

The Software Accounting Guide - OnlyCFO.io

Income Statement			
Revenue		Operating Expenses	
Subscription Revenue	Revenue recognized ratably over subscription term	Research & Development (R&D)	Engineering, product, and design people and related costs
Usage Revenue	Revenue recognized as used	Sales & Marketing (S&M)	Sales, marketing, customer success, rev ops, trial costs
Professional Services Revenue	Typically recognized as services are performed.	General & Administrative (G&A)	Finance, legal, HR, corporate insurance, charity, & random stuff
COGS		Operating Expense Callouts	
COGS - Subscription	Infrastructure, support team, Dev Ops, MAYBE customer success	Stock-based compensation	Value of equity awards on grant date expensed over the vesting period
COGS - Professional Services	People delivering services + their related costs	Commissions	Majority of commissions are expensed over time (3 -5 years).
Gross Margins		Other Income/Expenses	
Gross Margin \$	Revenue - COGS	Interest income/expense	Debt investment income or debt obligation expense
Gross Margin %	Gross Margin \$ / Revenue	Other income/expense	Most common: Foreign exchange stuff and equity investment gain/loss

Cash Flow Statement			
Operating Activities		Investing Activities	
Net income (loss)	Net income (loss) from the income statement.	Purchases of property & equipment	Cash paid for computer equipment and office stuff
Non-cash adjustments		Capitalization of internal-use software	Payroll and other costs to create new software functionality
Depreciation and amortization	Expenses for items previously paid for in cash	Purchases/proceeds of marketable securities	Buying and selling of investments with maturities > 90 days
Amortization of commission costs	Commission expense for commissions previously earned	Business acquisitions	Net cash paid to acquire companies
Stock-based compensation expense	Expense for equity awards given to employees/consultants	Financing Activities	
Change in Working Capital		Proceeds from issuance of stock	Money from VCs, PE, or public markets (IPO)
Assets (accounts receivable, prepaids, fixed assets, etc.)	↑ in assets causes ↓ to cash, ↓ in assets causes ↑ to cash	Proceeds/repayment of debt	Money from and paid back to creditors
Liabilities (accounts payable, deferred revenue, accruals, etc.)	↑ in liabilities causes ↑ to cash, ↓ in liabilities causes ↓ to cash	Proceeds from stock options, warrants, ESPP	Money from exercising these awards. Stock is issued once exercised
Gross Margin %	Gross Margin \$ / Revenue	Other income/expense	Most common: Foreign exchange stuff and equity investment gain/loss

Balance Sheet			
Assets		Liabilities	
Cash & cash equivalents	\$ in the bank and <90 day maturity investments	Accounts payable	Vendor bills
Short-term investments	Debt investments with maturities < 1 year	Accrued expenses and other current liabilities	Expenses owed, not yet paid, and not billed
Accounts receivable	Money due from customers	Operating lease liabilities	Value of all lease payments
Deferred commissions	Sales commission earned from closing deals	Deferred revenue	Customer payments not yet recognized as revenue
Prepaid expenses & other current assets	SaaS subscriptions, rent, marketing events, etc.	Debt	Principal and accrued interest
Property and equipment	Internal use software costs, computer stuff, office stuff, etc.	Other liabilities	Taxes and other miscellaneous
Operating lease right-of-use assets	Present value of lease payments	Equity	
Goodwill	Premium paid over fair value for business acquisitions	Common stock & Additional Paid-in Capital	Money invested by shareholders
Intangible assets	Acquired developed technology, patents, trademarks, etc.	Retained earnings (or Accumulated deficit)	Net income (loss) minus dividends

