

The ACCA logo consists of the letters 'ACCA' in white, bold, sans-serif font, centered within a solid red square.

Think Ahead



**FOUNDER'S
GUIDE FOR
START-UPS AND
ENTREPRENEURS:**

ROLE OF
ACCOUNTANCY
AND FINANCE

Executive summary

With more than 200% growth in the number of start-ups over the last eight years (to 100,000+ in 2023 from 450 in 2016), India is now the world's third-biggest start-up ecosystem (Ministry of External Affairs 2023). Thanks to support from the government to improve the ease of doing business, over 80 start-ups are being recognised per day (the highest globally) (Mint 2022).

Managing finances is at the heart of successful entrepreneurship, and that is where this guide will come in handy. Designed with input from entrepreneurs and finance practitioners, it answers the six key questions for entrepreneurs planning their start-up's financial journey.



1. How to secure a good valuation?

ACCA asked valuation experts for the secret to securing good valuation: a viable product and a strong 'proof of concept' is their answer.

As you bootstrap/self-finance your venture in the pre-start-up stage, focus on the idea. A start-up's value comes from having a unique product that people use repeatedly. If the product is fresh and useful and brings long-term benefits, it's valuable. For fundraising at the start-up stage, venture funds and angel investors look at the product, the entrepreneur's skills, the target market and the growth potential. Develop the idea and test your 'proof of concept', as you look to raise funds through instruments such as a merger or acquisition (M&A), an IPO and private placement in the growth phase.



2. How to manage day-to-day finances (cash flow and working capital)?

By managing and allocating resources effectively towards capital and operational expenditures, you can improve financial performance, reduce costs and increase profitability, resulting in sustained growth.

Founders who have been through this journey recommend that you make sure your funder understands your business; plan your needs six to eight months before and explore multiple options of financing; keep your stock reports and other paperwork updated and stay clean financially; extend the period over which you use up your initial capital (ie reduce the 'burn rate') to generate value; manage receivables for efficient working-capital management; exercise control over turnover and manage inventory effectively. Hire accountancy and finance professionals to help you or develop the acumen internally: having someone on your team who understands numbers is crucial, as earning and managing money require different skill sets.





3. How to ensure continuous growth?

Accurate and up-to-date information helps you make intelligent and informed decisions for building your future success.

Define the essentials for your business to survive (the critical success factors) and the key performance indicators (KPIs) for each. Set up a financial and performance management system (PMS) that records your progress against the baseline and recommends actions to be taken. Choose a system that is simple and easy to use, provides timely updates, is relevant to your needs and is scalable. Focus on what the data reveals when making operational and strategic decisions. And if this all sounds too complex, hire an accountancy and finance professional, because identifying and reporting on KPIs is one of their core competencies.



4. How do good corporate governance and internal controls help?

The experts tell us they are essential for building a solid foundation. Corporate governance and internal controls can be understood simply as 'doing the right thing' for customers and employees. Having a compliant business with solid internal control mechanisms provides a competitive edge when seeking funds from investors, helps in building the company's reputation, and prevents fraud and errors.

Ensure compliance with relevant laws and regulations because non-compliance will make your business non-viable. As the business grows, invest in strong finance, internal audit and control mechanisms while balancing these against the flexibility required for innovation. Seek counsel from experts to get it right the first time.



5. How much risk is too much risk?

Taking risks is fundamental to entrepreneurship. Risks represent opportunities if you know how to use them but if they materialise they can also be your worst nightmare, if not handled properly.

Prudent risk-taking is the key to success. Take calculated risks and avoid anything that could put a question mark on your business model. As an entrepreneur, you need to embed risk management in the culture of the organisation. Self-examination and delegation are important to enable calculated risk-taking. Have systems and processes in place to monitor risks and reduce their impact, should a risk materialise, through back-up plans. Seek professional help wherever needed – the unpredictability of new regulations presents risks for which entrepreneurs need to prepare, for example, and accountancy and finance professionals can guide you through the processes.



6. How do I manage the regulatory and taxation issues?

While the ease of doing business has improved considerably, regulatory and tax compliances can be intricate and often pose challenges to start-ups. Understanding and complying with regulations is essential for businesses to thrive.

Having a minimum knowledge of the applicable regulations and compliance is essential. When considering regulatory issues, choosing a legal structure suitable for your business is the first step. Understand the licensing and permit requirements for your business, and ensure compliance with labour and environmental regulations as well as the Foreign Exchange Management Act (FEMA) guidelines (if you receive foreign investments). Common taxation compliances include income tax, tax deducted at source, employee provident fund, employee state insurance and compliance with goods and services tax. Seek expert help: accountancy and finance professionals play a key role in helping start-ups with regulatory and taxation issues.



'Entrepreneurship is like the Olympics of business. Running a successful business is a combination of multiple attributes. Have regulatory awareness and seek the right advisers and mentors for guidance, as you focus on developing your core business'

(Jamil Khatri, co-founder and CEO, Uniquis Consultech)



