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The Company Controller

BY F. A. MANSFIELD

In so far as private organizations are concerned, the office of controller is comparatively new, so that the derivation of the word and its manner of application to modern business may be of interest. Prior to the 15th century, the usual spelling of the word was "countrollour", meaning a counter-roller or one who kept the roll of incoming or outgoing monies and goods. In the 15th century the term was adopted in the various offices of the English royal household, such as countroller of accounts in the lord chamberlain's office. This officer was usually a titled gentleman so that the official scribes mistook the first syllable to be a designation of rank and so used the mistaken etymological spelling, comptroller or comptroller. This title gradually spread to government, state and finally in the 20th century to commercial organizations to signify an officer who keeps financial accounts or sees that they are properly kept and audited.

With the expansion of modern business and its resultant complicated financial and operating methods, the office of controller has now a much wider scope and is one that is rapidly being appreciated as of the highest importance. That this is so is witnessed by the fact that many former controllers have been elevated to company presidencies; for instance, C. G. Dubois, president of the Western Electric Co. and W. S. Gifford, president of the American Telephone & Telegraph Co.

The controller is an executive officer whose duty is to interpret the results of the business operations to the administrative staff and to formulate fresh policies, although in many organizations the mistaken conception of the office confines the controller's activity to that of head bookkeeper, thus limiting his usefulness.

The man chosen for the office should be one who is capable of directing men and training them, so he must have a thorough accounting knowledge and a general business experience besides having executive ability. He is usually appointed by the board of directors and is directly responsible to it through the president. If his work is to be effective, he must have equal rank with the executives in charge of the other phases of the business, such as the sales manager. The heads of the accounting and statistical de-

partments should be under the controller's direct control and supervision, as he centralizes, coördinates and develops the work of these departments. By his experience and qualifications he can make the most extensive use and intelligent interpretation of the accounts.

Apart from these two departments the controller acts in an advisory capacity only and his recommendations are carried out if adopted by the executives in charge of the department concerned. For example, he may recommend the procedure for accounting at branches, but the execution of that system will be left to the branch manager. The controller coöperates with the sales manager with regard to the compilation of statistical data on sales, with regard to the control of the sales department expense budget, and with regard to the preparation of data for the production budget. He coöperates with the factory superintendent, or in cases where there is no factory with the purchasing agent, with regard to the supervision of merchandise purchases in order that they may be kept as low as is possible and consistent with production requirements.

The purpose of the controller is to interpret to the president the financial results of the operations of the company, and as such his function must not be confused with that of the auditor under the British companies acts whose duty is specified by law, or with that of the American public accountant whose duties are varied according to the instructions given to him by the company. The controller is in sole charge of the accounting department and is directly responsible for the accuracy of the accounts, financial statements and all other statistical information relative to the financial operations, and he should formulate such accounting methods as are best adapted to the particular operations of the company.

He should be a participant in all executive conferences in order that any questions with regard to the financial statements may be readily answered, and advice given with regard to the coördination of production with sales, and the probable costs, expenses and profits of future operations. From the executive conferences the controller must obtain authority for all book entries affecting capital, such as the disposal of company assets and the creation of reserve accounts for contingencies. He must interpret the accounts and prepare statistical information for the various department heads when requested to do so or when he is of the

opinion that such information will be useful to them. He should maintain a record of all reports that are prepared and of the department heads and others who receive them. After having approved them, he should distribute them in order that duplication of work may be prevented, the establishment and enforcement of operation procedures expedited, and a central control afforded.

The increasing use of the budget system for controlling future operations considerably adds to the duties of the controller, for it is his duty to obtain from the various department heads their selling quotas and estimates of expenses, and to combine them into budgets showing estimated profits for the coming financial year, cash budgets showing capital requirements, and the various departmental controlling budgets.

While not responsible for the general filing system, it is the controller's duty to maintain files of all reports and correspondence with regard to the accounts and reports, such as journal vouchers, leases, contracts and insurance policies. He is responsible for all state and federal tax returns but must obtain legal advice whenever necessary.

He is often responsible for duties that in the past devolved upon the treasurer, such as the submission to counsel of all contracts, as well as drafting such clauses that affect the financial operations. In many cases the controller combines the office of assistant treasurer with his own, and as such is responsible for all the operations of the cashier's department, although this combination of offices is gradually being eliminated as the responsibilities of the cashier's department unwisely limit his sphere of usefulness as controller.

From the discussion of the position that a controller holds his duties may be evolved. He supervises the accounting department, designs an accounting system best suited to the needs of the organization and decides upon the preparation of such entries and methods that are not in accordance with general routine, such as the interpretation of executive committee and directors' minutes in so far as they affect the books of account.

He is directly responsible for the accuracy of all financial statements prepared by the accounting department and should personally study them before they are distributed. By financial statements is meant those statements in any business which are now prepared in accordance with established practice and uni-

versally understood forms. The major statements are the balance-sheet, which shows what is owned, and the income account, which shows how it has been obtained.

In addition to these statements there are a number of others, both financial and statistical, that give information relative to the financial affairs of particular divisions of the business, and which should be prepared monthly, such as:

- (1) Condensed balance-sheets showing comparison of beginning of month and beginning of year.
- (2) Supporting schedules for income statement for month and year to date showing comparison with budget and preceding year.
- (3) Monthly statement of production with current costs and details of factory expenditures compared with budget.
- (4) Daily report of cash position.
- (5) Monthly estimates of future cash requirements.
- (6) Monthly report of cash receipts and expenditures compared with budget.
- (7) Statistical reports in general.
- (8) Statutory financial returns.

In preparing any of these statements, the controller must remember that many organizations tend to conceal important changes in financial conditions, but that such action only defers the day of reckoning. Such contingencies often arise because the executives do not realize the condition until too late to remedy it, so as many explanations as possible should be made on the face of balance-sheets and other statements.

One of the most valuable modern adaptations to business of an old method of controlling national funds is the budget. All businesses do not use a budget, but those that have adopted the system are the most profitable and progressive as a general rule. It is the duty of the controller to compose the budget from estimates or forecasts obtained from each department of the business. He must not merely prepare the budget from the estimates received but must intelligently examine the forecasts to ascertain that activities interdependent upon one another are correctly estimated; for example, the manufacturing programme must be based upon expected sales, the investment in inventories must be in keeping with the turnover, etc.

The purpose of this article does not include any complete discussion on budgeting, but the main considerations are that the

controller should see that departmental forecasts are obtained well before the commencement of the budget period; he must furnish to department heads full analyses of past expenditures, and then summarize all the forecasts into profit-and-loss budget, cash budget and departmental budgets, and discuss them with the budget committee for approval and submission to the president.

Not only the preparation but the actual carrying out of the budget is under the functional direction of the controller, who exercises supervision over the execution of the budget programme.

The office organization under the controller may be summarized as follows:

- (1) Head office accounting:
 - General ledger.
 - Subsidiary ledgers.
 - Statistical reports.
 - Monthly financial statements.
 - State and federal taxes and other statutory returns.
- (2) Cashier's department.
- (3) Budget compilation and control.
- (4) Cost department:
 - Bookkeeping.
 - Control entries.
 - Cost control.
- (5) Branch records:
 - Branch expense internal auditing.
 - Branch current ledgers.
 - Control entries.

The discussion of the duties of the controller and his place in the company organization could be dealt with at considerable length, but this outline, I believe, summarizes the nucleus of any study that may be made of the rights and duties of this comparatively new business executive.