# CHALLENGES IN ACCOUNTING OF E-COMMERCE TRANSACTIONS

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While CA Chintan Rambhia and I (Convenor of News and Views committee of CVOCA) were discussing on this topic, a realisation dawned that I've had similar discussions with multiple CAs and all have this basic requirement that there be proper accounting of e-commerce transactions. Such transactions are characterised by very high volumes of goods or services with low to mid values (as high value goods generally sell in lower volumes), order cancellations, returns, exchanges and refunds. As an automation consultant, they require me to provide solutions which can automate the task of accounting all these e-commerce transactions so as to eliminate manual data-entry and thereby minimize additional overheads. Hoping that this article will be of great help to the CAs and their clients, I thank CVOCA for the opportunity.

India's E-Commerce market is anticipated to grow to $133 Billion by 2025 (which is roughly INR 11 lakh crore at Rs83/$) which will be dominated by three key players – Amazon, Flipkart and Reliance Retail. [1] Reliance Retail is a relatively small but ever-growing player compared to the other two. It is difficult to determine that amongst Amazon and Flipkart, who has the highest market share or largest number of successful transactions, due to secrecy and inconsistencies in data collection/analysis by various agencies. One may refer to my article titled "Amazing Amazon" published in the June 2021 edition of CVOCA's News and Views, [2] to better understand the business model of Amazon. As e-commerce accounting challenges are similar across all these players, we'd be referring more to reports provided by Amazon to its sellers, in this article.

Before continuing ahead with the challenges, let's refresh our memories with certain fundamental concepts.

Revenue Recognition (Ind AS 18/ AS 8)**:** Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the entity. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectible amount or the amount in respect of which recovery has ceased to be probable is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

Tax Invoice (Section 31 of CGST Act): A registered person supplying taxable goods shall, before or at the time of, removal of goods for supply to the recipient, where the supply involves movement of goods; or in any other case, issue a tax invoice. A registered person supplying taxable services shall, before or after the provision of service but within a prescribed period, issue a tax invoice.

## Challenges

### 1. Recognition of Sales and Sales Returns

Usually, all e-commerce operators provide a periodic statement of sales made through their portal. The challenging aspects in such sales data include:

a. Different Invoice and Shipment date

Usually, the Invoice date of the portal is the date on which the order is placed on the portal, and the shipment date is the date on which goods have been removed from the premise of the seller. In the books of the seller, as per revenue recognition, sale may be booked only when the goods have been removed and the date of sale in books may be taken as the e-commerce portal's invoice date, in consonance with GST laws.

b. Cancellation of order

Any cancellation of order may happen at either before removal of goods from premise, or after removal. If any customer has cancelled the order before removal, the transaction simply stands cancelled and since no sale has been recorded in books of accounts, the question of recording the cancellation (i.e. a credit note) may not arise. (Document details for GSTR 1 will need to be managed.)

Things change when the order is cancelled after removal (also called as "Refund" in Amazon's sales data or "Return" in Flipkart), as the sale transaction needs to be entered in books and thereby the credit note on cancellation, too, needs to be recorded.

c. Discounts

Ideally speaking, any discount offered to the buyer at the time of order booking is a Trade discount, as it is offered by reducing the price of the items booked. Hence, the amounts after such discounts is to be recorded in books.

d. Buyer

Almost every E-Commerce player has, directly or indirectly, its own stores listed on their portal. Example, Amazon has Cloudtail, Appario (and their sister concerns, the names of whom may keep changing). Businesses many a times confuse between "Sales made through Amazon" (i.e. E-Commerce portal) and "Sales made to Amazon" (i.e. goods sold to Cloudtail) and account the transactions incorrectly.

**2. Inventory**

In the periodic statement of sales, e-commerce portals obviously give the details of inventory sold per order. The challenges therein, can be:

a. Identification in books of listed Inventory

For better search optimisations, names of goods/services listed for sale on e-commerce platforms can be very vivid/descriptive or downright absurd at times - different from what is in books, thereby making it difficult to identify. The different sizes in which goods are sold, thereby having different UQCs add fuel to fire. Selection options (say, on colour or flavour) is another challenge.

b. HSN and related Classification

Till a few years ago, probably because of leniency in GST law, e-commerce platforms had not made it mandatory to mention HSN while listing their products. Although now mentioning HSN is mandatory, correct identification/classification of HSN and relevant GST rate is a challenge. Vivid names given to listed inventory can create confusion as to the intended purpose of use. Example, some goods (HSN 9506) when meant for sports activities will be charged at 12% GST and the same goods when meant for gym activities will be charged at 18% GST.

c. Loading of appropriate additional costs

Additional cost such as shipping cost or delivery charge or convenience charge forms a part of the taxable value of the product. Any item promotion discount will reduce the taxable value. The net taxable value is to be recorded in books.

**3. Expenses**

E-Commerce players collect money from customers and repay to the sellers, after deducting various e-commerce expenses. The challenges here are:

a. Types of Expenses

Delivery Service Fees, Easy Ship Weight Handling Fees, Shipping Fees, Fixed Closing Fees, Listing Fees, Order Cancellation Fees, Refund Processing Fees and obviously the E-Commerce player's Commission. It may so happen that some (or none) of these expenses form part of the taxable value discussed above, thereby making it a task to understand what all expenses, which are charged by the E-Commerce player, have been collected from customer and what all are being paid directly from seller's pockets.

b. Debit/Credit Notes

E-Commerce players charge the above expenses and then depending on sales/settlement/returns, reduce the above expenses by credit notes, which are to be recorded as debit notes in books.

c. GSTR 2A/B

In many of the cases I have observed, proper details of expenses and debit/credit notes actually are accounted in books from GSTR 2B, which is visible from the 14th of the next month.

**4. Taxation**

GST TCS is at 1% on the taxable value (i.e. 0.5%-0.5% each in CGST & S/UTGST). Taxable value for this TCS ideally should be the one after effecting all discounts and charges as levied.

Income Tax TDS u/s 194O is at 1% on gross amount of sale (presumably excluding GST). Detailed analysis of taxation provisions will be done by other learned writers in their articles.

**5. Settlement**

Settlement is the elephant in the room, because ultimately all business activities are done to make money. Usually, whatever amount comes after considering all the above factors – Sales, Returns, Expenses and Taxation is the settlement.

a. Reconciliation

There are various reports available on any e-commerce platform, but the funny thing is that it is not necessary for those reports to reconcile with each other. Unlike a regular transaction wherein there are two aspects to a sale – One being the happening of sale and other being the receipt of money, there are three aspects in an e-commerce transaction – Sale, money received by e-commerce operator and then the disbursement to the seller.

Theoretically, the order id is usually considered to track and match the sale transaction with its corresponding receipt. Practically, matching via order id creates more issues than it resolves. Let's take Amazon's settlement reports for example. For any particular order id, there is one column of Amazon fees, one "Other" which works like a discount on Amazon fees. Mathematically, settlement is like taxable value of product in transaction (-) some Amazon fees (+) Discount on that fees. GST collected on sales, TCS etc. is considered separately. For any regular accountant, this is a headache, hence they refer GSTR 2B for accounting of e-commerce expenses. Do the settlement reports match with GSTR 2A/B? The answer is "not always".

b. Provisioning

GST TCS provisions can be made per sale records or GSTR 2B. Income Tax TDS provisions can be made as per settlement report or 26AS/AIS. E-commerce platforms also provide a ready-made GSTR 1, so as to help the sellers match their accounting, wherein B2B, B2C, CDNR etc. usually match. It is the receivables and its disbursement which determines whether the business is profitable on e-commerce platforms or not.

## Way Forward

E-commerce in India will grow in the years to come. Depending on the type of business, many have listed themselves on e-commerce platforms and many more will join. Automation in accounting will help not only in faster and efficient accounting but also in fair compliance of data maintenance requirements like inventory maintenance requirement in GST law. Data analytics will be another avenue to gain competitive advantage.

1. Accounting automation

Sales and settlement data, as downloaded from e-commerce portals, is pasted to a utility or an import tool. Necessary masters such as Sales ledgers, GST ledgers, Inventory masters, Bank Ledgers, etc. are mapped from accounting software to the utility. Once this is done, some utilities verify data for any inconsistencies, say some incomplete data like missing HSN, which is flagged for reference.

Once the data is complete in all aspects and ready, the utility will connect to the accounting software and export data in the specific format as required, which will be imported in the software. With consistent data, the process can be as quick as 5000 transactions in 5 minutes.

2. Data Analytics

Again, with help of utilities and customisations, effective analysis can be done of sales patterns and suitable strategies can be drafted. Example: My team had guided an FMCG seller on e-commerce on which sub-type of goods are sold more in which states, tier 1/2/3 cities of India and in which season. This helped them with targeted social media advertising and digital marketing.

This technology can also be used to analyse competitors' business strategies, like web-scraping wherein the utility will fetch data on competitors' similar products, their pricing and other details. The possibilities are more than what we can think of now.

## To Conclude

That discussion on e-commerce between CA Chintan and me end on "Chintan bhai, if the seller and their accounting team are comfortable with the challenges, especially writing off receivables wherever reconciliation isn't possible, and still make profits, then CAs should definitely consult in setting up and management of e-commerce business. Automation will help reduce the cost, time and complexities. Data analytics will give that competitive advantage. We the CAs can grow, our clients can grow on the growing e-commerce space in India".

Think over it. Think different!

References:

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