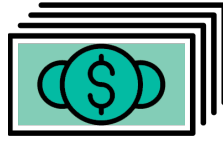




Take Control of Your Bookkeeping

how to build a financial foundation with
confidence, for makers & creatives

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Take Control of Your Bookkeeping & Build a Profitable Creative Biz

Congratulations on being an SMART creative entrepreneur and taking control of the financial side of your business. Becoming knowledgeable and confident about your business' finances is truly empowering.

This quick guide will explain the benefits of developing effective bookkeeping practices for your creative business. Too many creative biz owners neglect the numbers-side of their business because they find it overwhelming, confusing, or just plain unexciting. What you must know is that staying on top of your accounting is not only the responsible thing to do, but it can help you work smarter (not harder) and allow you to build a sustainable, financially successful business.



The goal of this guide is convince you *why* recording and analyzing your creative biz's financial transactions are essential processes that you should perform as an entrepreneur. Being aware of your business' finances can impact the following areas of your business:

- Profitability & financial success
- Cash balance in your bank account
- Pricing for your finished products
- Business decision-making & planning
- Taxes

Don't you want to know whether your business is truly making a profit? Do you want to make sure you price your handcrafted goods just right so that you make a profit with every sale? Would you like to know when you have the cash flow to invest in a new product line or go to a fun conference? Do you want to be able to maximize your tax deductions?

You can have all these answers and more if you get a secure handle on your business finances. The key is to make sure you're effectively and efficiently recording and tracking your expenses, then you can use this info your advantage to elevate your biz to the next level.

A SUCCESSFUL BOOKKEEPING SYSTEM HELPS YOU
WORK SMARTER, NOT HARDER.

This guide will cover the following topics to get you started on your journey to financial confidence:

- ✓ Getting Started – Setting up Systems That Make Sense
- ✓ What Can Bookkeeping Really Do for Me?
- ✓ What Being Financially Successful Actually Means
- ✓ Monthly Financial Analysis
- ✓ Pricing & Expenses – Get Your Expenses Straight

Let's go!

Getting Started – Setting up Systems That Make Sense

Make practicing smart bookkeeping skills a priority in your business. This requires setting up a financial system that makes sense to you – one that you will use *consistently*.

The first step to an effective bookkeeping system is to set up a separate bank account just for your business transactions. I have more info all about this [here](#), including a downloadable checklist to help you find the best bank for your needs.



What can bookkeeping really do for me? Why does this even matter?

Once you've got your shiny new bank account set up for your creative biz, let's talk about why it's important to stay on top of your bookkeeping process.

Diligent financial bookkeeping serves three main purposes:

1. You'll *know* whether your business is actually making a profit or not (not just whether you have a positive balance in the bank account, or whether you made a bunch of sales last month and "feel" like you're doing okay).

Are you really making a profit at the end of the day? Profit means revenue (your sales) less your business expenses. When you make sales, it might feel like you're raking in the cash. If you're only subtracting the cost of your supplies from that revenue (because it's the only expense you're tracking), you may feel like you're really successful, and then wonder why your bank account doesn't reflect that all that success.

If you are truly tracking all of your expenses, you can get a good grasp on whether your business is profitable, how much so, and adjust accordingly. You will also get a better idea of where you're spending too much money and where you can cut back, and whether your pricing formula needs adjusting or not.

Having a *profitable* business, and not just one that makes lots of sales, is the key to building a *sustainable* business.

2. You can more accurately price your products or services to make a profit.

ALL of your expenses should be considered when you price every product you create, not just the raw materials or supplies that go into a specific finished good.



A lot of beginning creative biz owners make the mistake of only considering the cost of their supplies (plus maybe labor) when pricing their product and then end up grossly underpricing themselves.

Pricing too low means you aren't covering all your expenses with your sales. That can mean you're making sales, but you aren't making a profit...or your profit might not be "big" enough to build a truly sustainable business. If you want your business to grow into something meaningful and long-term, then you need to price for profit from the beginning.

3. Maximize your tax deductions by recording as many business expenses as possible.

Most of your business expenses can be deducted on your business tax return come tax time. This is a good thing, because the more you can deduct, the less money you owe the IRS. If you don't even have the expense transaction recorded in your bookkeeping system, then you're probably not going to remember to deduct it (like 12 months later, when you're actually doing your business tax return!).

The important thing to remember is that you need to keep *proof* of all your expenses in order to deduct them. Save those receipts!

Remember that there are lots of ways to organize your financial data. Find a system that works for you, that is easy to quickly update, and that is easy to analyze and interpret. You must be able to understand the numbers you're entering and reviewing to get the full impact of your bookkeeping system.



What Being Financially Successful Really Means...

One of the benefits of having an updated bookkeeping system means you can easily and quickly determine if your shop or creative business is actually profitable at any given moment (this week, this month, this year, etc.).

$$\text{TOTAL REVENUES} - \text{TOTAL EXPENSES} = \text{NET PROFIT}$$

Net profit is defined as your total revenue less your total expenses. You might also hear this term called “net income” or simply profit. Do not confuse it with “sales” or “revenue”. These are *gross* terms, which means they are only the cash inflow side of things, or the money you make without taking into account the money you spend.

You can be making tons of sales but have a very low net profit because your expenses are so high. You could even have tons of sales and be at a net *loss* because your expenses are larger than your sales.

A good bookkeeping system will be able to show you where you stand in terms of profitability, and help you make decisions accordingly. Knowing your net profit each month can help you make all sorts of decisions for your shop.

Remember, you go through all the work of inputting and recording your financial transactions in order to have this super helpful data on hand to help you plan your business and reach your goals. The bookkeeping process is the work; the data analysis is the payoff. Let the numbers speak to you and you might be surprised that you *enjoy* listening!



On the next page, you'll find a questionnaire you can ask yourself each month while analyzing your financial records. Some questions have bullet points so you can see what internal conversation you might be having based on how your finances look that month.

SCHEDULE TIME EACH MONTH TO REVIEW YOUR FINANCIAL RESULTS, THEN PLAN FOR THE FUTURE AND SET GOALS ACCORDINGLY.

Make the Most of Your Data – Monthly Financial Questionnaire

- ✓ How are sales trending this month?
 - Did my hard work payoff in terms of increased sales? Did my slacking result in lower sales?
 - Are my sales in line with prior year data, or better/worse?
- ✓ How are my expenses trending month-to-month?
- ✓ What expense categories are higher/lower than usual?
 - Are there any expenses that I can cut back on?
- ✓ Did my business have a net profit or a net loss this month?
 - Take a look at what sold – what items are less profitable and what items are the most profitable? Are my best-selling items also the most profitable? If not, how can I make them more profitable (increase the sales price or reduce the cost to make)?
 - Is it time to discontinue unprofitable or less profitable items?
- ✓ In terms of profitability, did I do better or worse than last month? What are the quantitative AND qualitative reasons for this result?
 - *Quantitative* reasons would be things like more sales, you raised prices, you lowered your web-hosting fee, etc.
 - *Qualitative* reasons would be things like you had a sale, you invested in Facebook advertising, you sent out an e-newsletter, your shop went on vacation for a week, etc.
- ✓ Based on prior months' profitability and historical data, is now a good time to run a sale or issue coupons?
- ✓ Based on my year-to-date profit, is it a good time to invest in a new product line, a new machine, a conference, etc.?

The Price is Right? Get your expenses straight first.

Good bookkeeping and financial analysis relates to both your business' revenue and your business' expenses, but the expenses are by far the more challenging portion when it comes to recording, analyzing, and controlling.

Whether you're just opening up shop or you've been in the biz for a while, you probably have quite a few business expenses (whether you realize it or not!). Let's divide your business' expenses into three categories – selling expenses, product expenses, and business expenses.

1. **Selling Expenses** – the costs related to putting your product up for sale and the cost of selling it (examples include Etsy listing fees, transactional fees from Paypal, shipping charges to the USPS, etc.)

2. **Product Expenses** – the expenses related to creating your products; can be further divided into the following:

- Direct raw materials – supplies that go directly into a specific handmade good that can be easily quantified and tracked (beads, length of fabric, paper, etc.)
- Indirect raw materials – supplies that go directly into a specific handmade good that *cannot* be easily quantified or tracked (glue, thread, paint, etc.)
- Tools – supplies or machines needed to create a set of handmade goods but are not actually a part of the finished good (sewing machine, pliers, printer, hammer, etc.)

3. **Business Expenses** – basically all the rest of your expenses, including advertising, marketing, packaging materials, web-hosting, graphic design, printing, craft show fees, displays and props, etc.

It is helpful to break your business' expenses up into these categories for a few reasons.

First, the more we categorize things, the more we simply become aware of them. We are less likely to forget to record our non-product-related expenses because they're on our radar now. A lot of creative entrepreneurs, especially makers & crafters, tend to focus only on their product expenses. It's easy to remember to record and track all those supply costs since you might be living with a giant pile of beads or paint. But we tend to forget about some of those non-product expenses.



Second, and most importantly, you need to know *all* your expenses in order to properly price your products. Your products' sales prices are the *only* way your business (first) recoups its expenses and then (second) makes a profit.

Pricing can be a tricky business for handmade artisans and makers. You only make a profit with each sale if the price of your sold item is greater than what it cost you to make it. That's why it's so important to be knowledgeable about *all* of your expenses.

THE EASIER YOUR BOOKKEEPING SYSTEM ALLOWS
YOU TO CAPTURE ALL OF YOUR EXPENSES IN
APPROPRIATE CATEGORIES THAT ARE RELEVANT TO
YOUR BUSINESS, THE BETTER.

Get Going & Keep It Up!

Financial records that gather digital dust won't do you any good. Keep working at it until you find a process that works best for you and gives you the information you need to make smart decisions for your business.

Need a little help getting your bookkeeping system set up? As a CPA, maker, Etsy seller and creative entrepreneur since 2011, I've developed a simple but effective bookkeeping system that I rely on month after month to record, track, and analyze my financial data. I debuted my [Seller Spreadsheets](#) in 2015 to rave reviews. These tools have helped hundreds of creatives & makers go from confused to confident and capable when it comes to dealing with their bookkeeping & inventory.

With a Seller Spreadsheet from Paper + Spark, you can:

1. Set up an easy-to-use system to track your revenue, expenses, and net profit on a monthly basis
2. Automatically & quickly import your financial transactions from Etsy, Amazon, PayPal, Square, SquareSpace and/or Shopify each month
3. Get detailed, step-by-step instructions (by both PDF and video tutorials) on where to find and how to import all your revenue & expenses data into your new spreadsheet
4. Track your collected sales taxes and in-state sales for sales tax purposes
5. Learn how to analyze and leverage your financial data to make educated decisions
6. Understand how the bookkeeping process works (and feel confident about DIYing it!), rather than just going through the motions



I hope you found this guide informative and motivating. Taking control of your business' financial side can be a rewarding and powerful step forward as a creative entrepreneur! You can always find more resources at paperandspark.com.

All information in this ebook is provided for general education purposes only and is not intended to be relied upon as legal, accounting, or tax advice. We strongly encourage you to always consult with a tax or accounting professional about your specific situation before taking any action.