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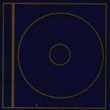
HANDBOOK OF

FINANCIAL MANAGEMENT

JAE K. SHIM, PH.D.

JOEL G. SIEGEL, PH.D., CPA

NICK DAUBER, MS, CPA



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CORPORATE CONTROLLER'S HANDBOOK OF FINANCIAL MANAGEMENT

To Chung, loving and devoted wife, mother, and sister; and Karen, loving and devoted wife, mother, and sister; and precious father, and sister.

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Corporate Controller's Handbook of Financial Management

by Jae K. Shim, Joel G. Siegel, and Nick Dauber

Highlights

The *Corporate Controller's Handbook of Financial Management* is a comprehensive source of practical solutions, strategies, techniques, procedures, and formulas covering all key aspects of accounting and financial management. Its examples, checklists, step-by-step instructions, and other practical working tools simplify complex financial management issues and give CFOs, corporate financial managers, and controllers quick answers to day-to-day questions. In addition, the handbook includes references to the relevant topics of the *FASB Accounting Standards Codification*TM.

The handbook covers important new developments in government rules, accounting procedures, taxation, and information technology. The practical, hands-on guidance helps diagnose a firm's financial health, boost financial results, avoid unpleasant surprises, cut costs, and make financial decisions with confidence.

2009–2010 Edition

This edition of the *Corporate Controller's Handbook of Financial Management* includes the following:

- Coverage of the latest statements and interpretations from the Financial Accounting Standards Board (FASB) and the Issues from the FASB's Emerging Issues Task Force (EITF), such as:
 - FASB Statement No. 163, *Accounting for Financial Guarantee Insurance Contracts—an Interpretation of FASB Statement No. 60*
 - FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*
 - FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an Amendment of FASB Statement No. 133*



- FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*
- FSP FASB Statement No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*
- EITF Issue No. 08-5, *Issuer's Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement*
- EITF Issue No. 08-3, *Accounting by Lessees for Maintenance Deposits*
- EITF Issue No. 08-2, *Lessor Revenue Recognition for Maintenance Services*
- EITF Issue No. 08-1, *Revenue Recognition for a Single Unit of Accounting*
- EITF Issue No. 07-5, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock*
- FSP EITF Issue No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*
- New information on the interactive data electronic application (IDEA) system, which will replace the electronic data gathering, analysis, and retrieval (EDGAR) system (Chapter 2).
- Updated information on various accounting software packages (Chapter 7).
- Updated tax information and new sample filled-in tax forms (Chapters 52 and 53).
- New information on the features and benefits of the cash budget and cash variance analysis, including an example of a monthly cash budget schedule (Chapter 59).
- Updated information on the Z-Score model, one of three bankruptcy models (Chapter 60).

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FINANCIAL MANAGEMENT

MANAGEMENT

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Dr. Shim has published numerous articles in journals, such as *Financial Management*, *Economic Decision Sciences*, *Journal of Applied Finance*, *Long Beach To Chung Shim*, *dedicated wife; Roberta M. Siegel*, *loving wife and colleague; and Karen J. Dauber*, *loving and devoted wife; Katie and Michael Dauber*, *adorable and precious children; Margie, Marc, and Susan Dauber*, *loving and wonderful mother, father, and sister.*

Dr. Shim's Accounting Handbook series—*Sourcebook Dictionary of International Business Terms*, *The Vest-Pocket CPA*, *The Vest-Pocket MBA*, and *The Vest-Pocket MBA*.

Twenty-six of his publications have been translated into foreign languages such as Spanish, Chinese, Russian, Polish, Czech, Italian, Japanese, and Korean. Professor Shim's books have been published by Thompson-Southwestern, John Wiley, McGraw-Hill, Barton's, CCH, Prentice-Hall, the American Management Association (Amacom), and the American Institute of CPAs.

Dr. Shim has been frequently quoted by media, such as the *Los Angeles Times*, *Orange County Register*, *Business Startups*, *Personal Finance*, and *Money Reader*. Dr. Shim is the recipient of the 1987 *Adult Research Foundation* award for his article on financial modeling.

JOEL G. SIEGEL, Ph.D., CFA, is a self-employed certified public accountant and Professor of Accounting and Finance at Queens College of the City University of New York.

He was previously employed by Coopers and Lybrand, CPAs, and Arthur Andersen, CPAs. Dr. Siegel has acted as a consultant in accounting and finance to many organizations, including Citicorp, International Telephone and Telegraph, United Technologies, the American Institute of CPAs, and Person/Volinsky Associates.

Dr. Siegel is the author of 67 books and about 300 articles on accounting and financial topics. His books have been published by CCH, Southwestern, Prentice-Hall, Richard Irwin, Probus, Macmillan, McGraw-Hill, Harper and Row, John Wiley, International Publishing, Barron's, the American Management Association, and the American Institute of CPAs.

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Dr. Shim has published numerous articles in journals, such as *Financial Management*, *Econometrica*, *Decision Sciences*, *Management Science*, *Long Range Planning*, *OMEGA*, and *Journal of Operational Research Society*. He has more than 50 college and professional books to his credit, including *Operations Management*, *Managerial Economics*, *Financial Management*, *Managerial Accounting*, *U.S. Master Finance Guide*, *Barron's Accounting Handbook*, *Investment Sourcebook*, *Dictionary of International Business Terms*, *The Vest-Pocket CPA*, *The Vest-Pocket CFO*, and *The Vest-Pocket MBA*.

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His articles have been published in many accounting and financial journals, including *Financial Executive*, *The Financial Analysts Journal*, *The CPA Journal*, *Practical Accountant*, and the *National Public Accountant*.

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In 1992, Mr. Dauber was named Professor of the Year at Queens College and was the recipient of the Golden Apple Award bestowed by the Golden Key National Honor Society. He has also served as an award-winning lecturer in auditing and taxation for the Foundation for Accounting Education at the New York State Society of CPAs as well as for the American Institute of Certified Public Accountants.

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Books that Mr. Dauber has authored include *The Vest-Pocket CPA*, *A Complete Guide to Auditing Standards and Other Professional Standards for Accountants 2009*, and *Barron's How to Prepare for the CPA Exam*. He has also been a contributor to professional books in accounting and auditing.

WHAT THIS BOOK WILL DO FOR YOU

Corporate Controller's Handbook of Financial Management is directed toward chief financial officers, corporate financial managers, controllers, treasurers, chief accountants and staff accountants, internal auditors, management accountants, and consultants. A practical reference for all areas of corporate financial management and accounting, this handbook applies to organizations of any size. It is a comprehensive, authoritative working guide that pinpoints what to look for, what to watch out for, what to do, how to do it, and how to apply it in performing the financial management and controllership functions.

The handbook is geared to the contemporary financial officer, who must follow some traditional elements common to controllership and financial management but must be cognizant of the changing financial markets and technology of today. These factors make some of the traditional techniques of financial management obsolete—new strategies and techniques are necessary in order to do an effective job that ensures financial survival. This is a true handbook—a wealth of information, along with the tools that make it work for the professional. The handbook focuses on the responsibilities of corporate financial managers and controllers who must meet present-day challenges in the business world. The corporate financial manager must help to maintain and even improve the company's competitive position. The handbook enlightens the corporate financial manager and controller by presenting the most current information, offering important directives, explaining technical procedures, and looking at emerging trends.

Corporate Controller's Handbook of Financial Management will help you diagnose and evaluate accounting, financial, and operating situations faced daily. The controller is more than just the chief accountant. He or she must be able to provide upper management with financial information, evaluation, and advice.

Any topic of importance can be found in this book. It covers all aspects of the controller's and financial manager's jobs, including accounting and financial reporting activities, managerial analysis and planning, tax planning, implementation of corporate policies, and treasury functions. The book includes "key" areas, such as management reports, asset management, budgeting and variance analysis, accounting principles, sources of financing, capital structure analysis, measurement of divisional and departmental performance, financial analysis, break-even analysis, forensic accounting, internal auditing, avoiding financial problems, analysis and control of costs, mergers and acquisitions, management accounting, cost management strategies, financial models and quantitative applications, computer applications, risk management, optimizing returns, investments,

insurance protection, economic effects, business valuation, divestiture, failure and reorganization, and international finance.

Illustrations and step-by-step instructions are provided on what to watch out for and how to do it. This enables you to see how the techniques and procedures are applied. "Real life" examples are given of the analytical points made so you may handle everyday problems. Checklists and summaries are also provided. The book is filled with facts, explanations, commentaries, sample documents and letters, agreements, reports, flowcharts, analysis, figures, and practices. Tables, statistical data, charts, exhibits, and diagrams are provided as needed. You will find financial measures, ratios, formulas, and rules-of-thumb to help you analyze and evaluate any business-related situation. Sophisticated, up-to-date analytical techniques and managerial tools are presented.

Corporate Controller's Handbook of Financial Management provides detailed analysis of recurring problems as well as unusual situations that may crop up. It gives vital suggestions throughout. The latest developments, such as new tax laws, are also included. This reference book provides all the information you need to perform the financial management and controllership functions effectively and efficiently!

Guidelines are presented for evaluating proposals, whether they be short- or long-term, for profit potential and risk-return comparison. Tips for preparing necessary reports are also provided.

You will be able to move quickly to take advantage of favorable situations or avoid unfavorable ones. Here is the guide that will help you make smart decisions in all areas of corporate financial management and controllership. It will be your daily problem-solver for financial and accounting situations. The practical benefits of this guidebook are unlimited in that it:

- Shows you how to measure and appraise risk.
- Lists "red flags" for potential problem areas.
- Recommends proven ways to correct financial sickness and inefficiency.
- Shows you how to evaluate business proposals, operations, and activities.
- Offers tested techniques for analyzing the financial structure of the business.
- Provides interpretation of variances indicating inefficiencies in the organization.
- Gives you the tools for spotting financially strong or weak business segments.

Important questions facing the controller will be answered, such as:

- What type of reports may be prepared to enhance the decision-making process?
- How do I conform to the new pension laws?
- What should be done to achieve maximum benefit from the new income tax accounting rules?

- What should be known about recent laws and governmental regulations?
- How can inventory be managed to lower costs and better utilize production facilities?
- What factors should be considered when preparing financial forecasts?
- How can productivity and performance best be measured?

Part I (Chapters 1–3) looks at the responsibilities of the controller, including the types of reports that must be prepared. The use of computers to incorporate the latest technology in performing controllership functions is also discussed. SEC filings are presented.

Part II (Chapters 4–8) discusses the use of computers to incorporate the latest technology in performing controllership functions. Spreadsheet programs, database software, accounting packages, LANs, WANs, database management systems, the client/server environment, and XBRL wireless technology are discussed. The AICPA's new financial reporting language, XBRL, is explained. Also explained is the use of computers in financial decision making, specifically budgeting and planning software, accounting software, and forecasting and statistical software.

Part III (Chapters 9–14) covers generally accepted accounting principles. The financial reporting requirements that must be known to the controller include such important topics as leases, pensions, and accounting for income taxes.

Part IV (Chapters 15–28) focuses on managerial accounting and cost management issues. The chapters cover what the controller should know about cost accounting, including costing systems, joint costs, cost allocation, activity-based costing and just-in-time, capital budgeting, contribution margin, budgeting, variance analysis, life-cycle costs and target costing, environmental costing, quality costs, break-even analysis, and segmental performance. In addition, the corporate balanced scorecard is discussed.

Part V (Chapters 29–31) deals with internal auditing and controls. This part covers the audit techniques involved in auditing assets, liabilities, equity, revenue, and expenses. The characteristics of sound internal control are also indicated.

Part VI (Chapters 32–39) is directed toward financial analysis areas, including risk/reward relationships and financial statement analysis for internal evaluation. Ways to analyze and control revenue and costs are addressed. Insurance and legal concerns are examined. Finally, economic factors are taken into account.

Part VII (Chapters 40–42) addresses the proper management of assets including cash, marketable securities, accounts receivable, and inventory.

Part VIII (Chapters 43 and 44) informs the controller what should be known about investments in securities to earn a satisfactory return while controlling risk.

Part IX (Chapters 45–51) covers how to obtain adequate financing for the business to meet its goals and requirements. Short-term, intermediate-term, and long-term financing instruments are explained and illustrated and the circumstances in which each are appropriate are given. There is also a discussion of

warrants and convertibles. Cost of capital determination and dividend policy are examined. For those involved in international finance this section will be of interest.

Part X (Chapters 52 and 53) covers tax preparation and planning. There is a discussion of key tax topics, such as tax saving alternatives, payroll taxes, tax aspects of business combinations and leveraged buyouts, and tax effects of stock option and incentive plans.

Part XI (Chapters 54–61) provides what must be considered in the planning, financing, and accounting for mergers and acquisitions. Acquisition criteria and objectives to be accomplished are presented. The reasons for and ways of divesting business segments are addressed. Failure and reorganization are discussed. Consideration is given to shareholder value analysis and forecasting corporate financial distress. An in-depth discussion of corporate valuations is also presented.

The content of *Corporate Controller's Handbook of Financial Management* is clear, concise, and to the point. It is a valuable reference tool containing “how-tos” in controllership. The uses of this handbook are as varied as the topics presented. Keep it handy for easy, quick reference, and daily use.

PRACTICE ALERT: The Financial Accounting Standards Board has been working on a project to codify (by topic) U.S. GAAP. On January 15, 2008, the FASB released the *FASB Accounting Standards Codification*TM (Codification) for verification by constituents. The Codification is organized into approximately 90 accounting topics. It is not intended to change existing U.S. GAAP, but rather integrates existing accounting standards by multiple standard-setters within the current GAAP hierarchy. On July 1, 2009, the Codification is expected to become the single official source of authoritative, nongovernmental U.S. GAAP, superseding existing FASB, AICPA, EITF, and related literature. Going forward, U.S. GAAP will no longer be issued in the form of an “accounting standard,” but rather as an update to the applicable “topic” or “subtopic” within the Codification. As such, accounting guidance will be classified as either “authoritative” or “non-authoritative” based on its inclusion or exclusion from the Codification.

The Codification content is arranged within (a) Topics, (b) Subtopics, (c) Sections, and (d) Subsections, as follows:

- *Topics.* Topics represent a collection of related guidance and reside in four main areas: (1) *presentation* (e.g., income statement, balance sheet); (2) *financial statement accounts* (e.g., assets, liabilities, equity); (3) *broad transactions* (e.g., business combinations, derivatives); and (4) *industries* (e.g., airlines, real estate).
- *Subtopics.* Subtopics represent subsets of a “Topic” and are generally distinguished by type or by scope. For example, “Operating Leases” and “Capital Leases” are two Subtopics of the “Leases” Topic.

- **Sections.** Sections represent the nature of the content in a “Subtopic” (e.g., recognition, measurement, disclosure).
- **Subsections.** Sections are further broken down into subsections, paragraphs, and subparagraphs.

The following is the structure of the classification system: XXX-YY-ZZ-PP, where:

XXX = Topic
 YY = Subtopic
 ZZ = Section
 PP = Paragraph

Certain chapters of the handbook include references to the Codification as of December 31, 2008, using this classification system and are preceded by the acronym “ASC.” In certain instances, references to the Codification are not included because they may not exist (e.g., recently released accounting standards, standards that will be superseded by December 31, 2008).

4. What the Controller Must Know about Computers	Jae K. Shim, Ph.D.	
5. The Corporate Controller and Database Management	Joel G. Siegel, Ph.D., CPA	
6. The Corporate Controller and the Client/Service Provider	Nick Dauber, MS, CPA	
7. Using Computers in Financial Decision Making		
8. XBRL and Wireless Technology		8.01

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Permission has been received from the Institute of Certified Management Accountants to use questions and/or unofficial answers from past CMA examinations.

15. Cost Concepts, Classifications, and Product Costing Systems	15.01
16. Joint Products and By-Products	16.01
17. Analysis of Cost Behavior	17.01
18. Cost-Volume-Profit Analysis and Leverage	18.01

PART I **CHAPTER 1**

INTRODUCTION

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