THE COMPLETE GUIDE

To Startup Finance And Accounting

by Lei Lu

ADVISORI
FINANCE

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Before We Begin

The entrepreneur's journey is exciting—filled with thrilling experiences, unique challenges, and lots of learning curves. I first want to congratulate you on making it this far and for having the courage to press on.

While you conquer every challenge that comes your way, I'm here to help wrap your head around critical accounting and finance decisions. This guide addresses common questions and concepts that I've seen many startups struggle with.

I've worked with large corporations across several industries and numerous startups over the last 18 years. I have a CPA license from Ontario Canada and MBA degree from University of Southern California.

As both an immigrant and entrepreneur, I have lived in Canada, China, and now the U.S. With my experience as a compass, I hope to instill you with a CFO's state of mind and help you get a handle on the ins and outs of accounting and finance.

This guide is here for you throughout your startup journey. It covers topics from starting a business to selling it, and everything in between.

Feel free to email me anytime as you're reading this guide. I'm here for you.

Lei Lu, MBA CPA

CHAPTER 1

Forming A Business Entity: Delaware C-Corp Or LLC?

So, now it's time to define the underlying tax structure of your startup. Delaware C-Corps and LLCs are the most common and popular business entities. While that narrows down your options, each has advantages and conditions that lead to different outcomes.

If you choose to become a Delaware C-Corp

This means you formed your corporation in the state of Delaware.
The state of Delaware has flexible and mature business laws that help support hyper-growth companies. Nearly all investors invest solely in startups that are a Delaware C-corp because the format is already set up for mergers and acquisitions. No legal language has to be changed to invest so it makes life easy for potential investors. ***Most startups form Delaware C-corps to make fundraising easier.*** The tax rate for *C-corp is 21%.*

Tax implications to keep in mind

All C-corps are double taxation entities. That means any profits made are taxed on the company and the individual level. Unlike LLCs, as a C-corp owner, you will pay taxes on company profits and then pay taxes again on salaries and wages as an individual.

Why Delaware C-Corps are better for raising venture capital:

1) **Easy to sell and transfer ownership**
   The legal structure of C-corp is designed to sell and transfer ownership (equity) without altering the existing legal structure.

2) **Easy to scale and grow**
   Unlike S-corp (limited to *99* shareholders), there are no limits on how many shareholders a C-corp can have.

Remember: When it's time to issue equity to employees, you can do it more seamlessly as a C-corp than other entities.

If you choose to become an LLC

LLC is short for Limited Liability Company. They're easy to form and shield you from liabilities. With an LLC, all profits flow back to the owner. The tax bracket depends on other income and earnings. It could be anywhere between *21%* to *37%*. The difference is, with a Delaware C-Corp, all profits stay within the company and there's only one tax rate—*21%*.

Tax implications to keep in mind

LLCs are pass-through taxation entities. We touched on this briefly, but it basically means all profits and losses are passed onto you, the owner. On an individual tax level, you and your company get taxed only on the profits and losses you made. In other words, you and the company are considered one entity.

One of the advantages of "pass-through taxation entities", is that you only get taxed once instead of twice. For example, if you made money on other investments but had a net loss from your LLC, you can use tax credits from your LLC for your personal tax return to lower the tax payment.

Change your mind? You can still switch your business entity

Even though you can, doesn't mean it's in your best interest. Making the switch can be very time consuming and cost you a pretty penny. It's always better to pick the right entity type from the start and stick with it.

Choosing between LLC and Delaware C-Corp

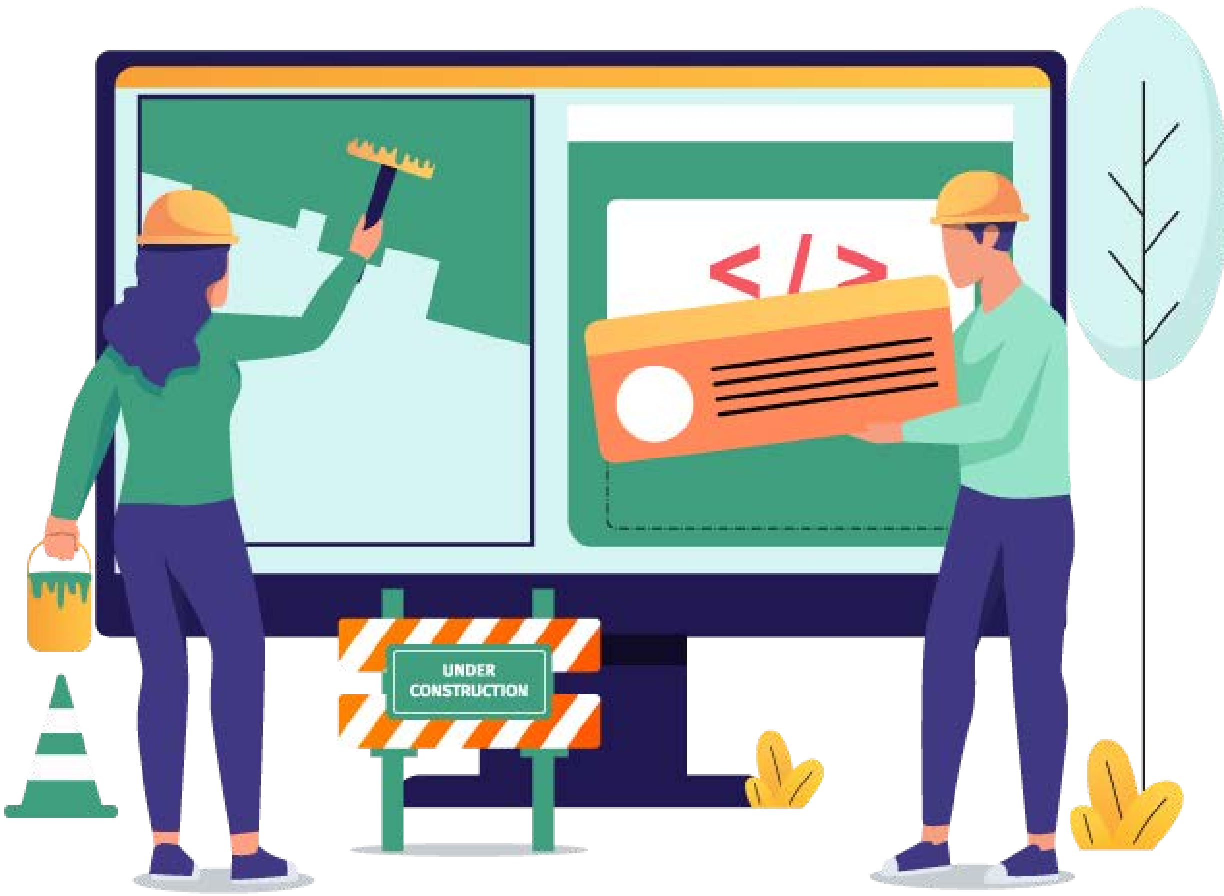
First, assess your overall goal. Is it to grow, scale, and raise funding? Or do you plan to keep the business and with it your personal and business taxes together too? If you want investors, go with a Delaware C-Corp. If you want to keep your company for the long haul, an LLC is the way to go.

A CPA's 2 Cents

Despite getting taxed twice, Delaware C-Corp is the top pick for startups of all shapes and sizes. Delaware C-Corps are highly scalable and easy to sell and transfer ownerships, therefore investors flock to them. Most startups prioritize raising funds (and managing cash flow) to make sure the business keeps running strong. For that, you need money. Keeping future investors in mind early on can be critical to long-term success.

CHAPTER 2

Getting Your Accounting System Set Up



Once you incorporate your business, you're ready to start running the business. There's no getting around the accounting piece. It's required by the government and investors so they can see your business activities and profitability.

Here's where to start:

1) **Pick an accounting software**
Most U.S. startups use QuickBooks, so we'll use QuickBooks Online as an example to show how an accounting software can make a difference for your business. QuickBooks is the standard for most small businesses who are starting out.

2) **Choose your accounting method**
There are two common accounting methods to record financial data:

- **Cash accounting** – records the revenue and expenses when cash and credits have been received and/or paid. This happens when you record revenue at the point of completing a service or transaction.

- **Accrual accounting** – records the revenue and expenses when they are earned but not when the cash and credits are being exchanged. This happens when you perform the service over time, and record the revenue to match with the process.

The accrual basis accounting is more complex, however most companies prefer to use it because it's an accurate way to record what's happening in a given period of time.

3) **Set up the accounting software**

Setting up accounting software is not many people's idea of a good time, but your startup depends on it. Once you're all set up and organized, you'll learn to love it. Plus, it pays to knock this part of the process out early.

First you'll need to customize the **Chart of Accounts**, and then add financial data like invoices, bills or bank transactions. You'll also adjust the settings on the date you want to close the book, the accounting method you use. Follow the instructions of your accounting software and complete all the settings. You'll see the benefits of the effort down the road, when there is less work for you.

See the sample of Chart of Accounts below.

Chart of Accounts

Number	Name	Type	Detail Type
10001	Local Bank	Bank	Checking
20001	Accounts Receivable (A/R)	Accounts Receivable (A/R)	Accounts Receivable (A/R)
20012	Inventory Asset	Other Current Assets	Inventory
20015	Prepaid Expenses	Other Current Assets	Prepaid Expenses
20021	Fixed Asset Computers	Fixed Assets	Fixed Asset Computers
20030	Uncategorized Asset	Other Current Assets	Other Current Assets
30001	Accounts Payable (A/P)	Accounts Payable (A/P)	Accounts Payable (A/P)
30002	Interest Payable	Accounts Payable (A/P)	Accounts Payable (A/P)
30010	Credit Card	Credit Card	Credit Card
30020	Car Loan Payable	Other Current Liabilities	Loan Payable
40001	Opening Balance Equity	Equity	Opening Balance Equity
40002	Retained Earnings	Equity	Retained Earnings
40010	Investor's Investments	Equity	Paid-In Capital or Surplus
40020	Owner's Investment	Equity	Owner's Equity

4) **Customize the Chart of Accounts**

A **Chart of Accounts (COA)** lists all the categories (or labels) as a record of all a company's transactions. It uses a unique set of codes that keep files consistent. A **COA** is essential to organize your financials in a way that makes it easy for internal and external parties to reference. As your business grows, you can create a new **COA** that best suit your accounting needs.

Set up Chart of Accounts

Here's how to set up your **Chart of Accounts**:

Step 1. Pick accounts and account numbers

Depending on your industry and the way you prefer to see financial statements, you'll add different accounts into your **COA** (E.g. Accounts Receivable, Inventory, etc.). Once all the accounts are there, arrange your chart of accounts by adding account numbers for each of them.

Here's an example of how you can use account numbers for **COA**:

Balance Sheet

Account Number	Account Name (Description)
10000 to 29999	Asset and valuation accounts
30000 to 39999	Liability accounts
40000 to 49999	Capital accounts

Profit and Loss Statement

Account Number	Account Name (Description)
50000 to 59999	Income/Gain accounts
60000 to 99999	Expense/Loss accounts

Account Numbers let you reorganize your **COA** easily. It also helps you more accurately record your company's financial data. You can also add a location, division or product info into your **COA**. For example, if you have two warehouses in California, you can title the first location "Inventory *20001*" and the second location "Inventory *20002*." The same thinking applies to divisions and products. It's good practice to leave space between account numbers because as a company grows more related accounts may need to be created. Leaving space allows you to have room to grow.

Step 2. Set up sub-accounts

For each account, you can set up sub-accounts. That gives you the flexibility of calling out smaller details from accounts and collapsing them into one big account. It's easier that way to get a bird's eye view of your finances.

To give you an example, Fixed Assets as a main account can be broken down into several sub-accounts:

Office Equipments **Vehicles** **Buildings** **Land**

Step 3. Define expenses by accounts and communicate it to the team

It's important to use accounts consistently. For example, equipment used for a photoshoot could be a marketing expense or office supplies, either way is totally correct. Just as long as the expense has been recorded in the same account in a consistent way. Keep in mind that any changes to your COA will impact how the numbers will look like on your financial statements.

Import data into the accounting software

Think of the accounting software as a single spot for you to store, organize and visualize financial data. You'll most likely use apps outside of the accounting software to do things like sell products (Amazon, Shopify), charge customers (Paypal, Stripe), record receipts (Expensify), pay bills (Bill.com), etc. You'll need to gather financial data like this and bring it together to see a full picture of your company's performance. Like many accounting softwares, QuickBooks lets you connect to third-party applications. That's important because it'll retrieve or sync your data in real time—automating most of the manual accounting work.

What can be imported into QuickBooks:

1) Bank and credit card transactions (banks, credit card companies)
2) Sale transactions (Amazon, Shopify)
3) Receipts (Expensify)
4) Bills (Bill.com)

A CPA’s 2 Cents

It’s also worth your while to explore different apps that can help save you time with manual entries. There are many third party apps that can help you retrieve, organize and import your data into your accounting software. Take a look which financial apps can be connected to your accounting software.

CHAPTER 3

Monthly Bookkeeping And Accounting Month-End Close

So far you have tailored the accounting software settings to work the way you desire, the next step is to put it to work. Each month, there are two accounting tasks that are mandatory: bookkeeping, and month end close.

1 Bookkeeping - record financial transactions into accounting system

Bookkeeping is recording all the financial transactions into your accounting software on a monthly basis. Mature companies generally record transactions and do bookkeeping on a daily basis, but early stage startups mostly get the bookkeeping done monthly. It really depends how fast you need to tidy up your accounting records.

Add financial transactions into your accounting books - revenue and expenses

In the context of using online accounting software such as QuickBooks Online (QBO), bookkeeping means to add auto-imported transactions into QBO in the right accounts.

How to ensure the accuracy when recording transactions:

There are two criteria you will need to follow:

1) **GAAP**: is short for **General Accepted Accounting Principles**. It is the standard adopted by U.S. securities and exchange commissions. All companies in the U.S. must follow these principles.

2) **Consistency**: GAAP defines the general direction of how you need to record financial transactions; companies then need to record this information consistently, in the books. For example, if you have been recording Google suite expenses as office software, instead of subscription, then you will need to do that consistently.

2 Accounting month-end close – complete, review and reconcile financial data

In accounting, month-end close means you recorded all transactions from that month, reviewed them to make sure they are correct, and reconciled bank and credit card accounts. Here are some the tasks you need to do for month-end close:

1) **Reconcile your bank and credit card accounts**
The goal here is to verify that you have the same dollar amount in your bank account and in your accounting books. This step serves as a foundation for verifying the accuracy of money movement; if someone were to review your accounting books, they would start from your bank reconciliations. Make sure that you have reconciled all the bank accounts for the month and that the ending balances from the bank match with your accounting books (otherwise there may be a problem).

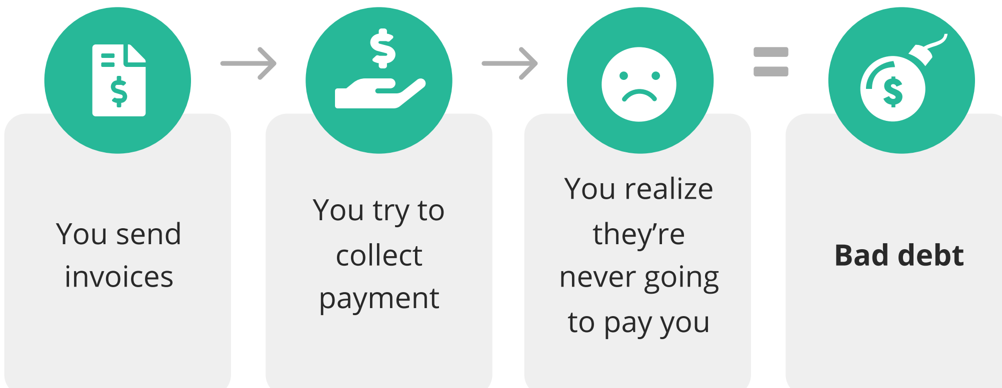
2) **Record the depreciation expense for fixed assets**

Don't forget to deduct the expenses that are not directly money related, for example, fixed assets. Record the depreciation expense for your fixed assets, such as expensive lab equipment, a company car, etc.

3) Write off bad debt

Bad debt is money you're not able to collect from doing a service or delivering goods.

Here's how the process typically plays out:



Keep in mind, you still need to create a record of every effort you made to collect payment from your customer. If you get audited, you'll need to show proof (e.g. emails, letters, reminders sent to customers).

4) Set up any accrual entries

Let's say a worker puts time in for the firm but hasn't been paid as of month end—that's when an accrual entry needs to be set up (Wages Payable). If that's the case, then you need to ask if there are any bills that need to be paid (which haven't been) or any cash owed to you. Once that's done, an accrual entry needs to be set up to reflect that. Experienced accountants and CPAs usually have a list of accrual entries they know most companies need to record. Make sure to check with them on this. Like with many tips in this guide, it'll save you time, money, and effort.

Why month-end close is key

The month-end close process is used to make sure financial transactions for the month have been organized and recorded following GAAP. As a business grows, so do financial transactions. For most companies, it takes *10 - 20* days to do the month-end process and close the book. But it all depends on the volume of transactions. The month-end close process groups the financial data into around *30*-day periods of time (monthly), so you can stay consistent with how your financial data is being recorded and compared.

A CPA's 2 Cents

You want to be able to compare apples to apples. Founders need to be able to compare a company's financial data from month to month when analyzing a company's performance and make business decisions. Having the entire picture reflected in your financial records is crucial, so make sure to be consistent and rigid about the process, which will help you with decision-making.

CHAPTER 4

Using Monthly Financial Data To Make Decisions

Financial statements mainly refer to a Profit and Loss statement and Balance sheet, and are one of the most reliable data sources founders can use to make decisions. Here's how to read those financial statements, utilize the information and help you make better decisions.

What's a financial statement?

Financials (shorter and easier to say) include profit and loss statements, balance sheets, statement of cash flows, forecasts, and budgets. Let's talk about how to read and use financials.

How to Read a Profit and Loss Statement

What's a Profit and Loss Statement?

These show a company's revenue and expenses during a given period. They're also known as Income Statements, but most people call them P&Ls.

P&Ls are used for:

1) Investor's financial package: View a company's performance.
2) Business decisions: Shows managers where money is spent (expenses) relative to the revenues.
3) Bank loans: Lets lenders see a company's performance.
4) Tax returns: an important starting point for filing tax returns.

Consider the time frame of each **P&L**. You can see a snapshot of your finances by looking at the year, month or week. We will use monthly P&Ls as an illustration, for example, the month of July, from Jul 1st 2020 to Jul 31st, 2020.

To The Future AI, Inc. Profit And Loss

July 2020

Income	Total
4000 Revenue	1380000
Total Income	**$ 1,380,000.00**
Cost of Goods Sold	
5000 Costs of Goods Sold - Service	60,000.00
Total Cost of Goods Sold	**$ 60,000.00**
Gross Profit	**$ 1,320,000.00**
Expenses	
6000 Payroll & Taxes	450,000.00
6100 Marketing & Promotion	20,000.00
6200 Office Expenses	13,000.00
7900 Depreciation & Bad Debt	7,000.00
Total Expenses	**$ 490,000.00**
Net Operating Income	**$ 830,000.00**
Other Expenses	
9000 Other Expense	2,000.00
Total Other Expenses	**$ 2,000.00**
Net Other Income	**$ 2,000.00**
Net Income	**$ 828,000.00**

P&Ls are composed mainly by two parts:

1 Revenue/sales

Revenue/sales is the first section on a P&L. It shows the total sales your company has made in the month of January. If you sell your services/products on a platform like Amazon, make sure the sales number there matches with QuickBooks. If not, you'll need to find where the difference comes from and fix it. Any discrepancies between sales platforms and accounting platforms might lead to the risk of being audited.

Cost of Goods Sold (COGS): are the expenses related to your sales typically seen in retail businesses. The more you sell, the higher your **COGS** are. **COGS** can be found right under Revenue/Sales. It'll show how much you spent on getting the products/services you sell.

2 Expenses

All the costs related to running the business are called operating expenses (**SG&A** expenses short for **Selling, General and Administrative expenses**). They are different from **COGS**, as these expenses relate to your business operation. An easy way to think about it is if you're not selling products/services today, you still need to pay operating expenses.

The main expense categories are:

- Employee salaries and wages and other payroll costs
- Marketing and sales costs (e.g. marketing, advertising, etc.)
- Office rent, supplies, utilities and software
- Fixed asset depreciation expenses

3 Net income

Net income = sales – expenses.

Net income is what your company actually earned and can be distributed to shareholders. Basically, it's the number you also pay taxes on.

Ways to understand your P&L

- **How often should you read P&L?**

  Keeping track of your revenues (money coming in) and expenses (money going out), is critical for any household and applies to any startup too. If you can't read your financials daily, try to read it at least once a week. Monitoring your sales and expenses frequently helps you adjust your strategy accordingly. **P&Ls** can be used to compare how well you're performing in relation to expectations (like a budget).

- **How important is cash flow to a startup?**

  The short answer is, incredibly important. Dozens of research articles and publications report that "lack of cash flow" is one of the top reasons startups fail. Cash (or access to cash) is like oxygen for a business. When startups run out of cash, bankruptcy is inevitable. So knowing how much cash is coming in vs. going out is one thing startups should always know. Cash flow is not the same as profit because customers may take time to pay you and if your bills can't be deferred, you'll run out of cash at some point. The speed at which a startup spends cash is called **burn rate**. Investors consider this heavily if they're considering lending money.

Ways to understand your P&L

- **Can you determine the burn rate from a P&L?**

  Yes! The expenses show roughly what your **burn rate** is. If your profit and loss statements reflect your monthly costs, then that's what you're spending per month. However, if your statements aren't accurate, you'll need to do some cleaning before using those reports to calculate your **burn rate**.

- **How do you use P&Ls to control cost (or stick to your budget)?**

  It helps to put people in charge of different areas of your business. Let's say you're figuring out budgeting for the coming year. You can delegate tasks and put different disciplines in charge of managing budgets for those areas. Your HR Manager or Chief Financial Officer would be in charge of hiring budgets. Your Chief Marketing Officer would manage expenses for marketing and sales, etc. That frees you up to focus on other aspects of the business.

  All parts of your P&L should have a person or department responsible for it. The person who is responsible for those areas needs to stick to the budget, monitor spending and ensure the company is not overspending (e.g. using too much money on unnecessary activities).

- **How to increase net income?**

  Everyone wants their company to have the highest possible net income. The higher it is, the more you can potentially get to take to the bank.

  There are two ways to increase your net income: sell more or lower expenses. But the best way is a combination of both. However, as we all know, that's easier said than done. It takes a tremendous amount of effort to increase sales and cut costs. Companies that focus on keeping costs low and amplifying benefits to their customers usually have a better chance of getting there.

How to Read a Balance Sheet

While **P&Ls** show your revenue and expenses, **Balance Sheets** indicate the true financial health of a company.

What's a Balance Sheet?

This provides insights on what your business owns (assets) and owes (liabilities and equities), at a specific point in time. It is a snapshot of your company's financial condition. Compared to an **P&L**, the **Balance Sheet** shows your financial condition at one moment, where an **P&L** shows what happened over a period of time.

What are the different parts of a Balance Sheet?

Assets = Liabilities + Shareholder's Equity.

Keep this equation in mind when you're going through your balance sheet. It'll come handy when you're figuring out how to balance your **debits** and **credits**. A **Balance Sheet** always balances out. The only times it won't is if your accounting software has a problem or there's a mistake. If your total assets don't equal your total liabilities and shareholder's equity, it must be fixed ASAP.

Now, let's focus on how you can use a **Balance Sheet** to make smarter business decisions for your startup.

What do you use a Balance Sheet for?

1 Getting investors

Investors ask for balance sheets before making investment decisions. From it, savvy investors can spot key things about a startup that would otherwise be hidden. For example, they can tell if your company has the ability to pay operating expenses, meet future debt obligations, and make distributions to shareholders. They can also tell how frugal a founder is by how fast they spend and what they spend on.

Investors like to see low levels of short-term and/or long-term debt. They also like to see assets that have strong values. For example, assets such as bonds are more valuable than invoices because payments from a government agency (bonds) are more likely to be paid than those from a small business (invoices).

2 Spotting potential cash problems

Cash flow is oxygen to every business. Without it, your business can't breathe. That's why keeping tabs on your cash reserves is a matter of life and death for your startup. A good founder always makes sure there's enough cash on hand to cover costs while carrying out company initiatives. Cash in the bank, money owed from customers (accounts receivable), short- term and long-term investments are accessible sources of cash. Not having enough cash will keep you from being able to spearhead new initiatives or lead you to bankruptcy. One of the easy ways to spot potential problems is to closely monitor cash reserves and speed of payments to make sure there's enough cash on hand.

3 Tightening up your operations

A Balance Sheet shows current and long-term assets and liabilities. You can use the info on each chart of accounts to uncover operational issues. For example, if you have large clients (accounts receivables), you may experience challenges with getting paid and you'll want to start collecting your outstanding invoices soon so that you have more cash on hand. If your inventory doesn't match your purchasing record, you will need to find what the problem is and then fix it. Here's some specific tips.

How to clean up your balance sheet:

- **Total Cash Amount**

  Your total cash amount is listed on the top of your balance sheet. It's the first thing people will notice. Make a great first impression by keeping a healthy cash reserved. It'll impress potential investors and bank officers which could give you a significant advantage in the startup game.

- **Accounts Receivable (A/R)**

  This indicates how much money your customers owe you. This could get tricky so it's critical to manage your **A/R** carefully. Giving customers a long time to pay might sound appealing to them, but it puts pressure on you to have enough cash for other expenses. In some cases, it can stimulate sales but that all depends on timing and, again, how much cash you have on hand to cover other expenses.

  The period of time you allow customers to pay you is called a **Credit Policy**. Balancing what customers want (more time to pay) and what you want (payment now) can be challenging.

  When deciding on your Credit Policy, consider your cash needs now, total expense costs and when you need to pay them, industry norms (e.g. **Net 15, 30, 45** or due today), and customer expectations. That might sound like a lot, but you can start by reviewing unpaid invoices and creating email/text templates for reminders (sent weekly). The sooner you collect payment, the better. Long outstanding or unpaid invoices eventually become uncollectible, which results in bad debt. No one wants that.

- **Inventory**

  If you sell physical products, inventory could become one of your biggest headaches. Having too much or too little can cause problems.

  Having too much, you'll run the risk of tying up cash which leads to cash flow challenges. inventory can also get stolen, expire, lost or become obsolete. There are many risks to having too much inventory.

  Having too little runs the risk of not being able to make sales or meet customer demand. Finding an optimal level of inventory means balancing the cost of ordering, shipping costs, storage/insurance costs with your physical space.

  Remember, there are different ways to record your inventory value: **FIFO, LIFO** and **Average Cost**. You also want to link inventory cost to **Cost of Goods Sold (COGS)** on your **P&L** for an accurate inventory count. It's not easy so it's important to consult with your CFO or CPA to capture inventory accurately right from the start.

- **Depreciation for fixed assets**

  Do you own fixed assets? Have you been recording the monthly depreciation expenses? Make sure to record monthly depreciation expenses and remove assets that have been fully depreciated. Most assets depreciate on a straight line (same amount every month), some depreciate on an accelerated basis (amount increases every month), or units. **GAAP** has clear guidelines on the type of depreciation method to use.

- **Investors' equity**

  This represents how much money your company has currently borrowed from investors. Try not to make any mistakes on recording investors' equity on your balance sheet against the cap table. Investors won't be very happy.

- **Retained earnings**

  Retained earnings show how much money your company has made over time, but this is NOT cash. If your startup is running losses, this number will be negative. Your goal is to grow the retained earnings number overtime, from negative, to breakeven, to eventually positive. The sky's the limit!

A CPA's 2 Cents

A balance sheet is a snapshot of your startup's financial health. It tells a story of what your company owns and owes. Your balance sheet can really come in handy if you use it wisely. It's a useful tool for tightening up your operations, preventing mistakes, and helping take your startup to the next level.

How to read a Statement of Cash Flows

As they say, “cash is king”. This saying rings truer the deeper you get into the ever-changing startup world. We mentioned cash flow as oxygen, but the infusion of cash itself, is jet fuel for your startup. You can’t go anywhere without it.

A **Statement of Cash Flows** is used to manage cash for your startup. At first, all startups have losses on their **P&Ls** (negative profits). The idea is that as time goes on, greater sales and expense efficiency will turn losses into profits. But it’s critical to have access to cash. You can do this by increasing sales but for startups this usually comes from investors. It helps keep your startup running until you can start scaling growth. So in short, a startup can be unprofitable for a long time (as long as it has access to funds) but if you run out of cash, you run out of oxygen. In other words, it’s over.

What is a Statement of Cash Flows?

A **Statement of Cash Flows** shows how much money is coming in and going out of a startup during a statement period. There are three parts to a **Statement of Cash Flows**:

1) Cash flow from operating activities

2) Cash flow from investing activities

3) Cash flow from financing activities

Here are some examples:

- Cash Flow from **Operating Activities**: the net financial change from everyday business activities such as invoice payments, bill payments, employee payroll, etc.
- Cash Flow from **Investing Activities**: the net financial change from investing activities include purchases or sales of fixed assets, merger and acquisitions, market securities, etc.
- Cash Flow from **Financing Activities**: financing activities related to borrowing from a bank, issuing bonds or new stock, paying off loans, distributing dividends, etc.

Why managing cash flow matters

Running out of cash is a common reason why startups fail. Even if you have plenty of sales, if you don't have enough cash in the bank, your startup won't be able to stay afloat. That is where cash flow management comes into play.

The **Statement of Cash Flows** can help you plan for the best time to make a big purchase, like a new piece of equipment or a company vehicle. Monitor cash flow closely and frequently so you can spot trends and catch activities that could lead to a cash shortage.

If you're thinking about getting a loan or investment, it's a lot easier to get help from a bank or investor before a cash crisis than after one. If you wait until you're in trouble, lenders may see you as too risky. Apply for loans or a line of credit while your cash flow looks good. It'll increase your chances of getting approved.

No matter what stage your startup is in, a **Statement of Cash Flows** can help you see things ahead and stop a cash crisis from happening.

Using Statement of Cash Flows to get ahead

Your **P&L** may show net income, yet you may not have cash in the bank. Why is that? There could be many reasons but the two most common are because of long standing accounts receivable (**A/R**) and inventory cycles. Here I will teach you how to utilize **Statement of Cash Flows** to manage your operation so that you won't run into any major cash problems.

- **Get paid upfront**

  There's nothing wrong with asking for payment right off the bat. By asking, you can gage how willing the client is to pay. This will help you proactively manage cash flow and make sure your startup has enough cash to thrive and survive. Let your clients know your company asks clients to pay upfront but be ready to negotiate the terms if it helps close the sale.

- **Manage clients (accounts receivables)**

  If you must wait to get paid, just make sure you're managing that relationship. A/R is the money you earned but haven't received so it's not yours—yet. Make sure the money is in your bank account before closing the loop.

- **Manage inventory**

  Inventory is another thing that can tie your cash up. It may be a long cycle (time) from buying raw material, assembling them into finished products, marketing them, selling them, and collecting payment. You need to know how much time it takes from the beginning of the inventory cycle to the end. Consider mapping out the cash flow cycle for inventory so you can plan ahead on when and how much to spend at each stage.

- **Manage seasonality**

  Seasons and holidays impact sales, fluctuating sales means you'll need more inventory to cover the ups and downs. Trying to keep up with the appropriate number of employees can be tough. There are many hidden costs for hiring, firing and layoffs. Bear in mind every dollar in inventory is a dollar less in the bank. You can use industry and company historical data to include seasonality into your inventory forecast and budget, in addition to managing cash flow.

- **Create a buffer and plan for the unexpected**

  Manage the risk before it becomes a threat. When you're forecasting and budgeting, it's good to have extra cash as a buffer. You don't want to be in a position where you've allocated every single penny because a small, avoidable problem could balloon into something irreversible.

  Startup founders can't predict the future, in fact, no one can. If a piece of expensive lab equipment breaks and needs to be replaced right away, or a data breach results in a forced increase in IT spending, it takes money, and more than you might expect. Part of the analysis behind a Statement of Cash Flows is considering the impact of any potential risk, and the effect an unexpected expense will have on your available cash—and ultimately, your ability to pay your bills.

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With a Statement of Cash Flows, founders can figure out whether enough cash is being generated, and whether pending payments and inventory are getting too high. It'll help you see how much cash is getting absorbed and how much is spent when your business is still growing. Cash flow management makes it easier to make decisions and get access to capital investment on property and equipment. It also helps businesses plan how much cash it needs to rise from debt and raise equity finance

Burn Rate and Runway – How Long You Can Survive Without Additional Funding

One of the key things to watch, for a successful startup, is cash! Two measurements related to cash are the runway and the burn rate.

So how do you get to your company's burn rate and runway? After successfully raising initial funds, you now have cash sitting in the bank. With cash on hand, the next step is for founders to find their burn rate and runway.

Burn rate – How much you spent monthly

To keep it simple, a burn rate is how much your startup spends per month. **Your burn rate lets you know how much you need to have in the bank to keep your company running**. Your burn rate reflects how long you can operate before you run out of cash and how much needs to be invested or reached with sales.

How to calculate burn rate?

Burn rate = cash opening balance - cash ending balance of the same month

For example, say that your company has only one bank account, and on Jan 31st you end with $0.9M, and on Jan 1st you started with $1M. This makes your burn rate for the month $0.1M.

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Try using multiple months of financial data to calculate your burn rate. This will help you get an overall average. The average burn rate is a more accurate indicator of your monthly spending and incorporates fluctuations from month to month. The more data you're able to collect per month, the more accurate your burn rate will be.

Runway – How long you can last without additional funding

Runway is the number of months your startup can survive without any additional funding.

How to calculate runway?

Runway = Total cash in the bank ÷ Average burn rate

Let's stick with the example above: Your average burn rate is $0.1M and the total cash in the bank this month is $0.9M. Your runway is $0.9M ÷ $0.1M which is equal to 9 months. You have 9 months to either raise the next round of funding, start generating enough revenue to cover your monthly spending, or worst-case scenario, you run out of cash, which is bankruptcy.

Knowing the number of months your startup can sustain without any additional funding pushes you to watch your spending and feel a sense of urgency as time passes. Founders need to create budgets that allocate spending on the areas that can yield profits, and cut spending from areas that are not profitable.

How often do you need to calculate these two rates?

Most startups do it on a monthly basis, right after they close last month's accounting books.

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Burn rate and runway are the two numbers that investors ask for the most. Why? Being able to use burn rate and runway effectively is a staple skill of any great founder. Again, the focus on cash flow is crucial, and founders need to plan ahead to stay ahead.

Use KPIs to keep your business performance on track

Investors believe successful startups obsessively focus on their KPIs and on improving them.

KPIs – Measurement of performance

Key Performance Indicators (KPIs) are the data points that objectively measure your startup's performance. You can only improve something if you're able to measure it accurately. With data over time, you can see trends on how data changes and get an understanding of your company's overall performance.

Why do KPIs matter?

Two reasons to be exact:

1) To keep all the employees on the same page about how to improve. It pin points specific metrics all employees can reference and track towards. Goals need to be specific, clear, and concise so nothing gets lost in translation.

2) Measurable data is the only way a startup knows if it's improving. Financial statements are one way, KPIs are another. Financial statements give you an overall picture of your company's performance. However, if you want to dig deeper and are a data-driven business, KPIs are the way to go. They translate a large amount of financial data into simple, concise "Key" indicators, and track it over time to evaluate your performance.

The most important KPIs to track

Depending on the industry, there are different sets of KPIs you should be tracking. Here are some you can count on no matter your industry:

- **Burn rate:** how much your startup spends each month.
- **Runway:** how many months your startup can last without additional funding.
- **Customer acquisition cost:** how much you spend to acquire a new customer.
- **Conversion rate:** indicates company's ability to convert non-paying customers to paying customers.
- **Customer retention rate:** percentage of customers you keep from one month to the next month.
- **Churn rate:** percentage of the customers you lose during a given period of time. Churn rate is the opposite of customer retention rate.
- **Lifetime value (LTV):** the net value of an average customer over their lifetime with your product/service.
- **Monthly active users (MAU):** the number of active users during a 30-day period. This indicator is used frequently for apps, online games, or social networking sites.

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KPIs help you track company performance and keep employees on the same page. Communicating your KPIs improves the overall startup’s performance.

CHAPTER 5

Map Out How The Funding Will Be Spent

Forecasts and Budgets – Plan your earning and spending

Your forecast and budget is your lighthouse. While you're away at sea, trying to find a path forward in pitch darkness, your forecast and budget is a shining light in the distance. It's where you need to go.

What is a forecast and budget?

A forecast and budget is also called a **pro-forma statement**. It is a plan for the next year quantified into dollars. it's a form of cash management. The forecast estimates revenue, while the budget sets a limit for how much you can spend. If you want your startup to survive the first few years, a forecast and budget is a critical part of that foundation. Without one, you might as well be blindfolded in a dark room searching for a black cat.

When do you forecast and budget?

A good place to start is one to two months before the year ends. Larger companies start much sooner so adjustments can be made and assumptions can be fully discussed and reflected in the numbers.

Bake in enough time for the finance team to work with other teams like marketing, HR, operations, etc. to come up with a business plan. Your business plan could be for the next 12 months, though many companies forecast and budget out for the next 3 years.

Startups use forecasts and budgets as a tool to decide what future projects to take on and plan out how they'll contribute to revenue goals and keep expenses on track. For the right outcome, all teams need to agree on the goals and own what role they'll play to achieve them. From there, you'll need to get final approvals on your forecast and budget, and include any revisions to reflect upper management's or board members' expectations.

You may have to revise the forecast and budget each quarter, to reflect the recent circumstances and new strategies. Then get the buy-ins from every team and board members, and adjust as you go.

What are the tactical aspects of making a forecast and budget?

First, make a decision on which approach to take when making a forecast and budget: either top-down or bottom-up.

Taking an approach: top-down or bottom-up?

A **top-down approach** means top-level management creates the forecast and budget. They come up with the vision for the new year and communicate it out to the teams. They also give teams specific revenue and expenses targets that they'll need to hit.

A **bottom-up approach** means teams create the forecast and budget (aka employees). The same team comes up with goals and plans for the new year, and use that to build the forecast and budget.

There isn't a right or wrong way here. It all depends on what stage the startup is in and management style. Many startups prefer a hybrid approach, which incorporates input from management and the team.

How to create a budget:

1 Find a useful template

If it is your first time creating a budget, it's easiest to start off with an online template. If your startup is over a year old, use last year's **P&L** as a starting point.

All budgets are grounded in two major parts:

1) Cash inflows (revenues, investments, borrowing, etc.)
2) Cash outflows (expenses, debt repayment, buying fixed assets, etc.).

If your outflows are larger than your inflows, you'll either need to cut spending, collect cash from customers faster, or borrow money. You and your team should list out everything you'll need to spend money on. For example, expensive lab equipment, conference exhibitor fees, etc. The most important part about budgeting is adding detailed assumptions for each line item and calculation. These assumptions must be as realistic as possible. Each item in your budget should help you understand each amount (how much) and the timing (when it's needed).

Add any new projects into the template and incorporate seasonal trends. If you're feeling fancy, you can create different scenarios with your financial model (forecast and budget).

2 Each team owns an area

In order for forecasting and budgeting to be useful, each team should own a piece of it, defining the budget and forecast for their projects. For example, the sales team takes on the revenue part of a forecast and budget for their projects, while the marketing team figures out their marketing expenses. Once everyone is on the same page, each team makes sure their projects and plans contribute to the overarching goals of the company. Then, the management team does a final approval on what projects will launch the coming year.

3 Check actuals vs. forecast and budget

Once the forecast and budget are approved by management and the board, you're ready to kick off projects. Now, the trick is to stay on track.

After the first month, check what the actual numbers are on your **P&L**. Then compare those with the numbers in your forecast and budget. Look hard at the differences and come to understand what doesn't match up, what worked, and what didn't. This is a crucial step in the process. If revenue grows faster than expected, find out why that is so you can keep it up. If growth is slower than expected, take a look at what needs to change.

If spending is higher than what was allotted in your budget, see where the extra money went. Can you cut expenses during the second month to make up the loss? Brainstorm with the team, learn from the past, and redefine the strategy to better position your startup. The most important part of a budget is to learn from it and improve it as you go. "Why?" is the most powerful question you can ask and how you create a path forward.

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Make sure to include how much funding you're looking to raise in your forecast and budget. Use it to flesh out different scenarios as the timeline and amount of funding changes.

Based on the forecast and budget, you'll get answers to key questions:

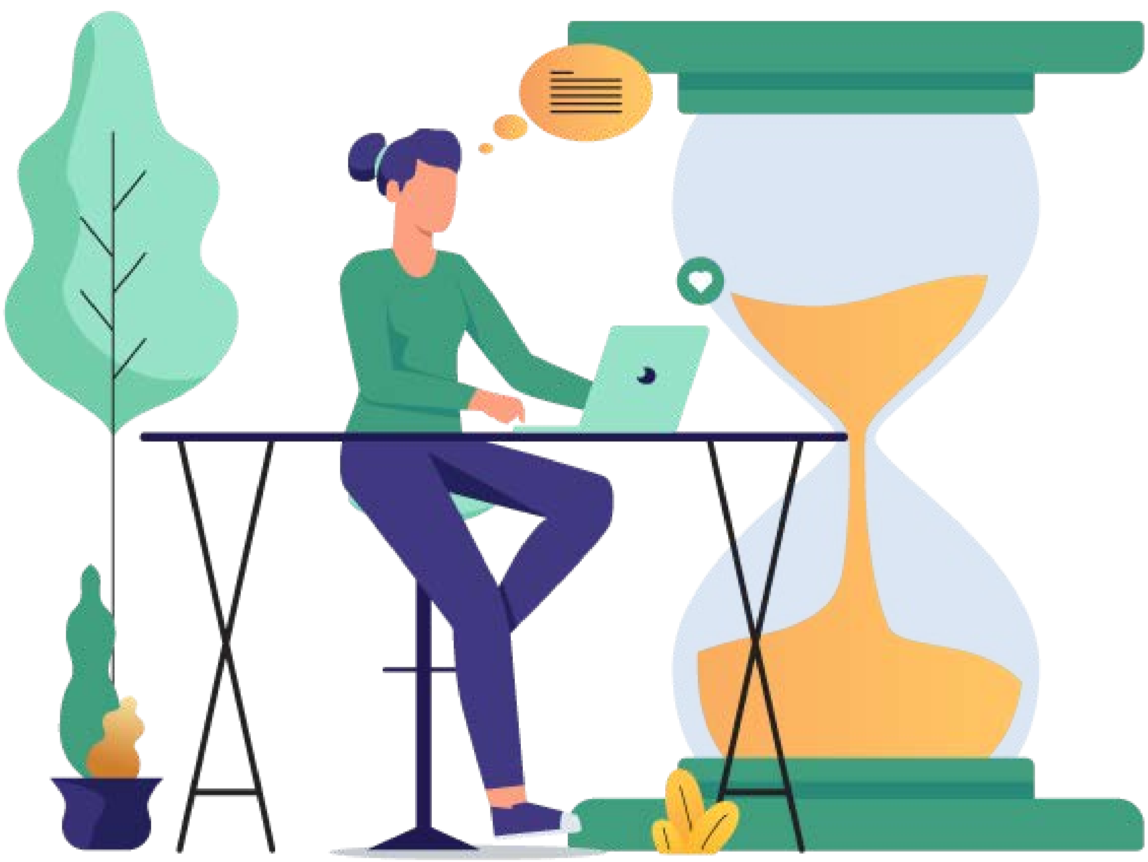
- Are the assumptions about growth rate sustainable?
- Is it really a true representation of recurring revenue? Or is it one-off revenue?
- How much needs to be spent to increase revenue?
- Is there a model for the relationship between marketing/sales spending customers -> revenue?

The forecast and budget guide the success of a startup, it will show whether your company is on the rise or on the decline.

Set a long-term vision for the startup, pick an effective approach to forecasts and budgets, align on resources, create a business plan that excites everyone, and iterate on your strategy as changes occur.

CHAPTER 6

A Quick Overview Of Government Mandated Tax Deadlines



All the corporate taxes you need to pay

Required by law, you will need to pay taxes to the federal, state and city governments.

These are two most common taxes startups pay at the **federal** level:

1) Company annual tax return (Yearly, usually done by CPAs)

2) Payroll taxes (Monthly, usually done by payroll companies)

On the **state** level, here are the 3 taxes you will need to pay:

1) Franchise tax (Yearly, relatively easy to do, your accounting team can do it in house)

2) Payroll taxes (Monthly, usually done by payroll companies)

3) Sales taxes: your business isn't actually paying any sales taxes to the government; instead you collect the sales tax from customers and route it to the government. Your role is simply that of a collection agency.

Then there's **city or county** taxes. The taxes to cities or counties vary widely, here are the two most common taxes:

1) Sales taxes to the city/county (Monthly or quarterly, usually done by your accounting team)

2) Property tax (Yearly, usually done by CPAs)

Depending on your industry and location, you might also have some other taxes that you are liable for, but above are the most common taxes you will need to pay.

The next mandatory tax related task is to file 1099s for the contractors.

Yearly Mandatory Task - 1099 filings for contractors

Every January, filing 1099s is usually one of the top priorities on startups' to do list. Here is a quick summary on what you need to know about filing 1099s.

The deadline

Usually it is the last day of January, for example, for next year it is **Feb 1st, 2021**. If you file your 1099s late, the penalty is $50 per 1099 filing; the penalty amount increases when time goes on.

Who do you issue a 1099 to

You need to issue a 1099 to any independent contractor, service provider, freelancer or vendor who is a self-employed individual AND has been paid over $600 in a calendar year (from January 1st – December 31st, 2020)
by your firm.

Keep in mind: C-corp and full-time employees **DO NOT** need to issue a 1099. 1099s only applies to freelancers, contractors, single member LLCs and S-corp.

Yearly Mandatory Task - File Delaware Franchise Tax

If you plan to file DE franchise tax on your own, here's everything you need to know about DE franchise taxes.

Deadline for DE franchise tax

March 1st of each year.

Two different ways to calculate the tax amount owed

There are two methods to calculate the amount of DE Franchise Tax you owe:

The Authorized Shares Method:

- **If your company has 5,000 shares or less**, it pays the minimum tax of $175.
- **For companies with 5,001 to 10,000 shares**, the tax is $250.
- **For companies with over 10,000 shares**, the tax is $250 plus $85 for each additional 10,000 shares or portion thereof. The maximum annual tax is $200,000.

If your company hasn't issued many shares, it is cheaper to use the Authorized Shares method, and will be your preferred method to calculate your DE Franchise Tax

The Assumed Par Value Method:

For corporations using the Assumed Par Value Method, the minimum tax is $400. For this method, the corporation must report its total number of issued shares (including treasury shares) and total gross assets. The tax rate using this method is $400 per $1,000,000 or part thereof of assumed par value capital. The maximum annual tax is $200,000. You are also required to attach a copy of your Balance Sheet when using this method, so don't forget.

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If your company issued a lot of shares but doesn't have too many assets, it is cheaper to use the Assumed Par Value method.

CHAPTER 7

Things To Keep In Mind When You Expand Globally

International expansion is becoming much more common nowadays. New tech and innovation in communication platforms make a global presence more accessible. But operating in multiple countries adds an extra layer of complexity. Let's break it down.

What should you know about expanding internationally

Consider location, employees, financial reporting, taxes and compliance, cultural differences, language barriers, and several other factors we'll discuss.

As you know, American perspectives differ from many countries around the world. But, as you also know, many products and services can do tremendously well with exposure to different markets (or are easily adjusted) and can access a larger pool of customers and potential revenue sources.

How to pay your international employees

Labor laws are complex. They differ from country to country, and oftentimes the penalty is severe if things aren't done correctly. It's wise to let the experts handle the payroll so you can spare yourself the hassle of registering with local governments, getting an employment ID, paying payroll taxes and finally paying employees. It's worth the extra cost to save you the hassle and any distractions along the way.

Before registering as a foreign subsidiary, find a local payroll company to run payroll. You can take care of hiring a full time employee or contractor. This entity legally employs your workers and would process payroll on your behalf. Employees do the same work but instead of you paying them directly, you pay a fee directly to this payroll company instead.

Some founders express interest in paying employees from a US company, but this is counter-productive and not cost-efficient. The cross-border tax implications alone should be enough to steer clear of that approach.

When forming a new legal entity, each country has different formation criteria. You'll also need to consider financial reporting for the new entity when coming up with a balance sheet and P&L.

One more curveball: You'll also need to know when and how you will file the local entity's tax obligations which are not only limited to a corporate tax return. Prepare financial statements on a local and consolidated level

Prepare financial statements on a local and consolidated level

Prepare financial statements for each standalone foreign entity at both a local level and on a consolidated basis at the US parent company. Foreign countries have different accounting standards which consist of their own version of US GAAP, IFRS or other standards. Most countries are converging to following IFRS, but there are many exceptions to this rule. **When in doubt, ask the government tax authorities in that jurisdiction.**

Tax compliance obligations you should know when forming a foreign company

When forming a new company taxes are usually an afterthought. But most countries are focusing more on collecting taxes, which you'll quickly learn if you decide to go down this route. When going into a new country there are consequences from both the US level as well as the local level. There are both tax compliance obligations at the US parent level as well as the local level (e.g. US Informational Tax Return for Canada and a Federal and Provincial Tax Return for Canada)

There are many different types of taxes at the foreign level that would need to be considered as follows:

- Corporate Income Taxes
- Indirect Taxes (VAT)
- Withholding Taxes
- Capital Gains
- Customs and Excise Taxes
- Property Taxes
- Stamp Taxes
- Payroll Taxes
- Social Security
- Other local taxes

From the US perspective there are also taxes that should be considered:

- Informational tax return filings
- Corporate Income Taxes through foreign earnings and profits
- Withholding Taxes
- Transfer Pricing

When creating a new foreign company, consider all the deadlines for taxes, penalties and interests if you are going to file late, and rare but possible tax audits.

However, there can also be beneficial tax treatments from local, provincial/state or federal governments in terms of tax credits and incentives, to encourage your business to invest and operate in that country.

You'll want to consult a CPA or other tax professional who understands a particular country's tax law before making decisions about how to structure your organization and operation.

Use Transfer Pricing When Transferring Products/Services in Multiple Countries

Transfer Pricing is about related companies doing business in separate countries. It happens when they each charge one another for business transactions and it ensures these prices are fair.

Transfer Pricing is used to make sure prices are fair when it comes to foreign subsidiaries. It needs to be what you would charge a complete stranger in that country. If your prices aren't set fairly, then you put yourself at risk of getting audited by the local government. If that happens, you will be asked to change the price to one that matches what's been established locally.

For example, let's say you're a Delaware C-corp and you're expanding to England to sell services and products you have developed in the US. The first thing you'll need to do is to hire a local CPA in England to understand the local business and tax regulation and perform a transfer pricing study. The transfer pricing study will determine the proper price to charge in England for the products and services you will sell through your subsidiary there.

Transfer Pricing is becoming a hot topic for many countries. Tax authorities are looking much closer at transfer pricing between foreign companies, and audit adjustments around transfer pricing are occurring much more frequently. Most federal governments require companies to maintain documentation for cross-border, non-arm's length party transactions. It’s important to know penalties may apply if this documentation is not ready, and tax authorities can request the documentation at any time.

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When it comes to expanding internationally, the four main points to consider are: tax implications, proper employee payment methods, proper financial reporting of foreign entities and transfer pricing. It’s crucial to set everything up the right way from the start so you don’t risk wasting time and money to fix it later.

CHAPTER 8

Getting A Jump Start On Series A Fundraising

Nothing beats the rush of excitement of fundraising. Asking a stranger to lend you thousands or millions of dollars because you have a great idea is a high stakes endeavor. It's certainly not for the faint of heart. Not only do you need to sell the vision, you need them to trust you, your skills and your team in a very short time. If you are raising Series A funding, here are the 5 things that you will need to do to start the fundraising process.

1 Start preparing 6 months to 1 year early

Give yourself at least 6 months to 1 year of runway time. The fundraising process itself can take a few days to a few months, and building a solid pitch and deck can take about 1-2 months. While the founder may be going out and fundraising full time and meeting with a wide variety of potential investors, someone still needs to run the company. Designate one point of contact who can run the company while the founder is working on the fundraising full-time.

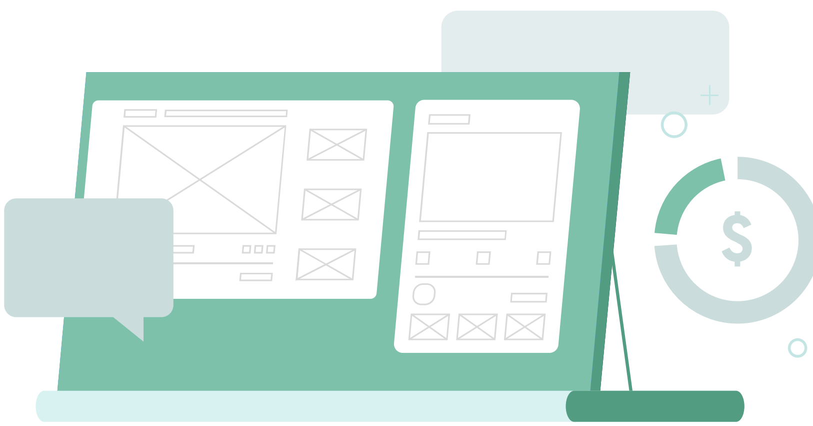
2 Calculate how much you need to raise

The goal for series A is to raise the right amount you need to hit series B milestones. Use financial forecasts to project expenses for the next couple of years and find out how much you'll need. Take your company's valuation into consideration to decide how much you need to raise for the Series A round.

3 Prep your story and polish your pitch

The pitch speaks to why others should believe in your path forward. Once you've made your pitch, then comes the part where you ask for a lot of money. That's all there is to it.

You want to be able to relate to investors with a wide range of backgrounds and adjust your pitch to who you're speaking with. That requires you to take a slightly different angle with your storytelling. This will help you widen your reach and have crisp, compelling reasons to believe in your company's potential no matter the audience.



Think of the financier who wonders "how could this make a profit?" and then put yourself in the shoes of the engineer who asks "how does this work?". You'll need talking points for different audiences in order to impress a wide variety of people.

For investors who have a strong finance background, you should prepare as much financial data as possible; have the measurements that reflect financial success or potential.

For investors who have technical backgrounds, go deeper on the technology, highlight the challenges and how the firm solved them. You want to provide enough info to paint a clear picture for investors. You want them to think your company is the next silicon valley unicorn.

4 **Know your KPIs Key Performance Indicators** will reflect improvement and success. Depending on your industry, there are different sets of KPIs you want to showcase. In general, you want to know the KPIs below by heart:

- Burn rate/runway
- Revenue
- Number of customers
- Transaction frequency
- Customer acquisition cost

This helps you provide enough data to impress investors with your startup's development.

5 Build the data room

A **data room** is an online file storage that hosts your company files. Impress your investors with the amount of data that you have prepared by getting the data room ready with the list of files below:

- P&L
- Balance sheet
- Financial forecasts
- Cap table

Investors often ask to see the data room after the initial meeting for due diligence. With the data room setup ready to go, you can send the access right upon their request.

CHAPTER 9

Audits In A Nutshell

Audits can happen to anyone. It doesn't mean that you did something wrong. Let's talk about audits and how to prepare for them.

What an IRS audit is

An IRS audit is a review/examination of an organization's or individual's accounts and financial information to ensure information is reported correctly according to the tax laws, and to verify the reported amount of tax is correct. The IRS will investigate or examine your business and tax returns and determine whether there are any adjustments or amendments that need to be made.

Why would IRS choose your company

Selection for an audit does not always suggest there's a problem. The IRS uses several different methods including random selection and computer screening and related examinations (other taxpayer issues).

When an auditor reviews your company's tax return, they may accept it or if the auditor notes something questionable, they will identify the items noted and forward the return for assignment to an examining group.

What do you need to provide

The IRS will provide you with a written request for the specific documents they want to see. The IRS accepts some electronic records that are produced by tax software. The IRS may request those or other types of records. **The law requires you to keep all records used to prepare tax returns for at least three years from the date the tax return was filed.**

How long will an audit take and how much will it cost

The length and cost are connected and depend on the type of audit, the complexity of issues, availability of requested info, the availability of both parties for scheduling meetings, and your agreement or disagreement with the findings.

How does the IRS conclude an audit

An audit can be concluded in three ways:

1) **No change** - an audit in which you have substantiated all of the items being reviewed and results in no changes.

2) **Agreed** - an audit where the IRS proposed changes and you understand and agree with the changes.

3) **Disagreed** - an audit where the IRS has proposed changes and you understand but disagree with the changes.

What you can do if you disagree with the conclusion

You can request a conference with an IRS manager. The IRS also offers mediation or you can file an appeal if there is enough time remaining on the statute of limitations.

What an external accounting audit is (vs. internal audit)

An external audit is the complete review of an organization’s accounting records and the physical review of its assets—all done by an external group. If a certified public accountant (CPA) performs the audit, the CPA can give an opinion on the fairness of the entity's financial statements. An IRS audit is an external accounting audit. Before raising funds, startups often do an internal audit to ensure accuracy of the accounting bookkeeping.

The key difference between external and internal audits is that external audits are done by a third-party group who does not directly work for the organization. They are independent of the organization they are auditing so it ensures an unbiased, objective opinion of the accounting records.

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Although it’s not required initially for a startup, audited statements may be required at some point for a potential investor. Audits are more costly, take longer and are move evasive. However, some external parties (like banks) will only deal with companies that have audited statements to prove their viability.

CHAPTER 10

The Finish Line: How To Exit In The Best Possible Way

The big exit is what founders work so hard for, it is the light at the end of the tunnel and the glory that shines like a diamond. Regardless of the stage of your startup, it is never too early to look ahead and know your options to exit.

What 'exit' means:
Owners sell ownership in a company to investors or another company. Often, it is when you, your team and investors get paid. The exit strategy you choose should align with your overall goals.

The 5 primary exit strategies:

- **Going public - Initial Public Offering (IPO) –** A founder's dream is usually to take the company public. If done right, it can make many people wealthy.
- **Acquisitions –** This is when startups get bought by another company for more than 50% of the shares. Companies usually acquire startups because they want to gain new technologies, decrease competition, enter a new market, and/or gain market share quickly.
- **Acqui-hires –** Technically, this is an acquisition, but the intent behind buying the company is to acquire talent instead. This happens often when employees of a company are particularly skilled or specialized.
- **Milk the cow –** Not every startup needs to sell. For companies that are bootstrapped with positive cash flow, some founders choose to keep the company and have steady monthly cash flow.
- **Bankruptcy –** Close down is not always the way founders want to exit, but it is an option. When you run out of cash and don't have the ability to pay back investors, you have no choice but to declare bankruptcy.

If you prefer to sell your company, remember that "companies are bought, not sold." Have your options open, network a lot and let the buyers come to you.

How long it takes to exit (IPO):

The time it takes for a startup to exit varies depending on the industry. According to Crunchbase, for firms historically going the IPO route, Saas companies took 9 years to exit, social media and marketplace companies took 7 years, gaming companies took 6 years, and e-commerce companies took 5 years, etc.

So exit times vary wildly. Exiting the business is a big decision, as a founder along with any large investors, you will need to develop the intuition on the timing and the right exit strategy to take for your business.

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No matter where your startup stands, it always helps to start thinking about your exit strategy early on. Align on your goals, know your options, and make the best choice for your employees, investors, and yourself.

To Sum It Up

The startup journey is full of excitement and unknowns. I hope this guide helps you understand the fundamentals of finance and accounting through the lens of a CFO.

In this guide book, we covered topics from forming your entity, setting up an accounting system, recording and analyzing financial data, expanding to different countries, preparing for series A fundraising, audits, and your exit strategy.

Although we covered a lot, it’s just scratching the surface. If you have any questions, I’m here for you and am happy to discuss your options so you can steer your company to higher pastures.

I wish you all the wisdom, courage and determination to take your startup to new heights!

Lei Lu

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