



## **The Effective Controller in the 21<sup>st</sup> Century**

Accounting Strategies for Business Management  
*Thailand Business Cases*

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### **DESCRIPTION OF THE BOOK**

How controllers can perform their jobs in the most effective and supportive manners? Businessmen have been using information generated by accounting department for important decision making. The management team members expect accounting people to collaborate with concerned parties to drive the business to achieve goals. Accounting subordinates would like to improve their working styles and environment by enhancing understanding among employees from accounting perspective. Controllers are expected to keep up with the rapid change and business innovation in order to improve the companies' competitiveness.

The author of this book not only explains the standard business processes that every employee in both profit and not-for-profit organizations should know, but he also provides practical advices for controllers and business people who need to work together in a simple and easy-to-understand language without difficult accounting terminology.

He also offers accounting strategies under the ControllerFOCUS acronym for long-term business success. This includes the creation of standard controllership practices and a key measurement index for the company's competitiveness improvement.

With management tools and concepts, *The Effective Controller in the 21<sup>st</sup> Century* is the authoritative book from the accounting expert.

## **AUTHOR**

**Yanyong Thammatucharee** has been working in accounting and financial profession with a wide range of businesses such as accounting firm, textile, semi-conductor, mass transit system, electrical equipment manufacturing and retailing companies. These include major companies with business in Thailand such as Coopers & Lybrand (C&L), Caltex Oil, Panasonic Home Appliance, and Emerson Electric. The roles undertaken cover accounting, auditing, consulting, and controllership. He is now the senior vice president of accounting and finance department of a Thai large marketing group of companies. His personal interest includes writing of accounting and management subjects – 9 books in Thai and 1 in English. Mr. Yanyong is a graduate of Thammasat University in Bangkok, Thailand in accountancy. Readers may contact the author and learn more about his ideas at [www.controllerfocus.com](http://www.controllerfocus.com).

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**INTRODUCTION**

In this day and age, an effective internal control system is a very critical key to survival of any company. Companies must ensure that their success is safeguarded by the establishment of reliable control systems to be followed by all employees. The management may define success using different achievement indicators – profitability, market share, cost position, return on investment, etc. But any of these success measurements can be vulnerable to risk. The success of a company depends on hiring capable people who efficiently fulfill different job functions such as production, sales and marketing, purchasing, accounting and so on. Thus, it is important to take great care in selecting the best people for the company—people who will work closely together in exerting effort and dedication to achieve the desired results.

The Asian financial crisis in 1997, which started first in Thailand, raised a question about the transparency of information to businesspeople and stakeholders. Accounting roles have been widely discussed and many have called for changes. As a result, the accounting standards were reviewed, improved, and officially announced. Now reliable and accurate accounting information is expected by a variety of parties such as bank creditors, private companies and government agencies. Consequently, accountants in many organizations have had to adapt to better meet the requirements from all stakeholders.

At the turn of the 21<sup>st</sup> century, we have seen the shocking collapse of several global companies. The causes are mainly related to accounting fraud resulting from intentionally manipulative acts such as wrong bookings, misstatements or misleading disclosures. Such cases seem to indicate an inevitable need for radical change in the roles of accountants, especially in safeguarding the company's future through corporate governance endeavors. Accountants are being challenged to regain the trust of the public and the business community. It's time for accountants to walk out of the back offices and proactively work with their colleagues on the front line.

Today, all business transactions – purchasing, selling, collection, payment, and so on – are required by law to be recorded in a company's accounting books. So, responsible accountants need to verify, review and process these transactions by applying their knowledge. They must decide on the right accounting entries to be used in order to reflect the company's true financial picture. In order to cope with the current dynamic levels of competition, the scope of work of the accounting department needs to be extended. Accountants must play an additional role in driving the business toward success. Month-end account closings, balance sheets and profit and loss statements will become merely basic requirements for the accounting department.

In general, the organizational structure of a company shows the relationships of several functions and their reporting lines. Each unit in the organization may be called a section, department or division. Whatever it's called, it surely consists of responsible people comprising the supervisors and subordinates under each function. An accounting department also consists of accountants who are responsible for specific duties under the supervision of the functional head. That leader may have any of the various titles listed below:

- Chief Accountant
- Accounting Supervisor
- Accounting Manager
- Chief Accounting Officer

- Financial Controller
- Controller

Which title is selected depends on factors such as the size of the organization, the scope of work and responsibilities, or the nature of the business. For efficiency purposes, the accounting unit's headcount should be kept to a minimum. Notwithstanding this, the design of an accounting organization must be based on appropriately balanced workloads and effective internal controls designed with proper checks and balances. If a single person is handling all critical business transactions without proper cross-checks by someone else, this can pose very serious control risks.

The head of an accounting organization has to take on the roles of both a financial leader and a business driver of the organization. As one of the key management team members, it is crucial that the controller be able to effectively play these roles. Some questions that could be raised among business leaders and accounting professionals about a controller's functions include:

- What is the scope of work of a controller?
- How can a controller help the company be successful?
- How can a controller's performance be improved?
- How does one become a successful controller?

Answers to the above questions can be found in this book. This book was written in order to provide readers with a better understanding about various accounting matters under the scope and responsibilities of a controller, offer ideas regarding total accounting department performance improvement through the direction of the controller, and introduce new concepts to help a controller be successful in his/her career.

The content in this book is primarily based on my accounting experiences gained from over 20 years of professional services to a number of business entities, including manufacturing, trading and service companies. I have been in a variety of accounting roles and positions, such as an auditor, a consultant, an accountant, an accounting manager, general manager of finance and a plant controller. If you would like to know what an effective controller can really do — and should do — to serve business in the 21<sup>st</sup> century, read this book.

## **Looking Forward to Future Prospects**

Basically, financial statements produced by an accounting department can tell only the historical status and performance of a company. By the very nature of accounting, accountants have spent most of their time processing past business transactions and closing the accounts at month's end. But today's business world moves very fast and new business models are being created all the time. Thus controllers need to allocate more time and resources on discovering future prospects and risks associated with their businesses.

The business planning process has been performed by most companies on an annual basis. This activity allows managers to think about the future of their operations and businesses. In addition, it involves making plans on how to improve performance and achieve targets. Data supplied by each business unit or cost center have to be consolidated to form a comprehensive business plan. Once employees can see the future of the company, they can react correctly to ensure goal attainment.

The company's assets have to be properly safeguarded, and controllers are responsible for protecting these valuable assets. They must take necessary actions to reduce potential loss in response to the levels of risk exposure assessment. The actions taken today can impact the future success or failure of a company. Controllers have to review the current business situation, and try to improve the company's competitiveness through improved awareness of future risks and opportunities. As a result, future-oriented actions have to be taken before any other competitors take them. More discussion can be found in Chapter 2.

## **Understanding the Business Operation**

The core of accounting work is dealing with financial numbers. Business transactions are to be converted into monetary terms under the main account groups consisting of asset, liability, equity, revenue and expense. Accountants have put a lot of effort into making sure the financial information is presented correctly and in adherence to accounting principles. As a result, financial rules and regulations are issued by the company to set standard practices for all employees. However, out-of-date accounting procedures can pose obstacles to doing business competitively because it can create non-value-added work for the business operations.

Controllers need to understand the operational processes so that proper data analyses and improvements can be made for operational efficiency. The company's transactions such as sales, purchasing, production, payroll, collection, payments, etc., have to be accurately reflected in the accounting books in a timely manner. Some of the roles an accountant may play in these business transactions may include the following:

- Issuing sales invoices to the sales and marketing department for finished product delivery.
- Setting up a new product's competitive price based on the correct cost information.
- Checking invoices from suppliers for payment preparation.
- Approving purchase requisition forms for supplies and service required by each department.
- Explaining related tax issues to concerned employees for better understanding and decision making when dealing with suppliers or customers.
- Counting the physical inventory to ensure correct inventory records.
- Tracking significant cost and variances for explanation and follow-up on the action plans.
- Reporting the company's financial results, which include profit and loss, scrap, damage, etc.

Communication is one of the most important elements in business management. Controllers have to be able to explain the accounting information in a way that non-accountants can understand. Management reports generated by the accounting department must be meaningful to the operations people, and should help them identify what needs to be done.

The controller's scope of work must be in harmony with expectations from colleagues in other functional units. This must be based on a mutual understanding

regarding the problems encountered and job functions of representatives from each business unit. Detailed discussion is included in Chapter 3.

## **Ensuring the Control Effectiveness**

At any time, the stakeholders of a company want to know that the company is being managed under good corporate governance. Effective controls are needed to help ensure that the company's assets are properly protected, and to give confidence that frauds and wrong practices are prevented or eliminated.

Companies must establish clearly written rules and regulations for governing employees. Everyone should understand the company's norms and acceptable practices. However, from time to time many companies have struggled with weak internal control systems that caused damages due to intentional or non-intentional behaviors of employees. For example, an engineering vice president visited Thailand plant for business review. During his stay in Thailand, he had incurred unusually high entertainment expenses, and asked the plant manager, his direct report, to sign for approval on the expense report for reimbursement. Or a managing director decided to replace his unexpired leased car provided by the company to a more expensive van citing that it could be used by other local managers. It is another important duty of controllers to make sure that proper controls have been set up and are being enforced effectively.

To achieve confidence in the company's internal control system, auditing processes are necessary to confirm that all key control points are in place. The business cycles can be categorized so that appropriate testing methods can be designed for the auditors. Internal control questionnaires (ICQ) can be used to serve this purpose. The questions are used as guidelines to help internal auditors. Any discrepancy found should be assessed for severity level before corrective actions and reports are made accordingly.

Controllers need to monitor the overall system and react quickly to any weakness found. They should take proper actions to fix problems and install better controls. In certain cases, controllers may find it difficult to take necessary actions. For example, a controller might need to deal with sensitive issues related to his/her direct boss – for example, reimbursement of personal expenses included in the supermarket bills, and taking the longer overseas trip to get more mileage bonus. The company, with support from the top management, should set up a system that allows the right things to be done without any interference or undue influence from persons with higher authority.

Internal controls can have a negative impact on the company's existence if not established and implemented successfully. The proper checks and balances between employees in different job functions are crucial to the company's future. All employees have to understand the importance of internal controls and diligently follow established good practices that are part of the company's culture. This issue is discussed in more detail in Chapter 4.

## **Utilizing Corporate Resources**

Successful companies are efficient and productive in running their businesses. They utilize scarce resources wisely and know where to focus their energy. Corporate resources are allocated based on approved plans and proper justification by the management. Given an officially approved budget for their departments, responsible

managers make only necessary requests for resources in order to execute their plans successfully.

Controllers have the responsibility to make sure that the company's time, people and assets have been utilized for maximum benefits. They have to review the justification for any spending request before approving it. Relevant management reports are prepared to reflect the efficiency levels of resource utilization. This is shown in the following report examples and key performance indicators:

- Headcount Status by Category and by Month
- Return on Assets
- Inventory Turnover
- Production Cost per Unit of Production
- Product Cycle Time
- Scrap and Loss Cost Percentage to Sales Amount

Companies need to establish a strong culture that emphasizes utilizing resources for maximum total operational efficiency. Employees must figure out how to share the limited resources and reduce costs. The management must support activities that promote this culture. More details are discussed in Chapter 5.

## **System Continuous Improvement**

The competitiveness of a company depends on the efficiency level of its internal systems, which include operations and management. There are several elements in a business management system. An accounting department needs a good system for data processing and reporting, document and work flow, organization structure and job description, etc. A newly established company needs a reliable system from the very beginning. Smart managers understand the necessity and importance of a robust system that enhances the efficiency of operation. In most cases, this requires significant investment in terms of money and people. Sufficient training should be provided to employees to ensure that they operate within the system correctly.

Most companies use computer software programs to help with accounting work. This software can facilitate enterprise resource planning that integrates almost all functions such as purchasing, ordering, inventory control, material requirement planning, production reports, sales, treasury, fixed assets, payroll, and general ledger. Automated systems can improve efficiency and reduce costs by shortening operating time, reducing headcount numbers, and preventing errors. However, some accounting systems may be difficult to maintain. The features and functions may not be user-friendly enough, causing time-consuming confusion, especially at the implementation phase.

For accounting records and closing purposes, accounting entries consist of account code, cost center code, accounts payable code, accounts receivable code and amount. These are inputted into the accounting system. Accountants prefer simple systems that can be operated easily. So the design of the menu and access to the system should take into account these specific requirements and the nature of the accounting operation.

In respect to system improvement, a controller's role is not limited to accounting information. It needs to include the entire company's information system, which integrates relevant sub-systems used to link data to the accounting database.

The system interface between the main system and sub-systems has to be reliable. This is discussed in more detail in Chapter 6.

The 5 strategies listed above are all aimed at upgrading the controller's performance by better coping with the challenges of today's business environment. The ultimate goal is not only the accounting department's success but that of the whole company. By adopting the ControllerFOCUS concept discussed in Chapter 7, controllers can optimize performance in key areas. Before an accountant can take on the highest position of his or her career, he or she may have to go through several positions and different roles. They are described in Chapter 1.

Chapter 8 describes the typical work done by a controller during a 7-month period. The insights, comments, and notes in the form of "a controller's business diary" are meant to reflect a real-life situation. The content is based on a controller's actual experience at a manufacturing company with a very unusual situation: all the accountants had left the company after the merger of two subsidiary companies. The controller took the job because of its challenge and the full support from top management.

Today, accountants face new challenges regarding how to effectively perform for companies doing business in a highly competitive environment. It calls for swift actions and adaptation to survive. It's time to come up with a new working approach that will allow accountants to respond to business environment changes swiftly. As the head of the accounting team, the controller has to be equipped with management tools to upgrade performances. This book will explain some of those tools.