

Controller Guidebook

6th 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.....	32
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
Planning Topics.....	47
Prevention Topics.....	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
The Fixed Asset Physical Count.....	71
Accounting for Fixed Assets.....	72
Fixed Asset Controls.....	73
Controls for Fixed Asset Acquisition	73
Controls for Fixed Asset Theft.....	74
Controls for Fixed Asset Disposal.....	74
Fixed Asset Record Keeping.....	75
Audit Requirements	76
Summary.....	77
Review Questions.....	78
Review Answers	79
Chapter 7 – Accounts Payable Management.....	81
Learning Objectives	81
Introduction.....	81
Controller Responsibilities.....	81
Accounts Payable Management.....	81

Table of Contents

Three-Way Matching.....	83
Use Taxes.....	84
Accounting for Accounts Payable.....	84
Accounts Payable Controls.....	86
Accounts Payable Record Keeping.....	86
Summary.....	87
Review Questions.....	88
Review Answers.....	89
Chapter 8 – Equity Management.....	91
Learning Objectives.....	91
Introduction.....	91
Controller Responsibilities.....	91
Accounting for Stock.....	91
The Sale of Stock for Cash.....	91
Stock Issued in Exchange for Non-Cash Assets or Services.....	92
The Repurchase of Stock (Treasury Stock).....	92
Accounting for Dividends.....	93
Summary.....	95
Review Questions.....	96
Review Answers.....	97
Chapter 9 – Payroll Management.....	99
Learning Objectives.....	99
Introduction.....	99
Controller Responsibilities.....	99
Payroll Cycle Duration.....	99
Streamlined Timekeeping.....	101
Timekeeping Systems.....	102
Computerized Time Clocks.....	102
Internet-Based Time Tracking.....	103
Electronic Payments.....	104
Payments by Direct Deposit.....	104
Payments by Pay Card.....	105
Employee Self-Service.....	106
Manager Self-Service.....	106
Transaction Error Analysis.....	106
Staff Training Program.....	107
The Payroll Calendar.....	108
Information Confidentiality.....	109
Accounting for Payroll.....	109
Primary Payroll Journal Entry.....	109
Accrued Wages.....	110
Accrued Bonuses.....	111
Accrued Commissions.....	112
Manual Paycheck Entry.....	112
Employee Advances.....	113
Accrued Vacation Pay.....	113
Payroll Controls.....	115
General Controls.....	115
Payroll Calculation Controls.....	115
Check Payment Controls.....	116
Direct Deposit Controls.....	116
Self-Service Controls.....	117
Garnishment Controls.....	117
Employee Advances Controls.....	117
Summary.....	118

Table of Contents

Review Questions	119
Review Answers	121
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.....	154

Table of Contents

The Contribution Margin Income Statement	155
The Multi-Period Income Statement	156
How to Construct the Income Statement	156
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

Table of Contents

Labor Rate Variance	205
Labor Efficiency Variance.....	205
Variable Overhead Spending Variance.....	206
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).....	240
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	248
The Budgeted Income Statement.....	251
The Budgeted Balance Sheet	252
Accounts Receivable	252

Table of Contents

Inventory.....	253
Fixed Assets.....	254
Accounts Payable.....	255
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