Punch

DILIGENCE FIELD GUIDE

FOR VENTURE-BACKED FOUNDERS OPENING A DATA ROOM

Why deals die in the data room

The 8 finance checks investors run when they stop trusting the headline numbers.

WHAT THIS IS

A practical self-check for the accounting, revenue, margin, tax, and equity issues that create retrades, delays, reserves, or credibility problems.

HOW TO USE IT

Read each landmine, tick the box if it is true of your books, then fix what lights up before an investor finds it for you.

THE REFRAME

Diligence does not test whether your numbers are impressive. It tests whether they are true.

Founders usually enter a data room thinking the investor is judging growth rate, ARR, runway, and margins. They are — but only after they decide the numbers can be trusted. A diligence team starts by looking for the one thing that does not lie. Once one number breaks, the room changes. The investor does not just adjust that number. They start questioning the system that produced it.

This guide is deliberately narrow. It is not a complete legal, IP, corporate, or HR diligence checklist. It is the finance and accounting layer: the numbers, schedules, reconciliations, and hidden liabilities that can turn a clean raise into a retrade, cleanup sprint, reserve, or long delay.

01

You think

The founder's mental model: what looks fine before diligence.

02

They do

The diligence mechanic: how the issue gets exposed.

03

The cost

Delay, retrade, reserve, cleanup, or loss of trust.

04

Self-check

A fast question to run against your own books now.

The honest version

Not every issue below kills a deal. Some retrade it. Some delay it. Some force a reserve. Some simply make the investor stop taking your numbers at face value. That distinction is the point: fixing these before the room opens is cheaper than explaining them after someone else finds them.

Use it like a diagnostic, not a blog post.

Every landmine ends with a checkbox and a fix list. If you check even one box, that is not a reason to panic. It is a reason to clean up the issue while you still control the process.

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Track the boxes you check. The goal is not to look perfect; it is to know what will be challenged before you are live in diligence.

SECTION

Revenue

01

RETRADE RISK

Your ARR is built on cash, bookings, or Stripe — not earned revenue.

In plain English: ARR should represent the revenue investors can underwrite as repeatable. If the number comes from cash collected, bookings, or a payment processor export, it may not match the revenue actually earned under accrual accounting.

YOU THINK

"We are at $2M ARR." The number is pulled from Stripe, bank deposits, cash collections, or signed contracts.

THEY DO

The diligence team rebuilds revenue from recognized revenue, contracts, invoices, usage schedules, and the general ledger. Cash collected early gets separated from revenue earned.

THE COST

Lower ARR, lower growth rate, lower multiple, and a credibility hit. The risk is not only that the number drops — it is that every other number now gets rechecked.

WHY IT HAPPENS

A customer can pay $120k today for a 12-month contract. That is $120k of cash, but if only three months have been delivered, only about $30k has been earned. Multiply that across annual plans, prepaid usage, pilots, and enterprise deals, and a headline ARR number can compress fast.

60-SECOND SELF-CHECK

Does your headline ARR tie to recognized revenue and active customer contracts — or is it pulled from Stripe, bank deposits, bookings, or cash receipts?

FIX BEFORE THE ROOM OPENS

- Tie ARR to active contracts, not bank deposits.
- Separate bookings, billings, cash receipts, recognized revenue, and ARR.
- Prepare a monthly revenue roll-forward investors can inspect.

02

HIDDEN LIABILITY

Prepaid credits and annual contracts are booked as revenue too early.

In plain English: Deferred revenue is money a customer paid you before you earned it. It is not "bad revenue." It is a liability until you deliver the service, usage, credits, seat access, or contract period the customer paid for.

YOU THINK

"A customer bought $50k of credits. Cash landed. That is $50k of revenue this month."

THEY DO

They test whether the unearned portion sits on the balance sheet as deferred revenue. If credits, annual plans, or usage balances are booked immediately as revenue, the P&L is overstated and the balance sheet is missing a liability.

THE COST

Revenue restatement, a surprise liability, delayed close, and sometimes a reserve. More importantly, it signals that revenue recognition was not being managed.

WHY IT HAPPENS

If 40 customers each prepay $10k of credits and have burned half, you collected $400k but only earned $200k. The other $200k is service still owed. If all $400k hit revenue, your top line is overstated and your liabilities are understated.

60-SECOND SELF-CHECK

If a customer prepays for credits, annual access, or future usage today, does any portion land in deferred revenue — or does 100% hit revenue immediately?

FIX BEFORE THE ROOM OPENS

- Build a deferred revenue schedule by customer and contract.
- Track usage burn-downs and recognize revenue as credits are consumed.
- Reconcile deferred revenue monthly to billings, usage, and the GL.

FROM THE FIELD

Vapi

Voice AI · Punch client

Usage-credit accounting is where "cash looks like revenue" until diligence rebuilds it.

Vapi started with a usage-credit model: customers prepaid for a balance and burned it down as they used the product. On a cash basis, every credit purchase could look like revenue the day money landed. Punch helped move the accounting to accrual, track the unburned credit pool, and recognize usage revenue only as credits were consumed. We also tied burn to budget-vs-actual so runway, gross profit, and growth held up under review.

RESULT

Accrual revenue, deferred-revenue tracking, and a cleaner gross-profit picture before the data room became a fire drill.

03

CREDIBILITY RISK

Your ARR includes revenue that is not actually recurring.

In plain English: Normalization means stripping revenue down to the clean, repeatable base investors can underwrite. It removes one-time, churned, non-renewing, or inflated revenue so the remaining number reflects the real recurring engine.

YOU THINK

“It is all recurring. We are a subscription business.”

THEY DO

They strip out implementation fees, onboarding, services, pilots that will not renew, churned logos, usage spikes, and one-off enterprise projects. Then they rebuild ARR from the remaining base.

THE COST

Lower ARR and lower trust. Once your definition of recurring revenue is loose, investors usually reunderwrite revenue, retention, and payback with more skepticism.

WHY IT HAPPENS

A $2M ARR number might include a $200k implementation fee, $150k from two customers that already churned, and one unusually strong month annualized into a trend. Strip those out and the real recurring base may be closer to $1.5M.

60-SECOND SELF-CHECK

If you removed every non-recurring dollar — services, setup fees, churned customers, non-renewing pilots, and unusual spikes — how far would ARR move?

FIX BEFORE THE ROOM OPENS

- Create a clean ARR bridge: beginning ARR, new, expansion, contraction, churn, ending ARR.
- Tag non-recurring revenue in the GL and customer schedules.
- Keep a customer-level ARR file that reconciles to the financials.

SECTION

Margins & Unit Economics

What the business actually keeps after it pays to deliver the product — the numbers behind CAC payback, LTV, burn multiple, and the path to profitability.

04

THESIS RISK

Your gross margin is not tied to the real cost of serving customers.

In plain English: Gross margin is not a SaaS benchmark. For AI, usage-based SaaS, API, marketplace, and infrastructure-heavy companies, it is the actual revenue left after the costs required to deliver the product.

YOU THINK

"We are a software company, so we should be around 80% gross margin."

THEY DO

They trace model costs, inference costs, cloud spend, third-party APIs, customer support burden, payment fees, and contract-specific delivery costs back to the revenue each customer or product line produced.

THE COST

The whole growth story can be re-underwritten. If margin is lower than presented, CAC payback, LTV, burn multiple, and path to profitability all change.

WHY IT HAPPENS

You may bill a customer $50k in a month, but if model/inference/API costs to serve that customer were $22k, the margin is 56%, not 80%. If those costs sit in a generic "infrastructure" opex line instead of COGS, the P&L tells a cleaner story than the business actually has.

60-SECOND SELF-CHECK

Can you state gross margin by product, customer segment, or major contract — with compute/model/API costs matched to the revenue they produced?

FIX BEFORE THE ROOM OPENS

- Move true delivery costs out of generic opex and into COGS where appropriate.
- Create customer/product margin reporting for high-cost segments.
- Tie cloud/model/vendor spend to revenue drivers where possible.

FROM THE FIELD

Sanas

Real-time speech AI · Punch client

Usage revenue plus model costs can make "software margin" a bad assumption.

Sanas had enterprise and usage revenue, variable credit economics, and meaningful model-training/compute costs. Punch helped set up Maxio so enterprise and usage revenue could be recognized properly, then matched the right compute and model costs to the contracts that produced the revenue. That gave the team a real view of unit economics instead of relying on a generic SaaS margin assumption.

RESULT

Cleaner revenue recognition, clearer contract-level economics, and a gross-margin story that could be explained rather than guessed.

SECTION

Margins & Retention

05

GROWTH-STORY RISK

Retention and customer concentration do not support the growth story.

In plain English: Net revenue retention shows whether your existing customer base expands or shrinks over time. Customer concentration shows whether too much revenue depends on a small number of accounts.

YOU THINK

“Revenue is up and to the right. Retention is fine.”

THEY DO

They pull cohort retention, customer concentration, churn, expansion, contraction, and net revenue retention. Then they ask whether the customer base itself is compounding or whether new logo sales are hiding leakage.

THE COST

Retrade or dead deal in serious cases. Investors underwrite future growth; cohorts and concentration are the proof underneath the chart.

WHY IT HAPPENS

A company can grow top-line revenue while last year’s customers are shrinking. Two customers may be 55% of revenue while one is already slowing usage. The top-line chart looks healthy, but the base is fragile.

60-SECOND SELF-CHECK

Does any single customer exceed roughly 20-25% of revenue — or can you not state NRR and churn by cohort?

FIX BEFORE THE ROOM OPENS

- Create monthly customer-level revenue by cohort.
- Report logo churn, revenue churn, expansion, contraction, and NRR separately.
- Flag customers over 10%, 20%, and 25% of revenue before investors do.

SECTION

Hidden Liabilities

06

RESERVE RISK

You have sales-tax exposure in states where you never registered.

In plain English: Economic nexus means sales into a state can create sales-tax obligations even without an office or employee there. SaaS taxability and thresholds vary by state, which is why “we sell software” is not a complete answer.

YOU THINK

“We sell SaaS. SaaS is not taxed. We only need to worry about our home state.”

THEY DO

They map revenue by state, test nexus thresholds, review whether SaaS or digital products are taxable in those states, and estimate uncollected tax, penalties, and interest.

THE COST

A reserve, escrow, tax cleanup, or reduction in net proceeds. It may not kill the round, but it can create a six-figure surprise if ignored for years.

WHY IT HAPPENS

A startup selling nationally can cross thresholds in many states without noticing. The liability is invisible in the financials until someone maps customer location to state rules and asks why nothing was collected.

60-SECOND SELF-CHECK

Are you collecting and remitting sales tax outside your home state? If not, have you actually tested economic nexus by state?

FIX BEFORE THE ROOM OPENS

- Run a nexus study using revenue by customer state.
- Document taxability conclusions for SaaS, usage, services, and digital products.
- Register, collect, remediate, or reserve where exposure is material.

SECTION

Financial Integrity

07

TRUST RISK

Your financial statements do not tie to the source systems.

In plain English: Diligence is a traceability exercise. Investors want to follow the number from the financial statements back to the evidence: Stripe, bank accounts, payroll, billing, contracts, vendor bills, customer schedules, and cap table records.

YOU THINK

“QBO is close enough. We can explain the differences if they ask.”

THEY DO

They tie P&L revenue to Stripe/billing, AR to invoices, deferred revenue to schedules, payroll to Gusto/Rippling, cash to bank statements, AP to vendor bills, and equity to financing docs. Any unexplained gap becomes a trust issue.

THE COST

Delay, cleanup work, a lower-confidence diligence report, and more invasive testing. The deeper issue is not the mismatch itself; it is that the system of record looks unmanaged.

WHY IT HAPPENS

A $40k Stripe clearing difference, uncategorized revenue deposits, unreconciled payroll journals, and manual AR adjustments may each seem small. Together, they tell the diligence team that the books cannot be relied on without rebuilding them.

60-SECOND SELF-CHECK

Can each major line on your P&L and balance sheet be traced to a source schedule or system without manual explanation?

FIX BEFORE THE ROOM OPENS

- Build monthly close workpapers for revenue, AR, AP, cash, payroll, debt, deferred revenue, and equity.
- Reconcile source systems monthly, not only during fundraising.
- Keep a data-room-ready backup folder for every major balance.

SECTION

Cap Table & Equity

08

INSTANT DISTRUST

Your cap table, SAFEs, options, and equity records do not reconcile.

In plain English: The ownership picture has to be stable. Investors need to know exactly who owns what, what converts, what is promised, what has been approved, and how it ties to the company's records.

YOU THINK

"Qapita has the cap table. QuickBooks has the books. Both are probably fine."

THEY DO

They reconcile the cap table to financing documents, SAFEs, convertible notes, stock ledgers, option grants, board approvals, 409A records, and the equity section of the balance sheet.

THE COST

Cleanup, delay, legal review, renegotiation, and credibility loss. In bad cases, surprise dilution changes the economics investors thought they were buying.

WHY IT HAPPENS

The cap table may show $5.0M raised while the balance sheet shows $4.6M of paid-in capital. The gap could be fees, a SAFE booked wrong, a missed conversion, or bad historical entries. Add an undocumented advisor promise and the dilution math starts moving during diligence.

60-SECOND SELF-CHECK

Can your cap table, SAFEs/notes, stock ledger, option grants, board approvals, and equity section of the balance sheet reconcile to one ownership story?

FIX BEFORE THE ROOM OPENS

- Reconcile total capital raised to equity accounts and financing documents.
- Create a single equity document index: SAFEs, notes, grants, approvals, 409As, exercises.
- Resolve advisor/founder/equity promises before investor diligence starts.

NOT ALWAYS DEAL-KILLERS

Two issues sophisticated founders should still check early.

BONUS

BONUS RISK · COMPLIANCE RESERVE

Worker classification can become a hidden payroll and tax exposure.

If long-term “contractors” work full-time, use company tools, follow company direction, and function like employees, diligence may flag possible payroll tax, benefits, and employment-law exposure. The IRS worker-classification framework looks at behavioral control, financial control, and the relationship between the parties. This is not purely accounting, but payroll records and contractor spend make it visible.

- [ ] **Self-check:** Do you have long-term contractors doing core work under your direction, on your tools, and on your schedule?

BONUS OPPORTUNITY · TAX PLANNING

QSBS usually will not kill the round — but it can change the after-tax outcome by millions.

QSBS is the federal tax rule that can exclude a large portion of gain from the sale of qualified C-corp stock if the company, stock issuance, holding period, and business activity requirements are met. For stock acquired after July 4, 2025, the rule became more founder-friendly: partial exclusion can start at three years, the gross-assets threshold increased to $75M, and the per-issuer exclusion cap increased to $15M or 10x basis. Older stock generally stays under the prior rules.

- [ ] **Self-check:** Do you know when the QSBS clock started, whether the company qualified when shares were issued, and whether later issuances are under the old or new rule set?

Where legal counsel still matters

The other classic data-room problems — IP assignment, founder IP, missing board consents, customer contract restrictions, employment agreements, and clean corporate records — are primarily legal. A serious pre-data-room finance review should surface where the accounting records create legal questions, then route those to counsel instead of pretending accounting owns everything.

THE BOTTOM LINE

If even one box is checked, you are not data-room ready yet.

That does not mean your round is in trouble. It means there is a fixable issue that should be handled before the investor's team finds it first. The difference is control. Before diligence, you can clean it, document it, and explain it. During diligence, the same issue becomes a reason to slow down, widen scope, reserve proceeds, or re-underwrite the deal.

ARR

Can your recurring revenue definition survive a rebuild?

Rev-rec

Do prepaid credits and annual contracts sit in the right place?

Margin

Do delivery costs match the revenue they produced?

Equity

Does ownership reconcile across every source of truth?

Free data room analysis.

We can review your finance/accounting data room and help you prep for your next raise.

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Punch

Build the company. We will keep the numbers investor-ready.

Punch Financial provides CFO, accounting, bookkeeping, tax, and finance operations support for venture-backed startups and founder-led companies.

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Free data room analysis · Raise prep · Investor-ready accounting review

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