

# Introduction to Financial Management for

Introduction to Financial Management for Startups

## Startups

(A concise, easy-to-read guide for founders, early-stage teams, and anyone new to startup finance)

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### 1. Why Financial Management Matters

| Reason          | What It Means for a Startup                                                                  |
|-----------------|----------------------------------------------------------------------------------------------|
| Survival        | Cash flow gaps kill 60-70% of startups. Managing cash keeps the business alive.              |
| Growth          | Capital allocation decisions (hiring, product, marketing) determine how fast you can scale.  |
| Fundraising     | Investors evaluate financial discipline, runway, and unit economics before committing money. |
| Decision Making | Accurate numbers turn gut-feel into data-driven choices.                                     |
| Compliance      | Proper bookkeeping avoids tax penalties and legal issues.                                    |

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### 2. Core Financial Statements (The “3-Statement” Model)

| Statement     | Primary Purpose                                        | Key Components                                                                                                                                                                |
|---------------|--------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Balance Sheet | Snapshot of assets vs. liabilities at a point in time. | <ul style="list-style-type: none"><li>Assets (cash, receivables, equipment)</li><li>Liabilities (payables, debt)</li><li>Equity (founder shares, retained earnings)</li></ul> |

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| Statement                                   | Primary Purpose                                                                       | Key Components                                                                                                                                                                                                |
|---------------------------------------------|---------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Income Statement (Profit &amp; Loss)</b> | Shows whether the business earned or lost money over a period.                        | <ul style="list-style-type: none"> <li>• Revenue (sales, subscriptions)</li> <li>• Cost of Goods Sold (COGS)</li> <li>• Operating Expenses (R&amp;D, sales, G&amp;A)</li> <li>• EBITDA, Net Income</li> </ul> |
| <b>Cash Flow Statement</b>                  | Tracks actual cash moving in and out; separates operating, investing, financing cash. | <ul style="list-style-type: none"> <li>• Operating Cash Flow</li> <li>• Investing Cash Flow</li> <li>• Financing Cash Flow</li> </ul>                                                                         |

**Tip:** For early startups, the cash flow statement is the most critical because cash scarcity is the biggest risk.

## 3. Key Financial Metrics for Startups

| Metric                                 | Formula                                                             | What It Reveals                                             |
|----------------------------------------|---------------------------------------------------------------------|-------------------------------------------------------------|
| <b>Runway</b>                          | Cash on Hand ÷ Monthly Burn Rate                                    | How many months you can operate before needing new capital. |
| <b>Burn Rate</b>                       | (Beginning Cash – Ending Cash) ÷ Months                             | Speed at which cash is being consumed.                      |
| <b>Gross Margin</b>                    | (Revenue – COGS) ÷ Revenue                                          | Profitability of core product/service before overhead.      |
| <b>Customer Acquisition Cost (CAC)</b> | Total Sales & Marketing Spend ÷ New Customers Acquired              | Cost to win a customer.                                     |
| <b>Lifetime Value (LTV)</b>            | Average Revenue per User × Gross Margin × Average Customer Lifespan | Revenue expected from a customer over the relationship.     |
| <b>LTV / CAC Ratio</b>                 | LTV ÷ CAC                                                           | Efficiency of growth; >3× is generally healthy.             |

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| Metric           | Formula                            | What It Reveals                                                           |
|------------------|------------------------------------|---------------------------------------------------------------------------|
| Revenue Run Rate | Latest Monthly Revenue $\times$ 12 | Annualized revenue estimate; useful for forecasting.                      |
| EBITDA Margin    | EBITDA $\div$ Revenue              | Operating profitability before interest, tax, depreciation, amortization. |

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## 4. Building a Simple Financial Model (Step by Step)

### 1. Define Assumptions

- Pricing, sales growth, churn, hiring plan, rent, SaaS tool costs, etc.
- Keep assumptions transparent; label them in separate “Assumptions” tab.

### 2. Project Revenue

- Choose a model: *Units  $\times$  Price* (product) or *Subscribers  $\times$  ARPU* (SaaS).
- Apply growth rates month by month for 12–24 months.

### 3. Estimate Direct Costs (COGS)

- Variable costs tied to each unit