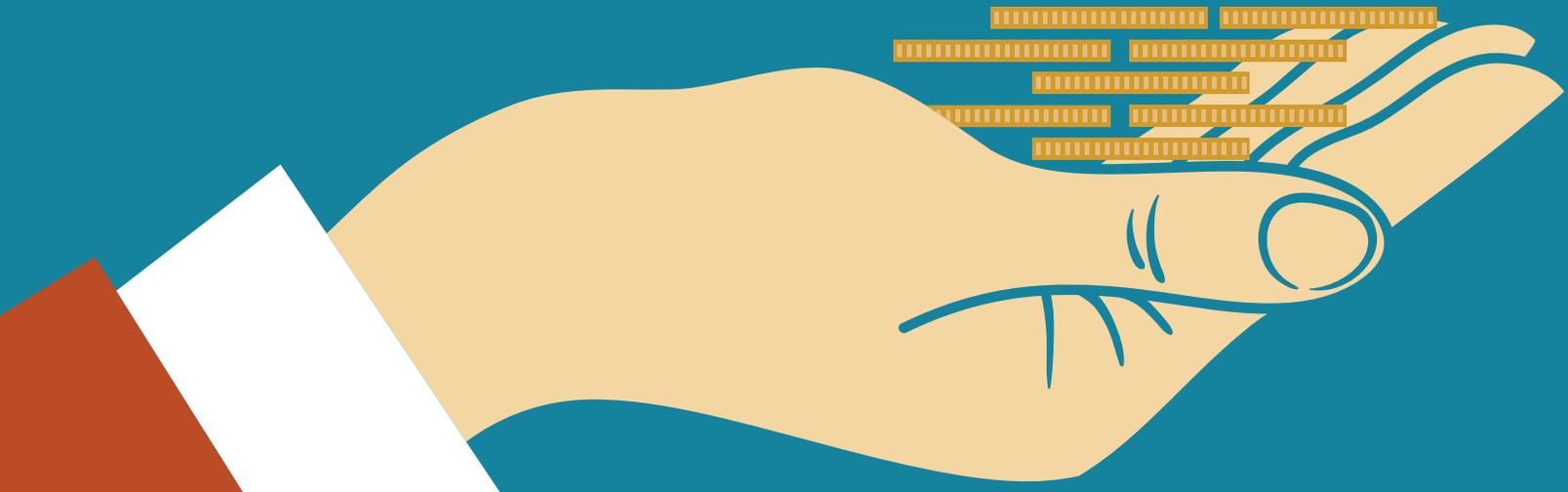
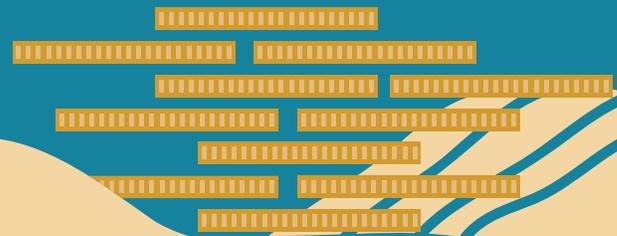


PREPARING FOR FUNDING

THE FOUNDER'S GUIDE TO
FINANCE & ACCOUNTING BEST PRACTICES



So, you need some help with your finances and accounting – but not sure where to start?

**Here at Simplexity, we are all about founders helping founders.
We've been there, and we're here to help.**

In this guide, we've outlined everything you need to know about getting your books ready for funding. You'll learn about corporate structures, hiring employees, preparing for funding, what to do after you've received funding – and everything in between. We've also included resources, recommendations and templates from experts who have been through it.

Now, let's get this show on the road!

1. Incorporated

Most venture-funded startups are Delaware [C Corporations](#).

In recent years things have changed a bit on how and when you may want to set up a C Corp and you will want to speak with your attorney to help you decide the appropriate structure for your business. You can watch a short video with a great explanation of your options [HERE](#).

Infrastructure

Business Bank Account

- You need to avoid [commingling](#) your business and personal funds. Not only does it complicate your accounting but even more importantly it puts you at risk of weakening the legal protection incorporating provides.
- Most large banks will have the right banking products for your startup. [Silicon Valley Bank](#) is particularly startup friendly.

Business Credit Card

- For accounting purposes, each credit card is an account that will need to be reconciled at the end of the month. Limiting the number of cards you use can help keep your accounting expenses down.

Recommendation: Use only one card for large company purchases and recurring subscriptions. For employee travel, meals, and other day to day expenses, have your employees use their own personal card and submit expense reports for reimbursement. We recommend [Expensify](#) which makes this process super easy.

Equity / Capital Structure

Cap Table

- Your legal team will help you established your [cap table](#).
- To help you make sure you have available options to incentivize early employees and advisors your legal team will also help you with your [option pool](#).

Recommendation: [Carta](#) is one of the leading services helping founders create and their cap table.

409A Valuation

- [Section 409A](#) is an IRS rule for nonqualified deferred compensation plans. If you intend to issue common stock options to your employees or advisors at this stage you will need to complete a 409A valuation. This will provide you with the defensible documentation you need in the event of an audit.
- A [409A](#) valuation should be done at a minimum once per year or more than once a year if you have a significant financing or other material event.

Accounting

Chart of Accounts

- A [chart of accounts](#) (COA) is a list of all the accounts you will use in your general ledger. You can think of it as how you are going to categorize your accounting.
- Your chart of accounts will be used in your core financial statements. Once established, you will want to avoid making changes to your COA to ensure you are comparing apples to apples in your month to month reports.
- Accounting software like [Quickbooks Online](#) will have a default chart of accounts that may or may not make sense for your company. Make sure that they are a good fit based on your Company's revenue and expense.

Internal Controls for Expenses/Accounts Payable

- It is challenging for a small organization to implement all the appropriate internal controls and segregation of duties needed to reduce risks of fraud or theft. However it is crucial that you begin to create these controls as soon as possible.
- A couple of easy things you can do: Consider limiting the number of signers on the bank account and ensure that dual approval is implemented for material bank transactions like wires and ACH payments.

Recommendation: Use [Bill.com](#) to ensure proper approvals for new vendor set up and bill payments.

Accounting

- You will want to familiarize yourself with the [accrual basis method of accounting](#). With the accrual method, expenses are reported in the period in which services are utilized. This provides a much more accurate view of the health of your company compared to the cash basis method that recognizes revenue and expenses when the cash changes hands. For this reason, your investors want to see you using the accrual method.

Monthly Financial Reports

- The standard reports needed to operate your business will include a [Profit & Loss Statement, Balance Sheet, and Cash Flow Statement](#).
- Your investors may also request more advanced reporting around metrics and projections.

2. Hiring Employees

- Are you hiring employees or contractors? Make sure you understand the difference [according to the IRS](#).
- Prepare a template for your [offer letters](#). You should make sure that all offer letters are reviewed by your lawyer.
- Get confidentiality/invention assignment agreements signed. Free templates found online

Infrastructure

Employee reimbursement policy

- There are a few specifics you will need to consider in your policy. You'll need to consider what employees can be reimbursed for and how often they will submit reports. [This template](#) may help you get started.

Recommendation: [Expensify.com](#) is a great tool for managing expense reports.

HR and Payroll

- [Gusto.com](#) has done a great job modernizing HR and Payroll services.

Employee Stock Options

- You will need to determine the [exercise price](#) for the options and this means you will need to ensure your 409A valuation is in place and up to date.

Financials

Cap table Update

- If you are giving options to employees, you need to update your cap table to reflect those grants. [Car-ta.com](#) is a great tool for managing your cap table and they explain in this blog post [what often goes wrong with cap tables](#).

3. Preparing for Funding

Financials

Company Valuation

- There is a lot to consider in establishing your [startup's value](#) and putting together your [term sheet](#). Your CFO/advisors and attorney will be able to help you.

Cap Table Management

- Some things you will need to account for include:
 - Issued proper amount based on level of employee/founder
 - Proper vesting associated
 - Founder vesting done with current market standards
 - Option pool availability to future hires
- Your lawyers and advisors will help you here based on industry benchmarks and your future plans.

Monthly Financials

- Investors are going to want to see your current books and that you are using the accrual method of accounting.
- Depending on the complexity and stage of your business, investors may want to see more but at a minimum, they will expect to review your monthly P&L, Balance Sheet, and Cash Flow Statements.

Due Diligence Data Room

Due Diligence Data Room

- Data rooms used to be a physical space where investors could securely review the documents involved in a deal. Data rooms are now almost always virtual.
- Your data room will include your financial and legal documents, advisor agreements, and more. This article lists the [documents you will want to consider including in your data room](#).
- Depending on your particular situation, many entrepreneurs will use something like Box, DropBox, or Google Drive or for more security and specialization [Merrill](#) is a popular provider.

Accounting

Accrual Accounting

- As mentioned before, your investors will want to see your financials done using the [accrual method](#) to have the best picture of your company's performance.

Recommendation: If you are not already operating with professional accounting, or are still using the cash based method, we recommend cleaning up your books at least three or four months prior to seeking funding. If you wait until the last minute it will likely cost about the same to do a rush job and be an unnecessary distraction for you at this key point for your startup.

4. Post Funding Event

Infrastructure

Banking

- If you've done a large raise you will want to consider setting up a money market to use as a **sweep account**. This will let you earn a little interest on the money you are holding.

Financials

409A Valuation

- Once you close your investment round you will need to make adjustments for the new value of your company. This means you will need a new 409A valuation.

Cap Table

- With new investors, you will have a new distribution of shares and will need to update your cap table.

Monthly Financial Reports

- Your investors may have specific requests beyond your standard financial and compliance reports. If you've added board seats they may want changes to your board reporting to include information about things like metrics and forecasting.

5. Collecting Revenue

Infrastructure

Payment Gateway

- It used to be a lot more complicated to accept payments online. Without going into all possible scenarios, a popular, developer friendly, solution for integrating online payments is [Stripe](#).
- SaaS companies will often use another piece of software to help manage subscriptions and help automate some of the work your accountant would otherwise need to do. Some of the popular choices include [Chargify](#), [Recurly](#), [ChargeBee](#) , and [ChartMogul](#).

Invoicing System

- Emailing invoices and accepting checks is time-consuming and quickly becomes inefficient with any kind of volume.
- Depending on your specific needs there are a lot of [invoice management](#) solutions to help you create, track, and receive payments.
- Software can help but you will still need to manage your accounts receivable and establish a policy for how you will handle collections on delinquent accounts.

Commissions plan

- There is a lot to consider when [establishing a commission structure](#) for your sales team.
- Managing who gets paid for what and when can get complex and leaving it to your accounting team to manage can get costly. To save time and money you may want to consider [commission management software](#). You may be able to find a solution specialized for your industry.

Revenue Recognition

- Revenue recognition guidance has changed considerably with [ASC 606](#). Be sure you are in compliance with current US [GAAP](#) (generally accepted accounting principles)
- Sales Tax laws can be confusing for online transactions. The folks at TaxJar.com have a whole [blog](#) dedicated to it.

You made it!

We hope that you found this information valuable and are ready to start taking your business to the next level.

What's Next?

If you have additional questions about your finances and accounting, we're here to help. Shoot us an email at info@simplexity.co

**Want 1-on-1 time with an expert?
We offer no-obligation "office hours".**

Find out how to schedule 30 minutes with one of our experts [HERE >>](#)

