Chapter – 14

Accounting for E-commerce Business

1. Definition of E-Commerce :-

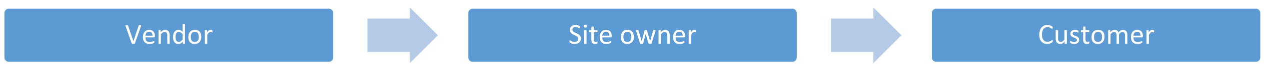
E-Commerce means supply of goods and services over digital network. So, virtually it is buying and selling of goods and services on the internet.

With the increase in the popularity of internet and availability of data on mobile, the e-commerce business has increased manifold. Some of the most popular e-commerce companies are:-

Amazon, Flipkart, Uber, Ola, Make my trip, trivago and Booking.com

2. Various Business Models for E-Commerce:-

a) Principal to Principal : -

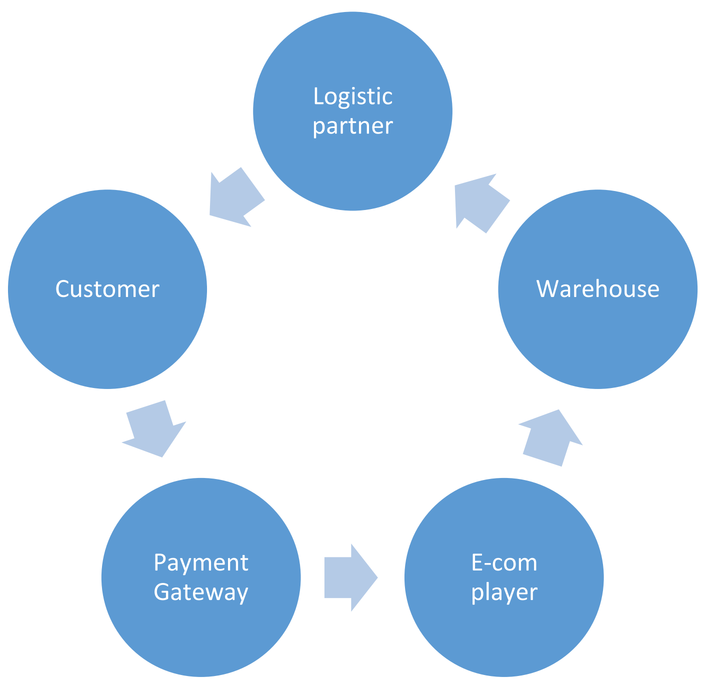


Here the vendor supplies the goods to the site owner and the site owner supplies the goods to the customers.

In this 3 types of models work: -

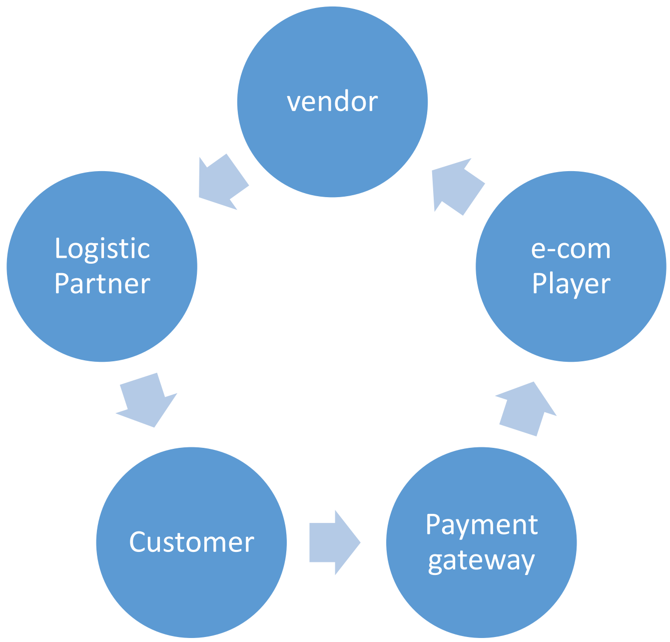
i) Inventory led Model: -

In this model, inventory is maintained by the online retailer. The e-commerce player purchases the inventory, holds it a stock, displays it on the website, takes the order from the customer, gets it delivered to the customer through a logistic partner and receives consideration either in advance or cash – on Delivery basis.



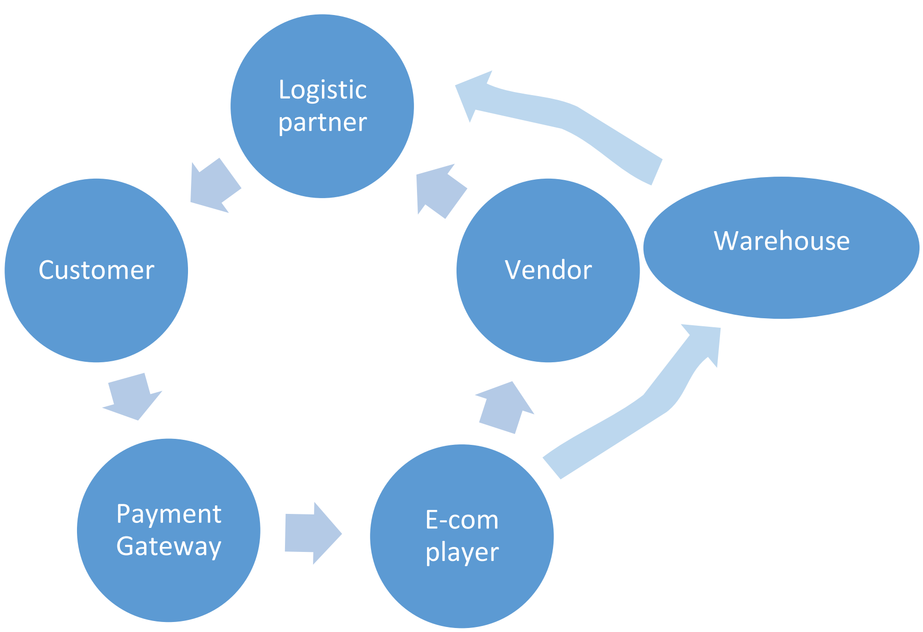
ii) Open Market Place Model:-

Here, the e-commerce player does not purchase and own inventory. The customer places the order on the e-commerce platform and the order goes to the vendor and the logistic partner gets it delivered to the customer.



iii) Managed Market Place Model : - (Hybrid)

Under this, some inventory are kept by the e-commerce player and some are sold directly through the vendors.



3. Accounting by E-Commerce Companies: -

a) Website development : -

The research phase expense will go to P&L A/c and the development phase expense will be capitalised after fulfilling the criteria.

b) Revenue from sale of goods: -

The revenue is recognised when the goods are delivered to the customer. Sometimes (very rare) the logistic partner takes the risk, then the revenue will be recorded when the goods are delivered to the logistic partner.

There are some e-commerce companies who sell goods and give an option to customers to return the goods sold within a specified period of time. Revenue should be recorded after the time period of rejection is elapsed. Alternatively, we can record the revenue instantly and make a provision based on the past returns.

c) Revenue from non-refundable fees taken by a site owner and the member has to pay separately to use each of the other services of the company: -

This is in the nature of entrance fees or an initial membership fees and therefore it should be capitalised (Directly goes to R&S)

d) Non-refundable fees that entitle the member to use the services of the website without making any further payment for any use of other services: -

The fees received should be treated as a deferred revenue income and thereafter it will be transferred to P&L A/c on a systematic basis.

e) Delivery charges:

The delivery charges recovered should be shown separately and sale of goods and services will be recorded separately. If the consideration is received together then it should be divided on the basis of individual fair value of different components.

f) All other types of income, expenses, assets & liabilities:

The accounting will be done by following the respective Ind-AS.

g) GST accounting: will be discussed in the classroom

Assignments for Class

1).

An e-commerce company purchases traded goods from a wholesaler. It would sell these goods to the end customer and may or may not carry the associated inventory risk as it purchases goods from the wholesaler only when it receives orders from the end customer. However, it may bear the risk of those inventory items that have been returned by the customers. Determine the revenue recognition for e-commerce Company.

2).

An e-commerce company is a travel agent that sell travel tickets through an e-commerce platform. Travel agents sell airline tickets to the public, generally at a price determined with reference to the market rate, but often pay the airline a discounted amount. The travel agent does not bear any general inventory risk because it does not carry tickets as its inventory and buys tickets only when it receives orders or bookings from customers.

What should be the revenue of the e-commerce company acting as a travel agent? Will your answer get change if the e-commerce company bears the credit risk say when corporate customers have an account with the travel agent and settle the account only after the travel agent has paid the airline for the ticket?

3).

An e-commerce dealer purchases goods from a dealer ‘P’ worth ₹2,00,000 from the local state of Maharashtra and sells the same in Delhi for ₹2,50,000. Taking GST into consideration, pass necessary Journal Entries.

4).

B an E-commerce operator is acting as an agent between the Vendor ‘S’ and Customer ‘P’. The E commerce operator is located in Mumbai. While the Vendor is in Delhi who sells the Pen drive worth ₹1,00,000 to Customer in Gujarat at ₹1,50,000. Pen drives are purchased by Vendor S from Vendor H from Kolkata. The E commerce operator charges commission at 2%. Pass the necessary Journal Entries in the Books of Vendor and E commerce operator, taking into consideration 18% GST.

5).

A Ltd. an E-commerce dealer purchases the goods from the vendor worth ₹68,000 from Pune and sells the same in Mumbai at ₹80,000. It follows ILM of e-commerce business. Taking GST into consideration pass necessary Journal Entries.