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ENGLISH FOR THE FINANCIAL SECTOR

Courses for Master’s Degrees in Audit and Control Management

Third Semester 2021/2022

INTRODUCTION

English for the financial sector is reading, speaking, and writing courses for undergraduate students in finance and accounting who need to understand and express the key concepts of finance and accounting and even other related areas of business and economics.

These courses aim to:

* present you with the language and concepts found in books, newspapers, magazine articles, and websites on finance and accounting.

* develop your comprehension of finance and accounting texts.

* provide you with opportunities to express finance and accounting concepts by reformulating them in your own words while summarizing and discussing ideas.

UNIT 6 Depreciation and amortization

A- Fixed assets

A company's assets are usually divided into current assets like cash and stock or inventory, which will be used or converted into cash in less than a year, and fixed assets such as buildings and equipment, which will continue to be used by the business for many years.

But fixed assets wear out — become unusable, or become obsolete — out of date, and eventually have little or no value. Consequently, fixed assets are depreciated: their value on a balance sheet is reduced each year by a charge against profits on the profit and loss account. In other words, part of the cost of the asset is deducted from the profits each year.

The accounting technique of depreciation makes it unnecessary to charge the whole cost of a fixed asset against profits in the year it is purchased. Instead, it can be charged during all the years it is used. This is an example of the matching principle.

BrE: fixed assets; AmE: property, plant and equipment

B- Valuation

Assets such as buildings, machinery and vehicles are grouped together under fixed assets. Land is usually not depreciated because it tends to appreciate, or gain in value. British companies occasionally revalue - calculate a new value for — appreciating fixed assets like land and buildings in their balance sheets. The revaluation is at either current replacement cost = how much it would cost to buy new ones, or at net realizable value (NRV) — how much they could be sold for. This is not allowed in the USA. Apart from this exception, appreciation is only recorded in countries that use inflation accounting systems.

Companies in countries that use historical cost accounting — recording only the original purchase price of assets ~ do not usually record an estimated market value — the price at which something could be sold today. The conservatism and objectivity principles support this; and where the company is a going concern, the market value of fixed assets is not important.

C- Depreciation systems

The most common system of depreciation for fixed assets is the straight-line method, which means charging equal annual amounts against profit during the lifetime of the asset (e.g. deducting 10% of the cost of an asset's value from profits every year for 10 years). Many continental European countries allow accelerated depreciation: businesses can deduct the whole cost of an asset in a short time. Accelerated depreciation allowances are an incentive to investment: a way to encourage it. For example, if a company deducts the entire cost of an asset in a single year, it reduces its profits, and therefore the amount of tax it has to pay. Consequently, new assets, including huge buildings, can be valued at zero on balance sheets. In Britain, this would not be considered a true and fair view of the company's assets.

Exercise:

1- Match the words in the box with the definitions below. Look at A and B opposite to help you.

appreciate	current assets	fixed assets
obsolete	revalue	wear out

1 to record something at a different price
2 assets that will no longer be in the company in 12 months' time
3 to increase rather than decrease in value
4 out of date, needing to be replaced by something newer
5 assets that will remain in the company for several years
6 to become used and damaged

2- Match the nouns in the box with the verbs below to make word combinations.

costs	fixed assets	market value
profits	value	purchase price

deduct …………

record …………
…………

depreciate ……….

reduce …………
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