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Record Keeping

for Freelancers

Bookkeeping is rarely exciting for freelancers — unless you happen to be a freelance bookkeeper.

Why keep records, then?

Good records are important for monitoring the progress of your business. They can show whether your business is improving, which items are selling, and what changes may be necessary. Systems will help you stay organized, record and track financial data, and analyze data for informed business decisions and tax purposes. This way, you'll make more money and save on taxes. In other words, good records can increase the likelihood of business success.

You also need good records to prepare accurate financial statements, including income (profit and loss) statements and balance sheets. Accurate statements can make working with your bank or creditors easier while helping you manage your business.

Here's what you should have:

- An income statement shows the income and expenses of the business for a given period of time.
- A balance sheet shows the assets, liabilities, and your equity in the business on a given date.

Here are some important steps for you to take to maintain good records:

- You'll receive money from various sources. Thus, it's important to identify sources of receipts for your records. You need this information to separate business from nonbusiness receipts, as well as taxable from nontaxable income.
- Keep track of deductible expenses. You may forget expenses when you prepare your tax return unless you record them as they occur. Good records are essential to preparing tax returns. These records must

support the income and expenses you claim. Generally, these are the same records you use to monitor your business and prepare your financial statements.

- You must keep your business records available at all times for inspection by the IRS. If the IRS examines any of your tax returns, you may be asked to explain the items reported. A complete set of records will speed up the examination.

Recording Business Transactions

One of the first things you should do when you start a business is open a business checking account. You should keep your business account separate from your personal checking account.

The business checkbook is your basic source of information for recording your business expenses. All daily receipts should be deposited in your business checking account. Review your account for errors by reconciling it with your monthly bank statement.

You should make all payments by check, debit, or credit card to document business expenses. Write checks payable to yourself only when making withdrawals from your business for personal use. Avoid writing checks payable to cash. If you must write a check for cash to pay a business expense, include the receipt for the cash payment in your records. If you can't get a receipt for a cash payment, you should make an adequate explanation in your records at the time of payment.

Important: Use the business account for business purposes only. Indicate the source of deposits and the type of expense in the checkbook.

Records to Keep

The law requires that you maintain appropriate books and records for your business. You can choose any record-keeping system suited to your business that clearly shows your income and expenses.

Your books must show your gross income, as well as your deductions and credits. For freelancers, the business checkbook is the main source for entries in the business books. In addition, you must keep supporting documents.

All requirements that apply to hard-copy books and records also apply to electronic storage systems that maintain tax books and records. All electronic storage systems must

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provide a complete and accurate record of your data that's accessible to the IRS.

There are several good software packages you can use for record keeping, like QuickBooks and Xero. They can be purchased in many retail stores or online. There are even freeware systems you can download without charge, like GnuCash. These packages are very helpful and relatively easy to use; they require very little knowledge of bookkeeping and accounting.

Supporting Documents

Purchases, sales, payroll, and other transactions you have in your business generate supporting documents. Supporting documents include sales slips, paid bills, invoices, receipts, deposit slips, and canceled checks.

It's important to keep these documents because they support the entries in your books and on your tax return. Keep them in an orderly manner and in a safe place. For instance, organize them by year and type of income or expense.

Gross receipts are the income you receive from your business. You should keep supporting documents that show the amounts and sources of your gross receipts. Documents that show gross receipts include invoices.

Expenses are the costs you incur to carry on your business. Your supporting documents should show the amount paid and that the amount was for a business expense. Documents for expenses include:

- Canceled checks
- Account statements
- Credit card sales slips
- Invoices

Assets are the property, such as equipment and furniture you own and use in your business. You must keep records to verify certain information about your business assets. Records are also needed to figure the annual depreciation and the gain or loss when you sell the assets. Your records should show the following:

- When and how you acquired the asset
- Purchase price
- Cost of any improvements
- Deductions taken for depreciation
- When and how you disposed of the asset
- Selling price
- Expenses of sale

The following documents may show this information:

- Purchase and sales invoices
- Real estate closing statements
- Canceled checks

It's important for you to decide who will do your bookkeeping as soon as possible. If you're too busy or it's just not your cup of tea, great bookkeepers and accountants are available to help! Your accountant can also help you implement and maintain good record-keeping policies, systems, and procedures. ■

Gary Eisenkraft is the principal of Eisenkraft CPA & Consulting Services in New York City. His firm specializes in creative professional practices, including engineering, architecture, visual arts, and marketing. Mr. Eisenkraft has spoken to various groups on specific topics of interest to the business and not-for-profit communities. He has written and spoken before various audiences including Workshop in Business Opportunities, the Industrial Designers Society of America, and The New York Times.