

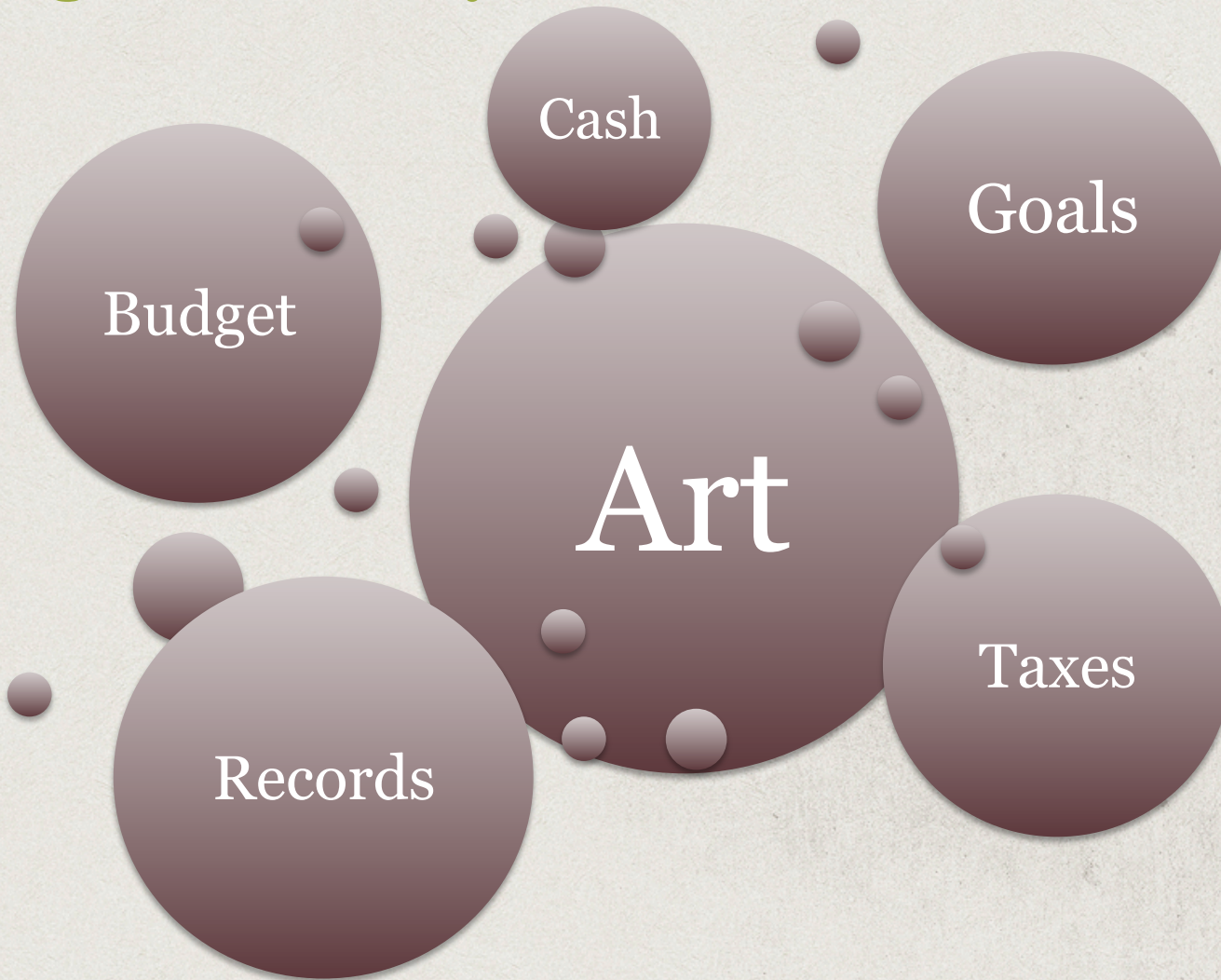


## FINANCIAL BASICS FOR ENTREPRENEURIAL ARTISTS

Elaine Grogan Luttrull | CPA, Writer, Artist

February 15, 2014

# Things Get Messy

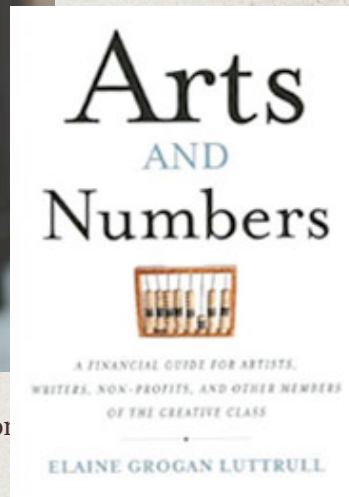


# About Me



Photo credit: Kim Long Photography  
[www.kimlongphotography.com](http://www.kimlongphotography.com)

Elaine Grogan Luttrull, CPA  
Founder, Minerva Financial Arts



# GOALS ARE MESSY

*“You are never too old to set a new goal or  
dream a new dream.”*

*C.S. Lewis*

*“Setting goals is a waste of time.”*

## Goals Are Messy

The only reason we do any of “this” is for the goals.

Personal goals are financial; and financial goals are personal.

Paul Meyer’s pneumonic: Goals should be “SMART.”

# Goals Are Messy

Steps in the Goal-setting Process	
Goal	Is it specific? Is it measurable?
Timeframe	What's the deadline?
Quantify	Is it attainable?
Track	Is it messy yet?

## Goals Are Messy: Activity

*Form two small groups  
and complete the goal  
worksheet for your goal.*

*Be prepared to present your  
goal worksheet.*



# BUDGETS ARE MESSY

*“Don’t tell me what you value. Show me your budget and I’ll tell you what you value.”*

*Joe Biden*



# Budgets Are Messy

What a budget is not

- Simple list of paid expenses
- Delusional optimism
- Arithmetic exercise

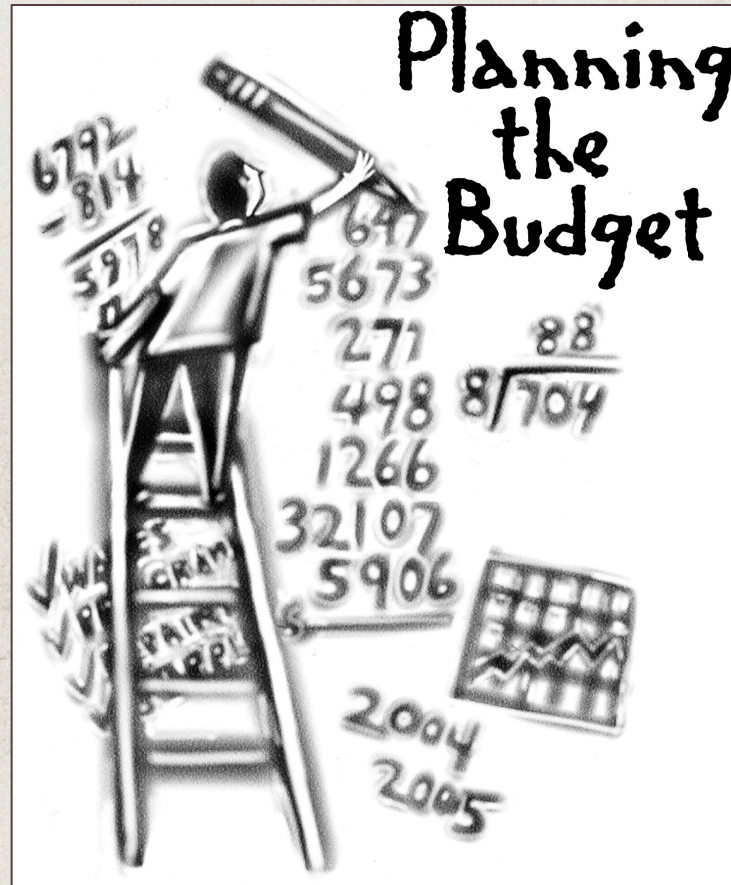


Photo credit: Budgeting and Why People Hate it So Much  
[www.empower2thrive.com](http://www.empower2thrive.com)

# Budgets Are Messy

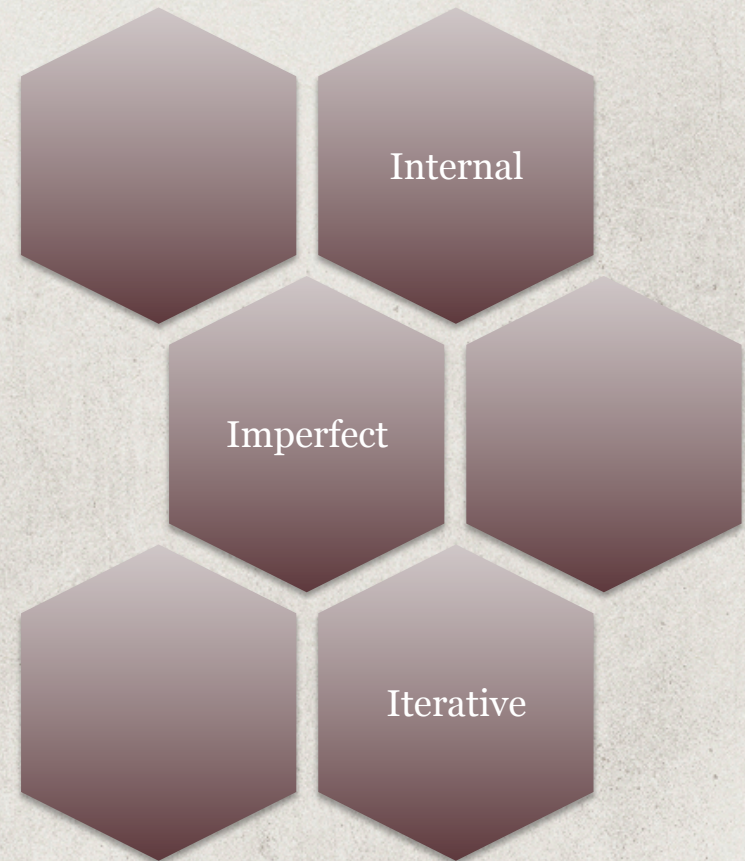
## Definition

- Budgeting: A **financial plan** for **allocating resources**

## Key Adjectives

- Internal
- Imperfect
- Iterative

## 5 Steps



# Budgets Are Messy

Step 1: Define the parameters. (*Internal!*)

Parameter Choices	
Subject Matter	<ul style="list-style-type: none"><li>• Personal or professional</li><li>• Operating or project</li><li>• Capital or noncapital</li></ul>
Level of Detail	<ul style="list-style-type: none"><li>• Master/overall</li><li>• Divisional/midlevel</li><li>• Discrete/item</li></ul>
Duration	<ul style="list-style-type: none"><li>• Ongoing or one-time</li></ul>
Timing	<ul style="list-style-type: none"><li>• Short-term or long-term</li></ul>
Audience	<ul style="list-style-type: none"><li>• Internal or external</li></ul>

# Budgets Are Messy

Step 2: List the expenses in words.

- Describe and detail your vision for the budget.
- Make sure the words match the parameters. If not, modify.
- Return to the list repeatedly. *(Iterative!)*

# Budgets Are Messy

Step 3: Quantify the expenses.

- Use history, experience, knowledge, and research to quantify expenses.
- In the absence of your own information, leverage your peers' and colleagues' research, experience, or history.
- Document the assumptions you make.  
*(Imperfect!)*

# Budgets Are Messy

## Step 4: Fund the expenses.

- Use the same two-step process to fund the expenses.
- First, list in words how you will fund the expenses (i.e., what your income sources will be).
- Then, quantify the sources through research, experience, and history.
- Again, document the assumptions you make and return to the list as often as necessary.

*(Imperfect! Iterative!)*

# Budgets Are Messy

Step 5: Make it work.

- What “works”?
- Three choices:
  - Reduce expenses.
  - Increase income.
  - Change the parameters.
- What if...
  - Model different scenarios within the parameters.

# Budgets Are Messy

What is a Budget?		
A Financial Plan	For Allocating	Resources
<ul style="list-style-type: none"> <li>Parameters (1)</li> <li>Goals (1)</li> <li>Vision (1)</li> </ul>	<ul style="list-style-type: none"> <li>Spending (2-3)</li> <li>Expenses (2-3)</li> <li>Priorities (2-3)</li> </ul>	<ul style="list-style-type: none"> <li>Income/earnings (4)</li> <li>Savings/reserve (4)</li> <li>Other funds (4)</li> </ul>
<ul style="list-style-type: none"> <li>Prioritize expenses (5)</li> <li>Model various options (5)</li> <li>Help decide and defend course of action (5)</li> </ul>		



# Budgets Are Messy

*“But I’m not an accountant.  
I can’t budget.”*

# Budgets Are Messy

When to Budget?		
Beginning	Middle	End
<ul style="list-style-type: none"><li>• Plan for the year</li><li>• Communicate decisions</li></ul>	<ul style="list-style-type: none"><li>• Status check</li><li>• Course correction/changes</li><li>• Plan for the end of the year</li></ul>	<ul style="list-style-type: none"><li>• Final look</li><li>• Improve future budgets</li><li>• Review results in context of future decisions</li></ul>

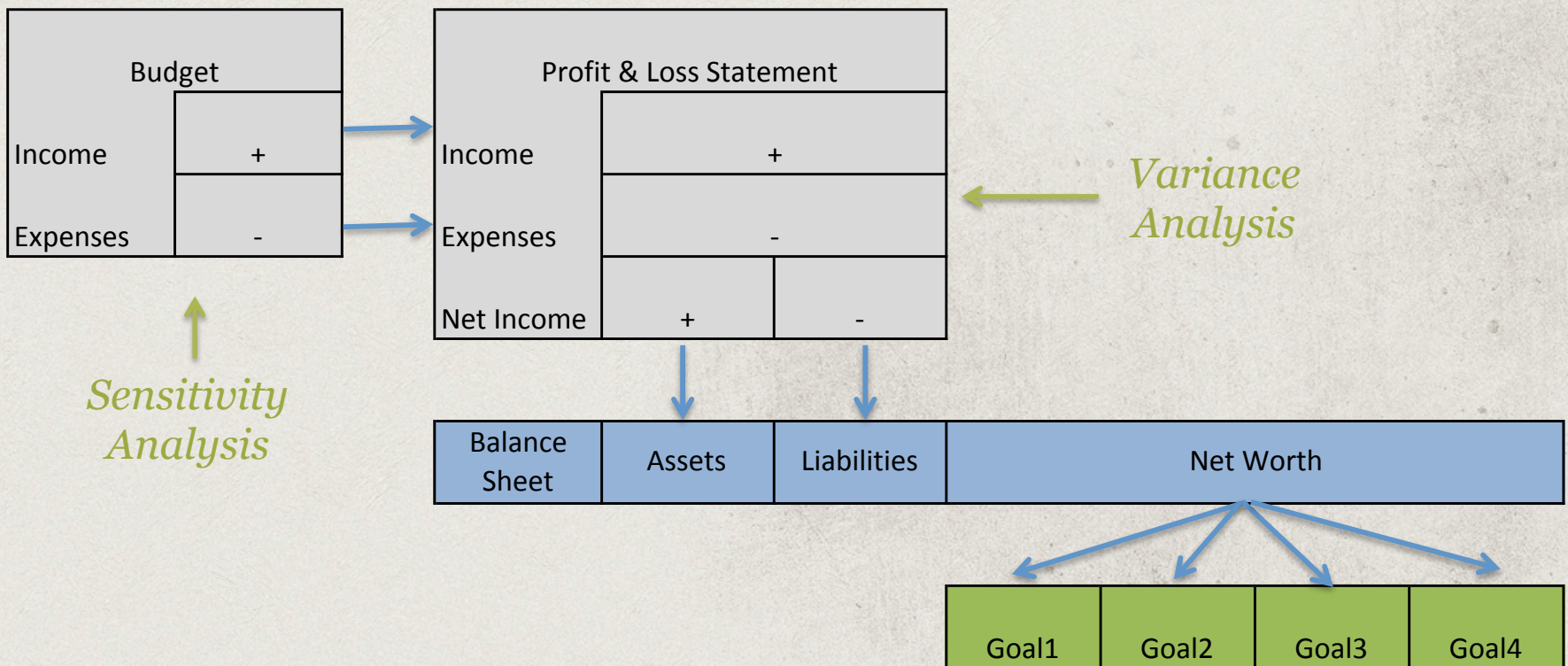
# Budgets Are Messy

## Why?

- Tracking
  - Track progress toward goals
  - “Status Update” section of Goal Worksheet
- Communication
  - Problems or successes
- Evaluations
  - Policies, personnel, decisions, actions
  - Make future budgets better
- Internal control
  - Identify discrepancies sooner rather than later

# Budgets Are Messy

Why? For the **goals**.



# Budgets Are Messy

## Sensitivity Analysis

- Understanding where uncertainties are within a budget
  - You know this based on your assumptions and the quality of information you found.
- Contribute to budgetary problem-solving (Step 5: Make it Work) before and during the budget period
  - What can I change to make my budget work?
  - Oops – Something happened. What can I change to make my budget work?

# Budgets Are Messy

## Variance Analysis

- Step 1: Calculation
- Differences between actual and projected figures by category
- Expressed in numerical and percentage terms
  - $\text{Actual} - \text{Budget} = \$\text{Variance}$
  - $(\text{Actual} - \text{Budget}) / \text{Budget} = \% \text{Variance}$
- Favorable or unfavorable
  - Not always positive or negative

# Budgets Are Messy

## Variance Analysis

- Step 2: Understanding Cause
- Understanding *why* a variance occurred is infinitely more important than knowing that it occurred.
- Understanding the cause informs your future decisions and actions.
- The variance may be caused by one (or more) inputs to the budget calculation, or it may be caused by indirect factors (inputs) to the calculation.

## Budgets Are Messy

*Define “variance” in your own words, outside of the budgeting context.*

*How do you deal with life variances (the non-financial ones)? How can those strategies translate into financial options?*



# CASH IS MESSY

*“Sometimes I am two people. Johnny is the nice one. Cash causes all the trouble. They fight.”*

*Johnny Cash*

# Cash Is Messy

Budgeting is not the same as having cash

Cash risks: Too little and too much

To mitigate the risk

- Identify weak points
- Maintain a reserve to cover low points
- Rein in enthusiasm during high points

# Cash Is Messy

<b>Regular Budget</b>	
<b>Income</b>	
Gigs	\$ 20,000
Teaching	\$ 25,000
<b>Total Income</b>	<b>\$ 45,000</b>
<b>Expenses</b>	
Supplies	\$ 15,000
Cartage	\$ 10,000
Insurance	\$ 5,000
<b>Total Expenses</b>	<b>\$ 30,000</b>
<b>Net Income</b>	<b>\$ 15,000</b>

# Cash Is Messy

Cash Budget						
	Gigs	Teaching	Supplies	Cartage	Insurance	Total
January	\$ 3,000	\$ -	\$ (1,250)	\$ (1,000)		\$ 750
February		\$ 2,500	\$ (1,250)			\$ 1,250
March	\$ 5,000	\$ 2,500	\$ (1,250)	\$ (2,000)		\$ 4,250
April		\$ 2,500	\$ (1,250)			\$ 1,250
May		\$ 2,500	\$ (1,250)			\$ 1,250
June	\$ 5,000	\$ 3,500	\$ (1,250)	\$ (2,000)		\$ 5,250
July		\$ -	\$ (1,250)	\$ (2,000)		\$ (3,250)
August		\$ 1,500	\$ (1,250)			\$ 250
September		\$ 2,500	\$ (1,250)			\$ 1,250
October		\$ 2,500	\$ (1,250)			\$ 1,250
November	\$ 2,000	\$ 2,500	\$ (1,250)	\$ (1,000)	\$ (5,000)	\$ (2,750)
December	\$ 5,000	\$ 2,500	\$ (1,250)	\$ (2,000)		\$ 4,250
	<b>\$ 20,000</b>	<b>\$ 25,000</b>	<b>\$(15,000)</b>	<b>\$(10,000)</b>	<b>\$(5,000)</b>	<b>\$ 15,000</b>

# Things Get Messy



*... And that's okay.*

The logo for Minerva Financial Arts features the word "Minerva" in a large, elegant, black cursive script. Above the letter "i" in "Minerva" is a cluster of green and yellow splatters. Below "Minerva" are the words "FINANCIAL ARTS" in a smaller, black, all-caps, sans-serif font, with wide letter spacing.

*Minerva*  
FINANCIAL ARTS

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