

The CFO Guidebook

4th Edition

Steven M. Bragg

Table of Contents

Chapter 1 – The CFO Position	1
Learning Objectives.....	1
Introduction.....	1
The CFO Job Description	1
The Controller Job Description	2
CFO and Controller Differences.....	3
The CFO Organizational Structure.....	4
Relations with the Chief Executive Officer	6
Relations with the Board of Directors.....	7
Relations with the Audit Committee and Auditors	7
Summary.....	8
Review Questions.....	9
Review Answers.....	10
Chapter 2 – Strategic Planning	11
Learning Objectives.....	11
Introduction.....	11
Strategy Overview	11
SWOT Analysis	12
Competitor Analysis.....	12
Five Forces Analysis	14
Types of Strategies.....	16
Risk Analysis	17
A Tight Strategic Focus	18
Pacing	18
Acquisition Strategy.....	19
Outsourcing.....	20
The Consideration of Cash in Strategy	21
Summary.....	21
Review Questions.....	23
Review Answers.....	24
Chapter 3 – Risk Management	25
Learning Objectives.....	25
Introduction.....	25
Risk Management.....	25
The Role of the CFO.....	26
Risk Identification.....	27
Risk Quantification Issues.....	27
Risk Ranking.....	28
The Risk Profile.....	30
Risk Planning.....	31
Insurance.....	31
Data Security Risk	34
Supply Chain Risk.....	34
Political Risk	35
Foreign Exchange Risk Overview	36
Foreign Exchange Risk Management.....	37
Take No Action	37
Avoid Risk.....	38

Table of Contents

Shift Risk	38
Time Compression.....	39
Payment Leading and Lagging.....	39
Build Reserves.....	39
Maintain Local Reserves.....	39
Hedging	40
Summary	40
Types of Foreign Exchange Hedges.....	40
Loan Denominated in a Foreign Currency.....	41
The Forward Contract.....	41
The Futures Contract.....	42
The Currency Option.....	42
The Cylinder Option.....	44
Swaps.....	44
Netting.....	44
Interest Risk Overview.....	45
Interest Rate Risk Management	46
Take No Action	46
Avoid Risk.....	46
Asset and Liability Matching.....	46
Hedging	46
Types of Interest Rate Hedges	47
The Forward Rate Agreement.....	47
The Futures Contract.....	48
The Interest Rate Swap	50
Interest Rate Options	51
Interest Rate Swaptions.....	53
Risk Management Themes.....	54
Summary.....	55
Review Questions.....	56
Review Answers.....	58
Chapter 4 – The Control Environment.....	61
Learning Objectives.....	61
Introduction.....	61
The Genesis of Accounting Controls.....	61
The Proper Balance of Control Systems	62
The Nature of Risk.....	63
Control Principles	63
The Failings of Internal Controls	65
Preventive and Detective Controls.....	65
Manual and Automated Controls	66
Constructing a System of Controls.....	66
Special Case – Acquisitions.....	67
Special Case – Employee Turnover.....	68
Special Case – Rapid Growth.....	68
Special Case – Audit Committee Oversight	69
Control System Documentation	69
Summary.....	70
Review Questions.....	71
Review Answers.....	72

Table of Contents

Chapter 5 – Performance Measurement	73
Learning Objectives.....	73
Introduction.....	73
Cash Conversion Cycle.....	73
Days Sales in Accounts Receivable.....	74
Days Sales in Inventory.....	74
Days Payables Outstanding.....	75
Free Cash Flow.....	76
Working Capital Productivity.....	76
Cash Reinvestment Measurements.....	77
Cash Reinvestment Ratio.....	77
Funds-Flow Adequacy Ratio.....	78
Contribution Margin Ratio.....	79
Core Earnings Ratio.....	79
Quality of Earnings Ratio.....	80
Breakeven Point.....	81
Margin of Safety.....	82
Return on Equity.....	82
Return on Assets.....	84
Return on Assets.....	85
Return on Operating Assets.....	86
Affordable Growth Rate.....	87
Summary.....	88
Review Questions.....	90
Review Answers.....	91
Chapter 6 – Mergers and Acquisitions	93
Learning Objectives.....	93
Introduction.....	93
Acquisition Strategies.....	93
The Failings of Acquisition Strategy.....	95
Acquisition Due Diligence.....	95
Indicators of a Strong Acquisition Candidate.....	99
Acquisition Valuation.....	100
Forms of Acquisition Payment.....	104
The Stock-for-Stock Exchange.....	104
The Debt Payment.....	106
The Cash Payment.....	106
Summary.....	106
The Acquisition Legal Structure.....	107
Tax Issues.....	107
Issues with Stock Purchases.....	108
Gain Recognition Avoidance Rules.....	108
Type “A” Acquisition.....	108
Type “B” Acquisition.....	109
Type “C” Acquisition.....	109
Triangular Merger.....	109
Reverse Triangular Merger.....	110
Asset Purchase.....	110
Summary.....	111
Acquisition Integration.....	111
General Integration Concepts.....	111

Table of Contents

Function-Specific Integration Issues.....	111
Integration for the Serial Acquirer.....	112
Summary	113
Summary	113
Review Questions.....	114
Review Answers	116
Chapter 7 – Budgeting and Forecasting.....	119
Learning Objectives.....	119
Introduction.....	119
The Advantages of Budgeting.....	119
The Disadvantages of Budgeting.....	120
Capital Budgeting Problems	121
The Command and Control System.....	121
Behavioral Impacts	122
Bureaucratic Support	123
Information Sharing.....	123
The System of Budgets	124
The System of Budgets for a Multi-Division Company.....	127
Operating Decisions Impacting the System of Budgets.....	127
The Reasons for Budget Iterations	128
Alternatives to the Budget.....	129
Forecasting without a Budget	130
Capital Budgeting	130
Goal Setting without a Budget	131
Strategy without a Budget.....	132
Management Guidelines.....	133
The Role of Senior Management.....	133
Compensation without a Budget.....	134
Behavioral Norms.....	136
Profit Knowledge	136
Information Exchange.....	136
Accounting Reports	137
The Rolling Forecast	138
The Rolling Forecast Format	139
Summary	141
Review Questions.....	142
Review Answers	144
Chapter 8 – Product Pricing	147
Learning Objectives.....	147
Introduction.....	147
Psychological Pricing.....	147
Cost-Plus Pricing.....	148
Dynamic Pricing.....	149
Freemium Pricing	150
High-Low Pricing	151
Premium Pricing	152
Time and Materials Pricing	153
Value Based Pricing	154
Other Pricing Strategies.....	155
Internet Pricing	156

Table of Contents

Price Elasticity of Demand.....	157
Cross Price Elasticity of Demand.....	158
Non-Price Determinants of Demand.....	159
Summary.....	159
Review Questions.....	160
Review Answers.....	161
Chapter 9 – Capital Budgeting	163
Learning Objectives.....	163
Introduction.....	163
CFO Responsibilities.....	163
Overview of Capital Budgeting.....	164
Bottleneck Analysis.....	165
Net Present Value Analysis.....	166
The Payback Method.....	167
The Outsourcing Decision.....	168
The Lease versus Buy Decision.....	169
The Post Installation Review.....	170
Summary.....	171
Review Questions.....	172
Review Answers.....	173
Chapter 10 – Cash Management	175
Learning Objectives.....	175
Introduction.....	175
The Cash Forecast.....	175
The Short-Term Cash Forecast.....	175
The Medium-Term Cash Forecast.....	178
The Long-Term Cash Forecast.....	179
The Use of Averages.....	179
The Use of Clearing Dates in a Forecast.....	180
Cash Forecast Reconciliation.....	181
The Need for Cash Concentration.....	181
Cash Sweeping.....	182
The Zero Balance Account.....	182
Multiple Sweep Arrangements.....	183
Manual Sweeping.....	184
Sweeping Rules.....	184
Sweep Problems.....	184
Sweep Costs.....	185
Summary.....	186
Notional Pooling.....	186
Notional Pooling Problems.....	186
Notional Pooling Costs.....	187
Summary.....	187
Multi-Tiered Banking.....	187
Cash Concentration Best Practices.....	187
Cash Concentration Alternatives.....	188
Summary.....	189
Review Questions.....	190
Review Answers.....	191

Table of Contents

Chapter 11 – Investment Management	193
Learning Objectives	193
Introduction.....	193
Investment Guidelines	193
Investment Strategy.....	195
Repurchase Agreements	197
Time Deposits	198
Certificates of Deposit.....	198
Bankers’ Acceptances	198
Commercial Paper.....	198
Money Market Funds.....	199
U.S. Government Debt Instruments.....	199
State and Local Government Debt.....	199
Bonds.....	199
The Primary and Secondary Markets.....	200
The Discounted Investment Formula	200
The Effective Interest Rate	201
Summary	202
Review Questions.....	203
Review Answers	204
 Chapter 12 – Fund Raising with Debt	 205
Learning Objectives	205
Introduction.....	205
Overview of Debt Funding	205
The Line of Credit.....	205
The Borrowing Base	206
Invoice Discounting	207
Factoring	208
Inventory Financing	208
Purchase Order Financing.....	209
Leases.....	209
The Long-Term Loan.....	209
Agency Financing.....	210
Other Lending Alternatives	210
Improving Upon Prepayment Terms.....	210
Floating-Rate Notes to Individuals	211
Debt Covenants.....	211
Lender Relations	212
Debt Risk Issues.....	213
Deleveraging	214
Summary	214
Review Questions.....	215
Review Answers	216
 Chapter 13 – Fund Raising with Equity	 217
Learning Objectives	217
Introduction.....	217
Overview of Equity Funding.....	217
Restricted Stock	218
Unrestricted Stock	218
The Accredited Investor.....	219

Table of Contents

Regulation D Stock Sales	219
Warrants.....	220
Regulation A Stock Sales	221
Angel Investors and Venture Capital.....	221
Debt for Equity Swaps	222
Crowdfunding	222
Summary	223
Review Questions.....	224
Review Answers.....	225
Chapter 14 – Credit Rating Agencies.....	227
Learning Objectives.....	227
Introduction.....	227
The Credit Rating Environment.....	227
The Rating Process	228
Summary	230
Review Questions.....	231
Review Answers	232
Chapter 15 – Going Public and Going Private	233
Learning Objectives.....	233
Introduction.....	233
Reasons for and Against Going Public	233
The Initial Public Offering.....	234
The Reverse Merger Concept.....	236
Advantages and Disadvantages of the Reverse Merger	237
The Price of a Shell	239
Shell Due Diligence	239
Trading Volume	240
Other Reverse Merger Issues.....	241
Rule 144	241
The Reverse-Forward Split	242
Going Private.....	242
Summary	243
Review Questions.....	244
Review Answers	245
Chapter 16 – Stock Exchanges	247
Learning Objectives.....	247
Introduction.....	247
Stock Exchange Overview	247
The New York Stock Exchange	248
The NYSE MKT	249
The NASDAQ	250
The NASDAQ Global Select Market.....	250
The NASDAQ Global Market.....	250
The NASDAQ Capital Market.....	251
The Toronto Stock Exchange	251
Delisting from an Exchange	252
The Over the Counter Bulletin Board	253
The Pink Sheets	253
Summary	253

Table of Contents

Review Questions.....	255
Review Answers.....	256
Chapter 17 – Investor Relations.....	257
Learning Objectives.....	257
Introduction.....	257
Investor Relations Overview.....	257
The Earnings Call.....	257
Guidance.....	259
Earnings Smoothing.....	262
The Roadshow.....	262
The Fund Raising Roadshow.....	262
The Non-Deal Roadshow.....	263
The Roadshow Presentation.....	264
Regulation FD.....	265
Short Sellers.....	267
Summary.....	268
Review Questions.....	269
Review Answers.....	270
Chapter 18 – Public Company Financial Reporting.....	271
Learning Objectives.....	271
Introduction.....	271
Interim Reporting.....	271
The Integral View.....	271
The Discrete View.....	272
Comparison of the Integral and Discrete Views.....	272
Interim Reporting Issues.....	273
Segment Reporting.....	273
Primary Segment Reporting Issues.....	273
The Segment Report.....	275
Earnings per Share.....	275
Basic Earnings per Share.....	275
Diluted Earnings per Share.....	276
Presentation of Earnings per Share.....	279
The Public Company Closing Process.....	280
The Form 10-Q.....	281
The Form 10-K.....	282
The Form 8-K.....	283
Summary.....	286
Review Questions.....	287
Review Answers.....	288
Chapter 19 – Share Management.....	289
Learning Objectives.....	289
Introduction.....	289
Float Management.....	289
Activities to Increase the Float.....	289
Activities to Delay Stock Sales.....	290
The Direct Stock Purchase Plan.....	290
The Employee Stock Purchase Plan.....	290
Dividend Reinvestment Plans.....	291

Table of Contents

Stock Splits.....	291
Dividend Payments.....	292
The Stock Buyback Option	293
The Stock Repurchase Safe Harbor Provision.....	294
Odd Lot Shareholders.....	294
Summary	295
Review Questions.....	296
Review Answers.....	297
Chapter 20 – Information Technology	299
Learning Objectives.....	299
Introduction.....	299
Types of Information Technology.....	299
Technology Ranking Methods	301
Technology Usage Based on Strategy.....	301
Cloud Computing.....	302
GRC Software	302
Enterprise Resource Planning Systems.....	303
Sales Force Automation Software	303
Summary	304
Review Questions.....	305
Review Answers.....	306
Glossary	307
Index	313