

Background

The real language of business

Part A

JP: So how did accountancy start?

DR: People have kept records since trade began. In ancient Mesopotamia tokens were used to represent crops and animals. By the Roman Empire it had become quite sophisticated and was used for tax purposes and to record the amount of money and goods in the treasury. Roman numerals were used until several hundred years ago. They were OK for addition and subtraction, but unsuitable for anything more complicated.

JP: I see. So what was the big breakthrough then?

DR: The introduction of Hindu-Arabic numerals we use today, definitely. They were popularized by the Italian mathematician, Fibonacci, in his *Book of Calculation*. He invented commercial arithmetic that went together with the abacus and trade. It was a gradual but total revolution.

JP: OK, so that was the first big step. What was the second?

DR: Double-entry bookkeeping and the classification of every operation in terms of a debit or credit. Again, this developed in Italy during the thirteenth century. It spread after Luca Pacioli's essay was published in 1494. It was widely followed by merchants and its use appears in their ledgers. Everything evolved from this really. Pacioli is widely regarded as the father of accountancy.

Part B

JP: So what about balance sheets then? When did they appear?

DR: About a hundred years later. As you know, a balance sheet is the summary of the activity of a business at a point in time. It is usually prepared at the end of each financial year and summarizes the assets and liabilities of a firm and how it is capitalized.

JP: And is accountancy the same all around the world now?

DR: Yes and no. Everybody uses a variation of double-entry bookkeeping, but generally accepted accounting

principles may vary between countries.

Conventions on how to feature assets such as 'good will', or value a firm's property and the inventory it holds can be quite different. There is pressure within Europe to harmonize accountancy rules, but there is still a fair way to go.

JP: I see, so it is a very complicated business.

DR: Indeed, and nothing more so than the auditing of company accounts. The whole idea of an audit is to verify that the accounts provide a fair and honest picture of the financial health of a company. This should be done as objectively as possible. Accounting has become increasingly creative and auditing more complicated. Sadly this has led to events like the Enron scandal. Enron executives were involved in false accounting. Their auditors, Arthur Andersen, were found guilty of covering up Enron's misdeeds and went out of business.

JP: But fortunately accountants do more than just audit, don't they?

DR: Oh yes. There are many areas of accountancy. Financial accountants supply the information needed by shareholders and banks. Management accountants prepare the information on which business decisions can be made. They help to prepare budgets and cash flow forecasts, although competent businesspeople are capable of doing this too. A budget is essentially a financial plan and a cash flow forecast a prediction of the income and outgoings over time. Accountants also calculate things like costs and return on investment, and work out when, if ever, a project is likely to break even and so on.

JP: So it is extremely varied then. What drew you to it as a profession?

DR: I have always loved figures and playing around with numbers. This is combined with the indescribable joy of making things balance and achieving order. And as an immigrant to this country it allowed me to acquire the language of business. And when money talks nobody cares about its accent!

Reading file 12

1 Work with a partner and discuss these questions.

- 1 In your country how well regarded are doctors, accountants, and lawyers?
- 2 How difficult is it to become one?
- 3 Which one do parents want their children to be or to marry the most?

2 Dilip Rahman, an accountant and lecturer in accountancy, is being interviewed by Jenny Pope for a student magazine. Read part A of the interview and answer the questions.

- 1 What did tokens stand for in the ancient world?
- 2 What was the big drawback of Roman numerals?
- 3 What are Hindu-Arabic numerals?
- 4 Who was Fibonacci and what did he do?
- 5 What was Luca Pacioli's contribution to accountancy?
- 6 What influence has Pacioli's work had?

3 Read part B of the interview and decide if the statements are true (T) or false (F).

- 1 Balance sheets are normally produced each month.
- 2 Double-entry bookkeeping is more or less the same everywhere.
- 3 Europe is close to harmonizing its accounting rules.
- 4 Auditors should check that the accounts have been presented properly.
- 5 Arthur Andersen caused the collapse of Enron.
- 6 There are many different branches of accountancy.
- 7 Only accountants are allowed to make budgets and forecasts.
- 8 Mr Rahman loves everything to be right.

4 Match the definitions to words from the text by solving the anagrams.

- 1 The book where business transactions are recorded: _____ ELGDRE
- 2 The process of recording business transactions: _____ OBOKEKEINPG
- 3 Something you can use instead of money: _____ OTEKN
- 4 An early calculating machine: _____ AABCSU
- 5 The capital, premises, and things that belong to a company: _____ EATSSS
- 6 A financial plan that describes how and when to spend money: _____ BGDUET

5 Continue these sentences in your own words.

- 1 If someone makes a breakthrough, they _____
- 2 An accounting convention is _____
- 3 If rules are harmonized, then _____
- 4 When something collapses, it _____
- 5 If a project breaks even, it _____
- 6 A cash flow forecast predicts _____

6 Look back at the text and choose three words that you could use in your day-to-day work.

7 Discuss these questions in small groups.

- 1 How important is it that countries all follow the same accounting rules?
- 2 What should be the penalties for a company that falsifies its accounts?
- 3 'An accountant is someone who watches the battle from the safety of the hills, then comes down to bayonet the wounded.' What do you think this quote means? Do you agree with it?