

Do I Need a CFO or a Controller?

Business owners are not always clear about the differences between the role of a Controller and the role of a CFO. A Controller is responsible for accounting while a CFO is primarily focused on finance. To grow a business, companies need accounting *and* finance. What's the difference? In short, accounting is concerned with the past while finance is looking to the future.

The CFO's Responsibilities Include:

- Risk Management
- Overall Business Financial Health
- Financial Planning and Control
- Strategic Planning
- Succession Planning
- Mergers and Acquisitions
- Financing of Company (debt and/or equity)
- Controllership Oversight

In general, the CFO is the financial leader of a company and is responsible for strategic financial management. They must understand the company's past financial results and be able to project their future financial performance. The CFO is responsible for looking *forward*, building the financial plan of the company, and identifying and mitigating risks that may cause a company to miss its financial targets. In today's environment, a CFO is likely to have a CPA and an MBA.

In many cases, early stage companies cannot afford to have a full-time CFO on staff. If this is true, they might benefit from part-time CFO support. A CFO can help validate the feasibility of a business model, help a company get funding from a bank or investor, set-up a management reporting system, mitigate risks, and get the company started on the right foot. A CFO's skills are particularly important when a company is growing rapidly, downsizing, involved in a merger and acquisition transaction, or experiencing change.

The Controller's Responsibilities Include:

- Maintenance of Accounting System
- Closing of Accounting Books (monthly, quarterly, and annually)
- Financial Reporting
- Management Reporting
- Budgeting
- Management of the Accounting Functions
 - Accounts Payable and Cash Disbursements
 - Billing and Receivables
 - Cash Management
 - Fixed Asset Management
 - Payroll
- Tax Compliance and Planning
- Management of Audit or Review Process
- Building and Maintaining Effective Internal Controls

In general, the Controller is responsible for the financial reporting, accounting functions, and tax compliance of a company. They generally report to the CFO, but may report to the business owner in a smaller organization. The Controller's role is usually tactical. Effective Controllers will roll up their sleeves to get things done. They look *backward* at past transactions to ensure they are recorded properly and reflected correctly in the company's financial statements and tax returns. In order to accomplish this, they must understand the operations of the company and the related flow of financial information. Today's Controllers generally have a CPA and 10 plus years of corporate accounting experience.

Most companies starting out cannot afford a full time Controller. They often rely on bookkeepers to manage their accounting system and provide the business owner with financial reports. Bookkeepers are generally not trained accountants. They are individuals that know how to utilize certain accounting packages to pay bills, issues invoices, apply cash receipts, and print financial statements. Unfortunately, these financial statements are often on a cash basis (meaning that revenue is recognized when cash is received and expenses are recognized when bills are paid) and do not give the business owner a clear picture as to the profitability of the business. If a business uses a bookkeeper to maintain the basic accounting functions, the company should ensure that there is proper oversight by the business owner or a trained accounting professional. Lack of internal controls and oversight can lead to a financial loss from bookkeeping errors, fraud, or a lack of relevant information and guidance.

Controllers are seasoned accountants and will ensure that financial statements are prepared on an accrual basis (meaning that revenue and expenses are recognized when earned). Accrual based financial statements will allow a business owner to understand true profitability. Experienced Controllers will also compare the financial results of the company with non-financial metrics to calculate and track Key Performance Indicators (KPI's).

What Can I Change Today?

- Personally open and review your bank statements and cancelled checks every month
- Have a third party reconcile your bank statements and review your bookkeeper's work on a monthly basis
- Analyze significant changes in revenue and expense accounts
- Have your financial statements prepared on an accrual basis
- Develop and monitor relevant financial and non-financial metrics

To be successful, companies must have a clear picture of past financial results in order for them to project financial performance in the future. Accountants provide a business with accrual based financial reports, monitoring of business metrics, and assurance that the business is in compliance with tax laws. The finance professional utilizes the historical financial data to project future financial results and ensure that a company is on the path to success.

Source: *Ted Rose is the President of Rose Financial Services, the Premier U.S. Based Accounting and Financial Outsourcing Firm. If you have any comments or questions, he can be reached at ted.rose@rosefinancial.com or 301.527.1130.*