amaka

THE COMPLETE GUIDE TO

WOO COMMERCE accounting

"Spend less than an hour on your books every month."

GET YOUR ACCOUNTING SOFTWARE, INTEGRATIONS, TAXES, AND FINANCIAL REPORTS SET UP CORRECTLY

Disclaimer

The information in this guide is of a general nature and is presented here for informational and educational purposes only. It does not constitute, nor should it be taken to be accounting, financial or tax advice. You assume the sole responsibility of relying on this information at your own risk and we do not endorse any companies or products offered here. You should consider whether the advice is suitable for you and your personal circumstances. Before you make any decision about whether to acquire a certain product or service, you should obtain and read the relevant product disclosure statement or other relevant documents.

About Amaka

Amaka offers accounting integrations to sync sales and payments from e-commerce and POS systems to cloud-based accounting software. The integrations automate data entry and fast-track the bank reconciliation process for business owners and accounting professionals.

Our 5-star rated customer support team offers completely free 1-on-1 support sessions, for both free and premium customers, to walk you through the setup process and to answer any questions you may have.

Contents

Contents

Contents

CHAPTER 1

Introduction

With the thriving e-commerce industry, an increasing number of aspiring entrepreneurs are embracing WooCommerce as their platform of choice to launch their own businesses. The accessibility of this platform allows almost anyone to become a WooCommerce seller.

However, ensuring the success of your business involves maintaining accurate bookkeeping records and properly managing your taxes. Many individuals lack the initial knowledge and expertise required for accounting, which often leads to mismanaged books or neglecting them until it becomes problematic.

Fortunately, we have created a comprehensive guide specifically tailored to assist you with your WooCommerce bookkeeping and accounting needs. This guide will cover everything you need to know in order to effectively manage your books, comprehend your financial standing, and gain valuable insights that will aid you in making informed business decisions.

CHAPTER 2

Bookkeeping vs. accounting

Throughout this guide, we'll explain the basics of bookkeeping and accounting for your WooCommerce store, including the best tools you can use to maximise your time. Before we delve deeper, it's useful to understand the differences between bookkeeping and accounting.

Bookkeeping generally refers to the functions involved with recording financial transactions. Bookkeepers make sure records are up-to-date, accurate and organised.

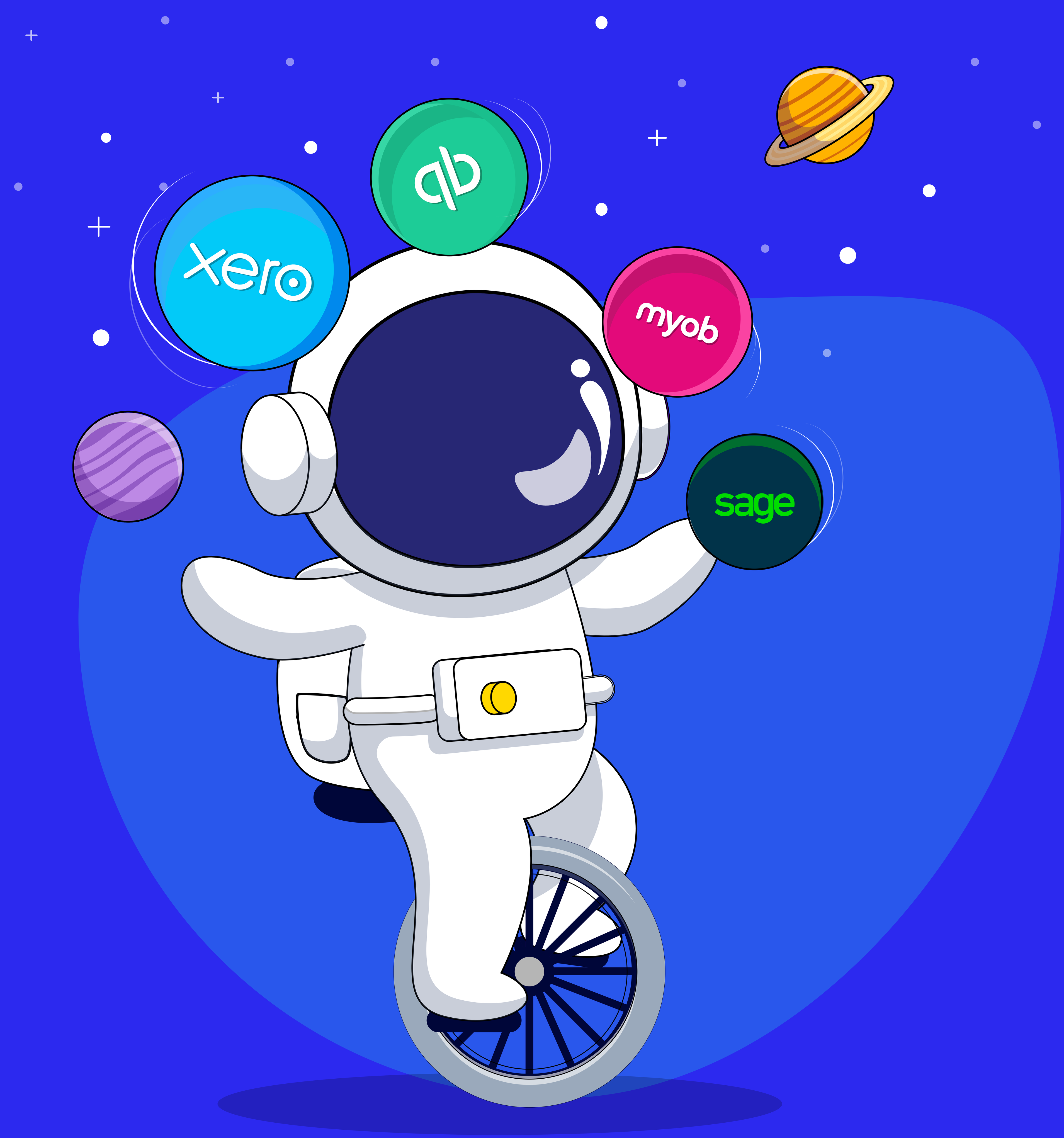
Accounting involves using the information gathered from bookkeeping to analyse and provide insights on the financial situation of a business. In many scenarios, these two functions overlap.

When starting out, it's generally okay to manage these functions on your own. However, it's recommended to have a tax accountant even when starting out.

In Chapter 11, we go into more detail about how to know when it's the right time to hire a bookkeeper or accountant. In Chapter 12, we'll share the hard hitting questions to ask when comparing different accounting professionals and firms.

CHAPTER 3

Cloud-based accounting software



CHAPTER 3

Cloud-based accounting software

As a business owner, spending less time on tedious tasks and more time on what matters most is always a priority. Hence, using a cloud-based accounting software is an absolute must. Using accounting software comes with a whole range of benefits and opens up even more opportunities to effectively use other time-saving tools.

What is cloud-based accounting software?
Cloud-based accounting software has a lot of names; cloud accounting software, online accounting software, or web-based accounting software. As the name suggests, it's a form of accounting software that's hosted remotely on 'the cloud' rather than locally on your computer. Your data is stored on remote servers and can be accessed through the Internet.

Advantages

Access your books anywhere, anytime

Rather than buying an application, downloading and then installing it on your computer, you subscribe to an online solution and can access the application from any web browser with your login. You can access your data from any device, anywhere, at any time. Can't beat this level of convenience!

No need for updating or maintenance

Using cloud-based software means that you don't have to spend time or money maintaining the application. Updates and improvements are automatically pushed through. As soon as you log in to your account, you'll be already using the newest version. Save time and have peace of mind.

Get real-time financial insights into your business

Cloud-based accounting solutions offer a suite of reporting tools that help you get an understanding of your financial situation. Rather than having to figure out complicated charts or equations, you get access to easy-to-understand graphs and charts. These are particularly useful for making business decisions on the fly.

Give access to other people

Whether you want to share data with your team or with accounting professionals, using cloud accounting is significantly easier than using other methods. You can give people their own logins and control the level of access they have. Your books can be accessed by multiple users at once and changes appear in real-time.

Keep your data safe and secure

The cloud is one of the most secure ways to store data. Your data is encrypted, meaning it's converted into code that won't make sense unless you have a decryption key (your password). Furthermore, cloud-based software providers typically have strict user authentication measures, making it hard to hack into your accounts.

Connect all the apps in your ecosystem

As a WooCommerce seller, one major benefit is the ability to connect it with all the other cloud-based apps you're using. For example, automate your data entry and bank reconciliation by connecting your WooCommerce account, accounting solution and bank account. Plus, connect your inventory management system, shipping software, etc.

Disadvantages

Despite the many benefits of cloud accounting, there are a few caveats that we should mention. However, these are generally easy to manage and won't outweigh the benefits for most WooCommerce businesses.

Needs an internet connection

You can access your books anywhere, anytime, but only if you have an internet connection. Though most people have an internet connection all the time, if your internet does cut out, you won't be able to access your data. Those using traditional accounting software or a spreadsheet might not face this issue.

Demands strong security practices

Though you can trust that your data is secure, it's not entirely a set and forget process. Cloud accounting still demands some security practices from you and everyone who has access to your books. For example, ensuring everyone has turned on two-factor authentication, has created complicated passwords and hasn't left their credentials in an easy-to-access place.

You pay an ongoing fee

Though you don't have to pay a large initial sum or costs for updated software, you do have to pay an ongoing subscription fee. This will impact your regular overheads and could potentially turn out to be more expensive in the long run. However, for many businesses, this might actually be better for cash flow (more on this in Chapter 8) and the advantages make it worthwhile.

How to choose a cloud accounting software

Now that you know all the pros and cons of cloud-based accounting software, how in the world can you pick one provider out of the dozens on the market?

We've put together an extensive checklist of considerations to consider when comparing the different solutions available. At a high-level, you'll want to factor in how the solution fits into your budget, how it interacts with other apps in your digital ecosystem and how it deals with your key accounting processes.

Note: Not all considerations will apply to your business. Take the time to figure out which are a priority for you.

Checklist

- [ ] Offer integrations to WooCommerce?
- [ ] Offer integrations to a range of other apps?
- [ ] Offer a free trial or free plan?
- [ ] Fit your budget?
- [ ] Offer extensive training and resources?
- [ ] Offer support in multiple forms? (i.e. Email, phone, chat, etc.)
- [ ] Handle multiple currencies?
- [ ] Handle domestic and global sales tax compliance?
- [ ] Handle multiple bank accounts?
- [ ] Handle cash flow management?
- [ ] Handle inventory management?
- [ ] Handle receipt management?
- [ ] Handle expense tracking?
- [ ] Handle invoicing?
- [ ] Handle accounts payable?
- [ ] Allow you to do bank reconciliation?
- [ ] Track cost of goods sold?
- [ ] Track separate financial transactions for different departments, subsidiaries, businesses, etc.?
- [ ] Include an array of reports that give you the insights you need?
- [ ] Calculate all your payroll requirements? (i.e. Annual leave, sick leave, income tax)
- [ ] Allow for project time tracking or similar?
- [ ] Allow you to manage contacts/clients?

CHAPTER 4

Setting up your accounting integration

CHAPTER 4

Setting up your accounting integration

One of the major benefits of running your business on WooCommerce is the access you have to a range of different apps. Amaka is the gold standard in accounting integrations, allowing you to sync your WooCommerce transactions to your accounting software. Once you're set up, data entry becomes completely automated and bank reconciliation becomes lighting-fast.

What does the accounting integration do?

- Connect WooCommerce to your accounting software
- On a daily basis, the integration will sync a summary of your previous day's sales data from WooCommerce into your accounting software in the form of an invoice
- You can customise your preferred sales summary view choosing from a wide array of formats
- Capture all payment transactions including tips, tax and payment fees
- Easily reconcile WooCommerce sales and payments in your accounting software

How to connect WooCommerce to your accounting software

1. Register or sign in to Amaka at (https://app.amaka.io/)
2. Click the New integration button and select WooCommerce from the integrations list to commence the setup
3. Sign in to your WooCommerce account by clicking the **Connect new account** button underneath the logo and grant all relevant permissions
4. Authenticate your Xero, MYOB QuickBooks Online account by following the same procedure and then click **Save + Continue**
5. Follow the wizard to choose your preferred setup method, invoice breakdown, invoice format, mapping and scheduler options (more details on the next pages) to complete the setup
6. Click **Save + Continue** to finish and activate the integration

Get started for free

Setup methods available

Choose your preferred setup method.

Express

The integration will automatically map sales and payments from WooCommerce into your accounting software by creating a default chart of accounts.

2 minutes

Advanced

The advanced setup will allow you to choose your own custom mapping in relation to sales and payments in WooCommerce. Recommended for professionals.

7 minutes

Guided

Schedule a free 30-minute Zoom video call with one of our Integration Experts at a time that suits you.

15-30 minutes

Invoice breakdown options

Choose your preferred invoice breakdown.

Group the data into one invoice

Sales from all activated locations will sync to one invoice. Option to manually set the contact name for the integrated invoices.

Split invoices by location

The location name will be used as the contact name on the invoice. One invoice for each activated location.

Invoice format options

Choose your preferred invoice breakdown.

Summarised

Sales totals go into an invoice including tips, fees, taxes and more.

Item Code	Description	Unit Price	Account	Tax Rate	Amount
	Sales	78.00	Woo Sales	BAS Excluded	78.00
	Shipping	10.00	Shipping fees	BAS Excluded	10.00
	...	...	...	...	...

Group by product

The invoice will have a line item for each products sold.

Item Code	Description	Unit Price	Account	Tax Rate	Amount
	White Polo shirt	250.00	Sales - Tshirts	BAS Excluded	250.00
	Blue shorts	300.00	Sales - Shorts	BAS Excluded	300.00
	Denim pants	600.00	Sales - Pants	BAS Excluded	600.00
	Jacket	300.00	Sales - Jacket	BAS Excluded	300.00
	Shipping	88.00	Shipping Fees	BAS Excluded	88.00
	...	...	...	...	...

Scheduled sync

Select the date and time you want to start syncing your data from.

The integration sync time is triggered by the scheduler settings. Each sync cycle catches all the transactions processed during the previous trading day.

The scheduler allows you to:

- Choose the date you want to start syncing your data from (default value is Today),
- Choose the preferred time to trigger the sync of data on a daily basis,
- Back sync your data.

How to set up your chart of accounts

What is a chart of accounts?

A chart of accounts is a list of categories that an organisation sets in order to distinguish financial transactions. In general, the high-level categories will be assets, liabilities and shareholder's equity for the balance sheet, and revenue and expenses for the income statement (more on how to read these financial reports in Chapter 9).

Organisations will then have sub-accounts or sub-categories underneath each account. These will depend on the transactions the organisation deals with and can change as the organisation develops. These sub-accounts can be useful when developing in-depth, insightful reports.

Using an accounting integration to setup clearing accounts

If you've chosen the Express setup option, the integration will automatically create relevant sub-accounts with unique numbering. Then, sales and payments transactions will be automatically mapped to the corresponding sub-account. Those using Advanced setup or Guided setup can choose custom mapping.

Note: The integration will only automatically create sub-accounts relevant to sales and payments data that can be taken from WooCommerce. If you want to add sub-accounts such as inventory costs, storage fees, Facebook Ads, or any other transaction not captured by WooCommerce, this needs to be done separately.

WC-20000	WooCommerce Sales	Sales
WC-20001	WooCommerce Coupons	Sales
WC-20002	WooCommerce Shipping Fee Revenue	Sales
WC-30000	WooCommerce Fees	Expense
WC-20000	Adjustments	Sales

If you have existing sub-accounts that you want to map sales and payments to, or you want to customise your chart of accounts, you can use the Advanced setup method. This is recommended if you're a bookkeeper or accountant, or if you're working with one.

What's unique about the chart of accounts for an e-commerce business?
In order to get the best breakdown of transactions occurring, you'll want to make sure you've set up relevant sub-accounts in your chart of accounts. For example, a brick-and-mortar store might not deal with shipping costs or revenue from charging shipping fees. However, as an e-commerce business, it would be useful to see these transactions separated from others.

A unique account that is useful for e-commerce businesses is a 'clearing account', 'checking account', 'bank' or 'payment balance' account. Essentially, this account tracks the amount of money that is still held by your e-commerce platform (more on this at the end of this chapter). Other sub-accounts that might be relevant to your e-commerce business:

- Sales (Revenue)
- Discounts (Revenue)
- Shipping/Delivery Fees (Revenue)
- Exchange Credit (Current Liability)
- Gift Card (Current Liability)
- E-Commerce Platform Fees (Expense)
- Website Hosting Fees (Expense)
- Advertising (Expense)
- Storage Fees (Expense)
- Inventory (Asset)

What is bank reconciliation?

Reconciliation, otherwise known as bank reconciliation or payment reconciliation, is an accounting process that involves comparing two sets of records to ensure that finances are correct. Typically, this will include an internal record such as your accounting software and an external record such as your bank statement.

Why should I be doing bank reconciliation regularly?

By reconciling your transactions regularly, you have the chance to spot any discrepancies in your books before it's too late. These can be caused by a number of factors including fraud, accounting errors, unprocessed checks, unaccounted fees, bounced checks and more. The earlier you spot a discrepancy, the better chance you have at fixing it.

Regular bank reconciliations allow you to get the most accurate and up-to-date view of your business's financial health. If you're going through the process monthly, you have the chance to review your spending habits and cash flow. On top of that, if you reconcile payments less often, you'll end up with a huge backlog to go through.

What are statement lines and transactions?

Bank reconciliation is done by matching up bank statement lines to transactions created. Statement lines are essentially your bank transactions and can be imported automatically through a bank feed, or manually. In the essence of saving time, you'll want to set up bank feeds as opposed to manually entering each transaction.

Transactions created in your accounting software can be for WooCommerce orders, invoices, bills, etc. As with statement lines, transactions can be imported automatically or manually. Since you already have an accounting integration, these are already synced automatically. However, transactions unrelated to WooCommerce will have to be entered manually or through other integrations.

How to set up bank feeds

Before we start, you need to make sure you're registered for online banking so that you can connect your bank to your accounting software. For example, in Xero, you go to the Accounting menu, click Bank accounts and then click Add Bank Account. From there, follow the prompts to log in and to select the right accounts to share with Xero.

Most accounting software will give you the option to import around 12 months of historical transactions. This is helpful if you haven't been doing bank reconciliations. After everything is set up, transactions will automatically flow into your accounting software account every business day.

How to reconcile your WooCommerce payments

Now that you have your WooCommerce data flowing in through the accounting integration and your bank transactions flowing in through a bank feed, reconciling payments becomes easier.

For transactions in your local currency you need to first match up transactions. Then, transfer the amount from the temporary Clearing Bank Account to the permanent business bank account within your accounting software. Proceed to reconcile fees by initiating a payment within the temporary Clearing Bank Account.

The process for transactions in a foreign currency is similar. Start by matching up transactions. Then, transfer the **foreign currency amount** from the temporary Clearing Bank Account to the temporary Undeposited Funds account (automatically created by the integration) in your **local currency**. Lastly, you'll need to reconcile fees on the Undeposited Bank account by initiating a payment.

Outsource the reconciliation to Amaka with Managed Reconciliation Services

With Managed Reconciliation Services, our Integration Specialists will reconcile all transactions synced by Amaka's accounting integrations. You'll weekly updates on the status of your data syncing and reconciliation, along with additional analytics reports.

Start 7-day free trial

What is a clearing account?

Clearing accounts are temporary accounts to record transactions in a timely manner. These accounts are used to easily enter payments received before the money is deposited into your bank account. When the payments are deposited, they need to offset the clearing accounts to remove the temporary balance and post it to a permanent account.

The Amaka accounting integration syncs the sales transactions into the Revenue accounts. It also captures the payments which are allocated to the clearing accounts so that you have full visibility of how much payments are recorded on the transactions. For payments, a Current Asset account is appropriate. For exchange credit, the clearing account must be a Current or Noncurrent Liability account.

When cash or credit card payments are deposited into the bank account, simply reconcile these accounts to the appropriate clearing account. For example, cash deposits for cash payments received are usually reconciled to the Cash Clearing Account. On the other hand, credit card payouts from the merchant are usually reconciled to the Credit Card Clearing Account.

CHAPTER 5

Integrate your inventory and accounting

CHAPTER 5

Integrate your inventory and accounting

Next, one of the areas that pains e-commerce businesses the most is inventory management. The more your business grows, the seemingly more difficult it becomes to keep inventory levels accurate. It's important to tackle this area early on. We'll explain the cost of goods sold, how to sync it to your accounting system and the tools you need to streamline inventory management.

What is the cost of goods sold (COGS)?

Cost of goods sold or COGS is an important metric for all retailers, regardless of whether you're brick-and-mortar or e-commerce. COGS can be considered the wholesale price of a product. It includes the cost of the materials, labour and operations. When calculating gross profit, you minus the COGS from revenue.

Understanding your COGS is important for a few reasons. To run a profitable business, you need to use your COGS when deciding on pricing strategies and marketing. It also impacts your cash flow forecasting and management. Finally, having an accurate COGS is crucial for tax time since you only pay tax on your gross profit.

How does inventory management impact your accounting?

Poor management of accounts, taxes, and data entry can result in incorrect records that will be recorded in all integrated systems. Because this data is often used to drive important decision making, the result of this can have a lasting negative impact on your business decisions.

Having to discard expired inventory can have a negative impact on your business. For example, imagine a gardener who hoards a massive collection of seeds, many of which have exceeded their expiration dates. This practice would quickly lead to the demise of their gardening business. This then would restrict the availability of funds for crucial investments like acquiring advanced equipment or expanding the workforce. Then the inefficient inventory management can stifle growth and detrimentally affect the overall health of the business.

If there is also an insufficient number of seeds on hand to fulfill a new order requirement, the customer loyalty would diminish rapidly.

And lastly, another effect of poor management is time spent on administrative tasks that don't generate value. Automation can be applied towards dispatching goods, purchasing new stock, along with planning production runs. All of those listed activities are critical factors in a productive inventory management system.

For all these reasons, the necessity of an inventory management system becomes more prevalent, especially as your business grows.

How to avoid common inventory management problems

Inventory management poses two primary challenges for businesses: Maintaining an appropriate balance of inventory and avoiding excess stock. Insufficient inventory to fulfill orders, whether it's for immediate sales or manufacturing purposes, can have serious implications for a business. Known as a stock-out, it can result in customers taking their business elsewhere or damaging long-term relationships due to delayed or incomplete fulfillment.

Having excessive inventory comes with its setbacks. It can lead to space constraints for stock storage and unnecessary expenses. Financially, it ties up a significant amount of capital, making inventory efficiency a priority for accountants. Excessive stock also increases the risk of inventory obsolescence, particularly in industries where products quickly become outdated or have a limited shelf life, such as consumer electronics or perishable goods.

Implementing an inventory management system addresses these risks by incorporating features like automatic reorder points, centralized visibility of supplier lead times, and real-time reporting on stock value and age. Managing both expiry and wastage is another critical concern, especially for perishable goods like food and beverages. It allows for prioritizing the use of older stock or running promotional campaigns to sell goods that would otherwise need to be written off soon.

Before you connect an inventory management system

It’s crucial to complete a stock take before implementing a brand new inventory management system, to ensure the right numbers are applied to maintain consistency. Skipping this step can result in many implications that can have a negative impact on your cash flow.

As your WooCommerce business continues to grow, so will the quantity of your available products. Typically at this point businesses will have stock stored in more than one location, making the need for an inventory management system more necessary.

Inventory management system (IMS)

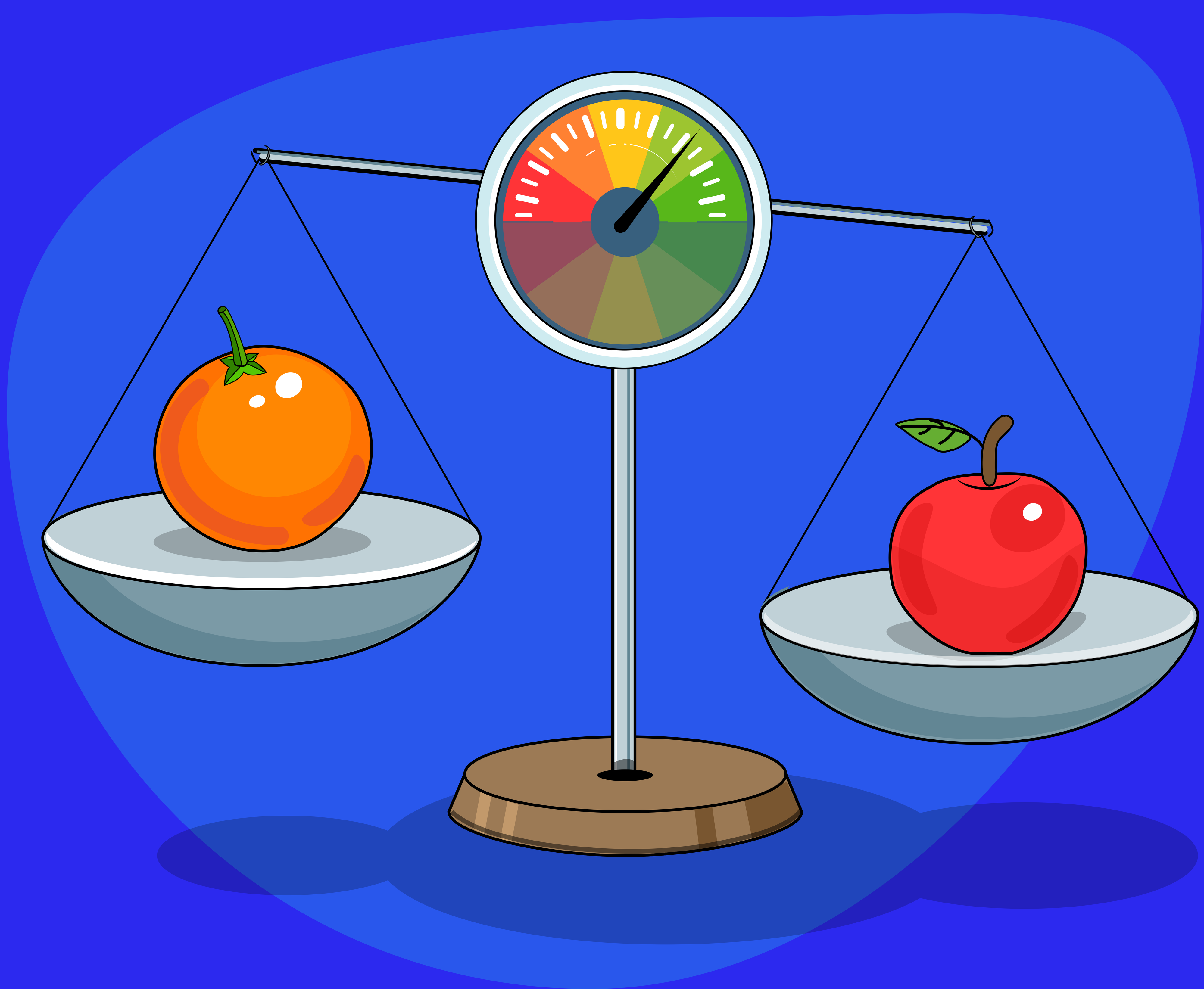
Inventory management systems (IMS) are crucial in helping you manage your WooCommerce stores efficiently. Having an IMS will help you manage your overall stock levels, by helping you eliminate waste and gain accurate insights of your product flow.

An option for your inventory management software is WP Inventory Management which allows you to update your stock levels and doesn't have a limit to the number of products you can add. It also can separate your inventory into categories, making it easy to stay on top of all your inventory needs.

Another option is the DEAR IMS. This software allows you to keep track of your stock levels, with its product availability notifications helping manage stock across multiple locations. It also allows you to send stock across locations from the press of a button. Having either of these options as your WooCommerce finance plugin of choice will upgrade your current system to better suit your needs.

CHAPTER 6

The balance sheet



CHAPTER 6

The balance sheet

Now that you have your accounting software set up and all your relevant systems have been connected properly, your accounting software should start generating financial statements. We'll start by explaining the balance sheet. In the next chapters, we'll run through the income (profit and loss) statement and cash flow statement.

What's on the balance sheet?

Your balance sheet will show your business's financial position at a single point in time, typically at the end of a certain period, such as a month, quarter or year. It gives you an understanding of what the business owns and what it owes. These factors help to showcase overall health and viability, both in the short-term and long-term.

You will be able to see all of the business's assets on the left, and liabilities and owner's equity on the right. The two columns will have an equal amount, or balance, hence the name, balance sheet. If the two columns don't balance, there is an error somewhere along the way in your bookkeeping.

Assets and liabilities can be considered current or noncurrent. Current assets are those that can be turned into cash within a year such as inventory. Non-current assets are those with values that won't be recognised within a year such as equipment. Similarly, current liabilities are those due within a year and noncurrent liabilities are those due in over a year's time.

Assets are the items owned by the company. Examples include:
- Cash
- Bank accounts
- Accounts receivable
- Inventory
- Equipment

Liabilities are owed by the company to others. Examples include:
- Bank loans
- Accounts payable
- Wages owed
- Credit cards

Owner's equity is assets minus liabilities and is the amount that can be claimed by the owners of the business. It can include:
- Money invested by the owner
- Money taken out by the owner
- Profits from business

Why should you keep track of your balance sheets?

There are a few reasons why businesses should be staying on top of their balance sheets. If you keep track of your balance sheets on a regular basis, you can better compare your current results to your previous results and even use this to predict future cash flow. Plus, the insights can help you set realistic goals for the next period.

On top of being able to compare your own results from period to period, you can compare yourself to competitors and industry benchmarks as well. For example, e-commerce businesses have an average gross margin of about 45%. These kinds of industry benchmarks can help you understand whether you're in a safe or risky position in the market.

How to analyse your business's balance sheet

Rather than giving insights into day-to-day operations the way an income statement does, your balance sheet gives you an understanding of the overall health of your business. This is useful to track the growth of your business, as explained above, or to showcase your business's value, such as when applying for a loan or selling your business.

Before you start delving into the numbers, it's important to check that everything has been recorded accurately. A few trends or KPIs that highlight that your business has been performing well:

- Growing cash balances and assets
- Sufficient cash on hand to pay expenses
- Decreasing or manageable debt levels
- Less assets producing more revenue
- Inventory is being turned over and not building up
- Prepaid and in-transit inventory
- Enough investment and reinvestment into the business
- Net worth is growing

CHAPTER 7

The income statement

CHAPTER 7

The income statement

The income statement, also known as the profit and loss statement or P&L statement, is a key financial statement for businesses. Unlike the balance sheet which gives you a higher-level understanding of your business's financial health, the income statement gives an understanding of how your day-to-day operations are and what your profitability is.

What's on the income statement?

The income statement shows how your business is doing over a certain time frame, such as a month, quarter or year. You get to see your direct revenues in the first section at the top. This doesn't include interest or other non-direct income. At the end of the section, you'll find gross profit (Gross Profit = Revenue – Cost of Goods Sold (COGS) – Other Direct Expenses).

In the next section, you'll find expenses and losses (other than your COGS), otherwise known as your operating expenses. This doesn't include taxes or non-operating expenses such as interest, depreciation or unusual losses. At the end of this section, you'll find your net operating profit (Net Operating Profit = Gross Profit – Operating Expenses).

After the operating expenses, you'll find a section including both your interest expenses and interest income as well as any non-direct expenses and income. In the last section, you'll see the net income (Net Income = Total Revenue – Total Expenses). Net income factors in items like depreciation, interest and taxes.

Under revenue, you'll generally find:
- Sales revenue
- Cost of goods sold (COGS)
- Gross profit

Under operating expenses you'll generally find:
- Marketing costs
- Wages
- Website hosting
- Office supplies

Net income shows you outcome of:
- Net Income = Total Revenue – Total Expenses

Common mistakes made in income statements

The first mistake that many businesses using WooCommerce make on their income statement is incorrectly reporting revenue. Often, they'll record revenue as whatever comes into the bank from WooCommerce. However, this number might actually have already subtracted credit card fees or other costs, or added other income such as shipping income.

When you record revenue in one line item based on what flows into the bank, you're excluding a lot of vital information. Hence, you need to make sure you're recording sales revenue separate to other types of transactions. An accounting integration such as WooCommerce + Xero, WooCommerce + Quickbooks Online or WooCommerce + MYOB automates this data entry and breakdown process.

Following on from being able to record as much as possible, making sure your chart of accounts is complete and working smoothly is essential. For example, do you have separate accounts for each form of advertising such as Google Ads and Facebook Ads? Then, have you made sure your accounting software can automatically attribute these to the right account?

Last but definitely not least is making sure your COGS is accurate and up-to-date. For example, making sure you're regularly doing stock counts and you're including every detail about storage, warehousing, logistics, etc. This could involve linking an inventory management system to your accounting software to make everything flow more smoothly.

How to analyse your income statement

You've set up automated data entry into your accounting software and generated an income statement, but now what? There are a few key trends to look out for that help you make sense of all the numbers. Remember, unlike a balance statement that shows your financial health at a point in time, an income statement showcases your health over a period of time.

Breaking down your income statement
When analysing your income statement, it's always useful to compare from period-to-period, such as month-to-month, and to break things down as much as possible. For example, you can break down and compare sales channels, locations, different marketing activities and all the costs associated with COGS. The more you have, the more informed your decisions will be.

Gross profit and gross profit margin
One of the first and most important metrics to look at is your gross margin. If your gross margin is negative, this means you're making a loss even without considering operating expenses. It may sound difficult for this to happen but factors such as storage can easily leave your COGS higher than your sales revenue.

Ideally, you want your gross profit and gross profit margin to be positive and increasing over time. Your gross profit margin ((Revenue – COGS) / Revenue) indicates your revenue after considering your production costs. The higher it is, the more profit you're making on each sale. Your pricing strategy and decreasing COGS are key.

However, looking at gross profit alone isn't enough to give you an understanding of overall profitability. You'll want to compare it to your net operating profit as well as your net profit. For example, if in February, your gross profit is higher than in January, but your net operating profit is lower, you'll need to figure out which operating expenses are generating a lower return.

Comparison with percentages
Continuing on from the above example, you know that operating expenses are worse in February but how can you figure out the exact expense? Show your expenses as a percentage of your income and compare the changes over two periods. You might realise that you increased Google Ads spend and that returns weren't great.

Percentages can be used in all different ways. A lot of questions can't be answered just in dollar amounts. For example, if a business wants to know if spending $100,000 a year in storage is too much, well, the answer would lie in how much that is as a percentage of your income or COGS.

CHAPTER 8

The cash flow statement

CHAPTER 8

The cash flow statement

Cash flow forecasting helps you look into the future of your business. However, the complexities that come with managing cash flow for e-commerce businesses has led many WooCommerce store owners to ignore it. If you want to stay on top of making a profit and building a growth-focused brand, understanding cash flow is absolutely essential.

What's on the cash flow statement?

Cash flow, as the name suggests, are the inflows and outflows of money, or the money being transferred into and out of a business. The cash flow statement is split up into three sections; cash flow from operating activities, cash flow from investing activities and cash flow from financing activities.

The statement takes data points from the balance sheet and income statement to calculate how much cash you have on hand for a given period. It measures how well the business is managing its cash flow. This is how well it can pay debts and expenses using the revenue and income available at any given moment.

Cash from operating activities includes the cash inflows and outflows from your general business activities. This might be:

- Sales of goods
- Payments made to suppliers
- Salaries and wages
- Rent

Cash flow from investing activities includes any use of cash considered a business investment. For example:

- Purchase of an asset
- Sale of an asset
- Loans made to vendors

Finally, cash flow from financing activities involves any cash from banks, investors or any other financing activity such as shareholders. This might include:

- Loan from the bank
- Repayments of term debt

What is cash flow forecasting?
Cash flow forecasting involves the anticipation of your future cash position, enabling you to ensure that you have sufficient funds to meet upcoming financial obligations. By accurately predicting your cash flow, you can minimize your dependence on loans or debt. Cash flow forecasting empowers you to effectively plan for potential opportunities and navigate any forthcoming challenges.

Why do a cash flow forecast?
Cash flow forecasting involves predicting your future cash position so that you can ensure you have enough cash to meet upcoming obligations. At the same time, you'll be confident that if a great opportunity came up, low cash wouldn't be a reason for passing it up. Every business needs a cash flow forecast in order to improve cash flow visibility and management.

A mixture of short-term and long-term cash flow forecasting is useful. A short-term plan might look a few weeks ahead and can help you make sure you can pay staff and stay afloat. A long-term plan might look months or years into the future and allows you to take a more strategic approach to your business goals.

How to do a cash flow forecast
You'll want to do a cash flow forecast on a regular basis, such as monthly. Start by knowing your beginning cash balance or the amount of cash you're expected to have at the start of the month. Then, predict what cash you'll have flowing in, such as sales revenue or receivables collections. Finally, predict the expenses you'll have flowing out, such as fees, utilities, rent, etc.

When making predictions, you'll want to consider best case, moderate and worst case scenarios. Remember that your business won't necessarily grow every month. You can use averages and estimates from your accounting software, however, consider that there could be fluctuations based on seasonality or external factors such as an economic downturn.

At the end of the month, figure out what your actual cash flows were. Your cloud-based accounting software should be able to generate a cash flow statement for you. See how accurate your predictions were and consider how you can make better predictions in your next cash flow forecast.

How to improve your cash flow and keep it positive

An essential part of managing your cash flow is being able to foreshadow your future cash flow.

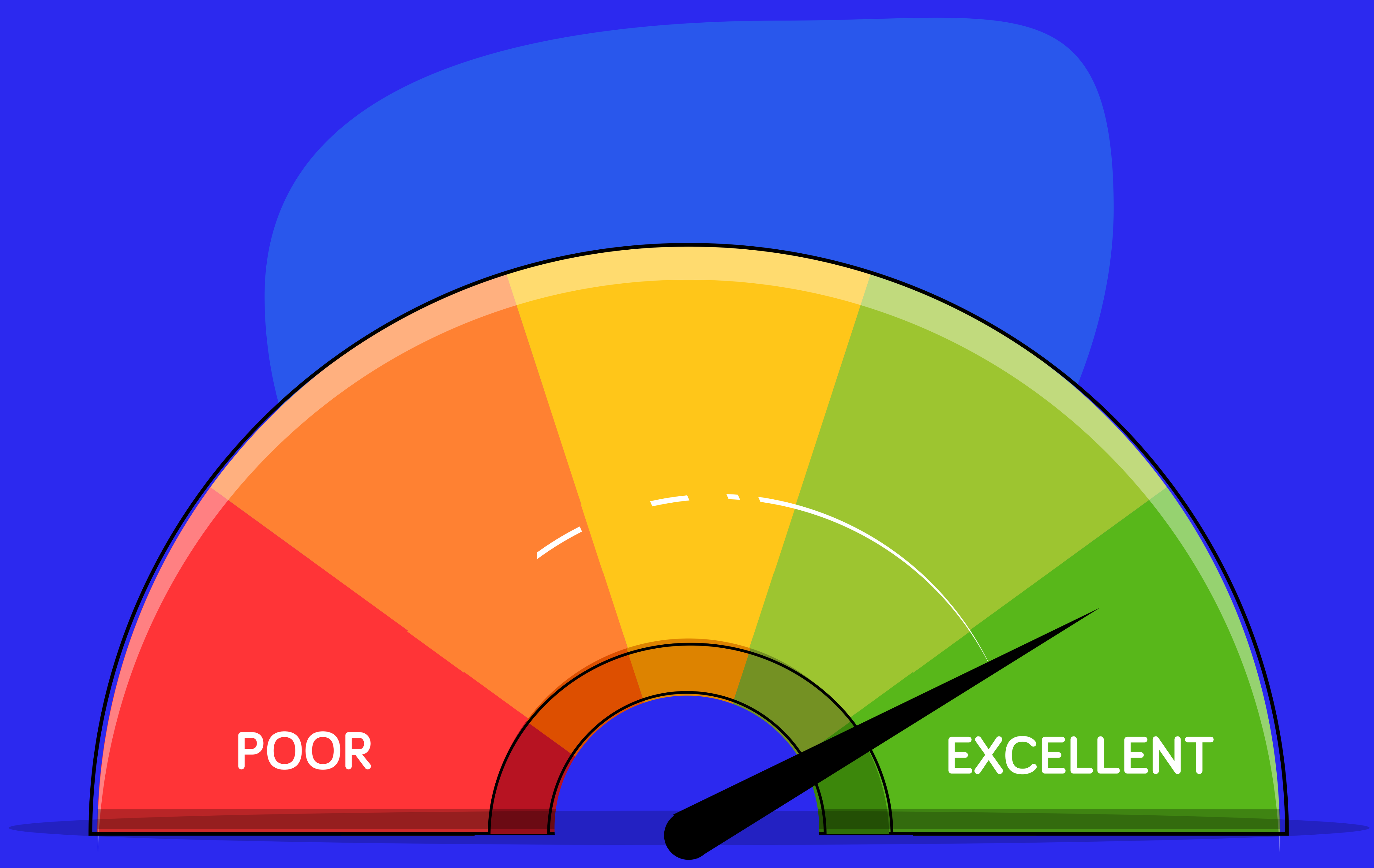
You want to ensure that your cash flow is enough to cover regular liabilities and all functions necessary for operating your business.

We have compiled a set of practical tips that can help WooCommerce store owners maintain a positive cash flow:

- [ ] Avoid excessive stock levels and focusing on high turnover products. Consider running campaigns to promote your most popular items.
- [ ] Implement customer retention strategies to encourage repeat orders and increase customer lifetime value.
- [ ] Prioritize marketing channels that offer immediate returns on investment.
- [ ] Prepare campaigns for times when cash is limited. These cost-effective initiatives can still drive customer engagement and sales.
- [ ] Pay your suppliers as close to the due date as possible without exceeding it. This allows you to maintain positive cash flow while fulfilling your financial obligations.
- [ ] Identify areas where you can reduce unnecessary expenditures and allocate resources to initiatives that provide a strong return on investment.
- [ ] Whenever necessary, avoid making large one-off purchases. Instead, consider payment plans, renting options, or alternative payment arrangements to spread out the financial impact and preserve cash flow.

CHAPTER 9

Key performance indicators to measure



CHAPTER 9

Key performance indicators to measure

Key performance indicators (KPIs) are the data points that you want to regularly track and use to measure success. When you look up important KPIs to measure, you'll find lists of 30+ or even 60+ to consider. However, for most businesses, especially in earlier stages, it's easier to focus on less rather than more.

Here are five key KPIs that may impact your financial position depending on the type of business you run. Choose a few that are relevant to you and work to improve them on a regular basis:

- **Cost per acquisition**: The cost it takes to gain a new customer, including advertising, email campaigns, discounts, etc.
- **Customer lifetime value (CLV)**: The average revenue that can be earned from a customer throughout their entire lifetime with your company.
- **Average order value (AOV)**: The average amount a customer spends on an order.
- **Gross profit margin**: The actual profit you earn once cost of goods sold (COGS) is considered.
- **Inventory turnover**: How often you sell through the inventory you have in-stock within a year, calculated by taking total sales, subtracting the cost of those, and dividing that number by your remaining inventory.

When selecting what KPIs you should be measuring for your own business, there's a few different factors to consider. First and foremost, how much does the KPI affect the bottom line of your business? Only track the most significant. Then, ask yourself, how accurately can you measure the metric? How timely are the results? And, can you take action upon results?

Reporting and analytics plugin

Reporting and analytics tools can help you keep track of your KPIs. That's why we've chosen three reporting apps that are here to assist you in this process. Each has the shared features of revenue tracking, profit and loss tracking, access to compiled metrics, and generating reports on your business's financial performance.

First, by using Amaka's business activity tracker, FitBiz, you can keep a finger on your business with an ongoing dose of goals, growth and performance insights sent straight to your inbox. Once you connect your WooCommerce store, you'll get access to smart sales trends, smart comparisons, and comprehensive breakdowns by time and product.

Another option is the Finpose software which automatically generates business finance reports making it easier than ever to review monthly reports so you can analyze them. It even has customisable reports with the different modules of tax, spending, accounts and more. Metorik is another reputable option for your business reporting needs, it provides real time data and customer report options on abandoned cart recovery, among other insights.

With either of these options, when it's been integrated with WooCommerce, you're able to access accurate reports on business revenue, customers, orders, product, and spendings per order. On top of that each of these apps have a customisable dashboard making it easier than ever to access reports daily, weekly, or monthly reports on your WooCommerce business.

CHAPTER 10

Taxes: All the basics you need to know

CHAPTER 10

Taxes: All the basics you need to know

As we'll explain in more depth at the end, it's generally recommended that you work with an accountant for your taxes, regardless of what stage in the business you're in. Particularly for the e-commerce industry, tax comes with a lot of complexities. In saying that, it's still useful to understand the basics of income tax and sales taxes.

Income tax

We'll start with the more straightforward one of the two types of taxes you'll need to pay when running a WooCommerce business; income taxes. The same way you have to report income and pay tax when working a regular job, you need to report income and pay tax when making an income for business.

Note: The obligations change if your business is incorporated.

In most cases, you'll be paying income tax to your local government. For instance, if you're living in Australia, you'll need to check the business income and taxes guidelines from the Australian Taxation Office. In some cases, you might have to pay income tax at two levels, such as in the US where you have to pay taxes at the state level and to the federal government.

International sales taxes

Sales taxes are applied to goods and services, either as a flat rate or a percentage. The end customer has to pay the tax. However, there are different rules on who collects sales tax. As always, the answer is; it depends. If you're selling across the globe, you'll need to understand the different tax regulations in each region.

Fortunately, WooCommerce automatically collects the right amount of sales tax for you. To get started, go to Settings > Tax and make sure the 'Enable taxes and tax calculations' box is ticked.

Even so, it's helpful to understand how different exemptions and rules apply to you. This way, you can avoid making mistakes, overpaying in tax or upsetting customers. We'll go through what you need to know for some of the major regions.

Sales taxes in Australia

Managing taxes in Australia is slightly less confusing compared to other regions. If your revenue is under AUD $75,000 in 12 months, you don't have to register to collect GST (goods and services tax). After that point, you need to register to collect GST, regardless of whether you're an Australian resident or not. GST is at a 10% flat rate.

Sales taxes in the European Union

If your business is located in the EU, charging sales tax is simple. You charge VAT (value-added tax) on every sale made in the EU. The tax rate will depend on how much you sell every year as well as distance selling thresholds that determine if the tax rate is based on your own country or the customer's country.

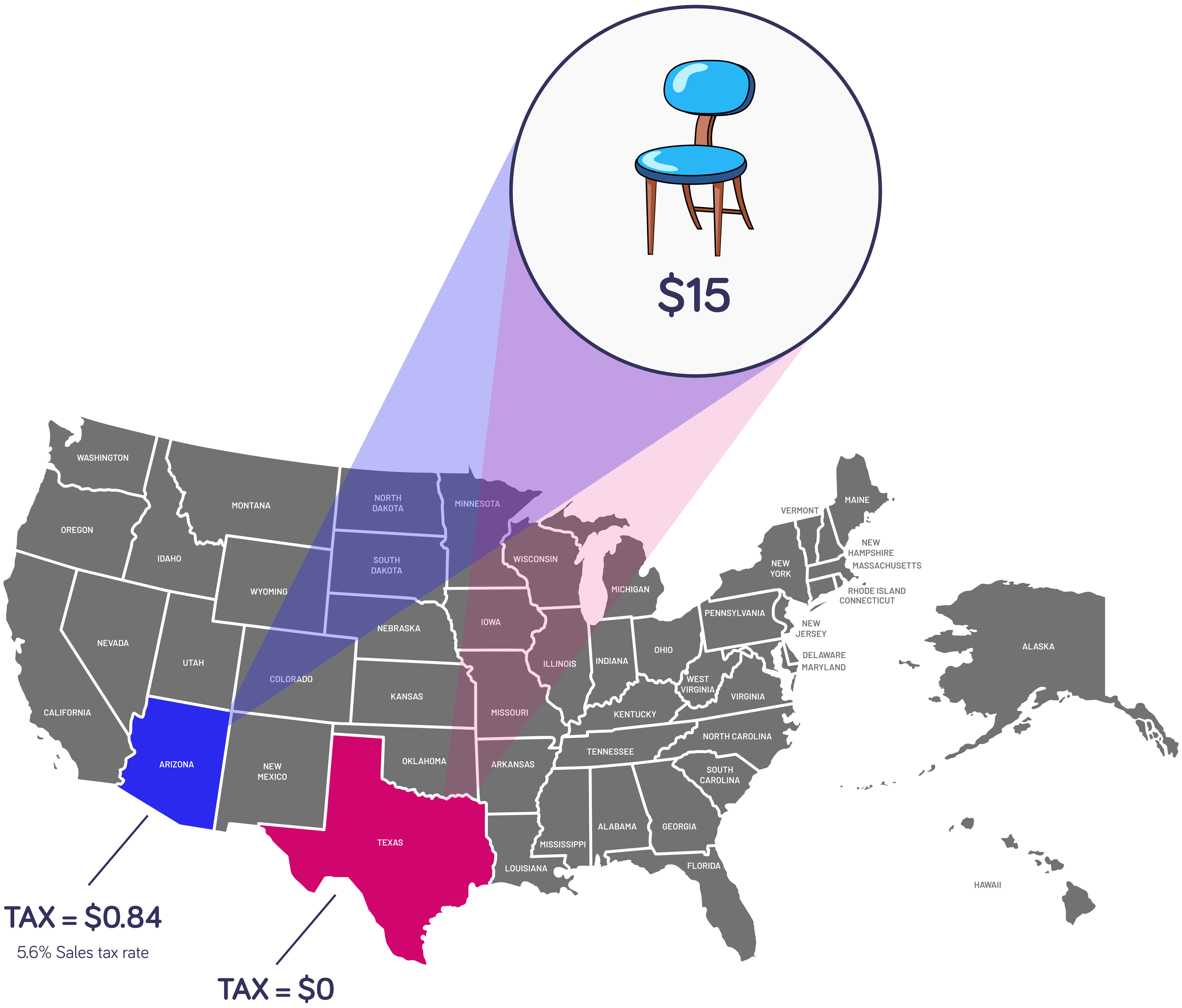
For businesses located outside of the EU, you must register for EU VAT once your annual turnover surpasses the VAT threshold, generally £85,000. However, if you're below the threshold and don't register for VAT, your customer might have to pay unexpected taxes. Hence, if the EU is one of your main markets, it might be beneficial to voluntarily register for VAT even if you don't meet the threshold.

Sales taxes in the United States (US)

In terms of charging sales taxes from your customers in the United States, it's generally easier if you don't live in the country. You don't have to apply for tax unless you meet the tax registration threshold, generally 200 transactions or US $100,000 within a year. Once you reach the threshold, you have what's called economic nexus and you'll need to meet tax requirements.

For those who do live in the United States, tax rules vary wildly depending on where you are, where your customer is, and where your supplier is. If you have a sales tax nexus in a state, typically meaning you have a physical presence there, you'll have to register for tax, collect it and remit it. If you don't, you're exempt from charging sales tax. However, if you have a supplier in a certain state, some states will require you to charge sales tax for the customers residing there.

Amaka's accounting integrations to Square cater for this multi-tax system. The integration captures each type of tax from every transaction, posts it to a liability account and adds it as separate line items on the invoice. No need to worry about manual data entry to account for all your taxes!



Tax write-offs

If you're running a business to make a profit, one area you'll want to pay close attention to is your expenses. The rules across different regions are different but in general, you can claim any appropriate expense as a tax write-off (deduction) from your taxable income. You can manage your expenses with your accounting software or with a tool such as Expensify or Dext.

Here is a list of common business expenses that you may be able to claim as a tax write-off:

- Marketing and advertising
- Car, truck or other vehicle
- Business insurance
- Office supplies and equipment
- Utilities
- Depreciating assets
- Salaries and wages
- Education
- Rent or leases
- Fees and interest (including Square fees!)
- Repairs and maintenance
- Meals and entertainment

Expense tracking apps

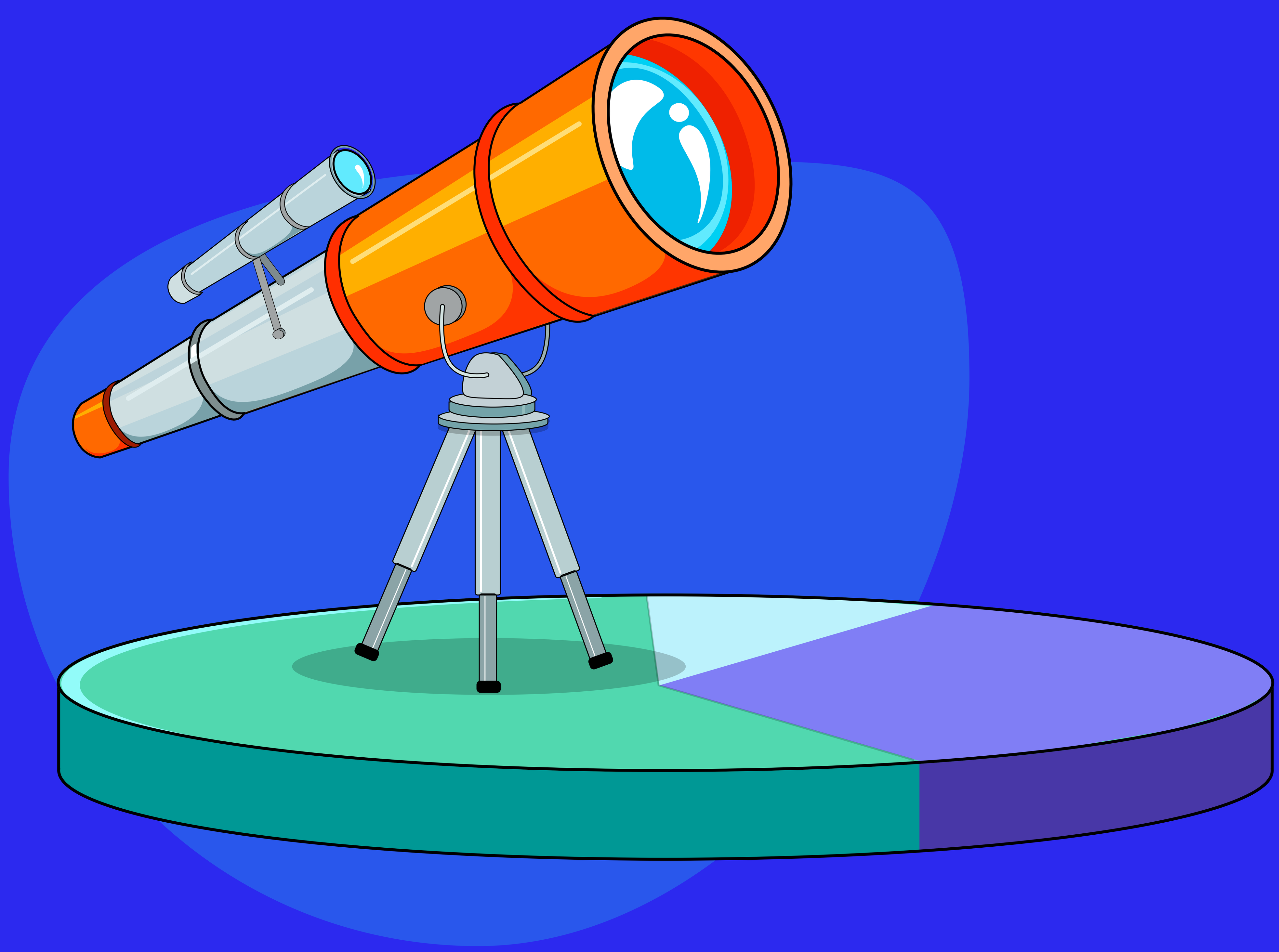
Expense tracking apps help you track a variety of your business expenses whether it's travel expenses, office expenses, among other types.

Expensify and Alpha Insights are a few of the more popular expense tracking apps out there. After taking a picture of your receipt, it will then get categorized, and synced with your accounting software of choice. Once you've completed integrating your expense tracker, you can also customize how customer contacts and tracking categories are stored. There are even features for auditing and compliance, ensuring your financial information is being stored accurately and safely.

Having this process automated for your WooCommerce finance processes is a game-changer in ensuring your expenses are error-free. By using these apps for consistent business expense tracking, you are more able to gain an understanding of your financial positioning, informing growth decisions, and plans for expansion.

CHAPTER 11

When to hire an accounting professional



CHAPTER 11

When to hire an accounting professional

Whether or not you need a bookkeeper or accountant, or both, usually depends on what stage your business is in. First of all, a quick rundown on the difference between a bookkeeper and an accountant: A bookkeeper records and organises your finances whereas an accountant will analyse these records and give financial advice.

Early stages

If you're in the early stages of your business, maybe it's still a side hustle or you're still working by yourself, you can generally manage your own bookkeeping by using a couple tools. However, it will be useful to have an accountant that helps with tax returns. At this stage, an accountant specialising in e-commerce isn't necessary but is beneficial for business growth.

Growth phase

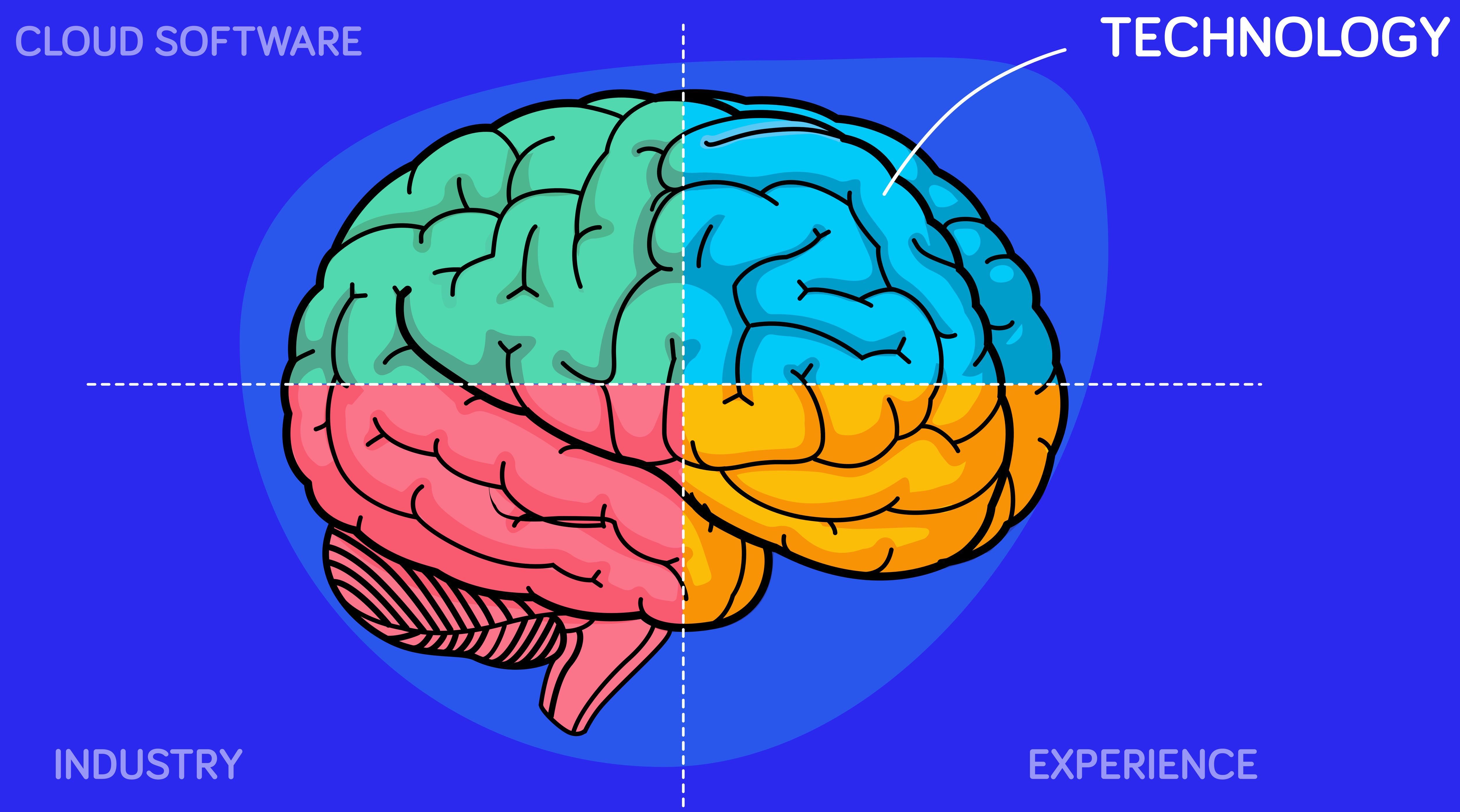
Once you're dedicating all your time to your business, maybe you even have employees under your wing, having an accountant becomes significantly more impactful. Working with an accounting firm who specialises in e-commerce will help you level up your processes. Accountants can guide you through how to make bookkeeping easier as well.

Established business

Finally, for established e-commerce businesses with multiple sales channels or massive sales volumes, an accountant becomes pretty much necessary. They can help to drill down on what's performing well and what's not. At this stage, entirely outsourcing your bookkeeping makes sense as well. This gives you more time to focus on your core business.

CHAPTER 12

What to ask a potential accountant



CHAPTER 12

What to ask a potential accountant

What qualifications does the accountant have?

One of the first things business owners should look out for, regardless of the industry you're in, is whether or not the accounting professional or accounting firm you're hiring has the right experience and qualifications. First and foremost, are they certified? For example, a Certified Public Accountant (CPA) or Chartered Accountant (CA) are two recognisable qualifications.

Next, since we're looking for a specific type of accountant, check their portfolio of clients and see if there are similar businesses. Have they positioned themselves as experts in e-commerce or WooCommerce? Of course, a lot of this will be marketing fluff which is why it's important to validate their expertise by going through this list of questions.

Does the accountant specialise in WooCommerce?

Each e-commerce platform and sales channel has its own unique challenges. It's absolutely crucial that your accountant understands how WooCommerce works. WooCommerce requires slightly different knowledge than other e-commerce platforms. If you're using multiple sales channels, your accountant needs to be able to manage numbers from different sources that may work differently. Ask them about their experience. They shouldn't be learning as they go.

Are they using cloud accounting and other cloud software?

One of the most important online tools an accountant should be an expert in is cloud-based accounting software. Your accountant should understand how to effectively integrate your sales channels with your accounting software. Furthermore, they should understand the digital ecosystem that surrounds cloud accounting.

Does the accountant understand international tax obligations?

One area that not all accountants will be able to understand is international taxes. The different obligations for taxes around the world can get extremely complicated for businesses that operate in multiple countries. Be ready to ask potential accountants about their experience managing international taxes if this is relevant to your business.

Can the accountant advise you on inventory management?

Inventory management and tracking isn't the first thing we think of when we think of an accountant. However, if inventory is a massive part of your books, your accountant should be able to fully understand how inventory management software works and how it integrates with accounting software.

What should the accountant be doing once they're hired?

The process isn't entirely done after you've chosen your accountant. After working with them for a while, you'll want to double check that they're meeting all your standards. If there are issues, you can discuss them with your accountant or even choose to start looking for someone who might better fit your needs.

Questions to ask yourself:

- Is my accountant maintaining my books on a daily or at least weekly basis?
- Can I access real-time information on my inventory and finances?
- Can my accountant tell me which sales channels, categories and products are performing the best?
- Can my accountant advise on inventory solutions, invoicing solutions etc.?
- Does my accountant understand all relevant processes happening in my business?

CHAPTER 13

Final words

CHAPTER 13

Final words

All done! You're ready to tackle your bookkeeping and accounting on your own or at least until you're ready to outsource. By taking advantage of the latest cloud technology and automation, you can cut down the time you're spending to about an hour a month after you've laid down all the groundwork.

Remember that regularly keeping your books in check is particularly important for business owners, regardless of whether you're doing your accounting on your own, or you're working with an accounting professional. It's useful to block out a chunk of time on a regular basis to review your accounting.

For example, you might create a monthly checklist of accounting to dos. This might include uploading your receipts and documentation to your accounting software, checking your inventory levels, and reconciling bank statements. Bank reconciliation could take just a few minutes if you're using one of our accounting integrations.

Need help? No worries! You can reach out to one of our friendly integration experts through a free 30-minute Zoom call or through our Help Desk. If you're looking for an accounting professional, we have a directory of firms who specialise in accounting technology. You can even filter accountants by whether or not they have experience in WooCommerce!

Credits and sources

https://sbo.financial/blog/guides/ebook-the-definitive-guide-to-ecommerce-accounting/
https://beanninjas.com/blog/guide-to-ecommerce-accounting/
https://www.freshbooks.com/hub/accounting/cloud-accounting-software
https://www.bookkeeperhub.com.au/blog/pros-cons-cloud-accounting
https://www.bookkeeperhub.com.au/blog/bookkeeping-vs-accounting
https://www.business.vic.gov.au/money-profit-and-accounting/setting-up-your-finances/How-to-choose-small-business-accounting-software
https://amaka.com/article/e-commerce-accounting-how-to-set-up-your-chart-of-accounts/
https://amaka.com/article/e-commerce-accounting-how-to-manage-your-books-for-dropshipping/
https://amaka.com/article/5-e-commerce-accounting-mistakes-to-avoid/#syncing-transactions-accounting-software
https://blog.catchingclouds.net/blog/how-to-choose-an-ecommerce-accountant-for-your-online-store
https://beanninjas.com/blog/a-detailed-guide-to-cash-flow-forecasting/
https://www.investopedia.com/terms/c/cashflow.asp
https://www.investopedia.com/investing/what-is-a-cash-flow-statement/
https://corporatefinanceinstitute.com/resources/knowledge/finance/operating-cash-flow-ratio/
https://www.metrilo.com/blog/cash-flow-ecommerce
https://www.fool.com/the-blueprint/ecommerce-kpis/
https://www.bolt.com/resources/ecommerce-metrics/#kpis-to-track
https://www.practicalecommerce.com/How-to-Read-a-Financial-Statement
https://bench.co/blog/accounting/cash-flow-statements/
https://metorik.com/?ref=gadwb&gad=1&gclid=CjwKCAjw04yjBhApEiwAJcvNoY2X0yICB6XzBHTzGG32dJAtbI0ruk1v6c076vZy8MYLqLObyZzksRoC8wgQAvD_BwE
https://finpose.com/
https://dearsystems.com/
https://use.expensify.com/expense-management
https://wpdavies.dev/plugins/alpha-insights/
https://www.wpinventory.com/wp-inventory-manager-features/
https://amaka.com/fitbiz/
https://www.avalara.com/eu/en/products/sales-and-use-tax.html
https://taxation-customs.ec.europa.eu/what-vat_en
https://www.ato.gov.au/Individuals/Income-deductions-offsets-and-records/Deductions-you-can-claim/#:~:text=Deductions%20for%20meals%2C%20snacks%2C%20overtime%20meals%2C%20entertainment%20and%20functions.&text=Deductions%20for%20medical%20assessments%2C%20vaccinations,fees%2C%20cosmetics%20and%20personal%20grooming.&text=Deductions%20for%20gifts%20or%20donations,and%20the%20records%20you%20need.

Free plan available

amaka

Accounting integrations and automation

amaka.com

Amaka IO Pty Ltd