

## ACCOUNTING 2900

### ACCOUNTING FOR ENTREPRENEURS

Spring 2024

#### INSTRUCTOR:

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**Office hours: TTh 3:30-4:30**

#### COURSE DESCRIPTION:

This course covers the financial, managerial, and tax accounting issues and tools relevant to private, entrepreneurial companies as they progress from the earliest stages of the business through to the company's exit, typically through a strategic buyer, a private equity firm, or via an IPO. Topics include the choice of organizational form; the development of the initial accounting infrastructure; the accounting issues that are frequently faced by entrepreneurs such as accounting for intangible assets, employee compensation, revenue recognition, and financing; the development of management and internal control systems; the establishment of monthly and yearly budgeting, financial forecasting, and cash management processes; and the accounting information required for fundraising and going public. The class is designed for students who intend to own, work for, or invest in entrepreneurial companies.

#### COURSE LEARNING OBJECTIVES:

After taking this course, students should:

- i. Have an understanding of the major tax issues for early-stage private companies (including the tax aspects of organizational form, capital structure, compensation, mergers and acquisitions, IPOs).
- ii. Have an understanding of the major managerial accounting issues for early-stage private companies (including organization form, Key Performance Indicators (KPIs) and budgeting, internal reporting)
- iii. Have an understanding of the major financial accounting issues for early-stage private companies (including reporting requirements, the role of external accountants, disclosure of important transactions such as compensation, revenue, and intangibles).

**PREREQUISITES: ACCT 1010 AND ACCT 1020**

## FORMAT:

The course will be a combination of lecture (with solutions to selected problems), case work, and interactive class discussion. **I will assume that you have prepared the required material for each class.**

**Please note that case solutions will be discussed in class. No handouts of case solutions will be available.**

**Cases must be turned in prior to the start of class on the date of the assignment. No late cases will be accepted. Cases should be submitted through Canvas.**

The case assignments can be done individually or in groups up to four students. I will not become involved in any group disputes. Groups will have to monitor and manage themselves. All members of the group will receive the same grade on the case. In order to avoid "free-rider" problems, group membership can change during the course. ***Groups must work independently and may not work with or share information with people who are not in their group.***

**NOTE:** Additional student names will not be allowed to be added to cases after they have been turned in. Please make sure that your team members have included your name on any assignments.

**All groups must work independently.** Members of different groups are ***not*** allowed to discuss the cases or exercises or to share answers prior to the assignments being turned in. You are responsible for ensuring that work done by your group is done independently of other groups.

## GRADING:

1. Class participation (20%):  
*Based on student's ability to answer questions about the material, in particular case questions, as well as attendance. We will be using the Wharton attendance app to track attendance.*
2. 3 in-class quizzes (20% each):  
*Closed book, closed notes, but you can have a one-page cheat sheet (8.5 x 11 inches, double-sided)*
3. Two case write-ups (10% each)

## **OTHER ISSUES:**

Neither an interview, travel in connection with an interview, nor vacation travel is an acceptable reason to miss a case assignment or exam. *No make-up quiz or case assignments will be available.*

Regrade requests must be submitted in writing within one calendar week following the return of the assignment (or one week following the start of the next term for the final exam). To have an assignment or exam regraded, you must submit the original (with no modification) and a written description of your disagreement with the initial grade.

**Class recordings will only be made available to students with an excused absence.**

## ***REQUIRED MATERIALS:***

Course notes will be posted on Canvas. In addition, readings and case studies will be provided through Study.net, or can be accessed using the links provided in the syllabus.

In addition to this material, we will be using textbook material available for free online through OpenStax. The link to access this material is provided in the syllabus.

## ACCT 2900 - COURSE OUTLINE AND SCHEDULE

### 1. (Thursday, January 18) Course Overview: Life Cycle of Entrepreneurial Accounting Issues

Overview of critical tax and accounting issue at each stage of financing

**Class Notes:** Session 1

### 2. (Tuesday, January 23) Choosing an Organizational Form: Tax Issues

Basics of the US Tax System:

Goals of taxation

Tax preferences/incentives

Concept of Nexus - Domestic v. international and Federal v. state concepts

**Class Notes:** Session 2

**Readings:** OpenStax, *Entrepreneurship*, Chapter 13 (Business Structure Options), available at <https://openstax.org/details/books/entrepreneurship>

### 3. (Thursday, January 25) Basics of Tax Accounting

Taxation of return to capital (not return of capital)

Tax v. book accounting

Cash v. accrual accounting for taxation

Concepts surrounding losses

**Class Notes:** Session 3

### 4. (Tuesday, January 30) Business Taxation

Sole proprietorship v. corporation v. conduit entities

Income and non-income tax differences

Other tax considerations (property taxes, payroll and sales taxes, tax incentives)

**Class Notes:** Session 4

## 5. (Thursday, February 1) Developing the Accounting Infrastructure I

Financial accounting use and infrastructure: Public v. private firms  
Choosing an accounting method (cash, accrual, small business GAAP)  
Key system design accounting choices  
Accounting for startup costs

**Class Notes:** Session 5

**Readings:** AICPA, An Introduction to the Financial Reporting Framework for Small and Medium-Sized Firms, <https://us.aicpa.org/content/dam/aicpa/interestareas/frc/accountingfinancialreporting/pcfr/downloadabledocuments/frf-sme/frfforsmes-introduction-fsusers.pdf>

OpenStax, *Entrepreneurship*, Chapter 9 (Entrepreneurial Finance and Accounting), <https://openstax.org/details/books/entrepreneurship>

Accounting Essentials for Three Stages of Your Startup, <https://earlygrowthfinancialservices.com/blog/accounting-essentials-for-three-stages-of-your-startup/>

S. Shinde, Startup Bookkeeping: Common Mistakes VC-backed Startups Make and How We're Solving Them, <https://www.zeni.ai/blog/startup-bookkeeping>

## 6. (Tuesday, February 6) Developing the Accounting Infrastructure II

Subsidiary journals, bank reconciliation, and closing the books

**Class Notes:** Session 6

**Readings:** OpenStax, *Principles of Accounting, Vol. 1, Financial Accounting*, Chapters 3 (Analyzing and Recording Transactions), 4 (The Adjustment Process), 5 (Completing the Accounting Cycle) and 7 (Accounting Information System), <https://openstax.org/details/books/principles-financial-accounting>

## 7. (Thursday, February 8) Accounting for Intangibles + Revenue Recognition

Accounting rules for R&D, software development, and other intangible assets

**Class Notes:** Session 7

**Readings:** Accounting for external-use software development costs in an agile environment, *Journal of Accountancy*, March 12, 2018

Accounting Tools, Capitalization of Software Development Costs, <https://www.accountingtools.com/articles/capitalization-of-software-development-costs.html>

KPMG, IFRS vs. GAAP: R&D Costs,  
<https://kpmg.com/us/en/articles/2023/ifrs-vs-us-gaap-rd-costs.html>

**8. (Tuesday, February 13) NO CLASS MEETING**

**9. (Thursday, February 15) Accounting for Ownership and Compensation**

Accounting rules for different forms of compensation, partnerships, and ownership changes through the startup life cycle  
Implications of these rules for organizational choices

**Class Notes:** Session 9

**Readings:** OpenStax, *Principles of Accounting, Vol. 1, Financial Accounting*, Chapter 15 (Partnership Accounting), available at <https://openstax.org/details/books/principles-financial-accounting>

**10. (Tuesday, February 20) In-class Quiz 1**

**11. (Thursday, February 22) Choosing a Cost Structure**

Unit economics and breakeven analysis  
Customer acquisition costs  
Tax and non-tax considerations

**Class Notes:** Session 11

**Readings:** OpenStax, *Entrepreneurship*, Chapter 14 (Resource Planning), available at <https://openstax.org/details/books/entrepreneurship>

**12. (Tuesday, February 27) Planning for the Future: Financial Planning and Budgeting**

Review the financial planning and budgeting cycle and the links between pro forma balance sheet, income statement, and cash flow requirements

**Class Notes:** Session 12

**Readings:** OpenStax, *Principles of Accounting, Vol. 2, Managerial Accounting*, Chapter 7 (Budgeting), available at <https://openstax.org/details/books/principles-managerial-accounting>

13. (Thursday, February 29) No Class Meeting: Team Case Preparation

Case: ***Duralock: Budgeting for Decision-Making***

Excel spreadsheet and case question writeups are due before the start of class on March 12  
(One submission per team on Canvas)

14. (Tuesday, March 12) ***Duralock Case Discussion***

**In-Class Case Discussion:** Each team should bring a laptop and its completed excel spreadsheet for the case

15. (Thursday, March 14) Cash Management I

The cash cycle and elements of working capital, forecasting cash requirements, customer and banking collection and payment techniques, accounts payable and accounts receivable aging, modern cash management techniques

**Class Notes:** Sessions 15 and 16

**Readings:** OpenStax, *Principles of Accounting, Vol. 1, Financial Accounting*, Chapter 9 (Accounting for Receivables), available at <https://openstax.org/details/books/principles-financial-accounting>

16. (Tuesday, March 19) Cash Management II

Continuation of Session 15

**Class Notes:** Sessions 15 and 16

17. (Thursday, March 21) ***Working Capital Simulation (in-class)***

18. (Tuesday, March 26) Key Performance Indicators (KPIs)

Selection of financial and non-financial key performance indicators to allow managers and investors to gauge the company's progress and estimate its future financial health

**Class Notes:** Session 18

**Readings:** The A-Z Guide to Startup Metrics: 16 KPIs to Help Your Business Succeed, <https://www.geckoboard.com/blog/the-a-z-guide-to-startup-metrics-16-kpis-to-help-your-business-succeed/>

**19. (Thursday, March 28) Guest Speaker: TBD**

**20. (Tuesday, April 2) In-class Quiz 2**

**21. (Thursday, April 4) Implementing Management Control Systems**

The major elements of management control systems  
The importance of management control systems to startup financing

**Class Notes:** Session 21

**Readings:** Davila, Antonio, and George Foster. "Management control systems in early-stage startup companies." *The accounting review* 82.4 (2007): 907-937.

**22. (Tuesday, April 9) Internal Controls**

The fraud triangle  
Key elements of effective internal control  
COSO internal control framework

**Class Notes:** Session 22

**Readings:** OpenStax, *Principles of Accounting, Vol. 1, Financial Accounting*, Chapter 8 (Fraud, Internal Controls, and Cash), available at <https://openstax.org/details/books/principles-financial-accounting>

**Case:** *Le-Nature's Inc. Fraud: What Happened and Why?* (No case writeup due. Read case before class and be prepared for class discussion)

Case question writeups are due before the start of class on April 9 (One submission per team on Canvas)

**23. (Thursday, April 11) Hiring an External Auditor**

Role of an external auditor, timing and factors to consider when hiring an auditor, importance of external auditors for startup financing, preparing for an external audit

**Class Notes:** Session 23

**Readings:** Deloitte, Preparing for the First-Time Audit, <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/audit/preparing-for-your-first-time-audit.pdf>



#### **24. (Tuesday, April 16) Accounting and the Fundraising Process**

Financial and non-financial information needed at each stage of the fund-raising process  
Preparing for the due diligence process

**Class Notes:** Session 24

#### **25. (Thursday, April 18) Accounting for Debt**

Types of debt used by private companies (accounts receivable line of credit, venture debt, term loans, factoring)  
Debt covenants and warrants  
Accounting for financial obligations

**Class Notes:** Session 25

**Readings:** C. Hornstra and J. Huang, Tech Startup Accounting: 3 Unforeseen Financing Questions, <https://www.crowe.com/insights/tech-startup-accounting-3-unforeseen-financing-questions>

#### **26. (Tuesday, April 23) Accounting for Exit to Private Equity, IPO, SPACS, M&A Part I**

Exit to private equity: working capital calculations and adjustments, rollover of management equity  
IPOs: Accounting-related prep work and requirements  
Accounting for M&A

**Class Notes:** Sessions 26 and 27

#### **27. (Thursday, April 25) Accounting for Exit to Private Equity, IPO, SPACS, M&A Part II**

Continuation of session 27.

**Class Notes:** Sessions 26 and 27

#### **29. (Tuesday, April 30) In-class Quiz 3**