

CFO

FUNDAMENTALS

YOUR QUICK GUIDE TO

- ✓ Internal Controls
- ✓ Financial Reporting
- ✓ IFRS
- ✓ Web 2.0
- ✓ Cloud Computing
- ✓ and More

Jae K. Shim • Joel G. Siegel • Allison I. Shim

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Founded in 1807, John Wiley & Sons is the oldest independent publishing company in the United States. With offices in North America, Europe, Asia, and Australia, Wiley is globally committed to developing and marketing print and electronic products and services for our customers' professional and personal knowledge and understanding.

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CFO Fundamentals

*Your Quick Guide to
Internal Controls, Financial
Reporting, IFRS, Web 2.0,
Cloud Computing, and More*

JAE K. SHIM
JOEL G. SIEGEL
ALLISON I. SHIM



WILEY

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*To Chung Shim, dedicated wife and mother;
Roberta M. Siegel, loving wife and colleague; and Sylvia and
Arnold Siegel, loving mother and brother.*

What This Book Will Do for You

Here is a handy pocket problem-solver for today's busy chief financial officer (CFO). It's a working guide to help you quickly pinpoint what to look for, what to be aware of, what to do, and how to do it in the complex world of business. You will find checklists, ratios, formulas, measures, guidelines, procedures, rules of thumb, illustrations, step-by-step instructions, real-life examples, tables, charts, and exhibits to help you analyze and evaluate any business-related problem. Throughout, you will find this book practical, quick, comprehensive, and useful.

Uses for this book are as varied as the topics presented. It can be used by CFOs employed by large, medium, or small companies.

You will be able to move quickly to take advantage of favorable situations and avoid unfavorable ones. Here is the guide that will help you make smart decisions. The book provides analysis of recurring problems as well as unusual ones that may occur and posts red flags of potential difficulties. It gives vital suggestions throughout on correcting financial sickness and inefficiency. The latest developments, such as new tax laws, are included.

The book covers the major areas and problems of corporate financial management and accounting. It is directed to the modern CFO who must follow some traditional elements common to controllership and financial management but must be cognizant of the ever-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.

We present guidelines for evaluating proposals and for analyzing and measuring operations and activities and provide tips for preparing necessary reports.

The book is a practical reference that contains approaches and techniques for understanding and solving problems of:

- Financial reporting: International Financial Reporting Standards (IFRS)
- Cost management and information technology (IT) systems
- Financial planning and budgeting
- Management of assets and liabilities
- Risk management and continuity planning
- Liquidity and treasury
- Financing the business
- Real options and discovery-driven planning
- Taxation
- Mergers and acquisitions
- Divestitures
- Multinational finance
- Forecasting corporate bankruptcy
- Reading economic indicators

Part I (Chapters 1-2) covers the financial reporting responsibilities of the CFO, including the types of reports that must be prepared. Securities and Exchange Commission filings are required by public companies, and compliance with the Sarbanes-Oxley Act is required.

Part II (Chapters 3-8) discusses the financial accounting requirements applicable to the income statement, balance sheet, and statement of cash flows. Generally accepted accounting principles are delved into, including such important topics as leases, pensions, and accounting for income taxes.

Part III (Chapters 9-19) focuses on cost management and IT systems. It covers what the CFO should know about cost

management and analysis, break-even analysis, contribution margin analysis, budgeting and financial modeling, variance analysis, risk management, portfolio diversification sustainable growth, capital budgeting, managerial reports, segmental performance, and quantitative techniques. Chapter 19 takes up the issue as to how IT assists CFOs in business decisions. It covers the use of information systems in all phases of business and in all functional areas to analyze and solve business problems in the real world. It covers topics such as cloud computing, Web 2.0, value chain software, and contingency planning.

Part IV (Chapters 20-23) addresses the management of working capital and assets including cash, accounts receivable, and inventory. The management of payables is also highlighted.

Part V (Chapters 24-29) deals with how to adequately obtain financing for the business to meet its goals and financial needs. Short-term, intermediate-term, and long-term financing requirements are discussed, and the circumstances under which each would be appropriate are indicated. Cost of capital determination and capital structure decisions are presented. The factors in establishing a dividend policy are noted. The financial management of overseas operations for multinational companies is explained.

Part VI (Chapters 30-33) is directed toward financial analysis areas, including risk/reward relationships and financial statement analysis for internal evaluation. Ways to analyze and control revenue and expenses are addressed. Proper insurance is needed to ensure the sustenance of the business. Knowledge of law is required to guard against legal exposure such as from product defects. The economic environment by way of economic indicators and statistics has to be studied to determine its impact on the business and what can be done in recessionary times.

Part VII (Chapter 34) covers investment portfolio selection so as to earn a satisfactory return while controlling risk. Current trend in corporate investment and liquidity management is also outlined.

Part VIII (Chapter 35) discusses the tax consequences of making financial decisions. Tax planning is essential to minimizing the tax obligation of the business.

Part IX (Chapters 36-41) presents the planning and financial aspects for mergers and acquisitions. The reasons and ways of divesting of business segments are discussed. The signs of potential business failure must be noted so that timely corrective action may be taken. The steps in a reorganization are discussed. Chapter 40 provides an in-depth treatment as to how to value a security. Chapter 41 addresses a special topic—financial analysis for nonprofit organizations.

The content of the book is clear, concise, and to the point. It is a valuable reference tool with practical applications and how-tos for you, the up-to-date knowledgeable CFO. Keep this book handy for easy reference and daily use.

PART ONE

Reports and Filings

CHAPTER ONE

Chief Financial Officer's Role and Reports

ROLE OF THE CHIEF FINANCIAL OFFICER

The chief financial officer (CFO) plays a strategic role in the company's goal-setting, policy determination, and financial success. The CFO's typical title is vice president of finance (VP Finance). Unless the business is small, no one individual handles all the financial decisions; responsibility is dispersed throughout the organization. The CFO's responsibilities include:

- *Financial analysis and planning:* Determining the amount of funds the company needs; a large company seeking a rapid growth rate will require more funds.
- *Making investment decisions:* Allocating funds to specific assets (things owned by the company). The financial manager makes decisions regarding the mix and type of assets acquired and the possible modification or replacement of assets, particularly when assets are inefficient or obsolete.
- *Making financing and capital structure decisions:* Raising funds on favorable terms (i.e., at a lower interest rate or with few restrictions). Deciding how to raise funds depends on many factors, including interest rate, cash position, and existing debt level;

for example, a company with a cash-flow problem may be better off using long-term financing.

- *Managing financial resources:* Managing cash, receivables, and inventory to accomplish higher returns without undue risk.

The CFO affects stockholder wealth maximization by influencing:

- Current and future earnings per share (EPS), equal to net income divided by common shares outstanding
- Timing, duration, and risk of earnings
- Dividend policy
- Manner of financing

[Exhibit 1.1](#) presents the functions of the CFO.

[Exhibit 1.1](#) Functions of the CFO

A. Accounting and Control
Establishment of accounting policies and internal control
Development and reporting of accounting data
Cost accounting
Internal auditing
System and procedures
Government reporting and filings
Report and interpretation of results of operations to management
Comparison of performance with operating plans and standards
B. Planning
Long- and short-range financial and corporate planning
Budgeting for operations and capital expenditures
Evaluating performance
Pricing policies and sales forecasting
Analyzing economic factors
Appraising acquisitions and divestment
C. Provision of capital
Short-term sources; cost and arrangements
Long-term sources; cost and arrangements
Internal generation
D. Administration of Funds
Cash management

Banking arrangements
Receipt, custody, and disbursement of company's securities and moneys
Credit and collection management
Pension money management
Investment portfolio management
E. Protection of Assets
Provision for insurance
Establishment of sound internal controls
F. Tax Administration
Establishment of tax policies
Preparation of tax reports
Tax planning
G. Investor Relations
Maintaining liaison with the investment community
Counseling with analyst regarding public financial information
H. Evaluation and Consulting
Consultation with and advice to other corporate executives on company policies, operations, objectives, and their degree of effectiveness
I. Information Technology and Management Information Systems
Development and use of information technology (IT) facilities
Development and use of management information systems
Development and use of IT systems and procedures

How do you differentiate among the controller, treasurer, and CFO?

If you are employed by a large company, the financial responsibilities are probably held by the controller, treasurer, and CFO. The activities of the controller and treasurer fall under the umbrella of finance.

There is no precise distinction between the jobs of controller and treasurer, and the functions may differ slightly between organizations because of size, company policy, and the personality of the office holder. In most businesses, the role of the controller is constantly changing and adapting to the situation at hand. The controller's functions are primarily of an *internal* nature and include record keeping, tracking, and controlling the financial effects