FINANCIAL ANALYSIS
A Controller’s Guide
Second Edition

Steven M. Bragg

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Steven M. Bragg
To my fabulous wife, Melissa
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About the Author

Steven Bragg, CPA, CMA, CIA, CPIM, has been the chief financial officer or controller of four companies, as well as a consulting manager at Ernst & Young and auditor at Deloitte & Touche. He received a master’s degree in finance from Bentley College, an MBA from Babson College, and a Bachelor’s degree in Economics from the University of Maine. He has been the two-time president of the Colorado Mountain Club, is an avid alpine skier and mountain biker, and is a certified master diver. Mr. Bragg resides in Centennial, Colorado, with his wife and two daughters. He has published the following books through John Wiley & Sons:

Accounting and Finance for Your Small Business
Accounting Best Practices
Accounting Control Best Practices
Billing and Collections Best Practices
Business Ratios and Formulas
Controller’s Guide to Costing
Controller’s Guide to Planning and Controlling Operations
Controller’s Guide: Roles and Responsibilities for the New Controller
Controllership
Cost Accounting
Design and Maintenance of Accounting Manuals
Essentials of Payroll
Fast Close
Financial Analysis
GAAP Guide
GAAP Implementation Guide
Inventory Accounting
Inventory Best Practices
About the Author

Just-in-Time Accounting
Managing Explosive Corporate Growth
Outsourcing
Payroll Accounting
Payroll Best Practices
Sales and Operations for Your Small Business
The Controller’s Function
The Ultimate Accountants’ Reference
Throughput Accounting

Also:

Advanced Accounting Systems (Institute of Internal Auditors)
Run the Rockies (CMC Press)

Subscribe to Steve’s FREE accounting best practices newsletter and podcast/blog at www.stevebragg.com. His podcast is also available through iTunes.
This book is designed to assist a company controller, or any other member of the accounting and finance staffs, in the analysis of all corporate activities. These activities include the ones covered by most traditional financial analysis books—the evaluation of capital investments, financing options, cash flows, and the cost of capital. However, these topics are not nearly sufficient for an active controller who is concerned with not only the performance of every department, but also potential acquisition candidates, the capacity levels of company equipment and facilities, and the relative levels of risk associated with new or existing investments. This book covers all of these additional topics and more. Within these pages, the reader will find a thorough analysis of the following topics:

- **Evaluating capital investments, financing options, and cash flows.** The first portion of the book attends to these traditional financial analysis topics.
- **Evaluating acquisition targets.** The analysis of acquisition candidates is a major activity for those organizations that grow by this means. The book itemizes the specific analysis activities to complete.
- **Increasing shareholder value.** The book describes a number of areas in which shareholder value can be improved.
- **Improving intangible asset measurement and performance.** The book covers a variety of measurement techniques for such areas as research and development and processes, as well as performance enhancement for research and development.
- **Determining the breakeven point.** The book covers the mechanics of the breakeven calculation, as well as how to use it to recommend changes to operations.
Preface

- *Forecasting future business conditions.* The book notes a number of factors useful for predicting business cycles.

- *Evaluating operations, processes, and managers.* The book discusses the specific measurements and corrective actions that can be used for all major company departments, process cycles, and manager performance evaluations.

- *Eliminating products and services.* The book describes the proper calculation methods to determine which products and services should be eliminated.

- *Evaluating capacity utilization.* The book describes how to measure capacity utilization and what corrective action to recommend in cases in which there are bottlenecks or excess available capacity.

- *Using Microsoft Excel to conduct financial analysis.* The book describes the specific Excel formulas that can be used to conduct reviews of the financial statements, as well as capital expenditures, investments, and project risk analyses. A separate chapter addresses the calculation of both single- and multivariable equations using Excel.

- *Using sample analysis reports.* The book presents a wide array of standard financial analysis reports that can be adapted for use by the reader, such as weekly management reports, payroll reports, and utilization reports.

- *Determining the cost of capital.* The book describes the reasons for using the cost of capital, how to calculate it, and under what conditions to modify or use it.

- *Analyzing risk.* The book discusses the concept of risk, how it should be integrated into a financial analysis, various tools for calculating risk, and how to integrate it into an analytic report for use by management.

With the particular attention given to operational analysis in this book, as well as the wide-ranging coverage of all other financial analysis topics, the corporate controller will find that this is a handy reference that can be used time and again for a variety of analytic purposes.

A special note of thanks to my editor, Sheck Cho, who has assisted in the completion of so many manuscripts.

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Centennial, Colorado
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PART ONE

OVERVIEW