

WILEY CORPORATE F&A

# THE CONTROLLER'S FUNCTION

The Work of the  
Managerial Accountant

FOURTH EDITION

STEVEN M. BRAGG

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# The Controller's Function

*The Work of the  
Managerial Accountant*

FOURTH EDITION

STEVEN M. BRAGG



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# ***Preface***

This revised edition of *The Controller's Function* is a complete operations reference manual for the corporate controller. Within these pages the reader will find a comprehensive discussion of how to manage all major aspects of the controller's job, including strategic and annual planning, financial reporting, and managing all aspects of the accounting department, as well as peripheral issues such as control systems, the fast close, filings with the Securities and Exchange Commission cost reduction analysis, software selection and implementation—and much, much more.

This book was written in response to the growing realization that the controller is no longer being called on just to process accounting transactions and issue financial statements, tasks requiring detailed technical knowledge but no considerable management or analysis skill. Instead, the modern controller must exhibit additional mastery of a multitude of management skills, so that the accounting department runs in an efficient and effective manner, offers a detailed analysis of financial statement results, recommends improvements, monitors the activities of other departments, and perhaps even manages the computer systems in a smaller organization. This book gives considerable attention to the most recent advances in all these areas of responsibility, so that the controller will be fully capable of installing and using them to improve his or her company's level of competitive advantage. Included in our coverage of these advances are the use of target costing, activity-based costing, and throughput analysis.

In addition to these more advanced categories, the book also includes such bread-and-butter topics as cash management, internal control systems and fraud prevention, accounts receivable collections, inventory valuation, budgeting, taxes, insurance, and capital

budgeting. Because basic and advanced accounting management topics are combined in one volume, the reader has access to the complete reference for mastering the controller's function.

Steven M. Bragg  
Centennial, Colorado  
July 2011

# ***Chapter 1***

## ***The Controller's Job***

Today's corporation operates in an increasingly complex environment, where there are far too many activities for a chief executive officer (CEO) to keep track of. To an increasing degree, this monitoring function falls on the shoulders of the controller, who must keep the CEO apprised of the performance of all departments, product sales, costs and profits, control issues in a variety of transaction processing systems, and the impact of new government taxes and other regulations on the conduct of the business. Thus, the controller can reasonably be compared to the ship's navigator, who warns the captain of current or foreseeable problems in the shoals of the business environment that lie ahead and on all sides. In this chapter, we explore the main functions of the controller, what kind of background a controller should have, the positions reporting to the controller, and the role of ethics in the conduct of the job.

### **Main Job Functions**

The controller has a number of distinct job functions. The first four are ones that can be ascribed to any manager in any department. The last two are more specialized and do not refer to management skill. The six functions are:

- 1. *Planning.*** The controller is responsible for determining who does the work, what work is to be done, and the timing of work completion in the accounting department, especially in regard to the timely processing of



transactions and the issuance of accurate financial statements. This also extends to the budget, where the controller guides the budgeting process through other departments.

**2. *Organizing.*** The controller is responsible for obtaining and keeping the services of experienced and well-trained accounting personnel; this is by far the most important organizational task. This also involves obtaining sufficient floor space, office equipment, and computer hardware and software to complete all assigned work.

**3. *Directing.*** The controller is responsible for ensuring that all employees in the department work together in an orderly manner to achieve the controller's plans.

**4. *Measuring.*** The controller is responsible for measuring the performance of all key aspects of the department to ensure that performance matches or exceeds standards and that errors are caught and corrected.

**5. *Financial analysis.*** The controller is responsible for the review, interpretation, and generation of recommendations related to corporate financial performance. This requires excellent communication skills (both written and oral), so that the controller's information is properly and effectively conveyed to the other members of the management team.

**6. *Process analysis.*** The controller is responsible for periodically reviewing and evaluating the performance of each major process that is involved in the completion of transactions, with the dual (and sometimes conflicting) objectives of maintaining tight financial controls over processes while also running them in a cost-effective and efficient manner.

## **Job Description**

The controller has one of the most complex job descriptions of all company managers because there are so many functional areas for which he or she is responsible. This section provides a detailed job description that is sorted by general category in alphabetical order. The controller's responsibilities are:

### **Auditing**

- The scheduling and management of periodic internal audits, as well as the preparation of resulting audit reports and the communication of findings and recommendations to management and the board of directors.
- The preparation of work papers for the external auditors and the rendering of any additional assistance needed by them to complete the annual audit.

### **Budgeting**

- The coordination of the annual budgeting process, including maintenance of the company budget, and the transfer of final budget information into the financial statements.

### **Control Systems**

- The establishment of a sufficiently broad set of controls to give management assurance that transactions are processed properly.

### **Cost Accounting**

- The coordination of periodic physical inventory counts.
- The periodic analysis and allocation of costs based on activity-based costing pools and allocation methods.
- The continual cost review of products currently under development, using the principles of target costing.

- The periodic compilation and evaluation of inventory costs.

### **Financial Analysis**

- The periodic comparison of actual to budgeted results and the communication of variances to management, along with recommendations for improvement.
- The continuing review of revenue and expense trends and the communication of adverse trend results to management, along with recommendations for improvement.
- The periodic calculation of a standard set of ratios for corporate financial performance and the formulation of management recommendations based on the results.

### **Financial Statements**

- The preparation of all periodic financial statements, as well as their accompanying footnotes.
- The preparation of an interpretive analysis of the financial statements.
- The preparation and distribution of recurring and one-time management reports.

### **Fixed Assets**

- The annual audit of fixed assets to ensure that all recorded assets are present.
- The periodic recording of fixed assets in the financial records and their proper recording under the correct asset categories and depreciation methods.
- The periodic review of fixed assets to determine the existence of any impairment.
- The proper analysis of all capital expenditure requests.

### **Policies and Procedures**

- The creation and maintenance of all policies and procedures related to the control of company assets and the proper completion of financial transactions.
- The training of department personnel in the use of accounting policies and procedures.
- The modification of existing policies and procedures to match the requirements of government regulations.

### **Process Analysis**

- The periodic review of all processes involving financial analysis to see if they can be completed with better controls, lower costs, or greater speed.

### **Record Keeping**

- The proper indexing, storage, and retrieval of all accounting documents.
- The orderly planning for and scheduling of document destruction, in accordance with the corporate document retention policy.

### **Tax Preparation**

- The timely preparation and filing of tax returns, as well as the supervision of all matters relating to corporate taxation, such as conducting an effective tax management program, and both providing and enforcing policies and procedures related to the compliance of all corporate personnel with applicable government tax laws.

### **Transaction Processing**

- The timely completion of all accounting transactions at the intervals and in the manner specified in the accounting policies and procedures manual.
- The proper completion of all transactions authorized by the board of directors or in accordance with the terms of all authorized contracts.

- The proper approval of those transactions requiring them, in accordance with company policy.

This list may appear overwhelming, but just because the controller is responsible for all of the listed areas does not mean that this person must actually do each one. Instead, the controller is mostly involved in the six job functions noted in the preceding section; in other words, the controller primarily manages the work of other people and ensures that they complete most of the tasks just listed. In particular, a controller can rely on the services of assistant controllers who are responsible for smaller portions of the accounting department.

## **Job Qualifications**

To undertake the job description just described, the controller should have a number of qualifications, which are outlined in this section. Although not all controllers will possess these skills, it is most important to have those related to transaction processing and the production of accurate financial statements because these two areas remain the core of the accounting function. The key job qualifications are:

- *Analysis of information.* The controller must be sufficiently comfortable with financial information to readily understand the meaning of a variety of ratios and trends and what they portend for a company.
- *Communication ability.* A key component of the controller's function is compiling information and communicating it to management. If the compiling part of the job goes well, but management does not understand its implications, then the controller must improve his or her communication skills in order to better impart financial information to the management team.

- *Company and industry knowledge.* No accounting system is completely “plain vanilla,” because the companies and industries in which it operates have a sufficient number of quirks to require some variation from the typical accounting system. Accordingly, the controller must have a good knowledge of both company and industry operations to know how they impact the operations of the accounting department.
- *Management skill.* The controller presumably will have a staff and, if so, will have considerable control over the productivity of that group. Accordingly, the controller must have an excellent knowledge of the planning, organizational, directing, and measurement functions needed to manage the accounting department.
- *Provision of timely and cost-effective services.* The controller must run the accounting department as if it were a profit center, so that the most efficient methods are used to complete each task and the attention of the department is focused squarely on the most urgent tasks.
- *Technical knowledge.* Creating an accurate financial statement, especially one for a publicly held company, requires a considerable knowledge of accounting rules and regulations. Accordingly, a controller should be thoroughly versed in all generally accepted accounting principles (GAAP). Also, if the controller's company deals with international financial reporting standards (IFRS), a knowledge of IFRS will also be necessary.

## **Organizational Structure of the Accounting Department**

The controller does not operate alone to complete all the tasks outlined through the last few sections. On the contrary, quite a large accounting staff may complete the bulk of the work. In this section, we review the structure of the typical accounting department and the tasks completed by each part of it.

The controller is usually helped by one or more assistant controllers who are assigned different sets of tasks. For example, one may be in charge of the more technically difficult general ledger, tax reporting, financial analysis, cost accounting, and financial reporting tasks, while another covers the major transactions, which are accounts payable, accounts receivable, payroll, and cash application. For smaller organizations, there may also be managers for the human resources and MIS functions who are at the assistant controller level and who also report to the controller. Below these managers are a number of subcategories, staffed either by clerks or degreed accountants, who are responsible for specific tasks. These subcategories are:

- *Cost accounting.* This position is filled by a degreed accountant who conducts job or process costing and verifies the inventory valuation.
- *Financial analysis.* This position is filled by a degreed accountant who compiles both standard and special-request analysis reports.
- *Financial reporting.* This position is filled by either a degreed accountant or a senior-level bookkeeper who prepares the financial statements and accompanying footnotes, as well as other periodic reports for public consumption if the company is publicly held.
- *General ledger accounting.* Frequently combined with the financial reporting function, this is staffed by similar personnel and is involved with the review

and recording of journal entries and summary entries for subsidiary journals.

- *Payroll processing.* This position is filled by clerks who calculate pay levels and hours worked and generate payments to employees.
- *Tax form preparation and filing.* This position is filled by a degreed accountant, frequently with tax experience in a public accounting background, who completes and files all government tax forms.
- *Transaction processing.* This position is filled by clerks (usually comprising the bulk of all department headcount) who process all accounts payable, accounts receivable, and cash application transactions in accordance with rigidly defined procedures.

The positions most likely to be needed by a controller are those responsible for transactions, which are the clerks responsible for billing, collections, payables, and payroll. Here are the job requirements for these positions:

**Billing Clerk:** This position is accountable for creating invoices and credit memos, issuing them to customers by all necessary means, and updating customer files. Principal accountabilities are:

- Issue invoices to customers
- Issue monthly customer statements
- Update customer files
- Process credit memos
- Update the customer master file with contact information
- Track exceptions between the shipping log and invoice register
- Enter invoices into customer invoicing web sites
- Submit invoices by electronic data interchange



**Collections Clerk:** This position is accountable for collecting the maximum amount of overdue funds from customers, which may include a variety of collection techniques, legal claims, and the selective use of outside collection services. Principal accountabilities are:

- Stratify collection activities to maximize cash receipts
- Issue dunning letters to overdue accounts
- Contact customers regarding overdue accounts
- Issue payment commitment letters
- Negotiate the return of unpaid merchandise
- Monitor cash on delivery or COD roll payments
- Issue credit hold notifications
- Recommend that accounts be shifted to a collection agency
- Process small claims court complaints
- Recommend bad debt write-offs

**Payables Clerk:** This position is accountable for verifying proper payment approval, processing payments in a timely manner, and ensuring that discounts are taken. Principal accountabilities are:

- Match supplier invoices to authorizing purchase orders and proofs of receipt
- Take all economical supplier discounts
- Obtain payment approvals for non-cost of goods sold invoices
- Process expense reports
- Process procurement card payments
- Issue stop payments and void checks
- Issue reminders to suppliers regarding uncashed checks
- Pay supplier invoices when due
- Research supplier requests for payment
- Process value-added tax reclamations

- Monitor supplier W-9 form submissions
- Issue positive pay data to the bank
- Update the supplier master file

**Payroll Clerk:** This position is accountable for collecting timekeeping information, incorporating a variety of deductions into a periodic payroll, and issuing pay and pay-related information to employees. Principal accountabilities are:

- Collect and summarize timekeeping information
- Obtain supervisory approval of time card discrepancies
- Obtain overtime approvals
- Calculate commissions
- Process garnishment requests
- Process employee advances and paybacks
- Process and close periodic payrolls
- Print and issue paychecks
- Process direct deposit payments
- Process paycard payments
- Calculate and deposit payroll taxes
- Process employment verifications
- Process and issue annual W-2 forms to employees

In a smaller company, the controller may also inherit all the finance and office management functions, which means that some of the staff will be responsible for analyzing and monitoring customer credit, investing funds, supervising risk management, monitoring the phone system, and arranging for the repair of office equipment. Conversely, a larger company will not only separate these added functions, but may also move the financial analysis function under the control of the chief financial officer. Thus, the exact layout of the accounting department will depend to a large extent on the size of the company and the presence of other managers.

There can be several levels of controller within a company. The corporate controller is located at the corporate headquarters, while each division may have its own controller. There will likely be plant controllers at each location, as well. In most organizations, the controller reports directly to the most senior on-site executive. For example, the plant controller reports to the plant manager, the division controller reports to the division manager, and the corporate controller reports to the chief financial officer or president. All three levels of controllership noted here have many of the same functional responsibilities that the corporate controller has on a company-wide basis.

The corporate controller must decide if accounting operations through all company locations are to be centralized, decentralized, or occupy a position somewhere in between. Many controllers favor centralization because they can more tightly manage the function and have fewer worries about accounting control issues arising at some far-off company location. However, not all aspects of the accounting function are so amenable to centralization. Some of the reasons why decentralization should at least be considered as an option are:

- The local organization and retention of accounting information avoids some excuses for inactivity or poor performance because “the report was late” or “the report was wrong.”
- The information sent to a central location often is duplicated at the local site; that duplication can be avoided by processing it locally.
- The widespread distribution of accounting responsibility in the field allows a company to more quickly train promising accounting managers and evaluate them for promotion.
- The presence of a local accountant can assist in the rapid investigation and resolution of problems that

would be impossible from a central location.

Offsetting these arguments in favor of decentralization are a number of factors in favor of centralization. The primary reasoning behind the bulk of the pro-centralization approach is that the efficient use of employees to complete a high volume of transactions will keep accounting costs down to a bare minimum. The reasons are:

- The accounting staff can be shifted between tasks to meet peak workloads.
- The use of centralized transaction processing may have a sufficient amount of volume to justify the use of expensive computer hardware and software that will considerably improve efficiency, though it would be cost-prohibitive for a smaller division to use.
- The use of a centralized staff may allow for the added expense of a tailored training program for accountants that will increase their efficiency, but which would be too expensive to create for the smaller numbers of accountants at a single division location.
- The use of a centralized operation may allow for the hiring of more experienced (and expensive) accounting personnel who can do a better job of managing the department.

Thus, the controller has arguments for using either approach to organizing the department. If a company has a highly diversified group of divisions, then their transactions, chart of accounts, and processes may differ so wildly from each other that it makes no sense to centralize the accounting department. However, a company with cookie-cutter divisions that are essentially identical in their operating characteristics may be ideal for accounting centralization. In many cases, though, the correct method is to opt for a slightly more expensive middle ground, using a centralized transaction processing organization, but also

paying for a small local staff that can process exception transactions, investigate variance problems on behalf of the central organization, and also be a training ground for junior accounting managers from the central accounting office.

## **Ethics**

The controller is in the uniquely difficult position of having a significant impact on the level of ethics practiced throughout a company. If the controller tends to wink at monetary indiscretions or alter the timing or amount of accruals or other transactions in order to influence reported financial results, then this attitude gradually will percolate down through the organization, until management suddenly finds that the entire company is rife with ethical problems of all kinds. The alternative approach is for the controller to adopt a methodical and rigorous approach to ethical problems, as is outlined in this section.

The first step by the controller is to convince the management team, and the president in particular, that the company must adopt a written ethical standard and force the rest of the organization to adhere to it through regular audits. Once the code of ethics and all related standards of conduct are complete, the management team as a whole must present them to employees and continue to reiterate, both by example and communication, that these principles are a significant foundation underlying all company operations.

Using these preliminary guidelines, the controller can then expand the concept and promulgate a series of additional guidelines in specific areas related to accounting. Some of them are:

- Attaining annual business plan objectives
- Compliance with Securities and Exchange Commission (SEC) and other securities laws and

regulations

- Employee discrimination
- Gifts and payments of money for no return consideration
- Leave for military or other federal service
- Meals and entertainment expense reporting
- Period-end accounting adjustments
- Political contributions
- Preservation of assets
- Restrictive trade practices
- Use of the company car
- Workplace safety

Only by adhering closely to these ethical guidelines, and by clearly communicating to the accounting staff that they are the corporate law, will the controller alter the mind-set of the company as a whole (and the accounting department in particular) in the direction of using the highest possible ethical standards.