



A practical guide to eCommerce accounting for ambitious business owners

In the world of eCommerce, ambition is key. Much like other businesses, you need to focus on your core functions to achieve your goals and thrive. In this case, we're talking about your accounts.

Listen, you can't become a thriving business if you're struggling to balance your finances. That's why focusing on the numbers is paramount to your success. Efficient accounting can be the make or break of your business.

If you have a growth mindset, you'll need to understand just how important accounting is for your eCommerce business.

What is eCommerce accounting?

Accounting isn't the same for every business. That's just a fact. Yes, while you carry out similar processes to a brick-and-mortar business, you have some different hoops to jump through.

Because you're basing your business in a purely online space, you'll have to work under specific rules and regulations that your average high street shop won't. And there are a few challenges you

might come up against that are particular to eCommerce, and need special accounting treatment. So pop the kettle on, make yourself a brew, and keep reading.

Our practical guide to eCommerce accounting for ambitious business owners will tell you everything you need to know.

Choose your accounting method

So, you've got your business bank account. The sales are coming in. But how are you going to account for your business's money? Well, eCommerce businesses commonly use two main types of accounting processes: accrual accounting and cash basis accounting. But what's the difference?

Accrual accounting

Accrual accounting will involve you recording any transactions as and when they happen. So, as soon as you sell something online, you'll count it towards your bottom line rather than waiting for the funds to hit your account.

One of the main issues with accrual accounting is that you're essentially relying on money you don't have at that moment. So, it can seem as though you're cash rich even if you haven't actually been paid. This could prove risky as you might get carried away and spend money you don't possess – or you might run into trouble if a customer fails to pay you on time. Future payments and expenses are also a factor in accrual accounting.

Although this approach is perhaps the most commonplace, it's also fairly complex to manage and may not necessarily work for your business. The method is usually best for:

- larger eCommerce businesses with plenty of capital
- ambitious businesses which plan to expand and grow rapidly
- people looking for a realistic cashflow.

Cash basis accounting

Consider cash basis accounting the antithesis of the accrual method. With cash basis accounting, you record the money only when you receive it from a customer or when it leaves your bank account. You'll be monitoring your money in real-time. Cash basis accounting is particularly useful for:

- small eCommerce businesses
- start-up sellers
- dropship operations.

If you're starting out, cash basis accounting could be the best move for you as you'll have a handle on the money actually in your account rather than an expected balance.

The main downside, though, is that this method doesn't consider accounts receivable or payable – something the accrual method does factor in. So, if you do use the cash basis method, you won't be thinking about future payments coming in or out of your account, giving you an unclear picture of your overall situation.

But what use is choosing a method when you don't have a firm grasp on your bookkeeping processes?

Keep your books up-to-date

Okay, don't switch off just yet. Bookkeeping as a term conjures images of burning the midnight oil and poring over your sales and purchases. But, we hasten to add, bookkeeping is an essential part of accounting for your eCommerce business.

Due to the nature of eCommerce, you'll have a lot of transactions to record, even if you're a small business. From paying suppliers to shipping and tracking costs, there's no shortage of data entry to do.

Not only that, but through bookkeeping, you'll be tracking your sales, expenses and any potential refunds you issue. All of this information will be vital when you have to compare it to your Etsy, Amazon or eBay performance.

Because your books are the basis of your accounting, keeping them up to date can give you a better insight into your finances. With this information up your sleeve, you'll find yourself able to make more informed business decisions.

Prepare financial statements

From your books, you can create two very important documents based on your sales and spending – a **balance sheet** and a **profit and loss statement**.

You can use both of these documents to create a cashflow forecast based on your business's previous sales data. We know – the less paperwork, the better, but a cashflow forecast is essential for any ambitious business looking to take the next step in their career.

How? Well, by using your previous sales as a basis to predict future trends, you may be able to identify the quieter times in the calendar year, times when you can focus on spending less and saving money. You'll also be able to spot any busier periods coming up where you bolster your inventory in hopes of a higher sales count.

But financial statements aren't just for predicting sales. They can help push your business forwards in other ways.

If you need to approach an investor or lender, you'll want to show off your know-how as well as your business's performance. You're more likely to get your funds if you can prove you're business-minded and show that you have some idea of the return your investors can expect.

Report and file taxes

Now you understand just how important bookkeeping is to your eCommerce business, we need to discuss your taxes.

Businesses get taxed. That's a cold, hard fact. So, as you can't skirt around them (and you really shouldn't try), why not take steps to make your tax returns easier?

There are several different taxes to consider for your eCommerce business. Your tax obligations, as with any business, are heavily dependent on your structure, so you'll need to know where you stand.

If you're a sole trader running a small business, you'll have to organise and file an annual **self-assessment** tax return with HMRC.

The reporting and payment deadline falls at the end of January after the end of each tax year.

If you've decided to incorporate your eCommerce business, you'll have to register for corporation tax and report it to HMRC (as well as submit annual reports to Companies House).

Regardless of your business structure, once you reach a certain turnover threshold or are near it, you'll also have to **register for VAT**. Consequently, you'll have quarterly returns and payments to make. As your eCommerce business may have customers outside of the UK, you'll have to pay sales taxes on trade to other countries as well – but make sure you check the different rules and thresholds that might apply.

Your eCommerce business, like many others, will likely accrue a significant amount of expenses over your tax year. As with any expenditure, record each and every one.

Who knows, if you meticulously track and claim your allowable expenses, you could potentially help cut down that tax bill come the year's end.

Maybe you can start adding more inventory to your stocklist?
Or perhaps you can upgrade your computer (seeing as it's the backbone of your eCommerce business).

Running your business is stressful enough without the added weight of your tax obligations resting on your shoulders – especially if you have little to no experience in dealing with tax returns.

This is where an eCommerce accountant comes in. They'll know the ins and outs of your business's tax reporting processes and can help you get everything in on time. But, as well as having an accountant by your side, why not consider streamlining some of your eCommerce business's functions?

Cloud accounting

It's somewhat surprising just how many businesses still rely on older methods of accounting. Physical ledgers are a thing of the past, and spreadsheets are quickly becoming outdated, thanks to the accessibility of cloud accounting software.

As an eCommerce business, cloud accounting software can be the most valuable tool at your disposal. The best part is that there's a plethora of programmes on the market for you to choose from. (Personally, **we're big fans of Xero!**)

But what makes cloud accounting so helpful to your eCommerce business? Here are just a few reasons.

Integration

Your business is about connectivity, from customer interaction to finding your online market. But why let it stop there?

Cloud accounting allows you to connect your accounts with your online sales platform, be it Etsy, Amazon, Shopify or something else. Your chosen software will also:

- pull in sales data
- create reports
- keep track of your inventory
- reconcile online payments
- store expenses and send invoices.

Better yet, you can link your bank directly to your accounting software, giving you live feeds of the money coming in or leaving your account. See what we mean about connectivity?

Juggling cross-border transactions

Unlike your average high street shop, your eCommerce business isn't limited to a local area. You have the whole internet at your disposal: millions of would-be customers, just waiting to stumble across your site.

Because of this, you'll probably find yourself shipping products overseas (especially with the right marketing). That's when things get a little tricky. Due to ever-fluctuating currency exchange rates, if someone buys a product in the EU, you have to account for the difference in currency value.

Thankfully, cloud accounting can do this for you. It will take the pain out of currency conversion and give you a better insight into how much you earn from each sale.

Scalability

You're ambitious. We love that. So, when you're already planning on taking your eCommerce business to the next level, you need a solid foundation in place for your accounts.

Cloud accounting could very well be the answer. The majority of providers out there offer cloud software which scales with your eCommerce business. This makes your life a whole lot easier if your sales start to pick up and you don't have the time to punch every transaction into your accounting programme yourself.

If you decide that you're going to need more hands on deck to keep up with demand, cloud accounting software can make light work of adding them to your payroll.

Compliance

We don't mean to sound preachy, but HMRC's rules are there to be followed. You don't want to be one of these businesses that cut corners and end up in heaps of trouble.

Well, cloud accounting software can help keep your business compliant with any tax rules and reporting regulations the Government expects of you.

If you're a VAT-paying business, you'll need HMRC-recognised software to send your quarterly returns and pay your bill. This is all because of the Making Tax Digital (MTD) scheme, which applies to VAT now and will continue to roll out to more taxes over the coming years. Get ahead. Be prepared.

So, what's your next step?

As an ambitious business person, you'll understand the importance of your finances. You can't grow if your money isn't adequately accounted for. But Rome wasn't built in a day, and growth doesn't just happen overnight.

You need to implement the best possible structure and foundation for your business before you can progress. Safe to say, it all starts with having the best accounting processes possible.

By following our guidance and the tips in this article, you can put your best foot forward and set yourself up for what will hopefully be a fruitful venture.

At James Scott, we love working with ambitious eCommerce business owners. The way we see it, the future of trade is in the online space. So, to push your business to become the best it can be, we'll happily be on hand to offer our expert and impartial advice.

Get in touch today to find out how we can help.

**Ready to find
out more?**

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