

Accounting Implications on E-Commerce Business



E-COMMERCE is the buying and selling of products or services over the Internet. Also known as electronic commerce, money and data are transferred over the Internet to facilitate the online transactions. Electronic funds transfer, online transaction processing, automated data collection, electronic data interchange, and mobile commerce are some of the tools used in e-commerce. With e-commerce, buyers and sellers are able to transact without the barriers of distance and time.

For the e-commerce business, the accounting aspect can be a challenging task. Areas such as Goods & Service tax, inventory management, transaction volumes, sales returns, accounts receivables collection, discounts and coupons can be daunting when it comes to e-commerce transactions. Managing thousands of monthly transactions and the handling and categorising of customer returns. These are major areas in e-commerce which the accountant has to address in order to enable accurate financial decision making.

Therefore, it is important to properly understand the accounting treatment for an e-commerce business. This article is a humble attempt to discuss major accounting treatments coming across in an e-commerce business often.

Source of Revenue

The main source of revenue in e-commerce business can be membership and subscription, merchandising activities, advertising services and services like web-hosting, content selling, etc.

As per **AS 9**, revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends.

As per **Ind AS 115** Revenue from Contracts with Customers, revenue is income arising in the course of an entity's ordinary activities.



Guaranteed sales (i.e. delivery is made giving the buyer an unlimited right of return):

Recognition of revenue in such circumstances will depend on the substance of the agreement. In the case of retail sales offering a guarantee of "money back if not completely satisfied" it may be appropriate to recognize the sale but to make a suitable provision for returns based on previous experience. In other cases, the substance of the agreement may amount to a sale on consignment, in which case it should be treated as indicated below.

Consignment Sales:

"Revenue should not be recognized until the goods are sold to a third party."

Content Selling:

Companies maintain websites which contain text or other material which can be sold as a content for a price. Generally, a downloading facility of such content is available to the purchaser. In such a case, a question arises as to the timing of the recognition of revenue from the sale of the content downloaded by the customer. Applying the general principle of revenue recognition, the content should generally be considered to be sold when it is delivered to the purchaser. Therefore, keeping in view the terms of individual arrangements and the other relevant facts involved, the e-commerce company should determine the time at which the delivery of the content is considered to be complete and recognise the corresponding revenue.

Rebates, discounts and other sales incentives and consideration payable to a customer:



The accounting treatment of rebates, discounts and other sales incentives depends upon their nature.

Under Companies (Accounting Standards) Rules, 2006, where an entity offers rebates or introductory offers at heavily reduced prices in order to stimulate sales and generate new customers, the value of such rebates should be reduced from turnover. This treatment is similar to that accorded to trade discounts. Where the rebates, discounts and other sales incentives are specific in relation to a particular customer, these should be shown by way of deduction

from the value of the turnover in the statement of profit and loss of the e-commerce company.

Other forms of rebate or discount, which are general in nature, should be treated as a selling and marketing expense and charged separately in the profit and loss account under Companies (Accounting Standards) Rules, 2006. Where rebates, discounts and other sales incentives are in kind, an appropriate estimate of the costs thereof should be made and treated in the manner specified above.

Point and loyalty Programme:

A points and loyalty program is a marketing strategy designed to encourage customers to continue to shop at or use the services of a business associated with the program.

Gift Cards/Coupons:

These are sold for cash and may be used by customers to obtain products or services in the future up to a specified monetary value. The gift certificates which are forfeited is commonly referred to as breakage.



Cost to obtain contract:

- E-Commerce Company incur cost to obtain new customers and increase their subscriber/user base, often referred to as 'cash burnout'.
- Under Ind AS 115, the incremental costs of obtaining a contract with a customer are deferred i.e., recognised as an asset if the entity expects to recover them.
- Costs that are incurred regardless of whether the contract is obtained, including costs that are incurred in attempting to obtain the contract, are expensed as incurred, unless they meet the criteria for capitalization as fulfilment costs. For example, salaries and benefits

of sales employees that are incurred (i.e., paid to the employee) regardless of whether a contract was obtained are not incremental costs. Costs to participate in a tender or a bid for a sale contract would be an example of such costs.

Payments made to any customer of an entity's customer outside the distribution chain if both parties are considered the entity's customers. An agent may conclude that its only customer is the principal or it may conclude that it has two customers the principal and the end-customer.

Shipping and handling charges

- Included in invoice as a composite amount:

It is appropriate to include such charges as a component of sales revenue provided a clear distinction cannot be made between the product value and the shipping and handling charge component.



- Included in invoice as separate amount:

Charges may be recovered as an absolute amount or as a percentage of sale value separately, these should not be included in sales revenue but should be recorded separately as income and expense its cost. If it is reimbursement of the actual cost incurred by the seller, these should be shown as a deduction from the shipping and handling cost in P&L, if the amount involved is material.

Conclusion

These are some of the areas where accounting plays an important role in the e-commerce business. It also helps business to performs reliably and have control. It maintains proper record and support business to grow in all perspective and attain its objective.

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Source: Guidance Note on Accounting by E-commerce and Cloud Computing Companies.