

# EXPLORE YOUR ENTHUSIASM

## EPISODE 147: 5 ACCOUNTING TERMS YOU NEED TO KNOW IN YOUR HANDMADE BUSINESS

Do you feel a little insecure talking to bankers or fancy businessmen about your handmade business because you don't know all the accounting terms? Want to talk about money and make decisions more comfortably? Today I'm going to introduce you to five accounting terms so we can talk more about money!

Welcome to Explore Your Enthusiasm episode 147, with me, Tara Swiger.

Earlier this year when I asked y'all to fill out a survey telling me what you wanted to learn more about, 48% of you said profitability and paying yourself was your biggest struggle in your business.

So first of all, good news: you're not alone in this!

What we're going to do over the course of this month is talk more about money, profitability, and paying yourself; but first we gotta all get on the same page, so we're using the same terms.

Before we dive into the terminology I want to tell you this - the Starship, my online community for makers and artists, which includes access to all of my classes, including the updated and expanded Pay Yourself and Pricing 101, opens next week. I'm not going to open it to the whole world, only to the people who have signed up to learn more about it at [taraswiger.com/starshipbiz](https://taraswiger.com/starshipbiz).

So if you wanna learn more about it and if it's for you, go to [taraswiger.com/starshipbiz](https://taraswiger.com/starshipbiz). Because I've added new and updated classes to it this year, the price is going up when it opens next time, so if you want in at its current price, you gotta be signed up at [taraswiger.com/starshipbiz](https://taraswiger.com/starshipbiz).

Now, let's get to the accounting terms:

**Accounting** - a systematic way of reporting and recording financial transactions.

That's it. It's just so you know what's come in and what's gone out.

You can use a spreadsheet and import from Paypal (which is what I did for years) or if you have a few payment methods or spending methods, you can use a super simple software. There are lots of software options, and I'm shooting a walk through of the one I love and use and sharing it to anyone who's signed up at [taraswiger.com/starshipbiz](http://taraswiger.com/starshipbiz) in the next week.

**P+ L = profit and loss.** This is a piece of paper that lists your money that's come into your business and the money that's gone out of your business. Depending on your income streams you may have a few sources of profit, and you will certainly have a few sources of loss.

In my first post-college job as the manager of a paint your own pottery studio, I put this together with pencil and paper. I totaled the sales, which we totaled each day, gathered the bills, and added it all together.

**Gross income:** All the revenue you've taken in.

This is how many people on the internet express the "size" of their business. I read on one site "I've built a six-figure Etsy business" - which could mean she's earned \$100,000/year. But a quick perusal of her sales showed that she might have sold \$100,000 worth of product... over 5 years. That's \$20,000/year. It wasn't a lie, just a tricky way of stating it.

**Net Income:** The gross income - expenses = this is the actual amount of money you as a person could keep.

For many handmade businesses, this is a much smaller amount, because, obviously, you have to buy supplies, pay hosting or craft show booth fees, and more. So a business that sold \$100,000 in gross income, could have a net income of \$20,000 or \$80,000. You don't know this unless you take into consideration the expenses.

**Gross profit margin** - This is the most interesting number to me. Gross profit margin expresses your profits as a percentage of the total sales revenues generated. This percentage allows you to compare the profits of businesses of various sizes because the results are measured as a percentage rather than in raw numbers.

So you take your net income and divide it by your gross income - in other words, how much of your money does your business model let you keep?

*Example:*  $20,000/100,000 = 20\%$  gross profit margin

$80,000/100,000 = 80\%$  gross profit margin

So to increase the amount of money you make, you can increase your total sales and keep your gross profit margin the same, or increase your gross profit margin, which you could do in a few ways.

In my class *Pay Yourself*, I teach you how to do this math in your own business, and then help you know what to do once you know these numbers. You can sign up to learn more about *Pay Yourself* at [taraswiger.com/pay](https://taraswiger.com/pay). *Pay Yourself* is available for free to anyone in the Starship, which opens next week. You can sign up to be notified and learn more about that at [taraswiger.com/starshipbiz](https://taraswiger.com/starshipbiz).

Signing up at either at those places will sign you up to get my newest tutorial where I show you my favorite accounting software and walk you through using it!

Thanks for listening - having a profitable and enthusiastic week!