



## What a CFO can bring to your Business

### Part 1 – Core Functions

A key player in any business is the Chief Financial Officer, the CFO, whose skill set is likely not one of the typical entrepreneur. So, what exactly does the typical CFO do and how can he or she help grow a business? Let's look at the CFO's functions in a typical finance department and see why each is important.

#### **Finance: The Language of Business**

Finance is “the language of business” and almost every activity in your business should be reflected in a set of financial statements that tell the quantitative story of how the business is doing. The typical CFO often begins his/her career as a CPA and is skilled in several key accounting areas essential to any business.

- **Accurate and timely transaction processing** – Transactions need to be properly recorded. This means that contracts, leases, invoices and other source documents should be interpreted in order for them to be properly characterized consistent with generally accepted accounting principles. This is the foundation on which a financial reporting system is based and the CFO can ensure this happens.
- **Efficient accounting department operations** – The various processes within an accounting function - accounts payable, billing, accounts receivable, fixed assets and payroll, among others – need to be managed and controlled. A CFO can bring discipline, coordination and oversight to accounting operations.
- **Effective internal controls** – The flow of financial information within your company should be evaluated and systematized for maximum efficiency, taking into consideration the proper segregation of duties, authorization, work process review and other controls necessary to deter fraud and mitigate weaknesses. A CFO is trained to evaluate information flow and establish proper systems of internal control.
- **Meaningful financial statements** – You always need to know how your company is performing. A full set of financial statements, including a balance sheet, income statement, statement of changes

in equity and cash flow (and required explanatory notes) is the starting point. A CFO can develop a set of appropriate financial statements appropriate for your business.

- **Revenue Recognition** – Revenue recognition under US GAAP (Generally Accepted Accounting Principles) is technically complex, with many industry specific nuances. It is critically important for companies to get this right, but many do not, especially when there is no in-house GAAP expert. Proper revenue recognition is critical in order to assess how a business is doing, as well as for attracting debt and equity financing. An experienced CFO can make a meaningful difference here.



### Finding Meaning in the Numbers

Financial Planning and Analysis (FP&A). Every company needs a comprehensive set of reports that help management evaluate its performance. A competent CFO can add significant value in moving the company in the direction of greatest profitability by providing these vital reports.

- **Effective budgets** – The budget process is one of those customary and sometimes difficult annual exercises that require a substantial amount of discipline. In effect, a budget is the result of a complex negotiation between competing priorities. Every company struggles with the process but every responsible company meets the challenge; a company without a budget is a company without a metric to mark progress or show the need to make corrections. A CFO has the equitable skills to develop a relevant budget model and drive the process through to completion.
- **Useful forecasts** – A business rarely unfolds as planned and forecasts are used to update expectations based on new information. While common in large public enterprises, forecasts may or may not be appropriate for a small business. An experienced CFO can help determine whether this exercise is of value and if it is, make sure it happens.
- **Meaningful management reports** – While *financial* statements are intended primarily for external parties, *management* reports are designed to present information that management considers most important to run the business. This is an area of great potential creativity and the skilled CFO will design reports of specific relevance to the company that draw on both financial and non-financial information. Properly designed management reports provide insight into the key drivers of the business (usually known as key performance indicators or KPI's) and provide the basis for actionable recommendations. Identifying, reporting and managing KPI's is one of the most important functions of the CFO. Knowing which products or services generate most profits is a necessity to managing any business.
- **Cap table preparation** – Cap tables provide detailed information about a company's capital structure and ownership. Accounting for capital can quickly become complicated, given the various forms of debt and equity, which could include convertible debt, preferred stock, common stock,

stock options, warrants and restricted stock. Understandably, investors closely scrutinize these statements. Moreover, for a privately held company with no active market for its common stock, an independent stock option valuation is usually required for tax purposes and an experienced CFO is often best equipped to manage that task.

### **Managing the Cash Flow Current**

Effective cash management is critical for all businesses, but especially so for small and growing businesses where cash flow is uncertain. The CFO's role here is to ensure that the company has the right amount of cash it needs at all times.

- **Effective cash management** – The cash flow forecast is an educated projection of the sources and uses of cash in a meaningful near-term horizon, typically two weeks to a month. Longer projections may be modeled, but are subject to greater error. The cash flow forecast is an essential tool for every company and the CFO is skilled in developing such a model and increasing its accuracy over time.
- **Strategic banking relations** – Most companies need to develop a relationship with one or more banks for cash management and liquidity purposes and for longer term financing when required. CFOs are experienced in developing such relationships and know how to maximize the value and minimize the cost of a bank's services.

### **Tax Management**

Paying taxes is an unavoidable cost of doing business; structuring transactions and business operations in such a way that an organization pays the least amount of tax while complying with the law is the focus of effective tax management. Many companies outsource this function because it is a highly specialized area and a function of the law. Some experienced CFO's may have sufficient expertise in this area; all can help outsource this function, where appropriate, and manage the relationship.

### **Summing Up**

Your CFO is a key member of top management. He or she is responsible for developing and managing the infrastructure necessary to objectively evaluate company financial performance and provide insight into maximizing growth and profitability. In Part 2 of this series we examine some of the value-add activities of a CFO.