# The New CFO Financial Leadership Manual

Third Edition

**STEVEN M. BRAGG** 

UNIVERSITAT LIECHTENSTEIN Bibliothek



WILEY John Wiley & Sons, Inc. Preface xiii

# PART ONE: OVERVIEW

Chapter 1: CFO's Place in the Corporation	3
First Days in the Position	3
Specific CFO Responsibilities	4
Overview of the Change Management Process	8
Differences between the Controller and CFO Positions	9
Relationship of the Controller to the CFO	12
Other Direct Reports: The Treasurer	13
Other Direct Reports: The Investor Relations Officer	13
Summary	14
Chapter 2: Financial Strategy	15
Cash	15
Investments	17
Working Capital	19
Inventory: Inventory Reduction Decision	21
Fixed Assets: Lease versus Buy Decisions	23
Payables	23
Debt	26
Equity .	28
Products: Product Elimination Decisions	32
Fixed Expenses: Step Costing Decisions	35
Payroll Expenses: Temporary Labor versus	
Permanent Staffing Decisions	36
Entities: Divestiture Decisions	38
Systems: When to Use Throughput Costing	39
High-Volume, Low-Price Sale Decisions Using Throughput Costing	43
Capital Budgeting Decisions Using Throughput Costing	44
Make versus Buy Decisions Using Throughput Costing	46
Summary	47
Chapter 3: Tax Strategy	48
Accumulated Earnings Tax	49
Cash Method of Accounting	50

Inventory Valuation	51
Mergers and Acquisitions	51
Net Operating Loss Carryforwards	52
Nexus	53
Project Costing	54
S Corporation	55
Sales and Use Taxes	56
Transfer Pricing	57 59
Unemployment Taxes Summary	60
Chapter 4: Information Technology Strategy	61
Reasons for Devising an Information Technology Strategy	61
Developing the Information Technology Strategy	62
Technical Strategies	65
Specific Applications ;	67
Summary	70
PART TWO: ACCOUNTING	
Chapter 5: Performance Measurement Systems	73
Creating a Performance Measurement System	73
Asset Utilization Measurements	74
Operating Performance Measurements	79
Cash Flow Measurements	82
Liquidity Measurements	85
Solvency Measurements	90
Return on Investment Measurements Market Performance Measurements	91 97
Summary	97 99
Chapter 6: Control Systems	100
Need for Control Systems Types of Fraud	100 101
Key Controls	101
When to Eliminate Controls	103
Summary	119
Chapter 7: Audit Function	121
Composition of the Audit Committee	121
Role of the Audit Committee	121
Purpose of the External Auditors	124
Dealing with External Auditors	125
Impact of the Sarbanes-Oxley Act on the	120
Audit Function	126

vi

Role of the Internal Audit Function	128
Managing the Internal Audit Function	131
Summary	133
Summary	133

## PART THREE: FINANCIAL ANALYSIS

Chapter 8: Cost of Capital	137
Components Calculating the Cost of Debt Calculating the Cost of Equity Calculating the Weighted Cost of Capital Incremental Cost of Capital Using the Cost of Capital in Special Situations Modifying the Cost of Capital to Enhance Shareholder Value Strategizing Cost of Capital Reductions Summary *	137 138 140 142 144 146 148 151
Chapter 9: Capital Budgeting	153
Hurdle Rate Payback Period Net Present Value Internal Rate of Return Throughput-Based Capital Budgeting Problems with the Capital Budget Approval Process Cash Flow Modeling Issues" Funding Decisions for Research and Development Projects Capital Investment Proposal Form Post-Completion Project Analysis Summary	153 154 156 158 161 162 164 165 167 170 172
Chapter 10: Other Financial Analysis Topics	173
Risk Analysis Capacity Utilization Breakeven Analysis Business Cycle Forecasting Summary	173 177 183 188 194
PART FOUR: FUNDING	

Chapter 11: Cash Management and Consolidation	197
Cash Forecasting Model	197
Information Sources for the Cash Forecast	201
Measuring Cash Forecast Accuracy	201
Cash forecasting Automation	202
Cash Concentration Overview	204
Physical Sweeping	204

Notional Pooling Comparison of Account Sweeping and Notional Pooling	206 207
Cash Management Controls	208
Summary	212
Chapter 12: Investing Excess Funds	213
Investment Criteria	213
Investment Restrictions	214
Investment Options	214
Investment Strategies	216
Summary	219
Chapter 13: Obtaining Debt Financing	220
Management of Financing Issues	220
Bank Relations *	221
Accounts Payable Payment Delay	222
Accounts Receivable Collection Acceleration	223
Credit Cards	224
Employee Trade-Offs	224
Factoring	224
Field Warehouse Financing	225
Floor Planning	226
Inventory Reduction	226
Lease	227
Line of Credit	228
Loans	228
Merchant Card Advances	234
Preferred Stock	234
Sale and Leaseback	235
Summary •	235
Chapter 14: Obtaining Equity Financing	238
Types of Stock	238
Private Placement of Stock	239
Layout of the Offering Memorandum	240
Establishing a Valuation for the Offering Memorandum	252
Swapping Stock for Expenses	253
Swapping Stock for Cash	254
Stock Warrants	254
Stock Subscriptions	255
Private Investment in Public Equity	255
Buying Back Shares	256
Rule 144	257
Rule 10b5-1	258
Summary	261

## PART FIVE: PUBLICLY HELD COMPANY

Chapter 15: Initial Public Offering	265
Reasons to Go Public	265
Reasons Not to Go Public	266
Cost of an IPO	268
Preparing for the IPO	269
Finding an Underwriter	271
Registering for and Completing the IPO	274
Alternatives for Selling Securities	277
Trading on an Exchange	279
American Stock Exchange	280
Overview of the NASDAQ -	282
New York Stock Exchange	283
Comparing the Stock Exchanges	285
Over-the-Counter Stocks	287
Summary	287

### Chapter 16: Reports to the Securities and Exchange Commission

288 288 Overview Form 8-K 289 Form 10-Q and Form 10-K 294 Form S-1 297 Form S-3 299 Form S-8 300 Shelf Registration 300 Declaring a Registration Statement Effective 301 Reporting Insider Securities Ownership and Trading 302 EDGAR Filing System 306 Fedwire Payments 308 Summary 310 • \_

#### Chapter 17: Investment Community

311 Introduction 311 Analyst's Perspective 311 Finding the Right Analyst 313 Sell Side: Analysts 314 Negative Analyst Report 316 Sell Side: Brokers 316 Sell Side: Investment Bankers 318 Sell Side: Investor Relations Specialists 318 Buy Side: Types of Investors 319 Buy Side: Institutional Investors 319 Buy Side: Individual Investors 321 Buy Side: Presentations to Investors 323 323 Summary

Chapter 18: Taking a Company Private	325
Going Private Transaction	325
Rule13e-3	325
Filling Out Schedule 13E-3	326
300-Shareholder Limit	329
Form 15	330
Summary	330
PART SIX: MANAGEMENT	
Chapter 19: Risk Management—General Concepts	333
Risk Management Policies	334
Risk Management Planning	335
Manager of Risk Management	337
Risk Management Procedures	338
Types of Insurance Companies	341
Evaluating the Health of an Insurance Carrier	343
Claims Administration	344
Insurance Files	345
Annual Risk Management Report	346 347
Summary "	347
Chapter 20: Risk Management: Foreign Exchange	348
Foreign Exchange Quote Terminology -	348
Nature of Foreign Exchange Risk	349
Data Collection for Foreign Exchange Risk Management	350
Foreign Exchange Hedging Strategies	351
Accept the Risk	352
Insist on Home Currency Payment	352
Currency Surcharges	353
Get Paid on Time	353 353
Foreign Currency Loans Sourcing Changes	353
Foreign Currency Accounts	354
Unilateral, Bilateral, and Multilateral	004
Netting Arrangements	354
Forward Exchange Contracts	355
Currency Futures	357
Currency Options	358
Currency Swaps	360
Proxy Hedging	362
Summary	362
Chapter 21: Outsourcing the Accounting and Finance Functions	363
Advantages and Disadvantages of Outsourcing	363
Contractual Issues	368

Transition Issues	370
Controlling Supplier Performance	372
Measuring Outsourced Activities	373
Managing Suppliers	379
Dropping Suppliers	379
Summary	381
Chapter 22: Mergers and Acquisitions	382
Evaluating Acquisition Targets	382
Complexity Analysis	400
Evaluate Acquisition Targets with Alliances	401
Valuing an Acquisition Target	402
Alternative Valuation Methods	402
Control Premium	406
Synergy Gains	406
Discounted Cash Flow (DCF) Model	407
Constructing Cash Flow Scenarios	409
Cash Flow Adjusting Factors	410
Earnout	412
Qualitative Factors	413
Which Valuation Method Is Best?	414
Method of Payment	415
Types of Acquisitions	416
Tax Implications of an Acquisition	416
Asset Acquisition	418
Type "A" Reorganization	419
Type "B" Reorganization	420
Type "C" Reorganization	421
Type "D" Reorganization	422
Triangular Merger	423
Reverse Triangular Merger	423
Terms of the Acquisition Agreement	424
When to Use an Investment Banker	424
Summary	425

## PART SEVEN: OTHER TOPICS

Chapter 23: Employee Compensation	429
Deferred Compensation	429
Life Insurance	431
Stock Appreciation Rights	432
Stock Options '	432
Restricted Stock Units	435
Bonus Sliding Scale	435
Cut Benefit Costs with a Captive Insurance Company	436
Summary	436