

CONTENTS

Introduction 1

01 What is strategy? What does financial strategy mean? 6

- Content, order and logic of this chapter 6
- Definitions of 'financial', 'strategy' and 'strategic' 7
- Further strategy-related definitions 8
- What is business strategy? 11
- What is *the* objective of financial strategy? 12
- Why be in business? 13
- Conclusion 14

02 Financial strategy: why be in business? 15

- Content, order and logic of this chapter 15
- What do successful companies say? 16
- How does making a return on investment link with strategy? 17
- What successful companies say 18
- Making a good return is the objective, but what exactly is ROI? 20
- Strategic drivers of ROI 22
- Conclusion 25
- Revision and learning pointers 26

03 Basic financial reports and concepts 27

- Content, order and logic of this chapter 29
- The importance of cash records and reports 30
- Bedrock concepts 33
- Income statement – the P&L account 33
- Statement of financial position – the balance sheet 41
- Conclusion 50
- Revision and learning pointers 50

04 What underpins financial statements? 51

- Content, order and logic of this chapter 52
- Company law and directors' responsibilities 53
- Record keeping/bookkeeping 57

<u>Internal controls – accounting systems and procedures – prevention of error and fraud</u>	<u>69</u>
<u>External and internal audit – prevention of error and fraud</u>	<u>71</u>
<u>Corporate governance</u>	<u>79</u>
<u>Conclusion</u>	<u>81</u>
<u>Revision and learning pointers</u>	<u>81</u>

05 Accounting ‘rules’: how accounting theory and rules affect the strategic numbers 83

<u>Content, order and logic of this chapter</u>	<u>84</u>
<u>Background to accounting standards</u>	<u>85</u>
<u>What do GAAP, FASB, IASB and IFRS mean?</u>	<u>87</u>
<u>Principal accounting concepts – going concern and accruals</u>	<u>91</u>
<u>How the concepts impact on the figures (and restrain some behaviour)</u>	<u>96</u>
<u>GAAP, which may cause issues with strategies</u>	<u>99</u>
<u>Conclusion</u>	<u>99</u>
<u>Revision and learning pointers</u>	<u>99</u>
<u>Appendix</u>	<u>100</u>

06 Published or statutory accounts 105

<u>Content, order and logic of this chapter</u>	<u>105</u>
<u>What extant accounting standards require</u>	<u>106</u>
<u>Balance sheets – statements of financial position</u>	<u>121</u>
<u>Notes to financial statements</u>	<u>135</u>
<u>UK full financial statements</u>	<u>146</u>
<u>Developments in financial reporting</u>	<u>150</u>
<u>The strategic report</u>	<u>151</u>
<u>Future developments</u>	<u>154</u>
<u>Conclusion</u>	<u>156</u>
<u>Revision and learning pointers</u>	<u>156</u>

07 Interpreting financial statements 157

<u>Content, order and logic of this chapter</u>	<u>158</u>
<u>Techniques for interpreting financial statements</u>	<u>159</u>
<u>Ratio analysis</u>	<u>162</u>
<u>Working capital ratios</u>	<u>171</u>
<u>Analytical review</u>	<u>173</u>
<u>External ratios</u>	<u>174</u>
<u>Why we have to disclose ratios</u>	<u>180</u>
<u>Conclusion</u>	<u>182</u>
<u>Revision and learning pointers</u>	<u>182</u>

08 Cash: the vital element 183

- Content, order and logic of this chapter 184
- Where cash appears in financial statements 184
- Cash flows for trading – working capital 185
- Insolvency – going concern – overtrading 190
- Capital cash flows 192
- Statement of cash flows 193
- Cash-flow-focused strategies 208
- Conclusion 214
- Revision and learning pointers 214

09 Management accounting: internal reports and business models 215

- Content, order and logic of this chapter 217
- The wide scope of management accounting 217
- Cautionary words on modelling 218
- Management reports – to assist with understanding strategy and its delivery 219
- Sales and costing definitions and models 225
- KPIs, dashboards and detailed analysis 234
- Analytics – can there be too much analysis? 239
- Conclusion 240
- Revision and learning pointers 240

10 Budgeting 241

- Content, order and logic of this chapter 241
- What does budgeting mean? 242
- Forecasting methods 243
- Why budget? 252
- Methods of budgeting 256
- Budget culture 261
- Conclusion 266
- Revision and learning pointers 266

11 Investment appraisal: investment strategy 267

- Content, order and logic of this chapter 268
- The need for investment appraisal 269
- The time value of money and required rates 274
- Cash flow models 277
- Common appraisal measures 278
- Risk identification and management 283
- How much analysis should be carried out? 288
- The need for a consistent and robust process 289

The many uses of appraisal models 291

Conclusion 295

Revision and learning pointers 296

12 Structural or pure financial strategies 297

Content, order and logic of this chapter 297

Basic definitions 298

Gearing or leverage and the 'magic' of gearing 300

Leasing and off-balance sheet finance 304

Group structures 309

Special purpose vehicles or entities – off balance sheet activities 314

Foreign currency issues 318

Hedging strategies 319

Conclusion 319

Revision and learning pointers 319

13 Summary 320

What are your company objectives – where do you fit in? 320

Strategies both financial and physical to support objectives 321

Links between the book's chapters and strategies 322

Are your strategies coordinated and aligned? 324

Aphorisms 324

Glossary 325

References 330

Index 331