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Accounting & Tax Overview

- Presented by:
 - Frank Milone, *Partner*, Assurance & Advisory Services
 - Lisa LaSaracina, *Partner*, Tax



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Agenda:

- Firm Overview
- Accounting & Tax Overview
 - Bookkeeping v Accounting
 - GAAP and Financial Statement Overview
 - Accounting Issues for Early-Stage Companies
 - LLC v C-Corp
 - Tax Issues for Early-Stage Companies
 - Review of GAAP Financial Statement Example



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Firm Overview:

- Who we are ...
- What we do ...
- How we help early-stage companies ...
 - Implementing/establishing significant accounting principles
 - Advising on internal control & financial reporting
 - Assisting with financial statement prep & disclosures
 - Tax assistance, compliance & incentives



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Accounting & Tax:

Discussion

- Expectations from session?
- Financials and You
 - Why financials?
 - Each verbally describe purpose for financials & accounting



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Accounting & Tax:

- Bookkeeping v Accounting
 - Basic differences:
 - Bookkeeping is “*starting at the edges*” (like starting a puzzle... defines a framework and supports the underlying information)
 - Accounting and financial reporting “*fills in the middle of the puzzle*”... and focuses on application of Generally Accepted Accounting Principles (GAAP) and external reporting



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Accounting & Tax:

- Bookkeeping v Accounting
 - Best Practices (*bookkeeping*):
 - Organization / systematic process
 - Timeliness
 - Accounting system / QuickBooks or similar OK
 - Account reconciliations - timeliness
 - No co-mingling of funds (personal v business)



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- GAAP: Generally Accepted Accounting Practices
- Comprised of
 - Income Statement
 - Balance Sheet
 - Cash Flow Statement
- Together they represent a snapshot of the company at a given point in time, ONLY!!



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- How much are you making?
 - What is your revenue?
 - What is your (revenue) run rate? Can I see your Income/P&L statement? What is your margin?
 - How good is your company at MAKING MONEY?
- How much do you have in the bank?
 - What are your liquid assets?
 - Are you solvent? Can I see your Balance Sheet?
 - What does your company OWN and OWE?
- Your checkbook balance each month, \$+/- ?
 - What are your bills costing?
 - Are you cash positive? What is your Burn rate? Can I see your Cash Flow statement?
 - How is your company PAYING for its current operation and future growth?



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Why a balance sheet?

- To determine Stockholder Value or Book Value
- Tell how much money the company has in the bank and what money it owes.
- Determine what it owns.

Balance Sheet

- Assets
- Liabilities
- $\text{Stockholder equity} = \text{Assets} - \text{Liabilities}$



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Why an Income Statement?

- To determine if a company is Profitable or Not.
- How much the company earned, profit margins, consistency and direction of its earnings
- To determine how the company generates revenue

Income or P&L (Profit & Loss) Statement

- Revenue
- Expenses
- P&L Summary



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Income Statement

1. Revenue
2. Cost of Goods
3. Gross Profit = Revenue - Cost of Goods
4. Operating Costs and Expenses
5. Net Profit before taxes = Gross Profit - Operating Cost and Expenses
 - EBITA: Earnings Before Interest, Taxes, Depreciation and Amortization
6. Net Profit after taxes = Net Profit before taxes - Interest - Taxes - Depreciation - Amortization
 - P&L



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Why a Cash Flow Statement?

- To determine if a company is operating with Positive or Negative Cash Flow.
- It tracks the flow of cash IN and OUT of the company
- Tracks spending on capital improvements, investments in future
- Tracks bond and stock sales and repurchases

Cash Flow Statement

- Operating Activities
- Investment Activities
- Financing Activities



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Cash Flow Exercise: (20 minutes)

- For your company – develop a cash flow model – start with year1 and expand it out.
 - Cash inflows
 - start-up capital
 - cash flow from sale of product or services (assumptions?)
 - other
 - Cash outflows
 - start-up costs
 - cost to operate under business model
 - fixed (rent, salary, insurance, overhead etc)
 - variable (materials, salaries, overhead, etc)

How long to cash flow positive and how much capital do you need to get there?

How much cash do you need to generate from operations to be a cash positive position on a monthly basis?



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Accounting & Tax:

- Accounting Issues for Early-Stage Companies
 - Significant accounting principles (i.e. revenue recognition, equity accounting, option valuation/accounting, etc.)
 - Need to know “who you are” and “what you’re doing”
 - Financial statement presentation
 - Shows the outside world “who you are”
 - Internal control (i.e. segregation of duties, internal processes)
 - Enables you to operate more efficiently
 - Enables you to control your company
 - Enables you to identify risks



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Accounting & Tax:

- LLC v C-Corp (“Inc.”)
 - Basic differences - LLC:
 - More flexibility with allocations of income/loss
 - Flow-through treatment of income/loss – i.e., single layer of tax
 - Business activity and tax consequences reflected on member’s return
 - However, utilization of losses may be limited
 - State tax credit opportunities limited



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Accounting & Tax:

- LLC v C-Corp (“Inc.”)
 - Basic differences – C Corp:
 - Taxed at entity level
 - Double tax when declare distributions to stockholders or on asset sale upon exit
 - “Business” filings in “other states” – i.e. no individual returns required
 - State tax credit opportunities (include “refundable” credits) available



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Accounting & Tax:

- Tax Issues for Early-Stage Companies
 - Stock Compensation
 - Section 83(b) elections
 - LLCs can use profits interest
 - Valuation for stock compensation



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Accounting & Tax:

- Tax Issues for Early-Stage Companies

- Incentives & Credits
- Federal / State Research & Development
- Federal / State New Jobs Credits
- Entity selection may impact credit availability



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Accounting & Tax:

- Tax Issues for Early-Stage Companies

- State Tax Issues
 - Nexus = right of a given state to impose tax obligations on business / individual based on “presence”
- Sales & Use Tax Issues
 - Collecting & remitting “sales” tax
 - Self-assessing and paying “use” tax
 - Taxable and non-taxable items



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GAAP Financial Statement Example

Spend 15 minutes and review financial statements:

- Find 5 things you think are important and be ready to explain why?
- Find 3 items you have questions about and ask away!



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Tax Returns - Examples

Spend 15 minutes and review Partnership and Corporate Returns.



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Q & A Session...



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Thank you!

...and...

All the best on your new ventures from all of us at
FML!

/s/: Frank Milone
Partner - A&A Services

/s/: Lisa LaSaracina
Partner- Tax

Fmilone@fmlcpas.com

llasaracina@fmlcpas.com

300 Winding Brook Drive
Glastonbury, CT 06033
860.657.3651

