The Yarny Bookkeeper

Helping handmade business owners learn to handle their bookkeeping and other "behind the scenes" stuff with confidence!

https://www.yarnybookkeeper.com

Year-end bookkeeping checklist

Get organized

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.

- ☐ Print out all your bank and credit card statements
- ☐ Print out monthly sales information from Etsy, Ravelry, PayPal, Square, etc.
- ☐ Find ALL your receipts for the money you spent. Go through your email & print them out and dig through that shoebox where we throw other receipts filing them in the correct month.
- ☐ Find statements from Affiliate income, Ad revenue, commissions.

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

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).

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 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.

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 sales – not bad", but it's not as simple as that….seriously. If you don't spend the time to stop and review your Profit & Loss report- you don't see the bigger picture.

Time for a review for each month and the totals for the year

- ☐ What were my total sales this month BEFORE any promotional discounts?
- ☐ How much money did I lose through promotional discounts?
- ☐ Where did my money come from? (Think Etsy, Ravelry, Craft Fairs, etc.)
- ☐ How much did the materials cost for the money I made?
- ☐ 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
- 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 - $100

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.

Things to look for & think about

- 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.oo 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. The only thing left is to do a year-end physical inventory and you should be all set. While you don't need a detailed physical inventory for tax purposes if you file a Schedule C because you should be taking care of all that in the Cost of Goods Sold section of your P & L (Profit & Loss or Income Statement) and your Balance Sheet. 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:

- your materials
- and your finished items (at the cost you paid for materials or the cost to make the finished item).

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 do this to this degree again!

Do a year-end physical inventory

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
- You'll need to know the total value (cost) of the items you're taking out of inventory (for personal use or if you intend to donate the item) 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.

Now, let's talk about 2020 where you VOW to NEVER let your bookkeeping get this out of control again!

Upcoming webinars:

- 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. Sign-up here 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". Join the waiting list here - https://yarnybookkeeper.com/bookkeeping-system-course-waiting-list/

Bookkeeping & Accounting Task Checklist for handmade or creative business owners

Daily

- ☐ Record sales
- ☐ Send invoices to new customers
- ☐ Record bank deposits
- ☐ Record expenses (cash, check, or credit card charges)
- ☐ Record credit card or platform processing fees per transaction
- ☐ Record sales tax payable per sale
- ☐ Record Inventory purchases
- ☐ Record COGS per sale
- ☐ File receipts
- ☐ Track time spent on projects

Weekly

- ☐ Review accounts to make sure there are no unexpected charges
- ☐ Review Income & Expense reports to see how you did
- ☐ Check inventory & order supplies

Monthly

- ☐ Reconcile accounts (bank, credit card(s), etc.)
- ☐ Be sure that ALL income and expenses are up to date.
- ☐ Make sure sales tax payable is up to date
- ☐ Calculate & set aside 33% of your NET income for taxes
- ☐ Pay credit card(s)
- ☐ Review Income & Expense reports – compare to previous month or the same month in the previous year.
- ☐ Compare Budget (Estimated Income & Expenses) to Actual (Income & Expenses). Did you have more sales/less sales? Did you spend more money/less money? Do you need to adjust anything?

Quarterly

- ☐ Reconcile Sales Tax Payable
- ☐ Pay Sales Tax
- ☐ Pay Estimated Quarterly Federal & State Income Tax (your CPA would have provided you with payment amounts and necessary paperwork)
- ☐ Review business spending
- ☐ Review Income & Expenses – compare to previous quarter AND year-to-date with the same periods in the prior year.
- ☐ Compare Estimated Income & Expenses to Actual Income & Expenses.

Yearly

- ☐ File State & Federal tax forms
- ☐ Review Income & Expenses totals for the year
- ☐ Audit business spending

December

- ☐ Purge inventory – removing items for personal use, items you'll donate, separating items (yarn or materials) that you'll sell
- ☐ Prepare year-end physical inventory count/value

January

- ☐ File away previous year business records
- ☐ Setup filing system for the new year
- ☐ Create a budget for the new year
- ☐ Carefully review prior year Income & Expenses
- ☐ Plan for large purchases to be made in the upcoming year
- ☐ Re-evaluate pricing, fair hourly wage, and discount/promotions