Do You Know the Difference Between a CPA and a CFO?

Many of our clients get confused about the difference between a CPA and a CFO. The two roles are very different, but they are not mutually exclusive. You don't need to be a Certified Public Accountant (CPA) to be an effective Chief Financial Officer (CFO), nor do all CPAs need to aspire to managing corporate finances.

Why Use a CPA instead of a CFO?

For moderately sized companies in the $2 million to $20 million range, senior management often turn to their CPA for advice about business finances because they don't have a CFO or financial advisor on staff. What they will get from a CPA is a financial opinion informed by the CPA's perspective on taxes and tax law, not necessarily the financial opinion that may be best for a given situation. In many cases, it's best to retain an interim CFO to provide assistance with financial strategies than rely on your CPA for strategic financial advice.

What is a CFO?

A CFO is a member of the C-suite or executive team of a company and is responsible for managing all financial aspects of the business. A good CFO should have a background in corporate finance and understand how to assess financial risk, manage budgets, and develop standards for fiscal performance for the company. He or she also has responsibility for assessing and designing financial systems and ways to chart accounts. Where the CEO provides the leadership for the company, the CFO's role is to advise the CEO and other executives how to align their financial strategy to meet corporate goals. For example, the company strategy may be oriented toward growth, and it may be up to the CFO to assess how the company will invest in its infrastructure to promote long-term growth rather than short-term profits.

How else does a CPA differ from a CFO?

The CPA is in the business of preparing tax returns; that's their business. The CPA should collaborate with the CFO, providing tax insight and advice that will guide financial decisions relative to the goals and objectives of the company. The CPA will provide insight with a strategic viewpoint related to taxes, and not necessarily strategic insight related to the long-term goals of the business. In our consulting practice, we frequently see business owners going to their CPA for strategy business advice about the health and value of their business, when they should be going to someone in the role of CFO instead.

There are some key differences in the role of a CPA versus a CFO in a corporate setting.

1. The CPA tends to look towards the best immediate tax strategy for a company whereas a CFO needs to look much farther forward. A CFO is concerned with the development of an asset and increasing the wealth of the company. The CPA's job is to assess the numbers after the fact, either for tax preparation or for auditing. They advise about the future but typically based on the numbers from the past, and always relative to a tax strategy. The CFO on the other hand needs to look at what are the best ways to meet the strategic goals of the company in the future. His or her job is to plan for growth, or acquisitions and use the performance figures to determine where the company needs to invest or modify its strategy to meet corporate goals.

2. While their educational background and training may be similar, the CPA is primarily focused on the books and taxes, and the CFO is primarily interested in the objectives of the business. The CPA is responsible for making sure that the company maximizes its returns from taxes and the accounts, while the CFO is often involved or needs to understand the day-to-day operations, including marketing, manufacturing, finance, etc.

3. You can hire a CPA or a CFO on a part-time or consulting basis to keep your operation running smoothly, but don't confuse the two, since their job functions are very different. Having a CPA available when you need one can keep you out of trouble with the tax authorities, and a part-time or interim CFO can help put your company on track from a fiscal standpoint and can offer insight into how to help your business grow.

Although the two functions are radically different, they certainly complement one another. There is a common argument that CPAs are "bean counters" and don't play a strategic role, and others will argue that you don't need to have CPA credentials to be a good CFO. A lot of really smart CFOs started out as CPAs and benefit greatly from their accounting background, and combining the two functions certainly helps. According to statistics from Spenser Stuart, the number of **CPA CFOs** has risen from 29 percent to 45 percent since 2003.

Whether you want a unified CFO CPA hybrid or not depends largely on the needs of your operation. But whatever you do, don’t confuse the skills and expertise of a CFO and a CPA because you may end up putting your financial strategy in peril.