



# Top Financial & Accounting Tips for Startups

**Tech Cocktail Startup  
Mixology DC**

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# Tip #1 Use an Accrual Based Accounting System

- Accrual Basis Accounting
  - Revenue recognized when earned
  - Expenses recognized when incurred – matched to same period as related revenue
- Cash Basis Accounting
  - Revenue is recognized when cash is received
  - Expense recognized when cash is paid
  - Cash basis accounting system can produce a Profit & Loss but not a balance sheet

# Sample Accounting System List

- **Accrual Accounting Systems**

- [www.WorkingPoint.com](http://www.WorkingPoint.com)
- [www.openerp.com](http://www.openerp.com) (open source ERP applications)
- <http://quickbooks.intuit.com>

- **Cash Basis Accounting Systems**

- [www.outright.com](http://www.outright.com) (targets sole proprietors and single-person LLCs )
- [www.freshbooks.com](http://www.freshbooks.com) (billing system)

# So what: What's missing in a cash basis system?

- Tracking money owed to you: Unpaid invoices; daily merchant account activity; longer term holdbacks or reserves
- Assets: Capitalized computers and equipment; Other assets of the company
- Tracking money you owe others: Accounts Payable (unpaid bills); Rev share due to partners
- Equity

## Tip #2 Set up a Good Chart of Accounts that Syncs with Your Business Model

- Accounting transactions are grouped in logical categories called “Accounts”. The master list of accounts is called a “Chart of Accounts” and is the backbone of an accounting system
- Use names and numbers, start with high level and add sub groupings. Leave space in numbering —62010, 62015, 62020—to allow for future accounts in the sequences

# Tip #2 Set up a Good Chart of Accounts that Syncs with Your Business Model

- Sample Chart of Accounts Structure
  - 10000 – Assets
  - 20000 – Liabilities
  - 30000 – Equity
  - 40000 – Income
  - 50000 – Cost of Goods Sold (COGS)
  - 60000 – Expenses
    - 61000 – Development
    - 62000 – General & Administrative (G&A)
    - 63000– Sales & Marketing
  - 80000 – Unallowable (Used for Government Contracting)
  - 90000 – Other Income and Expenses

# Tip #3 Avoid Common Payroll Mistakes

- Send the Payments
  - Federal (FICA Employers share; Employees share; Employee federal withholdings)
  - State withholdings (Employees pay – not an expense to the company)
  - State Unemployment tax (Employers pay based on where employees work)
- Send the Reports
  - Federal and local monthly /quarterly/ annual reports – With do it yourself, you may be able to file via the payroll service OR may need to file via state websites or manually

# Tip #3 Avoid Common Payroll Mistakes

- “Do it yourself” payroll services - Know what the payroll company is doing and what you need to do
- “Full service” payroll- Use a reputable payroll service
  - Look out for “applied for” status on reports - indicator payroll company may not be sending reports
- Monitor that Federal payments are being made using EFTPS portal
- Never try to improve cash flow by not remitting federal payroll tax



## Tip #4 DC Companies – Check out the DC FR-399 Qualified High Technology Companies

- Local DC Tax breaks for High Tech companies
- [http://otr.cfo.dc.gov/otr/frames.asp?doc=/otr/lib/otr/2007\\_fr-399\\_final.pdf](http://otr.cfo.dc.gov/otr/frames.asp?doc=/otr/lib/otr/2007_fr-399_final.pdf)