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When comparing the accounting needs for "Silicon Valley" style startups versus established companies the differences can be stark. Many CPA firms don't have deep experience helping startup founders playing the venture capital (VC) game – but those same founders can seriously benefit from the financial advice the right CPA can bring.

My team advises over 600 funded startups that have raised over $6 billion in

The first and most important area where a CPA can help a funded startup is to build a finance technology backend made up of accounting tools and operational systems. This ecosystem of connected fintech tools is used to run, support, improve and optimize finance, accounting, and financial operations at a startup.

With new tools available on the market at an ever increasing rate, it can be daunting for startup CEOs to know which ones are best for their company, and VC-backed, early-stage companies have different needs vs. other small or medium businesses. For me, this is the best part of working with startups because I get to start from scratch to build a uniquely tailored, custom stack versus trying to work through a patchwork of outdated legacy systems often found at established companies. Getting this first step right can make all the difference when it comes time to scale. There's nothing worse than having to start from scratch once a company reaches a certain milestone, so I always advise founders to get it right on the first try! The key components to a great fintech stack are:

- Accounting. The most important thing to look for in your startup's accounting system is scalability. The system your client chooses needs to integrate with the rest of your fintech stack, including expense management, payroll, and accounts receivable/payable. The system needs to handle fast growth easily and eventually allow your client to upgrade it to meet any increasing requirements. Your client also needs to look for an industry-standard system that any accountant can use, and that lets the client "own" their financial data. That means beware of any firms that built their own accounting systems that store your client's data and won't allow easy export.

Quickbooks Online is the accounting system we recommend for early-stage companies. Quickbooks Online has API integrations with banks and credit cards, and a solid user interface that's become an industry standard. Almost every CPA and accounting professional is familiar with it, which helps you with staffing. Xero is

For payroll systems, we recommend Gusto, Rippling, Trinet Payroll, and Justworks. All of these providers have partner programs that can help your firm in several ways. First of all, they have groups dedicated to serving accountants, which means that if you can get enough clients on a platform, you can get superior customer service – something you and your clients will appreciate. Secondly, these partner programs can provide your firm with sign up bonuses as you bring them clients (of course, you'll want to meet CPA disclosure requirements on this as well).

- Expense management. Expense reporting and tracking is critically important for startups. Things to look for in an expense management system include automation that documents spending for audit purposes; easy connections to the client's bank, employees' banks, and the accounting system; and virtual credit cards that are easy to provision for employees.

There are a number of good expense management options available for startups, including Ramp, Brex, Rho, and Expensify. All of these companies offer free or very inexpensive basic expense management solutions that can be scaled as your company grows. Like the payroll providers, they usually have partner programs for accounting firms.

- Payment processing. Both accepting and making payments are important for early-stage companies, and the payment system your client chooses should allow setting up payments quickly and easily. If your client will be accepting or making payments internationally, the payment tool needs to handle global currencies. And, of course, it needs to connect to the accounting system.

For payment processing, Quickbooks offers invoicing. Other options our clients have used include Bill.com or Stripe. Bill.com organizes your bills and stores them online, creating a solid audit trail.

I've worked with all of these providers and each one has a unique offering, so it all

accurately on burn rates, how to best extend their runway based on market conditions, and how to leverage their capital as efficiently as possible.

Most startups don't earn a significant amount of revenue in their initial stages, so carefully managing the funds provided by venture capital investors is essential. The first piece of information your client needs is to understand the length of their runway, or how long their available cash will last, before they reach their zero cash or cash out date. To do that your client needs to understand their burn rate, which is the amount of money the company is spending over time.

At our firm, we calculate burn rate on both a cash basis and an accrual basis. While we always recommend accrual accounting for our clients, accruals include receivables and payables, which can hide the fact that there may be less cash on hand than your client realizes, so the cash-out date may be coming sooner rather than later. The cash basis burn rate is typically operating cash flow minus investment cash flow, with some adjustments for accounts payable, accounts receivable, and capital expenditures.

Preparing Financial Projections

Some startup founders are very comfortable producing financial projections and financial models – I've found that many founders with engineering backgrounds really know their way around a spreadsheet. But, spending time in Excel (or increasingly Google Sheets) is not often the best use of time for a busy founder. An excellent area where experienced CPAs can offer VC-backed startups advice is by putting together financial models. CPAs that have worked with multiple startups will have knowledge of how much various personnel will cost, how marketing funnels will work, what revenue retention rates will be as a company scales, etc. This is a great way to get closer to your clients and offer them a higher-level service and become a true advisor to your startup clients.

Ensuring Startup Tax Compliance

Finally, the R&D tax credit is a powerful government incentive for companies that are conducting research in the United States, and tax CPAs serving VC-backed startups should be comfortable conducting these studies. We strongly recommend that tax professionals DO NOT outsource the R&D tax credit (Form 6765) to a non-CPA firm. There is a reason that the R&D tax credit is on the IRS' Dirty Dozen list – and you can bet that a leading reason unprofitable startups get audited is because of poorly produced tax credit studies.

Due Diligence Support and Preparation

Startups are repeatedly undergoing due diligence as they raise multiple rounds of capital or when they eventually sell the business. Because of the unique position many startups are in, they often need to conduct due diligence in a hurry. Many founders don't realize the critical role a CPA will play in making due diligence faster and less stressful. It's common for later-stage venture investors to ask to see past returns to verify tax compliance, and acquiring companies want to make sure they're not getting saddled with IRS fines and penalties when they buy an early-stage company. And, of course, the books need to be up to date and accurate before a diligence process starts.

Advising on Founder Compensation

At a small business, the founder's compensation is usually pretty easy – as much as the business can support while minimizing taxes! However, when a company raises outside capital – particularly venture capital – there is a natural pull by the VCs to keep the founders' salaries lower to preserve the company's cash. In Silicon Valley, there is an ethos of founders making "ramen" money – only enough to barely survive. This is not healthy for many startup founders, and since they are dependent on the

VCs for maintaining their company's burn, they are often not comfortable asking

An Exciting Niche!

Startups have unique needs and requirements, and startup founders face complex accounting and tax situations such as venture capital due diligence, cash flow management, compensation issues, and more. As CPAs it's an exciting opportunity to provide strategic and financial guidance at important moments in a startup's journey.

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