

The Artist as Entrepreneur

Bookkeeping 101

Lesson description

Entrepreneurs dig right in to the production and sale of their product. The product is the fun part of the business. For many, if not most, the bookkeeping is the necessary evil. This is particularly true for artists. After all, there is no room for creativity in accounting! This lesson stresses the importance of keeping accurate expense records, and suggests simple methods the artist may adopt.

Concepts

Expense records
Taxes

Related Subject Areas

Bookkeeping

Lesson objectives

Students will

State the important questions that must be answered through the use of expense records
Design and test a method for recording business expenses

Materials

Visual 1, *Business Expenses*
Transparency of *IRS Publication 463, Travel, Entertainment, Gift, and Car Expenses*
(This Optional visual can be downloaded at www.irs.gov)
Visual 2, *Cash Disbursements*

Procedure

1. Introduce this series of lessons as those that will instruct artists on bookkeeping basics. Explain that bookkeeping is the most tedious of all the artist entrepreneur's duties but also an important function for success in business.
2. Explain that there are two important reasons to keep financial records.
 - First, a complete set of records will help the artist keep track of income, expenses, and business related property. These records can explain your cash flow or why buying in bulk may save you money. Records, including those that show how you spend your time, are among the most effective tools for assessing how you are doing financially. These records help you set priorities and plan for the future.

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- Second, without complete and well-organized records, the artist is unable to prepare and support federal and state tax returns. Even worse, you may be paying more taxes than you really owe if you miss an estimated tax payment or misplace a receipt that could translate into a deduction.
3. Explain that although the IRS does not require a specific bookkeeping system, you will be expected to prove that your records reflect all of your income and expenses.
 4. Display Visual 1, *Business Expenses*. Explain that artists are entitled to take tax deductions for business expenses, including expenses related to transportation. you may also display IRS Publication 463, *Travel, Entertainment, Gift, and Car Expenses*.
 5. Emphasize that it is important to maintain the business's record keeping system on a regular basis. So, the system should be simple enough for the artist to take care of it without outside help. It should also be designed to generate information for both tax and general operating purposes.
 6. For those students who are already operating a business in the arts, this is a great time to have them adopt a record-keeping system. Place students in small groups and assign each group the task of designing a Cash Disbursements table that can be maintained easily and, yet, is detailed enough to provide useful information. Have each group draw a sample of its Cash Disbursements record on a transparency and present their design to the class.
 7. Ask students in each group to explain in what ways each design addresses the important questions.
 - When was the payment made?
 - To whom was the payment made?
 - What was the purpose of the payment?
 8. Display Visual 2, *Cash Disbursements*. Note that this method answers the questions: When was the payment made?; To whom was the payment made?; and What was the purpose of the payment?

Closure

Explain that the IRS has three years to audit a return, so the artist should keep all relevant documents for at least that long. After that time, it may still be important to keep records. For example, if the artist sustains an insurable loss, such as a fire or theft, the insurance company will want to see receipts for the damaged or stolen property. When you no longer need your documents, do not simply throw them away. Invest in a shredder.

Have each group trade the form they created with another group. Instruct each student to use the expense report form he/she received in the trade. Have students record their

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expenses (either personal or business) for one week and present a report answering the following questions:

- Are all of your expenses recorded?
- Did you need to make additions to the form? If so, what additions did you make?
- Was the form easy to use?

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Visual 1

Business Expenses

Your business records should state who was paid, what the payment was for and when the payment was made.

The following documents often answer all three of these questions.

- sales receipts
- credit card slips
- cancelled checks

An **Appointment Book** will help you record when various expenses were incurred and for what purpose.

<p>October 18 Monday</p> <p>10:00 a.m. T. Jones</p> <p>1:00 p.m. Art STL (hang show)</p> <p>5:00 p.m. Figure drawing class</p>	<p>October 19 Tuesday</p> <p>3:00 p.m. Gallery 1010</p> <p>7:00 p.m. Art STL opening</p>
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An **Automobile Log** will help you record travel expenses.

Date	Destination	Mileage			Other Expenses (gas, oil, etc.)	
		Begin	End	Total Miles	Amount	Description
1/2/04	ArtMart	32,333	32,340	7		
1/3/04	CityPhoto	32,365	32,375	10		
1/4/04	Gallery 210	32,381	32,296	15		
1/4/04					\$10.00	gas

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Visual 2

Cash Disbursements

Date	Payee	Amount	Check No.	Credit Card	Photos/ Resumes	Studio Rental	Voice Lessons
2/10/04	S. Moore	\$75.00	589				\$75.00
2/13/04	PhotoAd	\$202.22		Visa	\$202.22		
2/14/04	Kinko's	\$46.71	590		\$46.21		
2/16/04	Conte	\$65.00	591			\$65.00	
2/17/04	S. Moore	\$75.00	592				\$75.00
Total					\$248.43	\$65.00	\$150.00