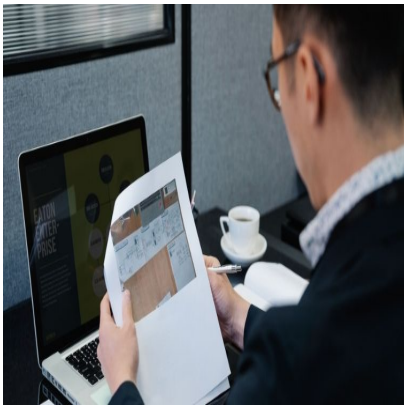


When should a Small Business hire a Fractional CFO?

Description

How to recognize the need for financial leadership, choose the right level of support, and agree on work that improves business decisions.

Your accountant has finished the monthly reports. Sales are up, the business is profitable, and a new customer wants to place a substantial order. You are considering two more employees.

Can you afford them?

That question requires more than last monthâ??s profit figure. You need to know when customers will pay, what the additional work will cost, and how much cash will remain after payroll, supplier payments, and other commitments.

Consider hiring a fractional CFO when decisions about growth, cash, pricing, or financing regularly exceed the financial insight and capacity available in your existing teamâ??but do not yet justify a full-time finance executive.

My view is that the decision should start with the work, not a revenue threshold. Write down the financial decisions you cannot confidently make. That list is a better hiring brief than â??we need someone strategic.â?•

What does a fractional CFO actually do?

A fractional chief financial officer provides senior financial leadership on a part-time or outsourced basis. Depending on the engagement, the work can include forecasting, cash management, financial analysis, financing discussions, and support for the ownerâ??s operating decisions. BDO describes outsourced CFO support as a flexible arrangement that can address either ongoing requirements or a temporary gap. [1]

For an owner, the assignment becomes clearer through specific questions: Can we fund the next stage of growth? Which activities deserve more investment? What must change if sales miss the plan?

The role needs an agreed scope. Someone hired to review a monthly forecast is not automatically responsible for bookkeeping, tax filings, daily payment approvals, or negotiating with your bank.

First, identify the gap in your finance team

Before adding a CFO, establish whether the problem is accurate records, dependable reporting, analysis, or leadership.

What needs to improve?	Support to consider first
Transactions are missing, bank accounts are unreconciled, or invoices are not recorded correctly.	Bookkeeping support and supervision.
Accounts, tax work, or accounting judgments require attention.	An accountant with the appropriate expertise.
The monthly close, reporting process, or financial controls need ownership.	A controller or finance manager.
Forecasts, financing choices, resource allocation, and financial priorities need recurring senior input.	A fractional or full-time CFO, depending on the workload.

These responsibilities overlap. The U.S. Bureau of Labor Statistics describes accountants as performing analysis and advisory work as well as preparing records; financial managers and controllers also oversee reporting and planning. It would be misleading to suggest that accountants only explain the past while CFOs alone consider the future. [2][3][4]

Buy the missing capability, not the most impressive title. Your current accountant may already provide it. A capable analyst may be enough for a defined modeling project. Equally, an owner may need someone to take responsibility for the financial review process, rather than produce another spreadsheet.

Five situations that justify a closer look

1. Profit looks reasonable, but cash decisions remain uncomfortable

A profitable income statement and sufficient cash are different things. Cash-flow reporting also reflects movements in operating assets and liabilities, investment, and financingâ??not just earnings. [5]

My first question would be whether the business has a credible collection schedule. When a large receipt is forecast for next Friday, what supports that date: the invoice terms, the

customerâ??s payment history, or a recent confirmation?

Next, examine the lowest projected cash balance and the payments around it. A comfortable quarter-end balance is not much help if payroll falls before a major collection.

Recurring uncertainty here is a reason to consider ongoing financial support. A practical starting assignment is a rolling 13-week cash forecast with a weekly review; BDC recommends this approach for closer cash visibility than a monthly budget alone. [7]

The cash-control dashboard below illustrates the information a financial adviser can review: current cash, the forecast low point, and a potential reserve shortfall. Its Northstar Supply figures are a separate fictional workbook demonstration, not the service-company hiring example later in this article.



Figure 1. The cash-control dashboard makes the lowest forecast balance visible alongside the final balance. This is the original Northstar Supply teaching simulation from the supplied workbook, not client data.

2. Growth requires commitments before it produces cash

Hiring, building inventory, and opening another location involve decisions that cannot always be reversed cheaply. Working-capital requirements also matter: ACCA explains that

extending customer payment terms can support sales while delaying cash and increasing funding needs. [6]

Before approving an expansion, I would want to see the cash requirement, the date it arises, and a slower-growth scenario. â??We expect another $30,000 in monthly salesâ?• is an assumption to test, not a spending authorization.

This is particularly relevant when the sales team can commit the company to delivery terms without anyone assessing the financial consequences.

3. You cannot explain which work is worth taking

Suppose two customers generate similar revenue. One places predictable orders and pays promptly. The other needs frequent revisions, small deliveries, and extended payment terms.

Compare the costs of serving each account, the capacity each consumes, and the cash each requires. Separate costs that disappear if the work stops from shared overhead that remains.

The assignment is then concrete: build a useful customer or product profitability view and establish how it will influence pricing and sales decisions.

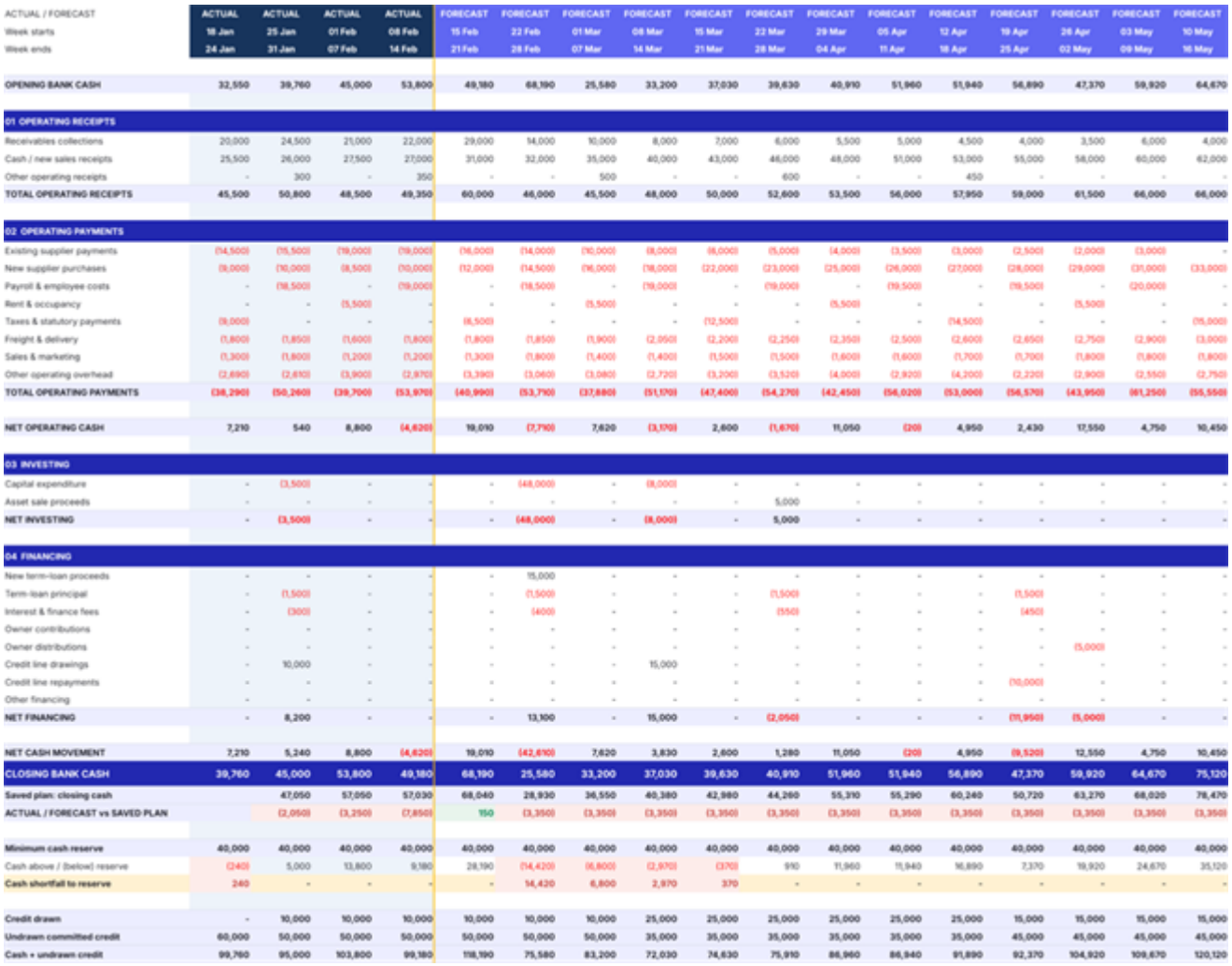
4. A major financial decision is approaching

A loan application, acquisition, new investor, or substantial equipment purchase can justify a focused CFO engagement even when ordinary monthly operations are manageable.

Define the assignment around the decision: quantify the funding requirement, test repayment capacity, identify assumptions that could change the outcome, and prepare a model that management can explain.

A permanent retainer is not automatically necessary. Specify which work ends with the transaction and which responsibilities continue afterward.

In the same workbook demonstration, the weekly schedule separates operating cash, equipment payments, and financing. This is a cash-planning view; it is not the three-statement model discussed in the hiring example.



ACTUAL / FORECAST	ACTUAL	ACTUAL	ACTUAL	ACTUAL	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST
Week starts	18 Jan	25 Jan	01 Feb	08 Feb	15 Feb	22 Feb	01 Mar	08 Mar	15 Mar	22 Mar	29 Mar	05 Apr	12 Apr	19 Apr	26 Apr	03 May	10 May
Week ends	24 Jan	31 Jan	07 Feb	14 Feb	21 Feb	28 Feb	07 Mar	14 Mar	21 Mar	28 Mar	04 Apr	11 Apr	18 Apr	25 Apr	02 May	09 May	16 May
OPENING BANK CASH	32,550	39,760	45,000	53,800	49,180	68,190	25,580	33,200	37,030	39,630	40,910	51,960	51,940	56,890	47,370	59,920	64,670
01 OPERATING RECEIPTS																	
Receivables collections	20,000	24,500	21,000	22,000	29,000	14,000	10,000	8,000	7,000	6,000	5,500	5,000	4,500	4,000	3,500	6,000	4,000
Cash / new sales receipts	25,500	26,000	27,500	27,000	31,000	32,000	35,000	40,000	43,000	46,000	48,000	51,000	53,000	55,000	58,000	60,000	62,000
Other operating receipts	-	300	-	350	-	-	500	-	-	600	-	-	450	-	-	-	-
TOTAL OPERATING RECEIPTS	45,500	50,800	48,500	49,350	60,000	46,000	45,500	48,000	50,000	52,600	53,500	56,000	57,950	59,000	61,500	66,000	66,000
02 OPERATING PAYMENTS																	
Existing supplier payments	(14,500)	(15,500)	(19,000)	(19,000)	(16,000)	(14,000)	(10,000)	(8,000)	(8,000)	(5,000)	(4,000)	(3,500)	(3,000)	(2,500)	(2,000)	(3,000)	-
New supplier purchases	(9,000)	(10,000)	(8,500)	(10,000)	(12,000)	(14,500)	(16,000)	(18,000)	(22,000)	(23,000)	(25,000)	(26,000)	(27,000)	(28,000)	(29,000)	(31,000)	(33,000)
Payroll & employee costs	-	(18,500)	-	(19,000)	-	(18,500)	-	(19,000)	-	(19,000)	-	(19,500)	-	(19,500)	-	(20,000)	-
Rent & occupancy	-	-	(5,500)	-	-	-	(5,500)	-	-	-	(5,500)	-	-	-	(5,500)	-	-
Taxes & statutory payments	(9,000)	-	-	-	(8,500)	-	-	-	(12,500)	-	-	-	(14,500)	-	-	-	(15,000)
Freight & delivery	(1,800)	(1,850)	(1,600)	(1,800)	(1,800)	(1,850)	(1,900)	(2,050)	(2,200)	(2,250)	(2,350)	(2,500)	(2,600)	(2,650)	(2,750)	(2,900)	(3,000)
Sales & marketing	(1,300)	(1,800)	(1,200)	(1,200)	(1,300)	(1,800)	(1,400)	(1,400)	(1,500)	(1,500)	(1,600)	(1,600)	(1,700)	(1,700)	(1,800)	(1,800)	(1,800)
Other operating overhead	(2,890)	(2,810)	(3,900)	(2,970)	(3,390)	(3,060)	(3,080)	(2,720)	(3,200)	(3,520)	(4,000)	(2,920)	(4,200)	(2,220)	(2,900)	(2,550)	(2,750)
TOTAL OPERATING PAYMENTS	(38,290)	(50,260)	(39,700)	(53,970)	(40,990)	(53,710)	(37,880)	(51,170)	(47,400)	(54,270)	(42,450)	(56,020)	(53,000)	(56,570)	(43,950)	(61,250)	(55,550)
NET OPERATING CASH	7,210	540	8,800	(4,620)	19,010	(7,710)	7,620	(3,170)	2,600	(1,670)	11,050	(20)	4,950	2,430	17,550	4,750	10,450
03 INVESTING																	
Capital expenditure	-	(3,500)	-	-	-	(48,000)	-	(8,000)	-	-	-	-	-	-	-	-	-
Asset sale proceeds	-	-	-	-	-	-	-	-	-	5,000	-	-	-	-	-	-	-
NET INVESTING	-	(3,500)	-	-	-	(48,000)	-	(8,000)	-	5,000	-	-	-	-	-	-	-
04 FINANCING																	
New term-loan proceeds	-	-	-	-	-	15,000	-	-	-	-	-	-	-	-	-	-	-
Term-loan principal	-	(1,500)	-	-	-	(1,500)	-	-	-	(1,500)	-	-	-	(1,500)	-	-	-
Interest & finance fees	-	(300)	-	-	-	(400)	-	-	-	(550)	-	-	-	(450)	-	-	-
Owner contributions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Owner distributions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,000)	-	-
Credit line drawings	-	10,000	-	-	-	-	-	15,000	-	-	-	-	-	-	-	-	-
Credit line repayments	-	-	-	-	-	-	-	-	-	-	-	-	-	(10,000)	-	-	-
Other financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NET FINANCING	-	8,200	-	-	-	13,100	-	15,000	-	(2,050)	-	-	-	(11,950)	(5,000)	-	-
NET CASH MOVEMENT	7,210	5,240	8,800	(4,620)	19,010	(42,610)	7,620	3,830	2,600	1,280	11,050	(20)	4,950	(9,520)	12,550	4,750	10,450
CLOSING BANK CASH	39,760	45,000	53,800	49,180	68,190	25,580	33,200	37,030	39,630	40,910	51,960	51,940	56,890	47,370	59,920	64,670	75,120
Saved plan: closing cash		47,050	57,050	57,030	68,040	28,930	36,550	40,380	42,980	44,260	55,310	55,290	60,240	50,720	63,270	68,020	78,470
ACTUAL / FORECAST vs SAVED PLAN		(2,050)	(3,250)	(7,850)	150	(3,350)	(3,350)	(3,350)	(3,350)	(3,350)	(3,350)	(3,350)	(3,350)	(3,350)	(3,350)	(3,350)	(3,350)
Minimum cash reserve	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
Cash above / (below) reserve	(240)	5,000	13,800	9,180	28,190	(14,420)	(6,800)	(2,970)	(370)	910	11,960	11,940	16,890	7,370	19,920	24,670	35,120
Cash shortfall to reserve	240	-	-	-	-	14,420	6,800	2,970	370	-	-	-	-	-	-	-	-
Credit drawn	-	10,000	10,000	10,000	10,000	10,000	10,000	25,000	25,000	25,000	25,000	25,000	25,000	15,000	15,000	15,000	15,000
Undrawn committed credit	60,000	50,000	50,000	50,000	50,000	50,000	50,000	35,000	35,000	35,000	35,000	35,000	35,000	45,000	45,000	45,000	45,000
Cash + undrawn credit	99,760	95,000	103,800	99,180	118,190	75,580	83,200	72,030	74,630	75,910	86,960	86,940	91,890	92,370	104,920	109,670	120,120

Figure 2. The original Cash Flow sheet shows when equipment payments and financing enter the bank balance. The first four dated columns are actuals; the following thirteen are forecasts. Open the image at full resolution to inspect the weekly figures.

5. Financial reviews produce reports but no follow-through

Look at the last three management meetings. Were decisions recorded? Did someone own the collection issue, pricing review, or spending change? Was the forecast updated when an assumption failed?

My test for CFO-level involvement is whether someone needs to coordinate those responsibilities across the business. Reporting alone is not the same assignment.

A worked example: Can the business afford two new employees?

Consider a fictional service company with monthly revenue of **$160,000**. Variable operating costs are 60% of revenue, leaving a 40% contribution margin. Existing fixed operating costs

are **$50,000** a month.

Two proposed hires would add **$12,000** in fully loaded monthly employment costs. Management expects revenue to reach $190,000, but has not yet secured all the additional work.

The simplified scenarios below exclude interest and tax. Fixed costs include the operating overhead assumed in this example; no actual client results are represented.

Monthly scenario	Revenue	Contribution after variable costs	Fixed operating costs	Operating result
Current business, before hiring	$160,000	$64,000	$50,000	$14,000
Hire both employees; sales unchanged	$160,000	$64,000	$62,000	$2,000
Hire both employees; growth achieved	$190,000	$76,000	$62,000	$14,000
Hire both employees; sales fall	$150,000	$60,000	$62,000	â??$2,000

After hiring, monthly break-even revenue is:

$62,000 Ã· 40% = $155,000.

This uses the standard contribution-margin break-even calculation: fixed costs divided by the contribution margin ratio. It assumes the stated cost behavior and service mix remain valid. [8]

At current sales, the business would have only $2,000 of monthly operating profit left. Growth to $190,000 would restore the previous $14,000 result, not increase it.

Now add an assumption that customers pay 45 days after invoicing while employees are paid monthly. The profit scenarios still do not tell the owner whether the first additional payroll is affordable. That requires a cash forecast with opening balances, collections, and payment dates.

I would compare hiring both employees immediately with a staged hire linked to contracted work. Test collection delays too, rather than assume that a sale and its cash receipt happen together.

A connected model helps organize that assessment. Financial Models Labâ??s three-statement financial model connects operating and financing assumptions with projected income statements, balance sheets, and cash flows. It is a starting structure to adaptâ??not

evidence that a particular hiring plan is affordable.

When a fractional CFO is not the right next step

The accounts need repairing first. A senior adviser can help scope the repair, but recurring advisory meetings should not replace reconciliations and reliable transaction records.

The problem has a clear endpoint. A one-off forecast, profitability review, or model rebuild may be better commissioned as a project. Agree on handover and training so the file remains usable afterward.

You need daily leadership. Where finance requires continuous team management, frequent executive decisions, or sustained transaction work, compare an employed finance leader or interim appointment with part-time support.

The owner is not ready to use the process. A forecast will not govern decisions if major commitments are made outside it and information arrives too late. Before hiring, agree on access to data, attendance at reviews, and responsibility for actions.

A business facing an immediate inability to meet essential payments should not wait for a standard onboarding timetable. The urgent cash position needs attention first.

What I would agree for the first 90 days

Treat the following as a proposed scope to adapt, not a promise that every engagement needsâ??or can completeâ??the same work.

Period	Priority	Tangible output
First 30 days	Establish the financial starting point and immediate risks.	Reconciled opening position, cash forecast, outstanding information list, and review calendar.
Days 31â??60	Connect operating plans to financial consequences.	Forecast assumptions, profitability analysis, and scenarios for the decisions management is considering.
Days 61â??90	Make the process repeatable.	Management reporting pack, plan-versus-actual review, named action owners, and an agreed handover or ongoing scope.

The dates should reflect the condition of the records and the urgency of decisions. A business with clean accounts may move quickly into analysis. Another may need substantial accounting work before its forecast deserves confidence.

A repeatable review also needs a saved comparison. In the workbook example, the closing-cash difference includes both the opening-balance difference and the cash-flow variance for the week.

CASH METRIC	SAVED PLAN	ACTUAL	CASH IMPACT +/-
Opening cash	**57,050**	**53,800**	**(3,250)**
OPERATING RECEIPTS			
Receivables collections	24,000	22,000	(2,000)
Cash / new sales receipts	28,000	27,000	(1,000)
Other operating receipts	350	350	-
TOTAL RECEIPTS	**52,350**	**49,350**	**(3,000)**
OPERATING PAYMENTS			
Existing supplier payments	(18,000)	(19,000)	(1,000)
New supplier purchases	(10,000)	(10,000)	-
Payroll & employee costs	(18,500)	(19,000)	(500)
Rent & occupancy	-	-	-
Taxes & statutory payments	-	-	-
Freight & delivery	(1,700)	(1,800)	(100)
Sales & marketing	(1,200)	(1,200)	-
Other operating overhead	(2,970)	(2,970)	-
TOTAL PAYMENTS	**(52,370)**	**(53,970)**	**(1,600)**
NET INVESTING	-	-	-
NET FINANCING	-	-	-
NET CASH MOVEMENT	**(20)**	**(4,620)**	**(4,600)**
CLOSING BANK CASH	**57,030**	**49,180**	**(7,850)**
Bank reconciliation difference		-	

Figure 3. The Plan vs Actual sheet separates the weekâ??s $4,600 cash-flow variance from the $7,850 closing-cash difference. Parentheses indicate negative amounts. The figures belong to the separate workbook demonstration.

Include access and ownership in the agreement: who maintains the model, who supplies operational data, who can approve payments, and what the business keeps when the engagement ends.

Connect the finance work to the companyâ??s broader 12-month business growth roadmap. Hiring and expansion targets should have corresponding cost, capacity, and funding assumptionsâ??not sit in a separate planning document.

How to choose a fractional CFOâ??and assess the fee

Ask the candidate to discuss one real decision your business faces. A useful discussion should expose missing information and explain how the work will support that decision.

Look for relevant operating experience. For your business, ask how the candidate would model its revenue, capacity, payment terms, and principal costs. A polished sample dashboard is less informative than an explanation of what would make its numbers unreliable.

Clarify who will do the work. Establish who prepares forecasts, who reviews them, and who attends management meetings. Ask about availability when an important decision falls outside the normal schedule.

Get a scoped quote. Compare onboarding, recurring analysis, meetings, transaction support, and any work excluded from the fee. Ask separately about bookkeeping cleanup, integrations, travel, and additional assignments. Do not compare two monthly fees until you understand what each includes.

I would assess progress against the agreed scope: forecast completion, explanation of significant variances, decisions supported, and actions completed. Cash balance alone is a poor scorecard because it can change through borrowing or an ownerâ??s capital contribution.

Also distinguish a cash release from a profit improvement. Collecting an existing invoice earlier improves timing; it does not create a second sale. That distinction matters when evaluating claimed results.

The hiring decision in one question

> **Which important financial decisions are you currently making without enough visibility, and who should take responsibility for improving that?**

The answer may be a better bookkeeping process, a focused modeling project, a controller, or recurring CFO support. Choose the smallest arrangement that can responsibly cover the work, with room to adjust as the business changes.

For owners who need help with this assessment, I provide financial modeling and fractional CFO support through Financial Models Lab, covering forecasting, cash-flow planning, profitability analysis, and management reporting. Advisory work is scoped separately from downloadable templates.

Frequently Asked Questions

At what revenue should a small business hire a fractional CFO?

I would not use revenue alone as the trigger. Assess the complexity, frequency, and consequences of decisions, alongside the capability already available. A stable business with straightforward operations may need less support than a smaller company managing inventory, financing, and uncertain collections.

Can a fractional CFO work with my existing accountant?

Yes. Scope the responsibilities together rather than assume a replacement is needed. Identify who owns the accounts, forecasting, reporting, tax work, and follow-up. Accountants can also provide management advice, so check what your existing engagement already covers. [3]

Can I start with a project instead of a monthly retainer?

That is a reasonable approach when the problem is defined. Commission the model, review, or decision analysis, specify handover requirements, and then evaluate whether recurring oversight is necessary. Outsourced CFO arrangements can cover temporary as well as ongoing needs. [1]

Will a financial model remove the need for a CFO?

A model can make a defined analysis repeatable. It does not decide whether the assumptions are credible or take responsibility for acting on the results. For a straightforward task, a trained owner or analyst may be enough; more complex decisions may require senior judgment.

About the author

Henry Sheykin is a co-founder of Financial Models Lab. His work includes financial modeling, budgeting, cash-flow planning, profitability analysis, and fractional CFO support. He helps business owners connect operating decisions with financial forecasts and management reporting.

Disclosure: The author has a commercial interest in Financial Models Lab and the products and services mentioned. The worked example is fictional and educational, not a client case study.

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Date
11/20/2026
Author
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