

The Controller's Function

*The Work of the
Managerial Accountant*

FOURTH EDITION

STEVEN M. BRAGG



WILEY

John Wiley & Sons, Inc.

Contents

Preface xi

Chapter 1: The Controller’s Job	1
Main Job Functions	1
Job Description	2
Job Qualifications	5
Organizational Structure of the Accounting Department	6
Ethics	11
Chapter 2: Internal Control	13
Basic Elements	13
Controls to Use in Your Business	20
Elements of Internal Accounting Control	48
Levels of Controls	49
Fraud	50
Auditing for Fraud	54
Notes	55
Chapter 3: Planning and the Strategic Plan	56
Strategic Plan Overview	56
System of Plans	59
Planning Cycle	60
Planning Roles	62
Planning Timing and the Planning Period	63
Business Mission	65
Developing Long-Range Objectives	67
Developing Long-Range Strategies	69

Chapter 4: Long-Range Financial Plan	73
Layout and Purpose	73
Trends of Revenues and Profits	75
Capital Investments	76
Cash Flows and Financing Requirements	77
Risk Analysis	78
Breakdown by Business Unit/Product Line/Geography	81
Financial Position	81
Chapter 5: Annual Plan	87
System of Plans	87
Additional Budget Modeling Topics	100
Annual Planning Cycle	102
Role of the Controller	103
Sales Planning: The Base of All Business Plans	103
Steps in Developing the Near-Term Sales Plan	104
Methods for Determining the Sales Forecast	105
Changes in the Sales Mixture	109
Changes in the Sales Price	111
Changes in the Cost	112
Chapter 6: Sales	114
Role of the Controller	114
Sales Analysis	116
Sales Standards	120
Sales Reports	122
Product Pricing	125
Chapter 7: Distribution Expenses	132
Role of the Sales Manager	133
Analyzing Distribution Costs	133
Analyzing by Application	135
Setting the Distribution Budget	141
Chapter 8: Direct Materials and Labor	148
Objectives	148
Role of the Controller	149
Types of Cost Systems	152
Measuring Direct Material Costs	153
Controlling Direct Material Costs	154

Controlling Direct Material Quantities	155
Measuring Direct Labor Costs	158
Controlling Direct Labor Costs	159
Target Costing	165
Chapter 9: Overhead	167
Need for Overhead Controls	168
Responsibilities of the Controller	169
Account Classifications	170
Fixed and Variable Costs	172
Cost Allocation	178
Controlling Overhead	186
Production Reports	190
Chapter 10: General and Administrative Expenses	193
Functions Involved	193
Accounting for and Allocating Administrative Expenses	194
Responsibility Accounting	196
"Unique" Expenses	197
Controlling Costs	199
Chapter 11: Cash and Investments	202
Objectives of Cash Management	202
Role of the Controller	203
Cash Collections	204
Cash Disbursements	207
Investment of Short-Term Funds	208
Accounting for Records of Investment	210
Cash and Investment Controls	214
Chapter 12: Receivables	221
Functions of the Credit Department	221
Shortening the Receivables Cycle	225
Reserve for Doubtful Accounts	227
Receivables Fraud and Control	227
Chapter 13: Inventory	229
Inventory Management Systems	229
Inventory Tracking	235
Physical Inventory Procedure	241

Inventory Valuation	244
Inventory Fraud and Controls	247
Chapter 14: Property, Plant, and Equipment	251
Role of the Controller	252
Capital Budgeting	253
Postproject Appraisals	267
Other Aspects of Fixed Assets	268
Chapter 15: Liabilities	271
Objectives	271
Controls	272
Credit Agreement Provisions	274
Debt Capacity	275
Bond Ratings	276
Leverage	278
Chapter 16: Equity	281
Role of the Controller	281
Cost of Capital	282
Dividend Policy	290
Long-Term Equity Planning	291
Repurchasing Common Shares	298
Capital Stock Records	299
Chapter 17: Operational Accounting	301
Create Departmental Job Descriptions	301
Create a Departmental Training Program	303
Clear Out Excess Documentation	306
Streamline the Accounting Workflow	307
Document All Major Processes	309
Schedule the Department	310
Correct the Underlying Causes of Errors	312
Use of Best Practices	314
Outsourcing Selected Accounting Functions	316
Chapter 18: The Fast Close	322
Different Types of Fast Close	323
How to Achieve a Fast Close	324

Enhanced Closing Process	339
Summary	339
Chapter 19: SEC Filings	341
Form 8-K	341
Annual 10-K and Quarterly 10-Q Reports	348
Timing of Annual and Quarterly Report Filings	350
Form S-1	351
Form S-3	352
Form S-8	353
Forms Requiring Payment to the SEC	354
Fedwire Payments	355
Chapter 20: Performance Measurements and Trends	356
Performance Measurements	357
Trends	373
Interrelationship of Ratios	375
Just-in-Time Ratios	375
Chapter 21: Financial Analysis	378
Analyzing Financial Statements	378
Analyzing Working Capital	385
Analyzing Financing Options	391
Services Profitability Analysis	394
The Throughput Analysis Model	397
Production Outsourcing Decision	399
New Product Decision	401
Chapter 22: Cost Reduction	404
Types of Reports Used for Cost Reduction Analysis	404
Spend Analysis Overview	408
Spend Database	409
Supplier Consolidation Analysis	410
Parts Consolidation Analysis	412
Maintenance, Repair, and Operations Item Analysis	412
Spend Compliance	413
Spend Analysis Reports	414
Workforce Reduction Analysis	417
Workforce Reduction Issues	421
Workforce Reduction Alternatives	422

5S Analysis	423
Check Sheets	424
Error Quantification	424
Fixed Cost Analysis	426
Ishikawa Diagrams	427
Value Stream Mapping	427
Waste Analysis	430
Chapter 23: Taxes	432
Tax Strategy	433
Tax Organization	434
Role of the Tax Manager	436
Tax Records	437
Tax versus Book Accounting	440
Sales and Use Taxes	441
Proper Classification of Accounts	442
Chapter 24: Selecting a Financial Information System	444
Reasons to Purchase Software	445
Defining Systems Requirements	445
Existing System Documentation	448
Joint Sessions	449
Preparing the Request for Proposal	452
Distribution of the Request for Proposal	457
Review of the Vendor's Completed Proposal	458
Reference Calls	462
Demonstration	463
Site Visits	463
Cost of the System	464
Final Selection	465
Contract Negotiations	465
Postimplementation Review	466
Appendix New Controller Checklist	469
About the Author	477
Index	479

Preface

THIS REVISED EDITION OF *The Controller's Function* is a complete operations reference manual for the corporate controller. Within these pages the reader will find a comprehensive discussion of how to manage all major aspects of the controller's job, including strategic and annual planning, financial reporting, and managing all aspects of the accounting department, as well as peripheral issues such as control systems, the fast close, filings with the Securities and Exchange Commission cost reduction analysis, software selection and implementation—and much, much more.

This book was written in response to the growing realization that the controller is no longer being called on just to process accounting transactions and issue financial statements, tasks requiring detailed technical knowledge but no considerable management or analysis skill. Instead, the modern controller must exhibit additional mastery of a multitude of management skills, so that the accounting department runs in an efficient and effective manner, offers a detailed analysis of financial statement results, recommends improvements, monitors the activities of other departments, and perhaps even manages the computer systems in a smaller organization. This book gives considerable attention to the most recent advances in all these areas of responsibility, so that the controller will be fully capable of installing and using them to improve his or her company's level of competitive advantage. Included in our coverage of these advances are the use of target costing, activity-based costing, and throughput analysis.

In addition to these more advanced categories, the book also includes such bread-and-butter topics as cash management, internal control systems and fraud prevention, accounts receivable collections, inventory valuation,

budgeting, taxes, insurance, and capital budgeting. Because basic and advanced accounting management topics are combined in one volume, the reader has access to the complete reference for mastering the controller's function.

Steven M. Bragg
Centennial, Colorado
July 2011