



# ENGLISH FOR SPECIAL PURPOSES

## LESSON 8: ACCOUNTING



Version without a key



**WARM UP** – what are your associations with “ACCOUNTANCY”.

**BRAINSTORM YOUR IDEAS**



**SPEAKING**

► **NOW:** Explain your associations, using the following pattern:

When I think “ACCOUNTING OR ACCOUNTANCY”, I think about ... .

Or

I associate “figures and numbers” with “ACCOUNTING” because... .



Complete the definition of “ACCOUNTANCY” with the words from the box.

financial statements	principles	communicating
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Accountancy is the process of \_\_\_\_\_ financial information about a business entity to users such as shareholders and managers. The communication is generally in the form of \_\_\_\_\_ that show in money terms the economic resources under the control of management; the art lies in selecting the information that is relevant to the user and is reliable. The \_\_\_\_\_ of accountancy are applied to business entities in three divisions of practical art, named accounting, bookkeeping, and auditing.

Source: <http://en.wikipedia.org/wiki/Accountancy>



### SPEAKING

- Look at the synonyms of *communicate* and *be relevant*. Use them to explain the notion of “accountancy”. Try to paraphrase the definition above, using the synonyms and your own words.

communicate	→	give information, announce, get across
be relevant	→	correspond to, have to do with



### EXTEND YOUR KNOWLEDGE – part 1.

- Read the text about the history of accounting.

## **Token accounting in ancient Mesopotamia**

The earliest accounting records were found amongst the ruins of ancient Babylon, Assyria and Sumeria, which date back more than 7,000 years. The people of that time relied on primitive accounting methods to record the growth of crops and herds. Because there is a natural season to farming and herding, it is easy to count and determine if a surplus had been gained after the crops had been harvested or the young animals weaned.

The invention of a form of bookkeeping using clay tokens represented a huge cognitive leap for mankind.

## **Accounting in the Roman Empire**

The *Res Gestae Divi Augusti* (Latin: "The Deeds of the Divine Augustus") is a remarkable account to the Roman people of the Emperor Augustus' stewardship. It listed and quantified his public expenditure, which encompassed distributions to the people, grants of land or money to army veterans, subsidies to the *aerarium* (treasury), building of temples, religious offerings, and expenditures on theatrical shows and gladiatorial games. It was not an account of state revenue and expenditure, but was designed to demonstrate Augustus' munificence. The significance of the *Res Gestae Divi Augusti* from an accounting perspective lies in the fact that it illustrates that the executive authority had access to detailed financial information, covering a period of some forty years, which was still retrievable after the event. The scope of the accounting information at the emperor's disposal suggests that its purpose encompassed planning and decision-making.

The Roman historians Suetonius and Cassius Dio record that in 23 BC, Augustus prepared a *rationarium* (account) which listed public revenues, the amounts of cash in the *aerarium* (treasury), in the provincial *fisci* (tax officials), and in the hands of the *publicani* (public contractors); and that it included the names of the freedmen and slaves from whom a detailed account could be obtained. The closeness of this information to the executive authority of the emperor is attested by Tacitus' statement that it was written out by Augustus himself.

Records of cash, commodities, and transactions were kept scrupulously by military personnel of the Roman army. An account of small cash sums received over a few days at the fort of Vindolanda circa 110 CE shows that the fort could compute revenues in cash on a daily basis, perhaps from sales of surplus supplies or goods manufactured in the camp, items dispensed to slaves such as *cervesa* (beer) and *clavi caligares* (nails for boots), as well as commodities bought by individual soldiers. The basic needs of the fort were met by a mixture of direct production, purchase and requisition; in one letter, a request for money to buy 5,000 *modii* (measures) of *braces* (a cereal used in brewing) shows that the fort bought provisions for a considerable number of people.

The Heroninos Archive is the name given to a huge collection of papyrus documents, mostly letters, but also including a fair number of accounts, which come from Roman Egypt in 3rd century CE. The bulk of the documents relate to the running of a large, private estate is named after Heroninos because he was *phrontistes* (Koine Greek: manager) of the estate which had a complex and standardised system of accounting which was followed by all its local farm managers. Each administrator on each sub-division of the estate drew up his own little accounts, for the day-to-day running of the estate, payment of the workforce, production of crops, the sale of produce, the use of animals, and general expenditure on the staff. This information was then summarized as pieces of papyrus scroll into one big yearly account for each particular sub-division of the estate. Entries were arranged by sector, with cash expenses and gains extrapolated

from all the different sectors. Accounts of this kind gave the owner the opportunity to take better economic decisions because the information was purposefully selected and arranged.

Simple accounting is mentioned in the Christian Bible (New Testament) in the Book of Matthew, in the Parable of the Talents.

### **Islamic accounting and algebra**

(...)

The Islamic law of inheritance (...) defines exactly how the estate is calculated after death of an individual. The power of testamentary disposition is basically limited to one-third of the net estate (i.e. the assets remaining after the payment of funeral expenses and debts), providing for every member of the family by allotting fixed shares not only to wives and children, but also to fathers and mothers. The complexity of this law served as an impetus behind the development of algebra by the Persian mathematician Muhammad ibn Mūsā al-Khwārizmī and other medieval Islamic mathematicians. Khwārizmī's "The Compendious Book on Calculation by Completion and Balancing" devoted a chapter on the solution to the Islamic law of inheritance using linear equations. In the 12th century, Latin translations of al-Khwārizmī's "Book of Addition and Subtraction According to the Hindu Calculation" on the use of Indian numerals, introduced the decimal positional number system to the Western world. The development of mathematics and accounting was intertwined during the Renaissance. Mathematics was in the midst of a period of significant development in the late 15th century. Hindu-Arabic numerals and algebra were introduced to Europe from Arab mathematics at the end of the 10th century by the Benedictine monk Gerbert of Aurillac, but it was only after Leonardo Pisano put commercial arithmetic, Hindu-Arabic numerals, and the rules of algebra together in his *Liber Abaci* in 1202 that Hindu-Arabic numerals became widely used in Italy.

### **Luca Pacioli and double-entry bookkeeping**

Bartering was the dominant practice for traveling merchants during the Middle Ages. When medieval Europe moved to a monetary economy in the 13th century, sedentary merchants depended on bookkeeping to oversee multiple simultaneous transactions financed by bank loans. One important breakthrough took place around that time: the introduction of double-entry bookkeeping, which is defined as any bookkeeping system in which there was a debit and credit entry for each transaction, or for which the majority of transactions were intended to be of this form. The historical origin of the use of the words 'debit' and 'credit' in accounting goes back to the days of single-entry bookkeeping in which the chief objective was to keep track of amounts owed by customers (debtors) and amounts owed to creditors. 'Debit,' is Latin for 'he owes' and 'credit' Latin for 'he trusts'.

The earliest extant evidence of full double-entry bookkeeping is the Farolfi ledger of 1299-1300. Giovanni Farolfi & Company were a firm of Florentine merchants whose head office was in Nîmes who also acted as moneylenders to the Archbishop of Arles, their most important customer. The oldest discovered record of a complete double-entry system is the Messari (Italian: Treasurer's) accounts of the city of Genoa in 1340. The Messari accounts contain debits and credits journalised in a bilateral form, and contains balances carried forward from the preceding year, and therefore enjoy general recognition as a double-entry system.

Luca Pacioli's "Summa de Arithmetica, Geometria, Proportioni et Proportionalità" was first printed and published in Venice in 1494. It included a 27-page treatise on bookkeeping, "Particularis de Computis et Scripturis". It was written primarily for, and sold mainly to, merchants who used the book as a reference text, as a source of pleasure

from the mathematical puzzles it contained, and to aid the education of their sons. It represents the first known printed treatise on bookkeeping; and it is widely believed to be the forerunner of modern bookkeeping practice. In *Summa Arithmetica*, Pacioli introduced symbols for plus and minus for the first time in a printed book, symbols that became standard notation in Italian Renaissance mathematics. *Summa Arithmetica* was also the first known book printed in Italy to contain algebra.

Although Luca Pacioli did not invent double-entry bookkeeping, his 27-page treatise on bookkeeping contained the first known published work on that topic, and is said to have laid the foundation for double-entry bookkeeping as it is practiced today.

Source: <http://en.wikipedia.org/wiki/Accountancy>

### ■ Exercise 1

**Put the events in a chronological order.**

ORDER	EVENT:
	Preparation of a rationarium (account) which listed public revenues, the amounts of cash in the aerarium (treasury), in the provincial fisci (tax officials), and in the hands of the publicani (public contractors) by Augustus in 23 BC.
	An account of small cash sums received over a few days at the fort of Vindolanda circa 110 CE shows that the fort could compute revenues in cash on a daily basis, perhaps from sales of surplus supplies or goods manufactured in the camp, items dispensed to slaves such as cervesa (beer) and clavi caligares (nails for boots), as well as commodities bought by individual soldiers
	The Heroninos Archive is the name given to a huge collection of papyrus documents, mostly letters, but also including a fair number of accounts, which come from Roman Egypt in 3rd century CE.
	In the 12th century, Latin translations of al-Khwārizmī's "Book of Addition and Subtraction According to the Hindu Calculation" on the use of Indian numerals, introduced the decimal positional number system to the Western world.
	The invention of a form of bookkeeping using clay tokens.
	The earliest extant evidence of full double-entry bookkeeping is mentioned in the Farolfi ledger of 1299-1300.
	Luca Pacioli's "Summa de Arithmetica, Geometria, Proportioni et Proportionalità" was first printed and published in Venice in 1494. It included a 27 page treatise on bookkeeping, "Particularis de Computis et Scripturis".
	When medieval Europe moved to a monetary economy in the 13th century, sedentary merchants depended on bookkeeping to oversee multiple simultaneous transactions financed by bank loans.
	After Leonardo Pisano had put commercial arithmetic, Hindu-Arabic numerals, and the rules of algebra together in his <i>Liber Abaci</i> in 1202, Hindu-Arabic numerals became widely used in Italy.
	Findings of the earliest accounting records amongst the ruins of the ancient Babylon, Assyria and Sumeria, which date back more than 7,000 years.

## ■ Exercise 2

Decide which statements are True and which are False.

1. The earliest accounting records were found amongst the ruins of ancient Rome which date back more than 7,000 years

true

false

2. The invention of a form of bookkeeping using clay tokens represented a huge cognitive step backwards for mankind.

true

false

3. The significance of the Res Gestae Divi Augusti from an accounting perspective lies in the fact that it illustrates that the executive authority could check the detailed financial information, covering a period of some forty years, which was still retrievable after the event.

true

false

4. The minority of the documents relate to the running of a large, private estate is named after Heroninos because he was phrontistes (Koine Greek: manager) of the estate which had a complex and standardised system of accounting which was followed by all its local farm managers..

true

false

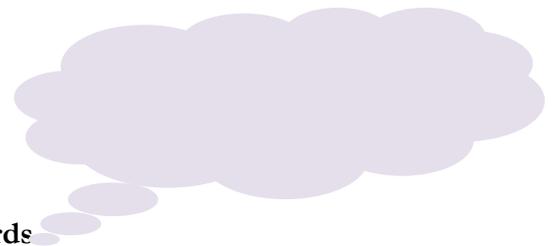
5. Summa de Arithmetica, Geometria, Proportioni et Proportionalità"was first printed and published in Venice in 1494 and included a 27-page treatise on bookkeeping, "Particularis de Computis et Scripturis" which was written primarily for, and sold mainly to, merchants who used the book as a reference text, as a source of pleasure from the mathematical puzzles it contained, and to aid the education of their sons.

true

false

## ■ Exercise 3

Try to retell the history of accountancy using your own words





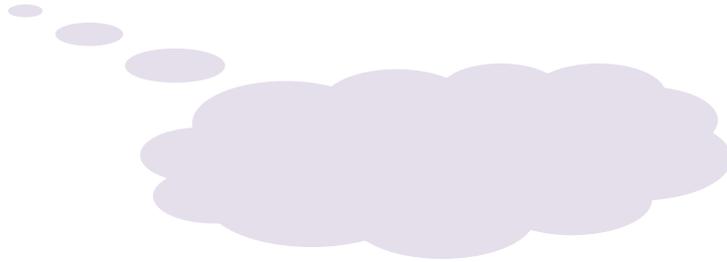
## EXTEND YOUR KNOWLEDGE – part 2.

### ETYMOLOGY OF THE WORD “ACCOUNTANT”.

The word "Accountant" is derived from the French word *Compter*, which took its origin from the Latin word *Computare*. The word was formerly written in English as "Accomptant", but in process of time the word, which was always pronounced by dropping the "p", became gradually changed both in pronunciation and in orthography to its present form.

- **Exercise** → describe the process of how the word “accountant” has changed and what is its origin.

To describe the process use the following words: First(ly)... , then/next .... and finally.



## EXTEND YOUR KNOWLEDGE – part 3.

### The Balance Sheet

In financial accounting, a balance sheet or statement of financial position is a summary of the financial balances of a sole proprietorship, a business partnership, a corporation or other business organization, such as an LLC or an LLP. Assets, liabilities and ownership equity are listed as of a specific date, such as the end of its financial year. A balance sheet is often described as a "snapshot of a company's financial condition". Of the four basic financial statements, the balance sheet is the only statement which applies to a single point in time of a business' calendar year.

A standard company balance sheet has three parts: assets, liabilities and ownership equity. The main categories of assets are usually listed first, and typically in order of liquidity. Assets are followed by the liabilities. The difference between the assets and the liabilities is known as equity or the net assets or the net worth or capital of the company and according to the accounting equation, net worth must equal assets minus liabilities.

■ Exercise 1:

Match the highlighted words from the text with their definitions and Polish equivalents.

Word	Definition	Polish equivalent
sole proprietorship	is the residual claim or interest of the most junior class of investors in assets, after all liabilities are paid	plynność
assets	in the form of money, rather than investments or property, or able to be changed into money easily	odpowiedzialność prawna, zobowiązanie
liabilities	something valuable belonging to a person or organization which can be used for the payment of debts	aktywa netto
ownership equity	a particular legal form for a small company in some countries	kapitał własny
net assets	the amount of money that a person or company owes	aktywa
liquidity	is the shareholders' equity = assets minus liabilities	indywidualna działalność gospodarcza, firma jednoosobowa

■ Exercise 2:

Look at the sample balance sheet and its structure. Fill the gaps in the balance sheet with the words from the box.

current assets	intangible assets	paid-in capital	loans payable
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**Balance Sheet of XYZ, Ltd.**

**As of 31 December 2009**

**ASSETS**

**[Redacted]**

Cash and Cash Equivalents

Accounts Receivable (Debtors)

*Less : Allowances for Doubtful Accounts*

Inventories

Prepaid Expenses

Investment Securities (Held for trading)



**DEPARTMENT OF FOREIGN AFFAIRS AND TRADE**  
**BALANCE SHEET**  
*as at 30 June 2007*

	Notes	2007 \$'000	2006 \$'000
<b>Financial Assets</b>			
Cash	6A	49,088	28,713
Receivables	6B	498,365	377,026
<b>Total Financial Assets</b>		<b>547,453</b>	<b>405,739</b>
<b>Non-Financial Assets</b>			
Land and buildings	7A,C	1,706,653	1,517,193
Infrastructure, plant and equipment	7B,C	94,549	75,184
Assets held for sale	7D	14,485	1,409
Intangibles	7E	8,892	12,706
Inventories	7F	16,396	20,467
Other non-financial assets	7G	21,174	21,320
<b>Total Non-Financial Assets</b>		<b>1,862,149</b>	<b>1,648,279</b>
<b>Total Assets</b>		<b>2,409,602</b>	<b>2,054,018</b>
<b>Payables</b>			
Suppliers	8A	78,387	52,527
Other payables	8B	11,053	7,823
<b>Total Payables</b>		<b>89,440</b>	<b>60,350</b>
<b>Interest Bearing Liabilities</b>			
Leases	9A	2,214	2,918
<b>Total Interest Bearing Liabilities</b>		<b>2,214</b>	<b>2,918</b>
<b>Provisions</b>			
Employees	10A	110,403	105,611
Other provisions	10B	8,485	7,985
<b>Total Provisions</b>		<b>118,888</b>	<b>113,596</b>
<b>Total Liabilities</b>		<b>210,542</b>	<b>176,864</b>
<b>Contributed equity</b>		<b>1,491,462</b>	<b>1,385,519</b>
<b>Reserves</b>		<b>365,169</b>	<b>257,560</b>
<b>Retained surpluses / (accumulated deficit)</b>		<b>342,429</b>	<b>234,075</b>
<b>TOTAL EQUITY</b>		<b>2,199,060</b>	<b>1,877,154</b>
<b>Current assets</b>		<b>594,066</b>	<b>438,730</b>
<b>Non-current assets</b>		<b>1,815,536</b>	<b>1,615,288</b>
<b>Current liabilities</b>		<b>194,584</b>	<b>161,011</b>
<b>Non-current liabilities</b>		<b>15,958</b>	<b>15,853</b>

The above statement should be read in conjunction with the accompanying notes.