

# Not confined to counting beans

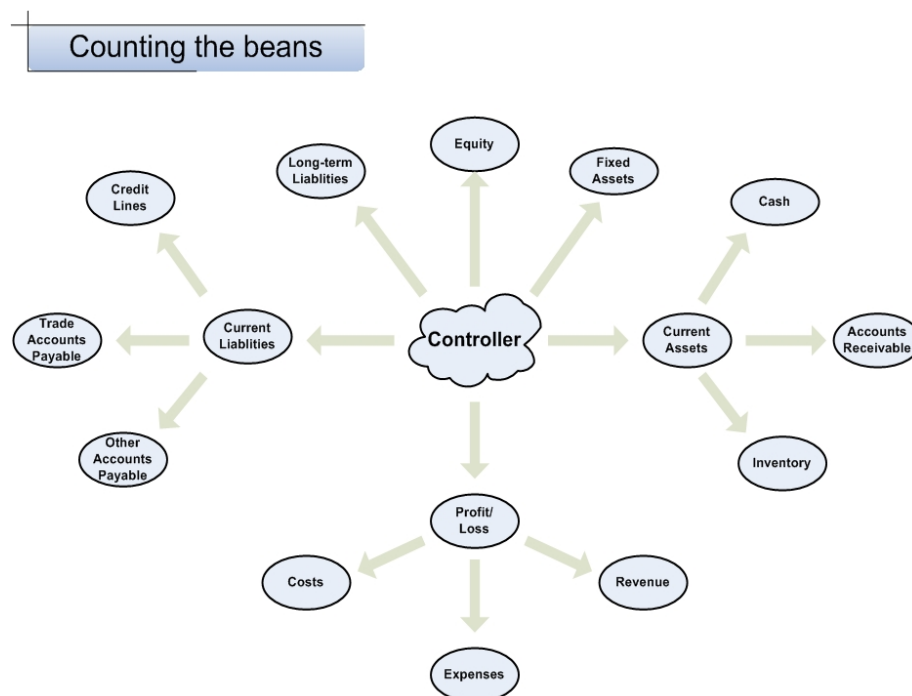
by Cliff Beacham, CPA, Chartered Accountant (SA), MBA, MCDBA.

A company's controller is often a CPA and also often referred to as a bean counter. This derogatory term seems to denigrate the position to that of a 'number mechanic' (whatever that is) and conjures the image of the little grey man, wearing a grey suit, with his grey hair, thinking grey thoughts and living his grey life. Of course, an eyeshade helps the image, as does a collection of pens in the shirt pocket.

Then, when I tell people that the life of a controller is exciting, they look at me in absolute astonishment and it often seems to me that I shrink visibly in their estimation. Perhaps this is because of the lack of understanding that seems to permeate those on the outside of the accounting profession. If you inform them that it takes a minimum of six years to qualify as a CPA their eyes sort of glaze over and you can almost hear them asking themselves – how on earth can it take that long when all you are doing is counting beans?

Now, why do I say that the life of a Controller is exciting? Well, first off, every day brings new challenges. The overall process of preparing financial statements interacts with every financial (and sometimes non-financial) aspect of the business. So let's take a look at what a Controller is expected to do (and actually does).

Starting with beans (or Dollars) we understand that they have to be counted, controlled and reported. This seems easy enough. Not that the average consumer fully understands the following diagram but it does explain the beans:



We could also consider the control aspect but control follows behind planning so let's include planning as part of the job.

This could be described as Budgeting, Projecting or setting Targets. A whole new world in which we attempt to see into the future. Now, are we a slave to circumstance or are we part of the process that tries to motivate the forces that make it happen. We should really take into account

the opportunities that are out there and consider also the threats we might face. So how will we do? We might consider our strengths and also our weaknesses. (SWOT analysis?). This is the future we are planning and perhaps it is more the province of the CFO than the Controller BUT many companies do not have a CFO so guess who has to fill this gap?

As part of this forward looking planning the controller/CFO will be involved in pricing and for this we should understand the industry and the competition. Any examination of the industry will include the Political, Economic, Technological and Social changes that may be taking place (I call these factors my PETS). We can have no influence on these factors so we are confined to trying to anticipate the changes we will have to make to cater for them.

We also look to our particular competitive advantages (or differences) and those of our competitors as well. Many techniques, such as demographic analyses, are used to identify our opportunities and threats and we build on our strengths and try to compensate or fix our weaknesses or even live with them. On many occasions we just plough ahead in ignorance. Eventually we fix on some numbers that will be based upon some sort of logic (we hope). Their range includes:

- projection of the past into the future,
- targets that we hope to achieve,
- dreams or
- just plain guesses.

The Controller's job often encompasses the following:

1. Gathering data and turning it into information.
2. Administration and Coordination.
3. The Controller is the public interface,
4. A Controller contributes to, and promotes, the corporate ethos, image, ethics and morality.
5. The Controller is an agent of the owner/executive.

## **1. Gathering data and turning it into information**

He records the revenue, the costs and the expenses, processes them and produces reports that have meaning. To do this he has to completely understand the business in a way that almost no one else in the organization does.

Through his in-depth knowledge of the business he will control the flow of dollars from the Sales to the Bottom line (either from a Profit/Loss point of view or a Cash perspective) and control the presentation of the financial position at any particular point in time – the Balance Sheet). He understands the relationship between the Sales and the Revenue and the nature of the Cost (Direct, Partially Direct or Indirect) and whether they are Fixed, Variable or partially so.

It was said, many years ago by some sage, that if you have 600 accountants who work with the same input you will get 600 different sets of financial statements. It has been speculated whether accounting is an art or a science in academic institutions, probably for 600 years. It would be interesting to prepare the financial statements each year from the same set of data and see how accounting has changed during that time.

The Controller has to:

- understand the processes
- contribute to pricing decisions and compare to costs
- implement cost saving measures
- implement policies and procedures
- implement internal controls

The output from the 'conversion of data into information' process takes the form of various financial statements. Internal reports are often used for making decisions that affect the future direction and actions of the business. External reports have to follow rules laid down by the businesses Policies, the Accounting Profession (GAAP), and the SEC. If these rules are not followed the Executives of the company can end in jail. Dramatic – Yes, Serious – Yes.

## 2. Administration and Coordination

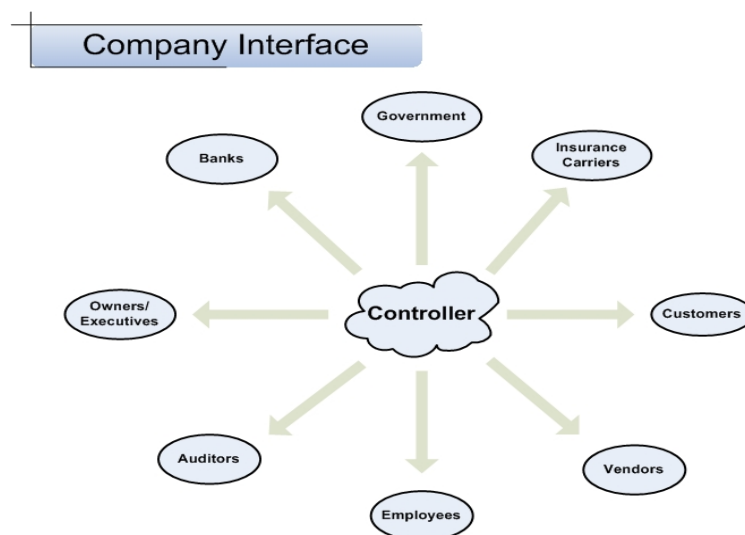
Many businesses like to think of themselves as one big family but this does not mean that the people within the organization will all think the same. Someone has to formulate policies and procedures. This often ends up in the lap of the Controller. He can find himself responsible for the People, the Facilities and the Systems. This will try his leadership capabilities and require that he acts as a catalyst to the plans of action passed in many a meeting. He tends to help unify the company into a coherent whole and orchestrate the procedures that are to be followed. This requires a meld of firmness and flexibility.

## 3. The Controller is the public interface

The Controller is a financial connection with:

- customers
- vendors
- insurance carriers and their agents
- government
- attorneys
- consultants
- brokers

and contributes in a big way to the quality of the relationships, facilitating trust that is constructive rather than hostile and destructive. This could be illustrated by the following diagram:



#### **4. A Controller contributes to, and promotes, the corporate ethos, image, ethics and morality.**

He protects the company and its executives from creditors, government agencies and ensures that the company follows the law, acts ethically and gains credibility in the eyes of those that do business with the company. This will result in the company experiencing heaven or hell and depends on both the expressed intentions of the company executive and the way that the Controller does his job. A CPA often acts as a professional advisor and draws upon a training that makes him ideally suited to this task. He is also trained in and follows a code of ethics that prioritizes the Public interest, his profession and his client/employer (in that order). It might be nice if every company would aspire to this end (before the Dollar) but it may not be realistic in this world.

#### **5. The Controller is an agent of the owner/executive.**

He has to reconcile what the executive (or the owner) wants with what should be done according to an amazingly extensive set of laws, regulations and ethics. This is not to say that executives etc are not willing to comply with all the rules but there have been recent enactments that require complex and extensive requirements for public companies that have extended their influence right down to the smallest companies. Thus the Controller has to be up-to-date on all the current requirements and advise the executive.

### **How does a Controller achieve his objectives?**

To carry out this diverse set of responsibilities a Controller has to run his department such that all the objectives are met. He, typically, works hard and long hours.

He requires a very diverse skill set, has to delegate (and therefore rely upon) his staff. He is responsible for ensuring that policy is set, procedures are followed, all with only limited resources because the accounting department is often not understood to contribute to the success of the business and sometimes even treated as a 'necessary evil' within the organization. Larger companies have larger staffs that require more delegation and management while smaller companies require the Controller to be a Master of All-trades and be all things to all people.

A typical Controller has to plan and balance his resources. He has to manage:

- Time (requiring Prioritizing and Management)
- Paperwork (Needing a good filing system and Organization)
- Automation (Establishing a system and dealing with exceptions)
- Communication (Meetings and Coordination)
- Internal Control (ensuring that all is well)
- Motivation (of his staff and himself)

This follows fairly closely a classic definition of management; a good controller is a good manager.

In addition to accounting and managerial skills, it helps productivity if the Controller also keeps abreast of technical advances. In today's environment this can be daunting but the tools to do the job include computerized systems and knowledge of techniques only dreamed of just a few years ago. Gone are the days when 'Balancing the Trial Balance' meant using a 10-key and tape.

Debits go on the left (unless you are using Quickbooks, in which case they are sometimes seen on the right) and the Controller needs to communicate with technical people that often have an insufficient knowledge of accounting. Excel has become the standard tool for number-crunching with its multi-dimensional server engine that will do fantastic things if you know how to use it. So it can be back to school on a regular basis for every Controller and other serious accounting professional (unless you stay up-to-date in your *spare* time - sic).

Within his department, a typical Controller leverages his expertise by delegation - this may include:

1. A good assistant controller who is reliable, competent and motivated
2. A good personal assistant who can organize, coordinate, handle administration and act as a gatekeeper so that the Controller can work free from the constant interruptions that seem to plague the average Controller position.

Remember, if you don't delegate you have to do it yourself and the 'free work-window time' is usually after hours. Which may be why, if you are leaving the building after dark one night and look back, you will usually see that the light is on in the accounting department.

## Conclusion

In summary, perhaps we should conclude that a Controller is more than the counter of Beans – rather we should think that, from a financial point of view, he is the one that runs the company and this requires a far wider range of diverse skills (including management and technical skills) than accounting knowledge.