



Bookkeeping for Etsy Sellers: a Guide for Creatives

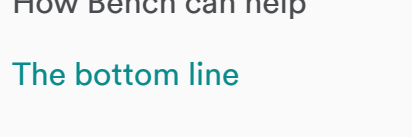
By Melanie Hess on May 16, 2022

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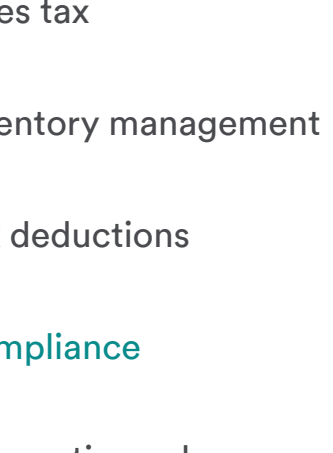
Crunching numbers for hours on end probably wasn't the future you dreamt for yourself the day you decided to open your Etsy shop.

But luckily, you don't need to be a numbers ninja to stay on top of your bookkeeping. In this guide, we'll take you through the bookkeeping basics every Etsy seller needs to know, plus tools that can make it all easier.

What is bookkeeping?

Bookkeeping is the process of tracking all financial transactions involving your business, either using accounting software or a collection of physical "books." Using these records, you can create reliable financial reports, such as income and expenditure statements, which tell you whether your business is making a profit during a given time frame.

By evaluating your income statement in conjunction with other financial reports, such as [cash flow statements](#) and [balance sheets](#), you'll gain a detailed picture of your company's current financial health and the facts you need to make better, more informed business decisions.



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Get sneak preview access to the Bench platform to see how intuitive reports and real human bookkeepers take the stress out of tedious financial admin.

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Bookkeeping for Etsy

Since Etsy is an ecommerce platform, your bookkeeping will vary slightly from that of general business bookkeeping.

The fundamentals of bookkeeping remain the same, but there are several considerations specific to ecommerce that you'll need to account for, including:

- Sales tax
- Inventory management
- Tax deductions
- [Compliance](#)
- Transaction volume
- Merchant fees
- Returns

Since managing all your transactions manually is tedious and time-consuming, there are DIY accounting software applications that can automate many of these processes—including a few equipped with Etsy integrations.

Some of the most commonly used include QuickBooks Online, QuickBooks Self-Employed, Xero, and Wave. QuickBooks for Etsy also exists, but many sellers who use it have [complained about its limitations](#). (If DIY isn't what you're looking for, [Bench can manage](#) your Etsy bookkeeping for you and even file your taxes.)

How can bookkeeping help your Etsy business?

Your business's health is directly related to how accurate and up-to-date your books are.

For example, keeping up with your books gives you a better handle on your cash flow, which is a major factor for [82% of small businesses that end up failing](#). Staying on top of your books also enables you to:

- Make data-driven business decisions instead of relying on gut feelings.
- Identify [tax deductions](#).
- Determine how to manage cash flow during challenging seasons.
- Avoid tax notices, fines, and penalties.
- Detect fraud and other banking errors more easily.
- Provide the in-depth financial history needed to qualify for a loan.
- Spot trends and establish clear growth benchmarks.
- Create inventory forecasts.
- Produce financial reports and make educated financial decisions.

And that's not all. By using financial data, Etsy entrepreneurs like you can determine other important information, such as:

- How much did each of your finished items cost?
- Which of your Etsy shop's products was most popular this year?
- Which live selling event led to the most revenue?
- How much profit did your Etsy business earn last month?
- Are you overspending on supplies?
- If profits remain similar, how many months before you can purchase that new pottery wheel?

Etsy bookkeeping vs. Etsy accounting

Although "bookkeeping" and "accounting" are frequently used interchangeably, they actually refer to two different functions. Bookkeeping is the recording of a company's financial transactions, while accounting analyzes and interprets those transactions.

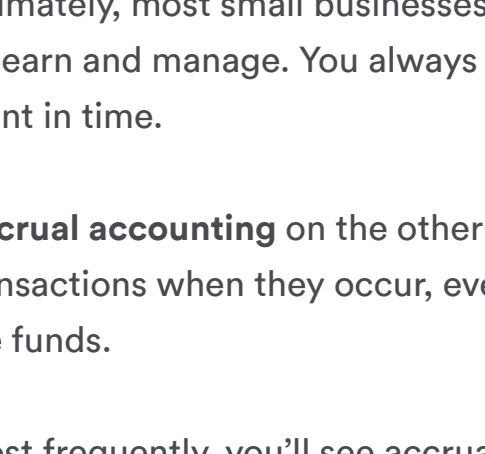
A few examples of common bookkeeping tasks include:

- Categorizing transactions
- Invoicing
- Tracking inventory
- Preparing balance sheets and profit and loss statements
- Reconciling bank accounts
- Managing payables and receivables
- Overseeing cash flow management

Accounting, on the other hand, looks at the bigger picture. For Etsy business owners who want the extra analysis to help inform business growth, it's crucial to understand that the accuracy of your accounting analysis relies directly on how accurate your bookkeeping records are. If your bookkeeping is out of date, any accounting findings will be unreliable.

Some tasks that accountants typically perform include:

- Reviewing financial statements prepared by a bookkeeper
- Preparing reports, statements, and models
- Auditing books
- Filing taxes
- Creating financial forecasts
- Completing risk analysis



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Specific bookkeeping considerations for Etsy sellers

As an Etsy seller, you face a unique set of challenges when it comes to managing your finances. Here's how to ensure your business thrives.

Decide whether you'll use the cash-basis or accrual method of accounting.

There are two primary types of ecommerce accounting: [cash and accrual](#). Your first job as a new business owner, at least one new to the world of accounting, is to decide which method you will use. Here's a bit more about each.

Cash accounting records transactions once money has exchanged hands. Essentially, it's the same way we handle our personal finances.

For example, when a customer's payment for the wedding decorations they ordered clears, you add it to your ledger. Say, however, that you waited until today to send out the wedding decorations invoice, and your customer has not yet paid. This income would remain off your records until the customer pays and the transaction clears.

Ultimately, most small businesses opt for the cash basis method because it's easier to learn and manage. You always know exactly how much cash you have at a given point in time.

Accrual accounting on the other hand, is a method of accounting that documents transactions when they occur, even though the business owner hasn't yet received the funds.

Most frequently, you'll see accrual accounting with larger, more established businesses.

Determine your sales tax nexus

Depending on your income, product, and sales platform, you may be expected to pay sales tax quarterly or even monthly.

One particularly tricky topic in the sales tax realm is [sales tax nexus](#). In short, sales tax nexus refers to the situations where you reside in one state, but meet a certain revenue threshold in another. That means you're legally obligated to register for a sales tax permit in that state and collect sales tax from buyers who live there.

If you only sell through Etsy, consider the following information a win: For most states, Etsy now collects sales tax based on where buyers are located without you needing to do anything.

If, however, you are one of the [61% of Etsy sellers](#) using additional sales channels such as Amazon, eBay, or Shopify, it's important you research how each platform manages sales tax, as you'll be subject to late fees and possibly interest and back-charges if you don't comply with sales tax regulations or you file a late or erroneous return.

Since most Etsy businesses gross less than \$10,000 annually, the majority of sellers only need to pay sales tax for their state of residence. State thresholds for nexus are typically at least \$100,000 in gross revenue. Be sure to check the laws in your state to determine whether or not you're required to collect sales tax. For example, in some places, sales tax is required for goods, but not services.

To determine whether you're required to collect and pay sales tax in a given state, review a current [Remote Seller Nexus Chart](#).

Remember to account for Etsy seller fees

You may not have to pay rent for a brick-and-mortar storefront each month, but Etsy fees can make a big dent in your earnings. Remember to account for Etsy costs and other expenses related to your [online business](#) when you price merchandise, prepare your taxes, and calculate your return on investment.

Otherwise, you could end up underpricing your products, overvaluing your services, or missing [tax deductions](#) and overpaying on your taxes.

- Merchant fees:**
 - When you sell an item, Etsy charges a commission of 6.5% of the item cost.
 - If you subscribe to Etsy Plus, you'll pay \$10 monthly.
 - If your customer pays via Etsy payments, there's a processing fee of 3% of the listing price + \$0.25.
 - Other payment processors like PayPal and Square charge 2.9% of the listing price + \$0.30.
- Advertising Fees:** Online, print, or other advertising costs you incur as an Etsy shop owner are tax-deductible. Your Etsy listing fees are also tax-deductible under advertising expenses.
- Listing fees:** Etsy charges \$0.20 per listing every four months or until they sell.
- Third-party tools:** When preparing your annual taxes, you can write off your subscription fees for third-party tools, such as bookkeeping/accounting or inventory management software as business expenses.

Invest in inventory management

As an online seller, effectively managing your inventory is central to a successful business. You may be able to get away with no inventory management system for a short time, but as you begin to expand your product choices and receive referrals or repeat buyers, the need for a capable inventory system that can provide you with data and account for a range of products and variations becomes even more evident. Here are a few options for your Etsy store's inventory management:

- Etsy's Shop Management:** This in-platform inventory tool offers a brief video tutorial on best practices, but additional practical guidance is limited. For sellers who are just starting out, the dashboard works well. Unfortunately, it's not scalable for growing businesses, which is the goal for 82% of Etsy sellers.
- Excel spreadsheets:** Smaller Etsy shops can succeed using Excel spreadsheets as their method of inventory management. If this is you, type "bookkeeping" into Etsy's search bar, and you'll find some very affordable — and stylish—inventory management templates. Of course, as your business grows, using Excel for inventory management usually isn't sustainable.
- Craftybase:** One niche example, Craftybase, offers an all-in-one inventory management package designed specifically for handmade Etsy stores and includes the capability to track material and product stock levels, calculate the cost of goods sold (COGS) for your Schedule C tax form, log expenses, manage prices, and run reports such as how much money each of your products brings in monthly and annually.
- StichLab:** Another unique tool, StichLab, can allow you to import your entire online inventory, including Etsy, into one location and export it to accounting software.

How Bench can help

Etsy DIY bookkeeping demands a lot of time and energy, resources often in limited supply for new business owners. There's always the option of doing it completely on your own, but if you've never excelled at Excel spreadsheets (pun intended), that can feel like even more of a risk.


At Bench, we're America's largest professional bookkeeping service for small businesses! We can handle all your bookkeeping needs and tax filing for you while you focus on running your business.

Bench works with hundreds of ecommerce sellers, and we know ecommerce bookkeeping and accounting inside and out. Thanks to our visual reports, tax-ready Year-End Financial Package, and the support of our expert team, Bench clients can maximize their tax deductions and minimize the stress of keeping up with their financials.

The bottom line

Bookkeeping plays a key role in the success of your Etsy business. While your passion may lie with your best-selling crocheted blankets or macrame wall hangings, delaying proper attention to your finances leads to uninformed decision-making and increased risk to your business.

If it feels overwhelming, start out slow, and just focus on one bookkeeping task at a time. Bench has [guides and templates](#) to help you begin—why not start with this [Excel Income Statement template](#)?



FREE RESOURCE

What are the returns of hiring a bookkeeper for your business?

Learn how much money you can save by hiring a bookkeeper compared to doing-it-yourself (yes, it's cheaper), and quickly calculate whether it makes sense for your business.

[Get the Guide](#)

What's Bench?

We're an online bookkeeping service powered by real humans. Bench gives you a dedicated bookkeeper supported by a team of knowledgeable small business experts. We're here to take the guesswork out of running your own business—for good. Your bookkeeping team imports bank statements, categorizes transactions, and prepares financial statements every month. [Get started with a free month of bookkeeping.](#)

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