Top 3 Ecommerce Accounting Mistakes.

😭

The top 3 ecommerce accounting mistakes

Integrate your ecommerce accounts for accurate tax reporting, forecasts and successful planning

Ecommerce is efficient, fast and an excellent way to reach a broader client base. To maximise ecommerce benefits, your business needs a software system that supports efficient financial integration with company accounts.

It's great when ecommerce sales start to grow and you go from counting how many orders you receive each week to how many you receive in a day, or even an hour!

If ecommerce is only a small part of your business or is in its infancy, low value sales and low volume bookkeeping are easy to manage by matching all payments and keeping on top of minor differences.

Brilliant – you're making more sales 👏

Unfortunately, the positive news of increased ecommerce sales can also become an accounting headache if suitable financial systems are not in place 😵

While fantastic for business, an influx of ecommerce orders can create too many transactions in the accounting software. Add to this the complexities of managing multiple sales channels, such as Shopify, Amazon and eBay, with multiple currencies and multiple tax jurisdictions (e.g. EU VAT and US sales taxes) rather than simple debits and credits, and you can end up with desperation and chaos.

Be aware of common ecommerce accounting mistakes

There are three main mistakes commonly made in ecommerce accounting. Thankfully they can be easily remedied. These potential ecommerce pitfalls were the subject of a webinar hosted by Unleashed with Outserve founder Philip Oakley and A2X head of accounting Jamie Shulman. Here they explain why these issues matter and how to avoid making mistakes.

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Meet Phil Oakley & Jamie Shulman

Phil Oakley

Philip Oakley is the managing director of UK cloud integrator firm **Outserve** – an Unleashed, Xero and Shopify partner. Outserve specialises in software for ecommerce and manufacturing businesses, including accounting, multi-channel selling and stock management solutions.

www.outserve.co.uk

Jamie Shulman

Jamie Shulman is a co-founder of document collaboration platform Hubdoc, and is head of accounting at Toronto-based **A2X**, which specialises in ecommerce accounting software designed to automate the reconciliation process and ensure eCommerce financials are accurate.

https://www.a2xaccounting.com/

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Mistake #1.
Treating your ecommerce payouts as income.

Many ecommerce sites payout in bulk at timed intervals of several days. This payout is a net payment that may have been adjusted by many different transactions including:

- 💷 **fees**
- 📫 **returns**
- 💸 **refunds**
- 💳 **gift cards**
- 📅 **pending payments**
- 🚢 **shipping fees**
- 💰 **shipping income**
- 🎁 **gift wrapping and other admins**
- 🎨 **marketing costs**

If the net payout from your ecommerce platform is posted as income, important transactions can be posted incorrectly, and the tax can be miscalculated.

Philip: If you take two of the main ecommerce platforms (Amazon and Shopify) they usually pay out in bulk say every 3–5 days. So, you just get one big payout coming into your bank account in a single currency.

For argument's sake, Shopify pays out £3,000 and it hits the Xero or QuickBooks bank feed. We've seen businesses code that up to a sales code, give it a VAT status, and off it goes straight to the ledger.

Unfortunately, there's a bit more complication to that because Amazon or Shopify has paid out a net payment, and it could have to be adjusted for many different things: shipping fees, shipping income, and marketing spend. And all of this is just getting netted off.

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To treat that figure as all income could be incorrect. It soon gets complicated and being able to see that breakdown and all the information is key.

"There are many ways a client can go in the wrong direction, one being that they can focus on getting every sale into their general ledger – as well as a multitude of others."

Jamie Shulman >a2X

Jamie: There's all these layers of items that will have been taken off. It could be refunds; it could be returns; it could be tax; it could be fulfilment fees; it could be advertising; it could be loans.

At a high level, it's that concept of focusing on the payout and the money as opposed to the sales transaction, which is what we would do with a traditional business – that's a key difference. It's not particularly complicated, but it's maybe counterintuitive – so there's a real opportunity for accountants to give this advice to the merchant.

As soon as there's a bit of complexity, or a certain level of size, most businesses would like to have an accountant handle it to make sure they get it right.

Solution.
How to avoid ecommerce accounting mistake number #1

Use a tool like A2X to automatically analyse your ecommerce payouts and post all the transactions included and netted off in the receipt. The summarised transactions now have the correct accounting analysis and accurate tax coding.

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Mistake #2.
Creating an invoice for every order.

Ecommerce platforms should record all individual orders along with all the information needed by the customer and the business for shipping and accountancy purposes.

However, just because your ecommerce website stores all that information does not mean such a level of detail is required in your business accounts system. Essentially you are creating a sales ledger account for every single customer who pays at checkout and, as such, has no sales ledger balance.

Philip: Clients come to us with many different ecommerce platforms. Many integrations immediately create an individual invoice in Xero or QuickBooks as soon as an order is placed.

When businesses are small, lots of little invoices coming into the sales ledger, creating lots of customer accounts, is often not an issue. But, as soon as you start getting successful, you can have 20,000 customer accounts and thousands of unreconciled ledger balances.

Some of these ecommerce businesses become a real headache 🤯 by having to match bank feeds or PayPal feeds with lots of invoices. You just don't need that volume of transactions and all those micro-transactions in your accounting software.

"It's a bit like a café on the high street, where every time you sell a cup of coffee you put that transaction into your Xero or Quickbooks. You don't want that. You want a proper summary of the takings."
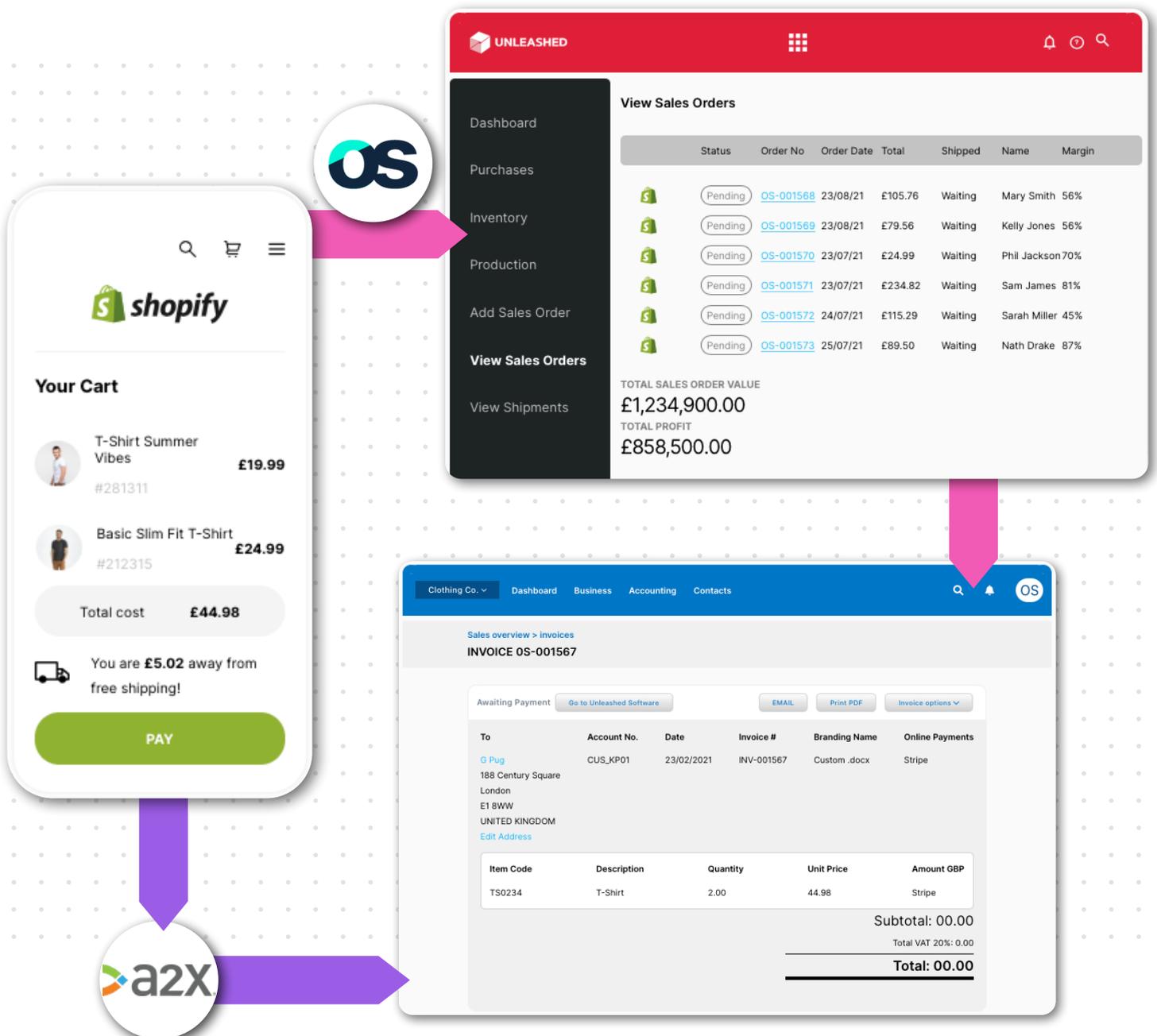
Phil Oakley OS

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How to avoid ecommerce accounting mistake number #2

Stock and inventory management solutions, such as Unleashed, have advanced integration systems allowing you to collect ecommerce orders for processing and stock control but select not to pass these orders on to your accounting solution like Xero or QuickBooks.

UNLEASHED

Dashboard
Purchases
Inventory
Production
Add Sales Order
View Sales Orders
View Shipments

View Sales Orders

	Status	Order No	Order Date	Total	Shipped	Name	Margin
	Pending	OS-001568	23/08/21	£105.76	Waiting	Mary Smith	56%
	Pending	OS-001569	23/08/21	£79.56	Waiting	Kelly Jones	56%
	Pending	OS-001570	23/07/21	£24.99	Waiting	Phil Jackson	70%
	Pending	OS-001571	23/07/21	£234.82	Waiting	Sam James	81%
	Pending	OS-001572	24/07/21	£115.29	Waiting	Sarah Miller	45%
	Pending	OS-001573	25/07/21	£89.50	Waiting	Nath Drake	87%

TOTAL SALES ORDER VALUE
£1,234,900.00
TOTAL PROFIT
£858,500.00

shopify

Your Cart

T-Shirt Summer Vibes
#281311
£19.99

Basic Slim Fit T-Shirt
#212315
£24.99

Total cost **£44.98**

You are £5.02 away from free shipping!

PAY

a2x

Clothing Co. ⌄   Dashboard   Business   Accounting   Contacts

Sales overview > Invoices
INVOICE OS-001567

Awaiting Payment   Go to Unleashed Software   EMAIL   Print PDF   Invoice options ⌄

To	Account No.	Date	Invoice #	Branding Name	Online Payments
G Pug	CUS_KP01	23/02/2021	INV-001567	Custom .docx	Stripe
188 Century Square					
London					
E1 8WW					
UNITED KINGDOM					
Edit Address					

Item Code	Description	Quantity	Unit Price	Amount GBP
TS0234	T-Shirt	2.00	44.98	Stripe

Subtotal: 00.00
Total VAT 20%: 0.00
Total: 00.00

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Mistake #3.

Lack of detail on cost of goods sold.

Once you have the correct sales figures in your accounting software, it is crucial to ensure the accurate matching costs of goods sold.

Ensuring that sales and the cost of goods sold are correctly recorded over the same period allows for accurate margin reporting. This data gives your company vital management information to improve your business. 📊

If you cannot see updates on your sales margins, how can you make better and informed business decisions?

Philip: Our clients want to be able to run sensible management accounts and slice and dice the data across sales channels and products.

A client might say: 'I want to see profit and loss for January from the Amazon channel'. The perfect scenario is profit and loss, the cost of goods sold (particularly matched to those sales) and any direct expenses.

Traditionally, clients have often posted purchases into profit and loss and then been unable to attribute the cost of those sales to the income.

Seeing the margins clearly across different marketplaces, ecommerce stores and countries - especially considering shipping, charges, warehousing and delivery costs have significantly increased in the last couple of years – is vital to get to the detail.

Most product-based businesses have fantastic products, but it isn't their area of expertise to get to that level of good accounting data."

Jamie: The reality is that more automation is going to continue to emerge that will help accountants do this work more seamlessly, more accurately, and provide a better experience for clients.
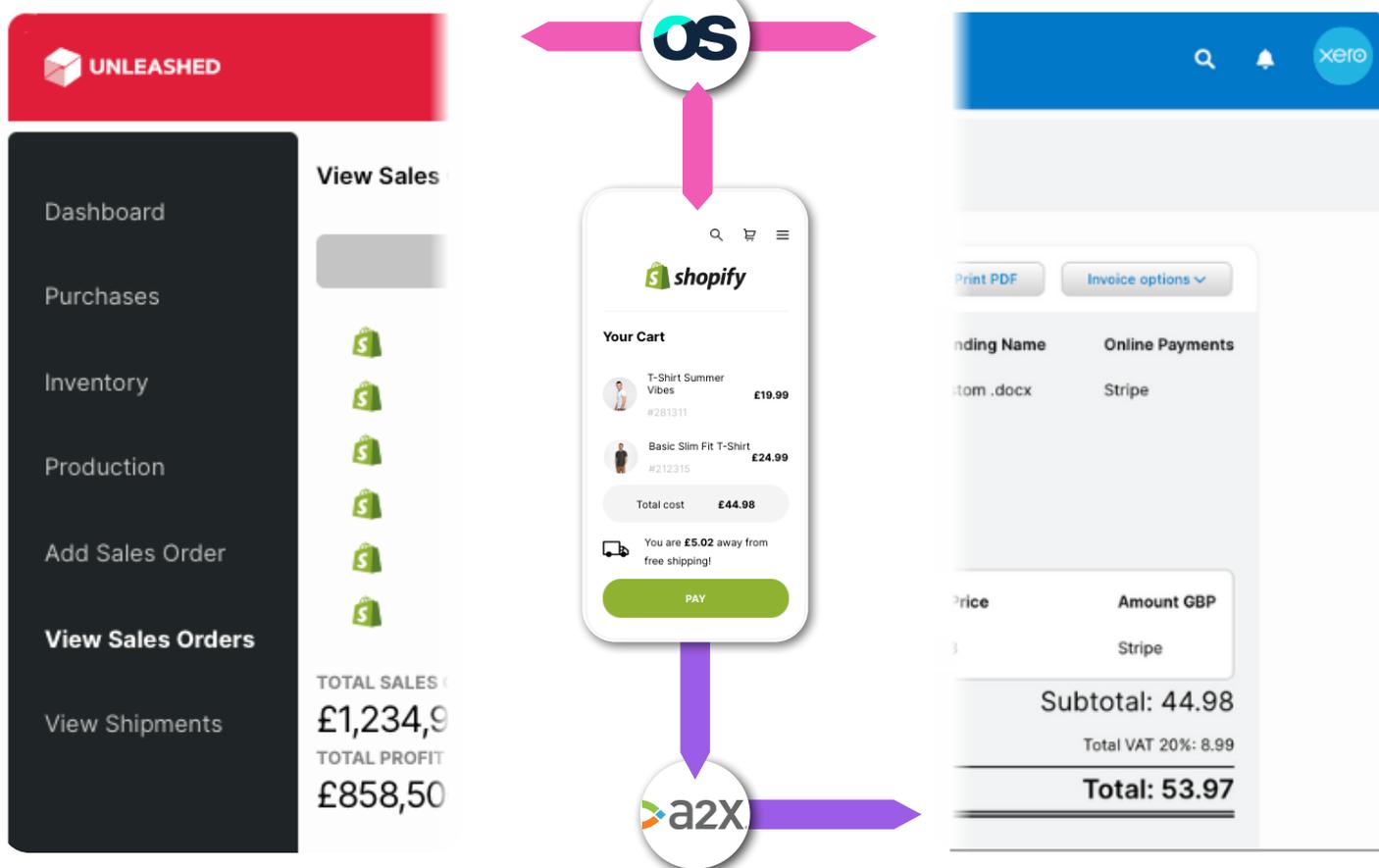
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how to avoid ecommerce accounting mistake number #3

Solutions, such as A2X, can post the standard cost of goods sold, which is a great start to seeing better margin analysis and making better business decisions.

For an even more accurate profit figure, financial software solutions, like Unleashed, get closer to actual margins by recording the cost of goods sold on an average and landed cost basis. Fluctuating prices are becoming more common, so getting real-time information is more important than ever.

Seamless integration between multiple platforms.

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Who are outserve?

Established in 2008 and based in Staffordshire, Outserve Ltd provides a comprehensive suite of financial technology services to small and medium sized companies.

Our Mission 🚀

Putting our clients at the heart 💖 of what we do, our pioneering financial solutions provide you with the facts and figures you need – so you can focus on what you do best.

Our Vision 🔭

A thriving global community of small businesses with great products that have access to the world's best financial technology to drive their success.

Our Purpose 💪

Small and medium businesses provide more employment and wealth than any other sector. Although contributing more they are often at the back of the line when it comes to technology and access to useful information. Outserve exists to change this.

Providing cloud solutions for over a decade

Ecommerce specialists, Outserve, help you to grow your online sales business. Our expertise lies in implementing and integrating systems to provide a complete technology solution.

Fully integrated systems save you time and money, ultimately helping you boost profits.
Talk to us today to find out how to scale up your business.

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Collaborating with powerful partners.

Unleashed

Xero

A2X

Shopify

HubSpot

Microsoft Power Bi

Vend

Inventory Planner

Working with our carefully selected ecommerce, inventory and accounting partners, Outserve can offer end-to-end solutions for your business.

Not only can you get access to incredible systems, but also the technical know-how to get them up and running - fast.

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Our amazing clients.

We take pride in our services to our clients. ❤️ Whether they use a single solution or a full end-to-end integration of multiple software packages we are proud to be a part of their success.

ORIGIN

SARAH CHAPMAN
London

— Estd 2014 —
COTSWOLDS
DISTILLERY

TARQUIN'S
CORNISH GIN

est. 1948
RAEL BROOK
OF ENGLAND

HICKS & BROWN
ENGLAND

ProtectaPet
HABINATURAL SPACES FOR PETS

SAINT + SOFIA

**Client: Frank & Amanda
Company: Lola Design Ltd**

Lola DESIGN®

Crunching the numbers for Lola Design

"Outserve is like having my own data team. Updating product data across multiple platforms (Amazon, Shopify) is time-consuming and complex. Having Outserve data support means that I can focus on running the business knowing that Outserve data experts are on hand whenever I need them."

Frank Mountain

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Like what you see?

Let's chat!

Ask us anything...

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