

Pam-Crochetpreneur Business Academy 11/26/19 @ 2 pm EST

Hi everyone, I'm Nancy Smyth -otherwise known as The YarnyBookkeeper, thanks so much for being here today.

Pam, I'm so sorry that you still don't have your voice back! I can't imagine how frustrating it must be, I'd be going crazy and burning through paper notes if I couldn't talk! But I'd like to thank you for the opportunity to come speak to the CBA members about their LEAST FAVORITE SUBJECT ----- Bookkeeping for their handmade/creative business! Booing, hissing, and frowns are allowed. Trust me I get it!

Before we get down to business, I have a few housekeeping type things.

First, if you're watching the replay and have a question PLEASE either tag me (I am a member of this group) or put the hashtag #replay as the first thing in your question. Either of those will just make it easier for me to quickly find and answer new questions because I really don't spend a lot of time on Facebook.

Next, I'd like to take a minute to tell you about myself. For those of you who don't know me, I'm Nancy Smyth - a software developer by day and a career bookkeeper. Now don't go freaking out over that. I'm also a yarn addict (my husband says my yarn stash is big enough to open my own shop) and a handmade business owner just like all of you.

I also must warn you – I'm really blunt. By the time you leave this session, you're either going to love me, hate me, or tolerate but respect me. You might even want to find me and feed me rabid squirrels. 😊

Enough about me.....let's talk about WHY I'm here today.

Year-end and Tax time – THE SCARIEST time of year – is quickly approaching. And before I start offering up some year-end tips and suggestions, I have some questions for you. Just so I know where to focus my efforts and get to know you all a little better...

How many of you are makers? Just type an "M" in the comments.

How many of you are designers? Just type a "D" in the comments.

How many of you DETEST bookkeeping? Put a frown in the comments!

How many of you haven't started your 2019 bookkeeping? Just type a N in the comments. Don't worry, nobody is going to judge you. Bookkeeping is tough stuff.

How many of you are up to date on your bookkeeping for 2019? Just type a U in the comments.

Perfect! Thank you all so much!

I've come prepared to give you all some year-end bookkeeping tips and offer up some suggestions to help you get organized. I'll put a link in the comments after we finish up with the live chat to a "checklist" of sorts that you can download from my website yarnybookkeeper.com as well as the transcript of what I've talked about today - so don't feel like you HAVE to write everything down.

Also, feel free to ask any bookkeeping related questions you have in the comments and I'll answer as many as I can during the last 30 minutes or so of this live.

Ok, are you ready? Let's see some Yesses in the comments.

Because everyone is at a different place in this whole bookkeeping process, I'll start with tips for those of you who haven't started or are behind and then I'll give some tips that everyone can use to do a final review of their books.

Before you can do any actual bookkeeping, you need to get yourself organized.

This could be pretty tedious. But the IRS and your CPA (if you have one) LOVES detail and you're going to need all that detail when you start entering your information.

So, the first cold, hard fact is – just having your bank and credit card statements, your monthly sales reports from Ravelry, Etsy, PayPal, etc., Affiliate, Ad Network, or commission statements IS NOT ENOUGH. **You need ALL of the receipts that go along with those things.** An entry for check #105 on your bank statement for \$75.79 or a charge on your credit card for \$75.79 for Walmart (or wherever) is not enough. You must have the receipt and indicate on the receipt what you bought if it's not clear – breaking it out into dollar amounts and categories.

So, get yourself 12 letter sized manila envelopes from the Dollar Store and invest in one of those letter-sized 12 pocket organizers that you can find in the Stationery section of your local big chain grocery store, drug store or Walmart-label the pocket tabs by month. While you're out shopping, grab a package or 2 of copy paper and some extra printer ink – remember these are office supplies/expenses.

Then:

- Print out ALL your bank and credit card statements – filing them in the appropriate month
- Print out monthly sales information from Etsy, Ravelry, PayPal, Square, etc. again, file them in the appropriate month
- Find ALL your receipts for the money you spent – so go through your email & print them out and dig through that shoebox that we all have where we just throw stuff like that and drop them into the correct months file pocket
- If you receive Affiliate income, Ad revenue, or earn commissions – go find all those items.

As you find/print the items put them in the appropriate pocket.

Once you've found everything, now it's time to get to work. Grab everything from the January pocket and:

- Starting with your bank statement, find all the receipts that go with that, putting them in date order. As you find the receipts, write on the actual receipt what the money you spent was for (this is your Expense, Cost of Goods Sold, or Inventory category).
- Do the same with your credit card statement, find all the receipts that go with that, putting them in date order, write on the actual receipt what the money you spent was for (this is your Expense, Cost of Goods Sold, or Inventory category).

How many of you are still with me? Has anyone fallen asleep in sheer boredom? If you're still with me, type a Y in the comments.

Now, credit cards will drive you INSANE, because the credit card cycle will seldom cover an entire month, so you'll have receipts dated for January that need to be attached to your February credit card statement.

- If you have receipts left, put them in date order, write on the receipt what was purchased (your Expense or Cost of Goods Sold category) and how you paid for it. **HARD COLD FACT HERE AND A TOUGH LESSON TO LEARN** – If you can't figure out from the receipt what was purchased or how you paid for it – then it doesn't count as a legitimate expense and shouldn't be entered into your bookkeeping records.
- Now enter everything into your bookkeeping system. Income, Expenses, Cost of Goods Sold, Inventory and tie it out/match it up with your bank and credit card statements.
- Enter your GROSS Sales from your sales info from Ravelry, Etsy, PayPal, Square, etc. This is the amount BEFORE fees, discounts and Sales Tax.
- Enter your Sales Discounts or Promotional Discounts
- Enter the fees from Etsy, PayPal, Square, etc.
- Sales Tax, like Inventory should be tracked separately on that Balance Sheet Report as a Liability (money you owe to others). The Sales Tax you charge and collect is NOT your income – it's money that you're collecting and holding onto for the State.
- Keep track of money you received from Ad Networks, Affiliate Sales, Commissions separately. This is considered Other Income and is added into your Profit & Loss After your total Expenses and BEFORE your bottom-line Net Income. You really shouldn't put this type of income up at the top of your P&L. The Income at the top should be only for the money you make from selling whatever it is you sell – whether it's physical goods or patterns or services such as tech editing because that's your PRIMARY SOURCE of income.
- Rinse, lather, and repeat with the remaining months.

Oh, a couple more questions – sorry but I want to make sure that you're all awake. Bookkeeping can be boring stuff and I just want to keep you all awake and ok, I admit it participating!

Who uses bookkeeping software? Type a B in the comments

Who uses spreadsheets? Type an S in the comments

Who hasn't decided WHAT to use? Type a U in the comments

Second cold, hard fact – as a career bookkeeper, I'm not a fan of spreadsheets.

Spreadsheets are fine for some things, but when it comes to bookkeeping you need multiple spreadsheets in order to come up with the big overall picture of your business finances and that means you have to enter the same information in multiple spreadsheets and run the risk of making a huge mistake. Real bookkeeping software, while it costs money and presents a learning curve eliminates a lot of that and you get a wide variety of business-related reports at the click of a button, plus for the most part you enter something once – in one place and it takes care of all the rest. But that is my opinion. I'm not here to tell you what you should or shouldn't use – that's entirely up to you.

Once everything is done and all your months are complete, it's time to do a review. Yes, I know you just want to close your spreadsheet or your bookkeeping software and say "WHEW, that CRAP is done, oh look I had x dollars in income – not bad", but it's not as simple as that....seriously.

And, how many of you really review your monthly Income & Expenses? Type an R in the comments section if you do.

If you don't spend the time to stop and review your Profit & Loss report- you don't see the bigger picture.

- What were my total sales this month BEFORE any promotional discounts? I've found that most people are only looking at that bottom-line number in their reports from Etsy, Ravelry, etc.
- How much money did I lose through Promotional discounts? You really do need to keep track of your Promotional or Sales Discounts, after all this is money you are taking right out of your pocket.
- Where did my money come from? (Think Etsy, Ravelry, Craft Fairs, etc.) Which platform that I sell on brings in the most money?
- How much did the materials cost for the money I made? There's this crazy thing in accounting called a "matching principal" where when you record the income from a sale you also record the COGS for that sale. (I'll talk more about that matching principal in a few minutes)
- What else did I spend money on?
- Did I really make any money?

The big picture is REALLY important. And here's a little example. Let's say you have a goal of having \$500.00 in NET Income every month or \$6,000.00 a year.

January Sales - \$1500.00

MINUS Promotional discounts - \$500.00

MINUS Cost of Goods Sold (the cost of the materials that went into that \$1500.00 worth of product sales) - \$250.00 (that matching principal again)

EQUALS Gross Profit - \$750.00 (so you think hey, not bad)

MINUS Expenses/Overhead - \$500.00

EQUALS Adjusted Net Income - \$250.00 (YIKES)

PLUS, money you receive from Ad networks, commissions, affiliate sales, etc. - \$100.00

EQUALS Net Income - \$350.00 (WHEW THAT'S BETTER BUT STILL YIKES)

At this point you really want to stop and LOOK at your promotional discounts and your expenses or overhead costs and really dig into where your money is going and ask yourself some questions like:

- Can I really afford to offer so much in Promotional Discounts?

- Can I change the way I offer discounts? Instead of free for 30 day, can I offer an item or a pattern for free for a week, then bump up the price for another week, then bump it up again over the next month until it's full price?
- What the heck did I spend \$500 on this month – I don't remember spending that much money. So, if you're spending \$50 a month on magazine subscriptions or apps and they are billed automatically on your credit card and you NEVER use them – cancel those accounts! Did you spend \$200 on office supplies? If so, that could be legit, but look at the next couple of months – office supplies should be 0 or minimal.
- That \$100.00 you received from Ad networks, commissions, affiliate sales, etc. helped - but what if that isn't consistent on a monthly basis.

So, now we have our 2019 books in order and done a review. The only thing left is to do a year-end physical inventory and you should be all set.

Did I just hear you all groan? Type a G in the comments if you're groaning or an S if I'm boring you to tears! Go ahead, I'm tough and can take it – be honest – G if your groaning, S if you're bored to tears!

While you don't necessarily need a detailed physical inventory for tax purposes if you file a Schedule C, you do need that information for your own use. You need to know what the value of the items you have in inventory are. It will help you to decide whether or not to purchase more supplies.

- Inventory consists of two things – the value of the materials you have on hand and the value of your finished items (at the cost you paid for materials or the cost to make the finished item).

So, let's talk about what happens in bookkeeping land when it comes to inventory and that matching principal I talked about earlier.

- As a maker I order \$100 worth of yarn from Knit Picks, that \$100 worth of yarn is inventory and shows up on a Balance Sheet (which is another business financial report) as an Asset. (Something your business owns that has value). It's sort of like you are unpacking the yarn and putting it into whatever you use to store your yarn – say a tote. That \$100 shouldn't go directly into COGS on your P&L when you buy it.
- When you use \$50 of that yarn to make a Shawl it gets moved out of materials and that shawl then goes into your finished items inventory which again is an Asset and goes on that Balance Sheet Report. (It's like taking the yarn out of the storage tote, making the item, and then putting the finished item into another tote).
- When you sell that shawl for say \$200, you record the \$200 as income and the \$50 comes out of your finished items inventory and hits your COGS.

Everybody still with me or did I just make your head explode? If you're following what I'm saying type an F in the comments, if I made your head explode or I lost you type an E. If you've got questions type them in as well.

The point that I want to make is, if you've never done a physical inventory – do one now and vow to keep it updated next year – because you'll NEVER want to have to this to this degree again!

If you have done a physical inventory before (like at the end of 2018) – good for you!

Whether you have or haven't ever done a physical inventory, here are some tips. Oh, and you'll need some empty storage totes, label them:

- Inventory – things you'll definitely use in your finished items this should be full skeins/packages or things you know exactly how much you have
- these are MINE – things that you want for yourself
- Partial skeins/packages
- Really small bits and pieces
- Stuff I'll never use – these are the things you've bought on sale or on impulse, tried them and decided you don't like it for whatever reason and will never use it. You might want two extra totes labeled:
 - To donate
 - To sell

Haul out your ENTIRE inventory – all the supplies that you keep on hand. We want the value of your inventory to be as CLEAN and accurate as possible.

- Start sorting everything into those labeled totes
- Create a spreadsheet for the things that go into the Inventory tote that includes yarn brand, color, # yards per skein, # of skeins, price paid, retail price
- If you've done a physical inventory before and are now going to take things out of inventory for yourself (the these are MINE things) you'll want another spreadsheet to keep track of what you're taking out of inventory and what you originally paid for them. If you've never done a physical inventory, no need to track it.
- For partial skeins and packages and the REALLY small bits and pieces, these don't go into inventory UNLESS you know exactly how many yards or the quantity you have on hand AND if you know that you will use what's left in a finished item. Otherwise DON'T track it as inventory. If they were accounted for in a previous inventory you can decide whether or not to keep it in inventory or get rid of it and create another spreadsheet with the same info as your Inventory spreadsheet
- For the things that end up in the to donate or to sell totes – don't add them to inventory if this is your first physical inventory. If they were included in a previous inventory, create 2 more spreadsheets labeled To Donate & To Sell
- You'll want to know the total value (cost) of the items you're taking out of inventory (for personal use or if you plan to donate them) if they were included in a previous inventory and you'll want to provide your CPA with those amounts.

When you're all done you should have a clean inventory.

Doing inventory can present some roadblocks. The biggest one comes from not being able to find the receipt for when you bought it or the price you paid. Time for another hard lesson. If you don't have the receipt that yarn goes into Inventory with a 0 cost, but you do need to go online and find out what it retails for and add that to your spreadsheet.

Does all this inventory stuff make sense to you? Type a Y in the comments if it does, a C if you're totally confused, or a P if you want to PUKE!

So, now that we have 2019 squared away. Let's talk about 2020 where you vow to NEVER let your bookkeeping get this out of control again!

The checklist that you can download from my site that covers today's tips – also includes a Bookkeeping & Accounting Task Checklist that provides you with a list of things that you should be doing Daily, Weekly, Monthly, Quarterly, and Yearly.

But I'll give you some highlights here:

- Daily or Weekly – record ALL of your sales and purchases, bank deposits, inventory purchases, COGS as they relate to the items you sold. You need to do all this while everything is fresh in your mind.
- Monthly – reconcile bank & credit card statements, calculate and set aside 33% of your NET (bottom line) income for taxes and the money you owe for Sales Tax (that way you don't lose site of those amounts and spend it and come up short when it's time to pay up), review your P&L paying close attention to what you spent on what.
- Quarterly – review your business spending, pay Sales Tax (this might be every 6 months or year depending on what the State told you), pay Estimated Quarterly Federal and State taxes (your CPA or tax person will have given you the dollar amounts and paperwork you need to submit and file)
- Yearly – your physical inventory, review your business spending as a whole, create a budget for the upcoming year, file Federal and State Tax returns, plan for the new year.

Two last items and then I'll start answering questions.

- I'm offering a free 1-hour live webinar/chat on January 8, 2020 from 2-3 pm EST on thinking about ditching the spreadsheets and using QuickBooks which discusses and shows you how different bookkeeping tasks can be using software vs a spreadsheet system. I'll put the signup link in the comments. <http://eepurl.com/dm-3Z5>
- On January 23, 2020 I'll be re-opening my course called How to Design a bookkeeping system for your handmade or creative business. I'll put that signup link for the waiting list in the comments as well. <https://yarnybookkeeper.com/bookkeeping-system-course-waiting-list/>

Now for your questions

{roughly 35 minutes}