provides, you must first understand this language. Understanding the basic concepts of accounting is essential to success in business.

Different types of information which are provided by accountants are:

- Information which is prepared exclusively by people within a company such as **managers**, **employees**, or **owners** for their own use.
- Financial information which is required by various government agencies such as the **Internal Revenue Service** (IRS), **Securities and Exchange**

*1 The **boldfaced** words are technical terms in accounting. They will be practiced at the end of each unit.*

2 The underlined phrases are useful collocations, two or more words which are recommended to be learnt together.

Commission (SEC), and **the Federal Trade Commission** (FTC).

• General information about companies which is provided to people outside the **firm** such as **investors**, **creditors**, and labor unions.

I. Find a synonym for each of the following items in the passage.

- | | | |
|---------------------|----------------------|--------------------|
| 1. supply:..... | 2. well:..... | 3. increase:..... |
| 4. expenses:..... | 5. big company:..... | 6. lawful:..... |
| 7. happenings:..... | 8. words:..... | 9. necessary:..... |
| 10. only:..... | 11. needed:..... | 12. company:..... |

II. Check true or false.

1. Accounting information is used for decision making.

True ☐ False ☐

2. Accounting is only used by multinational companies.

True ☐ False ☐

3. Understanding the words and rules of accounting is necessary.

True ☐ False ☐

4. Accounting information is required by various users.

True ☐ False ☐

III. Complete the following sentences based on the passage.

1. The purpose of accounting is maximizing and minimizing

2. Accounting follows some rules. It means that accounting is

3. Through certain documents, economic events can be, and

4. Examples of external users of accounting information are, and

■ Accounting and Bookkeeping

Bookkeeping procedures and **bookkeepers** record the business transactions that are later used to generate financial statements. Most bookkeeping procedures have been systematized and, in many cases, can be handled by computer programs. Bookkeeping is a very important part of the accounting process, but it is just the beginning. There is currently no **certification** required to become a bookkeeper in the United States.

Accounting is the process of preparing and analyzing financial statements based on the transactions recorded through the bookkeeping process. Accountants are usually **professionals** who have completed at least a bachelor's degree in accounting, and often have passed a professional examination like the **Certified** Public Accountant Examination, the Certified Management Accountant Examination, or the Certified **Fraud Auditor** Examination.

Accounting goes beyond bookkeeping and the recording of economic information to include the summarizing and reporting of this information in a way that it drives decision making within a business.

I. Find a synonym for each of the following items in the passage.

- | | | |
|-------------------|--------------------|-------------------|
| 1. deals:..... | 2. done:..... | 3. now:..... |
| 4. degree:..... | 5. experts:..... | 6. finished:..... |
| 7. cheating:..... | 8. more than:..... | 9. pushes:..... |

II. Check true or false.

III. Complete the following sentences based on the passage.

1. Companies must obey the GAAPs if they sell..... or if they are ofsize.
2. The two factors which determine the size of a company are and
3. SEC assigned part of its responsibility to and now it has been given to
4. The latest cooperative project in issuing GAAPs is between and
5. If a company wants to deviate from GAAPs, it should find

■ Features of Financial Statements

Financial statements which are prepared based on the Generally Accepted Accounting Principles must present **relevant**, **reliable**, **verifiable**, **understandable**, **quantifiable**, and practicably **obtainable** information in order to be useful.

Relevant Information: Relevant information is that information which helps financial statement **users** to **estimate** the **value** of a firm and/or evaluate how well the firm is being managed. The financial statements must be stated in terms of a monetary unit, since money is our standard means of determining the value of a company. In the United States, accountants use the stable monetary unit concept, which means that even though the value of the dollar changes over time (due to **inflation**), the values that appear on the financial

I. Find a synonym for each of the following items in the passage.

- | | | |
|---------------------|--------------------|---------------------|
| 1. dependable:..... | 2. numerical:..... | 3. receivable:..... |
| 4. guess:..... | 5. based on:..... | 6. fixed:..... |
| 7. because:..... | 8. values:..... | 9. enough:..... |
| 10. tested:..... | 11. correct:..... | 12. exclude: |
| 13. not exact:..... | 14 .buy:..... | 15. specific:..... |

II. Check true or false.

1. *If financial statements contain relevant information, users can know about the quality of the firm's management.*

True ☐ False ☐

2. *In the US, the value of a company is stated in a monetary unit which is dollar.*

True ☐ False ☐

3. *Any changes in the value of the monetary unit are accounted for in the financial statements.*

True ☐ False ☐

4. *Auditors guarantee the accuracy of the financial information.*

True ☐ False ☐

5. *If estimates are used in financial statements, they are not verifiable at all.*

True ☐ False ☐

6. *Even for the estimates, enough information should be provided.*

True ☐ False ☐

7. *For depreciation, the value of the asset should be estimated.*

True ☐ False ☐

III. Complete the following sentences based on the passage.

1. *The value of a firm should be stated in a which is dollar in the US.*

7) percentage ()	g. the number above the line in a fraction
8) return ()	h. careful planning in order to get what you want
9) trends ()	i. the amount of business done during a period
10) turnover ()	j. an amount expressed as a part of a total of 100
	k. the amount of profit that you get from something

3. Fill in the blanks with the given words. There is one extra word in each set.

calculation / comparison / constant / formulation / lined up / liquidity / normalized

1. For shopkeepers here, break-ins are a worry.
2. A simple will show that these figures are incorrect.
3. The manager all the accounting staff in the corridor.
4. Banks try to hold a lower ratio to create more credit.
5. You can't really make a direct between the two accounts.
6. Relations between the companies were formally in 1997.

obligation / partial / potential / profitability/ tracks / vertical / working

1. This study may be regarded as only a success.
2. The business sales of packaged goods as well as its services.
3. Employers have an to treat all employees equally.
4. This table shows a decline in overall during the 1980s.