

# Index

- Abken, Peter, 403
- Accounting information systems, 531
- Accounting principle changes, 52
- Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees*, 81
- Accounting systems, 530
- Accounts payable, 8, 166, 168, 422
- Accounts payable turnover, 22–24
- Accounts receivable, 21, 167, 168, 247
- Accounts receivable turnover, 21–22
- Acid test ratio, 21
- Acquisitions, 249–252, 445–475  
Cisco Systems Inc. case study, 455–457  
cost of, 458  
creating value in mergers and acquisitions, 457–464  
defined, 446  
definitions and background, 445–448  
depreciation in, 251  
notes, 82, 87  
practical considerations, 464–469  
recent trends and the performance record of mergers and acquisitions, 448–455  
successful postmerger implementation, 469–472  
target premium, 458
- Active income, 250
- Activity-based costing (ABC):  
about, 335  
accounting, 336  
basics of activity-based systems, 336–342  
reflections, 342–343
- Activity-based costing (ABC) systems, nature of:  
about, 345–346  
activity-based costing progression, 347–349  
lessons from Japan, 349
- Activity-base management (ABM), 344–345
- Activity ratio, 421
- Actual financial statement vs. projected financial statement, 11
- Actual vs. planned results, 291
- Adjusted current earnings, 272
- Adjustments to earnings for valuation purposes, 427–428
- Administrative expense budget, 302
- Advanced Research Projects Agency (ARPA), 550
- Adverse currency movement, 196
- Advertising and promotion, 368–369
- Advisory boards, board of directors, strategic partners, external members, 374–375
- After-tax cost of debt capital, 425
- After-tax income, 428
- After-tax interest rate, 177
- Airline competition, 318
- Alternative income statement, 44
- Alternative minimum tax, 261, 271
- Alternative to budgets, 313–314
- Altman, Edward, 34–35
- Altman Z-score, 34
- American Arbitration Association (AAA), 492
- American Institute of Certified Public Accountants (AICPA), 17, 39
- American Jobs Creation Act of 2004 (AJCA), 58, 74, 80
- American Society of Appraisers, 436
- Amortization, 467
- Amortize, defined, 119
- Amortized loans, 118–126
- Analyst positions, 562
- Annual percentage rate (APR), 183
- Annual reports, 324, 335
- Annuities, 111–118  
annuity due, 112  
ordinary annuity, 111
- Antitrust concerns, 468–469
- Antitrust laws, 333
- Appendices, 378–379
- Application programming interfaces (APIs), 543
- Applications service providers (ASPs), 544
- Application software, 506, 507–518  
calendar software, 516–517  
e-mail and instant messaging software, 514–516  
personal finance software, 517–518  
presentation software, 512–513  
project management software, 518  
spreadsheet software, 508–512  
word processing software, 508
- Application systems, 530–531
- ARPAnet, 550
- Arthur Andersen, 287
- Askin Capital Management, 387
- Asleep at the switch, 280
- Asset acquisition, 447
- Asset and liability purchases, 250
- Asset approach to valuation, 423
- Asset management, 563
- Asset purchases, 273–274
- Assets, 3, 10
- Asset sales, 424
- Associate positions, 562
- Associations for networking, 573–574
- Asymmetric information, 151
- Asymmetric instruments vs. symmetric instruments, 410
- Asymmetric risk, 409, 410
- AT&T/NCR deal, 452, 454
- At of the money status, 400
- At-risk rules, 250
- Attribution rules, 266
- Audience, 311
- Audit, 11
- Audit firms, 281
- Audit firms' conflict of interest, 284
- Auditing firms, 277
- Auditor independence, 284
- Audits, 278
- Audits vs. management consulting services, 281
- Automated teller machines (ATMs), 499

## 590 Index

- Availability and timing of financing, 377
- Average variable cost, pricing below, 332
- Avoidable costs, 302
- Back-office functions, 533
- Balance sheet, 4, 9, 414
- Bankers Trust, 385
- Bank failure, 391
- Bank for Informational Settlement (BIS), 393
- Bank loan (line of credit), 305
- Bank loans, 248
- Bankruptcies, 20
- Bankruptcy, 150, 384, 387
- Bankruptcy predictor, 35
- Barings Bank, 384–385
- Basic earning power, 29
- Basics of activity-based systems, 336–342
- Basis, 248, 263
- Bear Stearns, 391
- Bechtolsheim, Andy, 318
- Bell Labs, 454
- Benefit measurement, 312
- Beta coefficient, 138, 432
- Bidder, 446
- Big Mac index (*Economist*), 206
- Black-Scholes option pricing model, 388, 402
- Blogs, 523
- Bloomberg, 177
- Boards of directors, 284. *See also* directors
- Bond valuation, 155–156
- Book values, 145, 146
- Boot, 264
- Borrowed capital, 143
- Borrowing case study, 201–205
- “Bosses Don’t Wear Bunny Slippers” (Munger), 493
- Bottoms-up budgeting, 298
- Brand message, 567
- Breach of contract, 492
- Bretton Woods Agreement, 190
- Bricks and mortar retailers, 533
- Bringing the use of web technologies in-house, 551
- Browser software, 520
- Budget development, 298–306
  - administrative expense budget, 302
  - bank loan (line of credit), 305
  - budgeted accounts payable, 304
  - budgeted accounts receivable, 303
  - budgeted accrued expenses, 304–305
  - budgeted balance sheet, 303
  - budgeted cost of goods sold, 302
  - budgeted income statement, 302–303
  - budgeted statement of cash flows—indirect method, 306
  - budget of ending inventories, 303–304
  - capital expenditure budget, 304
  - cash budget, 305–306
  - financial budget, 303
  - master budget, 299, 302
  - stockholders’ equity, 305
  - structure of budgets, 298–299
- Budgeted accounts payable, 304
- Budgeted accounts receivable, 303
- Budgeted accrued expenses, 304–305
- Budgeted balance sheet, 303
- Budgeted cost of goods sold, 302
- Budgeted income statement, 302–303
- Budgeted statement of cash flows, indirect method, 306
- Budgeting, reasons for, 292–294
  - coordination, cooperation, and communication, 292
  - cost awareness, 293
  - goal orientation, 293–294
  - legal and contractual requirements, 293
  - performance evaluation, 293
  - periodic planning, 292
  - quantification, 292–293
- Budgeting effectively, 294–298
  - control phase of budgeting, 296–297
  - goal orientation, 294–295
  - improper use of budgets, 297–298
  - participative budgeting, 295–296
  - realistic plan, 295
- Budget of ending inventories, 303–304
- Budget review process, 310–312
  - audience, 311
  - priorities, 312
  - professional presentation, 311
  - quantify the material, 311–312
  - surprises, 312
- Budgets:
  - benefits of, 292
  - defined, 291
- Budget variance, 296
- Buffett, Warren, 459
- Build, buy, partner approach, 455–456
- Build analysis, 329
- Buildup method, 368
- Built-in gain, 247, 274
- Burn rate, 381 n11
- Business, 243
- Business earnings analysis, 39–99.
  - See also* business earnings analysis notes; nonrecurring items
  - consolidated statement of cash flows, 72
  - consolidated statement of income, 71
  - earnings analysis and other comprehensive income, 65–67
  - interpreting information in the operating activities section, 55–56
  - nonrecurring items, 56–57
  - notes, 73–89
  - Pfizer worksheet analysis, 89–94
  - summarizing nonrecurring items and determining sustainable earnings, 67–70
  - sustainable earnings base (SEB), 70–89
  - sustainable earnings worksheet, 67–70
- Business earnings analysis notes:
  - acquisition-related note, 87
  - acquisitions note, 82
  - cost-reduction initiative note, 86
  - discontinued operations note, 83–84
  - goodwill note, 87
  - income tax note, 73–74
  - management discussion and analysis (MD&A), 76–80
  - other income (expense) note, 75
  - segment information note, 88–89
  - share-based payment note, 87
  - summary of significant accounting policies note, 81
- Business enterprise value, 424
- Business expenses, 252–253
- Business form, 211–240
  - choice of entity, 236–240
  - comparison factors, 213–214
  - consulting firm, 211
  - continuity of life, 218
  - control, 220–227
  - corporations, formation of, 214–216
  - corporations and limited liability companies as legal entities, 218
  - hotel venture, 211–212
  - liability, 227–230
  - limited liability companies, formation of, 216
  - limited partnerships, formation of, 216
  - limited partnerships as legal entities, 218
  - out-of-state operation of corporations, limited partnerships, and limited liability companies, 217
  - out-of-state operation of sole proprietorships and partnerships, 216
  - partnerships, formation of, 214
  - partnerships as legal entities, 217–218
  - software entrepreneur, 211
  - sole proprietors, formation of, 214
  - sole proprietorships as legal entities, 217

- taxation, 230–236
- transferability of interest, 220–221
- types of, 212–213
- Business intelligence (BI), 530
- Business intelligence and business analytics, 534–535
- Business plan, 357–379
  - appendices, 378–379
  - company and product description, 365–366
  - competition, 363–365
  - cover of the, 358
  - critical risks, 375–377
  - customer, 362–363
  - development plan, 372–374
  - executive summary, 359–360
  - financial plan, 377–378
  - industry, customer, and competitor analysis, 360–365
  - marketing plan, 366–370
  - offering, 377
  - operations plan, 370–371
  - table of contents, 360
  - team, 374–375
- Business planning, 353–381
  - business plan, 357–379
  - business story, 354–355
  - process of, 356
  - purpose of, 354
  - real world use of, 353–354
  - story model, 356–357
  - types of plans, 355–356
- Business planning process, 354
- Business risk, 195
- Business segments, 313
- Business story, 354–355
- Business-to-business e-commerce, 533–534
- Business valuation, 413–443
  - adjustments to earnings for valuation purposes, 427–428
  - business valuation process overview, 415–416
  - cost of capital, 425–427
  - debt-free analysis, 423–424
  - different types of buyers, 414–415
  - discounted cash flow method, 428–430
  - discount rate for the valuation model, 430–436
  - financial statement analysis, 418–421
  - fundamental position of the firm, 416–418
  - income approach, 428–430
  - industry analysis, 416
  - industry averages comparison, 422–423
  - process overview, 415–416
  - ratio analysis, 421–422
  - standards, 440
  - three approaches to value, 413–414
  - valuation methods, 423
- Business Week*, 449, 451, 459, 570–571
- Buy/build decision, 176
- Buyers, different types of, 414–415
- Buying and owning a business, investment risk of, 415
- Buy-sell agreements, 270–277
- Calendar software, 516–517
- Call centers, 478, 485
- Call option payoff diagram, 404
- Call options, 385
  - about, 399
  - hedging with, 401
  - pricing options, 401–402
  - written call option, 402
  - written call option, strategies using, 403
- Capacity costs, 344
- Capacity utilization, 348
- Capital asset pricing model (CAPM), 136–142, 177
- Capital budgeting, 165, 304
- Capital budget innovations, 184
- Capital expenditure budget, 304
- Capital expenditure planning, 165–185
  - buy/build decision, 176
  - capital budget innovation, 184
  - cash flow forecast, 170–172
  - cash flows in later years, 167–168
  - decision rules, 180–181
  - depreciation, 168
  - discounted cash flow, 173
  - discounted cash flow summed to NPV, 174–176
  - discount rate, 176–177
  - divisional vs. firm cost of capital, 180
  - initial cash flows, 167
  - interest expense, 169–170
  - internal rate of return, 181–184
  - leverage effects, 178–180
  - net working capital, 168
  - objectives, 165–166
  - outsourcing, 176
  - projecting cash flows, 166–167
  - taxable income and income tax, 169
  - time value of money (TVOM), 172–173
  - windfall profits and taxes, 169
- Capital gains, 425
- Capital gains treatment for stock redemption, 268–269
- Capital gains yield, 131
- Capital structure, 129–163, 426
  - bond valuation, 155–156
  - capital asset pricing model (CAPM), 138–142
  - capital structure theory, 147–152
  - cost of capital, 142–143
  - cost of debt and equity capital, 143–144
  - equity valuation, 156–162
  - industry effects, 153
  - portfolio risk, 134–138
    - in practice, 152–155
    - risk and return, 129–134
    - weight of debt and equity capital, 145–147
- Capital structure irrelevancy proposition, 149
- Capital structure theory, 147–152
- CAPM equation, 140–142
- Career goals, 570–571
- Career opportunities in finance, 560–565
  - careers in corporate finance, 560–561
  - careers in financial services, 561–565
  - personal career plan/personal end game, 565–570
- Career plan/your end game, 565–570
  - creating your value proposition, 566–567
  - digital resume/e-mail use, 570
  - preparing for the journey, 566
  - verbal (oral) resume, 568–570
  - written resume, 567–568
- Careers in corporate finance, 560–561
- Careers in finance, 559–576
  - aiming for your goals, 570–571
  - assessing opportunity, 575–576
  - career opportunities in finance, 560–565
  - coping with challenges, 576
  - implementing your strategy, 571–572
  - marketplace for MBAs, 559–560
  - networking, 572–575
- Careers in financial services, 561–565
  - hedge funds, 562–563
  - investment banking, 562
  - investment management, 563–564
  - private wealth management, 564
  - real estate, 564
  - venture capital, 565
- Career targets:
  - implementing your strategy, 571–572
  - proactive versus reactive strategies, 571–572
  - refine, maintain, and update target lists, 571
- Cash, 9
- Cash accounting basis, 246
- Cash basis, 8
- Cash-basis taxpayer, accounts receivable of, 247
- Cash budget, 305–306
- Cash deals versus stock deals, 465–467
- Cash equivalents, 21
- Cash flow, 166
- Cash flow analysis, 10
- Cash flow calculation, 158

## 592 Index

- Cash flow focus, 170–171
- Cash flow forecast, 170–172
  - cash flow focus, 170–171
  - expected values, 171
  - incremental cash flow, 171
- Cash flows in later years, 167–168
- Cash flow statements, 7, 9, 10, 14, 377
- Cash flow time line, 204
- Cash from financing, 8
- Cash from operations, 8
- Cash management, 306
- Cash mergers, 251
- Cash settled transactions, 396
- Cash withdrawals, 10
- Cathode ray tube (CRT), 505
- C/C++ programming software, 542
- C corporations, tax preferences for, 272
- CD-ROM/DVD-ROM, 504–505
- Cell, 508
- Center for Research in Security Prices (CRSP), 133
- Central Intelligence Agency (CIA), 198
- Centralized resource allocation, 313
- Central processing unit (CPU), 503–505
- Cerberus Capital management, 453
- Cerent Corporation, 456
- Certificate of deposits (CDs), 187
- Certificate of incorporation, 214
- Changes in estimates, 52–53
- Channel management, 346
- Charging order, 217
- Chief information officer (CIO), 527, 553
- Chief information security office (CISO), 553
- China and currency exchange rates, 192–197
- Chinese exchange rate, 193, 194–195
- Chinese yuan renminbi (CNY), 193
- Choice of entity, 236–240
  - business form, 236–240
  - consulting firm, 237–238
  - hotel venture, 238–240
  - software entrepreneur, 238
- Cisco Systems, 455, 456–457
- Civil unrest, 52, 195, 199, 482
- Classification, 549
- Clayton Act of 1914, 469
- Clean audit report, 11
- Clean Energy Trends*, 362
- Clicks and mortar retailers, 533
- Client, 519
- Client-server computing, 551
- Client-server network, 519
- Cloud computing, 501
- Clustering, 549
- COBOL, 540, 542
- Coca-Cola, 459
- Cockroach charges, 65
- Cocktail entrepreneurs, 353
- Collateralized mortgage obligations (CMOs), 387
- Commerce Clause, 216
- Commercial real estate, 564
- Committed fixed costs, 302
- Common factors, 136
- Common pitfalls, 398
- Common size income statements, 27
- Common stockholders, 157
- Company and product description, 365–366
- Company focus, 478
- Compaq Computer, 455
- Compensation and ownership, 375
- Competition, 363–365
- Competitive advantage, 365, 370
- Competitive intelligence, 319
- Competitive profile matrix, 363
- Competitor actions and retaliation, 376
- Competitors, 317
- Compilation, 11
- Complete termination of interest, 266
- Compounded annual growth rate (CAGR), 455
- Compound interest, 104
- Computer network architecture, 519
- Concept of forecasts and budgeting, 291
- Conflict of interest, 281
- Consolidated statement of cash flows, 72
- Consolidated statement of income, 71
- Consolidation, 446
- Constructive receipt doctrine, 254, 258
- Consulting contracts, 252
- Consulting firms, 211, 237–238
- Consumer products companies, 154
- Continuity of life, 218
  - business form, 218
  - corporations, 219
  - limited liability companies, 219–220
  - limited partnerships, 219
  - partnerships, 219
  - sole proprietors, 218–219
- Contract adhesion, 489
- Contract items, 489–490
- Contribution, 321
- Contribution margin, 330
- Control, 291
  - business form, 220–227
  - corporations, 222–226
  - limited liability companies, 227
  - limited partnerships, 227
  - partnerships, 221–222
  - sole proprietors, 221
- Control phase of budgeting, 296–297
- Controls, 552
- Cookies, 522
- Coopers & Lybrand, 449–450
- Coordination, cooperation, and communication, 292
- Core competencies, 477, 489
- Core source document, 568
- Corporate calendar, 516
- Corporate charters, 214
- Corporate control systems, 282
- Corporate culture, 455, 456, 471
- Corporate debt interest payments, 462
- Corporate finance careers, 560
- Corporate raiders, 284, 285
- Corporate redemption agreement, 270
- Corporations:
  - continuity of life, 219
  - control, 222–226
  - defined, 212
  - formation of business form, 214–216
  - liability, 228–229
  - taxation, 233–236
  - transferability of interest, 220
  - types of, 213
- Corporations and limited liability companies as legal entities, 218
- Corporation stock, 257
- Correlation, 135
- Cost awareness, 293
- Cost-based pricing, 331
- Cost-benefit relationship, 293
- Cost-benefit test, 282
- Cost drivers, 328, 344, 347, 348
- Cost identification, 344
- Cost leadership, 348
- Cost of capital, 129, 142–143, 425–427
- Cost of debt, 425, 434
- Cost of debt and equity capital, 143–144
- Cost of debt capital, 425
- Cost of debt financing, 176–177
- Cost of equity, 150, 425, 431–434
- Cost of equity capital, 425
- Cost of funds, 176
- Cost of goods sold, 168, 421
- Cost of sales, 319
- Cost-plus approach, 367
- Cost pools, 344
- Cost reduction and cost controls, 478
- Cost-reduction initiative note, 86
- Cost reductions, 460–461
- Costs, types of, 343–344
- Costs and benefits measurement, 293
- Costs for channel management, 346
- Cost-structure, 317
- Cost structure analysis, profit planning, and value creation: dumping, 333–334

- estimating cost structure from publicly available information, 318–334
- pitfalls, 324–328
- predatory pricing, 332–333
- pricing in CVP analysis, 331–332
- profit planning from an internal perspective, 329–331
- Cost-volume-profit (CVP) analysis, 329, 331
- Cost-volume-profit (CVP) equation, 330
- Country risks, 192, 195, 197
- Coupon interest rate, 143
- Covariance, 137
- Covariance between stock and stock market, 138
- Coverage ratio, 421
- “Covered Call Options” (Abken and Feinstein), 403
- Cover letter, 569–570
- Creating value in mergers and acquisitions, 457–464
  - cost reductions, 460–461
  - incremental revenue, 459–460
  - tax savings, 461–464
- Creating your value proposition, 566–567
- Credit accounts, 6
- Credit default swaps casualties, 390–392
- Credit Security Act of 2007, 554
- Critical risks, 375–377
  - availability and timing of financing, 377
  - competitor actions and retaliation, 376
  - market interest and growth potential, 375–376
  - operating expenses, 377
  - time and cost to development, 376
- Cross-border deals, 469
- Cross-docking, 553
- Cross-hedge, 398
- Cross-purchase agreement, 270
- Cultural differences, 482
- Culture, 455
- Currency contracts, 63
- Currency converters, 188
- Currency exchange rates, 187–192
- Currency exchange risk, 469
- Currency risk, 201
- Current assets, 3, 4, 9, 19, 20
- Current liabilities, 9, 19, 20, 418
- Current ratio, 20
- Current ratios, 23
- Current replacement value vs. last-in-first out (LIFO), 56
- Customer acquisition costs, 338
- Customer focus, 313
- Customers, 362–363, 417, 471
- Customer targeting, 348
- Customer value proposition, 336
- Cyberspace, 520
- Daimler/Chrysler deal, 451, 453
- Dashboards, 534
- Data, 523, 524
- Data access and OLAP, 535–537
- Database, 513, 546–548
- Data corruption, 546
- Data-mining, 534, 549
- Data reporting format, 325
- Data vs. information, 523
- Data warehouse, 548–549
- d/b/a certificate, 214
- Debt, 29, 148
- Debt capital, 142
- Debt capital vs. equity capital, 425
- Debt finance vs. equity finance, 148
- Debt financing, 169, 177
- Debt-free analysis, 423–424
- Debt-free methodology, 423, 426
- Debt-free methodology vs. direct equity methodology, 424
- Debt holders, 148
- Debt holders vs. equity holders, 148
- Debt percentage, 153
- Debt service, 155
- Debt tax shield, 149–150
- Debt tax shield vs. financial distress, 150
- Debt-to-equity ratio, 24, 25
- Decentralized decision making, 314
- Decision rules, 180–181
- Decision support systems (DSS), 529–530
- Deductible interest expense, 143–150
- Deductible mortgage interest, 256
- Deferred compensation, 253–255
- Deferred tax asset valuation allowances, 59
- Defining the project, 486
- Dehydrated business plan, 355
- Delaware corporation, 214
- Deloitte & Touche Consulting, 470
- DeMars, Bert, 353
- Depreciable assets, 251–252
- Depreciation, 4, 9, 168, 251, 302
- Depreciation expense, 8, 327
- Derivative instruments, 384
  - forwards, 393–395
  - futures, 395–399
  - futures and forwards summary, 399
  - options, 399–405
  - swaps, 405–408
- Derivatives:
  - cases and risks of, 392
  - mispricing, 388
- Derivatives debacles, case studies of, 384–392
  - Askin Capital Management, 387
  - Barings Bank, 384–385
  - credit default swaps casualties, 390–392
  - derivative instruments, 393–408
  - Long-Term Capital Management (LTCM), 388–390
  - Metallgesellschaft, 386–387
  - moral, 392
  - Orange County, California, 387
  - Proctor & Gamble, 385–386
  - Union Bank of Switzerland, 388
- Desktop computers, 501–502
- Determining success of outsourcing, 485
- Development plan:
  - development strategy, 372
  - development time line, 372–374
- Development strategy, 372
- Development time line, 372–374
- Differentiation strategy vs. leadership strategy, 347
- Digital resume/e-mail use, 570
- Direct equity methodology, 423, 426
- Direct equity methodology vs. debt-free methodology, 424
- Directors, 224–226
- Directors and officers insurance, 284
- Disclosure, 39
- Discontinued operations examples, 51
- Discontinued operations note, 50, 80, 83–84
- Discounted cash flow (DCF), 103–127, 173
  - amortized loans, 118–126
  - annuities, 111–118
  - of equity valuation, 161
  - future value, 103–108
  - present value, 108–111
  - time value of money, 103
- Discounted cash flow (DCF) method, 428–430
  - calculations, 434–436
  - forecasted financial statements, 429
  - residual value, 429–430
  - summed to NPV, 174–176
- Discounted payback period, 181, 185
- Discount rate, 180, 196, 429
  - cost of debt financing, 176–177
  - for the valuation model, 430–436
  - weighted average cost of capital (WACC), 178, 430
- Discount rate for the valuation model, 430–436
  - business valuation standards, 440
  - cost of debt, 434
  - cost of equity, 431–434
  - discounted cash flow calculations, 434–436
  - illiquidity adjustment, 439
  - market approach, 436–437
  - publicly traded guideline companies method, 436–437
  - valuation methods reconciliation, 437–438

## 594 Index

- Discount rate for the valuation model (*Continued*)
  - value engineering, 440–441
  - weighted average cost of capital (wacc), 434
- Discretionary fixed costs, 302
- Distributable profit, 244
- Distributed applications, 528
- Distributed computing, 527
- Distributed data, 528
- Distributed hardware, 528
- Distribution channel
  - infrastructure, 345
- Distribution strategy, 368
- Diversifiable factors, 135, 136
- Divestiture, 468
- Dividend-paying capacity, 417
- Dividends, 29, 148, 244, 265–268, 425
  - complete termination of interest, 266
  - employee stock ownership plans, 266–268
  - substantially disproportionate distributions, 265–266
- Dividend yield, 131
- Divisional vs. firm cost of capital, 180
- Dollar repatriation, 198
- Dollar value in futures and options markets, 202
- Domain name servers (DNS), 550
- Domestic selling price, 333
- Domestic versus offshore outsourcing, 481
- Doriot, Georges, 374
- Double taxation, 233–235, 244, 274, 276
- Drawings, 9
- Dumping, 333–334
- Dun & Bradstreet, 32
- DuPont analysis, 32–33
- Duration gap, 408
- Dynamic budgets, 309
- Earnings analysis and other comprehensive income, 65–67
- Earnings before interest and taxes (EBIT), 24, 28, 168, 179
- Earnings management incentives, 49
- Earnings per share statistics, 67
- E-commerce (electronic commerce), 522, 532–533
- Economic benefit decision, 254–255
- Economic model, 337
- Economic value added, 184
- Economic value added (EVA), 184, 185
- Economies of scale, 460
- Economist*, 206, 449
- Effective tax rate, 58
- 83(B) election, 261
- Electronic data interchange (EDI), 538, 553
- Elevator pitch, 567
- E-mail, 500
- E-mail and instant messaging software, 514–516
- Employee Retirement Income Survey Act (ERISA), 254
- Employee stock ownership plans, 266–268
- Employment, 559
- Employment buyers, 414
- Encryption, 520
- Enron, 281, 287
- Enterprise resource planning (ERP) systems, 529, 531–532
- Entry strategy, 348
- Equity, 3, 148
- Equity capital vs. debt capital, 425
- Equity finance vs. debt finance, 148
- Equity financing, 177
- Equity holders vs. debt holders, 148
- Equity investors, 10, 355
- Equity risk premium, 432
- Equity swap, 405
- Equity valuation, 156–162
- Equivalent units, 350 n3
- Ernst & Young, 287
- Estate planning, 268–272
  - buy-sell agreements, 270–277
  - family limited partnerships, 269–270
  - redemptions to pay death taxes and administrative expenses, 268–269
- Estimating cost structure from publicly available information, 318–324
- Euro, 190
- European Union (EU) and Eurozone currency, 190–191
- Excess cash, 463
- Exchange rate movement, 190
- Exchange rate risk, 192, 196
- Exchange rates, 188, 202
- Exchange-traded instruments, 409
- Executive compensation, 252–256
  - business expenses, 252–253
  - deferred compensation, 253–255
  - interest-free loans, 255–256
- Executive summary, 359–360
- Executive summary elements, 360
- Exercise prices, 257, 260
- Expanded executive summary, 355
- Expected taxes, 303
- Expected values, 171
- Expense accounts, 253
- Explicit knowledge, 539
- Exponential smoothing, 307
- Express warrantees, 492
- Extensible markup language (XML), 550
- External cash generation, 8, 9
- External cash generation vs. internal cash generation, 10
- Extranets, 538
- Extraordinary gain, 50
- Extraordinary items, 50
- Face value, 155
- Fair market value, 414, 415
- Family limited partnerships, 269–270
- FASB-IASB proposal, 98 n35
- FASB Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations (an interpretation of FASB Statement No. 143)*, 81
- FASB Interpretation No. 48 (FIN 48), 52
- Favorable budget variance, 296
- Federal estate tax, 246
- Federal gift tax, 246
- Federal Reserve, 390
- Federal spending, 285
- Federal Trade Commission (FTC), 468
- Feinstein, Steven, 403
- FICA, 253
- Financial accounting, 335
- Financial accounting standards, 16–17
- Financial Accounting Standards Board (FASB), 16, 39
- Financial advisor position, 564
- Financial budget, 303
- Financial budgets, 298
- Financial buyers, 414
- Financial crisis of 2009, 477
- Financial distress vs. debt tax shield, 150
- Financial format, 12–15
- Financial incentives, 313
- Financial leverage, 149, 150
- Financial metrics, 313
- Financial plan, 377–378
- Financial ratios:
  - combinations, 32–34
  - comparison of, 32
  - summary of, 31
  - use of, 30–32
- Financial slack, 152
- Financial statement analysis:
  - financial statement analysis, 418
  - income statement analysis, 418, 421
- Financial statements, 10
  - financial ratios, combinations of, 32–34
  - financial ratios, use of, 30–32
  - how to analyze, 19–24
  - long term solvency, 24–25
  - short term liquidity, 19–24
  - users and uses of, 12
  - Z-score, 34–35
- Financial statements, how to analyze, 19–24
- Financing activities, net cash flow from, 306
- Firewall, 520, 537

- First in, first out (FIFO), 246  
 First stage key contacts, 573, 574  
 Fixed budgets, 309  
 Fixed budgets versus flexible budgets, 309–310  
 Fixed-cost elements, 321  
 Fixed cost of sales, 320  
 Fixed costs, 302  
 Fixed cost-structure, defined, 317  
 Fixed exchange rates, 190  
 Fixed for floating swap, 407  
 Fixed-price contracts, 490  
 Fixed targets, 313  
 Flat files, 546  
 Flexible budgets, 309–310. *See also* dynamic budgets  
 Folksonomy, 523  
 Footnotes, 325  
 Ford, Henry, 335  
 Forecasted financial statements, 429  
 Forecasting, 306–309  
 Forecasts, 166  
 Forecasts and budgeting, 291–315  
   budget review process, 310–312  
   concept of, 291  
   developing a budget, 298–306  
   effective budgeting, 294–298  
   fixed budgets versus flexible budgets, 309–310  
   forecasting, 306–309  
   functions of budgeting, 291–292  
   profit plan, 310  
   reasons for budgeting, 292–294  
   recent trends, 312–314  
 Foreign Corrupt Practices Act (FCPA) of 1978, 197, 282  
 Foreign currency effects, 43  
 Foreign currency exchange notes, 62  
 Foreign currency exposure, 62  
 Foreign currency hedge, 396–397  
 Foreign income taxes, 198  
*Form 8-K*, 15  
*Form 10-K*, 15  
*Form 10-Q*, 15  
 Forward contracts, 386, 394  
 Forwards, 393–395, 409  
 Forwards vs. futures, 395  
 Fourth generation programming (4GL), 543  
 Free Trade Agreement (FTA), 198  
 Friends and family, 572, 574  
 Functions of budgeting, 291–292  
 Fundamental position of the firm, 416–418  
 Future earnings, 418  
 Future earnings forecast, 427  
 Futures, 409  
   common pitfalls, 398  
   cross-hedge, 398  
   examples of, 396–398  
   foreign currency hedge, 396–397  
   longer-term interest rate hedge, 397  
   market timing, 398  
   short-term interest rate hedge, 397  
   synthetic cash, 397  
   synthetic stock, 398  
 Futures and forwards summary, 399  
 Futures and options, 206  
 Futures and options markets, dollar value in, 203  
 Futures vs. forwards, 395  
 Future value, 103–108  
   formula for, 104, 173  
   of ordinary annuity, 112–116  
 Gain vs. loss, 41  
 Gantt chart, 518  
 Gap analysis, 465  
 General Electric, 287  
 General goals vs. specific projects, 293  
 Generally accepted economic principles (GAAP), 17, 39, 281  
   vs. IFRS, 17  
   and nonrecurring items, 43  
 General partnership. *See* partnerships:  
   partnerships:  
 General Utilities doctrine, 245  
 Gift tax, 246  
 Gilmore, J. H., 365  
 Global finance, 207  
   borrowing case study, 201–205  
   China and currency exchange rates, 192–197  
   currency exchange rates, 187–192  
   futures and options, 206  
   interest rate parity, 205–206  
   local partner, 197–201  
   purchasing power parity, 206  
 Globalization, 17  
 Goal orientation, 293–295  
 Goal seeking, 508  
 Goals of networking, 573  
 Going private, 446  
 Going private transaction, 447  
 Goodwill, 87, 252, 418  
 Google, 524  
 GoogleDocs, 508, 539  
 Government regulation, 392  
 Govindarajan, Vijay, 347  
 Graduate Management Admission Council (GMAC), 560  
 Gramm-Leach-Bliley Act, 483  
 Grant Thornton International, 472  
 Gross profit, 4, 5  
 Gross sales, 5  
 Growth strategy, 366  
 Growth vs. product sales, 329  
 Hacking, 484  
 Hard disk, 504  
 Hardware, 501–506, 540–542  
   desktop computers, 501–502  
   hardware components, 503–505  
   laptop computers, 502  
   peripherals, 505–506  
   personal digital assistants (PDAs), 502–503  
 Hardware components, 503–505  
   CD-ROM/DVD-ROM, 504–505  
   central processing unit (CPU), 503–505  
   hard disk, 504  
   monitor, 505  
   random-access memory (RAM), 504  
 Hart-Scott-Rodino Act of 1976, 469  
 Health Insurance Accountability and Portability Act (HIPAA), 483, 553  
 Hedge funds, 388, 562–563  
 Hedge of foreign currency exposure, 98 n27  
   translation gains and losses, 98 n33  
 Hedge position, 387  
 Hedge selection, 408–411  
 Hedging interest rate exposure with a swap, 407–408  
 Hedging with call options, 401, 403  
 Henry, David, 449  
 Heritage Foundation, 198, 285  
 Hewlett-Packard Corporation, 455  
 High inflation and high interest rates, 205  
 Historical perspective, 527–528  
 Holding period return, 130  
 Host-centric environment, 551  
 Hotel venture:  
   business form, 211–212  
   choice of entity, 238–240  
 HR-10 plan, 234  
 Hurdle rate, 129, 142, 147, 196  
 Hypertext links, 521  
 Hypertext markup language (HTML), 521, 550  
 Hypertext preprocessor, 543  
 Ibbotson Associates, Inc., 131  
 Identifying and screening candidates, 465  
 Idle costs, 344  
 IFRS vs. GAAP, 17  
 Illiquidity, 439  
 Illiquidity adjustment, 439  
 Impairment charges, 60  
 Implied warrantees, 492  
 Import duty, 333  
 Improper use of budgets, 297–298  
 Incentive stock options (ISOs), 236, 259  
 Income, 9  
 Income approach, 428–430  
 Income approach to valuation, 414, 423  
 Income before taxes, 4  
 Income statement, 9, 10  
 Income statement analysis, 418, 421  
 Income tax expense, 4

596  Index

- Income tax note, 73–74  
 Incremental cash flow, 171, 459  
 Incremental revenue, 459–460  
 Independent CPA, 11  
*Index of Economic Freedom*  
 (Heritage Foundation), 197  
 India:  
   labor costs of, 481  
   technology in, 477  
 Indian call centers, 485  
 Industry, customer, and  
   competitor analysis, 360–365  
 Industry analysis, 416  
 Industry averages comparison,  
   422–423  
 Industry culture, 455  
 Information security and  
   compliance, 553–554  
 Information systems, 528–534  
   accounting information systems,  
     531  
   application systems, 530–531  
   business-to-business  
     e-commerce, 533–534  
     e-commerce (electronic  
     commerce), 532–533  
   enterprise resource planning  
     (ERP) Systems, 531–532  
   information systems types,  
     528–530  
   information technology in  
     banking and financial services,  
       532  
     managing IT resources, 540–552  
 Information systems types,  
   528–530  
   decision support systems (DSS),  
     529–530  
   operational (transaction)  
     systems, 528  
   strategic information systems,  
     530  
 Information technology and the  
   firm, 527–558  
   historical perspective, 527–528  
   information systems, 528–534  
   information technology strategy,  
     553–554  
   organizational productivity,  
     534–540  
 Information technology and you,  
   499–526  
   data, 523–524  
   future of, 524–525  
   hardware, 501–506  
   introduction, 500–501  
   networking, 519–523  
   software, 506–518  
 Information technology in banking  
   and financial services, 532  
 Information technology life cycle,  
   480  
 Information technology strategy,  
   553–554  
   information security and  
   compliance, 553–554  
   justifying the cost of information  
   technology, 554  
 Infosys, 485  
 Initial cash flows, 167  
 Inkjet printers, 506  
 Instant messaging (IM), 516  
 Integrity of financial reporting,  
   277–287  
   asleep at the switch, 280  
   private sector, 285  
   remedies, 281–284  
   restatements of previously  
     published financial  
     statements, 278–280  
 Intel, 501  
 Intellectual property, 195  
 Intellectual property rights, 491  
 Interest coverage, 24  
 Interest expense, 169–170  
 Interest-free loans, 255–256  
 Interest on borrowed capital, 143  
 Interest payments for corporate  
   debt, 462  
 Interest rate insurance, 385  
 Interest rate parity, 205–206  
 Interest rate swaps, 385, 407,  
   408  
 Internal cash generation, 8, 9  
 Internal cash generation vs.  
   external cash generation, 10  
 Internal rate of return (IRR),  
   181–184, 185, 199  
 Internal Revenue Code  
   Section 302(b)1, 266  
   Section 302(b)2, 265  
   Section 302(b)3, 266, 268  
   Section 303, 268, 269  
   Section 335, 273  
   Section 409A, 254  
   Section 1031, 263  
 Internal Revenue Service (IRS),  
   233  
 International Accounting  
   Standards Board (IASB), 39  
 International Financial Reporting  
   Standards (IFRS), 17, 469,  
   532  
 Internet Explorer, 521  
 Internet multimedia, 524  
 Internet network, 520  
 Internet privacy, 521–522  
 Internet protocol (IP) address, 550  
 Internet search engines, 521  
 Internet service providers, 520  
 Internet technology, 550–551  
 Interpreting information in the  
   operating activities section,  
   55–56  
 “In the money” status, 400  
 Intranets, extranets, and portals,  
   537–539  
 Intrinsic value, 401, 403  
 Inventory, 21, 246  
 Inventory charge, 325  
 Inventory turnover, 22  
 Invested capital methodology, 423  
 Investing activities, net cash flow  
   from, 306  
 Investment banking, 562  
 Investment banking firms, 201  
 Investment management, 563–564  
 Investment risk of buying and  
   owning a business, 415  
 Investment value, 414, 415  
 Irregular, defined, 41  
 Irregular cash flow, 121–126  
 IRS Form 1040 Schedule C,  
   230–231  
 ISO/TEC 27002 international  
   security standard, 553  
 Issues with using offshore  
   providers, 482  
 Itemized deductions, 253  
 Japan, lessons on ABC systems  
   from, 349  
 Japanese management cost  
   systems, 349  
 Japanese yen, 202  
 Jespersen, Frederick K., 449  
 Johnson, H. Thomas, 335, 336  
 Joint venture (JV), 198  
*Journal of Accounting*, 282  
 JPMorgan Chase, 287  
 Junk bonds, 25, 467  
 Justifying the cost of information  
   technology, 554  
 Kaplan, Robert S., 335, 336  
 Keogh plan, 234  
 Knowledge management (KM),  
   539–540  
 KPMG, 287  
 Land, 251–252  
 Laptop computers, 502  
 Laser printers, 506  
 Last-in-first out (LIFO), 246  
 Last-in-first out (LIFO) vs. current  
   replacement value, 56  
 Lawsuits, 493  
 Leadership development programs  
   (LDPs), 561  
 Leadership strategy vs.  
   differentiation strategy, 347  
 Leeson, Nicholas, 384  
 Legacy systems, 542  
 Legal and contractual  
   requirements, 293  
 Lehman Brothers, 384, 391  
 Leverage, 25, 30, 178, 389, 423  
 Leverage effects, 178–180  
 Leverage ratio, 421–422  
 Liabilities, 3  
 Liability, 227–230, 493  
   business form, 227–230  
   corporations, 228–229  
   limited liability companies, 230  
   limited partnerships, 229–230  
   partnerships, 228  
   sole proprietors, 228  
 Lifestyle buyers, 414

- LIFO liquidation, 57
- Like-kind exchanges, 263–264
- Limited liability companies (LLCs), 213, 246
  - continuity of life, 219–220
  - control, 227
  - conversion to, 247
  - formation, of business form, 216
  - liability, 230
  - taxation, 236
  - transferability of interest, 221
- Limited partnerships, 213
  - continuity of life, 219
  - control, 227
  - formation of business form, 216
  - liability, 229–230
  - taxation, 235–236
  - transferability of interest, 220–221
- Limited partnerships as legal entities, 218
- Linux operating systems, 540
- Liquidity, 305, 395, 422, 436
- Liquidity ratio, 421
- Litigation, 493
- Litigation charges, 49
- Loan renewal, 10
- Local and wide area networks, 520
- Local area network (LAN), 506
- Local partner, 197–201
- Local partners, 197
- London Interbank Offered Rate (LIBOR), 411
- Long call option payoff, 404
- Longer-term interest rate hedge, 397
- Long party, 394
- Long put option payoff, 404
- Long-term capital gains, 258
- Long-Term Capital Management (LTCM), 388–390
- Long-term debt, book values of, 146
- Long-term debt ratio, 25
- Long-term debt to capitalization ratio, 145
- Long-term fixed-income instrument, 408
- Long term solvency, 24–25
- Long-term solvency ratios, 25
- Long-term sustainable earnings growth rate, 435
- Loss carryforwards, 58
- Loss retention and control, 383
- Lower of cost or market, 21
- Low inflation and low interest rates, 205
- Made in America program, 482
- Mainframe computers, 540
- Management accounting, 335
- Management consulting services vs. audits, 281
- Management discussion and analysis (MD&A), 76–80
- Management performance, 285
- Managing IT resources, 540–552
  - hardware, 540–542
  - software, 542–543
- Margin analysis, 362
- Market approach, 436–437
- Market approach to valuation, 414, 423
- Market capitalization, 145
- Market demand approach, 367
- Market factors, 136
- Marketing and sales expenditures, 324
- Marketing plan, 366–370
  - advertising and promotion, 368–369
  - distribution strategy, 368
  - operations plan, 370–371
  - pricing strategy, 367–368
  - product/service strategy, 366–367
  - sales and marketing forecasts, 369–370
  - sales strategy, 369
  - target market strategy, 366
- Market interest and growth potential, 375–376
- Market pitch, 567
- Marketplace for MBAs, 559–560
- Market power, 460
- Market price, 155
- Market risk premium, 140, 142
- Market risks, 136
- Market size and structure, 362
- Market timing, 393
- Marking to market process, 395
- Massively parallel processors (MPs), 541
- Master budget, 299, 300–301, 302, 310
- Material participation, 250
- MBA Jungle, 565, 571
- Measuring return, 130–132
- Measuring risk, 132–134
- Median price multiples, 437
- Mergent Bondviewer, 143
- Merger and acquisitions, 445
  - activities in, 448
  - performance from, 449
  - transactions, 449
- Mergers, 250, 273–274, 446
- “Mergers: Why most big deals don’t pay off” (Henry and Jespersen), 449
- Meriwether, John, 388
- Merton, Robert, 388
- Message-oriented middleware (MOM), 543
- Metallgesellschaft, 386–387
- Microsoft Access, 508
- Microsoft Excel, 103, 105, 307, 508
- Microsoft Office, 508
- Microsoft Outlook, 508
- Microsoft PowerPoint, 508
- Microsoft Project, 518
- Microsoft Windows, 501, 507
- Microsoft Word, 508
- Middleware, 543
- Miller, Merton, 148, 180
- Miller Brewing Company, 460
- Mini laptop, 501
- Minitab*, 307
- Minority equity positions, 439
- Minority shareholders, 224, 447
- Mixed use, 262
- Modems, 505–506
- Modified audit report, 11
- Modified capital asset pricing model (CAPM), 431
- Modigliani, Franco, 148, 180
- Modigliani and Miller (M&M), 148
- Modigliani-Miller irrelevance theory, 180
- Monitors, 505
- Monopolistic power, 460
- Moody’s, 32
- Moral lesson, 392
- Mortgage interest deductions, 262
- Motivation to outsource, 478–481
- Multiple IRRs, 183
- Multistep format, 44
- Munger, Michael, 493
- NASDAQ crash, 354
- National culture, 471
- Natural disasters, 52
- Negotiating the contract, 489–493
- Net, defined, 5
- Net cash flow:
  - from financing activities, 306
  - from investing activities, 306
  - from operations, 306
- Net cash flow capitalization, 423
- Net cash flow to equity holders, 428
- Net cash flow to firm, 428
- Net income, 4, 5, 9
- Net present value (NPV), 165, 184
- Net present value (NPV) analysis, 170
- Net present value (NPV) calculations, 174
- Net sales, 5
- Network adapters, 506
- Network choices, 572–573
- Networking (career), 572–575
  - associations, 573
  - careers in finance, 572–575
  - e-commerce, 522
  - with everyone and anyone, 572–573
  - first stage key contacts, 573
  - friends and family, 572
  - goals of networking, 573
  - summary, 575
  - ultimate key contacts, 573
  - Web 2.0, 522–523
- Networking (computer), 519–523
  - local and wide area networks, 520
  - technology, 519–523
  - World Wide Web (WWW), 520–522

## 598 Index

- Net working capital, 168
- Networks, 364
- Networks and communication, 544–545
- Noncurrent assets, 3
  - assets, 4
  - liabilities, 4
- Nondiscriminatory basis, 267
- Non-GAAP measures, 40
- Non-operating assets, 427
- Non-operating items, 305
- Nonqualified plans, 254
- Nonrecurring items, 39, 427
  - defined, 41
  - disclosure of, 54, 55
  - and generally accepted economic principles (GAAP), 43
  - identification, 43–55
  - included in operating income, 47, 48
  - income from continued operations, 45, 49–50
  - in the income statement, 43–53
  - in the income tax note, 57–59
  - in the inventory disclosure of LIFO firm, 56–57
  - in management discussion and analysis (MD&A), 60–62
  - nature of, 41–43
  - in the other income and expense notes, 59–60
  - in other selected notes, 62–65
  - in statement of cash flows, 53–55
- Nonrecurring tax effects, 58
- Nonsystemic factors, 135, 136
- Nonsystemic risks, 136
- Normal distribution, 132
- Normalizing earnings, 41
- Normalizing revenue and expenses, 417
- Notebook computers, 501
- Notes, 73–89
- Notes to financial statements, 16–17
- Objectives, 165–166
- Object-oriented programming, 542
- Occupational Safety and Health Administrator (OSHA), 281
- Offering, 377
- Officers, 226
- Officer's compensation, 417
- Offshore outsourcing, 477
- Oil future prices, 386
- Oil price risk, 386
- Ongoing operations, 371
- Online analytical processing (OLAP), 529, 534, 535–536, 549
- OpenOffice, 508, 539
- Open source software, 539, 544
- Operating budgets, 298
- Operating efficiencies, 463
- Operating expenses, 4, 320, 377, 421
- Operating income, 46–47
- Operating leverage, 317
- Operating losses, 462
- Operating plan, 303
- Operating profit in total assets. *See* earnings before interest and taxes (EBIT)
- Operating profits, 318, 321
- Operating systems, 506, 507, 540
- Operational (transaction) systems, 528
- Operational complexity, 336
- Operational goals, 294
- Operational plan, 355
- Operations, net cash flow from, 306
- Operations plan, 370–371
- Operations strategy, 370
- Opportunity cost, 43, 171
- Opportunity focus, 360
- Optimal capital structure, 151, 427, 434
- Option payoff, 400, 403
- Option price, 399
- Option profit, 400
- Options, 409
  - call options, 399–403
  - put options, 403–405
- Orange County, California, 387
- Ordinary annuity, 111
  - future value of, 112–116
  - present value of, 116–117
- Organizational productivity:
  - business intelligence and business analytics, 534–535
  - data access and OLAP, 535–537
  - intranets, extranets, and portals, 537–539
  - knowledge management (KM), 539–540
  - productivity tools, 539
- Other income (expense) note, 47–49, 75
- Out-of-state operation of sole proprietorships and partnerships, 216
- Out of the money status, 400
- Output, 317
- Outside financing, 10
- Outsourcing, 176, 318, 477–495
  - country infrastructure, 482
  - customer response to, 482
  - determining success, 485
  - domestic versus offshore outsourcing, 481
  - issues with using offshore providers, 482
  - location of offshore, 481
  - motivation to outsource, 478–481
  - outsourcing a process or a project, 485–493
  - reasons for, 480
  - risks and challenges of outsourcing, 483–485
  - terminology for, 491
- Outsourcing a process or a project, 485–493
  - defining the project, 486
  - negotiating the contract, 489–493
  - request for proposal (RFP) content, 487
  - RFP evaluation, 487–488
  - selecting appropriate and qualified vendors, 486–487
  - vendor selection, 488–489
- Outsourcing metrics, 486
- Overhead, 172
- Over-the-counter instruments, 409, 411
- Overvaluation, 467
- Owner equity, 9
- Paper losses, 248
- Participative budgeting, 295–296.  
*See also* bottoms-up budgeting
- Partnerships, 212
  - continuity of life, 219
  - control, 221–222
  - formation of business form, 214
  - liability, 228
  - taxation, 231–233
  - transferability of interest, 220
- Partnerships as legal entities, 217–218
- Par value, 215
- Passive activities, 262
- Passive activity loss, 250
- Passive income, 250
- Passive losses, 248–249
- Pass-through entity, 247–248
- Pass-through losses, 245
- Payback period, 180–181, 185
- Payment card industry data security standard, 553
- Payoff diagram, 400
- Peak demand, 338
- Pecking order theory vs. trade-off theory, 152
- Peer-to-peer network, 519
- Pension plans, 253
- Performance evaluation, 293
- Performance guarantee, 490
- Period costs, 321
- Periodic planning, 292
- Peripherals:
  - modems, 505–506
  - network adapter, 506
  - printers, 506
- Perpetual cash flow, 474 n13
- Perpetuity, 144
- Personal brand, 566
- Personal career goals:
  - avoid aiming at sharply different targets, 571
  - compile initial lists, 571
  - refine, maintain, and update target lists, 571
  - utilize all possible resources, 571

- Personal computers (PCs), 500, 501
- Personal digital assistants (PDAs), 500, 502–503
- Personal end game, 576
- Personal expense, 262
- Personal finance software, 517–518
- Personal liability, 228, 229
- Personal service corporation, 233–235
- Personal use, 262
- Personal value proposition, 575
- Pfizer worksheet analysis, 89–94
  - adjusting work sheet for sustainable earnings base, 90–91
  - summary of nonrecurring items, 92–93
- Phantom stocks, 257
- Phillip Morris, 460
- Physical delivery contract, 396
- Pine, B. J., 365
- Pitfalls, 324–328
  - data reporting format, 325
  - price and variable cost changes, 324
  - product mix, 324–325
  - relevant range assumption, 325–328
  - variable cost as a function of output, 328
- Planning cycle timing, 313
- Podcasts, 523
- Poison pills, 284
- Political risk, 195, 197, 469
- Pooling of interest method, 474 n16
- Porter's Five Forces model, 465
- Portfolio income, 250
- Portfolio management, 563
- Portfolio of assets, 134
- Postacquisition integration, 456
- Postmerger implementation plan, 472
- Postmerger performance, 449, 456
- Practical considerations, 464–469
  - in acquisitions, 464–469
  - antitrust concerns, 468–469
  - cash deals versus stock deals, 465–467
  - cross-border deals, 469
  - identifying and screening candidates, 465
  - purchase accounting, 467–468
  - tax issues, 468
- Predatory pricing, 332–333
- Preferred equity capital, 142
- Preferred stock, 144
  - value of, 162
- Preparing for the career journey, 566
- Presentation software, 512–513
- Present value, 108–111
  - formula for, 108
- Price and variable cost changes, 324
- Price competition, 331–332
- Price decreases, 321
- Price multiple, 429
- Price multiples of public firms, 437
- Price point, 319
- Price risk, 394
- Price-to-earnings-ratio, 162
- Price variance, 296
- Price war, 332
- PriceWaterhouseCoopers, 287
- Pricing below average variable cost, 332
- Pricing in CVP analysis, 331–332
- Pricing options, 401–402
- Pricing strategy, 367–368
- Primary target audience (PTA), 366, 368
- Principle of alternatives, 416
- Principle of substitution, 416
- Printers, 506
- Priorities, 312
- Priority systems, 312
- Private banker position, 564
- Private equity, 473 n1
- Private equity (PE) firms, 447
- Private sector, 285
- Private wealth management, 564
- Privileges and Immunities Clause, 216
- Proactive versus reactive strategies, 571–572
- Process mapping, 342
- Process of business planning, 356
- Procter & Gamble, 385–386, 478
- Procurement software, 534
- Production cost, 333
- Productivity tools, 539
- Product mix, 324–325
- Product sales vs. growth, 329
- Product/service description, 356
- Product/service strategy, 366–367
- Professional corporations, 213, 234
- Professional presentation, 311
- Profile of students' post-MBA careers, 560
- Profile of students' pre-MBA careers, 560
- Profitability, 423
  - relations to investment, 28–30
  - relations to sales, 26–28
- Profitability ratios, 25–26, 422
- Profit plan, 310
- Profit planning from an internal perspective, 329–331
- Profit-sharing plans, 253
- Projected balance sheet, 5
- Projected cash flow statements, 7
- Projected financial statement vs. actual financial statement, 11
- Projected income statement, 4
- Projected net present value, 201
- Projecting cash flows, 166–167
- Projection process, 309
- Project management software, 518
- Project size, internal rate of return (IRR) and, 182
- Property rights, 285
- Protective put, 405
- Proxy contents, 446
- Public Company Accounting Oversight Board (PCAOB), 281
- Public firms, price multiples of, 437
- Publicly traded guideline companies method, 436–437
- Public sector, 285
- Purchase accounting, 467–468
- Purchased in-process research and development (IPR&D), 45
- Purchase method of accounting, 467–468
- Purchasing power parity, 206
- Put option payoff diagram, 404
- Put options, 385, 403–405
- Quaker Oats/Snapple deal, 452, 453
- Qualified deferred compensation plan, 253
- Quantification, 292–293
- Quantify the material, 311–312
- Quantity variance, 296
- Quarterly and segmented financial data, 65
- Queries, 535, 548
- Quick ratio, 21
- Rabbi trust, 255
- Random-access memory (RAM), 504
- Ratio analysis, 421–422
- Rationing process, 292
- Raw earning power, 29
- Readily ascertainable value, 258
- Real estate, 564
- Realistic plan, 295
- Really simple syndication (RSS), 523
- Real options, 184, 185
- Reasonable salary and bonuses, 245
- Redemptions to pay death taxes and administrative expenses, 268–269
- Refinancing, 407
- Regression analysis, 307
- Relational databases, 535, 546
- Relative success, 313
- Relative value method, 161–162
- Relevance Lost: The Rise and Fall of Management Accounting* (Johnson and Kaplan), 335
- Relevant internal cost information, 336
- Relevant range, 327
- Relevant range assumption, 325–328
- Remedies, 281–284
- Remote procedure calls (RPCs), 543
- Rental use, 262

## 600 Index

- Rental window, 263
- Repatriation risk, 195
- Request for proposal (RFP)
  - content, 487
- Required rate of return, 199
- Research associate position, 563
- Residual value, 428, 429–430
- Resources for careers, 571
- Restatements, 277
- Restatements of previously published financial statements, 278–280
- Restricted stock, 257, 260
- Restructuring charges excluded
  - from operating income, 47, 49
- Resume, not biography, 567
- Resume as marketing tool, 567
- Retirement, 265, 268
- Return on assets (ROA), 179
- Return on investment (ROI)
  - criteria, 349
- Return on portfolio of assets, 134
- Return on total assets (ROTA). *See* earnings before interest and taxes (EBIT):
- Return vs. risk, 25
- Revenue enhancement, 463
- Revenue growth, 421
- Reverse triangulation mergers, 274
- Review, 11
- RFP evaluation, 487–488
- Risk and return, 130
  - measuring return, 130–132
  - measuring risk, 132–134
- Risk avoidance, 383
- Risk-free interest rate, 177
- Risk-free investment, 415
- Risk-free rate, 431
- Risk-free rate of return, 140, 142
- Risk management, 383–412
  - case studies of derivatives debacles, 384–392
  - hedge selection, 408–411
  - size of the derivatives market and widespread use, 392–393
- Risk Management Associates: Annual Statement Studies*, 32
- Risk minimization, 196
- Risk premium, 140
- Risk retention, 383
- Risks, 195
  - of adverse currency movements, 196
  - and challenges of outsourcing, 483–485
  - of national cultural differences, 469
- Risk sharing, 465–467
- Risk transfer, 383
- Risk vs. return, 25
- Root causes, 313
- Safe harbors, 266
- Salary, 244
- Sale of the corporation, 273–275
- Sales and marketing forecasts, 369–370
- Sales force, 457
- Sales ratios, percentage of, 27
- Sales strategy, 369
- Sarbanes-Oxley (SOX) legislation, 39, 281, 532, 553
- Scandals, 277
- Scholes, Myron, 388
- Scientifica Atlanta, 457
- Scope of operations, 370–371
- S corporations, 274
- SEC filings, guide to, 15–16
- Securities and Exchange Commission (SEC), 17, 39, 223, 324
- Securities and Exchange Commission (SEC) rules:
  - Regulation D, 358
  - Regulation G, 40
- Securities Exchange Act of 1934, 17
- Security backdoors, 483–484
- Security market line (SML), 140
- Segment information note, 88–89
- Selecting appropriate and qualified vendors, 486–487
- Server technology, 541
- Severance packages, 470
- SFAS No. 123, *Stock-Based Compensation*, 81
- SFAS No. 123B, *Share-Based Payment*, 81
- SFAS No. 130, *Reporting Comprehensive Income*, 66, 98 n36
- SFAS No. 143, *Accounting for Asset Retirement Obligations*, 81
- SFAS No. 154, 52
- Shank, John, 347
- Share-based payment note, 87
- Shareholder, defined, 212
- Shareholder distributions, 417
- Shareholder's equity, 418
- Shareholder wealth, 449
- Share repurchase, 257
- Shares outstanding, 214
- Share valuation, 426–427
- Sharing the equity, 256–261
  - taxability of stock options, 258–260
  - tax effects of phantom stock and SARS, 256–257
  - tax impact on restricted stock, 260–261
- Sherman Act of 1890, 469
- Short call option payoff, 404
- Short party, 394
- Short put option payoff, 404
- Short-term cash needs, 305
- Short-term interest rate hedge, 397
- Short-term liquidity, 19–24
- Short-term liquidity ratios, 21, 23
- Simplified balance sheet, 28
- Single-step format, 44
- Six degrees of separation concept, 572
- Size of the derivatives market and widespread use, 392–393
- Size risk, 433
- Sloan, Alfred P., 335
- Smart cell phones, 500
- Smolowitz and Hillveg study, 469
- Smuggling, 206
- Social Security, 285
- Software, 506–518, 542–543
  - applications software, 507–518
  - bringing the use of web technologies in-house, 551
  - controls, 552
  - database, 546–548
  - data warehouse, 548–549
  - Internet technology, 550–551
  - middleware, 543
  - networks and communication, 544–545
  - open source software, 544
  - operating system, 507
  - Web hosting, 551–552
- Software as services, 539
- Software entrepreneur:
  - business form, 211
  - choice of entity, 238
- Sole proprietors, 212
  - continuity of life, 218–219
  - control, 221
  - formation of business form, 214
  - as legal entities, 217
  - liability, 228
  - taxation, 230–231
  - transferability of interest, 220
- Solid state drives, 504
- Sources and uses of funds, 377
- Specific projects vs. general goals, 293
- Speculation, 392, 395, 398
- Speculative bubble, 391
- Spin-offs, 272
- Spin-offs and split-ups, 272–273
- Split-offs, 273
- Spot price, 395, 396
- Spreadsheet software, 500, 508–512
- Sprint, 287
- Stand-alone risk, 132
- Standard & Poor's, 32, 177
- Standard deviation, 132
  - on portfolio of assets, 135
  - of returns, 133
- State income tax returns, 257
- Static budgets. *See* fixed budgets:
- Statistical tools, 534
- Status quo analysis, 329
- Stern Stewart & Company, 184
- Stock acquisitions, 446
- Stock appreciation rights (SARs), 257
- Stock-bonus plans, 253
- Stockholders, 222–224
- Stockholders' equity, 305
- Stock index futures, 393

- Stock options, 257
- Stock ownership, 285
- Stock purchases, 250
- Stock redemption, 265
  - capital gains treatment for, 268–269
  - sale of, 273–274
- Stock transfer, 246
- Story model, 356–357
- Straddle, 385
- StratCom, 456–457
- Strategic cost management (SCM), 347, 349
- Strategic cost reduction notes, 64
- Strategic information systems, 530
- Strategic/investment buyers, 414
- Strategic plans of competitors, 317
- Strategies, using call options, 403
- Streaming media, 524
- Strengths, weaknesses,
  - opportunities and threats (SWOT) analysis, 295, 309, 465
- Strike price, 399
- Structured query language (SQL), 535–536, 546
- Structure of budgets, 298–299
- Subchapter S corporations,
  - 245–246
  - election, 246–249
  - election and passive losses, 248–249
  - election and pass-through entity, 247–248
  - taxation, 234–235
- Subprime mortgages, 391
- Subsidiary corporations, 272
- Substantially disproportionate distributions, 265–266
- Successful postmerger implementation, 469–472
- Summarizing nonrecurring items and determining sustainable earnings, 67–70
- Summary of significant accounting policies note, 81
- Sunk costs, 171–172
- Surprises, 312
- Sustainable earnings, 47
- Sustainable earnings base (SEB), 70–89
- Sustainable earnings base (SEB), application, 70–89
- Sustainable earnings worksheet, 67–70
- Swaps, 405–408, 409
  - hedging interest rate exposure with a swap, 407–408
  - interest rate swaps, 407, 408
- Swaps market, 393
- Symmetrical miniprocessors (SMPs), 541
- Symmetric instruments vs. asymmetric instruments, 410
- Symmetric risk, 409
- Synergy, 459
- Synthetic cash, 397
- Synthetic stock, 398
- Systemic risks, 136
- Table of contents, 360
- Tablet PC, 501
- Tacit knowledge, 539
- Tagging, 523
- Tagline, 357
- Takeovers, 284, 446
- Tangible goals, 294
- Target, 446
- Target capital structure, 151
- Target costs, 349
- Target market strategy, 366
- Target premium, 458
- Target the employer's explicit and perceived needs and preferences, 567
- Taxability of stock options, 258–260
- Taxable income and income tax, 169
- Taxable transaction, 468
- Taxation, 230–236
  - business form, 230–236
  - corporations, 233–236
  - limited liability companies, 236
  - limited partnerships, 235–236
  - partnerships, 231–232
  - professional corporations, 234
  - sole proprietors, 230–231
  - Subchapter S Corporations, 234–235
- Tax deductible interest expense, 143
- Tax deductions, 262
- Tax effects of phantom stock and SARssars, 256–257
- Taxes, 467
- Taxes and business decisions, 243–276
  - acquisition, 249–252
  - the business, 243
  - dividends, 265–268
  - estate planning, 268–272
  - executive compensation, 252–256
  - gift tax, 246
  - like-kind exchanges, 263–264
  - sale of the corporation, 273–275
  - sharing the equity, 256–261
  - spin-offs and split-ups, 272–273
  - subchapter S, 245–246
  - subchapter S election, 246–249
  - unreasonable compensation, 244–246
  - vacation homes, 261–263
- Tax forecast, 167
- Tax-free transaction, 468
- Tax impact on restricted stock, 260–261
- Tax incentive grant, 59
- Tax issues, 468
- Tax-loss carryforward, 250–251
- Tax preferences for C corporations, 272
- Tax rate assumption, 93
- Tax rate reconciliation, 74
- Tax Reform Act of 1986, 236, 249
- Tax savings, 461–464
- Tax shelters, 248–249
- Tax shield of debt financing, 169
- Team bios and roles, 374
- Teams:
  - advisory boards, board of directors, strategic partners, external members, 374–375
  - bios and roles, 374
  - compensation and ownership, 375
- Technology companies, 154
- Tenancy in partnership, 218
- Tender offer, 446
- Terminal spot, 395
- Terminal spot price, 396
- Terminal value, 158–159, 161, 428
- The Almanac of Business and Industrial Financial Ratios*, (Troy), 32
- 3 M's, 362
- Three-corner purchases, 264
- Thumb drives, 504
- Time, 384
- Time and cost to development, 376
- Time and materials contract, 490
- Time line, 188
- Times interest earned, 24, 423
- Time value of money (TVOM), 103, 172–173, 181
- Time Warner AOL, 467
- Timmon's Model of Opportunity Recognition, 362
- Too-big-to-fail criteria, 390
- Tort liability, 222, 228
- Total assets, 15
- Trade-off theory, 148
- Trade-off theory vs. debt tax shield, 151
- Trade-off theory vs. pecking order theory, 152
- Trade secrets, 483
- Trade shows, 364
- Transactions, 9
- Transferability of interest, 220–221
  - business form, 220–221
  - corporations, 220
  - limited liability companies, 221
  - limited partnerships, 220–221
  - partnerships, 220
  - sole proprietors, 220
- Transition team, 457
- Transmission-control protocol/Internet protocol (TCP/IP), 521, 544
- Treasury stock, 145
- Trend lines, 307
- Trends, recent, 312–314
  - alternative to budgets, 313–314
  - business segments, 313

602  Index

- Trends, recent (*Continued*)  
 centralized resource allocation, 313  
 financial incentives, 313  
 financial metrics, 313  
 fixed targets, 313  
 Troy, Leo, 32  
 Turnover ratios, 21
- Ultimate key contacts (career networking), 573, 574–575  
 Uncollectable accounts, 303  
 Underinvestment problem, 153  
 Underwriting fees, 201  
 Uneven cash flow, 121–126  
 Unfavorable budget variance, 296  
 Uniform Commercial Code, 492  
 Uniform Limited Partnership Act, 213, 227  
 Uniform Partnership Act, 212, 218  
 Union Bank of Switzerland, 388  
 Unique risk, 136  
 Universal resource locators (URLs), 521  
 UNIX operating systems, 540  
 Unreasonable compensation, 244–246  
 Unrecognized gain, 263  
 Unsystemic risk, 433  
 USB flash drives, 504  
 Uses of cash, 8  
 U.S. immigration quotas, 477  
 U.S. International Trade Commission (ITC), 333  
*U.S. News and World Report*, 559  
 U.S. Standard Industrial Classification (SIC), 416  
 U.S. Treasury bonds, 141  
 Utility companies, 23
- Vacation homes, 261–263  
 Valuation methods, 423  
 Valuation methods reconciliation, 437–438  
 Value, three approaches to, 413–414  
 Value-based price, 332  
 Value creation, 445  
 Value engineering, 440–441
- Value Line, Inc., 139  
 Variability of returns, 132  
 Variable administrative costs, 302  
 Variable cost as a function of output, 328  
 Variable cost of sales, 319–320  
 Variable cost-structure, defined, 317  
 Variances, 291  
 Vault Career Guides:  
 hedge funds, 563  
 investment management, 564  
 potential companies, 571  
 private wealth management, 564  
 venture capital, 565  
 Vendor financial review, 488  
 Vendor selection, 488–489  
 Venture capital, 565  
 Venture capitalists (VCs), 337, 357  
 Verbal (oral) resume, 568–570  
 cover letter, 569–570  
 verbal resume structure, 569  
 Verbal resume structure, 569  
 Vertical integration acquisitions, 460, 477  
 Vested shares, 257  
 Vested stocks, 260
- Wall Street Journal*, 460, 461  
 Warrantees, 492  
 Waste Systems International, 460–461  
 Web 2.0, 522–523, 531  
 Web browser software, 520  
 Web hosting, 531–532  
 Weighted average cost of capital (WACC):  
 in business valuation, 434  
 calculation inputs to, 145, 147  
 country risk adjustment, 199  
 in DCF model, 429  
 discounting with, 178  
 discount rate, 430  
 formula for, 142–143  
 hurdle rate use, 196  
 vs. internal rate of return (IRR), 182  
 Weight of debt and equity capital, 145–147  
 Weston and Johnson study, 468
- What do I say/how to approach networking, 573–575  
 associations, 574  
 first stage key contacts, 574  
 friends and family, 574  
 networking summary, 575  
 ultimate key contacts, 574–575  
 Whistle-blowers, 281  
 Wide area network (WAN), 520, 544  
 Wi-Fi, 506  
 Williams Act, 284  
 Windfall profits and taxes, 169  
 Wintel standard, 501  
 Wipro, 485  
 Word processing software, 500, 507, 508  
 Working capital, 19, 422  
 Workpaper retention, 281  
 World Bank, 197  
 WorldCom, 281  
*World Factbook* (CIA), 198  
 World Wide Web (WWW), 520–522, 550  
 the Internet network, 520  
 Internet privacy, 521–522  
 Internet search engines, 521  
 WWW technology, 520–521  
 Written call options, 402, 403  
 Written put option payoff, 404  
 Written resume, 567–568  
 core source document, 568  
 emphasize what you can contribute, 568  
 resume, not your biography, 567  
 target the employer's explicit and perceived needs and preferences, 567  
 your resume is a marketing tool, 567
- Xerox PARC, 541
- Y2K problems, 477, 542  
 Year-end bonus, 244  
 Yield factor, 337  
 Yield to maturity, 155  
 YouTube, 524
- ZETA (commercial predictor), 35  
 Z-score, 34–35