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FIFTH

EDITION

STEVEN A. FINKLER, Ph.D., CPA

Finance & Accounting for Nonfinancial Managers

Fifth Edition

Steven A. Finkler, Ph.D, CPA



Wolters Kluwer

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To Max, Livi, and Judah v

About the Author

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Before joining NYU, he was on the faculty of the Wharton School.

An award-winning teacher and author, he has written more than 20 books on budgeting, cost accounting, and financial management, and over two hundred articles on financial management. He has consulted for numerous organizations around the United States and abroad. He has also worked as a CPA with Ernst & Young.

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Preface

This book is an introduction to the world of financial management. However, its intent is not to make the reader a financial manager. Rather, it is an attempt to familiarize the nonfinancial manager with what accounting and finance are all about. This book concentrates on providing a working vocabulary for communication, so that the reader can develop an ability to ask the right questions and interpret the jargon-laden answers. Any accountant can bury any nonaccountant in debits and credits. But, once you understand a few basics, you can fight back and demand information that is both useful and usefully explained.

In addition to vocabulary, this book describes a variety of methods, processes, and tools of accounting and finance. They are not described in sufficient detail for the reader to fire the treasurer or controller and take over their job (how many of you really want to do that?). Instead, there is sufficient detail so that the reader can say, “So that’s what LIFO-FIFO is all about. I always wondered why we changed our inventory system,” or perhaps, “Hey, we never thought about those advantages of leasing rather than buying; maybe we should give leasing a closer look!”

There’s no escaping the fact that all managers are affected by the financial decisions that every firm makes. This book clarifies in the reader’s mind what questions are important to the firm’s financial management and why.

Who are the nonfinancial managers this book is aimed at? They are all managers except for the accountants and other financial experts in the firm. This includes all the engineers, marketing and sales personnel, and production people who have moved up within their firm to the point at which they need more financial lingo to follow what’s going on in their communications with the financial officers. It includes those in law and human resources, and others throughout all areas of the firm, who have shifted career paths or who have simply

grown with the firm and been promoted to more responsible positions. Sometimes managers need this book simply because the growth of their firm has been so fast that the financial complexity has increased at a more rapid rate than they have been able to keep up with.

Most of the readers of this book will not have attended business school. However, many business school graduates will pick up this book as a refresher. Frequently, business school graduates who majored in fields such as management, marketing, and industrial organization have commented years later that they would have paid far more attention to their accounting and finance course work had they realized how valuable that background is to those in responsible positions in industry.

Essentially, this book is for any manager or future manager who comes into contact with elements of the financial process and feels a need for a better understanding of what's going on. The structure of this book is such that the reader can sit down and read it in whole or in part. Although it is not a novel, the

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material is presented in a prose that should eliminate the need for intensive studying to understand the main points. A once-through reading should provide the reader with a substantial gain in knowledge. As specific financial questions come before the reader at times in the future, the book will serve as a good reference to brush up in a particular area.

The widespread acceptance of the first four editions of this book has been gratifying. When first published, it was selected as the book of the month by Fortune Book Club. Since then it has been featured by a number of other book clubs, and over 180,000 copies have been sold. It has been included in business CD collections, and is the basis for an on-line interactive course in accounting and finance. It has been adopted by a number of colleges and universities that wanted a less technical book for their non-accounting majors. It has been the basis for a number of executive programs as well. I am most proud of the wide number of individuals who have used it on their own, and then written to thank me because they found it so useful.

Included with this edition are Microsoft Excel templates, accessible on the book's website at: <https://www.CCHGroup.com/FANM2017>. These templates will allow you to immediately apply many of the concepts and techniques discussed throughout the book. Also included is

an extensive annotated list of websites related to accounting and finance that is useful for nonfinancial managers.

This new edition has a number of improvements over the prior edition. Extensive changes have been made to the discussions on leasing, and also on international financial reporting standards. The excel templates, designed to allow the reader to immediately apply much of the material in the book, have been updated, as well as the annotated list of websites related to accounting and finance that is provided as a resource for those who want additional information. In addition to many general updates to make the book more current, a new chapter has been added on not-for-profit accounting. There are now over 1.5 million non-for-profit organizations in the United States, responsible for over 5% of the GDP. This is a sector that could benefit from more managers who have gained an understanding of the essentials of accounting and finance.

I am grateful for the assistance of my editor Sandra Lim and would like to thank her for guiding the process. I would also like to thank Christopher Zwirek who did an outstanding job in the production of this book.

Any comments or question concerning this book may be addressed to me at *steven.finkler@nyu.edu*.

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List of Excel Templates

To ease your way into the application of the material in this book, a set of templates has been prepared. These templates, using Microsoft Excel spreadsheet software, are included at <https://www.CCHGroup.com/FANM2017> that accompanies this book. In each chapter where the material for a template is discussed, there is a box referring the reader to the template.

The templates are:

Template 1. Balance Sheet (Simple Example) —Chapter 4

Template 2. Income Statement (Simple Example)—Chapter 4

Template 3. Statement of Retained Earnings—Chapter 4

Template 4. Income and Retained Earnings Statement (Simple Example)—Chapter 4

Template 5. Cash Flow Statement (Simple Example) —Chapter 4

Template 6. Operating Budget—Chapter 6

Template 7. Flexible Budget—Chapter 6

Template 8. Monthly Cash Budget—Chapter 6

Template 9. Present Value—Chapter 11

Template 10. Future Value—Chapter 11

Template 11. Net Present Value—Chapter 11

Template 12. Internal Rate of Return—Chapter 11

Template 13. Calculating Straight-Line and Accelerated Depreciation—Chapter 13

Template 14. Accounts Receivable Aging Schedule —Chapter 15

Template 15. Economic Order Quantity (EOQ)—Chapter 15

Template 16. Credit Terms (Calculate Implicit Interest Rates)—Chapter 15 Template 17.
Computing Variances—Chapter 17

Template 18. Journal/Ledger Worksheet—Chapter 20

Template 19. Income Statement and Balance Sheet Derived from Template 18— [Chapter 20](#)

Template 20. Balance Sheet (Statement of Financial Position) —Chapter 22 Template 21.

Income Statement and Analysis of Retained Earnings—Chapter 22 Template 22. Statement
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Template 23. Common Size Ratios—Balance Sheet—Chapter 24

Template 24. Common Size Ratios—Income Statement—Chapter 24 Template 25.

Liquidity Ratios—Chapter 24

Template 26. Efficiency Ratios—Chapter 24

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Template 27. Solvency Ratios —Chapter 24

Template 28. Profitability Ratios—Chapter 24

Template 29. Calculation of Federal Income Tax—Chapter 26

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Chapter 1

An Introduction to Financial Management

WHAT IS FINANCIAL MANAGEMENT?

Financial management is the part of management that focuses on the organization's finances. Within financial management there are two primary disciplines: accounting and finance. *See* Figure 1-1. Accounting is a system for providing financial information. It is generally broken down into two principal elements: financial accounting and managerial accounting. *Finance* is the area of financial management that supervises the acquisition and disposition of the firm's resources, especially cash.