

Accounting for Entrepreneurs: From Start-up to IPO (B30121) – Spring 2025
University of Chicago Booth School of Business
Professor Phil Berger

Phil Berger

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Class sessions:

Wednesdays 1:30-4:30pm & 5:00-8:00pm and Saturdays 9:00am-noon; **in-person only**

Office Hours:

Please email me to set up an in-person or Zoom appointment

I'll also be available before and/or after each class session

Teaching Assistants:

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Materials:

- 1) Readings and Cases via on-line University of Chicago Canvas system
<https://canvas.uchicago.edu/>
- 2) Canvas paperless “handouts” each week.
- 3) Text-book: [*Entrepreneurial Finance and Accounting for High-Tech Companies*](#), by Frank Fabozzi, MIT Press, November 2016. 1st edition

Course Objectives:

This course provides the core set of tools and strategies related to the (very broadly defined) work of a Chief Financial Officer (CFO) at a private, entrepreneurial company. The course follows the life-cycle of a company that begins as a start-up, and covers the accounting-related financial metrics, and the managerial, financial and tax accounting issues that are centrally important for an entrepreneur.

We will cover topics relevant at the earliest stages of a business, such as setting up the initial accounting infrastructure, move on to growth-stage issues such as how to most effectively scale up the firm, and end with discussion about the company’s exit. The exit would typically be to a strategic buyer, a private equity firm or via an IPO, direct listing, or SPAC.

Selected topics:

- Setting up the **initial infrastructure** for the information system used by a start-up.
- Structuring and accounting for **equity-based compensation**, for founders and employees.
- Reporting **key performance indicators** to the company, the board of directors and investors such as venture capital and private equity funds.
- Managing **working capital**, establishing monthly and yearly **budgets**, and future forecasts.
- **Board of directors** and governance issues, particularly at **growth-stage companies**.
- Accounting information required for a **fundraising process**
- Accounting and applying for **debt as a private company**, such as bank debt, venture debt, and account receivable lines of credit.
- **Sale process**, working capital adjustment, and roll-over equity for a management team.

Prerequisites: Financial Accounting 30000 or equivalent.

Grades:

Your grade is based on your score out of a possible 440 points. The course **cannot be taken pass/fail**. I **do not allow unregistered (i.e., auditing) students in the course**. The points are allocated as follows:

Final exam	200	(individual work)
4 Problem sets (best 3 of 4)	90	(individual work)
4 Cases (best 3 of 4)	120	(group work of up to 4 students)
<u>Class Participation</u>	<u>30</u>	(individual work)
	440	

Problem Sets:

There will be 4 problems sets. Students *must work individually on the problem sets*. Please upload the completed problem sets into Canvas, and the problem sets must be turned in by the beginning of the class section that you are registered in. I will drop your lowest score if you submit all 4 problem sets and you must submit at least 3 of the problem sets. **You may make use of Generative AI tools such as ChatGPT in preparing your problem set answers as long as you disclose doing so at the start of your answers. Note that generative AI may not be used in a way that would constitute academic plagiarism if the generative AI were a human author whose work was used without attribution.**

Cases:

We will do 4 cases this spring quarter:

1. *"Lather, Rinse, Repeat": Feedburner's Serial Founding Team*, by Noam Wasserman and Eric Olson
2. *WeWork: But Does the Corporate Governance Work?*, by J. Yo-Jud Cheng and Stephen E. Maiden
3. *Avid Radiopharmaceuticals: The Venture Debt Question*, by Matthew Rhodes-Kropf and Ann Leamon
4. *Square, Inc.*, by Ramana Nanda, Robert White and Lauren G. Pickle

We will go over these cases in class. Case grades will be based on written answers to several questions associated with each case. Students *must work in groups of 2 to 4 students on the cases*, and students should turn in 1 case per group. Please upload the completed cases into Canvas, and the cases must be turned in by the beginning of the first class section that any member of the group attends for that week. I will drop your **group's lowest score on the cases if your group submits all 4 of them and your group must submit at least 3 cases**. **You may make use of Generative AI tools as an input to your group's discussion about case answers as long as your group discloses doing so at the start of your case write-up. Note that generative AI may not be used in a way that would constitute academic plagiarism if the generative AI were a human author whose work was used without attribution.**

Please assign yourself to a group **via Canvas under "People" and the tab "Case Groups."** Students in different sections can be in the same group, but cases must be turned in for the earliest section that anyone in the group is registered in.

Final Exam:

The final exam is closed book, but you are allowed to use a "cheat" sheet (one sheet of double-sided 8½ x 11 paper, with your notes on it). Exams tend to draw most heavily from the class notes, problem sets, and cases, followed by the assigned readings. The exam will be given on the same day of the week and at the same time as your regularly scheduled class session.

Participation:

Participation grades will be based on students' voluntary participation as well as their ability to answer basic questions about the material, in particular case questions and class discussion questions, as well as attendance. I may call on students during the case and class discussions to help both the teaching of the class and the evaluation of your participation grade.

Honor Code Pledge:

Each student shall sign the following pledge on each exam:—"I pledge my Honor that I have not violated the Chicago Booth Honor Code during this examination." At my discretion, this pledge may be required on any other graded work. **Any violation of the honor code shall constitute cheating. Cheating on any one or more individual assignments will result in a grade of F for the course for the individual. Cheating on any one or more group assignments will result in a grade of F for all members of the group that submitted the assignment(s).**

Feedback on Readings and Teaching Style:

The University of Chicago believes rigorous inquiry is facilitated when diverse perspectives, experiences, individuals, and ideas inform intellectual exchange and engagement. I concur with that view and expect to maintain a productive learning environment based on open communication, mutual respect, and non-discrimination. Any suggestions as to how to further such a positive and open environment in this class will be appreciated and given serious consideration.

Student Disability Accommodation Requests:

If you require any accommodations for this course, as soon as possible please provide me with a copy of your Accommodation Determination Letter (provided to you by the Student Disability Services office) to discuss how your accommodations may be implemented in this course. The University of Chicago is committed to ensuring the full participation of all students in its programs. Student Disability Services can be contacted at [773-702-6000](tel:773-702-6000)/TTY [773-795-1186](tel:773-795-1186) or disabilities@uchicago.edu, or visit the website at disabilities.uchicago.edu.

Accounting for Entrepreneurs: From Start-up to Exit (B30121)
Booth School of Business – Professor Berger - Course Schedule

Week 1 (March 26/29): The Financial & Accounting Infrastructure for Early-Stage Companies

- Financial accounting use and infrastructure: private vs. public entrepreneurial companies
- Financial statements and cash vs. accrual accounting
- Cash management, the cash “burn rate,” and cash runway
- Equity capitalization of private companies
- The entrepreneurial process and evaluating business models

Required Readings:

1. [Who Owns What – Understanding Early-Stage Capitalization Tables, Part I](#), by Hambleton Lord and Christopher Mirabile at Seraf
2. Chapter 1 (Fabozzi) – Introduction
3. Chapter 7 (Fabozzi) – Common Stock and Convertible Preferred Stock (pp 127-30)
4. Chapter 7 (Fabozzi) – Pre- and Post-Money Valuation (pp 140-43)
5. Chapter 8 (Fabozzi) – The Four Financial Statements (pp147-50)

Optional Background Readings/Podcasts

1. Chapter 9 (Balance Sheet), Chapter 10 (Income Statement), Chapter 11 (Statement of Cash Flows and Statement of Shareholder’s Equity)
2. *The US Listing Gap*, by Doidge, Karolyi and Stulz, Journal of Financial Economics, 2017
3. Andreessen Horowitz (a16z) Podcast: *Cash, Growth, and CEO ♥ CFO*
<https://a16z.com/2017/08/24/cash-growth-strategy-plan-ceo-cfo/>

Week 2 (April 2/5): Legal Infrastructure & Financial Securities

- Choice of organization form: C Corporations vs LLCs, tax and non-tax factors
- Legal infrastructure for LLC and C Corporations; Bylaws and Articles of Incorporation
 - Investor legal agreements: investor rights, voting, share purchase agreements
- Common stock, other equity securities and convertible notes

Required Readings:

1. Chapter 3 (Fabozzi) – Selecting a Form of Business Organization
2. Chapter 7 (Fabozzi) – Financing via Equity and Equity Dilutive Securities
3. *What you Need to Know About Startup Boards*
<https://techcrunch.com/2016/11/05/what-you-need-to-know-about-startup-boards/>

Optional Readings:

1. *When it Comes to QSBS, Timing is Everything*, by Alliance Bernstein (online library)
2. *Why Venture Capitalists Hate LLCs*, by Gregory Stone (fisherstonelaw.com)

Case #1 Due: “Lather, Rinse, Repeat”: Feedburner’s Serial Founding Team, by Noam Wasserman and Eric Olson, HBS 9-809-089

Week 3 (April 9/12): Budgeting, Forecasting, and Key Performance Indicators

- Building a yearly and monthly budget, and accounting forecasts
- Motivation and purpose for Key Performance Indicators (KPIs)
- High-level KPIs (e.g., Financial Metrics, CAC, LTV, Customer Churn and Retention)
- KPIs for functional areas: Sales and Marketing, Customer Success, Supply Chain, etc.

Required Readings:

1. Chapter 2 (Fabozzi) – The Business Model (pp 15-24) and The Business Plan (pp 25-30)
2. Chapter 13 (Fabozzi) – Financial Planning (pp 241-57)
3. *The True Measures of Success* <https://hbr.org/2012/10/the-true-measures-of-success>

Due: Problem Set #1***Week 4 (April 16/19): Equity Split between Co-founders and Compensation for Employees***

- Equity split between co-founders
- Compensation plans, incentive arrangements, determining appropriate compensation levels
- Employee stock options and restricted stock
- Accounting for (and tax consequences of) equity-based compensation
- Valuing private firm stock for compensation purposes (so-called “409A”)

Required Readings/Podcasts:

1. Chapter 4 (Fabozzi) – Founders’ Stock and Employee Stock Options
2. [How to divide an imaginary pie](#), Gimlet Media and Alex Blumberg, podcast #3
3. An Analysis of Equity Split in more than 400 Successful Start-ups, by Herve Lebreton, 2017

Optional Readings:

1. *The First Deal: Division of Founder Equity in New Ventures*, by Thomas Hellmann and Noam Wasserman, *Management Science*, 2017 (**read the introduction only**)
2. *CEO Compensation in Venture-Backed Firms*, Journal of Business Venturing, by Ola Bengtsson and John Hand, 2009 (read introduction and look at Figures 1 and 2)

Due: Problem Set #2***Week 5 (April 23/26): Governance and Board of Directors at Private Companies***

- Structure of a private company board
- Identifying, recruiting and compensating board members
- How to effectively manage a board meeting
- Board and governance issues at rapidly scaling growth-stage companies

Required Readings:

1. Case (to read only): HBS Case 9-808-163: *How Serial Entrepreneurs Build and Manage a Board of Directors in a Venture-Backed Start-up*

2. *Why Governance Matters for your Start-up*, by Evan Epstein, Rock Center for Corporate Governance, Stanford
3. *Venture Capital and Pre-IPO Governance: Data*, by David F. Larcker and Brian Tayan, Corporate Governance Research Initiative, Stanford
4. *Going Public? What You Need to Know about Corporate Governance*, PWC Governance Insight Center, 2021 edition

Case #2 Due: *WeWork: But Does the Corporate Governance Work?*, UV8410, by Y. Yo-Jud Cheng and Stephen E. Maiden

Week 6 (April 30/ May 3): Revenue Recognition, Deferred Revenue and Margins

- Bookings vs. Revenue
- Deferred vs. Recognized Revenue and their respective impacts on financial statements
- The special case of software companies

Required Reading:

1. Chapter 8 (Fabozzi) – GAAP Financial Accounting Principles (pp 150-160)
2. Chapter 12 (Fabozzi) – Profitability Margin Ratios (pp 225-228)
3. Chapter 14 (Fabozzi) – Profit Planning
4. Chapter 10 (Fabozzi) – Revenue Recognition for Long-term Contracts (pp 197-198)
5. *How Changes to Revenue Recognition Will Affect Your Exit Strategy*
<https://www.bizjournals.com/sanjose/news/2017/10/24/how-changes-to-revenue-recognition-will-it-affect.html>

Optional Readings:

1. *SaaS companies quickly replacing subscriptions with usage-based pricing*, CFODive 2021
2. *CFOs and the maturing SaaS space*, CFODive.com 2021
3. *Transitioning to subscription pricing*, CFODive.com 2021

Due: Problem Set #3

Week 7 (May 7/10): The Fundraising Process

- Financial forecast model (1 yr, 3 yr, 5 yr) needed for the fund-raising process
- Pitch deck
- Prepping for the due diligence process

Required Reading:

1. *How to Fundraise like a Pro*, Podcast via the 20 Minute VC, Harry Stebbings, 12/21/2022
2. *Self-Finance or Raise Money? A Quandary for Start-ups*, NY Times, June 19th, 2013
3. [*How to Raise Money*](#), by Paul Graham
4. Chapter 6 (Fabozzi) – Pre-liquidation Stages of Financing (pp 97-98), Due Diligence Process (pp 99-100), and everything from Angel Investors and Angel Groups to Institutional Investors: Mutual Funds and Hedge Funds (pp 104-118)
5. Chapter 7 (Fabozzi) – Re-read Term Sheets (pp136-138)

6. *Venture Deals: Be Smarter than your Lawyer and Venture Capitalist*, by Brad Feld and Jason Mendelson, Chapter 1 (The Players) and Chapter 2 (How to Raise Money)
7. *Venture Deals: Be Smarter than your Lawyer and Venture Capitalist*, by Brad Feld and Jason Mendelson, Chapters 4 – 7 (Term Sheets)

Due: Problem Set #4

Week 8 (May 14/17): Debt and Other Related Obligations

- Accounting for financial obligations
- Types of debt used by private companies:
 - Accounts receivable line of credit, venture debt, term loans

Required Reading:

1. Chapter 6 (Fabozzi) – Sources of Seed Stage Financing (pp 100-104)
2. Chapter 7 (Fabozzi) – Convertible Note (pp 133-135) and Debt With Warrants (pp 135-136)
3. [*10 Questions Every Founder Should Ask before Raising Venture Debt*](#), White Paper on Venture Debt by Brian Feinstein, Craig Netterfield and Allen Miller, Bessemer Venture Partners.

Optional Readings:

1. *Trading Platform for selling recurring revenue stream to obtain financing*, PIPE.com 2021
2. *Entrepreneurs should know their options for investment*, Chicago Booth Insights series 2021
3. *Revenue-based loans called tactical tool to meet short-term goals*, CFODive.com 2022

Case #3 Due: Avid Radiopharmaceuticals: The Venture Debt Question, HBS 809-086, by Matthew Rhodes-Kropf and Ann Leamon

Week 9 (May 21/24): M&A, Accounting-related items for Exit to Private Equity, IPOs and SPACs

- Accounting for mergers and acquisitions
- Earn-outs and creative ways to deal with valuations differences with the acquirer
- Exit to private equity: Working capital calculations and adjustments
 - Rollover of management equity
- Initial Public Offering – Accounting related prep-work to go public: Accounting-related financial filings and SEC reviews, Governance changes, and Financial Projections
- Initial Public Offerings vs. Direct Listings vs. SPACs

Required Reading:

1. Chapter 2- Read only Exit Planning (pp 30-35)
2. Chapter 5- Read only Required Filings With the SEC (pp 87-93)
3. Chapter 6- Read only Initial Public Offerings (pp 118-123)
4. *The Business of Venture Capital* by Mahendra Ramsinghani, only Chapter 25 (Acquisitions, the Primary Path to an Exit) and Chapter 26 (Initial Public Offerings)

Optional Readings:

1. *SPAC industry promotes myths in a 'deep fraud,' former SEC official says*, CFODive 2022
2. *Investors warned against taking 'lottery ticket' approach to SPACs*, CFODive.com 2022
3. *SPAC Startups Made Lofty Promises. They Aren't Working Out*, Wall Street Journal 2022

Case #4 Due: *Square Inc., Initial Public Offering*, Harvard Business School Case 9-817-054

Week 10 (May 28/31): Final Exam – taken at the same time as regularly scheduled class.