Exploring the Knowledge Gaps of Crowdfunding Firms: A Survey of Crowdfunding Firms and Auditors

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Prior research shows that the accounting and financial reporting quality of startups and early-stage firms is lower than that of public firms and firms later in their life-cycle. A growing source of financing for these startup and early-stage firms is equity crowdfunding. This paper provides evidence, through survey responses and semi-structured interviews with a subset of respondents, about "knowledge gaps" and accounting "weak spots" that exist for firms raising capital through Regulation Crowdfunding. "Knowledge gaps" are accounting areas where startup companies think they understand the proper accounting for these items, while auditors say these firms struggle with these concepts. Accounting "weak spots" are accounting areas where startup firms and auditors agree there is difficulty in accounting for certain items, and where more guidance or clearer standards may be beneficial. Better understanding specific accounting "knowledge gaps" and "weak spots" can help inform these startup firms, their auditors, their investors, and their regulators when evaluating and considering the reported financial condition of these companies.

Keywords: equity crowdfunding, regulation crowdfunding, accounting, auditing

INTRODUCTION

In 2012, Congress passed the Jumpstart our Business Startups (JOBS) Act, with the intended goal of easing many of the rules and regulations in place for startup companies. As part of this legislation, there was specific guidance under Title III aimed at allowing startups to raise capital through the sale of unregistered securities on equity crowdfunding platforms, now commonly referred to as Regulation Crowdfunding (Reg CF). Reg CF opened up a new avenue of financing for firms who may lack access to traditional capital markets (e.g., financial institutions or venture capital) or who may elect to raise capital through small dollar investors. Reg CF also opened up the opportunity for non-accredited investors to invest in these offerings – an opportunity previously only afforded to accredited investors, or those with a net worth over $1 million. As with any investment opportunity, these offerings are not without risk, and given the added risk of investment in early stage companies by non-accredited investors, the SEC ensured certain guardrails were in place to protect investors in these offerings. One goal of these guardrails was to ensure that investors had all the relevant financial information to make an informed investment decision.

While the guardrails ensured that these startups provided their potential investors with financial information, prior research calls into question the reliability of this information. Research has shown that financial information at startups going public (Ball and Shivakumar, 2005) and private companies (Minnis 2011; Hope et al., 2013) is of lower quality. Early-stage firms without external monitoring mechanisms, such as venture capital, also display higher abnormal accruals (Morsfield and Tan, 2006) than those firms with these mechanisms in place. Additionally, early stage firms often lack the appropriate management accounting systems (Davila and Foster, 2005) to help facilitate proper financial reporting, in part due to resource constraints. Given these constraints, early stage firms also often lack the assistance early on of an external accountant. Cassar and Ittner (2009), in their look at external accountant retention in startups, mention the significant costs of retaining an accountant as a reason firms do not hire outside help.

Though costly, prior research shows that the benefits to a firm in retaining an external accountant, or obtaining assurance from a CPA on its financial statements, often justify the costs. The retention of an external accountant for startup ventures reduces agency costs, as well as provides a level of legitimacy to a startup venture (Cassar and Ittner, 2009). Minnis (2011) shows that private companies who elect to have their financial statements audited benefit from lower costs of debt. Recent Reg CF research shows that Reg CF firms who have audited or reviewed financial statements see increased offering success (Bogdani et al., 2021; Gong et al., 2021). The value of assurance has also been shown in unregulated environments (Allee and Yohn, 2009; Badertscher et al., 2021). These benefits accrue to these companies through the expertise auditors and external accountants provide (Bonner and Lewis, 1990; Solomon et al., 1999; Gunn and Michas, 2018; Ahn et al., 2020; Duh et al., 2020), as well as through signaling higher quality financial information (Beatty, 1989; Bogdani et al., 2021).

This paper extends the prior literature on both the financial reporting quality of startups, and the value provided by external accountants and auditors, through a combination of survey responses and semi-structured interviews with firms raising capital through Reg CF, as well as auditors who provide services to startup firms raising capital under Reg CF. While we know from prior research that startups often struggle with the complexities of financial reporting and understanding the wide array of accounting standards, the survey responses and follow-up interviews provide greater detail on the specific accounting areas where these firms struggle. At a high level, the responses from Reg CF firms and auditors indicate that these firms have the greatest level of difficulty when it comes to the preparation of the Statement of Shareholders' Equity. More specifically, the survey responses and interviews with Reg CF firms and auditors identified five accounting items where there appears to be a significant "knowledge gap" or difference in the perception of accounting ability between Reg CF firms and auditors: 1) Fair Value Accounting, 2) Intangible Assets, 3) Research and Development Costs, 4) Share-Based Compensation Expense, and 5) Equity Instruments.

Responses to the survey instrument were solicited from both firms raising capital under Reg CF from January 1, 2019 through May of 2021, and those auditors who provided either review or audit services to Reg CF firms during this period. I surveyed a substantial number of firms issuing equity under Reg CF, emailing roughly 1,700 firms from a period of time that spans nearly half of the existence of Reg CF. I received responses from 86 of these firms, which represents a response rate of 5%. In some instances, respondents omitted a response for one or two questions, resulting in a total N of less than 86. While this response rate may appear small, the Graham and Harvey CEO survey from 2001, as a point of comparison, had a response rate of 9%, while the Graham et al. (2005) survey of CFOs had a response rate of 8.4% from online participants. This low response rate is also consistent with a declining trend in response rates to surveys in recent years (Hiebl and Richter, 2018). In addition to the roughly 1,700 Reg CF firms, I hand collected a list of 80 auditors who provided either review or audit services to firms raising capital through Reg CF during this window, and received responses from 8 auditors for a response rate of 10%. Soliciting responses from both Reg CF firms and auditors who provide services to these types of firms provides the opportunity to compare, or identify, accounting areas in which the capital-seeking firms are confident in their abilities with the auditors' assessment of the ability of these firms.

In addition to survey responses, I conducted interviews with seven Reg CF firms and four auditors to discuss their responses to the surveys. These semi-structured interviews provide a better picture of the financial statement area of focus for Reg CF firms, and provide more nuance to the auditor responses about areas where their clients could use more guidance or assistance. The interviews with auditors also gave rise to auditor requests for more guidance from standard setters and the SEC on accounting issues in this area.

This paper contributes to the existing Reg CF literature by providing exploratory survey evidence on the accounting acumen of Reg CF firms raising capital through equity crowdfunding. Where prior research like Bogdani et al. (2021) and Gong et al. (2021) provide evidence about the value of financial statement assurance in equity crowdfunding, the results of this survey provide evidence as to the specific areas where auditors are finding issues during these reviews and audits, or areas where Reg CF firms could use more assistance or guidance. The survey results also provide value relevant information for auditors who are looking to establish themselves as Reg CF industry specialists. Prior research has shown that specialization adds value to the services provided by an audit firm (Reichelt and Wang, 2010; Bills et al., 2016; Goldie et al., 2018; Donelson et al., 2020). A number of the top Reg CF platforms provide the names of auditors to those seeking to raise capital on their platform if audit or review services have not already been obtained by a Reg CF firm, which can be a significant revenue driver for these auditors. Better understanding the needs of the industry can help these firms meet their clients (and potential clients) where they are in the process. Lastly, the survey results, and follow-up interviews, provide feedback to regulators on areas where both Reg CF firms and auditors would like more guidance.

REGULATION CROWDFUNDING

In 2016, Title III of the 2012 JOBS Act went into effect under its more common name – Regulation Crowdfunding. The aim of Regulation Crowdfunding was two-fold – 1) to allow startup funds to solicit investment, through registered crowdfunding platforms, in exchange for unregistered securities and 2) to allow non-accredited investors to invest in these offerings. Allowing investment from non-accredited investors meant investors with a net worth of under $1M were now able to invest in these startup companies – previously this opportunity was only open to high net worth individuals. The rules and restrictions around Reg CF center around 5 primary areas – 1) Offering Limits, 2) Investors, 3) Disclosures, 4) Financial Reporting, and 5) Offering Platforms. Aland (WP) has a thorough description of additional Reg CF requirements and background.

Relevant to the analyses in this paper are the rules and restrictions around the financial reporting of these startup companies. As part of a firm's Reg CF offering, the firm is required to file with the SEC a copy of their most recent financial statements, as well as fill out certain financial statement line items on their Form C filing, the formal SEC filing document. While all firms are required to file financial statements as part of this process, the level of financial statement assurance required of Form C filers varies based on offering size. For example, firms seeking to raise low dollar amounts (under $107,000) are required to only file financial statements that have been certified by a company executive. Firms raising larger dollar amounts (between $107K and $535K) are required to provide greater levels of financial statement assurance through a review performed by a CPA firm. Those who wish to raise more than $535K and have already run a Reg CF offering are required to provide audited financial statements. While these cutoffs provide the minimum assurance levels needed, in all instances, firms are required to provide financials with the greatest level assurance obtained – for example, a firm seeking to raise only $100,000, who has had their financials audited, must provide those audited statements.

This structure to the Reg CF guidelines establishes a setting where the financial statements provided cover a broad range of assurance levels, which research has shown can influence offering outcomes (Bogdani et al., 2021; Gong et al., 2021). Given that the average target raise of offerings in the past 12-months is $60K, this also means there are a large number of offerings required to provide only certified financial statements. And as prior research has shown that the accounting and financial reporting quality of startup firms is lower than that of public firms, this creates a potential scenario where investors are making investment decisions based on financial statements which may not be reliable. The results of this exploratory study aim to bring into sharper focus the areas where firms, auditors, investors, and regulators alike should focus their attention on with a more critical eye.

METHODOLOGY

Design

The survey instrument was sent to two groups of respondents – Firms raising capital under Reg CF, and auditors who provided review or audit services to Reg CF firms during the period covered in my sample. In developing the survey, draft versions were sent to those within the industry to solicit feedback on the appropriateness and wording of the questions to ensure respondents would understand what was being asked.

The version of the survey sent to the Reg CF firms had three primary focus areas. The first area focused on gathering basic information about the company, such as revenues, asset size, industry, etc. The next area focused on the crowdfunding experience of the company, seeking to gather information about the company's offering (e.g., size, platform, prior experience, importance of success). The final area focused on the perceived accounting acumen of the Reg CF firms – what was their level of comfort with specific accounting areas and financial statements? The version of the survey provided to auditors focused primarily on the accounting acumen of their clients. This version of the survey contained the same questions as the final part of the survey sent to the Reg CF firms, rewording the questions to refer to the accounting knowledge of their clients instead of their own accounting knowledge.

Survey Delivery and Response Collection

The pool of respondents was populated in two ways. For Reg CF firm respondents, a list of all Reg CF offerings filed with the SEC from January 1, 2019 through May 31, 2021 was generated by pulling SEC Form-C filings. This resulted in a pool of 1,960 offerings. From those offerings, email addresses were then hand-collected from company webpages or offering documents. Contact emails were obtained for 1,731 companies. In addition to the Reg CF firms, a list of auditors was populated from the Form C filings of these companies. A total of 80 auditors were identified that had signed opinions during this two-and-a-half-year period, and email addresses were hand collected in a similar manner from the auditor websites.

On May 21, 2021, a link to an anonymous Qualtrics survey was sent to the Reg CF firms requesting their participation in this survey. As an incentive to complete the survey, respondents were offered a chance to be randomly selected for an Amazon gift-card if they completed the survey. Follow-up emails were sent on June 1, 2021 and June 7, 2021 requesting completion of the survey. Of the 1,731 companies contacted, 86 completed survey responses were received, for a response rate of 5%. This compares to the 9% response rate in the Graham and Harvey (2001) CEO survey and 8.4% in the Graham et al. (2005) CFO survey. Given the nature of the email addresses hand collected (some were sent to generic "info@" or "contact@" email addresses), a small response rate was anticipated. Follow-up interviews were held with seven of these respondents to further discuss their answers to the survey questions.

In a similar manner, on July 12, 2021, a link to an anonymous Qualtrics survey was sent to the auditor population requesting their participation. As with the Reg CF firms, a chance at an Amazon gift-card was offered as incentive to complete the survey. Follow-up emails were sent in each of the following 4 weeks. On December 1, 2021, one last reminder email was sent to solicit additional responses. Of the 80 auditors emailed, completed responses were obtained from 8 auditors for a response rate of 10%. This exceeds the response rate of the Reg CF firms, though still provides only a small number of observations with which to analyze. However, without revealing any identifiable information about the firms, respondents included some of the more prominent auditors in this area, accounting for a significant number of Reg CF audits/reviews during this window. Four of these firms made themselves available for an additional half-hour interview to further discuss their responses.

Summary Statistics

Thirty-two percent of Reg CF firms indicated that they were in a pre-revenue stage, with no revenues reported. An additional 42% of respondents reported revenues less than $100,000. These revenue responses are unsurprising, as startup firms seeking capital are frequently pre-revenue. The Reg CF respondents also tended toward the smaller size, with 72% of respondents indicating total assets of under $1M, consistent with results in Aland (WP).

Firms also self-identified as being a part of a number of industries. These industry categorizations are derived from KingsCrowd.com, a leading provider of Reg CF offering information. Twenty percent of respondents indicated their firm could be classified as either "technology", "software, services, and apps", or "business services, software, and applications", which I broadly categorize as "tech intensive" industries. This compares to 22% of firms in these categories across the broader population of offerings followed by KingsCrowd. Another 14% identify within the "food and beverage" industry (compared to 19% across the larger population of offerings). The healthcare sector also accounts for a number of respondents, with 4.4% of respondents identifying as "Healthcare & Pharmaceuticals", compared to 5.1% within the larger population on KingsCrowd.

Across the respondents, 80% of firms indicated that they had not been audited or reviewed prior to the initial filing of their Reg CF offering. One of the regulatory requirements of Reg CF is that firms seeking between $107,000 but not more than $535,000 require a review by a CPA firm. In the event that the firm has audited financials, those must be provided instead. Firms seeking to raise greater than $535,000 who are first time Reg CF firms need also only provide reviewed financials (unless, again, audited financials are available), while firms seeking this amount and have already conducted a Reg CF offering require audited financials. Those firms seeking less than $107,000 are required to provide only certified financials, unless financials with a greater level of assurance exist. Respondents also indicated that while they have a designated employee who handles the company's accounting responsibilities (68%), they do not have a designated accounting department to handle financial reporting and day to day accounting responsibilities (79%). In talking to the auditors in follow-up interviews, these numbers are consistent with the notion that "startups don't have a good amount of [accounting] support", and also consistent with the findings of Cassar and Ittner (2009) that showed early stage firms do not engage outside accountants due to the high costs.

RESULTS

Crowdfunding Offering

Firms were asked to respond to a number of qualitative and quantitative questions about their Regulation CF offering, both to gain information about the details of the amount of capital the company was attempting to raise, and information about the company's attitude toward the crowdfunding offering and its investors. The questions, and follow-up interviews with willing respondents, provided some interesting insight into the mindset of these firms, as well as provided some additional context through which we can consider the responses to survey questions about accounting acumen in the next section.

The companies in the survey sample are mostly new to Reg CF, with 92% of respondents indicating that this was their first Reg CF offering. As a whole, these respondents were not seeking to raise large amounts of capital through Reg CF – 80% of respondents were looking to raise a minimum of no more than $107,000. This figure is consistent with an average minimum raise of $60 thousand over the last year, and $53 thousand since 2017 (Source: KingsCrowd.com) The $107,000 cutoff is interesting, as raises above this level require additional levels of financial statement. While prior research has shown that additional levels of financial statement assurance leads to increased success in Reg CF offerings (Bogdani et al., 2021; Gong et al., 2021), Reg CF firms and auditors alike indicated in follow-up interviews that the outlay of capital for expensive audits or reviews at this early stage for the company often was not worth the benefit, especially when only 23% of respondents indicated that they "strongly agreed" with the statement "A successful crowdfunding campaign is critical to the continued operation of my business". Reg CF founders I spoke to provide a number of alternative reasons for these offerings, including a desire to "cultivate a community" and the "opportunity to work [a] network of people who know and trust [the] founder", with one founder even pointing to the pandemic "[playing] a big [part in the] decision", as the ability to pitch to venture capital firms in traditional ways dried up over the past two years.

Consistent with firms not seeking to raise large amounts of money from investors, and prior research indicating that firms utilize Reg CF to engage small dollar investors like friends and family (Abrams, 2017), respondents also indicated that the minimum investment they were seeking per investor was between $100 and $250. As Reg CF puts limits on the amount non-accredited investors can invest, keeping minimum investment amounts small allows access to the largest swath of investors participating in Reg CF offerings. In line with this thinking, only 5% of firms sought a minimum investment of at least $1,000 from investors. As one Reg CF founder put it "the ability to mix two investor pools of people" through Reg CF was attractive, especially since it provided non-accredited investors with "the legal protections" of contracts and wasn't just a "donation to [the founder]".

The next set of questions sought to gather information on what firms thought were most important to the success of their offerings. Responses to this group of questions indicated that firms thought the two most important components of a successful offering were the offering page itself, and buzz generated through word of mouth and social media, with an average response indicating these items were "very important (4 out of 5)". These responses are consistent with prior research (Aland, WP; Polzin et al., 2018) that shows how these "non-financial" components of a Reg CF offering lead to success. This sentiment was also confirmed in follow-up interviews, with one CEO stating "if the idea is good, and the team is good, you have a very good chance [at success]", and that "we saw these companies that put up really nice stuff, and these [companies] are making a killing because they've got a really slick presentation".

Less important to the success of an offering in the minds of the founders surveyed were the financial statements and additional information included in the Form C filing, as Reg CF firms only considered these items to be "moderately important (3/5)". Interestingly, the Reg CF firms responded, on average, that they "neither agreed nor disagreed" with the statement "My crowdfunding investors are capable of understanding my company's financial statements". One founder elaborated on this response during their post-survey interview, stating "the folks that put in $100, I don't think they understand the financials at all", while also allowing that "the sophisticated [investors] get it", alluding to a difference in the investing acumen between accredited investors and non-accredited investors. Another supported this idea, commenting that "I think your typical CF investor is putting $100, $200, $500…I think most of the people are not investing based on the financials at all" and that their investors "were not accountants". Given this attitude towards the financials, ensuring these companies are submitting financials statements that, in the words of the standard audit opinion "present fairly, in all material respects, the financial position of the Company" is important in protecting those investors who may be taking for granted that there is a risk of misstatement in the financials of the company they are investing in, or might not even be aware that the financial statements haven't been looked at by an external accountant.

Accounting Acumen

The previous section establishes a picture of a startup firm seeking small amounts of capital from investors who don't understand or pay attention to the financial statements. With this picture in mind, I then explored the knowledge and accounting acumen of these firms as it relates to a firm's four primary financial statements – the Balance Sheet, the Income Statement, the Statement of Cash Flows, and the Statement of Stockholders' Equity – as well as the Footnotes to the Financial Statements. Subsequent questions sought to delve deeper into specific line items from these financial statements, gathered from a review of a sampling of these companies' financials filed with Form C. Responses to these questions were solicited not just from Reg CF firms, but from auditors as well, to provide additional insight into where the firms and their auditors diverge on the opinion of the level of accounting knowledge these Reg CF firms possess.

Balance Sheet

Reg CF firms were first asked to indicate the level of knowledge their company possessed related to the preparation of the Balance Sheet. On average, these firms considered themselves to be "very knowledgeable" (mean score = 4.04) when it came to understanding the financial statement responsible for telling potential investors how much they owned, how much they owed, and what was invested in the company. The responses of the auditors also indicate this was one of the two financial statements their clients were most knowledgeable about (see discussion on the Income Statement in the next section), though at a significantly different level. Auditors indicated that their Reg CF clients were between "slightly" and “moderately knowledgeable) (mean score = 2.375), representing a significant difference from Reg CF firms at a 1% level.

Having established a baseline for the top-level knowledge of the Balance Sheet, the survey next asked respondents about specific balance sheet line items. The results provide an interesting overlap in the knowledge assessment made by both the Reg CF firms and auditors. The first result that stood out was that, while Reg CF firms, on average, believe they are “moderately knowledgeable” about all the line items presented in the survey, the auditors responded that, on average, firms were only “moderately knowledgeable” about four of these line items. Interestingly though, both groups had the same three line items in their top 3 (most knowledgeable) and bottom 3 (least knowledgeable) balance sheet line items.

Appearing in the top three for both groups were Cash (mean Reg CF firm score = 3.98/mean audit score = 4.125), Accounts Receivable (4.05/3.375), and Accounts Payable (4.05/3.375). The mean difference between the Reg CF firm and audit scores for Cash did not represent a significant difference, while the difference for Accounts Receivable and Accounts Payable represented a significant difference at only the 5% level. Given the relatively straightforward nature of accounting for cash and receivables/payables, it is unsurprising to see these three accounts at the top of the list.

The three balance sheet items where the Reg CF firms and auditors agreed over the startups being least knowledgeable were Intangibles (mean Reg CF firm score = 3.51/mean audit score = 1.57), Fair Value Accounting (3.43/1.75), and the Allowance for Doubtful Accounts (3.19/2.14). While the difference in the scores for the Allowance was significant at only a 5% level, the differences in the scores for Intangibles and Fair Value accounting represent significant differences at the 1% level. Given that a large share of these startup firms are in the business of developing and patenting some new software or technology (see Table 2), and the never-ending debate over the accounting treatment for research and development costs (Curtis et al., 2017; Nichita, 2019) (discussed more in the section below on the Income Statement), auditors are not surprised their clients struggle with this area, especially around the treatment of software development costs (Mohd, 2005; Lev 2019; Barker et al., 2021) and intangible valuation. Said one auditor, “a guaranteed problem that we are going to have with the balance sheet…is the idea of [proper valuation of] intellectual property”, suggesting that these firms, operating on small startup budgets to begin with, “come up with those numbers on their own” without understanding the accounting guidance or engaging professionals to help assess this value. Another auditor I spoke with put it a little more bluntly – “they have no idea what the value of an app is.” This can lead to significant time spent correcting mistakes made by these clients and educating them on the standards, which is exactly what these Reg CF firms were hoping to avoid in the first place.

Income Statement

Reg CF firms were then asked to indicate the level of knowledge their company possessed related to the preparation of the Income Statement. On average, these firms considered themselves to be “very knowledgeable” (mean score = 4.08) when it came to understanding the financial statement responsible for summarizing the performance of their company during the period of interest. The responses of the auditors also indicate this was one of the two financial statements their clients were most knowledgeable about (see discussion above on the Balance Sheet), though at a significantly different level. Like the Balance Sheet, auditors indicated that their Reg CF clients were between “slightly” and “moderately knowledgeable) (mean score = 2.625), representing a significant difference from Reg CF firms at a 1% level.

The survey then asked respondents about specific financial statement line items on the Income Statement. Similar to the results with the Balance Sheet, the results provide an interesting overlap in the knowledge assessment made by both the Reg CF firms and auditors. As with the Balance Sheet, Reg CF firms, on average, believe they are “moderately knowledgeable” about all the line items presented in the survey. In contrast, the auditors responded that, on average, firms were only “moderately knowledgeable” about three of the eight line items presented. When comparing the ranked order of the line items based on the average score of the respondents, there was less overlap between the Reg CF firms and their auditors on the eight income statement line items presented than noted for the Balance Sheet.

The financial statement line item ranked highest by both Reg CF firms and their auditors was Revenues (mean Reg CF = 4.42/mean Auditor = 3.43 – difference significant at 1%). As revenues are the top line item on the income statement, it is perhaps unsurprising that this was ranked highest by both groups. An interesting trend emerged though among Reg CF firms conditional on whether or not the firms reported having any revenues. The average score for firms who reported revenues on the survey was 4.54, while the average for those who were pre-revenue was lower, at 4.15, representing a significant difference at the 5% level. Given the nature of some of the revenue recognition standards (ASC 606; Hepp 2018), it stands to reason that those who have generated revenues to date would be more knowledgeable about accounting for said revenues. In a close second to revenues was the Cost of Goods Sold line item where Reg CF firms had a mean response of 4.26, compared to a mean response of 3.00 from auditors (significantly different at 1%). Given that we often think of Cost of Goods Sold (or Cost of Revenues) in tandem with Revenues in arriving at Gross Profits, it follows that Reg CF firms should operate at a similar comfort level with Revenues and COGS.

I next turn my focus to the two line items on the Income Statement with the largest divergence between the Reg CF firms and auditor responses: Research and Development (Difference of 1.98 – significant at 1%) and Stock-Based Compensation Expense (Difference of 1.8 – significant at 1%).

I discussed in the section on the Balance Sheet that one of the balance sheet items auditors identified their clients struggle with most is Intangible Assets. Where these issues may manifest on the Income Statement are through Depreciation and Amortization Expense (auditors gave this a score of 2.25) or through expenses attributed to research and development. While R&D expenditures are currently governed by ASC 730, recent research (King, working paper) has pointed out the need for potentially new perspectives on R&D, and the FASB has also indicated an openness to new accounting guidance for R&D (FASB, 2021). The FASB Invitation for Comment specifically mentions the "fragmented" current existing GAAP for intangible assets, specifically around the "differences in accounting for research and development that is internally developed…and in-process R&D acquired in business combinations". With this on-going debate, auditors pointed to difficulties faced by firms, particularly as it relates to ASC 985, as a large number of these firms are dealing with software development and related costs. Said one auditor "firms decide they don't want to capitalize anything, whether its research or development…, because they want the tax benefit of the expense". Another auditor echoed that sentiment, stating that there is "no differentiating between the research aspect of what they are doing and then the development".

Another pain point mentioned by auditors, and supported by auditor survey responses, was Reg CF firms' accounting for stock-based compensation expense – itself a topic of intense debate in the early 2000s over the proper accounting treatment (Guay et al., 2003; Bhojraj, 2020) that led to the FASB's issuance of SFAS123(R) in 2004. In a follow up interview, one auditor stated "[these firms] are unfamiliar with the repercussions of issuing stock options and warrants" and their clients "have limited capital" to pay for these valuations. And while it appears that the FASB has attempted to address this issue, issuing updated guidance to ASU 718 for private companies in response to concerns about the cost of valuing share-based payments, the auditors make clear that this messaging has not quite yet reached these Reg CF firms – or they do not have the capacity to process this guidance. The same auditor quoted above also called on better guidance from the SEC on this issue for these firms, saying "accounting for equity…this is a mess. We need some formal guidance."

Statement of Cash Flows

After the Balance Sheet and the Income Statement, Reg CF firms and their auditors were next asked to rate their knowledge level around the Statement of Cash Flows. The cash flow statement ranked third behind the first two statements in the Reg CF firms' knowledge level (mean score = 3.94), while their auditors ranked this statement much less favorably (mean score = 1.75), a significant difference at the 1% level. Where the Balance Sheet and the Income Statement sections of the survey focused on specific line items, the follow up questions for the Statement of Cash Flows focused on the three individual sections of the Statement of Cash Flows: Operating Cash Flows, Investing Cash Flows, and Financing Cash Flows. The Reg CF respondents all indicated a level of knowledge around cash flows between "moderately knowledgeable" and "very knowledgeable" across all three sections (Operating = 3.99, Investing = 3.68, and Financing = 3.67), the auditor respondents were again, less confident in their clients' abilities, responding with a mean score of 2.375 for each section, trending closer to a level of "slightly knowledgeable". In follow up interviews with Reg CF firms and their auditors, this statement was not frequently mentioned by either group of respondents, as there does not appear to be significant inflows or outflows of cash at this stage of the companies' life cycles.

Statement of Stockholders' Equity

The last of the four primary financial statements, the Statement of Stockholders' Equity, came in lowest ranked by Reg CF respondents (mean score = 3.82), and in a tie with the Statement of Cash Flows for the lowest ranked of the Statements by auditors (1.75). As discussed in the section on the Income Statement, a contributing factor to this score by auditors comes from confusion around stock options and the various equity instruments offered by Reg CF firms.

Given the prevalence of stock options and other stock-based compensation as central elements of compensation plans for pre-IPO companies (Larcker et al., 2021), ensuring that firms understand the instruments they are awarding their employees and executives is an integral part of ensuring these companies are properly reporting their equity. Larker et al. (2021) comment that "the economics and tax treatment of stock options is a complicated subject", which is a sentiment echoed by the Reg CF and audit respondents alike. Said one auditor "if a client has options or warrants…that's definitely a pain point". Echoing this point, one of the Reg CF founders I spoke to mentioned that early on they "did some things along the way that I just didn't know…weren't the smartest thing to do" when it came to equity. Reg CF firms also appear to benefit from prior experience with an auditor in this area, as, conditional on being audited prior to Reg CF, firms responded with a higher degree of knowledge (3.94) than those firms who had not been audited prior to their Reg CF offering (3.32), a difference significant at the 5% level.

The last line item I focus on is the equity instruments issued by these Reg CF firms, which primarily take the form of Simple Agreements for Future Equity (SAFE). While not the lowest ranked item within the equity section of the survey (Reg CF mean = 3.51/Auditor mean = 2.5 – significantly different at 5%) or the largest difference, this item came up more in follow-up interviews with Reg CF firms and auditors than lower scoring items such as accumulated other comprehensive income or additional paid in capital. In 2017, the SEC issued an investor bulletin around these instruments, noting that "despite its name, a SAFE may not be "simple" or "safe" (SEC, 2017)". A SAFE is "an agreement to provide [an investor] a future equity stake based on the amount invested if – and only if – a triggering event occurs", which in the case of a Reg CF offering, is the crowdfunding minimum being met. Green and Coyle (2016) also write about the legal complexities surrounding these, and other, crowdfunding instruments. These instruments also come with their own considerations of cash-flow, control, and exit rights (Cumming et al., 2019; Hornuf et al., 2021).

In follow-up interviews, one auditor mentioned when they started seeing their clients offer SAFEs, and even now, "guidance…[is] limited at this point" and asked if the "SEC has any other plans on expanding [guidance] in this area". A Reg CF owner, in talking about their equity instruments, mentioned "we did this hybrid vehicle of a SAFE and revenue share [and] I just don't know where to start [with the accounting]". Another auditor mentioned, when discussing their clients' challenges with these equity agreements, that their clients struggle with "trying to figure out who is the investor, who has put in how much, and what are the terms", and that it is a challenge "for small entities and for practitioners" to determine how to account for these items. Unlike the difference in the knowledge level of audited and unaudited Reg CF firms as it related to stock options, no such difference appears here, conditional on prior audit experience.

Footnotes to the Financial Statement

Lastly, I asked Reg CF firms and their auditors about their level of knowledge when it came to the Footnotes to the Financial Statements. This component of the financial statements was met with agreement by both Reg CF firms and auditors as an area where the Reg CF firms were least knowledgeable, with an average score of 3.23 from Reg CF firms and 1.38 from auditors (which represents a significant difference at the 1% level). An overarching theme relating to the Footnotes was that firms were unaware of what these were, with one auditor saying “most clients do not provide us footnotes” and another mentioning that they struggle to help clients with footnotes “while maintaining their independence”.

CONCLUSIONS AND RECOMMENDATIONS

One of the stated goals of the SEC with Regulation Crowdfunding was to “assist smaller companies with capital formation and provide investors with additional protections” (SEC, 2015). One avenue through which the SEC aims to protect the non-accredited investors able to invest in these offerings is through the financial statement disclosure requirements of companies raising capital through Regulation CF. Recent research (Bogdani et al., 2021) has shown that the assurance provided by reviews and audits of the financials of these companies lead to greater investment in these offerings, suggesting that investors are provided a level of comfort by the assurance that comes with audited or reviewed financials.

But these reviews and audits do not come without costs (both explicit and implicit) to these Reg CF firms, who are often operating on tight budgets. In some instances, a Reg CF firm seeking to save “$1,000 [ends up] cost[ing] them $45,000” with a mistake identified by the auditor, or an accounting position taken that results in additional tax expense. Firms also, in some instances, are unaware of the need for an audit or review prior to their Reg CF offering, or the work that goes into these types of engagements. In these cases, the additional cost comes in the form of the time lost by a firm in launching its offering or focusing on other areas of the business. It is with these ideas in mind, and with the discussion above in the Results section, that I make the following suggestions.

Review/Audit Requirement Awareness

One of the themes discussed above was Reg CF firms not being aware of what was required when it came to needing a review or an audit of their financial statements prior to a Reg CF offering. Some of the platforms have begun to help make these firms aware of these requirements, with platforms like Wefunder providing Investor FAQs with reporting requirements, as well as examples of what form these financial statements should take. The SEC could benefit from taking a similar approach, and making these reporting requirements more evident on their webpage. As it currently stands, any updates or amendments to the reporting requirements are not readily apparent. Providing some form of disclosure checklist for these companies to guide their financial statement preparation prior to providing these items to their accountant may be a useful resource for these firms.

Additional Accounting Guidance

As discussed above in the section on Results, there are a number of areas where these Reg CF firms could benefit from additional, or clarified, guidance from standard setters or regulators. Reg CF firms should also consider the “knowledge gaps” identified by this survey and consider their accounting for these items. Additionally, they should be aware of the time and effort that auditors expend on these areas, which may lead to potential additional audit and review fees, as well as overruns on time that could prove costly if they need to delay the launch of the Reg CF offering.

SAFE Notes

In a handout from their December 11, 2019 Board Meeting, the FASB acknowledged that “respondents requested that the Board address issues” around various types of stock-settled debt (FASB, 2019). The FASB did issue updated guidance in 2020 aimed at tackling the “complexity associated with applying GAAP to certain financial characteristics of liabilities and equity” (FASB, 2020), though this guidance did not specifically mention SAFE notes. Larger auditors, like PWC, state on their website that “companies seeking to use complex financing arrangements should fully understand the nuances of the arrangement, including the accounting treatment.” As these are not the auditors typically taking on these Reg CF companies as clients, it falls on the shoulders of smaller auditors to guide these firms. Outreach from the

FASB to these auditors, or additional guidance that speaks specifically to these Reg CF firms, may provide a benefit to all involved.

Research and Development Costs/Intangible Assets

An area of accounting weakness noted by auditors, and acknowledged by the Reg CF firms, was in their accounting for research and development costs, and by extension, their Intangible Assets. This knowledge gap provides an opportunity for auditors to put out more tailored resources for their clients, or potential clients, to guide them through these accounting trouble spots. Additionally, Reg CF firms, now armed with the information that auditors share their concern over accounting for this area, should consider investing additional time up front and weighing the cost/benefit of engaging a specialist to help them with the valuation of these assets prior to engaging an auditor. Investors should also evaluate these figures with a discerning eye when making investment judgments, especially for Reg CF firms submitting only certified financial statements, given the noted difficulty in accounting for these items.

Stock Option Expense

As with the accounting for research and development and intangibles discussed above, the survey provides evidence that expenses related to stock options are also a pain point for Reg CF firms in their accounting, especially for those who have not engaged an external auditor prior their offering. A potential course of action for Reg CF firms is to carefully consider the use of options given the nature of their accounting, or at least educate themselves about the complexity of the accounting prior to issuance. The valuation of these options, and calculation of expense, also ties into Reg CF firms' difficulty with valuation assessments for intangibles discussed above. Auditors should also view these survey results as an opportunity to market services to Reg CF firms, and others, who may not require review or audit services but would benefit from simple valuation or accounting services around options.

Footnotes to the Financial Statement Templates

While platforms like Wefunder make available a number of financial statement templates and examples, the results of the survey indicate this is still a blind spot for Reg CF firms when providing financials to auditors for reviews/audits, or when preparing their own certified financials. Given the additional value relevant information that these footnotes may contain, it is important that Reg CF firms are aware of the financial reporting requirements around footnote preparation, and prepare them accordingly. One auditor cited a client's inability to provide relevant documentation to support footnote disclosures, or even allow the auditor to point them in the right direction of footnote preparation, as a cause of overruns incurred. Auditors may benefit from making sure they establish clear expectations of their clients upfront, possibly providing their own examples to clients prior to audit/review work being performed. The SEC could also consider making available templates or examples for these firms to follow and include it with the other relevant Form C filing information.

Reg CF has come a long way since its start in 2016, with 2021 notching over $500 million in investments, which represents an increase of nearly 2.5% the amount invested in 2020. As this form of financing continues to gain in popularity and ubiquity, with the number of non-accredited investors growing as well, it is important that Reg CF firms ensure their financial statements are properly stated so that investors can make the most informed decision possible. The results of this study should provide Reg CF firms, auditors, and regulators, with information to ensure this happens.

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APPENDIX

TABLE 1
FINANCIAL CHARACTERISTICS OF RESPONDENT FIRMS WHO HAVE RAISED CAPITAL UNDER REGULATION CROWDFUNDING

Panel A
Reg CF Firm Most Recent Fiscal Year Revenues

Revenues	N	% of Respondents
$0	27	32%
$1 - $100,000	36	42%
$100,001 - $250,000	8	9%
$250,001 - $500,000	4	5%
$500,001 - $1,000,000	7	8%
$1,000,001 - $5,000,000	2	2%
$5,000,001 - $10,000,000	1	1%

Panel B
Reg CF Firm Most Recent Fiscal Year Assets

Assets	N	% of Respondents
$0	11	13%
$1 - $100,000	26	31%
$100,001 - $250,000	16	19%
$250,001 - $500,000	10	12%
$500,001 - $1,000,000	8	10%
$1,000,001 - $5,000,000	6	7%
$5,000,001 - $10,000,000	3	4%
$10,000,001+	3	4%

This table provides a summary of financial characteristics of the respondent Reg CF firms. Panel A provides a summary of survey responses to the question “What were your company’s most recent fiscal year revenues?”. Panel B provides a summary of survey responses to the question “What was the book value of your company’s assets at the end of the most recent fiscal year?”.

TABLE 2
INDUSTRY CLASSIFICATION OF RESPONDENT FIRMS WHO HAVE RAISED CAPITAL UNDER REGULATION CROWDFUNDING

Industry	N	% of Respondents
Advertising and Marketing	7	3.87%
Alcohol, Tobacco, & Recreational Drugs	1	0.55%
Apparel & Fashion	1	0.55%
Arts & Crafts	1	0.55%
Arts and Crafts	0	0.00%
Beauty & Personal Care	3	1.66%
Business Services, Software, & Applications	10	5.52%
Consumer Products & Services	8	4.42%
Consumer Products & Services	4	2.21%
Consumer Products, Goods & Services	6	3.31%
Education, Training, & Coaching	3	1.66%

Energy, Power, & Natural Resources	4	2.21%
Entertainment	4	2.21%
Farming & Agriculture	4	2.21%
Fashion	0	0.00%
Film and Video	1	0.55%
Financial & Insurance Products & Services	2	1.10%
Financial Products and Services	4	2.21%
Fitness & Wellness	2	1.10%
Food and Drink	14	7.73%
Food, Beverage, & Restaurants	11	6.08%
Government Services	0	0.00%
Healthcare & Pharmaceuticals	8	4.42%
Industrial Services	2	1.10%
Infrastructure	2	1.10%
Logistics, Delivery, & Supply Chain	2	1.10%
Marketing & Advertising	1	0.55%
Media and Publishing	1	0.55%
Media, Entertainment & Publishing	7	3.87%
Medical, Health and Well Being	11	6.08%
Other	6	3.31%
Pet Health, Food, and Services	2	1.10%
Real Estate & Construction	3	1.66%
Retail	6	3.31%
Retail Shops & Department Stores	3	1.66%
Security, Cybersecurity, & Defense	3	1.66%
Software, Services and Apps	13	7.18%
Sports	2	1.10%
Technology	14	7.73%
Transportation, Automotive, Aviation, & Aerospace	3	1.66%
Travel and Adventure	0	0.00%
Travel and Hospitality	2	1.10%

This table provides a summary of the Reg CF firms responses to the question "Which of the following categories best describes your industry?". Respondents were invited to select all industry categories that applied, which is why the number of total responses is in excess of 86. Industry categories were obtained from industry categories utilized by KingsCrowd.com.

TABLE 3
CHARACTERISTICS OF REGULATION CROWDFUNDING OFFERINGS LAUNCHED BY SURVEY RESPONDENTS

Panel A
Regulation Crowdfunding Offering Experience

First Offering?	N	% of Respondents
No	7	8%
Yes	78	92%

Panel B
Targeted Reg CF Offer Size

Offering Amount	N	% of Respondents
$10,000 - $25,000	16	19%
$25,001 - $50,000	21	25%
$50,001 - $107,000	20	24%
$107,001 - $250,000	11	13%
$250,001 - $500,000	4	5%
$500,001 - $1,070,000	9	11%
$1,070,001 - $2,500,000	1	1%
$2,500,001 - $5,000,000	3	4%

Panel C
Reg CF Offering Minimum Investment Amount

Minimum Investment	N	% of Respondents
$100 - $250	70	83%
$251 - $500	7	8%
$501 - $1,000	3	4%
$1,001 - $2,500	2	2%
$2,501 - $5,000	0	0%
$5,001+	2	2%

This table provides a summary of the key characteristics of the Regulation CF offerings launched by the respondents to the survey. Panel A summarizes the responses to the question "Was/Is this your first Regulation Crowdfunding Offering?". Panel B provides a summary of responses to the question "What was the target raise for your most recent Reg CF offering?". Lastly, Panel C summarizes responses to the survey question "What was the minimum investment amount for your most recent Reg CF offering?".

TABLE 4
REGULATION CF FIRMS THOUGHTS ON CROWDFUNDING OFFERING AND THEIR CROWDFUNDING INVESTORS

Panel A
Importance of Offering and Investor Thoughts

	N	Mean	25%	50%	75%	SD
A successful crowdfunding campaign is critical to the continued operation of my business	86	3.38	2.00	4.00	4.00	1.32
My crowdfunding investors are capable of understanding my company's financial statements	86	3.45	3.00	3.50	4.00	0.95
My crowdfunding investors are concerned with seeing a return on their investment	86	4.02	4.00	4.00	5.00	0.98

Panel B
Reg CF Offering Success Drivers

	N	Mean	25%	50%	75%	SD
Crowdfunding Offering Page	86	4.47	4.00	5.00	5.00	0.81
Financial Statements	85	3.21	2.00	3.00	4.00	1.12
Additional Information Included in Form C Filing	85	2.66	2.00	3.00	3.00	1.03
Word of Mouth/Social Media	86	4.47	4.00	5.00	5.00	0.89

Table 4 provides a summary of the responses from Reg CF firms related to questions about the need for their crowdfunding offer, the financial intelligence and motivations of their investors, and the success drivers of their offerings. Panel A provides a summary of responses to the statement "Indicate below how much you agree with the following statement:". Respondents were asked to respond on a 5-point scale with the value of 1 representing a response of "strongly disagree" and a response of 5 representing "Strongly Agree". A response of 3 is the equivalent of a response of "Neither Agree or Disagree". Panel B provides a summary of responses to the statement "Indicate below how important you believe each of the components are to the success of your crowdfunding offering:". Respondents were asked to respond on a 5-point scale with the value of 1 representing a response of "Not at all important" and a response of 5 representing "Extremely Important". A response of 3 is the equivalent of a response of "Moderately Important".

TABLE 5
KNOWLEDGE OF REGULATION CF FIRMS, AND PERCEIVED LEVEL OF KNOWLEDGE OF REGULATION CF FIRMS, AROUND THE PREPARATION OF THE PRIMARY COMPONENTS OF THE FINANCIAL STATEMENTS

	Reg CF Firms		Auditor			
	N	Mean	N	Mean	Mean Difference	
Balance Sheet	84	4.04	8	2.38	1.66	***
Income Statement	84	4.08	8	2.63	1.46	***
Statement of Cash Flows	84	3.94	8	1.75	2.19	***
Statement of Shareholders' Equity	84	3.82	8	1.75	2.07	***
Footnotes to the Financial Statements	84	3.24	8	1.38	1.86	***

Table 5 provides a summary of the responses from Reg CF Firms, and firms who audit Reg CF firms, to a question aimed at understanding the level of knowledge Reg CF firms believe they have, and the level of knowledge auditors believe Reg CF firms have, when it comes to the preparation of the primary components of the financial statements. Reg CF firms were asked to "Please indicate below you or your company's level of knowledge around the preparation of the following Financial Statement Components:" while auditors were asked to "Please indicate below how knowledgeable you believe your clients are about the preparation of the following Financial Statement Components:" Respondents were asked to respond on a 5-point scale, with the value of 1 representing "Not Knowledgeable At All" and a value of 5 corresponding with "Extremely Knowledgeable". The differences in means between the two samples is calculated in the last column using a t-test. ***, **, *, designates differences in mean responses between Reg CF Firms and Auditors significantly different from zero at the 0.01, 0.05, and 0.10 level.

TABLE 6
KNOWLEDGE OF REGULATION CF FIRMS, AND PERCEIVED LEVEL OF KNOWLEDGE OF REGULATION CF FIRMS, AROUND SELECTED BALANCE SHEET LINE ITEMS

	Reg CF Firms		Auditor			
	N	Mean	N	Mean	Mean Difference	
Cash	83	3.98	8	4.13	(0.15)	
Investments	83	3.78	8	2.38	1.41	***
Accounts Receivable	83	4.05	8	3.38	0.67	*
Inventory	81	3.81	8	2.88	0.94	**
Intangibles	82	3.51	7	1.57	1.94	***
Fair Value Accounting	83	3.43	8	1.75	1.68	***
Accounts Payable	83	4.05	8	3.38	0.67	*
Short-Term Debt	83	3.93	8	2.88	1.05	***
Long-Term Debt	81	3.95	8	3.00	0.95	**
Allowance for Doubtful Accounts	83	3.19	7	2.14	1.05	*

Table 6 provides a summary of the responses from Reg CF Firms, and firms who audit Reg CF firms, to a question aimed at understanding the level of knowledge Reg CF firms believe they have, and the level of knowledge auditors believe Reg CF firms have, when it comes to line items on the Balance Sheet. Reg CF firms were asked to "Please indicate below you or your company's level of knowledge around the following Balance Sheet line items:" while auditors were asked to "Please indicate below how knowledgeable you believe your clients are about the following Balance Sheet line items:" Respondents were asked to respond on a 5-point scale, with the value of 1 representing "Not Knowledgeable At All" and a value of 5 corresponding with "Extremely Knowledgeable". The differences in means between the two samples is calculated in the last column using a t-test. ***, **, *, designates differences in mean responses between Reg CF Firms and Auditors significantly different from zero at the 0.01, 0.05, and 0.10 level.

TABLE 7
KNOWLEDGE OF REGULATION CF FIRMS, AND PERCEIVED LEVEL OF KNOWLEDGE OF REGULATION CF FIRMS, AROUND SELECTED INCOME STATEMENT LINE ITEMS

	Reg CF Firms		Auditor			
	N	Mean	N	Mean	Mean Difference	
Revenue	83	4.42	7	3.43	0.99	***
Cost of Goods Sold	83	4.27	8	3.00	1.27	***
Interest Income/Expense	83	3.95	8	3.25	0.70	*
Income Taxes	82	3.90	8	2.25	1.65	***
Research and Development	83	3.98	8	2.00	1.98	***
Lease Expense	81	4.04	8	2.50	1.54	***
Depreciation/Amortization	83	3.52	8	2.25	1.27	***
Stock Based Compensation Expense	80	3.18	8	1.38	1.80	***

Table 7 provides a summary of the responses from Reg CF Firms, and firms who audit Reg CF firms, to a question aimed at understanding the level of knowledge Reg CF firms believe they have, and the level of knowledge auditors believe Reg CF firms have, when it comes to line items on the Income Statement. Reg CF firms were asked to "Please indicate below you or your company's level of knowledge around the following Income Statement line items:" while auditors were asked to "Please indicate below how knowledgeable you believe your clients are about the following Income Statement line items:" Respondents were asked to respond on a 5-point scale, with the value of 1 representing "Not Knowledgeable At All" and a value of 5 corresponding with "Extremely Knowledgeable". The differences in means between the two samples is calculated in the last column using a t-test. ***, **, *, designates differences in mean responses between Reg CF Firms and Auditors significantly different from zero at the 0.01, 0.05, and 0.10 level.

TABLE 8
KNOWLEDGE OF REGULATION CF FIRMS, AND PERCEIVED LEVEL OF KNOWLEDGE OF REGULATION CF FIRMS, AROUND SELECTED STATEMENT OF CASH FLOWS LINE ITEMS

	Reg CF Firms		Auditor			
	N	Mean	N	Mean	Mean Difference	
Operating Cash Flows	83	3.99	8	2.38	1.61	***
Investing Cash Flows	82	3.68	8	2.38	1.31	***
Financing Cash Flows	83	3.67	8	2.38	1.30	***

Table 8 provides a summary of the responses from Reg CF Firms, and firms who audit Reg CF firms, to a question aimed at understanding the level of knowledge Reg CF firms believe they have, and the level of knowledge auditors believe Reg CF firms have, when it comes to the Statement of Cash Flows. Reg CF firms were asked to "Please indicate below you or your company's level of knowledge around the following Statement of Cash Flows line items:" while auditors were asked to "Please indicate below how knowledgeable you believe your clients are about the following Statement of Cash Flows line items:" Respondents were asked to respond on a 5-point scale, with the value of 1 representing "Not Knowledgeable At All" and a value of 5 corresponding with "Extremely Knowledgeable". The differences in means between the two samples is calculated in the last column using a t-test. ***, **, *, designates differences in mean responses between Reg CF Firms and Auditors significantly different from zero at the 0.01, 0.05, and 0.10 level.

TABLE 9
KNOWLEDGE OF REGULATION CF FIRMS, AND PERCEIVED LEVEL OF KNOWLEDGE OF REGULATION CF FIRMS, AROUND SELECTED STATEMENT OF SHAREHOLDERS' EQUITY LINE ITEMS

	Reg CF Firms		Auditor			
	N	Mean	N	Mean	Mean Difference	
Stock Options	83	3.45	8	1.75	1.70	***
SAFE and Other Equity Instruments	83	3.51	8	2.50	1.01	**
Common Stock	83	3.89	8	2.75	1.14	**
Retained Earnings	83	3.54	8	2.38	1.17	**
Accumulated Other Comprehensive Income	83	3.18	8	1.50	1.68	***
Additional Paid in Capital	82	3.35	8	2.25	1.10	**

Table 9 provides a summary of the responses from Reg CF Firms, and firms who audit Reg CF firms, to a question aimed at understanding the level of knowledge Reg CF firms believe they have, and the level of knowledge auditors believe Reg CF firms have, when it comes to the Statement of Shareholders' Equity. Reg CF firms were asked to "Please indicate below you or your company's level of knowledge around the following Statement of Shareholders' Equity line items:" while auditors were asked to "Please indicate below how knowledgeable you believe your clients are about the following Statement of Shareholders' Equity line items:" Respondents were asked to respond on a 5-point scale, with the value of 1 representing "Not Knowledgeable At All" and a value of 5 corresponding with "Extremely Knowledgeable". The differences in means between the two samples is calculated in the last column using a t-test. ***, **, *, designates differences in mean responses between Reg CF Firms and Auditors significantly different from zero at the 0.01, 0.05, and 0.10 level.