

ACCOUNTING IMPLICATIONS OF ONLINE COMMERCE

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Abstract

Online commerce is a truly dynamic sector, which is constantly evolving and will continue to undergo structural changes. The current social and economic context is favourable to the expansion of online commerce; the era of the pandemic generates new modifications and tendencies in online commerce. The expansion of online commerce, the health crisis, the organizations', consumers' and employees' need for reorientation, the work from home, all these are the premises of the exponential growth of online sales.

Key words: online sales, online commerce, the accounting of online commerce operations

JEL Classification: M 41

Introduction

Online commerce is a truly dynamic sector, which is constantly evolving and will continue to undergo structural changes, as it already displays certain tendencies regarding its future evolution. In principle, the predictable tendencies could be the following:

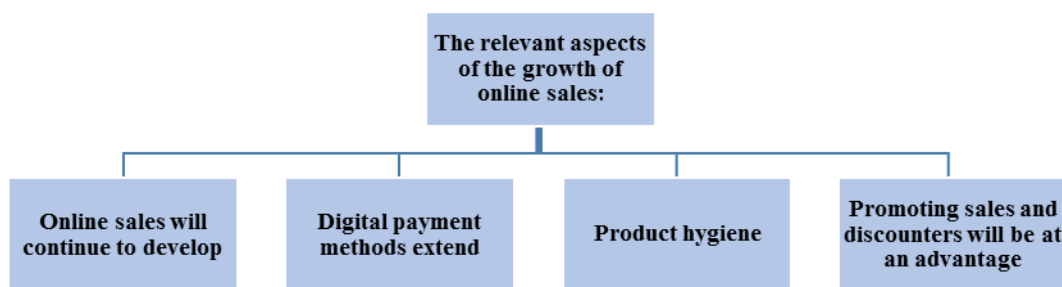
- strengthening of the current position as an intermediary in the commercial sector, in general;
- search and supply of new solutions concerning the improvement of the online sale process;
- directing online commerce towards the massive transformations, changes, modernisations which take place in the economy, in general, but also creating or developing big organizations focused on online commerce.

The current social and economic context is favourable to the expansion of online commerce; the era of the pandemic generates new modifications and tendencies in online commerce. Some of these are analyzed on the Pwc Romania Blog (2020): the severity of the impact of COVID-19 on the retail sector depended on the areas in which companies operate, such as the food industry, fashion, furniture, electronics, and on the expansion of the store network. While the non-food retailers are confronted with the closing of their shops and massive losses of their revenues during this time, hypermarkets and supermarkets have everything to gain, shifting from panic driven shopping to the stabilization of operations, maintaining supply chains and developing new channels, such as online commerce and home deliveries. Unlike non-food retailers, who had a wider experience online, for many of the supermarket and hypermarket chains, e-commerce was only in its beginning stages and this crisis accelerated their plans for digitalization. (Ruxandra Târlescu, Mihai Anița)

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The traditional way of carrying out the distribution changed under the influence of the internet. New types of shops emerged, called cyberstores, virtual stores or online shops. In order to enhance the comfort of shopping for clients and benefit from the amplification of the attractiveness of the product range through reuniting many virtual shops, online shopping centres were created. A virtual shop is practically a website through which products are presented in detail, in order to be sold. If a website presents products, but does not allow buying, then it is not a virtual shop, but rather a catalogue of products. (2013)

The expansion of online commerce, the health crisis, the organizations', consumers' and employees' need for reorientation, all these are the premises of the exponential growth of online sales. Thus, a series of relevant aspects are emphasized:



a) Online sales will continue to develop

The fear of the pandemic, the necessity of avoiding physical contact and overcrowding, the development of the work from home will determine the massive and long-term expansion of online sales and home deliveries.

b) Digital payment methods extend

In order to minimize the risk of spreading the virus through money, it is highly recommended to pay without cash, even small sums. Once consumers get used to payment methods without cash, they will continue to use them after the pandemic. Moreover, the new technologies, such as “scanning during shopping” or “self checkout”, will not only be frequently used, but also preferred on the long run.

c) Product hygiene

The health crisis generates new expectations regarding product hygiene. Fearing an infection, clients tend to avoid unpacked or in bulk products etc. Therefore, many online traders wrap the delivered products in a safe manner, specifying this on the parcel, which gives them a competitive advantage.

d) Incentive sales (promoting sales) and discounters will be at an advantage

Unemployment in certain areas of activity, reduction of the purchasing power, expansion of the work from home will direct consumers towards discount stores and websites which have a product range at low prices and under private brand.

Accounting aspects regarding online sales

We take into account the following example: Company A is in the business of online clothing commerce. The displayed prices include the mark-up and the VAT.

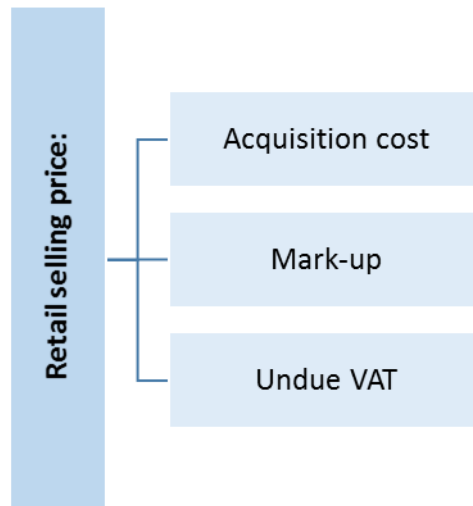
- On February 8, 2021, the company gets its supplies from an internal supplier, with goods up to 20,000 lei, VAT 19%, in order to resell them on its website.

	%	=	401	
			"Suppliers"	<u>23,800</u>
371				20,000
"Goods purchased for resale"				
4426			3,800	
"Input VAT"				

- Paying the debt to the supplier:

401	=	5121	<u>23,800</u>
"Suppliers"		"Cash at bank in lei"	

- The calculation and emphasis of the price differences at purchased products, taking into account the following chart:



- Mark-up = 20,000 lei x 30% = 6,000 lei
- Undue VAT = (20,000 lei + 6,000 lei) x 19% = 4,940 lei

371	=	%	<u>10,940 lei</u>
“Goods purchased for resale”		378	
		“Price differences on goods purchased for resale”	6,000 lei
		4428	4,940 lei
		“VAT under settlement”	

- There is a record for the month of February, of sales with a value of 10,000 lei, VAT 19%; the value of the transport made by a courier company is of 750 lei (there were 50 parcels x 15 lei/ parcel), given the fact that the cashing in is made by the courier company (cashing in when the goods are delivered).
- Selling the merchandise:

4111	=	%	<u>12,792.5 lei</u>
“Customers”		707	10,000 lei
		“Sale of goods purchased for resale”	
		708	750 lei
		“Revenues from sundry activities”	
		4427	2,042.5 lei
		“Output VAT”	

- Writing off the sold merchandise:

%	=	371	<u>15,076 lei</u>
		“Goods purchased for resale”	
607			10,000 lei
“Goods for resale”			
378			
“Price differences on goods purchased for resale”			3,000 lei
4428			
“VAT under settlement”			
			2,076 lei

- Recording the reimbursement invoice by the transport company for the sums cashed in from the clients on behalf of company A with a value of 750 lei:

461	=	4111	750 lei
“Sundry debtors” / courier		“Customers”	

- Cashing in the reimbursement invoice from the courier:

5121	=	461	750 lei
“Cash at bank in lei”		“Sundry debtors” / courier	

- Settlement regarding the transport with the courier company, at the end of the month, based on an invoice with a value of 300 lei:

%	=	401	<u>300 lei</u>
624		“Suppliers”	
“Transport of goods and personnel”			252 lei
4426			
“Input VAT”			48 lei

- ■ Paying the supplier of transport services:

401	=	5121	300 lei
“Suppliers”		“Cash at bank in lei”	

Conclusions

Online commerce also has a series of fiscal implications which differ from one country to another. In the case of an acquisition within the European Union, the Romanian buyer has to follow the same rules as the citizens of the state from which the acquisition is made. Thus, the VAT rate from the respective state is applied. In the case of an acquisition from outside the EU, the seller has to sell the product without taxes and the Romanian buyer will pay the taxes for the import.

In our country, the tendency to buy products online is increasing, which is a natural aspect within the current social and economic context of the pandemic. The strong development of online commerce has a negative impact on the activity of big shopping centres, but even in this context, Romanian consumers are cautious when it comes to spending money in this manner as compared to consumers from other states. The social and demographic segment that is the most opened to such purchases is the one that uses the internet intensively.

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