

Financial Reporting and the Technology Start-Up

**by Steve Balistreri
Argy, Wiltse & Robinson, P.C.
Partner, Audit Principal**

Entrepreneurs beginning new technology companies have many matters with which to concern themselves including developing their product and bringing it to market, raising capital, and growing a company. While accounting and financial reporting matters often are not priorities, lack of proper attention to accounting and financial reporting can impede the activities of such a business. Often, the ramifications are uncovered at the worst times, such as during due diligence by an investor or when a potential new customer requests to see the company's financial statements. Here are some recommendations for young technology companies:

- **Develop a culture emphasizing the importance of financial reporting.** Set the proper tone so all employees know the importance placed on accurate financial reporting. The establishment of a system of internal controls is a good place to start. It is a misconception that young, resource-challenged companies cannot implement internal controls because segregation of responsibilities can be established with just a few employees.
- **Start from the beginning.** Do not assume that accounting records can be “re-built” at a later time. Memories fade, records are misplaced, and the original intent of agreements executed during the flurry of activity that swirls around the beginning of a company is often lost. As a young company receives and disburses cash and enters into agreements it should have currently maintained accounting records.
- **Know the difference between cash flow, the pipeline, financial reporting rules and taxability.** If birthing a new technology and growing a company around it are not hard enough, entrepreneurs are faced with tracking and reporting not just the flow of cash in and out of their company, but other important financial metrics such as:
 - The pipeline of new work (backlog) that will determine the need for future resources;
 - Operating results based on accounting principles generally accepted in the United States (GAAP) which is the format most banks and third parties request; and,
 - The income tax impact resulting from operations.

Entrepreneurs need an understanding of the differences between these reporting metrics.

- **Do not let accounting considerations stand in the way of great business opportunities.** Accounting records and financial statements are a scorecard, a historical representation of the activities of a company. Therefore, financial reporting ramifications should never interfere with the execution of a great business plan.
- **Find a good accountant.** An accountant who understands growing technology companies is an essential part of an entrepreneur's team. From assistance in managing cash flow and income tax compliance during the early stages to navigating the myriad GAAP revenue and expense recognition rules as your company matures. A good accountant should be a trusted advisor who can manage the current needs of your company, install sound internal controls and plan for future needs.