Bookkeeping for Arts Organisations

Book keeping, more specifically the keeping of financial records, is an essential but misunderstood responsibility. This article will give an overview of the importance and function of book keeping, (record keeping) for arts organisations and freelancers.

There is a legal requirement placed on organisations and freelancers to keep accounts, for example The Taxes Acts requires record keeping where individuals are subject to the self-assessment regime, Company Law requires companies to keep accounts that are sufficient to show and explain the company's transactions, financial position etc. Charitable arts companies, in addition, also operate within the framework of Charity Law.

Apart from the legal imposition effective record keeping is critical for a number of reasons, namely (a) keeping a track of 'business' activities; (b) compliance with tax, PAYE and VAT; (c) used for our management information system telling us levels of cash, income, costs, debt, monies owing, successes and failures; (d) part of a risk reduction approach; (e) should help keep accounting fees at a maintainable level.

Management responsibilities tend to cover the areas of planning, control, decision making and evaluation – the book keeping system is a major part of the management information system, it provides significant information that helps management discharge these functions.

Financial data occurs as the result of organisational activity, for example a theatrical performance will generate income (ticket sales, grant income), incur costs (artists fees, equipment hire), create liabilities (artists fees not actually paid for), and create assets (grants not received). Book keeping will need to capture this data in such a way that management information can be extracted and utilised, for example financial assessment of the performance and cash flow considerations.

The bookkeeping system needs to distinguish between credit and cash transactions. A credit transaction will occur where there is a delay (normally over a day) between buying or selling goods and services and the actual cash being paid over or received. Income should be recorded when goods or services are sold, costs are normally recorded when the goods or services are provided by the supplier. Cash is a general term and we distinguish between transactions of physical cash (including notes and coins) and those transactions flowing through the bank accounts (deposits and payments).

Records are normally subject to a classification, within the main classifications we will subdivide into accounts, the main classifications are (a) income, example accounts being grants and fees; (b) cost of sales relating to the main activity of an entity, example accounts being artists' fees and freelance costs; (c) overheads (running costs), example accounts being salary and travel and subsistence. The summary of these categories are shown in the profit statement (SOFA for a charity). Additional categories are required for (d) assets, example accounts being cash and unpaid customer accounts; (e) liabilities, example accounts being unpaid supplier accounts and overdrafts; (f) capital and reserves this refers to the net funds available to an entity, and includes the profit or loss for the year. These categories are reflected in the balance sheet

Book keeping normally reflects the financial result of a business transaction; the financial impact normally involves recording information in two accounts. For example, the payment by cheque of an outstanding bill means recording a reduction of bank funds and the reduction of this debt; work carried out for credit means recording income earned and the increase assets (money owed).

Records can be maintained manually and/or electronically (excel and/or accounting software), the choice should be driven by the needs and skills of the user, any internal reporting requirements such as board meetings), relative costs, accuracy of systems, complexity and number of transactions.