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STEVEN A. FINKLER

FINANCE & ACCOUNTING FOR NONFINANCIAL MANAGERS

Revised & Expanded Edition

Steven A. Finkler, Ph.D., CPA

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In loving memory of my mother

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An award winning teacher and author, he has also written a book on budgeting, and over one hundred articles on financial management. He has consulted for numerous organizations.

PREFACE

There was a time when controllers and treasurers served a clear staff function of providing information and support for line managers. Today it often seems to nonfinancial managers that the financial officers are the tail wagging the dog. It seems as if there's more money to be made by buying someone else's tax loss than by producing and selling the firm's own product or service.

Financial officers may often appear to be more preoccupied with their own ever-increasing empires than with the provision of timely, useful, understandable information for running the firm efficiently. They certainly don't seem to have the time to translate the information they do generate into a form comprehensible to the average nonfinancial manager.

Yet the nonfinancial manager can no longer avoid financial information. Profit statements, operating budgets, and project analyses are a constant part of the manager's day. This book is an introduction to the world of financial management. However, its intent is not to make the reader a financial manager. This is *not* a course in accounting. It is *not* a course in finance. Rather, it is an attempt to familiarize the nonfinancial manager with what accounting and finance are all about. This book concentrates on providing a working vocabulary for communication, so that the reader can develop an ability to ask the right questions and interpret the jargon-laden answers. Any accountant can bury any nonaccountant in debits and credits. But once you understand a few basics you can fight back and demand information that is both useful and usefully explained.

In addition to vocabulary, this book describes a variety of methods, processes, and tools of accounting and finance. They are not described in sufficient detail for the reader to fire the treasurer or controller and take over the job (how many of you really want to do that?). Instead, there is sufficient detail so that the reader can say, "So that's what LIFO-FIFO is all about? I always wondered why we changed our inventory system," or perhaps, "Hey, we never thought about those advantages of leasing rather than buying; maybe we should give leasing a closer look!"

How many managers are rewarded on the basis of return on investment (ROI) without understanding the difference between

ROI and ROE (return on equity) and ROA (return on assets), not to mention RONA (return on net assets)? There's no escaping the fact that all managers are affected by the financial decisions that every firm makes. This book clarifies in the reader's mind what questions are important to the firm's financial management and why.

Who are the nonfinancial managers this book is aimed at? They are presidents and vice-presidents and all other managers except for the accountants and other financial experts in the firm. This includes all the engineers, sales personnel, and production people who have moved up within their firm to the point at which they need more financial lingo to follow what's going on in their communications with the financial officers. They are people who have shifted career paths or who have simply grown with the firm and been promoted to more responsible positions. Sometimes managers need this book simply because the growth of their firm has been so fast that the financial complexity has increased at a more rapid rate than they have been able to keep up with.

Most of the readers of this book will not have attended business school. Surprisingly, however, many business school graduates will pick this book up as an excellent refresher. Frequently, business school graduates who majored in fields such as management, marketing, and industrial organization have commented years later that they would have paid far more attention to their accounting and finance coursework had they realized how valuable that background is to those in responsible positions in industry.

Essentially, this book is for any manager who comes into contact with elements of the financial process and feels a need for a better understanding of what's going on.

One final note. This is not a text. The structure of this book is such that the reader can sit down and read it in whole or in part. Although it is not a novel, the material is presented in a prose that should eliminate the need for intensive studying to understand the main points. A once-through reading should provide the reader with a substantial gain in knowledge. As specific financial questions come before the reader at times in the future, the book will serve as a good reference to brush up on general questions in a particular area. And, when more depth is required on any topic, the list of references following the last chapter should serve as a good source for as much detailed information as is needed.

NOTE: This book is not designed to make the reader a financial analyst, accountant, or tax expert. The purpose of the book is to allow you to better understand what such experts are doing, and to better communicate with them. One should not make any financial or tax decisions based on the contents of this book without first consulting an expert in the appropriate fields of accounting, finance, or tax.

CONTENTS

PART I INTRODUCTION

CHAPTER ONE/AN INTRODUCTION TO FINANCIAL MANAGEMENT 3

- What Is Financial Management? 3
- The Goals of Financial Management 4
 - Profitability 5
 - Viability 6
- Key Concepts 9

PART II THE FRAMEWORK OF ACCOUNTING

CHAPTER TWO/ACCOUNTING CONCEPTS 13

- Basics 14
- Assets 15
- Liabilities 16
- Owners' Equity 16
- The Accounting Equation 17
- Key Concepts 18

CHAPTER THREE/AN INTRODUCTION TO THE KEY FINANCIAL STATEMENTS 19

- The Balance Sheet 19
- The Income Statement 22
- The Statement of Cash Flows 24
- Notes to Financial Statements 25
- Key Concepts 26

CHAPTER FOUR/THE ROLE OF THE OUTSIDE AUDITOR 27

- Generally Accepted Accounting Principles (GAAP) 28
- The Audit 35

The Management Letter and Internal Control	35
Fraud and Embezzlement	36
The Auditor's Report	38
The Management Report	41
Key Concepts	41
CHAPTER FIVE/VALUATION OF ASSETS AND EQUITIES	44
Asset Valuation	45
Historical Cost or Acquisition Cost	45
Price-Level Adjusted Historical Cost	46
Net Realizable Value	48
Future Profits	49
Replacement Cost	49
Which Valuation Is Right?	50
Valuation of Liabilities	52
Valuation of Stockholders' Equity	54
Key Concepts	55
CHAPTER SIX/RECORDING FINANCIAL INFORMATION	57
Double Entry and the Accounting Equation	57
Debits and Credits: The Accountant's Secret	59
Recording the Financial Events	63
Key Concepts	71
CHAPTER SEVEN/REPORTING FINANCIAL INFORMATION	72
Ledgers	73
Executive Corporation's Financial Statements	74
The Income Statement	76
The Balance Sheet	76
The Statement of Cash Flows	80
Looking Ahead	85
Key Concepts	86

PART III FINANCIAL DECISIONS**CHAPTER EIGHT/LEVERAGE 89**

- Financial Leverage 90
 - How Much Financial Leverage Is Enough? 92
 - The Rule of OPM 92
 - The Collateral Factor 93
 - Stability of Earnings 93
- Operating Leverage 94
 - Break-Even Analysis 95
- Key Concepts 98

CHAPTER NINE/DEPRECIATION: HAVING YOUR CAKE AND EATING IT TOO! 100

- Amortization 101
- Asset Valuation for Depreciation 102
 - The Depreciable Base 104
 - Asset Life 104
- Straight-Line vs. Accelerated Depreciation 105
- Comparison of the Depreciation Methods 106
- Modified Accelerated Cost Recovery System (MACRS) 109
- Key Concepts 113

CHAPTER TEN/DEPRECIATION AND DEFERRED TAXES: ACCOUNTING MAGIC 115

- A One-Asset Firm 116
- Deferred Taxes for the Multi-Asset Firm 121
- Summary 127
- Key Concepts 128

CHAPTER ELEVEN/INVENTORY COSTING: THE ACCOUNTANT'S WORLD OF MAKE-BELIEVE	129
The Inventory Equation	129
Periodic vs. Perpetual Inventory Methods	130
The Problem of Inflation	133
Cost-Flow Assumptions	134
Comparison of the LIFO and FIFO Cost Flow Assumptions	136
Postscripts on LIFO	144
Switching to LIFO	144
The LIFO Conformity Rule	145
Who Shouldn't Use LIFO	146
LIFO Liquidations	146
Key Concepts	147
 CHAPTER TWELVE/CAPITAL BUDGETING AND DISCOUNTED CASH FLOW ANALYSIS	 149
Investment Opportunities	150
Data Generation	151
Evaluation of Cash Flow Information: The Payback Method	154
The Time Value of Money	156
Evaluation of Cash Flow Information: The Net Present Value (NPV) Method	161
The Hurdle Rate	161
NPV Calculations	163
Evaluation of Cash Flow Information: The Internal Rate of Return Method (IRR)	165
Variable Cash Flow	166
Project Ranking	168
Summary	169
Key Concepts	169

**CHAPTER THIRTEEN/LEASE OR BUY?
A TAXING QUESTION 171**

- Accounting Issues 172
 - Operating vs. Capital Leases 172
 - Criteria for Capital Leases 173
- Management Considerations for Leasing 174
- Tax Considerations for Leasing 176
- Key Concepts 179

CHAPTER FOURTEEN/COST ACCOUNTING 180

- Cost vs. Expense: The Inventory Process 181
- Period Costs vs. Product Costs 184
- Manipulation of Product Costs 185
- Cost Systems: Process, Job-Order, and Standard Costs 186
- Activity Based Costing (ABC) 189
- The Unit Cost Problem 191
- Key Concepts 194

CHAPTER FIFTEEN/BUDGETING 196

- Definition and Role of Budgets 196
- The Master Budget 197
- Budget Preparation 198
 - Preliminaries 198
 - Forecasting 199
 - Departmental Budgets 200
- Using Budgets for Control 201
 - Static Budgets 201
 - Flexible Budgeting 204
 - Flexible Budget Variance and Volume Variance 204
 - Price and Quantity Variances 205
- Key Concepts 207

PART IV FINANCIAL STATEMENT ANALYSIS

CHAPTER SIXTEEN/A CLOSER LOOK AT FINANCIAL STATEMENT	211
The Balance Sheet	212
Current Assets	214
Long-Term Assets	215
Liabilities	216
Stockholders' Equity	216
The Income Statement	219
The Statement of Cash Flows	221
The Notes to the Financial Statements	225
Key Concepts	226
CHAPTER SEVENTEEN/NOTES TO THE FINANCIAL STATEMENTS	227
Significant Accounting Policies	228
Other Notes	238
Other Information (Unaudited)—Price Level Information	241
Summary	241
Key Concepts	243
CHAPTER EIGHTEEN/RATIO ANALYSIS	244
Benchmarks for Comparison	246
Common Size Ratios	247
The Balance Sheet: Assets	249
The Balance Sheet: Equities	250
The Income Statement	250
Common Size Ratios: Additional Notes	251
Liquidity Ratios	252
Efficiency Ratios	254
Receivables Ratios	254
Inventory Ratios	256

Solvency Ratios	256
Profitability Ratios	259
Margin Ratios	259
Return on Investment (ROI) Ratios	260
Key Concepts	264
CHAPTER NINETEEN/SUMMARY AND CONCLUSION	266
REFERENCES	269
INDEX	271
USER'S MANUAL	

Part I

INTRODUCTION

