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


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

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
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
   

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
   

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
   
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

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

22. (Tuesday, April 9) Internal Controls

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

   Class Notes: Session 22

   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
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

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