

Controller Guidebook

5th Edition

Steven M. Bragg

Table of Contents

| | |
|---|---------------|
| Chapter 1 – The Controller Job Description..... | 1 |
| Learning Objectives | 1 |
| Introduction..... | 1 |
| The Controller Job Description..... | 1 |
| The Chief Financial Officer Job Description..... | 2 |
| The New Controller Checklist..... | 4 |
| Summary..... | 7 |
| Review Questions..... | 8 |
| Review Answers | 9 |
| Chapter 2 – Cash Management..... | 11 |
| Learning Objectives | 11 |
| Introduction..... | 11 |
| Controller Responsibilities..... | 11 |
| Overview of the Bank Reconciliation | 11 |
| The Bank Reconciliation Procedure | 12 |
| Bank Reconciliation Problems..... | 13 |
| The Bank Reconciliation Statement..... | 13 |
| Accounting for Petty Cash..... | 14 |
| The Cash Forecast | 15 |
| Cash Investments..... | 17 |
| Negative Cash on the Balance Sheet..... | 18 |
| Cash Controls | 18 |
| Cash Record Keeping..... | 19 |
| Summary..... | 19 |
| Review Questions..... | 20 |
| Review Answers | 21 |
| Chapter 3 – Credit and Collections Management..... | 23 |
| Learning Objectives | 23 |
| Introduction..... | 23 |
| Controller Responsibilities..... | 23 |
| Receivables Measurement..... | 23 |
| Credit Management | 25 |
| Credit Terms and the Cost of Credit..... | 27 |
| Collections Management..... | 28 |
| Other Cash Acceleration Techniques | 29 |
| The Allowance for Doubtful Accounts..... | 30 |
| The Direct Write-Off Method | 32 |
| Credit and Collection Controls..... | 33 |
| Summary..... | 33 |
| Review Questions..... | 34 |
| Review Answers | 35 |
| Chapter 4 – Billing Management..... | 37 |
| Learning Objectives | 37 |
| Introduction..... | 37 |
| Controller Responsibilities..... | 37 |
| Billing Management | 37 |
| Structure of the Invoice | 39 |
| Accounting for Billings..... | 40 |
| Accrued Revenue | 41 |
| Accounting for Sales Taxes..... | 42 |
| Sales Tax Exemption Certificates..... | 45 |

Table of Contents

| | |
|---|-----------|
| Sales Tax Audits..... | 45 |
| Errors in Compliance | 46 |
| Audit Best Practices..... | 47 |
| Billing Controls..... | 48 |
| Summary..... | 49 |
| Review Questions..... | 50 |
| Review Answers | 51 |
| Chapter 5 – Inventory Management..... | 53 |
| Learning Objectives | 53 |
| Introduction..... | 53 |
| Controller Responsibilities..... | 53 |
| The Periodic Inventory System..... | 53 |
| The Perpetual Inventory System | 54 |
| How to Set Up Inventory Record Keeping | 55 |
| Cycle Counting | 55 |
| Inventory Reconciliation..... | 56 |
| The Physical Inventory Count | 57 |
| Inventory Costing..... | 58 |
| The First In, First Out Method..... | 58 |
| The Last In, First Out Method..... | 59 |
| The Weighted Average Method..... | 61 |
| Standard Costing | 62 |
| The Retail Inventory Method | 63 |
| Accounting for Obsolete Inventory | 64 |
| Summary..... | 65 |
| Review Questions..... | 66 |
| Review Answers | 67 |
| Chapter 6 – Fixed Assets Management..... | 69 |
| Learning Objectives | 69 |
| Introduction..... | 69 |
| Controller Responsibilities..... | 69 |
| Fixed Asset Tracking | 69 |
| Tag Tracking..... | 69 |
| Bar Code Tracking | 70 |
| RFID Tracking – Active Transmission..... | 70 |
| RFID Tracking – Passive Transmission..... | 71 |
| Accounting for Fixed Assets..... | 71 |
| Fixed Asset Controls..... | 72 |
| Controls for Fixed Asset Acquisition | 72 |
| Controls for Fixed Asset Theft..... | 73 |
| Controls for Fixed Asset Disposal..... | 74 |
| Fixed Asset Record Keeping..... | 74 |
| Audit Requirements | 75 |
| Summary..... | 76 |
| Review Questions..... | 77 |
| Review Answers | 78 |
| Chapter 7 – Accounts Payable Management..... | 79 |
| Learning Objectives | 79 |
| Introduction..... | 79 |
| Controller Responsibilities..... | 79 |
| Accounts Payable Management..... | 79 |
| Three-Way Matching..... | 81 |
| Use Taxes | 82 |
| Accounting for Accounts Payable..... | 82 |

Table of Contents

| | |
|---|-----------|
| Accounts Payable Controls | 84 |
| Accounts Payable Record Keeping | 84 |
| Summary | 85 |
| Review Questions | 86 |
| Review Answers | 87 |
| Chapter 8 – Equity Management..... | 89 |
| Learning Objectives | 89 |
| Introduction..... | 89 |
| Controller Responsibilities..... | 89 |
| Accounting for Stock | 89 |
| The Sale of Stock for Cash | 89 |
| Stock Issued in Exchange for Non-Cash Assets or Services..... | 90 |
| The Repurchase of Stock (Treasury Stock)..... | 90 |
| Accounting for Dividends | 91 |
| Summary | 93 |
| Review Questions | 94 |
| Review Answers | 95 |
| Chapter 9 – Payroll Management..... | 97 |
| Learning Objectives | 97 |
| Introduction..... | 97 |
| Controller Responsibilities..... | 97 |
| Payroll Cycle Duration | 97 |
| Streamlined Timekeeping | 99 |
| Timekeeping Systems..... | 100 |
| Computerized Time Clocks | 100 |
| Internet-Based Time Tracking | 101 |
| Electronic Payments | 102 |
| Payments by Direct Deposit | 103 |
| Payments by Pay Card | 104 |
| Employee Self-Service..... | 104 |
| Manager Self-Service | 104 |
| Transaction Error Analysis | 105 |
| Staff Training Program | 105 |
| The Payroll Calendar | 106 |
| Information Confidentiality..... | 107 |
| Accounting for Payroll | 108 |
| Primary Payroll Journal Entry | 108 |
| Accrued Wages | 109 |
| Accrued Bonuses..... | 109 |
| Accrued Commissions | 110 |
| Manual Paycheck Entry | 111 |
| Employee Advances | 111 |
| Accrued Vacation Pay..... | 112 |
| Payroll Controls | 113 |
| General Controls..... | 113 |
| Payroll Calculation Controls | 114 |
| Check Payment Controls | 114 |
| Direct Deposit Controls | 115 |
| Self-Service Controls | 115 |
| Garnishment Controls | 116 |
| Employee Advances Controls | 116 |
| Summary..... | 116 |
| Review Questions | 118 |
| Review Answers | 120 |

Table of Contents

| | |
|---|------------|
| Chapter 10 – Department Management | 123 |
| Learning Objectives | 123 |
| Introduction..... | 123 |
| Controller Responsibilities..... | 123 |
| Schedule of Activities..... | 123 |
| Error Tracking System | 123 |
| Process Reviews | 125 |
| Queue Management..... | 126 |
| Department Layout | 126 |
| Skills Review and Training | 127 |
| Consolidate Accounting | 128 |
| Summary..... | 129 |
| Review Questions..... | 130 |
| Review Answers | 131 |
| | |
| Chapter 11 – Closing the Books | 133 |
| Learning Objectives | 133 |
| Introduction..... | 133 |
| Controller Responsibilities..... | 133 |
| Prior Steps: Update Reserves..... | 133 |
| Core Steps: Issue Customer Invoices | 134 |
| Core Steps: Value Inventory | 135 |
| Core Steps: Calculate Depreciation..... | 137 |
| Core Steps: Create Accruals..... | 139 |
| Core Steps: Consolidate Division Results..... | 140 |
| Core Steps: Eliminate Intercompany Transactions | 140 |
| Core Steps: Review Journal Entries | 140 |
| Core Steps: Reconcile Accounts..... | 140 |
| Core Steps: Close Subsidiary Ledgers..... | 142 |
| Core Steps: Create Financial Statements..... | 142 |
| Core Steps: Review Financial Statements..... | 143 |
| Core Steps: Accrue Tax Liabilities..... | 143 |
| Core Steps: Close the Month | 143 |
| Core Steps: Add Disclosures | 144 |
| Core Steps: Write Cover Letter | 144 |
| Core Steps: Issue Financial Statements..... | 145 |
| Delayed Steps: Issue Customer Invoices | 145 |
| Delayed Steps: Closing Metrics..... | 145 |
| Delayed Steps: Document Future Closing Changes | 146 |
| Delayed Steps: Update Closing Procedures..... | 146 |
| The Soft Close | 147 |
| Summary..... | 148 |
| Review Questions..... | 149 |
| Review Answers | 150 |
| | |
| Chapter 12 – The Financial Statements..... | 151 |
| Learning Objectives | 151 |
| Introduction..... | 151 |
| Controller Responsibilities..... | 151 |
| The Income Statement..... | 151 |
| Income Statement Overview | 151 |
| The Single-Step Income Statement..... | 153 |
| The Multi-Step Income Statement | 154 |
| The Condensed Income Statement | 155 |
| The Contribution Margin Income Statement | 155 |
| The Multi-Period Income Statement | 156 |
| How to Construct the Income Statement | 157 |

Table of Contents

| | |
|--|------------|
| The Balance Sheet | 158 |
| Overview of the Balance Sheet | 158 |
| The Common Size Balance Sheet..... | 160 |
| The Comparative Balance Sheet..... | 161 |
| How to Construct the Balance Sheet..... | 162 |
| The Statement of Cash Flows | 164 |
| Overview of the Statement of Cash Flows | 164 |
| The Direct Method | 164 |
| The Indirect Method | 166 |
| How to Prepare the Statement of Cash Flows | 166 |
| The Statement of Retained Earnings..... | 168 |
| Overview of the Statement of Retained Earnings..... | 168 |
| How to Prepare the Statement of Retained Earnings..... | 169 |
| Summary | 170 |
| Review Questions..... | 171 |
| Review Answers | 173 |
| Chapter 13 – Public Company Financial Reporting | 175 |
| Learning Objectives | 175 |
| Introduction..... | 175 |
| Controller Responsibilities..... | 175 |
| Interim Reporting | 175 |
| The Integral View..... | 175 |
| The Discrete View..... | 176 |
| Comparison of the Integral and Discrete Views | 177 |
| Interim Reporting Issues | 177 |
| Segment Reporting..... | 177 |
| Primary Segment Reporting Issues | 177 |
| The Segment Report..... | 179 |
| Earnings per Share..... | 179 |
| Basic Earnings per Share..... | 180 |
| Diluted Earnings per Share | 181 |
| Presentation of Earnings per Share..... | 184 |
| The Public Company Closing Process..... | 184 |
| The Form 10-Q | 185 |
| The Form 10-K | 186 |
| The Form 8-K | 188 |
| The Disclosure of Non-GAAP Information | 191 |
| Summary | 192 |
| Review Questions..... | 193 |
| Review Answers | 195 |
| Chapter 14 – Management Reports | 197 |
| Learning Objectives | 197 |
| Introduction..... | 197 |
| Controller Responsibilities..... | 197 |
| The Duration of a Report..... | 197 |
| Responsibility Reporting | 197 |
| The Flash Report | 198 |
| Expense Reporting | 199 |
| Margin Reporting | 201 |
| Variance Reporting | 203 |
| The Purchase Price Variance..... | 204 |
| Material Yield Variance | 204 |
| Labor Rate Variance | 205 |
| Labor Efficiency Variance..... | 205 |
| Variable Overhead Spending Variance..... | 206 |

Table of Contents

| | |
|--|------------|
| Variable Overhead Efficiency Variance | 207 |
| Fixed Overhead Spending Variance..... | 207 |
| Selling Price Variance..... | 208 |
| Sales Volume Variance..... | 209 |
| Problems with Variance Analysis..... | 209 |
| Which Variances to Report..... | 210 |
| How to Report Variances | 211 |
| Summary..... | 211 |
| Review Questions..... | 212 |
| Review Answers | 213 |
| Chapter 15 – Ratio Analysis..... | 215 |
| Learning Objectives | 215 |
| Introduction..... | 215 |
| Controller Responsibilities..... | 215 |
| Deflated Sales Growth | 215 |
| Deflated Profit Growth..... | 216 |
| Core Earnings Ratio..... | 217 |
| Margin of Safety..... | 217 |
| Interest Coverage Ratio | 218 |
| Return on Equity | 219 |
| Days Sales Outstanding..... | 221 |
| Best Possible DSO | 222 |
| Inventory Turnover..... | 222 |
| Sales Productivity | 223 |
| Sales Backlog Ratio..... | 224 |
| Measurement Consistency..... | 224 |
| Measurements and the Soft Close | 225 |
| Summary..... | 225 |
| Review Questions..... | 226 |
| Review Answers | 227 |
| Chapter 16 – Budgeting..... | 229 |
| Learning Objectives | 229 |
| Introduction..... | 229 |
| Controller Responsibilities..... | 229 |
| The System of Budgets..... | 229 |
| The Reasons for Budget Iterations | 232 |
| Overview of the Revenue Budget..... | 233 |
| The Ending Finished Goods Inventory Budget..... | 235 |
| The Production Budget | 237 |
| Production Budgeting for Multiple Products | 239 |
| The Direct Materials Budget (Roll up Method) | 239 |
| The Direct Materials Budget (Historical Method)..... | 241 |
| The Direct Labor Budget..... | 241 |
| The Manufacturing Overhead Budget..... | 242 |
| The Sales and Marketing Budget | 243 |
| Diminishing Returns Analysis..... | 245 |
| The Research and Development Budget..... | 245 |
| The Administration Budget..... | 247 |
| The Compensation Budget | 249 |
| The Budgeted Income Statement..... | 251 |
| The Budgeted Balance Sheet | 252 |
| Accounts Receivable | 252 |
| Inventory..... | 253 |
| Fixed Assets | 254 |
| Accounts Payable | 255 |

Table of Contents

| | |
|--|------------|
| Additional Estimation Elements | 256 |
| The Cash Line Item..... | 256 |
| The Financing Budget..... | 257 |
| The Compiled Balance Sheet..... | 258 |
| Summary..... | 259 |
| Review Questions..... | 260 |
| Review Answers | 261 |
| Chapter 17 – Capital Budgeting | 263 |
| Learning Objectives | 263 |
| Introduction..... | 263 |
| Controller Responsibilities..... | 263 |
| Overview of Capital Budgeting | 263 |
| Constraint Analysis..... | 264 |
| Net Present Value Analysis..... | 265 |
| The Payback Method | 266 |
| Capital Budget Proposal Analysis | 267 |
| The Outsourcing Decision..... | 268 |
| The Capital Budgeting Application Form | 269 |
| The Post Installation Review..... | 271 |
| The Lease versus Buy Decision | 272 |
| Summary..... | 273 |
| Review Questions..... | 274 |
| Review Answers | 275 |
| Chapter 18 – Computer System Selection and Installation | 277 |
| Learning Objectives | 277 |
| Introduction..... | 277 |
| Controller Responsibilities..... | 277 |
| Computer System Selection..... | 277 |
| Requirements Development..... | 277 |
| The Request for Proposals..... | 279 |
| Bidders Conference | 279 |
| Proposal Evaluation | 280 |
| Demonstrations and Reference Checks | 281 |
| Computer System Installation | 282 |
| Electronic Spreadsheets | 284 |
| Summary..... | 285 |
| Review Questions..... | 286 |
| Review Answers | 287 |
| Glossary..... | 289 |
| Index | 295 |