

2 STARTUP EXPENSES YOU SHOULD NEVER SHORTCUT

By AJ Agrawal

You won't feel the pain until it's too late. Your startup will be catching fire and then all a sudden everything will come to a screeching halt. This is what happens when you take shortcuts with important [expenses](#).

With that said, there are two costs you should never try to cut or sidestep: legal and accounting. Too many startups neglect these expenses when they start their companies. Over time, it ends up becoming their worst nightmare. Here's how can make sure you have your legal and accounting in order.



GET A LAWYER

As soon as you start your company, you need to start looking for a lawyer. I've seen many entrepreneurs try to shortcut this by printing documents they find on the Internet. Most times, it ends up being a disaster. As you continue down this path, you'll start trying to make major contract edits yourself. By the time you get a lawyer, you'll have to go back, pay a fortune, and fix all your damage.

Instead, find a lawyer who has experience in startups. When we started [Alumnify](#), we didn't have enough funds to afford a lawyer. So, we gave up a few shares of our company for deferred legal fees until we raised our seed round. This is a great way for you to make sure your legal work is in order without using all your initial cash.

If you do go this route, make sure you are checking in on how your lawyer is [billing](#) you. Some will try adding extra hours because they are getting paid in deferred fees. Make sure you set expectations of what you're looking for up front and get an estimated price before getting into the actual deal. The last thing you want is to close your next round of funding and [give it all to your legal counsel](#).

NEVER TAKE MONEY WITHOUT PAPERWORK

When you start your company, many times you'll begin by taking money from friends and family. Your best friend will hear your pitch, trust in you, and then hand you over a check. Understand that many investors you bring in from the friends and family round will not know about the paperwork. In other cases, your early investors will say they trust you and they don't need to sign anything. While that's a nice gesture, you're the one who's going to pay the price in the long run. Once you raise money from a seasoned investor, they're going to expect paperwork for every previous dollar you took in. If you don't have that and can't get it in place, kiss the investment goodbye.

USE QUICKBOOKS OR GET AN ACCOUNTANT

Here's a way to think about raising money that will help you whenever you start looking for investment. When you take money from an investor, think of it as loan. You have to pay that money back, with interest. It doesn't matter whether you take money for equity or as a convertible note; someone is trusting you with their funds.

Now let's say you borrowed money from your friend and two months later he asks to see where his money was spent. Would it be fair for you to say, "I don't know" to him? Of course not. That would raise major concerns. That is part of the reason you need to be a stickler when it comes to the books. Eventually, you'll go through intense [audits](#). The longer you go to get your accounting right, the worse those [audits](#) will be for you.

Another reason not to shortcut accounting is that if you don't know where your money is being spent, you don't know your burn rate. And if you don't know your burn rate, you don't know how long your runway is. Finally, if you don't know how long

your runway is, you'll have no idea when you're going to be out of business. Not knowing this information makes it impossible to lead a company effectively.

If you haven't done so already, start getting used to [QuickBooks](#). Your other option is to hire an accountant. Many entrepreneurs think doing the latter will cost too much money. In reality, you can find someone to do basic accounting for you for a few hundred dollars a month. If that's out of your budget, try doing an equity deal. Keep in mind that accountants are less likely to take an equity deal than lawyers or employees. Either way, put something in place early, or you'll have major consequences down the line.

About the Author

AJ Agrawal is an entrepreneur, writer, and speaker. He is the CEO and co-founder of [Alumnify Inc.](#)