

МІНІСТЕРСТВО ОСВІТИ І НАУКИ УКРАЇНИ
ЧЕРНІГІВСЬКИЙ НАЦІОНАЛЬНИЙ ТЕХНОЛОГІЧНИЙ УНІВЕРСИТЕТ

ENGLISH FOR START-UP PROJECTS

Методичні вказівки до практичних занять та самостійної роботи

для студентів економічних спеціальностей

071 - Облік і оподаткування

072 - Фінанси, банківська справа та страхування

076 - Підприємництво, торгівля та біржова діяльність

Обговорено і рекомендовано
на засіданні кафедри іноземних мов
професійного спрямування

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ENGLISH FOR START-UP PROJECTS: Методичні вказівки до практичних занять та самостійної роботи для студентів економічних спеціальностей: 071 - Облік і оподаткування, 072 - Фінанси, банківська справа та страхування, 076 - Підприємництво, торгівля та біржова діяльність» / Укладачі: Юсухно С.І., Литвин С.В. – Чернігів: ЧНТУ, 2018. – 90 с.

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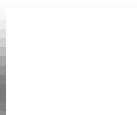
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ВСТУП

ENGLISH FOR START-UP PROJECTS: Методичні вказівки до практичних занять та самостійної роботи для студентів економічних спеціальностей: 071 - Облік і оподаткування, 072 - Фінанси, банківська справа та страхування, 076 - Підприємництво, торгівля та біржова діяльність» складені у відповідності до вимог програми викладання англійської мови професійного спрямування (Київ, 2005 р.) та призначені для студентів немовних вузів, які продовжують вивчення англійської мови на базі знань, отриманих в середній школі. Однак, вони також можуть бути з успіхом використані студентами інших напрямів підготовки, а також всіми, хто працює у сфері економіки, бізнесу, менеджменту та зовнішньоекономічної діяльності.

Запропоновані матеріали базуються виключно на оригінальних текстах, що представляють великий інтерес для тих, хто має намір займатися власним бізнесом або бути пов'язаним з ним в ході професійної діяльності.

Методичні вказівки **ENGLISH FOR START-UP PROJECTS** включають наступні розділи:

Десять золотих правил успіху в бізнесі

- Розділ 1. Як вдало розпочати власну справу. Самоаналіз та тестування для визначення своїх ділових здібностей.
- Розділ 2. Вибір предмету бізнесу та місця його розташування
- Розділ 3. Ведення переговорів, пов'язаних з купівлею чи продажем бізнесу
- Розділ 4. Вибір юридично-визнаної організаційної структури бізнесу
- Розділ 5. Складання бізнес плану
- Розділ 6. Знаходження джерел фінансування бізнесу
- Розділ 7. Розсудливе фінансове управління та правила користування позиками
- Розділ 8. Ведення обліку та бухгалтерії малого бізнесу.
- Розділ 9. Контролювання грошових потоків
- Розділ 10. Складання бюджету фірми
- Розділ 11. Страхування ризиків малого бізнесу
- Розділ 12. Пошук нового товару для бізнесу

На початку кожного розділу у перших двох вправах студентам пропонуються лексичні одиниці, які є базовими для спілкування в межах

визначеної у розділі тематики. У першій вправі зібрані лексичні одиниці, які мають певну складність з точки зору вимови, тому вони надаються з транскрипцією. Друга вправа містить слова та словосполучення, які перекладені на російську та українську мови, що значно полегшує їх розуміння при читанні базових текстів, які надаються далі у розділі.

Тексти, запропоновані для читання, мають фахове спрямування і направлені на розвиток вмінь читання професійно спрямованої літератури. Після текстів студентам для відповіді пропонуються питання, під час відповіді на які передбачається розвиток вмінь говоріння з використанням професійної лексики та лексичних одиниць, необхідної для висловлення власної думки при обговоренні актуальних проблем.

Після читання текстів та відповідей на питання студентам пропонується виконання лексичних вправ, спрямованих на формування та вдосконалення професійних лексичних навичок. При виконанні лексичних вправ студенти аналізують будову слів, знаходять еквіваленти наданих лексичних одиниць чи словосполучень у тексті, дають тлумачення ідіоматичних виразів, утворюють похідні слова і т.д.

Заклучна секція кожного розділу містить питання, відповіді на які перевіряють рівень сформованості граматичних та лексичних навичок, а також передбачають певний рівень розвитку вмінь говоріння для висловлення власних думок щодо професійних проблем, розглянутих у даному розділі.

Комплексна структура методичних вказівок забезпечує ефективне формування та вдосконалення навичок використання професійно орієнтованої лексики, граматичних навичок, розвиток вмінь читання фахових текстів та вмінь говоріння з висловленням власних думок щодо професійних проблем.

Незважаючи на те, що запропоновані тексти в цілому дають інформацію про ведення бізнесу в Америці, їх можуть використовувати як довідниковий матеріал ділові люди, зайняті практичною комерційною діяльністю в Україні. Вони мають для студентів певну інформаційну цінність і виступають додатковим джерелом для освоєння спеціальності.

TEN GOLDEN RULES FOR SUCCESS IN BUSINESS

1. Be Positive

- You have only one chance to produce a first impression
- Smile, look people in the eye, be attentive

2. Be Thoughtful

- Remember names and faces
- Don't be shy
- Ask for clarification

3. Be a Good Team Player

- Learn how you can work as part of the team
- Make new colleagues feel welcome

4. Be Interested

- Whenever you meet someone, try to find a common interest
- people like you to be interested in them as a person - not just as a company employee"

5. Be Organized

- Control your time and plan for changes
- Make appointments and set agendas

6. Be Punctual

- Leave early to be sure you're not late
- Call to reschedule
- Apologize if you are late and accept apologies from other people

7. Be Prepared

- When you meet a client or make a presentation, be prepared to state the problem
- Give a plan, and support the plan with details

8. Be Polite

- Identify yourself on the phone, speak slowly and clearly
- Return your phone calls
- Express appreciation

9. Be Patient

- Never forget to use the words "please" and "thank you"
- Compliment good work
- Provide clear, complete instructions , point out errors politely

10. Be Loyal

- Share your success and always congratulate colleagues
- Make your boss look good

UNIT 1

HOW TO GET OFF A GOOD START

Checklist for Going into Business

Introduction

Ex. 1. Before reading the texts pay attention to the pronunciation of the following words.

own	[aʊn]	capacity	[kə'pæsɪti]
guide	[gaɪd]	similar	['sɪmlə]
determine	[dɪ'tɜːmɪn]	acquire	[ə'kwɪə]
techniques	[tek'nɪk]	statistician	[.stætɪs'tɪʃ(ə)n]
characteristics	[.kærɪktə'rɪstɪk]	dilemma	[dɪ'lemə]
individual	[.ɪndɪ'vɪdʒuəl]	primary	['praɪməri]
discipline	['dɪsɪplɪn]	revenue	['revɪnjuː]
particular	[pə'tɪkjələ]	doubt	[daʊt]
supervisory	[.sjuːpə'vaɪz(ə)rɪ]	paramount	['pærəmaʊnt]
entrepreneur	[.ɒntrəprə'nɜː]		

Ex. 2. The words and word-combinations below may help you to understand the text better.

English

pitfall(s)
feasible
to face smth
to sacrifice
dedication
to deal with
to get along with
venture
entrepreneur
revenue
beyond a doubt
paramount
pertinent

Ukrainian

труднощі; помилки
здійсненний
зтикатися з
жертвувати
відданість
мати справу з
бути в гарних відносинах
підприємство (справа)
підприємець
прибуток
поза сумнівом
першорядний
відповідний, належний

Ex. 3. Read the texts.

Converting your dream into reality

Owning a business is a dream of many Americans. Starting that business convert your dream into reality. But, there is a gap between your dream and reality that can only be filled with careful planning. As a business owner, you will need a plan to avoid pitfalls, to achieve your goals and to build a profitable business.

The “Checklist for Going Into business” is a guide to help you prepare a comprehensive business plan and determine if your idea is feasible, to identify questions and problems you will face in converting your idea into reality and to prepare for starting your business.

Operating a successful small business will depend on:

- a practical plan with a solid foundation;
- dedication and willingness to sacrifice to reach your goals;
- technical skills;
- basic knowledge of management, finance, record keeping and market analyses.

As a new owner, you will need to master these skills and techniques if your business is to be successful.

A Self Analysis

Going into business requires certain personal characteristics. This portion of the checklist deals with you – the individual. These questions require serious thought. Try to be objective. Remember, it is your future that is at stake.

Personal characteristics

	YES	NO
1. Are you a leader?		
2. Do you like to make your own decisions?		
3. Do others turn to you for help in making decisions?		
4. Do you enjoy competition?		
5. Do you have will power and self discipline?		
6. Do you plan ahead?		
7. Do you like people?		
8. Do you get along well with others?		

Personal Skills and Experience

Certain skills and experience are critical to the success of a business of a business. Since it is unlikely that you possess all the skills and experience needed, you will need to hire personnel to supply those you lack.

There are some basic and special skills you will need for your particular business. By answering the following questions, you can identify the skills you possess and those you lack (your strength and weaknesses).

1. Do you know what basic skills you will need in order to have a successful business?
2. Do you possess those skills?
3. When hiring personnel, will you be able to determine if the applicant skills meet the requirements for the positions you are filling?
4. Have you ever worked in a managerial or supervisory capacity?
5. Have you ever worked in a business similar to the one you want to start?
6. Have you had any business training in school?
7. If you discover you don't have the basic skills needed for your business, will you be willing to delay your plans until you've acquired the necessary skills?

Market Analysis

For a small business to be successful, the owner must know the market. To learn the market, you must analyze it, a process that makes time and effort. You don't have to be a trained statistician to analyze the market place nor does the analysis have to be costly.

Analyzing the market is a way to gather facts about potential customers and to determine the demand for your product or service. The more information you gather, the greater your chances of capturing a segment of the market. Know the market before investing your time and money in any business venture.

Finances

A large number of small businesses fail each year. There are a number of reasons for these failures, but one of the main reasons is insufficient funds. Too many entrepreneurs try to start-up and operate a business without sufficient capital (money). To avoid this dilemma, you can review your situation by analyzing these three questions:

1. How much money do you have?
2. How much money will you need to start your business?
3. How much money will you need to stay in business?

After Start-Up

The primary source of revenue in your business will be from sales but your sales will vary from month to month because of seasonal patterns and other factors. So it is important to determine if your monthly sales will produce enough income to pay each month's bills.

Conclusion

Beyond a doubt, preparing an adequate business plan is the most important step in starting a new business. A comprehensive business plan will be your guide to managing a successful business. The business plan is paramount to your success. It must contain all the pertinent information about your business; it must be well written, factual, and organized in a logical sequence. More over, it should not contain any statements that cannot be supported.

Owning and running a business is a continuous learning process. Research your idea and do as much as you can yourself, but don't hesitate to seek help from people who can tell you what you need to know.

Good Luck!

Ex. 4. Lexical exercises.

1. Form as many derivatives as you can from the following:
produce —
analyze —
2. Compare the words *PERSONAL* and *PERSONNEL* and explain the difference.
3. Translate the following sentence from the text paying attention to the emphatic construction:
It is your future that is at stake.
4. Guess the meaning of the idiomatic expressions:
to face a dilemma —
to be in a dilemma —
to stake very high —
His life is at stake.

Ex. 5. Discussion section.

Answer the following questions:

1. Why is the "Checklist for Going into Business" of great importance?
2. What will operating a successful small business depend on?
3. How can you analyze the market?
4. What is one of the main reasons for failures of small business?
5. What will the primary source of revenue in your business be from?
6. What is the most important step in starting a new business?
7. Why do you think owning and running a business is a continuous learning process?

UNIT 2

CHOOSING A LINE OF BUSINESS AND A RETAIL LOCATION

Ex. 1. Before reading the texts pay attention to the pronunciation of the following words.

entire	[ɪn'taɪə]	purchase	['pɜ:tʃəs]
guarantee	[,gær(ə)n'ti]	frequently	['frɪkwənt]
success	[s(ə)'kʌs]	accessible	['æksesəbl]
objective	[əb'dʒektɪv]	automobile	['ɔ:təməubɪl]
enough	['nʌf]	furniture	['fɜ:nɪtʃə]
demographic	[,dɪmə'græfɪk]	specialty	['speʃ(ə)ltɪ]
view	[vju:]	precious	['preʃəs]
major	['meɪdʒə]	jewelry	['dʒu:əlrɪ]
convenience	[kən'vɪnjəns]	exhaust	['ɪgzɔ:st]
franchise	['fræntʃaɪz]	employee	[,emplɔɪ'i:]

Ex. 2. The words and word-combinations below may help you to understand the text better.

English	Ukrainian
retail	роздрібний
tentative	спробний; орієнтований
commitment	зобов'язання
insure	забезпечувати
to tend	мати тенденцію
outlet	торговельна точка
to cater	обслуговувати
a host of	маса, безліч
advertising expenses	витрати на рекламу
facilities	умови, зручності
awning	навіс, тент
to coincide	збігатися, відповідати
loan	позика, позичка
delay	затримка

Ex. 3. Read the texts.

Summary

The choice of a store location has a profound effect on the entire business life of a retail operation. A bad choice may all but guarantee failure, a good choice success.

The first step in choosing a retail business location takes place in your head. Before you do anything else, define your type of business in the broadest terms and determine your long term objectives. Write them down.

In picking a store site, many store owners believe that it's enough to learn about the demographics ('people information' like age, income, family size, etc.) of the population, about the kind of competition they'll be facing, and about traffic patterns in the area they're considering. Beyond a doubt these factors are basic to all retail location analysis.

Once you've spotted a tentative location using these factors, however, you've only done half the job. Before you make a commitment to moving in and setting up, you must carefully check several more aspects of the location to help insure your satisfaction with – and most importantly your success at – the site you've chosen.

Types of Consumer Goods

Another factor that affects site selection is the customers' view of the goods sold by a store. Consumers tend to group products into three major categories: convenience, shopping, and specialty goods.

Convenience goods usually mean low unit price, purchased frequently, little selling effort, bought by habit, and sold in numerous outlets. Examples: candy bars, cigarettes and milk.

For stores handling convenience goods, the quantity of traffic is most important. Convenience goods are often purchased on impulse in easily accessible stores.

Shopping goods usually mean high unit price, purchased infrequently, more intensive selling effort usually required on the part of the store owner, price and features compared, and sold in selectively franchised outlets. Examples: men's suits, automobiles, and furniture. For stores handling shopping goods, the quality of the traffic is more important. In many cases, buyers of shopping goods like to compare the items in several stores by travelling only a minimum distance. If you offer shopping goods, however, you should not locate too far away from your potential customers.

Specialty goods usually mean high unit price, although price is not a purchase consideration, bought infrequently, requires a special effort on the part of the customer to make the purchase, no substitutes considered, and sold unexclusively

franchised outlets. Examples: precious jewelry, expensive perfume, fine furs, and so on, of specific brands or name labels. Specialty goods are often sought by consumers who are already 'sold' on the product, brand, or both. Stores catering to this type of consumer may use isolated locations because they generate their own consumer traffic.

Other Considerations

A host of other considerations have varying importance in choosing a retail location, depending on your line of business. The following questions, while they certainly don't exhaust all possibilities, may help you to decide on a retail location:

1. How much retail, office, and storage or workroom space do you need?
2. Is parking space available and adequate?
3. Do you require special lighting, heating or cooling, or other installations?
4. Will your advertising expenses be much higher if you choose a relatively remote location
5. Is the area served by public transportation?
6. Can the area serve as a source of supply of employees?
7. Is there adequate fire and police protection?
8. Will sanitation or utility supply be a problem?
9. Is exterior lighting in the area adequate to attract evening shoppers and make them feel safe?
10. Are customers' restroom facilities available?
11. Is the store easily accessible?
12. Does the store have awnings or decks to provide shelter during bad weather?
13. Will crime insurance be prohibitively expensive?
14. Do you plan to provide pick up or delivery?
15. Is the trade area heavily dependent on seasonal business?
16. Is the location convenient to where you live?
17. Do the people you want for customers live nearby?
18. Is the population density of the area sufficient?

Locate In Haste, Repent At Leisure

Selection of a retail location requires time and careful consideration. It should not be done in haste. If you haven't found a suitable location, don't plan to open until you're sure you've got what you want. Put your plans on hold, don't just settle for a location you hope might work out. A few months' delay is only a minor setback compared to the massive – often fatal – problems that occur from operating a retail business in a poor location.

Evaluating franchise opportunities

Summary

Although the success rate for franchisee-owned businesses is significantly better than for many other start-up businesses, success is not guaranteed. One of the biggest mistakes that you can make is to be in a hurry to get into business. If you shortcut your evaluation of a potential business, you might neglect to consider other franchises that are more suitable for you. Don't be 'pressured' into a franchise that is not right for you. Although most franchises are managed by reputable individuals, as in all industries, some are not. Also, some franchises could be poorly managed and financially weak.

What Is Franchising?

A franchise is a legal and commercial relationship between the owner of a trademark, service mark, trade name, or advertising symbol and an individual or group seeking the right to use that identification in a business. In the simplest form, a franchisor owns the right to a name or a trademark and sells that right to a franchisee. This is known as 'product/trade name franchising'.

Personal Assessment

Finally, an examination of your own skills, abilities, and experience is perhaps your most important step. Determine exactly what you want out of life and what you are willing to sacrifice to achieve your goals. Be honest, rigorous, and specific. Ask yourself:

Am I qualified for this field?

- Physically?
- By experience?
- By education?
- By learning capacity?
- Financially?

Ask yourself about the effects of this decision on your family. How will this new life style affect them? Do they understand the risks and sacrifices, and will they support your efforts? Beginning a franchise business is a major decision that does not ensure easy success. However, an informed commitment of time, energy, and money by you and your family can lead to an exciting and profitable venture.

Ex. 4. Lexical exercises.

Do not confuse the words:

English	Ukrainian
quantity ['kwɒntəti]	кількість
quality ['kwɒləti]	якість

- Analyze the formation of the following words: *infrequently, unexclusively*.
- Find in the text the adverbs-derivatives formed from the adjectives: *easy, heavy* and explain the change in their spelling.
- Using the text give English equivalents to the following: *відбуватися, траплятись; впливати на; безперечно; проте; і так далі; залежно (від чого)*.

Ex. 5. Discussion section.

1. Describe the three major categories of products according to the customers' view.
2. Why do you think selection of a retail location should not be done in haste?

UNIT 3

HOW TO BUY OR SELL A BUSINESS

Ex. 1. Before reading the texts pay attention to the pronunciation of the following words.

procedure	[pra'si:dzə]	financial	[faɪ'næn(ə)l]
negotiations	[niˌgəʊʃi'eɪ(ə)n]	association	[əˌsəʊʃi'eɪ(ə)n]
intermediary	[ˌɪntə(ə)'mi:djəri]	liabilities	[ˌlaɪə'bɪlɪti]
source	[sɔ:s]	ratio	['reɪʃiəʊ]
anonymous	[ə'nɒnɪməs]	lease	[li:s]
subtle	['sʌtl]	group	[gru:p]

Ex. 2. The words and word combinations below may help you to understand the texts better.

English	Ukrainian
intermediary	посередник
accounts receivable	дебіторська заборгованість
accounts payable	кредиторська заборгованість
overdue	прострочений
inventory	матеріально-виробничі запаси
securities	цінні папери
real estate	нерухомість
accrued	накопичений
liabilities	заборгованість
mortgage	застава
income statement	звіт про господарську діяльність
ratio	співвідношення, показник
lease	оренда
competitor	конкурент
transaction	угода
evaluation	оцінка

obsolete	застарілий, що вийшов з експлуатації
pledge	віддавати під заставу

OSHA — [The Occupational Safety and Health Act] Закон про техніку безпеки та гігієну праці (США)

EPA — [Environmental Protection Agency] Управління з охорони навколишнього середовища (США)

Ex. 3. Read the texts.

HOW TO BUY OR SELL A BUSINESS

Summary

The decision to buy or sell a business requires careful consideration of the many factors involved. If you are a seller, these factors include preparing your business for sale and finding buyers. If you are a buyer, they include pricing and financing your purchase.

This Aid presents an outline to buying and selling factors as well as the necessary procedures for structuring transactions, negotiations and settlements.

FINDING BUYERS AND SELLERS

The first step is to find a business to buy or find a buyer for the business.

Print Advertising

Business opportunity classified ads are a viable way to advertise a business for sale. Many ads are placed by intermediaries (business brokers or merger and acquisition specialists), but some are placed directly by business owners. The larger local newspapers are the best source of such ads for smaller, privately-held businesses. Sundays are generally the most popular days for these ads.

Business opportunity ads, whether for small or large businesses, usually describe the business in several short phrases, keeping its identity anonymous, and list a phone number to call or post office box for reply. The ad should be worded to demonstrate the business's best qualities, (both financial and non-financial) and many include a qualifying statement describing the kind of cash investment or experience required. A telephone number in the ad will draw more responses than a post office box number, but may not permit the anonymity of a post office box.

Intermediaries

Business opportunity intermediaries generally can be divided into two groups, 1) business brokers and 2) merger and acquisition specialists. The differences between these two groups are subtle, but in general, business brokers primarily handle the smaller businesses, and merger and acquisition specialists handle the larger middle-market companies. Both groups usually ask for a contract with a 180 day or more exclusive right to sell the business.

Business brokers charge a fee usually amounting to 10% of the purchase price. Merger and acquisition specialists also charge fees, although often the fee is well under 10% since the transactions they work on are much larger. Often, a good merger and acquisition specialist receives a portion of the fee in advance, paid as either a flat fee or an hourly fee. In exchange, the intermediary performs some tangible service such as preparing a presentation package for prospective buyers and a valuation report. Although it is sometimes paid by the buyer, it is more common for the seller to pay the intermediary's fee.

An experienced intermediary can offer assistance in (1) pricing the business, (2) setting the terms, (3) compiling a comprehensive presentation package, (4) professionally marketing the business, (5) screening potential buyers, (6) negotiating and evaluating offers, (7) making certain that proper legal steps are taken. The result can be a considerable saving of the business owner's or business buyer's time and effort.

EVALUATING THE BUSINESS

The first step a buyer must take in evaluating a business for sale is that of reviewing its history and the way it operates. It is important to learn how the business was started, how its mission may have changed since its inception and what past events have occurred to shape its current form. A buyer should understand the business's methods of acquiring and serving its customers and how the functions of sales, marketing, finance and operations interrelate. General information about the industry can be obtained from trade associations.

The business's financial statements, operating documents, and practices should be reviewed. A summary of the items to be reviewed follows.

Balance Sheet

Accounts Receivable

1. Obtain an accounts receivable aging schedule and determine if there is concentration among a few accounts.
2. Determine the reasons for all overdue accounts.
3. Find out if any amounts are in dispute.

4. Are any of the accounts pledged as collateral?
5. Is the reserve for bad debt sufficient and how was it established?
6. Review the business's credit policy.

Inventory

1. Make sure the inventory is determined by physical count and divided by finished goods, work in progress and raw materials.
2. Assess the method of valuation and why it was used.
3. Determine the age and condition of the inventory.
4. How is damaged or obsolete inventory valued?
5. Is the amount of inventory sufficient to operate efficiently and for how long?
6. Should an appraisal be obtained?

Marketable Securities

1. Obtain a list of marketable securities.
2. How are the securities valued?
3. Determine the fair market value of the securities.
4. Are any securities restricted or pledged?
5. Should the portfolio be sold or exchanged?

Real Estate

1. Obtain a schedule of real estate owned.
2. Determine the condition and age of the real estate.
3. Establish the fair market value of each of the buildings and land.
4. Should appraisals be obtained?
5. Are repairs or improvements required?
6. Are maintenance costs reasonable?
7. Do any of the principals have a financial interest in the company(s) that perform(s) the maintenance?
8. Is the real estate required to operate the business efficiently?
9. How is the real estate financed?
10. Are the mortgages assumable?
11. Will additional real estate be required in the near future?
12. Is the real estate adequately insured?

Machinery and Equipment

1. Obtain a schedule of machinery and equipment owned and leased.
2. Determine the condition and age of the machinery and equipment and the frequency of maintenance.

3. Identify the equipment and machinery that is state-of-the-art.
4. Identify the machinery and equipment that is obsolete.
5. Identify the machinery and equipment that is used in compliance with EPA or OSHA standards and determine if additional equipment and machinery is needed to comply.
6. Should an appraisal be obtained?
7. Will immediate repairs be required and at what cost?

Accounts Payable

1. Obtain a schedule of accounts payable and determine if there is concentration among a few accounts.
2. Determine the age of the amounts due.
3. Identify all amounts in dispute and determine the reason.
4. Review transactions to determine undisclosed and contingent liabilities.

Accrued Liabilities

1. Obtain a schedule of accrued liabilities.
2. Determine the accounting treatment of:
 - unpaid wages at the end of the period
 - accrued vacation pay
 - accrued sick leave
 - payroll taxes due and payable
 - accrued federal income taxes
 - other accruals
3. Search for unrecorded accrued liabilities.

Notes Payable and Mortgages Payable

1. Obtain a schedule of notes payable and mortgages payable.
2. Identify the reason for indebtedness.
3. Determine terms and payment schedule.
4. Will the acquisition accelerate the note or mortgage or is there a prepayment penalty?
5. Determine if there are any balloon payments to be made and the amounts and dates due.
6. Are the notes or mortgages assumable?

Income Statement

The potential earning power of the business should be analyzed by reviewing profit and loss statements for the past 3 to 5 years. It is important to substantiate

financial information by reviewing the business's federal and state tax returns. The business's earning power is a function of more than bottom line profits or losses. The owner's salary and fringe benefits, non-cash expenses, and non-recurring expenses should also be calculated.

Financial Ratios

While analyzing the balance sheet and the income statement, sales and operating ratios should be calculated in order to point out areas requiring further study.

Leases

1. What is the remaining term of the lease?
2. Are there any option periods, and if so, is the option exercised only by the choice of the tenant?
3. Is there a percent of sales clause?
4. What additional fees (such as common area maintenance or merchants' association dues) are paid over and above the base rent?
5. Is the tenant or landlord responsible for maintaining the roof and the heating and air conditioning system?
6. Is there a periodic rent increase called for to adjust the rent for changes in the consumer price index or for an increase in real estate tax assessments?
7. Is there a demolition clause?
8. Under what terms and conditions will the landlord permit an assumption or extension of the existing lease?

Personnel

1. What are the job responsibilities, rates of pay, and benefits of each employee?
2. What is each employee's tenure?
3. What is the level of each employee's skill in their position and are they employed under an employment contract?
4. Will key employees stay after the business is purchased?

Marketing

1. Are any of the products proprietary?
2. Describe any new upcoming products and projected sales.
3. What is the business's geographic market area?
4. What is the business's percentage of market share?
5. What are the business's competitive advantages?
6. What are the business's annual marketing expenditures?

Patents

A list of trade names, trademarks, logos, copyrights and patents should be obtained, noting the period of time remaining before each expires.

Legal Issues

1. Are there any suits now or soon to commence?
2. What OSHA and EPA requirements must be met and are they currently being met?
3. Are all state registration requirements and regulations being met?
4. Are all local zoning requirements being met?
5. Review the articles of incorporation, minute books, bylaws, and/or partnership agreements.
6. What are the classes of stock and the restrictions of each, if any?
7. Has any stock been cancelled or repurchased?
8. Is the business a franchise? If so, review the franchise agreement.

Competitors

1. Who are the business's competitors?
2. What is their market share?
3. What are each competitor's competitive advantages and disadvantages?

All the factors identified in this section on evaluating a business have to be carefully scrutinized and weighed. Some factors will have a positive influence on the decision to buy. Others will have a negative influence. Seek out professional assistance if help is needed in interpreting the significance of the information.

The important thing is to obtain all the information needed to make a decision. In most instances, all of the business records should be made available to the buyer. In some cases however, certain information may be withheld until a bona fide offer, contingent upon obtaining that information, has been made.

If important information is unreasonably withheld, the likelihood of making the transaction work diminishes.

FINANCING THE PURCHASE

A buyer's source of financing depends in part on the size of the business being purchased. The vast majority of businesses (and particularly the smaller businesses) are purchased with a significant portion of the purchase price financed by the owner. The buyer, however, still must make a down payment and be sure that adequate working capital sources are available.

If the funds needed for the down payment are not readily available, the buyer must look for financing from an outside source. To grant such financing, an

institutional lender is almost certain to require personal collateral for the loan as well as a compendium of financial and operating data of the business to be acquired. It is rare indeed to be granted a loan to purchase a smaller, privately-held business when the loan is secured only by the assets of the business.

The most attractive types of personal collateral from the lender's point of view are real estate, marketable securities and cash value of life insurance. In addition to personal collateral, it must also be demonstrated to the lender that the buyer is of good character, has a clear source of repayment, and has a good business plan. The most common sources for such loans are financial institutions such as banks and consumer finance companies.

PRICING THE BUSINESS

Determining the value of a business is the part of the buy-sell transaction most fraught with potential for differences of opinion. Buyers and sellers usually do not share the same perspective. Each has a distinct rationale, and that rationale may be based on logic or emotion.

The buyer may believe that the purchase will create synergy or an economy of scale because of the way the business will be operated under new ownership. The buyer may also see the business as an especially good lifestyle fit. These factors are likely to increase the amount of money a buyer is willing to pay for a business. The seller may have a greater than normal desire to sell due to financial difficulties or the death or illness of the owner or a member of the owner's family.

For the transaction to come to conclusion, both parties must be satisfied with the price and be able to understand how it was determined.

Factors That Determine Value

The topic of business evaluation is so complex that any explanation short of an entire book does not do it justice. The process takes into account many, many variables and requires that a number of assumptions be made.

Negotiation

The art of negotiation plays an important role in buying or selling a business. Differences of opinion are inherent in the negotiation process and only realistic negotiators can find creative solutions to such differences. Businesses change hands most easily when the parties assume a non-adversarial posture. It is imperative that the parties know the issues that are important to one another. Each should understand the other's position on these issues.

Price is just one aspect of the transaction to be negotiated. Terms are just as important, particularly the period of time over which the debt is to be repaid and the allocation for tax purposes of the purchase price. Sellers naturally have the upper

hand in negotiations since they best know the business. A seller should make full use of that advantage. A buyer should minimize the seller's advantage by learning as much as possible about the business. The section in this booklet entitled "Evaluating the Business" identifies the key areas to be studied.

It is important to do more than study the business to prepare for negotiations. The parties must both understand each other's motivation for wanting to buy or sell the business and each other's plans after transition takes place. They must also understand why the other party has taken a certain position on an issue.

Developing a working strategy means each party must not only know the other's position, they must develop their own position as well. They should prepare in writing a list of reasons that validate their position. They should also think through possible weaknesses in their reasoning. In this way, each can anticipate and respond to the objections the other party may raise.

Buyers should request that the seller not negotiate with other buyers while the specifics of the offer are being negotiated. Sellers, on the other hand, are advantaged when they can negotiate with more than one buyer at a time. The most important thing in negotiations is to be able to see things from the other party's perspective. This eliminates much of the difficulty of reaching agreement and keeps the parties from wasting time.

Ex. 4. Lexical exercises.

1. Mind the different pronunciation, spelling and meaning of the words **SOME** and **SAME**.
2. Find in the text the sentences with the word **SINCE** and translate them paying attention to the prepositional and conjunctive functions of this word.
3. Give the English equivalents to the following words and expressions in your native language:

Ukrainian	
заздалегідь	
або ... або	
такий як	
а також	
бере до уваги	
максимально використовувати	
таким чином	
з іншого боку	

Ex. 5. Discussion section.

Answer the following questions:

1. What is the role of ads in buying or selling a business?
2. What is the difference between business brokers and merger or acquisition specialists?
3. What assistance can an experienced intermediary offer?
4. What things should be reviewed in evaluating a business?
5. Why do sellers usually have the upper hand in negotiations?
6. What is the most important thing in negotiations?

UNIT 4

SELECTING THE LEGAL STRUCTURE FOR YOUR FIRM

Ex. 1. Before reading the texts pay attention to the pronunciation of the following words.

availability	[ə'veɪlə'bɪlɪtɪ]	circumstance	['sɑ:kəmstəns]
identify	[aɪ'dentɪfaɪ]	license	['laɪs(ə)ns]
similarity	[.sɪmɪ'læntɪ]	associated	[ə'səʊʃɪeɪtɪd]
strategy	['strætɪdʒɪ]	association	[ə.səʊsɪ'eɪʃ(ə)n]
thorough	['θʌrə]	authority	[ɔ:'θɔ:rtɪ]
arena	[ə'ri:nə]	commerce	['kɔ:mə(:)s]
proprietorship	[prə'praɪətəʃɪp]	environment	[ɪn'vaɪər(ə)nmənt]
weigh	[weɪ]		

Ex. 2. The words and word combinations below may help you to understand the text better.

English	Ukrainian
myriad	незліченний
to vest	покладати обов'язки
assets	активи (майно)
to outline	коротко обрисовувати
to delineate	зображувати, визначати
interest	процентний дохід
ostensible	удаваний; очевидний, явний
compliance	згода
elimination	усунення
intricacy	складність, заплутаність
legal entity	юридична особа
stockholder	акціонер
lender	кредитор
guidelines	основні напрямки

Ex. 3. Read the texts.

SELECTING THE LEGAL STRUCTURE FOR YOUR FIRM

Summary

There are many reasons today for owner-managers of small businesses to look at the legal structure of their firms. The changing tax laws and fluctuating availability of capital are just two situations which require alert managers to review what legal structures best meet their needs.

All forms of business organization have advantages and disadvantages. This Aid seeks to briefly identify them for the owner-manager who wants to know "what question to ask" when seeking the proper professional advice.

If you were to make an analogy between starting a business and playing a card game, you might say, "The game is just for fun, but business is business." Well, you would be right. But let's consider some important similarities.

The game requires skill, strategy, planning, and, most important, a thorough knowledge of the rules. Going into business requires skill (the knowledge of your craft or trade), and it also requires strategy and planning. Most important, to be successful in business, you must understand the rules (or the laws) by which you must conduct your business. All planning and strategy must consider the multitude of local, state, and federal laws and business practices that govern the operation of the business.

Before you enter the complex arena of business and the myriad of laws which influence your freedom of choice and mobility of action, you must first choose the legal structure for your business that will best suit your needs and the needs of your particular business. In order to intelligently select the legal structure for your business, you must ask yourself, "What are my alternatives?" So, let's now look at the nature of various legal business structures.

There are three principal kinds of business structures: the proprietorship, the partnership, and the corporation. Each has certain general advantages and disadvantages, but they must all be weighed to reflect your specific circumstances, goals, and needs. The sole proprietorship is the first form we'll consider.

The Sole Proprietorship

The sole proprietorship is usually defined as a business which is owned and operated by one person. To establish a sole proprietorship, you need only obtain whatever licenses you need and begin operations. Hence, it is the most widespread form of small business organization.

Advantages of the Sole Proprietorship

Ease of formation. There is less formality and fewer legal restrictions associated with establishing a sole proprietorship. It needs little or no governmental approval and is usually less expensive than a partnership or corporation.

Sole ownership of profits. The proprietor is not required to share profits with anyone.

Control and decision making vested in one owner. There are no co-owners or partners to consult. (Except possibly your spouse.)

Flexibility. Management is able to respond quickly to business needs in the form of day today management decisions as governed by various laws and good sense.

Relative freedom from government control and special taxation.

Disadvantages Of The Sole Proprietor

Unlimited liability. The individual proprietor is responsible for the full amount of business debts which may exceed the proprietor's total investment. This liability extends to all the proprietor's assets, such as house and car. Additional problems of liability, such physical loss or personal injury, may be lessened by obtaining proper insurance coverage.

Unstable business life. The enterprise may be crippled or terminated upon illness or death of the owner.

Less available capital, ordinarily, than in other types business organizations.

Relative difficulty in obtaining long-term financing.

Relatively limited viewpoint and experience. This is more often the case with one owner than with several.

NOTE: A small business owner might very well select the sole proprietorship to begin with. Later, if the owner succeeds and feels the need, he or she can form partnership or corporation.

The Partnership

- The Uniform Partnership Act, adopted by many states defines a partnership as "an association of two or more persons to carry on as co-owners of a business for profit." Though not specifically required by the Act, written Articles of Partnership are customarily executed. These articles outline the contribution by the partners into the business (whether financial, material or managerial) and generally delineate the roles of the partners if the business relationship. The following are example articles typically contained in a partnership agreement:
 - Name, Purpose, Domicile
 - Duration of Agreement

- Character of Partners (general or limited, active or silent)
- Contributions by Partners (at inception, at later date)
- Business Expenses (how handled)
- Authority (individual partner authority in conduct of business)
- Separate Debts
- Books, Records, and Method of Accounting
- Division of Profits and Losses
- Draws or Salaries
- Rights of Continuing Partner
- Death of a Partner (dissolution and winding up)
- Employee Management
- Release of Debts
- Sale of Partnership Interest
- Arbitration
- Additions, Alterations, or Modifications of Partnership Agreement
- Settlements of Disputes
- Required and Prohibited Acts
- Absence and Disability

Some of the characteristics that distinguish a partnership from other forms of business organization are the limited life of a partnership, unlimited liability of at least one partner, co-ownership of the assets, mutual agency, share of management, and share in partnership profits.

Kinds of Partners

Ostensible Partner. Active and known as a partner.

Active Partner. May or may not be ostensible as well.

Secret Partner. Active but not known or held out as a partner.

Dormant Partner. Inactive and not known or held out as a partner.

Silent Partner. Inactive (but may be known to be a partner).

Nominal Partner. Not a true partner in any sense, not being a party to the partnership agreement. However, a nominal partner holds him or herself out as a partner, or permits others to make such representation by the use of his/her name or otherwise. Therefore, a nominal partner is liable, as if he or she were a partner, to third persons who have given credit to the actual or supposed truth of such representation.

Subpartner. One who, not being a member of the Partnership, contracts with one of the partners in reference to participation in the interest of such partner in the firm's business and profits.

Limited or Special Partner. Assuming compliance with the statutory formalities, the limited partner risks only his or her agreed investment in the business. As long as he or she does not participate in the management and control of the enterprise or in the conduct of its business, the limited partner is generally not subject to the same abilities as a general partner.

Advantages of the Partnership

Ease of formation. Legal informalities and expenses are few compared with the requirements for creation of a corporation.

Direct rewards. Partners are motivated to apply their abilities by direct sharing of the profits.

Growth and performance facilitated. In a partnership, it is often possible to obtain more capital and a better range of skills than in a sole proprietorship.

Flexibility. A partnership may be relatively more flexible in the decision making process than in a corporation. But, it may be less so than in a sole proprietorship.

Relative freedom from government control and special taxation.

Disadvantages of a Partnership

Unlimited liability of at least one partner. Insurance considerations such as those mentioned in the proprietorship section apply here also.

Unstable life. Elimination of any partner constitutes automatic dissolution of partnership. However, operation of the business can continue based on the right of survivorship and possible creation of a new partnership. Partnership insurance might be considered.

Relative difficulty in obtaining large sums of capital. This is particularly true of long term financing when compared to a corporation. However, by using individual partners' assets, opportunities are probably greater than in a proprietorship.

Firm bound by the acts of just one partner as agent.

Difficulty of disposing of partnership interest. The buying out of a partner may be difficult unless specifically arranged for in the written agreement.

The Corporation

The corporation is by far the most complex of the three business structures. For the purpose of this Aid, we shall discuss only the general characteristics of the corporation, not its intricacies.

As defined by Chief Justice Marshall's famous decision in 1819, a corporation "is an artificial being, invisible, intangible, and existing only in contemplation of the law." In other words, a corporation is a legal entity, distinct from the individuals who own it.

Formation of the Corporation

A corporation usually is formed by the authority of a state government. Corporations which do business in more than one state must comply with the Federal laws regarding interstate commerce and with the state laws, which may vary considerably.

The procedure ordinarily required forming a corporation is that, first, subscriptions for capital stock must be taken and a tentative organization created. Then, approval must be obtained from the Secretary of State in the state in which the corporation is to be formed. This approval is in the form of a charter for the corporation, stating the powers and limitations of the particular enterprise.

Advantages of the Corporation

Limitations of the stockholder's liability to a fixed amount of investment. However, do not confuse corporate liability with appropriate liability insurance considerations.

Ownership is readily transferable.

Separate legal existence.

Stability and relative permanence of existence. For example, in the case of illness, death, or other cause for loss of a "principal" (officer or owner), the corporation continues to exist and do business.

Relative ease of securing capital in large amounts and from many investors. Capital may be acquired through the issuance of various stocks and long term bonds. There is relative ease in securing long term financing from lending institutions by taking advantage of corporate assets and often personal assets of stockholders and principals of guarantors. (Personal guarantees are very often required by lenders.)

Delegated authority. Centralized control is secured when owners delegate authority to hired managers, although they are often one and the same.

The ability of the corporation to draw on the expertise and skills of more than one individual.

Disadvantages of the Corporation

Activities limited by the charter and by various laws. However, some states do allow very broad charters.

Manipulation. Minority stockholders are sometimes exploited.

Extensive government regulations and required local, state, and federal reports.

Less incentive if manager does not share in profits.

Expense of forming a corporation.

Double tax — income tax on corporate net income (profit) and on individual salary and dividends.

Ex. 4. Lexical exercises.

1. Do not confuse the following words and define their meanings:

though [ðəʊ]

through [θru:]

thorough [ˈθʌrə]

2. Give the equivalents to the following:

Ukrainian	English
задовольняти нестатки	
впливати на	
для того щоб	
принаймні	
отже	
у порівнянні з	
іншими словами	

Ex. 5. Discussion section.

Answer the questions:

1. How many principal kinds of business structures are there and what are they?
2. What are advantages and disadvantages of the sole proprietorship?
3. In what way does the Uniform Partnership Act define a partnership?
4. Which of the three business structures is the most complex one?

UNIT 5

THE BUSINESS PLAN FOR HOME-BASED BUSINESS

Ex. 1. Before reading the texts pay attention to the pronunciation of the following words.

sufficiency	[s(ə)'fɪj(ə)nsi]	unique	[ju:'nɪk]
launch	[lɔ:ntʃ]	legislation	[ˌledʒɪs'leɪj(ə)n]
failure	['feɪljə]	persuade	[pə'sweɪd]
potential	[pəu'tenʃ(ə)]	volunteer	[ˌvɒlən'tiə]
rationale	[ˌræʃə'na:l]	lawyer	['lɔ:jə]
target	['tɑ:ɡɪt]	hourly	['aʊəli]
identify	[aɪ'dentɪfaɪ]	initial	['ɪnɪj(ə)]
leisure	['leɪzə]	schedule	[ˈʃedju:l] ; <i>AMER.</i> ['skedju:l]

Ex. 2. The words and word combinations below may help you to understand the text better.

English	Ukrainian
aptitude	схильність
income	дохід
to target	намічати, планувати
franchisee	особа, що має право представництва
benefits	пільги, привілеї
bankroll	грошові кошти; фінансові ресурси
to assure	забезпечувати, гарантувати
fixtures	пристосування, приналежності
payroll	фонд заробітної плати
fixed assets	основний капітал
“Pro Forma”	умовні дані в балансі
balance sheet	балансовий звіт
equity	чиста вартість капіталу за винятком заборгованості
cash flow	рух готівки
troubled waters	складне становище, занепокоєння

P&L — [Profit and Loss Account] Звіт про прибутки і збитки; Звіт про фінансові результати

SBA — [Small Business Administration] відомство у справах дрібних підприємців (США)

Ex. 3. Read the texts.

THE BUSINESS PLAN FOR HOME-BASED BUSINESS

Introduction

Homework has taken on new meaning for more than 15 million Americans. The drive for economic self-sufficiency has motivated large numbers of persons to market their skills and talents for profit from home. More than 600,000 persons launched home enterprises in 2007. The increasingly service-oriented economy offers a widening spectrum of opportunities for customized and personalized small business growth.

Though untrained entrepreneurs have traditionally had a high rate of failure, small businesses can be profitable. Success in small home-based business is not an accident. It requires both skills in a service or product area and acquisition of management and attitudinal competencies.

The purpose of this Management Aid is to help you take stock of your interests, aptitudes and skills. Many people have good business ideas, but not everyone has what it takes to succeed. If you are convinced that a profitable home business is attainable, this Management Aid will provide step by step guidance in development of the basic written business plan.

Selecting a Business

Perhaps you have already decided what your home-based business will be. You know how you will serve your market and with what. If not, "but you are determined to establish a home-based source of income, then you need to decide exactly what business you will enter. A logical first step for the undecided is to list potential areas of personal background, special training, educational and job experiences and special interests that could be developed into a business.

Marketing Plan

The marketing plan is the core of your business rationale. To develop, a consistent sales growth a home-based business person must become knowledgeable about the market.

Who Is Your Competition?

No small business operates in a vacuum. Get to know and respect the competition. Target your marketing plans. Identify direct competitors (both in terms of geography and product lines), and those who are similar or marginally comparative. Begin by listing names, addresses and products or services.

What Is Your Sales Plan?

Describe how you will sell, distribute and/or service what you sell? Be specific. Below are outlined some common practices?

Direct Sales. By telephone or in person. The tremendous growth of individual sales representatives who sell by party bookings, door to door, and through distribution of call back promotional campaigns suggests that careful research is required to be profitable.

Mail Order. Specialized markets for leisure time or unique products have grown as more two income families find less time to shop. Be aware of recent mail order legislation and regulation.

Franchising. a). You may decide to either buy into someone else's franchisee
b). Create your own franchise operation that sell rights to specific territories or product lines to others. Each will require further legal, financial, and marketing research.

Distributors. You may decide to work as a local or regional distributor for several different product lines.

What Is Your Advertising Plan?

Each product or service will need its own advertising strategy as part of the total business marketing plan. Before developing an advertising campaign for your business plan, take time to review a few basic assumptions. By definition, advertising is any form of paid, non-personal promotion that communicates with a large number of potential customers at the same time. The purpose of advertising is to inform, persuade and remind customers about your companies' products or services.

Management Plan. Who Will Do What?

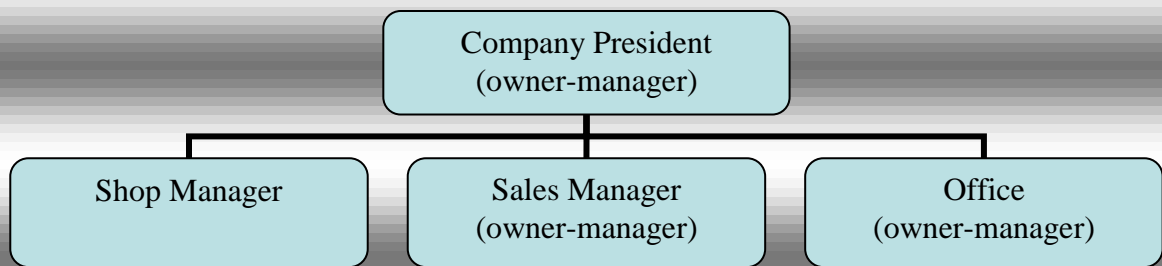
Be sure to include four basic sets of information:

1. State a personal history of principals and related work, hobby or volunteer experience (include formal resumes in Appendix)
2. List and describe specific duties and responsibilities of each
3. List benefits and other forms of compensation for each
4. Identify other professional resources available to the business.

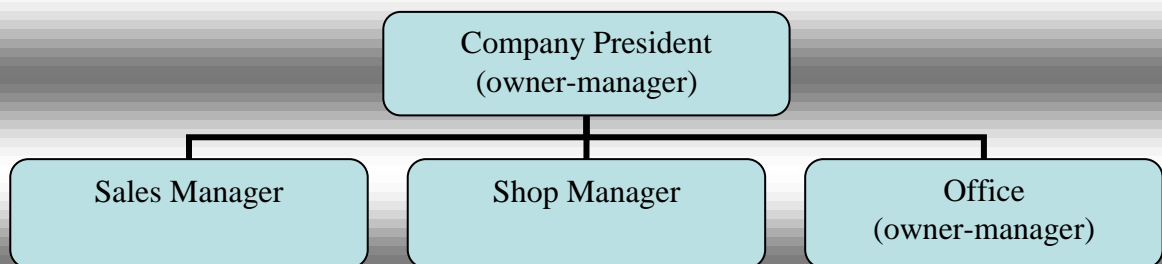
Example: Accountant, lawyer, insurance broker, etc. Describe relationship of each to business: Example: "accountant available on part time hourly basis, as

needed, initial agreement calls for services not to exceed x hours per month at \$xx.xx per hour.”

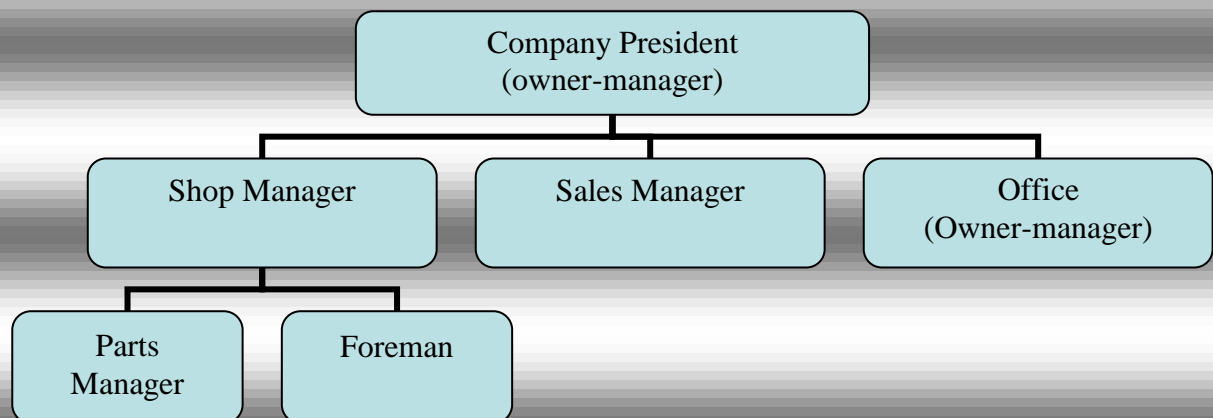
To make this, section graphically clear, start with a simple organizational chart that lists specific tasks and shows, who (type of person is more important than individual name other than for principals) will do what indicated by arrows, work flow and lines of responsibility and/or communications. Consider the following examples:



Or like this?



As the service business grows, its organization chart could look like this:



The Financial Plan

Clearly the most critical section of your Business Plan Document is the Financial Plan. In formulating this part of the planning document, you will establish

vital schedules that will guide the financial health of your business through the troubled waters of the first year and beyond.

Before going into the details of building the Financial Plan, it is important to realize that some basic knowledge of accounting is essential to the productive management of your business. If you are like most home business owners, you probably have a deep and abiding interest in the product or services that you sell or intend to sell. You like to do what you do, and it is even more fulfilling that you are making money doing it. There is nothing wrong with that. Your conviction that what you are doing or making is worthwhile is vitally important to success. Nonetheless, the income of a coach who takes the greatest pride in producing a winning team will largely depend on someone keeping score of the wins and losses.

The business owner is no different. Your product or service may improve the condition of mankind for generations to come, but, unless you have access to an unlimited bankroll, you will fail if you don't make a profit. If you don't know what's going on in your business, you are not in a very good position to assure its profitability.

The Financial Plan includes the following:

1. Financial Planning Assumptions – these are short statements of the conditions under which you plan to operate.
 - Market health
 - Date of startup
 - Sales buildup (\$)
 - Gross profit margin
 - Equipment, furniture and fixtures required
 - Payroll and other key expenses that will impact the financial plan
2. Operational Plan – Profit and Loss Projection – this is prepared for the first year, broken into twelve individual months. It should become your first year's Budget. See Exhibits A & A-1.
3. Source of Funds Schedule – this shows the source(s) of your funds to capitalize the business and how they will be distributed among fixed assets and working capital.
4. Pro Forma Balance Sheet – “Pro Forma” refers to the fact that the balance sheet is before the fact, not actual. This form displays Assets, Liabilities and Equity of the business. This will indicate how much Investment will be required by the business and how much of it will be used as Working Capital in its operation.

5. Cash Flow Projection – this will forecast the flow of cash into and out of your business through the year. It helps you plan for staged purchasing, high volume months and slow periods.

UNIT 6

FINDING MONEY FOR YOUR BUSINESS

The ABC's of Borrowings

Ex. 1. Before reading the texts pay attention to the pronunciation of the following words.

highlight	['haɪlaɪt]	merchandise	['mɑːtʃ(ə)ndaɪz]
evaluate	['væljueɪt]	depreciation	[.deprɪ'keɪʃ(ə)n]
equipment	['kwɪpmənt]	identical	[aɪ'dentɪk(ə)l]
supplies	[sə'plaɪ]	architect	['ɑːkɪtekt]
enough	['nʌf]	budget	['bʌdʒɪt]
measure	['meʒə]	receipt	[rɪ'siːt]
percentage	[pə'sentɪdʒ]		

Ex. 2. The words and word combinations below may help you to understand the text better.

English	Ukrainian
to lend	давати в борг
to borrow	брати в борг
collateral	застава
vague	невизначений, нечіткий
activities	діяльність
to involve	включати; мати на увазі
highlights	основні моменти
sound	надійний, стійкий
make allowance for	враховувати можливості
pledge	віддавати під заставу,
yardstick	критерій
merchandise	товар
turnover	обіг
depreciation	амортизація

earnings	доходи, прибуток
disbursement	витрати
endorser	індосант (особа, що робить надпис під час передачі)
chattel	застава на рухоме майно
stock mortgage	акція
bond	облігація
solvent	платоспроможний

Ex. 3. Read the texts.

THE ABC'S OF BORROWING

Summary

Some small businesspersons cannot understand why a lending institution refused to lend them money. Others have no trouble getting funds, but they are surprised to find strings attached to their loans. Such owner-managers fail to realize that banks and other lenders have to operate by certain principles just as do other types of business.

This Aid discusses the following fundamentals of borrowing: (1) credit worthiness, (2) kinds of loans, (3) amount of money needed, (4) collateral, (5) loan restrictions and limitations, (6) the loan application, and (7) standards which the lender uses to evaluate the application.

Introduction

Inexperience with borrowing procedures often creates "resentment and bitterness. The stories of three small businesspersons illustrate this point.

"I'll never trade here again," Bill Smith said when his bank refused to grant him a loan. "I'd like to let you have it, Bill," the banker said, "but your firm isn't earning enough to meet your current obligations." Mr. Smith was unaware of a vital financial fact, namely, that lending institutions have to be certain that the borrower's business can repay the loan.

Tom Jones lost his temper when the bank refused him a loan because he did not know what kind or how much money he needed. "We hesitate to lend," the banker said, "to business owners with such vague ideas of what and how much they need."

John Williams' case was somewhat different. He didn't explode until after he got the loan. When the papers were ready to sign, he realized that the loan agreement put certain limitations on his business activities. "You can't dictate to me," he said and walked out of the bank. What he didn't realize was that the limitations were for his good as well as for the bank's protection.

Knowledge of the financial facts of business life could have saved all three the embarrassment of losing their tempers. Even more important, such information would have helped them to borrow money at a time when their businesses needed it badly.

This Aid is designed to give the highlights of what is involved in sound business borrowing. It should be helpful to those who have little or no experience with borrowing. More experienced owner-managers should find it useful in re-evaluating their borrowing operations.

Is Your Firm Credit Worthy?

The ability to obtain money when you need it is as necessary to the operation of your business as is a good location or the right equipment, reliable sources of supplies and materials, or an adequate labor force. Before a bank or any other lending agency will lend you money, the loan officer must feel satisfied with the answers to the five following questions:

1. What sort of person are you, the prospective borrower? By all odds, the character of the borrower) comes first. Next is your ability to manage your business.
2. What are you going to do with the money? The answer to this question will determine the type of loan, short or long-term. Money to be used for the purchase of seasonal inventory will require quicker repayment than money used to buy fixed assets.
3. When and how do you plan to pay it back? Your banker's judgment of your business ability and the type of loan will be a deciding factor in the answer to this question.
4. Is the cushion in the loan large enough? In other words, does the amount requested make suitable "allowance for unexpected developments? The banker decides this question on the basis of your financial statement which sets forth the condition of your business and on the collateral pledged.
5. What is the outlook for business in general and for your business particularly?

Adequate Financial Data Is a "Must"

The banker wants to make loans to businesses which are solvent, profitable, and growing. The two basic financial statements used to determine those conditions are the balance sheet and profit-and-loss statement. The former is the major yardstick for solvency and the latter for profits. A continuous series of these two statements over a period of time is the principal device for measuring financial stability and growth potential.

In interviewing loan applicants and in studying their records, the banker is especially interested in the following facts and figures.

General Information: Are the books and records up-to-date and in good condition? What is the condition of accounts payable? Of notes payable? What are the salaries of the owner-manager and other company officers? Are all taxes being paid currently? What is the order backlog? What is the number of employees? What is the insurance coverage?

Accounts Receivable: Are there indications that some of the accounts receivable have already been pledged to another creditor? What is the accounts receivable turnover? Is the accounts receivable total weakened because many customers are far behind in their payments? Has a large enough reserve been set up to cover doubtful accounts? How much do the largest accounts owe and what percentage of your total accounts does this amount present?

Inventories: Is merchandise in good shape or will it have to be marked down? How much raw material is on hand? How much work is in process? How much of the inventory is finished goods?

Is there any obsolete inventory? Has an excessive amount of inventory been consigned to customers? Is inventory turnover in line with the turnover for other businesses in the same industry? Or is money being tied up too long in inventory?

Fixed Assets: What is the type, age, and condition of the equipment? What are the depreciation policies? What are the details of mortgages or conditional sales contracts? What are the future acquisition plans?

What Kind of Money?

When you set out to borrow money for your firm, it is important to know the kind of money you need from a bank or other lending institution. There are three kinds of money: short term, term money, and equity capital.

Keep in mind that the purpose for which the funds are to be used is an important factor in deciding the kind of money needed. But even so, deciding what kind of money to use is not always easy. It is sometimes complicated by the fact that you may be using some of the various kinds of money at the same time and for identical purposes.

Keep in mind that a very important distinction between the types of money is the source of repayment. Generally, short-term loans are repaid from the liquidation of current assets which they have financed. Long-term loans are usually repaid from earnings.

Short-Term Bank Loans

You can use short-term¹ bank loans for purposes such as financing accounts receivable for, say 30 to 60 days. Or you can use them for purposes that take longer

to pay off — such as for building a seasonal inventory over a period of 5 to 6 months. Usually, lenders expect short-term loans to be repaid after their purposes have been served, for example, accounts receivable loans, when the outstanding accounts have been paid by the borrower's customers, and inventory loans, when the inventory has been converted into saleable merchandise.

Banks grant such money either on your general credit reputation with an unsecured loan or on a secured loan.

The Unsecured Loan is the most frequently used form of bank credit for short-term purposes. You do not have to put up collateral because the bank relies on your credit reputation.

The Secured Loan involves a pledge of some or all of your assets. The bank requires security as a protection for its depositors against the risks that are involved even in business situations where the chances of success are good.

Term Borrowing

Term borrowing provides money you plan to pay back over a fairly long time. Some people break it down into two forms: (1) intermediate — loans longer than 1 year but less than 5 years, and (2) long-term — loans for 5 years or more.

However, for your purpose of matching the kind of money to the needs of your company, think of term borrowing as a kind of money which you probably will pay back in periodic installments from earnings.

Equity Capital

Some people confuse term borrowing and equity (or investment) capital. Yet there is a big difference.

You don't have to repay equity money. It is money you get by selling a part interest in your business.

You take people into your company who are willing to risk their money in it. They are interested in potential income rather than in an immediate return on their investment.

How Much Money?

The amount of money you need to borrow depends on the purpose for which you need funds. Figuring the amount of money required for business construction, conversion, or expansion — term loans or equity capital — is relatively easy. Equipment manufacturers, architects, and builders will readily supply you with cost estimates.

On the other hand, the amount of working capital you need depends upon the type of business you're in. While rule-of-thumb ratios may be helpful as a starting

point, a detailed projection of sources and uses of funds over some future period of time — usually for 12 months — is a better approach. In this way, the characteristics of the particular situation can be taken into account. Such a projection is developed through the combination of a predicted budget and cash forecast.

The budget is based on recent operating experience plus your best judgment of performance during the coming period. The cash forecast is your estimates of cash receipts and disbursements during the budget period. Thus, the budget and the cash forecast together represent your plan for meeting your working capital requirements.

To plan your working capital requirements, it is important to know the "cash flow" which your business will generate. This involves simply a consideration of all elements of cash receipts and disbursements at the time they occur. These elements are listed in the profit-and-loss statement which has been adapted to show cash flow. They should be projected for each month.

What Kind of Collateral?

Sometimes, your signature is the only security the bank needs when making a loan. At other times, the bank requires additional assurance that the money will be repaid. The kind and amount of security depends on the bank and on the borrower's situation.

If the loan required cannot be justified by the borrower's financial statements alone, a pledge of security may bridge the gap. The types of security are: endorsers; co-makers and guarantors; assignment of leases; trust receipts and floor planning; chattel mortgages; real estate; accounts receivables; savings accounts; life insurance policies; and stocks and bonds

What Are The Lender's Rules?

Lending institutions are not just interested in loan repayments. They are also interested in borrowers with healthy profit-making businesses. Therefore, whether or not collateral is required for a loan, they set loan limitations and restrictions to protect themselves against unnecessary risk and at the same time against poor management practices by their borrowers. Often some owner-managers consider loan limitations a burden.

Yet others feel that such limitations also offer an opportunity for improving their management techniques.

Especially in making long-term loans, the borrower as well as the lender should be thinking of: (1) the net earning power of the borrowing company, (2) the capability of its management, (3) the long range prospects of the company, and (4) the long range prospects of the industry of which the company is a part. Such factors often mean that limitations increase as the duration of the loan increases.

What Kinds of Limitations?

The kinds of limitations, which an owner-manager finds set upon the company depends, to a great extent, on the company. If the company is a good risk, only minimum limitations need be set. A poor risk, of course, is different. Its limitations should be greater than those of a stronger company.

Ex. 4. Lexical exercises.

Mind the suffixes **-er**, **-or** indicating a person or an instrument-doer of an action. Find in the text as many nouns with these suffixes as possible.

1. Analyze the formation of the following words and translate them: inexperienced, unaware, re-evaluating, up-to-date, unnecessary.
2. Remember the following pairs of antonyms:
Lender — borrower
Long-term — short-term
Former — latter

Ex. 5. Discussion section.

1. Give the main points which may interest a bank or any other lending agency.
2. Speak about the kind of money that can be borrowed (or lent).

UNIT 7

SOUND CASH MANAGEMENT AND BORROWING

Ex. 1. Before reading the texts pay attention to the pronunciation of the following words.

appreciate	[ə'pri:ʃi:et]	relinquish	[rɪ'liŋkwɪʃ]
haphazardly	['hæp'hæzəd]	substantiate	[səb'stæɪn(i)et]

Ex. 2. The words and word combinations below may help you to understand the text better.

English	Ukrainian
bet	вибір, варіант
ailment	хвороба
forecasting	прогнозування
to relinquish	залишати
to substantiate	обґрунтовувати; робити реальним

Ex. 3. Read the texts.

SOUND CASH MANAGEMENT AND BORROWING

Summary

Poor management is the reason why some owner-managers of small firms have trouble when they try to borrow. Those managers often fail to forecast and to plan for cash needs. The resulting business ailment is a "cash crises."

Sound management must be practiced if loans are to be obtained and used profitably. Such management includes: knowing the firm's cash flow, forecasting cash needs, planning to borrow at the appropriate time, and substantiating the firm's payback ability.

This Aid includes examples of the following: a cash budget forecast, a projection of borrowing requirements, and a cash flow schedule for repaying a loan.

In spite of respectable sales volumes, many owners of small businesses run into financial trouble. Some get in so deep that they are barely able to pull their heads

back above water. Others find themselves only weeks or months away from tacking "out of business" signs on their doors.

Often these owner-managers have three things in common. First, they know their line of business. Their technical ability is first rate. Second, they are poor managers. In many instances, they fail to plan ahead because of their enthusiasm for the operating side of their business. In the third place, most of them feel that additional money will solve their problems. They think that a loan will pull them out of the red.

Lending Officer's Viewpoint

Often a bank lending officer refuses or "declines" that loan request of such manager-owners. It is not that a banker lack appreciation for the hard work and long hours which these owners put into their businesses. Nor does the bank question their good intentions.

Foremost in the lender's mind is the question: Can the firm pay back this loan? Thus, in many cases, the lender refuses the loan because the owner-manager hastily and haphazardly prepared the loan application under pressuring circumstances.

As a result, the lending officer detects an air of instability and lack of planning in the owner-manager's description of his or her affairs. "How is the borrower really going to repay," the lending officer asks, "if the borrower doesn't actually know how much money is needed and how it is going to be used?"

If your request for a loan is turned down, the best bet is to accept the refusal gracefully and look for weaknesses in the presentation. You can correct these weaknesses when applying for a loan in the future.

Pertinent Questions

The lender needs the answers to several pertinent questions to determine whether or not the borrower can repay the loan. One of these questions is: What does the borrower intend to use the money for?

What Kind of Money? When you consider borrowing, determine what kind of money you need. A business uses four basic types of money in its operations. Your purpose in borrowing will determine the type.

Trade Credit. This type of "money" is not borrowed. It is money you owe your suppliers who permit you to carry your fast-moving inventory on open account. A good credit experience is proven evidence of your ability to repay borrowed funds.

Short-Term Credit. Banks and other lenders will provide this type of money to carry you in your purchases of inventory for special reasons, such as buying

inventory for the next selling season. Such loans are self-liquidating because they generate sales dollars. You repay short-term credit in less than a year.

Long-Term Credit. Such loans — for more than a year — are used for expansion or modernization of your business. They are repaid out of accumulated profits. Usually, the evidence of this type of loan in a small business is a mortgage or a promissory note with terms.

Equity Funds. This type of money is never repaid. You get it by relinquishing a part of your profits to an investor. That is you sell an interest in your business.

Ex. 4. Lexical exercises.

1. Pay attention to the frequent use of the verb “fail” (“fail” + infinitive means “not to manage/be unable to do smth, or not to do smth”). So change the phrases according to the model:

E.g. Those managers often fail to forecast. – Those managers often can not forecast

They fail to plan ahead.

Many owner-managers fail to recognize the difference between the four types of money.

2. Give the English equivalents of the following words and word combinations:

Ukrainian	English
незважаючи на	
мати щось спільне	
по-перше, по-друге, по-третє	
будувати плани на майбутнє	
у результаті	

Ex. 5. Discussion section.

1. Say whether you agree or disagree with the statement:

Poor management is the reason why some owner-managers of small firms have trouble when they try to borrow.

UNIT 8

ACCOUNTING SERVICES FOR SMALL SERVICE FIRMS

Ex. 1. Before reading the texts pay attention to the pronunciation of the following words.

reveal	[rɪ'veɪl]	vehicle	['viːkl]
capture	['kæptʃə]	weigh	[weɪ]
expenditure	[ɪks'pendɪtʃə]	prior	['praɪə]

Ex. 2. The words and word combinations below may help you to understand the text better.

English	Ukrainian
the red	заборгованість, борг
to be in the black	мати прибуток
ledger	бухгалтерська книга
expenditure	витрати
deduction	відрахування, утримання
arrear	заборгованість, прострочення платежу
attorney	юрист, повірник
to suffice	бути достатнім

Ex. 3. Read the texts.

ACCOUNTING SERVICES FOR SMALL SERVICE FIRMS

Summary

Accounting services can help the owner-manager of a small service firm keep the businessmen a sound basis. Among these services are setting up recordkeeping procedures, interpreting a firm's records, and providing financial advice based on such an interpretation.

Sample profit and loss statements are used to illustrate how accounting services can help reveal and correct trouble spots.

Many small service firms seem to have the potential for success. The owner-managers are good crafts people and offer services which attract customers. And in many cases, sales are good.

Yet, because of poor financial management, some small service firms fail. Others struggle to keep out of the red. Still others stay in the black only because the owner-managers are willing to work for low pay.

In some cases, the poor results are caused by inadequate financial records. In other firms, the records may be good, but the owner-manager lacks the ability or experience to use them.

In achieving effective financial management, the services of a public accountant are helpful. An accountant can design records, set up ways for maintaining them, draw off vital information, and help relate it to a profitable operation.

Bits of Information

Daily bits of information flow into a small service firm. As customers are served, pieces of information are generated about sales, cash, equipment, purchase expenses, payroll, accounts payable, and, if credit is offered to customers, accounts receivable.

To capture these facts and figures, a system is necessary. The accountant can help design one for recording the information which the owner-manager needs to control finances and make profitable decisions.

Such a system usually consists of bookkeeping records which may be set up in journals, ledgers, or other records.

The accountant, with the following basic records, sets up a system according to your particular need.

Cash Receipts — used to record the cash which the business receives.

Cash Disbursements — Used to record the firm's expenditures.

Sales — used to record and summarize monthly income.

Purchases — used to record the purchases of merchandise bought for processing or resale.

Payroll — used to record the wages of employees and their deductions, such as those for income and Social Security taxes.

Equipment — used to record the firm's capital assets, such as equipment, office furniture, and motor vehicles.

Inventory — used to record the firm's investment in stock which is needed for arriving at a true profit on financial statements and for income tax purposes.

Accounts Receivable — used to record the balances which customers owe to the firm.

Accounts Payable — used to record what the firm owes its creditors and suppliers.

Who Keeps The Books?

Once a system of records has been set up, the question is: Who will keep the books?

The public accountant who has set up the books may keep them. But you must weigh the cost because the accountant has to charge for time, operating expenses, and profit. However, his or her professional advice can frequently increase your profits to more than cover these expenses.

If you have the time and inclination, you can keep the books yourself. Another possibility is to hire someone to work part-time.

Drawing the Picture

A set of books is like a roll of exposed film. The latter must be developed before you can see the picture.

Similarly, your books contain facts and figures which make up a picture of your business. They have to be arranged into an order before you see the picture.

The accountant draws such a picture by preparing financial statements, such as a profit and loss statement. The P and L or income statement shows what profit or loss your business had in a certain time period. A sample — "Profit and Loss Statement for OK Appliance Repair Company" — is shown below.

Profit and Loss Statement for OK Appliance Repair Company

Gross Sales	\$70,000
Cost of Sales:	
Opening inventory	\$13,000
Purchases	<u>25,000</u>
<hr/>	
Total	38,000
Ending inventory	<u>14,000</u>
Total Cost of Sales	<u>24,000</u>
Gross Profit	46,000
Operating Expenses:	
Payroll (not including owner)	26,000
Rent	3,000

Payroll taxes	1,500
Interest	600
Depreciation	1,400
Truck expense	5,500
Telephone	2,400
Insurance	1,000
Miscellaneous	<u>1,000</u>
Total	<u>42,400</u>
Net Profit (before owner's salary)	<u>\$ 3,600</u>

Advice and Assistance

In addition to analyzing the profit and loss statement and pointing out areas which need control, your accountant can advise on financial management. He or she can advise on cash requirements, budget forecast, borrowing, business organization, and taxes.

On cash requirements, the accountant can help you work out the amount of cash needed to operate your firm during a certain period — for example, 3 months, 6 months, a year. The accountant considers how much cash you will need for the following: to carry customer accounts receivable, to add to inventory, to pay current bills, to buy equipment, and to repay loans. In addition, the accountant can determine how much of the cash will come from collections of accounts receivables and how much will have to be borrowed.

While working out the cash requirements, the accountant may notice, and call to your attention, danger spots such as accounts that are in arrears. One firm, for example, allowed a customer to fall \$18,000 behind in payments. When the customer went bankrupt, the firm lost \$16,000 — almost as much as a year's profits.

When you borrow, the accountant can assemble financial information such as a profit and loss statement and a balance sheet. The purpose of such data is to show the lender the financial position of your business and its ability to repay the loan. Using this data, the accountant can advise on whether you need a short-term or long-term loan.

The financial data which he or she compiles may include: the assets you will offer for collateral, your present debt obligations, a summary of how you will use the borrowed money, and a schedule of how you intend to repay. In addition, if the owner-manager has never borrowed before, the accountant may help by introducing you to a banker who knows and respects the accountant's reputation.

You, your accountant, and your attorney should work together to decide the type of organization that best fits your need. The accountant can point out the tax advantages and disadvantages of the various types of business organization — proprietorship, partnership, and corporation.

Taxes are another area in which the accountant can provide advice and assistance. Normally, a bookkeeping system which provides the information you need for making profitable decisions will suffice for tax purposes. However, if additional facts are needed because of your type of business, your accountant can bring them to your attention and suggest a method for recording them.

1. Compare the underlined structures and explain the differences:

- Once a system of records has been set up, the question is: Who will keep the books?
- The public accountant who has set up the books may keep them.

2. Be sure that you can read and understand correctly the way figures and numbers are written in English. Note that 70,000 in English text correspond to 70.000 in our translation.

Mind the following:

English or American	Russian or Ukrainian
70,000	70.000
4.28	4,28
.86	0,86
1,400	1.400

Ex. 4. Lexical exercises.

1. Notice the following pairs of words and say which of them are synonyms and which of them are antonyms:

wages — salary, accountant — bookkeeper, advantages — disadvantages

2. Translate the following English word combinations into Russian or Ukrainian: on a sound basis, because of, consist of, as much as, such as.

Ex. 5. Discussion section.

1. Describe in what way accounting services can help the owner-manager of a small service firm.

2. Do you think that you, your accountant and your attorney should work together to decide the type of organization that best fits your need?

Conclusions

1. Remember interrogative words WHO, WHEN, WHAT, WHERE, WHY, HOW, HOW MANY, HOW MUCH, HOW LONG, WHICH, WHOSE, etc. and check up if you can make different types of questions.
2. Ask your friends:
 - Whether he/she intends to start up his/her own business;
 - What kind of business it will be;
 - If he/she has any experience in it;
 - How well he/she is aware of the difficulties
3. Do you find the AID provides useful information?
4. Discuss the usefulness of the information provided by the instruction.
5. Summarize the main ideas.

UNIT 9

UNDERSTANDING CASH FLOW

Ex. 1. Before reading the texts pay attention to the pronunciation of the following words.

objective	[əb'dʒektɪv]	deficiency	[dɪ'fɪj(ə)nsɪ]
cycle	['saɪkl]	value	['vælju:]
diagram	['daɪagræm]	occur	[ə'kɜ:]
purchase	['pɜ:tʃəs]	excess	[ɪk'ses]

Ex. 2. The words and word combinations below may help you to understand the text better.

E	U
insolvent	неплатоспроможний
obligation	зобов'язання
to owe	заборгувати, бути боржником
depreciation	знецінювання
to insure	страхувати, гарантувати
to be available	бути в наявності

Ex. 3. Read the texts.

UNDERSTANDING CASH FLOW

Summary

The prime objective for any business is to survive. That means a firm must have enough cash to meet its obligations. This Aid shows the owner-manager how to plan for the movement of cash through the business and thus plan for future requirements.

Introduction

All businesses, no matter how small or large, function on cash. Many businesses become insolvent because they do not have enough cash to meet their short term obligations; bills must be paid in cash, not profits. Sufficient cash is,

therefore, one of the keys to maintaining a successful business. Thus, you must understand how cash moves or flow through the business and how planning can remove some of the uncertainties about future requirements.

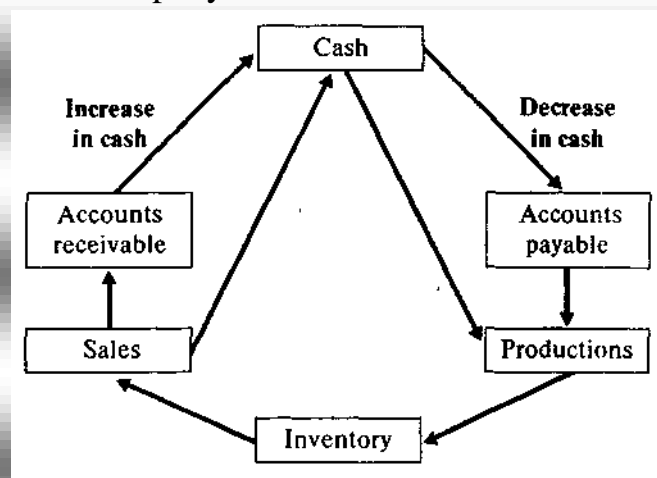
Cash Flow

Cash Cycle

In any business there is a continual cycle of events which may increase or decrease the cash balance. The following diagram is used to illustrate this flow of cash.

Cash is decreased in the acquisition of materials and services to produce the finished goods. It is reduced in paying off the amounts owed to suppliers; that is, accounts payable. Then, inventory is sold and these sales generate cash and accounts receivable; that is, money owed from customers. When customers pay, accounts receivable is reduced and the cash account increases. However, the cash flows are not necessarily related to the sales in that period because customers may pay in the next period.

The small business manager must continually be alert to changes in working capital accounts, the cause of these changes, and the implications of these changes for the financial health of the company.



Net Working Capital

Current assets are those resources of cash and those assets which can be converted to cash within one year or a normal business cycle. These include cash, marketable securities, accounts receivable, inventories, etc. Current liabilities are obligations which become due within one year or a normal business cycle. These include accounts payable, notes payable, accrued expenses payable, etc. You may want to consider current assets as the source of funds which reduce current liabilities.

One way to measure the flow of cash and the firm's ability to maintain its cash or liquid assets is to compute working capital. It is the difference between current

assets and current liabilities. The change in this value from period to period is called net working capital. For example:

	<u>19 x 1</u>	<u>19 x 2</u>
Current assets	\$110,000	\$200,000
Less current liabilities	<u>-70,000</u>	<u>-112,000</u>
Working capital	<u>40,000</u>	<u>88,000</u>
Net working capital increase (decrease)		<u>\$40,000</u>

Net working capital increased during the year, but we don't know how. It could have been all in cash or all in inventory. Or, it may have resulted from a reduction in accounts payable.

Cash Flow Statement

While net working capital shows only the changes in the current position, a "flow" statement can be developed to explain the changes that have occurred in any account during any time period. The cash flow statement is an analysis of the cash inflows and outflows.

The ability to forecast cash requirements is indeed a means of becoming a more efficient manager. If you can determine the cash requirements for any period, you can establish a bank loan in advance, or you can reduce other current asset accounts so that the cash will be made available. Also, when you have excess cash, you can put this cash into productive use to earn a return.

The change in the cash account can be readily determined if you know net working capital and the changes in current liabilities and current assets other than cash.

Let:

NWC be net working capital

CA be the change in current assets other than cash

CL change in current liabilities

cash be the change in cash

Because net working capital is the difference between the change in current assets and current liabilities,

$NWC - CA + \text{cash} - CL \text{ cash} - NWC - CA + CL$
--

This relationship states that if we know net working capital (NWC), the change in current liabilities (CL), and the change in current assets less cash (CA less cash), we can calculate the change in cash. The change in cash is then added to the beginning balance of cash to determine the ending balance.

Suppose you forecast that sales will increase \$50,000 and the following will correspondingly change:

Receivables	increase by \$25,000
Inventory	increase by \$70,000
Accounts payable	increase by \$30,000
Notes payable	increase by \$10,000

Using net working capital of \$48,000, what is the projected change in cash?

$$\text{cash} = \text{NWC} - \text{CA} + \text{CL} = 48,000 - 25,000 - 70,000 + 30,000 + 10,000 = - 7,000$$

Conclusion: Over this time period, under the condition of increasing sales volume, cash decreases by \$7,000. Is there enough cash to cover this decrease? This will depend upon the beginning cash balance.

Sources and Application of Funds

At any given level of sales, it is easier to forecast the required inventory, accounts payable, receivables, etc., than net working capital. To forecast this net working capital account, you must trace the sources and application of funds.

Sources of funds increase working capital. Applications of funds decrease working capital. The difference between the sources and applications of funds is the net working capital.

The following calculation is based on the fact that the balance sheet is indeed in "balance." That is, total assets equal total liabilities plus stockholders' equity.

$$\text{current assets} + \text{noncurrent assets} = \text{current liabilities} + \text{long-term liabilities} + \text{equity}$$

Rearranging this equation:

$$\text{current assets} - \text{current liabilities} = \text{long-term liabilities} + \text{equity} - \text{noncurrent asset}$$

Because the left-hand side of the equation is working capital, the right-hand side must also equal working capital. A change to either side affects the net working capital. If long-term liabilities and equity increase or noncurrent assets decrease, net

working capital increases. This change would be a source of funds. If noncurrent assets increase or long-term liabilities and equity decrease, net working capital decreases. This change would be an application of funds.

Typical sources of funds or net working capital are:

- Funds provided by operations
- Disposal of fixed assets
- Issuance of stock
- Borrowing from a long term source

To obtain the item, "funds provided by operations," subtract all expense items requiring funds from all revenues that were sources of funds. You can also obtain this result in an easier manner: add back expenses which did not result in inflows or outflows of funds to reported net income.

The most common non-fund expense is depreciation, the allocation of the cost of an asset as an expense over the life of the asset against the future revenues produced. Adjusting net income with depreciation is much simpler than computing revenues and expenses which require funds. Again, depreciation is not a source of funds.

The typical applications of funds or net working capital are:

- Purchase of fixed assets
- Payment of dividends
- Retirement of long-term liabilities
- Repurchase of equity.

The following is an example of how sources and , applications of funds may be used to determine net working capital.

Statement of Sources & Applications of Funds

Sources of funds:

From operation

Net income

\$10,000

Add back depreciation (noncash item)

15,000

25,000

Issuance of debt

175,000

Issuance of stock

3,000

\$203,000

Applications of funds:

Purchase of plant

140,000

Cash dividends

15,000

155,000

Net working capital increase (decrease) \$48,000

Statement of Changes in Financial Position

This statement combines two statements previously discussed: the statement of sources and application of funds and the changes in working capital accounts. This statement can be converted into a cash flow statement by solving for cash as the unknown, as shown below.

Cash Flow Statement

Sources of funds		203,000
Applications of funds		155,000
Net working capital		<u>48,000</u>
Less:		
Increase in receivables	25,000	
Increase in inventory	70,000	
		<u>- 95,000</u>
Plus:		- 47,000
Increase in accounts payable	30,000	
Increase in notes payable	10,000	<u>40,000</u>
Cash flow		<u>- 7,000</u>

Planning For Cash Flow

Cash flow can be used not only to determine how cash flowed through the business but also as an aid to determine the excess or shortage of cash. Suppose your analysis of cash flow forecasts a potential cash deficiency. You may then do a number of things, such as:

- Increase borrowings: loans, stock issuance, etc.
- Reduce current asset accounts: reduce receivables, inventory, etc.
- Reduce noncurrent assets: postpone expanding the facility, sell off some fixed assets, etc.

By using a cash flow statement you can determine if sufficient funds are available from financing activities, show funds generated from all sources, and show how these funds were applied. Using and adjusting the information gained from this cash flow analysis will help you to know in advance if there will be enough cash to pay:

- Suppliers' bills
- Bank loans
- Interest
- Dividends.

Careful planning will insure a sufficient amount of cash to meet future obligations on schedule which is essential for the "successful" business.

Planning Aid

The following example is presented to help you develop a cash flow analysis. Of course, all names are fictitious. During the next month, Irene Smith, owner-manager of Imagine Manufacturing, expects sales to increase to \$10,000. Based on past experience, she made this forecast:

Net income to be 9% of sales	\$ 900
Income taxes to be 3.2% of sales	320
Accounts receivable to increase	5,000
Inventory to increase	2,000
Accounts payable to increase	3,000

Her beginning cash balance is \$3,000 and she plans to purchase a piece of equipment for \$1,500. What is her cash flow?

Cash Flow Analysis

Sources of funds:

Net income	\$ 900
Add back depreciation	<u>1,000</u>
	1,900

Application of funds:

Addition to fixed assets	\$1,500
Payment of taxes	<u>320</u>
	<u>1,820</u>
Net working capital increase (decrease)	<u>\$ 80</u>

Working capital accounts:

Less change in inventory	<u>\$- 2,000</u>
Accounts receivable	<u>- 5,000</u>
Plus change in accounts payable	<u>3,000</u>
Cash flow	<u>\$- 3,920</u>

Plus beginning cash balance	3,000
Equals ending cash balance	\$ - 920

Assuming Irene's forecast is correct, she has a cash need of \$920 next month. If she cannot borrow the additional funds, she must either reduce sales, which may reduce profits, or find another source of cash. She can now use her cash flow analysis to try to determine a source of funds or a reduction in the application of funds. An easy solution is to postpone the purchase of the equipment. This would increase her cash flow by \$1,500, more than enough for a positive cash balance at the end of next month.

Analyzing Your Records for Potential Cash Resources

In addition to the cash flow technique described in the previous section, it is important to know how to analyze your records in order to develop a more efficient business. By eliminating unnecessary cost through increased operating efficiency, the business' cash flow will improve.

Ex. 4. Lexical exercises.

1. Find in the text the pairs of antonyms and translate them.
2. Pay attention to the pair of synonyms:
during - within
3. Find them in the text and explain the difference.
4. By using a dictionary study the following group of words:
 - mean
 - means
 - to mean
 - meaning
 - by means of
 - by no means

Which of them are used in the text?

Ex. 5. Discussion section.

1. Answer the following questions:
 - Why do many businesses become insolvent?
 - What must the small business manager continually be alert to?
2. Try to describe the diagram given to illustrate the flow of cash connected with a continual cycle of events.

UNIT 10

BUDGETING IN A SMALL SERVICE FIRM

Ex. 1. Before reading the texts pay attention to the pronunciation of the following words.

budget	['bʌdʒɪt]	equal	['i:kw(ə)]
whether	['weðə]	quarter	['kwɔ:tə]
figure(s)	['fɪgə]	schedule	[(']edju:l] ; <i>AMEP.</i> ['skedju:l]
suggest	[sə'dʒest]	guide	[gaid]
receipt	[rɪ'si:t]		

Ex. 2. The words and word combinations below may help you to understand the text better.

E	U
to incur expenses	нести витрати
to overlook	не звертати увагу
to prevent	запобігати
to anticipate	передбачати
year-end profit	прибуток на кінець року
retained earnings	нерозподілений прибуток
fluctuation(s)	коливання
discrepancies	розбіжності
to break down	розбивати на підрозділи
to pinpoint	точно визначати
cut-and-dried	шаблонний, стандартний
regardless of	незалежно від
variable expenses	перемінні витрати

Ex. 3. Read the texts.

BUDGETING IN A SMALL SERVICE FIRM

Summary

Budgeting is a tool for dealing with the future. It helps you turn expectations into reality.

An increase in profit should be the first consideration when you think about the prospects for your small service business in the next year. Working up a budget helps you to determine whether or not your profit goal is within reach.

When the figures are all together, you have answers to questions such as: What sales will be needed to achieve the desired profit? What fixed expenses will be necessary to support these sales? What variable expenses will be incurred in producing the services?

Because small business is not a cut-and-dried affair, the first budget often will uncover problems and suggest choices. Working up additional budgets will help you decide what changes to make in order to have a workable plan for next year.

Many owner-managers run their businesses without a planned goal. In trying to survive from week to week and from month to month, such owner-managers overlook an important management tool — budgeting. Whether the plan is for next year, for the next 3 years, or for the next 5 years, budgeting can help just as a map helps you to keep on the right road.

Why Budget

A budget is a plan that enables you to set a goal and list the steps which are necessary to reach that goal. Thus a budget helps you think about what you want your business to do in the future. By planning, you are in a better position to act to prevent crises.

In its simplest form a budget is a detailed plan of future receipts and expenditures — a projected profit and loss statement. Thus once the period for which you have budgeted is completed, you can compare actual results with anticipated goals. If some of your expenses, for example, are higher than you expected, you can start looking for ways to cut them. Conversely, if you have fallen short of your goal, you may want to look for ways to increase your income.

Budget makers can start either with a forecast of sales and work down or with a forecast of profits and work up. Most small service businesses use the latter method. In other words, you decide what profit you want to make and then list the expenses that you will incur in order to make that predetermined profit.

A Plan for Increased Profit

Before you can use a budget as a plan for increased profit, you have to be sure that your present profit is what it should be. In a service business, the year-end profit should be large enough to make a return on your investment and a return on your own work — pay you a salary.

Value of Owner's Service

Skilled crafts people who own service businesses are kidding themselves if their firms' profits are less than they can earn working for someone else. Your net profit after taxes should be at least as much as you can earn if you worked at your trade for a weekly pay check.

Return on Investment

The year-end profit is too low if it does not also include a return on the owner-manager's investment. That investment includes the money you put into the firm when you started it and the profit of prior years' which you left in the firm — retained earnings. You should check to be sure that the rate of return on your investment is what it should be. Your trade association should be able to provide guidelines about the rate of return on investment in your line of business. Your accountant and banker are also sources of help.

Your Targeted Income

After you know what you made last year, you can set a profit goal for next year. Be sure that your goal includes a return on your services and a return on your investment. Your goal should also include an amount for State and Federal taxes. For example, if you want to make \$10,000 after taxes, your goal before taxes should be about \$13,333. You have to add this \$3,333 to take care of State and Federal taxes. Keep in mind that the larger your goal, the larger the amount which will have to be added to account for taxes. Your accountant can help you determine that amount.

Can You Reach the Goal?

Once you have decided on your profit target, the next step in preparing a budget is to determine whether you can achieve it. To do this, you must project your fixed costs and your variable costs. From these three figures — profit, fixed expenses, and variable expenses — you can determine your "hoped for" total income.

In gathering figures, keep in mind that without accurate information planning becomes guessing. The owner-manager who has never budgeted should talk with an accountant about a recordkeeping system. Changes may be needed to provide the necessary budget information. It may be that your present system does not break costs down into fixed and variable expenses, or it may be that you need to have a profit and loss (or income) statement at more frequent intervals to determine the seasonal fluctuations of your revenues and expenses.

Fixed Expenses

Regardless of sales, fixed expenses stay the same. Several examples of fixed expenses are insurance, rent, taxes on property, wages paid to salaried employees, depreciation of equipment, interest on borrowed money, building maintenance costs, office salaries, and office expenses.

Variable Expenses

This type of expense varies with sales. In some service businesses the cost of labor is the biggest factor. Sales commissions, payroll taxes, insurance, advertising, and delivery expenses are other examples of variable expenses.

Determine Your Expected Service Income

Your expected service income contribution is the difference between sales and the variable expenses that are necessary to produce these sales. When this difference equals fixed expenses and the desired profit, you have a workable budget.

Periodic Feedback and Control

A budget provides a tool for control. You start building this facility when your budget for 12 months is completed. Break it down into quarters. Such a break-down allows you to check for any discrepancies that may not show up readily in a 12 month budget. When many items are added together, it is easy for an error to creep into the totals.

During the year, this quarterly division provides a handle for getting a hold on expenses and other activities. For example, by looking at next quarter's budget you can anticipate peak periods and schedule stock and labor to handle peak sales volume. You can plan vacations, special promotions, and inventory taking for the slow periods.

A monthly or quarterly profit and loss statement allows you to keep the items in your budget in line with operations. Ask your accountant to show the actual and the planned revenues and expenses on the income statement so you can compare them. Thus, you can pinpoint and work on the problems that have occurred during the month or the quarter. Your objective is to guide your activities toward the most profitable type of operations.

Ex. 4. Lexical exercises.

1. Pay attention to the word WHETHER (don't confuse it with WEATHER), find the sentences with it in the text and translate them.

2. Find the pairs of words in the text and translate them paying attention to the fact that they are different parts of speech.

to break down — a breakdown

to handle — a handle

3. Name the words from which the following derivatives are made. Translate both the derivatives and the root words.

Additional, predetermined, accountant, variable, seasonal, regardless, workable, activities, monthly.

Ex. 5. Discussion section.

1. Comment on the following:
 - Budgeting is a tool for detailing with the future.
2. Explain the difference between fixed expenses and variable expenses.
3. Answer the question: What does a budget provide?

UNIT 11

SMALL BUSINESS RISK MANAGEMENT GUIDE

Ex. 1. Before reading the texts pay attention to the pronunciation of the following words.

heighten	['haɪtn]	final	['faɪnəl]
ultimately	[ˈʌltɪmɪtli]	except	[ɪk'sept]
casualty	['kæʒjuəlti]	diagnostic	[daɪəg'nɒstɪk]
identify	[aɪ'dentɪfaɪ]	therapy	['θerəpi]
qualified	['kwɒlɪfaɪd]	authority	[ɔ:'θɔ:rtɪ]
beyond	[bɪ'jɒnd]	surgical	['sɜ:dʒɪk(ə)l]
agency	[bɪ'jɒnd]	eligible	['elɪdʒəbəl]
injury	['eɪdʒ(ə)nəri]	beneficiary	[benɪ'fɪʃəri]
consequence	['ɪndʒ(ə)ns]	obligee	[ɔblɪ'dʒi]

Ex. 2. The words and word combinations below may help you to understand the text better.

E	U
to encourage	надихати
to contribute	сприяти
casualty	нещасний випадок; ушкодження
to encounter	зустрічати, зтикатися
overhead expenses	накладні витрати
to cripple	послабити, завдати шкоди
all-Risk	страхування від усіх ризиків
to afford	дозволити собі
to take steps	уживати заходів
to apprise	оцінювати; визначати вартість
to sustain losses	зазнавати втрат
peril	небезпека
to cancel	анулювати
on behalf of	від імені

Ex. 3. Read the texts.

SMALL BUSINESS RISK MANAGEMENT GUIDE

Staff members of the Small Business Administration edited this publication, which was written by staff members of The Travelers' Small Business Program.

Introduction

The subjects discussed in this guide should heighten your awareness of business insurance and encourage you to consider carefully the various insurance programs and options available on the market.

It is imperative that all small business owners and managers understand the various aspects of insurance and how it can help a firm be more successful.

Your Independent Agent is your key to protecting your business and ultimately, contributing to your success. Multiline agencies can provide a comprehensive range of employee benefits, property/casualty and financial services to small businesses.

In addition to helping you identify, minimize and in some instances eliminate business risks, this *Aid* includes a Checklist to help you strengthen your insurance program and provides guidelines for discussions you should have with a qualified insurance professional. A Glossary of Insurance Terms is also included to provide simple definitions for the highly technical terms you will encounter when selecting insurance for your business.

Risk and the Small Business

Is your business a risky business? You bet! Every small business is. Just think for a minute about the hundreds of things that most business owners worry about. A few are predictable or, at the very least, are items that you can plan for and perhaps even control to a certain extent, such as:

- expected sales volume
- salary costs
- taxes
- overhead expenses
- equipment and supply costs
- the price you charge for the goods or services you
- offer to your customers

Others are unpredictable, largely beyond your control. Examples of these unpredictable risks include:

- actions your competitors may take

- changing tastes and trends
- the effect they have on your market and your customers
- the local economy and its impact on your customer base (plant closings or unemployment, for example)

And then there are the events that can and do happen to small businesses all the time. They could directly affect your day-to-day operations, impact profits, and result in unexpected financial losses that may be serious enough to cripple your business or even bankrupt it. You've probably already considered the most obvious risks and have bought insurance to protect against the financial losses that could result from them. Most business owners recognize the loss potential from fire and injury.

- Fire could damage or destroy the building your firm occupies and turn the building's contents into a pile of smoking rubbish. Whether you rent or own, your place of business and your ability to continue to do business may both be seriously affected.
- If someone is injured on business premises, or injured by a product you manufacture or market, or because of the way your firm performed a service, your firm may be held responsible for that person's medical bills, lost wages or even loss of future income.

Loss of property from fire and liability for injury to another person (or another person's property) are familiar exposures. But there are hundreds of other losses and liabilities that every small business faces, many of which are often overlooked or ignored.

Large corporations often employ a full-time "risk manager" to identify and analyze possible exposures to loss or liability. The risk manager then takes steps to protect the firm against accidental and preventable loss and to minimize the financial consequences of losses that cannot be prevented or avoided. But most small businesses can't afford the services of a risk manager, even part-time, so the business owner often has to take on that responsibility.

What Is "Risk Management?"

Regardless of who does it, risk management consists of:

1. Identifying and analyzing the things that may cause loss.
2. Choosing the best way of dealing with each of these potentials for loss.

You've worked hard to build your business, and you've poured a lot of time, effort and money into identifying loss exposures.

Glossary of Insurance Terms

Adjuster. A person who settles insurance claims. An adjuster may be a Travelers employee or an independent operator.

Adjustment. The settlement of a claim; final premium determination.

Agent's **Authority.** The authority placed in the agent by the insurance company; the extent to which the agent may act on behalf of the company. This authority is defined by a contract between the agent and the company.

All-Risk. A term commonly used to describe broad forms of Property or Liability coverages. It is misleading because no Property or Liability Policy is truly an All-Risk coverage. A Policy will invariably contain some exclusions.

Appraisal. An estimate of value, loss or damage.

Assigned Risk. A risk that has been declined by one or more companies. Such a risk may be assigned to designated companies by a recognized authority. The operation is called an Assigned Risk Plan.

Assured. The insured; the one for whom insurance is written.

Basic Benefits. Basic benefits, generally, are all the benefits offered by a group health plan except major medical. Basic benefits may include hospital, surgical and medical expense insurance: supplemental accident, diagnostic lab and X-ray, radiation therapy and dental expense insurance.

Beneficiary. A person who will receive policy benefits.

Benefit Formula. A benefit formula defines the amounts of life insurance that may be purchased for employees in a specific classification (salary, occupation, length of service).

Benefit. That amount payable under an insurance policy because of an accident, injury or illness.

Binder. An agreement, usually written, whereby one party agrees to insure another party pending receipt of a final action upon the application.

Business Interruption. Insurance covering the loss of earnings resulting from the destruction of property: called Use and Occupancy Insurance.

Cancellation. The terminating of an insurance contract by either the insurance company or the insured.

Carrier. An insurance company.

Cash Deductible. The amount of money an insured must pay for covered expenses before certain benefits can begin.

Cash Value. The value, in cash, of a life insurance policy.

Casualty. An accident, occurrence or event; the person to whom it happens; the general insurance term applied to insurance coverages for an accident, occurrence or event.

Circlet. A booklet that describes the benefits and all the provisions of a group policy that affect the insured. The circlet becomes a certification of insurance when the person is eligible for the insurance. It is then the legal document that proves the person is actually insured.

Claim. A request by an insured for benefits under an insurance policy.

Coinsurance. Two or more entities providing insurance protection and sharing in losses.

Compensation. Wages, salaries, Swards, fees, commissions; any return in payment for a financial loss.

Comprehensive. A loosely used term signifying broad or extensive insurance coverage.

Contributory. A group insurance plan that is paid partly by employees' contributions and partly by the employer's contributions.

Contributory Negligence. Partial responsibility for one's own injury or damage.

Coverage. The insurance protection provided by the policy.

Declarations. That part of an insurance policy containing the information about the applicant that the applicant listed on the application for insurance.

Deductible. An amount the insured must pay before insurance benefits may be paid.

Discount. A reduction applied to an insurance premium because of good experience, for example.

Draft. A financial instrument similar to a check frequently used by insurance companies to pay losses.

Effective Date. The date the policy is put in force: the inception date.

Endorsement. A written amendment affecting the declarations, insuring agreements, exclusions or conditions of an insurance policy; a rider.

Evidence of Insurability. Medical proof, from either a questionnaire or a physical examination, that an applicant, employee or dependent is healthy and, therefore, insurable.

Examiner. An individual who reviews, evaluates and processes claims.

Exclusion. That which is expressly eliminated from the coverage of an insurance policy.

Expiration Date. The date an insurance policy terminates.

Exposure. Person or property, injury to whom or damage to which will cause an economic loss.

Face Amount. In life insurance, the amount of basic coverage stated on the face of the policy.

Grace Period. A period beyond the premium-due date, during which the premium may be paid and the insurance will be continued in force.

Group Insurance. Insurance covering a group of employees.

Hazard. A condition that creates or increases the probability of a loss.

Health Insurance. Commonly called Accident and Health Insurance, protection against financial loss from a personal accident or illness.

Incurred Loss. A loss that, while not yet paid, has been sustained and for which reserves have been established to pay in the future.

Indemnity. Insurance protection that will place the insured in the same financial position as before a loss was sustained.

Inspection. An examination by those having authority. An insurance company usually reserves the right to inspect any property it insures.

Insurance. Protection against loss. The insured sacrifices a small certain loss (the premium) for protection against a large uncertain loss (an accident, fire, death). The insurance company assumes the risk by employing the law of large numbers and the principle of risk spreading.

Insured. The entity whose life or property is protected by the insurance. The one for whom insurance is written.

Lapse. To fail to continue an insurance policy; to cease to provide insurance protection.

Liability. Being bound by law and justice to do something that may be enforced by the courts.

Limits. The value or amount of a policy; the greatest amount that can be collected under the policy.

Loss. In insurance, the amount the insurer is required to pay because of an insured's loss.

Multi Peril. An insurance policy that provides coverage against many perils. Sometimes called a "package" policy.

Occurrence. A continuance of a repeated exposure to conditions which result in injury.

Peril. Anything that may cause a loss (cause of a possible loss).

Policy. A legal contract of insurance.

Policyholder. The owner of the policy; the one who purchases the policy and pays the premiums.

Policy Period. The term for which insurance remains in force, sometimes definite, sometimes not.

Premium. The cost of an insurance policy. The charge the policyholder pays for the insurance protection.

Property. The thing owned; real property is real estate and things attached to it; anything else is personal property.

Property Damage. Physical damage to property.

Provisions. The terms or conditions of an insurance policy.

Rate. Cost per unit of insurance.

Reinstate. To restore coverage after it has been canceled or suspended.

Reinsurance. Insurance placed by an underwriter in another company to reduce the amount of the risk his or her company has assumed.

Renew. To continue; to replace as with a new policy.

Rider. An endorsement.

Schedule of Benefits. The amount of insurance for which each classification of employees is eligible. (Classifications can be based on salary, wage, occupation or length of service.)

Self-Insurance. An arrangement where, instead of purchasing an insurance policy, a party maintains a reserve fund to protect it against a loss.

Settlement Option. The way in which money for the death benefit on an insurance policy will be paid to a beneficiary.

Surety. A guarantee that a person, normally called the principal, will perform according to a statute or a contract. Surety offers protection to a third party, normally called an obligee.

Underwriter. The insurance company; a party assuming the risk; the person performing the underwriting function.

Void. Of no force; null.

Waiting Period. A period immediately after the inception of the policy during which no benefits will be paid even if a loss occurs. Pertains to health insurance.

Waiver of Premium. In life insurance, a provision which states that, if the insured becomes disabled and the disability appears total and permanent, the insurance policy will continue in full force without further payment or premium.

Ex. 4. Lexical exercises.

1. Pay attention to the following:

a result as a result of
to result in to result from

Find the examples in the text and translate them.

2. Don't mix up the words given below and give the translations

police [pə'li:s] policy ['pɒləsi]
politics ['pɒlətiks] politician [ˌpɒlə'ti(ə)n]

3. Translate the pair of synonyms: to happen — to occur

4. Complete the table (word formation)

Noun	Adverb	Verb	Adjective
destruction			
	ultimately		

		heighten	
		insure	
cause			
			successful
		strengthen	
	invariably		
beneficiary			
		qualify	
			predictable
	actually		
responsibility			
		occur	
			accident
consultant			
	probably		
		signify	
			healthy
employer employee			
	professionally		
		apply	
			independent
provision			
		arrange	

Ex. 5. Discussion section.

1. Give examples of predictable and unpredictable risks the most business owners worry about
2. Answer the questions:
 - What does risk management consist of?
 - Do you agree that it is necessary to know some insurance terms?

UNIT 12

FINDING A NEW PRODUCT FOR YOUR COMPANY

Ex. 1. Before reading the texts pay attention to the pronunciation of the following words.

generate	['dʒenəreɪt]	huge	[hju:dʒ]
suitable	['su:tableɪ]	penicillin	[ˌpenɪ'sɪlɪn]
source	[sɔ:s]	technology	[tek'nɒlədʒɪ]
policy	['pɒlɪsi]	familiar	[fə'mɪljə]
equipment	['kwɪpmənt]	clarify	['klærɪfaɪ]
although	[ɔ:l'ðəʊ]	request	[rɪ'kwest]
judge	['dʒʌdʒ]	register	['redʒɪstə]
preliminary	[prɪ'lɪmɪnəri]		

Ex. 2. The words and word-combinations below may help you to understand the text better.

E	U
the only	єдиний
to look for	шукати
search	пошук
hasty	поспішний
to boost	сприяти росту
approach	підхід, метод
to compete	конкурувати
to be authorized	мати повноваження
to know first hand	знати з особистого досвіду

Ex. 3. Read the texts.

FINDING A NEW PRODUCT FOR YOUR COMPANY

Summary

Sometimes the only way a small manufacturer can expand sales is by introducing a new product. The products made have reached their sales peak. Moreover, they cannot be modified to generate additional sales.

It becomes a question of where to look for a new product that can be made and sold at a profit. This Aid speaks to that question. It discusses a practical approach to the selection of a suitable new product and suggests sources that can be helpful to finding such a product.

A systematic approach is the best way to find a new product. In such an approach, your first action should be to set a new product policy. Before you start to search for a new product, set guidelines for that search.

These guidelines should help to provide answers to questions, such as: Can the new product be made on present equipment? Will it be sold to your present market? What is the profit potential of the new product?

The second major action involves responsibility for finding a new product. Will you personally handle the project? Or will you delegate it? Either way, the person who looks for the new product should have a clear understanding of the resources available for this project. In addition, he/she should be authorized to make decisions for your company.

Defining a New Product for Your Company

Although there are thousands of products available on a reasonable basis to any company that will manufacture and market them, the question is: Which ones can be made at a profit? In fact, so many exist and are being generated, it would consume all the resources of a small company to examine each one of them only briefly. On the other hand, too brief a search or a hasty decision can result in costly mistakes, if not outright disaster. It is thus imperative to define the product you are seeking.

Your task is to get on paper some facts about the kind of new product you want to produce in your factory. These facts consist of your requirements in general terms which will be applicable to the new product. The following questions, though not all inclusive, should stimulate your thinking in defining a product or establishing criteria by which you can judge potential products. When you have set such criteria, you can write a "profile of product interest."

CAN YOU MAKE MONEY WITH IDEA OR INVENTION

Summary

Innovative ideas are essential to business progress. It is very difficult, however, for innovators to get the kind of financial and management support they need to realize their ideas.

You've got an idea? Great!

So, you've had an idea for an invention or an innovative way of doing something that will boost productivity, put more people to work, and make lots of money for you and anyone who backs you? As you've probably heard, you're the

kind of person your country needs to compete in world markets and maintain its standard of living. You're the cutting edge of the future.

You are another of those individuals on whom progress has always depended. We all know that it hasn't been huge corporations that have come up with the inventions that have revolutionized life.

As the discoverer of penicillin, Sir Alexander Flemming, said, "It is the lone worker who makes the first advance in a subject: The details may be worked out by a team, but the prime idea is due to the enterprise, thought and perception of an individual."

Innovators like you are business's lifeblood. Owner-managers who have started companies on new ideas know first-hand about the innovation process.

They also know that you can expect to heat.

Ex. 4. Lexical exercises.

Refresh your grammar and give the initial forms of the following words:
Sales, made, products, becomes, sources, helpful, best, sold, being, criteria, heard, been, said, companies, processes, authorities, covering, addressed.

Ex. 5. Discussion section.

Paraphrase or explain the following:

- You're the cutting edge of the future.
- Innovators like you are business's lifeblood.
- You are the cutting edge of the future.

Conclusions

1. Remember interrogative words WHO, WHEN, WHAT, WHERE, WHY, HOW, HOW MANY, HOW MUCH, HOW LONG, WHICH, WHOSE, etc. and check up if you can make different types of questions.
2. Ask your friends:
 - Whether he/she intends to start up his/her own business;
 - What kind of business it will be;
 - If he/she has any experience in it;
 - How well he/she is aware of the difficulties
2. Do you find the AID provides useful information?
3. Discuss the usefulness of the information provided by the instruction.
4. Summarize the main ideas.

TESTS FOR BUSINESS COMMUNICATION

TEST 1

I. Vocabulary

1. I'd like to offer my apologies _____ not having replied at an earlier date.
(a) at (b) for (c) as
2. The importer _____ the cocoa was high-grade.
(a) told (b) spoke (c) said
3. It is _____ good service.
(a) so (b) such a (c) so a
4. You will _____ the prices on the invoice.
(a) look (b) see (c) watch
5. We haven't _____ customers in this country.
(a) much (b) many (c) some
6. If you have option, do you have _____?
(a) a bill of sale (b) a choice (c) a contract
7. His father _____ him for he realized the interest was more than a _____ fancy.
(a) encouraged - childish (b) berated - sincere (c) helped - mature
8. My father's business is _____.
(a) successful (b) success (c) successfully
9. Fortunately, his report _____ the board of directors.
(a) satisfactory (b) satisfied (c) satisfaction
10. He _____ in foreign trade.
(a) specialization (b) specializes (c) specialist
11. The _____ department keeps a file on each employee.
(a) persons (b) personnel (c) person
12. Financing of this project came from _____ sources.
(a) intern (b) internal (c) internalizing
13. If their marketing team succeeds, they will increase their _____ by 40 percent.
(a) profits (b) expenditures (c) losses
14. If you _____ an error in reviewing the proposal, please bring it to your manager's attention.
(a) come across (b) come on (c) get in
15. They test their cars for safety _____ durability.
(a) nor (b) as well as (c) but
16. Direct foreign investment by business firms represents a form of capital _____.
(a) movement (b) moving (c) move

17. The administration will not install the new security system because it _____ so much.
(a) pays (b) costs (c) buys
18. If you negate a statement, do you _____ of knowing you it?
(a) value (b) endure (c) deny
19. Safe driving prevents _____.
(a) disease (b) tragedy (c) accidents
20. The foreign exchange market is based _____ the economic law of supply and demand.
(a) at (b) of (c) on

II. Grammar

1. I _____ could place a big order for flowers.
(a) wanted (b) want (c) wish
2. I'd _____ the bank manager.
(a) like to phone you (b) you like phone to (c) like you to phone
3. He can't work faster and _____.
(a) so I can (b) so can't I (c) neither can I
4. He _____ certainly earned more money if he had worked harder.
(a) would (b) would have (c) will
5. If taxes _____ we will need to borrow money.
(a) will go up (b) go up (c) have gone up
6. If the government _____ an import fee, prices will increase.
(a) will impose (b) imposes (c) has imposed
7. Our plant will import much more refrigerators a year if quotas _____ lifted.
(a) will be (b) are (c) be
8. The latest franchise _____ in one week.
(a) would open (b) will open (c) has opened
9. The package containing the necessary samples _____.
(a) has been sent (b) will send (c) sent
10. When a firm plants the flag in a new country, it _____ learn local laws, customs, languages.
(a) had to (b) has to (c) didn't have to
11. This purchase _____ a poor decision if it had been made for investment purposes.
(a) would have been (b) would be (c) may be
12. If you ignore the overhead, you _____ your expenses.
(a) will underestimate (b) would underestimate (c) have underestimated

13. If I _____ in your position I would apply for this job.
(a) am (b) were (c) are
14. If you application form _____ us, we will invite you for an interview.
(a) will suit (b) suits (c) suited
15. The goods arrived last week, but they _____ only this morning.
(a) are delivered (b) have been delivered (c) had been delivered
16. If profits _____ to grow at this rate, the company will be able to pay a higher dividend.
(a) continue (b) will continue (c) continued
17. When the shipment _____, he will dispatch it to the proper department.
(a) will come in (b) comes in (c) is coming in
18. He _____ buy the ship's cargo if he had the money.
(a) will (b) would (c) would have
19. Systems for the production and delivery of goods and services _____ always an essential part of civilization.
(a) were (b) is (c) have been
20. Their monetary unit _____ stronger if they did something about their deficit.
(a) will be (b) would be (c) should be

TEST 2

I. Vocabulary

1. Exchange risk is a very real _____ for financial managers.
(a) conception (b) concern (c) concept
2. Their _____ was rewarded.
(a) persistence (b) persistent (c) persist
3. Transportation officials have recommended _____ fares.
(a) to rise (b) to raise (c) to revise
4. A higher average _____ rate accounted for one third of the financing costs.
(a) interesting (b) interest (c) interested
5. A subsidiary has entered _____ a partnership arrangement with another company.
(a) in (b) into (c) to
6. Trade is only one of many factors that cause _____ change.
(a) economical (b) economic (c) economics
7. Hard currency is backed by gold _____.
(a) reservation (b) reserves (c) research
8. The principal goals of control on trade are _____ national economic growth.
(a) to promise (b) to promote (c) to prohibit
9. Taxes have a very important impact _____ foreign direct investment decisions.
(a) at (b) on (c) for
10. Marketers must understand the _____ of the international marketing environment.
(a) complexion (b) complexities (c) complex
11. Licensing is _____ to direct investment.
(a) alternate (b) an alternative (c) alteration
12. The USA and Canada will become a common _____ where goods will flow between the borders duty free.
(a) foreign exchange (b) market (c) shop
13. The idea of free movement of labor, shared social programs, new tax systems is rather _____ to member countries.
(a) profitable (b) scary (c) welcome
14. The South depends more _____ small and medium-sized businesses for jobs than _____ large corporations.
(a) at (b) on (c) of
15. He is responsible for the _____ of goods from a factory.
(a) distributing (b) distribution (c) distributor

16. Crossing the border I paid the _____ on some wine and perfume from France.
(a) customs (b) custody (c) currency
17. The sales person should learn some manners, he's too _____.
(a) shrewd (b) amiable (c) rude
18. I've made a terrible _____; I've made two appointments for the same hour!
(a) event (b) occasion (c) mistake
19. Because of the bad economic situation jobs are _____ right now.
(a) plentiful (b) scarce (c) abundant
20. Many commercial banks belong to the Federal Reserve System and as members must follow the Fed's reserve _____.
(a) requests (b) requirements (c) representatives

II. Grammar

1. The International Monetary Fund _____ into existence by 44 nations in 1944.
(a) signed (b) was signed (c) has been signed
2. In the 20th century, trade _____ becoming a more dominant segment of the world's economy.
(a) increased (b) has increased (c) had increased
3. Countries facing a balance of payments crisis _____ to erect temporary restrictions on import.
(a) permit (b) are permitted (c) had been permitted
4. At this moment I _____ my ears.
(a) am not believing (b) cannot believe (c) could not believe
5. Of all the systems available _____ useful one is also the least expensive.
(a) the more (b) most (c) the most
6. She informed the board that the profits _____ soon.
(a) will be up (b) would be up (c) were up
7. The company _____ money for several months.
(a) are losing (b) has been losing (c) loses
8. The firm that offers incentives to its employees _____ more successful than the one that does not.
(a) is (b) are (c) were
9. She _____ all of her work by 10.00 p.m. tonight.
(a) will have finished (b) have finished (c) finishes
10. If I _____ the election, I wouldn't raise taxes.
(a) win (b) won (c) will win
11. For the second time in less than a year, gasoline and cigarette taxes _____.

- (a) were raised (b) have been raised (c) has raised
12. "How much was the train ticket?" "It _____ me 80 dollars round trip".
(a) cost (b) costed (c) would cost
13. I have to mail this letter before the post office _____.
(a) will close (b) closes (c) will have closed
14. If you don't help me, I _____ the manager.
(a) call (b) will call (c) would call
15. I don't know what I'd have done if I _____ to make such a difficult decision.
(a) had had (b) have had (c) would have
16. "How long has he been working at this commercial bank?" "All I know is that he has worked there _____".
(a) since a long time (b) for a long time (c) a long time ago
17. I wish I _____ as rich as my boss.
(a) am (b) were (c) will be
18. "I'd like to go shopping tomorrow". "_____ you?"
(a) would (b) did (c) could
19. He said he _____ a new contract for the employees.
(a) had prepared (b) has prepared (c) is preparing
20. I read somewhere that his investments in the stock market _____ him a millionaire.
(a) had made (b) made (c) have made

TEST 3

1. Portfolio investment is
 - a) an investment that gives the investor a controlling interest in a foreign company
 - b) an investment in the form of either debt or equity that does not give the investor a controlling interest
 - c) the record of the movement of cash into and out of a company's account
2. Which of the following items is included in the visible export trade of a country?
 - a) the import of timber
 - b) tourists going abroad
 - c) the export of semi-finished goods
3. A comparative advantage is
 - a) situation in which a country has a monopolistic position in the marketing of a product or produces it at the lowest cost
 - b) a country's ability to supply a particular item more efficiently and at a lower cost than it can supply other products
 - c) situation in which a country produces enough food or raw materials to satisfy its own requirements
4. Capital account is
 - a) the difference between the payment that is made for imports and the payment that is received from exports over a particular period of time
 - b) payments in a country's balance of payments which include all kinds of financial transactions
 - c) payment of dividends to foreign shareholders
5. Trade surplus is
 - a) the amount by which a country's imports exceed its exports
 - b) the amount by which a country's exports exceed its imports
 - c) services in exchange for money
6. Equity is
 - a) a profit from a business deal
 - b) funds that finance the operation of a business
 - c) the value of the shares issued by a company
7. A letter of credit is
 - a) document which the seller gives to the buyer to show that the sale has taken place

- b) letter from a bank authorizing payment of a certain sum to a person or company
 - c) agreement that in return for regular small payments, a company will pay compensation for loss, damage, injury
8. An irrevocable letter of credit is
- a) letter from a bank authorizing payment of a certain sum to a person or company which may be changed
 - b) letter from a bank authorizing payment of a certain sum to a person or company which cannot be cancelled or changed, except if agreed between the two parties involved
 - c) a letter which has an added guarantee from the exporter's bank if the importer's bank defaults
9. Licensing is
- a) a legal form in which a firm sells the right to use its name to a buyer
 - b) a contractual agreement in which one firm grants access to its patents, trademarks, or technology to another firm for a fee
 - c) a company that acts as the export department for other companies
10. Royalty is
- a) an official document allowing someone to do something or use something which would otherwise be illegal
 - b) the sum paid for the right to exploit the property rights held by another
 - c) the legal right to print, publish, sell, broadcast an original work or any part of it for a certain number of years

TEST 4

1. Tariff is
 - a) a monetary or quantity limit placed on a product allowed to be imported into or exported out of a country
 - b) a tax imposed by a government on goods entering its borders
 - c) a refusal to buy or to deal in certain products
2. Blocked currency is
 - a) a currency that is freely traded without many restrictions and for which there is usually strong external demand
 - b) a currency that cannot be redeemed in the world financial market place or a currency which cannot be taken out of a country because of government exchange control
 - c) a specific type of quota that prohibits all trade
3. Value-added tax is
 - a) a direct tax levied on the profits accruing to businesses
 - b) a direct tax levied on the income (wages, rent, dividends) received by household
 - c) an indirect tax levied at each stage of the production cycle or at the sale of consumer goods
4. Ethnocentric management is
 - a) attitude that since a foreign country's management policies are best understood by its own management personnel, the home organization should rely on foreign offices
 - b) attitude that the home country's management practices are superior to those of other countries and can be exported along with the organization's goods and services
 - c) attitude that accepts both similarity and differences between domestic and foreign arrangement policies and so attempts to strike a balance between those that are more effective
5. Marketing is
 - a) the process of planning, organizing, leading, and controlling the work of organization members and of using all available organizational resources to reach stated organizational goals
 - b) the identification or anticipation of customer demand and the satisfaction of that demand by the development, distribution and exchange of goods and services
 - c) marketing activities performed across national boundaries
6. Marketing mix is

- a) a group of people for whom a firm creates and maintains a marketing mix
 - b) product, price, distribution and promotion
 - c) a group of interrelated intermediaries who direct products to customers
7. International Monetary Fund is
- a) an autonomous United Nations agency that borrows money from the more prosperous countries and lends it at favorable rates to less-developed
 - b) an institution founded by member countries; it makes funds available to members with balance-of-payments deficits
 - c) a multilateral trade treaty containing commercial rights and obligations, usually pertaining to tariffs and quotas
8. Producers' cartel is
- a) associations of countries that are concerned with specific commodities
 - b) multilateral agreements among buyers and sellers to stabilize prices and earnings
 - c) an agreement usually between producing nations to fix prices, production, and exports of certain raw materials
9. Customs Union is
- a) expansion of commercial and financial ties among nations
 - b) a multinational market that encourages the free flow of goods and services between member countries
 - c) a group of countries having no import duties among member nations
10. Trade duty is
- a) laws, rules set out by government
 - b) a tax, especially on imported goods
 - c) a tax, applied on the value added by each manufacturer or distributor during the production and marketing of a product

TEST 5

I. Match the words and word combinations to their definition.

<p>1. acquire <i>v</i></p> <p>2. crash <i>n</i></p> <p>3. deregulation <i>n</i></p> <p>4. infant industry <i>n</i></p> <p>5. infrastructure <i>n</i></p> <p>6. launch <i>v</i></p> <p>7. liability <i>n</i></p> <p>8. market challenger <i>n</i></p> <p>9. plummet <i>v</i></p> <p>10. recruit <i>v</i></p> <p>11. reliable <i>adj</i></p> <p>12. sole trader <i>n</i></p> <p>13. zero defects <i>n</i></p> <p>14. withdraw</p> <p>15. whistleblower <i>n</i></p>	<p>a. to show or make a new product available for sale for the first time</p> <p>b. a person's or organization's responsibility for loss, damage, or injury caused to others or their property, or for payment of debts</p> <p>c. to suddenly and quickly go down in value or amount</p> <p>d. someone or something that can be trusted</p> <p>e. a legal form of company in some countries for someone who has their own business, with no other share holders</p> <p>f. if one company acquires another, it buys it</p> <p>g. an organization or product that may take the place of the organization or product that has the highest sales in its market or industry</p> <p>h. a time when many investments lose their value very quickly, usually when investors lose confidence in the market and sell</p> <p>i. the aim of having no faults at all in products that are produced</p> <p>j. to take money out of a bank account</p> <p>k. an industry in its early stages of development in a particular country. Some people think that these industries should be helped with government money and protected from international competition by import taxes etc.</p> <p>l. someone working for an organization who tells the authorities that people in the organization are doing something illegal, dishonest, or wrong</p> <p>m. the basic systems and equipment needed for an industry or business to operate successfully or for an activity to happen</p> <p>n. to find new people to work for an organization, do a job etc</p> <p>o. removing government rules and controls from an industry to increase competition</p>
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ПЕРЕЛІК НАВЧАЛЬНО-МЕТОДИЧНОЇ ЛІТЕРАТУРИ

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