



ACCOUNTING CHEAT SHEET: YOUR COSTS

A Complete Guide To Help You Understand and
Calculate Your Handmade Business Costs

1 - FIXED COSTS



FIXED COSTS = OVERHEAD = OPERATING COSTS

The first thing you need to get clear on is how much does running your handmade business cost you even if you're not making one single sale that month.

These costs are called fixed costs because they do not vary according to the numbers of sales you make. In other words, no matter how many products you make or sell on any given month, there will be expenses that you have to pay no matter what. These are your fixed business costs or costs that you have to pay to operate your business.

Another word for it that you might have seen or heard before is overhead.

Fixed costs = Overhead = Operating costs

Fixed costs (or overhead) include things like your studio rent, insurance, monthly plan for your website (hosting or shopify fee for example), office supplies, travel expenses to participate to markets and craft fairs (fuel, hotel, etc.), social media tools (hootsuite, etc.), shipping software, accounting and bookkeeping software or fees, etc

2 - VARIABLE COSTS



VARIABLE COSTS = COST OF GOODS SOLD = COGS

Variable costs are costs that vary depending on your production volume. The more products you make and sell, the more you will have to pay in variable costs. This is because these costs are directly related to the product creation process.

Another word for variable costs that you could have seen or heard of is Cost of Goods Sold or COGS. This sounds complicated but don't worry, it isn't. It's just a fancy word that accountants love to use to say "variable costs".

Variable costs = Cost of goods sold = COGS

The reason for it is simple:

If every time you make and sell a product, your variable costs increase, it is like saying that there is a cost to selling this product: something that adds up to your fixed costs and that you wouldn't have had to pay if you didn't make and sell that product.

For that reason, variable costs are called "cost of goods sold" or in plain english "what it costs you to sell your products".

Variable costs include things like: shipping and packaging costs for each product, and raw materials and supplies needed to create your products.

You can also include to your variable costs a percentage of loss for damaged supplies you received and couldn't use or for pieces that you won't be able to sell after all because of a defect that came up during the creation process.

3 - LABOR COSTS



ABOUT LABOR COSTS

Lastly, it's important to understand how to account for labor costs.

As a maker, you spend a lot of time actually making your products, and you need to pay yourself for that time. You have to account for it.

Your labor cost is:

Time spent creating a product x Hourly wage. It will be different for each product.

Labor costs are overlooked by most handmade business owners because it can be hard to know exactly how much time you spend creating each product. But it is crucial to your business as this will affect your pricing strategy, and ultimately your profit. Don't do the same mistake and run a test: create the same product 5 times and record how long it takes you on average.

NB: if you follow the logic of variables VS fixed costs that I explained above, then you will want to add your labor costs to your variable costs. After all, the more products you sell, the more time you spend producing them, the more you should be remunerated right? Well, no.

I know it is counterintuitive to what I just told you about variables costs (COGS) but do not incorporate your labor cost in your variable costs. Keep them separate.

COGS - COST OF GOODS SOLD

VARIABLE COSTS

The longer, better way: your cost of good solds

The shortcut above is a good way to quickly know how much on average you spent a month on variable costs. But the proper way to know how much creating and selling your products cost you over a period a time (be it a month or a year) is to calculate your cost of goods sold.

You will be able to use this number in your tax return at the end of the financial year, and will also use it to calculate your net profit.

Lets dive in! These are the steps you will need to take:

STEP 1

For each product, record the cost of materials and supplies you used in a table like this one ([you can also use the first table in the handmade pricing calculator](#) as this is also a part of the pricing process for each product):

1 - RAW MATERIALS USED			
	Material Total	Portion Used to Make Product	Material Cost for this Item
Material 1	\$2.50	0.5	\$1.25
Material 2	\$4.00	0.1	\$0.40
Material 3	\$0.00	0	\$0.00
Material 4			\$0.00
Material 5			\$0.00
Material 6			\$0.00
Material 7			\$0.00
Material 8			\$0.00
Material 9			\$0.00
Labels and Tags	\$65.00	0.002	\$0.13
Packaging	\$44.95	0.01	\$0.45
Total Material Cost	\$116.45	0.612	\$2.23

Material Total: This is the total cost of the item you bought.

eg. a ball of yarn to make a glove (even if the glove won't require a the whole ball of yarn, input the cost of the whole yarn ball.

Portion Used: How much of the item will you use to make the product? eg. if you can make 2 gloves with the yarn ball then it's 1/2 which equals 0.5.

Labels and tags, Packaging: Including shipping costs and taxes to get it delivered to you

THANK YOU!

For further help, support and training to help you start, grow and profit from your handmade shop, check out Tizzit HQ



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