

Preface

Why should you buy this book? There are certainly others to choose from, each with a viewpoint that reflects the author's background and opinions. Why this one? Why this particular author's background and opinions? The answer is *communication*: this book is in a sense a communication manual for non-financial managers.

I believe there is a great need for better communication between financial and non-financial professionals, for a better tool to help the non-financial manager understand the language of finance, and for the financial professional to learn the terminology that has meaning for the non-financial manager. I believe this book will play a part in enabling that better communication. That is, in fact, its purpose.

Why me? I spent eight years of my early working life as a practicing CPA. I felt the frustration that came from not speaking the same language as my clients and the difficulty in getting the information I needed from people who didn't really understand why I could possibly need it or what I could do with it. Then there were the 14 years as a financial officer inside several companies, responsible for trying to find a common language so I could provide business managers what they needed to run their departments, divisions, and corporations. Most recently, I have spent over 15 years as an advisor to business managers and entrepreneurs on financial matters.

Over each of those phases of my career, I've become known for my ability to translate complex or esoteric financial concepts into plain language. I understand better than most both the accountant's and the business manager's viewpoints. Not sur-

prisingly, they often speak different languages. The results are usually less than satisfactory for both. This book is my attempt to facilitate a better understanding between them, since their common objective is the greater success of the enterprise that employs them both.

What should you hope to get from this book, or any book on this subject? I believe the answer is:

- The viewpoint of an author who speaks the language of finance, but thinks more like a line manager than an accountant,
- Examples of the typical, standard financial reports, with plenty of explanation—in English—that will help you understand those same kinds of reports when you see them in your company,
- Examples of financial reports you may not see in your company yet, but that you might want to, because they could give you valuable information, and
- Some help in mastering the tools of finance where they can be useful to you, without wasting time explaining the deep details that will likely never benefit you.

If you are now or intend to become, at some point in your career, the manager in charge of a profit center or perhaps the owner of your own business, you will need to have a working knowledge of a lot of the information in this book. You are or may become:

- The person your staff looks to for guidance in budgets and other financial management matters,
- The person your boss or the home office expects to consistently achieve your assigned financial targets—or even the person who sets those targets,
- The person who is responsible for directing the finance and accounting function that supports your unit or company, and
- The person who can effectively explain to staff, boss,

board of directors, and perhaps even outsiders the financial implications of the results you have achieved and the results you expect to deliver in the future.

Regardless of your path, your career success depends on your doing these things reasonably well, and you cannot do that without a respectable knowledge of finance and accounting. Notice I didn't say a *thorough* knowledge and I didn't say you need to understand how accountants process detailed information. I didn't even say you had to get it right every time, because accountants don't either. But you do need to be comfortable talking the language of finance at the nontechnical level, so that you can communicate effectively in either direction. And that is the purpose of this book.

How to Use This Book

Chapter 1 sets the stage for the book. It discusses how events in the business world today have increased the need for financially savvy managers. Business managers and owners today need to have both financial integrity and a degree of financial competence not previously expected of them. It is no longer good enough to keep poor accounting records in the belief that the accountants will clean it all up at the end of the year, so the company can file correct tax returns. It is no longer good enough to scan a financial report to find the profit number for the month, so that the rest of the report may be ignored. It is no longer good enough for a manager to be ignorant of financial terminology if he or she wants to climb the corporate ladder, or even be demonstrably successful in a current job. You need more.

Chapters 2 through 6 cover the basic financial reports you should typically see on a monthly basis, with lots of tips on reading, understanding, and using the information they contain. For that reason we suggest that, as your first objective, you read, and perhaps reread, Chapters 2 through 6 in order, until you feel comfortable with them.

Then we suggest you proceed to Chapters 7 and 8, which

delve into the “hidden information” that every company has. Each is intended to explore a specific analysis area in which basic financial information is reorganized and detailed in more depth in order to present that hidden information. The objective of these chapters is for you to know how to get to that information from these reports *and* understand what the reports are telling you.

Chapter 7 focuses on operating ratios, selected relational calculations based on numbers in the financial statements. Their purpose is to show relationships between two variables that may not be visible in a casual reading of the statements, but that are important to assessing a company’s overall financial health. We will discuss some of the most common and useful ratios and how you can best use them to better understand the underlying strength of whatever it is they are measuring. This is a chapter you might return to often, as it is a handy reference tool.

Chapter 8 explains the essentials of cost accounting—how it works and why it is so important in helping a company control its gross profit margins. The fundamental purpose of cost accounting is to enable managers to know the actual cost of the products or services their company sells, so they can choose to sell more of the profitable ones and less of the unprofitable ones.

Chapter 9 is about business planning. It discusses the importance of planning, the difference between strategic planning and operational planning, using vision and mission as the starting point for planning strategy, and setting long-term and short-term goals.

Chapter 10 explains the fundamentals of financing a business—getting the capital to launch it and the working capital to operate it. This is an important area for growing businesses everywhere, because growth consumes capital often at a faster rate than a growing business can create it internally. This chapter looks at both debt and equity financing, explains some of the techniques used, and discusses some of the advantages and disadvantages of each.

Chapters 11 and 12 explore the critical management function of planning, including operational planning and budgeting. These sections are placed last so that you first get an understanding of the things you typically plan for—profits, cash flow, and financing the business—before you get into the planning itself.

It's my hope that you'll refer to sections of this book many times over, long after you have finished the first read. By using this book as an ongoing reference, you will reinforce the lessons it contains and find new ways to use it with each reading.

Special Features

The idea behind the books in the Briefcase Series is to give you practical information written in a friendly, person-to-person style. The chapters deal with tactical issues and include lots of examples. They also feature numerous boxes designed to give you different types of specific information. Here's a description of the boxes you'll find in this book.



These boxes do just what they say: give you tips and tactics for using these ideas to understand and use financial information to manage intelligently.






These boxes provide warnings for where things could go wrong when you're getting involved in financial analysis and transactions.



These books give you how-to hints for collecting, analyzing, and using financial information.



Every subject has some special jargon and terms—finance more than most. These boxes provide definitions of these terms.

	It's always useful to have examples that show how the principles in the book are applied. Learn how others apply them in these boxes.
	This icon identifies boxes where you'll find specific procedures you can follow to take advantage of the book's advice.
	How can you make sure you won't make a mistake with financial matters? You can't, but these boxes will give you practical advice on how to minimize the possibility of an error.

Acknowledgments

I long ago told myself that writing a book would be a lot of work, and I already had plenty of work without taking on a book project. My thanks to John Woods of CWL Publishing Enterprises for making me an offer I couldn't refuse, in order to get this book out of my head and on to paper. It needed writing, and I knew I had to write it sooner or later. This was the best of times, thanks to John.

Sometimes what I wrote was clear and concise, and sometimes it wasn't even close. I appreciate those people who helped me with editing the material so that my intended audience would more easily understand what I was trying to say. I want to thank Bob Magnan, whose job it was to make my streams of consciousness more readable. I am particularly indebted to Daniel Feiman and Ed Story, two gifted associates of mine who lent their talents to improving the quality of the content and the clarity of the grammar in several key chapters.

Finally, all those efforts would have been in vain if my beloved partner, Karen Dellosso, hadn't been willing to let me stretch already very long workdays into even longer workdays as this book came into form.

Thank you all. I really appreciate you.