Startup Bookkeeping: Common Mistakes VC-Backed Startups Make and How We're Solving Them

Working with startups (plus building and managing a few of our own) for the past 12+ years has taught us that founders and business owners continuously struggle to stay on top of their financial management responsibilities — the most time consuming and important of which is bookkeeping. Your books are the baseline financial record for your business, from which you will draw all insights needed to make strategic decisions. Because of this, your books need to be 100% accurate.

Most startup businesses will outsource bookkeeping tasks by hiring a part-time bookkeeper or working with a finance firm. The problem with going that route is that it leads to heavy fragmentation, where you're now managing multiple platforms and have to communicate across several channels just to get a simple answer.

As such, we've experienced these pains first hand:

- The current process is very manual and human intensive, requiring founders to spend a lot of time and energy managing their company's finances. For example, to check in on your financials, you must log into any number of different accounts to see the latest balances and statements. Then you must figure out a system for organizing and understanding how the various datasets stack up to provide insights into your company's overall financial health.

- Even when you outsource bookkeeping, you still have to double check your bookkeeper's work every month. Because even when this process is outsourced, the books are never 100% accurate, given the varying levels of experience, insight, and attention to detail the individuals managing your company's bookkeeping bring to the table.

- If your company's metrics change drastically — such as its operating expenses or burn rate — you won't know until the month's books are delivered (which usually happens at

least two to three weeks into the next month, putting you indefinitely behind). And when you do get the numbers, you're unable to derive the cause of changes from the Excel spreadsheet you just received. You can see that your burn rate has increased, but now you need someone to pour over the books and interpret the data to tell you *why* it has increased.

- It's tax time, and the CPA you deal with roughly once a year suggests further revisions to your books. Because this is a transactional relationship, and not an ongoing partnership, your taxes are never optimized for your business because the tax accountant does not have deep insights into your business.

In order to solve these pain-points, we created a list of four things a modern bookkeeping system and, more generally, a complete financial management system ought to do.

1. Have a system in place to keep your books 100% accurate throughout the year (making it easier to do things such as prepare investor packages, be audit ready, and file your year-end tax return).

2. Bundle all data from various financial accounts into one easy to navigate finance dashboard where the most important insights for your business are available 24/7.

3. Utilize a fast and efficient system to manage receipts, invoicing, bill pay, and other financial functions.

4. Proactively communicate important financial insights in real-time, allowing you to identify and take action on changes to your finances as quickly as possible.

To make this all possible, we paired a team of startup finance experts (with a combined experience of 100+ years in related work) with AI-powered software to create Zeni.

In this article, we'll cover the basics of startup bookkeeping and explore the most common ways startups handle their books. Then we'll show you how we designed Zeni to be the bookkeeping solution we wish we had, so you no longer have to coordinate between multiple providers and pieces of software *and* don't have to keep it all in your head. With Zeni, you can focus on what you want to focus on: **growing your business.**

At Zeni, we offer a team of finance experts working seamlessly with powerful artificial intelligence — *both dedicated to managing every financial function for your business with speed and accuracy. We offer*

best-in-class service and pricing for monthly bookkeeping, accounting services, invoicing, and even annual taxes. [Learn more and try Zeni today](#).

The Basics of Startup Bookkeeping

You may not need (or want) a refresher on bookkeeping basics. If not, go ahead and jump to our section on [how most startups tackle bookkeeping (and how this process can be improved)](#). Otherwise, keep on reading.

What Is Bookkeeping?

Bookkeeping is tracking all financial transactions as they pertain to your business. It is different than accounting, though the two are sometimes conflated. Accounting is the interpretation of data, whereas bookkeeping is simply recording data.

Startup bookkeeping is different because startups are often more agile and quick to change. They can grow in a short amount of time from a small business with four employees to a mid-size company with a staff of 50+ full-time employees — half of which are now taking advantage of your new company-wide benefits. Plus, many startups have unique business models when compared to more traditional businesses such as restaurants, law offices, or retail stores. For startups, otherwise mundane bookkeeping details (such as using the proper chart of accounts to categorize expenses and revenue correctly) are not trivial.

Cash vs. Accrual Accounting

One of the more common (and easiest to answer) questions we are asked is: **Should my startup use cash or accrual accounting?**

The quick and straightforward answer is to choose accrual accounting.

Here's the difference:

- **Cash accounting** tracks expenses or finances when the money hits the bank.

- **Accrual accounting** tracks money regardless of cash inflows or outflows but in terms of when it is earned or due.

And here's why we recommend accrual accounting: **It gives you a more accurate overview of your business's financial health** and allows you to continue making strategic business decisions.

Say you complete a project in February. Then you invoice the client. Because it's February's work, the expenses for it are coming out of February. You want to record the revenue in February as well, but the client pays you anywhere between 30-60 days of receiving your invoice. Using **cash accounting** in this example would show a significant loss in February (the expenses without the revenue) and an unexplained gain in March (or whenever you finally received your paid invoice).

Plus, the **IRS requires any business earning $5 million a year in revenue to use accrual accounting**. Since startups are almost by definition built to scale, we find it best to start using accrual accounting for your startup sooner rather than later.

Establishing Your Chart of Accounts

A chart of accounts (COA) is how your financial transactions are categorized and tracked within your accounting software.

There are standard categories, including:

- Assets
- Liabilities
- Owner's equity
- Revenue
- Expenses.

But a chart of accounts can do a lot more for your startup when it's created with intention. A thought-out COA can serve as a mirror for your business, both for how it exists now and how it'll exist in the future. Yet almost every time we've looked at a startup's books, we saw that their COA wasn't designed to be reflective of their present business needs or the ways in which their business will grow. And trust us, changing your COA three years into your business isn't fun or easy.

You want your COA matched to your business needs and goals. For example, a startup COA may bucket salaries in two ways: administrative (non-consultative) salaries and consultative salaries. This division will make it easier to see where your money is going and if the ratio of consultative to non-consultative salaries is working well for your business. Another example: meals and entertainment. Instead of just using that broad category, break it up into smaller buckets, such as coffee, office meals, and off-site lunches. Those are three distinctly different

activities, and your startup may want to know if most of your meals and entertainment costs are focused on coffee runs or team-building, off-site lunches.

A COA also directly impacts your end-of-year taxes. If you don't have separate categories for meals purchased at the office and meals purchased when traveling for work, then you aren't getting the appropriate write-off.

The examples above may not be perfect for your business, and that's the point. When you work with Zeni, we make sure your COA is as detailed as needed, matches your business strategies, and is written to prepare for the future.

2How Most Startups Handle Bookkeeping (and How This Process Can Be Improved)

In our experience, most startups are using a part-time bookkeeper or finance firm to manage their bookkeeping software, whether it's QuickBooks or Xero or some other platform. (If you need help picking the right accounting software for your startup, we put together a [free downloadable guide to help you evaluate your options](#).)

Generally speaking, when you hire a bookkeeper to manage your accounts, you're going to get a lot of manual data reported to you in Excel spreadsheets.

Here's how it works: Your bookkeeper starts working on your books after the month ends, and then, usually 2-3 weeks into the following month, your books are delivered via an Excel spreadsheet attachment with key info such as the P&L report, balance sheet, and cash flow statement. This system (in particular, receiving your books 2-3 weeks after month end) can work fairly well for larger companies who don't need to be as quick to react as startups do and have in-house employees who can extrapolate insights from the data; it can also work well for companies who are really only after their P&L report.

But getting your startup's financial health reported to you by a bookkeeper in an Excel spreadsheet isn't proactive enough for a startup. The data isn't dynaic. And because a startup has diverse financial obligations, we've found that this kind of one-note bookkeeping service leads to significant fragmentation.

Here's what we mean. A typical startup will have fragmented financial functions, which may look like this:

Financial Function	Software Used	Finance Expert
Bookkeeping	QuickBooks	Bookkeeper
Federal, State, & Local Taxes	QuickBooks	CPA
Financial Projections	Excel	CFO
Bill Pay & Invoicing	Bill.com	Admin
Business Insights	Excel	CFO / Controller
Employee Reimbursements	Expensify	Admin
Cash Flow Management	QuickBooks	Controller

This fragmentation can cost startup founders a lot of time that could otherwise be spent on acquiring new business.

How Zeni's Team of Finance Experts Uses AI-Powered Software to Manage Your Startup's Bookkeeping

We take the functions in the table above and streamline them into one service, so you have a single point of contact and (software-wise) a single dashboard where you can see and manage all of it.

Now, the team that does your bookkeeping can also use that data to provide cash-flow management and financial projections for the coming quarter, in addition to executing on day-to-day financial functions such as bill pay, invoicing, and expense administration. And, come tax time, the same team can even do your taxes. This way, your taxes are optimized and cost effective, as they are being done by a team intimately familiar with your business's books.

All of this is possible in part because our finance team is made up of a full-time staff of CPAs, corporate controllers, bookkeepers and accountants, data analysts, and tax advisors. Team members are certified with QuickBooks, Expensify, Bill.com, and other finance platforms commonly used by startups. **And they are all reachable by one point of contact**, eliminating the risk of any fragmentation. If you have any questions about your bookkeeping, employee reimbursements, final projections, and so on, just email your always-on finance concierge, and the appropriate expert will get back to you.

Finally, here is how we address the four pain points your bookkeeping system and financial management system ought to solve:

1. **Extremely accurate books throughout the year.**

   We created Zeni to use the right mixture of AI-powered automation and manual oversight to keep your books up to date on a daily basis. Because Zeni layers itself on top of QuickBooks, your original QuickBooks account can still be used to conduct audits on your bookkeeping.

2. **All banking and credit card information in one dashboard.**

   During the onboarding call, we'll walk you through each step, setting up Zeni's access to all of your business' financial accounts. Now, you only need one login to access your financial statements (from bank statements to credit card balances) and can see all balances and transaction details across every account in one place. This also means Zeni can send you proactive alerts of unusual account activity.
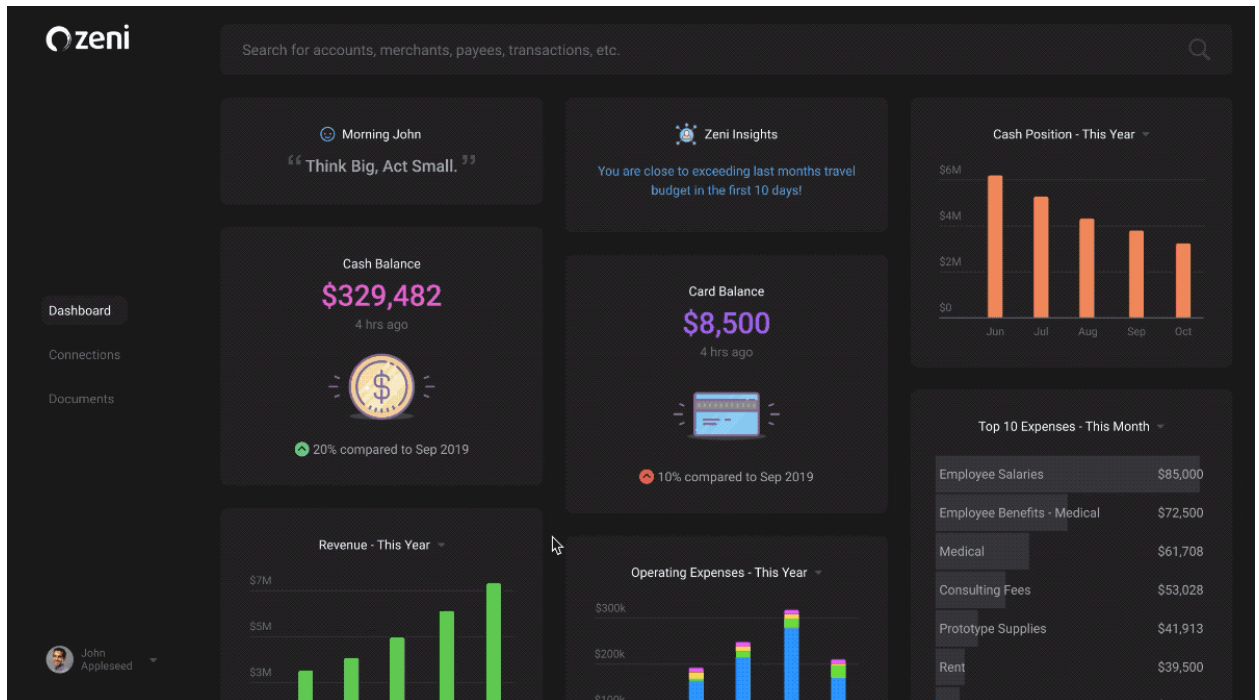
3. **A hands-on finance team for all of your startup's financial functions.**

   Our team will handle all finance functions on your behalf. For example, take receipt management: You're probably used to saving and storing receipts that don't integrate easily with your overall financial platform. But through Zeni, we offer easy automation for capturing, categorizing, recording, and storing receipts and invoices per IRS and state-level government agency requirements. Zeni extracts all data from each receipt and classifies it appropriately.

   We made the process as simple as possible. All you need to do is share the receipt with your designated Zeni email address, and our financial experts will guarantee your receipt is read, inputted into your accounting software, and securely stored in your accounting software, where you can access it if ever needed. The process is just as simple for all other financial functions, such as paying bills, administering payroll, and tracking expenses. Use Zeni's team of financial experts to do the leg work; all you have to do is approve the transaction.

4. **Ready-made insights into where cash is going (and other key metrics).**

In every startup environment where we had previously done business, we grew frustrated with the time it took for our outsourced finance teams to answer our questions about cash flow, burn rate, and other metrics. While we eventually got the answer, it was a slow process that hindered our ability to proactively course correct or make informed, real-time decisions. That's why, as part of our service, we created Zeni Insights, which are proactive messages driven by artificial intelligence to help our customers identify opportunities and take action as quickly as possible.

For example, if your burn rate on a given month is tracking to be higher than normal, you'll automatically get an email explaining both the change in spending **and an explanation as to what may be causing this change in spending**. Zeni Insights notifies you of key events with your books and finances without you having to monitor or initiate anything, letting you stay focused on growing your business.

At Zeni, we offer a team of finance experts working seamlessly with powerful artificial intelligence — both dedicated to managing every financial function for your business with speed and accuracy. We offer best-in-class service and pricing for monthly bookkeeping and accounting services, plus a flat fee of $2,000 to complete our customers' annual taxes. [Learn more and try Zeni today](#).