

amaka

THE COMPLETE GUIDE TO

# Shopify accounting

“Spend less than an hour on your books every month.”



GET YOUR ACCOUNTING SOFTWARE, INTEGRATIONS, SALES TAXES,  
CASH FLOW AND INVENTORY SET UP CORRECTLY

## Disclaimer

The information in this guide is of a general nature and is presented here for informational and educational purposes only. It does not constitute, nor should it be taken to be accounting, financial or tax advice. You assume the sole responsibility of relying on this information at your own risk and we do not endorse any companies or products offered here. You should consider whether the advice is suitable for you and your personal circumstances. Before you make any decision about whether to acquire a certain product or service, you should obtain and read the relevant product disclosure statement or other relevant documents.



## About Amaka

Amaka's professional accounting automation software alleviates the nuances accountants and bookkeepers experience to process manual data entry.

Our solutions are trusted by thousands of small/mid-sized hospitality, retail and professional accounting and bookkeeping firms around the world, as a result of the reliable and flexible solutions designed by our accounting experts.

Our 5-star rated customer support team offers completely free 1-on-1 support sessions, for both free and premium customers, to walk you through the setup process and to answer any questions you may have.

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## CHAPTER 1

# Introduction

As the e-commerce industry booms, more and more budding entrepreneurs are turning to Shopify to start their own businesses. The barriers to entry are quite low, meaning almost anyone can become a Shopify seller.

However, a key part of running a successful business is making sure you're keeping up with your books and doing your taxes correctly. Most people won't know how to do their own accounting off the bat, meaning their books are managed incorrectly or left ignored until it's too late.

Fortunately, we've put together this comprehensive guide to help you with your Shopify bookkeeping and accounting. We'll take you through everything you need to know to manage your books effectively, understand your financial position, and draw insights that help you make business decisions.

## ■ CHAPTER 2

# Bookkeeping vs. accounting

Throughout this guide, we'll explain the basics of bookkeeping and accounting for your Shopify store, including the best tools you can use to maximise your time.

Before we delve deeper, it's useful to understand the differences between bookkeeping and accounting.

**Bookkeeping** generally refers to the functions involved with recording financial transactions. Bookkeepers make sure records are up-to-date, accurate and organised.

**Accounting** involves using the information gathered from bookkeeping to analyse and provide insights on the financial situation of a business.

In many scenarios, these two functions overlap. When starting out, it's generally okay to manage these functions on your own. However, it's recommended to have a tax accountant even when just starting out.

In Chapter 10, we go into more detail about how to know when it's the right time to hire a bookkeeper or accountant.

In Chapter 11, we'll share the hard hitting questions to ask when comparing different accounting professionals and firms.



CHAPTER 3

# Cloud-based accounting software



## ■ CHAPTER 3

# Cloud-based accounting software

As a business owner, spending less time on tedious tasks and more time on what matters most is always a priority. Hence, using a cloud-based accounting software is an absolute must. Using accounting software comes with a whole range of benefits and opens up even more opportunities to effectively use other time-saving tools.

### **What is cloud-based accounting software?**

Cloud-based accounting software has a lot of names; cloud accounting software, online accounting software, or web-based accounting software. As the name suggests, it's a form of accounting software that's hosted remotely on 'the cloud' rather than locally on your computer. Your data is stored on remote servers and can be accessed through the Internet.

# Advantages

## Access your books anywhere, anytime

Rather than buying an application, downloading and then installing it on your computer, you subscribe to an online solution and can access the application from any web browser with your login. You can access your data from any device, anywhere, at any time. You can't beat this level of convenience!

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## No need for updating or maintenance

Using cloud-based software means that you don't have to spend time or money maintaining the application. Updates and improvements are automatically pushed through. As soon as you log in to your account, you'll be already using the newest version. Save time and have peace of mind.

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## Get real-time financial insights into your business

Cloud-based accounting solutions offer a suite of reporting tools that help you get an understanding of your financial situation. Rather than having to figure out complicated charts or equations, you get access to easy-to-understand graphs and charts. These are particularly useful for making business decisions on the fly.

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## Give access to other people

Whether you want to share data with your team or with accounting professionals, using cloud accounting is significantly easier than using other methods. You can give people their own logins and control the level of access they have. Your books can be accessed by multiple users at once and changes appear in real-time.

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## Keep your data safe and secure

The cloud is one of the most secure ways to store data. Your data is encrypted, meaning it's converted into code that won't make sense unless you have a decryption key (your password). Furthermore, cloud-based software providers typically have strict user authentication measures, making it hard to hack into your accounts.

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## Connect all the apps in your ecosystem

As a Shopify seller, one of the major benefits of using cloud accounting is the ability to connect it with all the other cloud-based apps you're using. For example, you can automate your data entry and bank reconciliation by connecting your Shopify store, accounting solution and bank account together.

# Disadvantages

Despite the many benefits of cloud accounting, there are a few caveats that we should mention. However, these are generally easy to manage and won't outweigh the benefits for most Shopify businesses.

## **Needs an internet connection**

You can access your books anywhere, anytime, but only if you have an internet connection. As a Shopify seller, you'll most likely have an internet connection majority of the time. If your internet does cut out though, you won't be able to access your data. Those using traditional accounting software or a spreadsheet might not face this issue.

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## **Demands strong security practices**

Though you can trust that your data is secure, it's not entirely a set and forget process. Cloud accounting still demands some security practices from you and everyone who has access to your books. For example, ensuring everyone has turned on two-factor authentication, has created complicated passwords and hasn't left their credentials in an easy-to-access place.

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## **You pay an ongoing fee**

Though you don't have to pay a large initial sum or costs for updated software, you do have to pay an ongoing subscription fee. This will impact your regular overheads and could potentially turn out to be more expensive in the long run. However, for many businesses, this might actually be better for cash flow (more on this in Chapter 7) and the advantages make it worthwhile.

## How to choose a cloud accounting software

Now that you know all the pros and cons of cloud-based accounting software, how in the world can you pick one provider out of the dozens on the market?

On the next page, we've put together an extensive checklist of considerations to consider when comparing the different solutions available. At a high-level, you'll want to factor in how the solution fits into your budget, how it interacts with other apps in your digital ecosystem and how it deals with your key accounting processes.

Note that not all considerations will apply to your business. Take the time to figure out which are a priority for you.

### Checklist

- Offer integrations to Shopify?
- Offer integrations to a range of other apps?
- Offer a free trial or free plan?
- Fit your budget?
- Offer extensive training and resources?
- Offer support in multiple forms? (i.e. Email, phone, chat, etc.)
- Handle multiple currencies?
- Handle domestic and global sales tax compliance?
- Handle multiple bank accounts?
- Handle cash flow management?
- Handle inventory management?
- Handle receipt management?
- Handle expense tracking?
- Handle invoicing?
- Handle accounts payable?
- Allow you to do bank reconciliation?
- Track cost of goods sold?
- Track separate financial transactions for different departments, subsidiaries, businesses, etc.?
- Include an array of reports that give you the insights you need?
- Calculate all your payroll requirements? (i.e. Annual leave, sick leave, income tax,
- Allow for project time tracking or similar?
- Allow you to manage contacts/clients?

## CHAPTER 4

# Setting up your accounting integration



# Setting up your accounting integration

One of the major benefits of running your business on Shopify is the access you have to a range of different apps. Amaka is the gold standard in accounting integrations, allowing you to sync your Shopify transactions to your accounting software. Once you're set up, data entry becomes completely automated and bank reconciliation becomes lighting-fast.

## What does the accounting integration do?

- Connect your Shopify store to your accounting software
- On a daily basis, the integration will sync a summary of your previous day's sales data from Shopify into your accounting software in the form of an invoice
- You can customise your preferred sales summary view choosing from a wide array of formats
- Capture all payment transactions including gift cards, tips, tax and payment fees
- Easily reconcile Shopify sales and payments in your accounting software

### Accounting integration setup guide

- 1 Register or sign in to Amaka at (<https://app.amaka.io/>)
- 2 Click the New integration button and select Shopify from the integrations list to commence the setup
- 3 Sign in to your Shopify account by clicking the **Connect new account** button underneath the Shopify logo and grant all relevant permissions
- 4 Authenticate your Xero or QuickBooks Online account by following the same procedure and then click **Save + Continue**
- 5 Follow the wizard to choose your preferred setup method, invoice breakdown, invoice format, mapping and scheduler options (more details below) to complete the setup
- 6 Click **Save + Continue** to finish and activate the integration

[Get started for free](#)

# Setup methods available

Choose your preferred setup method.

## Express

The integration will automatically map sales and payments from Shopify into your accounting software by creating a default chart of accounts.

🕒 2 minutes

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## Advanced

The advanced setup will allow you to choose your own custom mapping in relation to sales and payments in Shopify.

🕒 7 minutes

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## Guided

Schedule a free 30-minute Zoom video call with one of our integration experts at a

🕒 15-30 minutes



# Invoice breakdown options

Choose your preferred invoice breakdown.

## **Group the data into one invoice**

Sales from all activated locations will sync to one invoice. Option to manually set the contact name for the integrated invoices.

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## **Split invoices by location**

The location name will be used as the contact name on the invoice.

# Invoice format options

Choose your preferred invoice breakdown.

## Summarised

Sales totals go into an invoice including tips, fees, taxes and more.

Item Code	Description	Unit Price	Account	Tax Rate	Amount
	Sales	78.00	Shopify Sales	BAS Excluded	78.00
	Shipping	10.00	Shipping fees	BAS Excluded	10.00
	...	...	...	...	...

## Group by product

The invoice will have a line item for each products sold.

Item Code	Description	Unit Price	Account	Tax Rate	Amount
	White Polo shirt	250.00	Sales - Tshirts	BAS Excluded	250.00
	Blue shorts	300.00	Sales - Shorts	BAS Excluded	300.00
	Denim pants	600.00	Sales - Pants	BAS Excluded	600.00
	Jacket	300.00	Sales - Jacket	BAS Excluded	300.00
	Shipping	88.00	Shipping Fees	BAS Excluded	88.00
	...	...	...	...	...

## Scheduled sync

Select the date and time you want to start syncing your data from.

The integration sync time is triggered by the scheduler settings. Each sync cycle catches all the transactions processed during the previous trading day.

The scheduler allows you to:

- Choose the date you want to start syncing your data from (Default value is Today).
- Choose the preferred time to trigger the sync of data on a daily basis
- Back sync your data.

# How to setup your chart of accounts

## What is a chart of accounts?

A chart of accounts is a list of categories that an organisation sets in order to distinguish financial transactions. In general, the high-level categories will be assets, liabilities and shareholder's equity for the balance sheet, and revenue and expenses for the income statement (more on how to read these financial reports in Chapter 9).

Organisations will then have sub-accounts or sub-categories underneath each account. These will depend on the transactions the organisation deals with and can change as the organisation develops. These sub-accounts can be useful when developing in-depth, insightful reports.

## Using an accounting integration to setup clearing accounts

If you've chosen the Express setup option, the integration will automatically create relevant sub-accounts with unique numbering. Then, sales and payments transactions will be automatically mapped to the corresponding sub-account. Those using Advanced setup or Guided setup can choose custom mapping.

**Note:** The integration will only automatically create sub-accounts relevant to sales and payments data that can be taken from Shopify. If you want to add sub-accounts such, this will need to be done separately.

SH-00000	Shopify payment balance	Bank	BAS Excluded
SH-20000	Shopify sales	Revenue	GST on Income
SH-20001	Shopify discounts	Revenue	GST on Income
SH-20002	Shopify shipping/delivery fees	Revenue	GST on Income
SH-30000	Shopify fees	Expense	GST on Expenses
SH-60000	Shopify clearing	Current asset	BAS Excluded
SH-60001	Shopify other payment clearing	Current asset	BAS Excluded
SH-60002	Shopify pending transactions	Current asset	BAS Excluded
SH-80000	Shopify tips	Current liability	BAS Excluded
SH-80001	Shopify gift cards	Current liability	BAS Excluded
SH-80002	Shopify exchange credit clearing	Current liability	BAS Excluded
SH-80003	Shopify collected taxes	Current liability	BAS Excluded

If you have existing sub-accounts that you want to map sales and payments to, or you want to customise your chart of accounts, you can use the Advanced setup method. This is recommended if you're a bookkeeper or accountant, or if you're working with one.

### **What's unique about the chart of accounts for an e-commerce business?**

In order to get the best breakdown of transactions occurring, you'll want to make sure you've set up relevant sub-accounts in your chart of accounts. For example, a brick-and-mortar store might not deal with shipping costs or revenue from charging shipping fees. However, as an e-commerce business, it would be useful to see these transactions separated from others.

A unique account that is useful for e-commerce businesses is a 'checking account', 'bank' or 'payment balance' account. Essentially, this account tracks the amount of money that is still held by your e-commerce platform. For instance, if you have a Shopify store, you might have an account called 'Shopify Payment Balance' that's classified as a 'Bank Account' or 'Bank' in your accounting software, representing the amount of money Shopify still holds.

Other clearing accounts that might be relevant:

- Discounts (Revenue)
- Shipping/Delivery Fees (Revenue)
- Exchange Credit (Current Liability)
- Gift Card (Current Liability)
- Advertising (Expense)
- Storage Fees (Expense)
- Inventory (Asset)

## Payment gateways

Amaka's accounting integration works differently depending on what payment gateway you use. If you're using Shopify Payments, the integration will automatically have a breakdown of settlement costs and other fees. If you're using a different payment gateway, such as PayPal or Stripe, the integration still works, however, you won't get the same breakdown.

### **What is bank reconciliation and how do I reconcile?**

Reconciliation, otherwise known as bank reconciliation or payment reconciliation, is an accounting process that involves comparing two sets of records to ensure that finances are correct. Typically, this will include an internal record such as your accounting software and an external record such as your bank statement.

### **Why should I be doing bank reconciliation regularly?**

By reconciling your transactions regularly, you have the chance to spot any discrepancies in your books before it's too late. These can be caused by a number of factors including fraud, accounting errors, unprocessed checks, unaccounted fees, bounced checks and more. The earlier you spot a discrepancy, the better chance you have at fixing it.

Regular bank reconciliations allow you to get the most accurate and up-to-date view of your business's financial health. If you're going through the process monthly, you have the chance to review your spending habits and cash flow. On top of that, if you reconcile payments less often, you'll end up with a huge backlog to go through.

## Reconcile my sales

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## What are statement lines and transactions?

Bank reconciliation is done by matching up bank statement lines to transactions. Statement lines are essentially your bank transactions and can be imported automatically through a bank feed, or manually. In the essence of saving time, you'll want to set up bank feeds as opposed to manually entering each transaction in your accounting software.

Transactions created in your accounting software can be for Shopify orders, invoices, bills, etc. As with statement lines, transactions can be imported automatically or manually. If you already have an Amaka accounting integration, these are already synced automatically. However, transactions unrelated to Shopify will have to be entered manually or through other integrations.

## How to set up bank feeds?

Before we start, you need to make sure you're registered for online banking so that you can connect your bank to your accounting software. For example, in Xero, you go to the Accounting menu, click Bank accounts and then click Add Bank Account. From there, follow the prompts to log in and to select the right accounts to share with Xero.

Most accounting software will give you the option to import around 12 months of historical transactions. This is helpful if you haven't been doing your bank reconciliations. After everything is set up, transactions will automatically flow into your accounting software account every business day.

For those using Xero, go to the Reconcile tab and click the OK button to confirm that transactions have been matched correctly. For those using QuickBooks Online, select Banking and then For Review. Select the Recognised filter from the dropdown and find the transaction. From the Action column, select Match so that the transaction is matched in both accounts.

**Note:** Using an accounting integration to reconcile your Shopify transactions is only one of many methods you can use. However, we've found that this is the most effective and efficient way to go about bank reconciliation.



### **What is a clearing account?**

Clearing accounts are temporary accounts to record transactions in a timely manner. These accounts are used to easily enter payments received before the money is deposited into your bank account. When the payments are deposited, they need to offset the clearing accounts to remove the temporary balance and post it to a permanent account.

The Amaka accounting integration syncs the sales transactions into the Revenue account. It also captures the payments that are allocated to the clearing accounts so that you have full visibility of how payments are recorded on the transactions. For payments, a Current Asset account is appropriate. For gift cards or exchange credit, the clearing account must be a Current or Noncurrent Liability account.

When cash or credit card payments are deposited into the bank account, simply reconcile these accounts to the appropriate clearing account. For example, cash deposits for cash payments received are usually reconciled to the Cash Clearing Account. On the other hand, credit card payouts from the merchant are usually reconciled to the Credit Card Clearing Account.

### **What is a Shopify payment balance?**

In order to keep track of payments that have been made from customers, but haven't been paid out by Shopify, the Amaka integration syncs the total payments received and allocates it to the Shopify Payments Balance account.

Once the payout is made by Shopify to your bank account, the integration syncs the total transfer made by Shopify as a bank transfer from Shopify Payments Balance to the Business Bank account. This ensures everything is balanced.

## CHAPTER 5

# Integrate your inventory and accounting



## CHAPTER 5

# Integrate your inventory and accounting

Next, one of the areas that pains e-commerce businesses the most is inventory management. The more your business grows, the seemingly more difficult it becomes to keep inventory levels accurate. It's important to tackle this area early on. We'll explain the cost of goods sold, how to sync it to your accounting system and the tools you need to streamline inventory management.

### What is the cost of goods sold (COGS)?

Cost of goods sold or COGS is an important metric for all retailers, regardless of whether you're brick-and-mortar or e-commerce. COGS can be considered the wholesale price of a product. It includes the cost of the materials, labour and operations. When calculating gross profit, you minus the COGS from revenue.

Understanding your COGS is important for a few reasons. To run a profitable business, you need to use your COGS when deciding on pricing strategies and marketing. It also impacts your cash flow forecasting and management. Finally, having an accurate COGS is crucial for tax time since you only pay tax on your gross profit.

### Sync your COGS to your accounting system

Your inventory valuation is important in determining your income statement (COGS in particular), balance sheet and cash flow forecasting. If there's a mistake early on, it will likely carry on and ultimately impact your own, or your accountant's, ability to develop business insights. We'll go through these financial statements in more detail in the next two chapters.

By using Amaka's accounting integration, your COGS are automatically synced from Shopify to your accounting software. This is calculated by summing up the product costs for all orders made on a day. In the case of a refund order, the integration will capture this information and make necessary adjustments.



## How does inventory impact your accounting?

We've partnered with Unleashed, an inventory management software, to combine our expertise and bring you the next three sections.

Misconfigured accounts or taxes, and poor data entry can lead to vital order details being missed or captured incorrectly, which will then create incorrect records across all integrated systems. This can lead to incorrect decision making if the data being kept used to drive reports.

Constantly writing off expired stock is a big drain on a business's bottom line. A baker who keeps six months' worth of eggs in stock at any one time would soon go out of business. Likewise, they would have limited capital available for other important expenses such as buying new machinery, or employing more staff. For this reason poor inventory management can limit growth and affect business health.

And on the flip side customer loyalty will quickly be eroded if there are too few eggs on hand to fulfil a new order.

Finally, an invisible, but very common effect of poor inventory management is the huge amount of time it takes to complete what are basically non-value-adding admin tasks. For instance, reconciling your day's orders with your current stock levels can take hours if not it's not automated. And this goes for despatching goods, purchasing new stock, and planning production runs. All of these activities are core components of a proper inventory management system.

For these reasons implementing a modern inventory management system is virtually a necessity for a business that's looking to grow.

## **How to avoid common inventory management problems**

The two main problems businesses run into with inventory management are having too little – or else too much – inventory. If you're not maintaining enough inventory to fulfil an order, it's a serious problem for your business. A stock-out as this is known can see your customers simply take their business elsewhere. Or it can see a valuable long term relationship undermined through late or partial fulfilment.

On the flip side, holding too much inventory comes with different downsides. First, you could run out of warehouse space or pay for more than you need. In terms of finance, you have capital tied up in inventory, hence why accountants have such a vested interest in inventory efficiency. Finally, holding too much stock runs a greater risk of inventory obsolescence. This is a particular issue in industries that see products go quickly out of date – for example, consumer electronics or products with a limited shelf life.

A strong inventory system will help you monitor both of these risks through features like automatic reorder points, central visibility of supplier lead times, live stock value and stock age reports. Unleashed tracks all the costs you pay in order to have a unit of stock in your warehouse (purchase price, tax, freight, customs) and measures it against the Average Landed Cost.

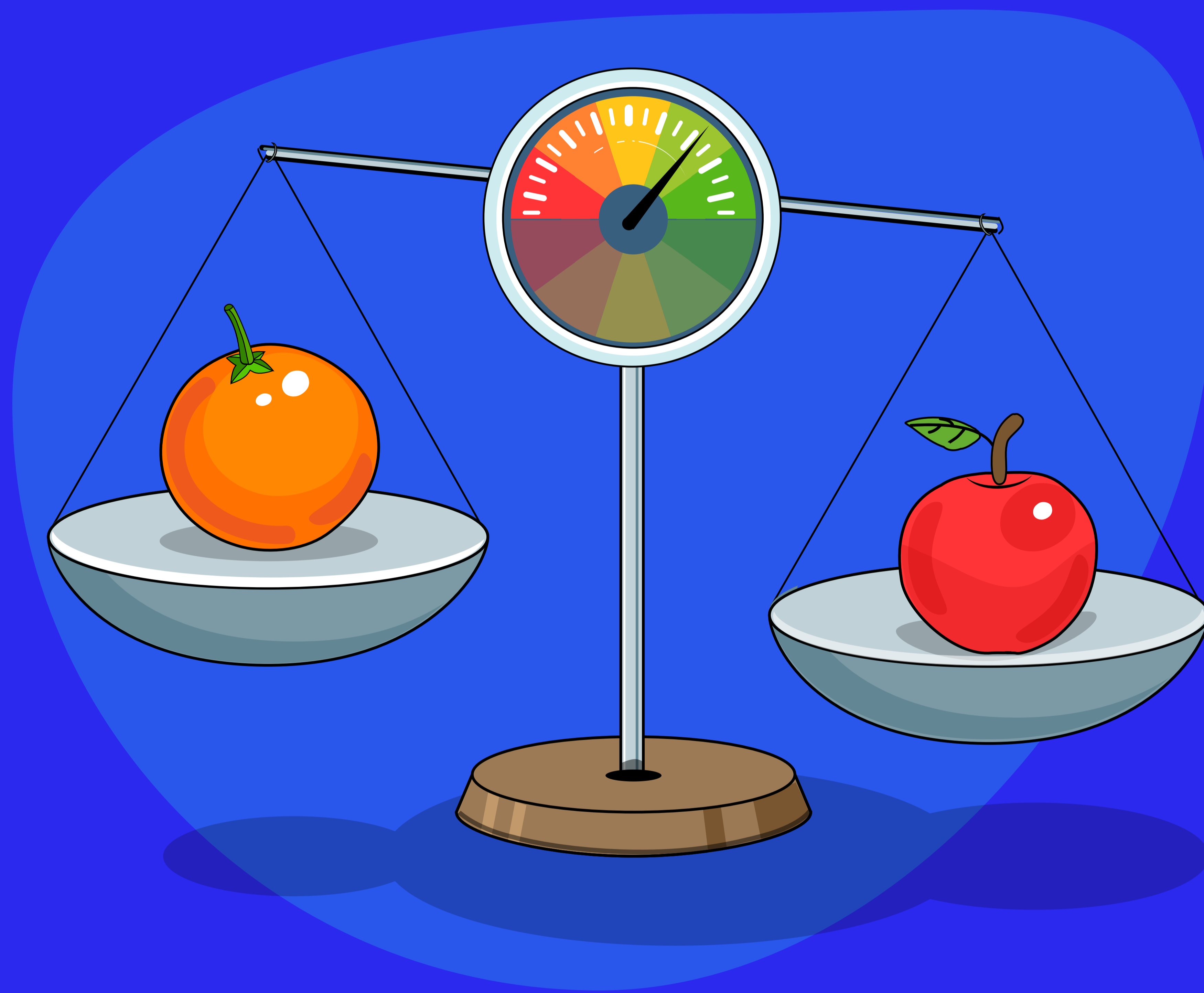
## **Connect an inventory management system**

Completing a stock take prior to going live with a new inventory management system is essential. We can never stress enough how important this step is. It's also important to ensure you understand what transactions affect your stock figures as well as the implications of these transactions for all other systems you have integrated.

As Shopify businesses expand, the number of products increases and stock becomes stored in more than one location, having an inventory management system becomes more important. Unleashed integrates both with Shopify and with major accounting software, meaning numbers are always up-to-date, no matter what platform you're looking at.

CHAPTER 6

# The balance sheet and income statement



## CHAPTER 6

# The balance sheet and income statement

Now that you have your accounting software set up and all your relevant systems have been connected properly, your accounting software should start generating financial statements. We'll start by explaining the balance sheet and income statement. In the next chapter, we'll run through the cash flow statement.

### What's on the balance sheet?

The balance sheet will show your business's financial position at a single point in time, typically at the end of a certain period, such as a month, quarter or year. You will be able to see all of the business's assets on the left, and liabilities and owner's equity on the right. The two columns will have an equal amount, or balance, hence the name, balance sheet.

Assets are the items owned by the company. Examples include:

- Cash
- Accounts receivable
- Inventory
- Equipment

Liabilities are owed by the company to others. Examples include:

- Bank loans
- Accounts payable
- Wages owed

Owner's equity is assets minus liabilities and is the amount that can be claimed by the owners of the business.

# The balance sheet and income statement

## What's on the income statement?

The income statement, otherwise known as the profit and loss statement or P&L statement, shows how your business is doing over a certain time frame, such as a month, quarter or year. You get to see your business's revenues, and expenses and losses. At the end, you'll see the net income. It's easy to compare your income statement across periods and analyse changes.

Under revenue, you'll generally find:

- Income from primary activity such as merchandise sales
- Income from non-primary activity such as training or interest
- Gains from profitable sale of an asset
- Cost of goods sold (COGS)

Under expenses and losses, you'll generally find:

- Expenses from primary activity such as procurement costs
- Expenses from non-primary activity such as interest
- Losses from non-profitable sale of an asset



CHAPTER 7

# Cash flow forecasting



## ■ CHAPTER 7

# Cash flow forecasting

Cash flow forecasting helps you look into the future of your business. However, the complexities that come with managing cash flow for e-commerce businesses has led many Shopify store owners to ignore it. If you want to stay on top of making a profit and building a growth-focused brand, understanding cash flow is absolutely essential.

### **What's on the cash flow statement?**

Cash flow, as the name suggests, are the inflows and outflows of money, or the money being transferred into and out of a business. The cash flow statement is split up into three sections; cash flow from operating activities, cash flow from investing activities and cash flow from financing activities.

The statement takes data points from the balance sheet and income statement to calculate how much cash you have on hand for a given period. It measures how well the business is managing its cash flow. This is how well it can pay debts and expenses using the revenue and income available at any given moment.

### **What is cash flow forecasting?**

We've partnered with Float, a cash flow forecasting add-on, and Brixx, a standalone and add-on cash flow forecasting tool, to bring you the next three sections.

Cash flow forecasting is the process of predicting your future cash position to help with making sure you have enough cash to meet future obligations. This means you'll be able to have a lowered reliance on loans or other forms of debt. Cash flow forecasting also allows you to better plan for potential opportunities and challenges.

### **Why do a cash flow forecast?**

Short-term planning over the next few weeks can help you ensure you have enough cash in the bank to pay your staff and survive. Long-term forecasts over the next months or even years allow you to strategically look at your business and understand what you need to do to reach your business goals.

This is achieved through modelling the financial impact of your decisions over time. This might be when to hire new staff or understanding when it is safe to invest your surplus cash into new equipment required to expand your sales.

You can save days every month and get peace of mind by using a cash flow forecasting tool that keeps your expectations updated with what's actually happening in your business. It's important to use a tool flexible enough for you to model these time-based scenarios with ease so that you can have confidence in the decisions you're making to grow your business.

Every business needs a cash flow forecast they can trust. Especially when 82% of companies that go out of business do so because of poor cash flow visibility and management. Monitoring cash flow in spreadsheets can be extremely time consuming and error-prone.

### **How to do a cash flow forecast?**

You'll want to do a cash flow forecast on a regular basis, such as monthly. Start by knowing your beginning cash balance or the amount of cash you're expected to have at the start of the month. Then, predict what cash you'll have flowing in, such as sales revenue or receivables collections. Finally, predict the expenses you'll have flowing out, such as fees, utilities, rent, etc.

When making predictions, you'll want to consider best case, moderate and worst case scenarios. Remember, your business won't necessarily grow every month. You can use averages and estimates from your accounting software, however, consider that there could be fluctuations based on seasonality or external factors such as an economic downturn.

At the end of the month, figure out what your actual cash flows were. Your accounting software should be able to generate a cash flow statement for you. See how accurate your predictions were and consider how you can make better predictions in your next cash flow forecast.

Finally, a good forecast is built with ease of communication and collaboration in mind. You should be able to lay out a model of your business that makes sense to you and your colleagues/investors and let financial modelling software handle the calculations. Some examples include:



**Float** is a cash flow forecasting add-on to Xero, QuickBooks Online and FreeAgent. It will give you an accurate picture of your past, current, and future cash flow so you can plan for the what-ifs, save time, and make more informed decisions.



**Brixx** is a cash flow forecasting tool that can be used on its own or with Xero. It allows you to build your model, project into the future and simulate different scenarios. Know how today's business decisions impact tomorrow's bank balance.

## How to improve your cash flow and keep it positive

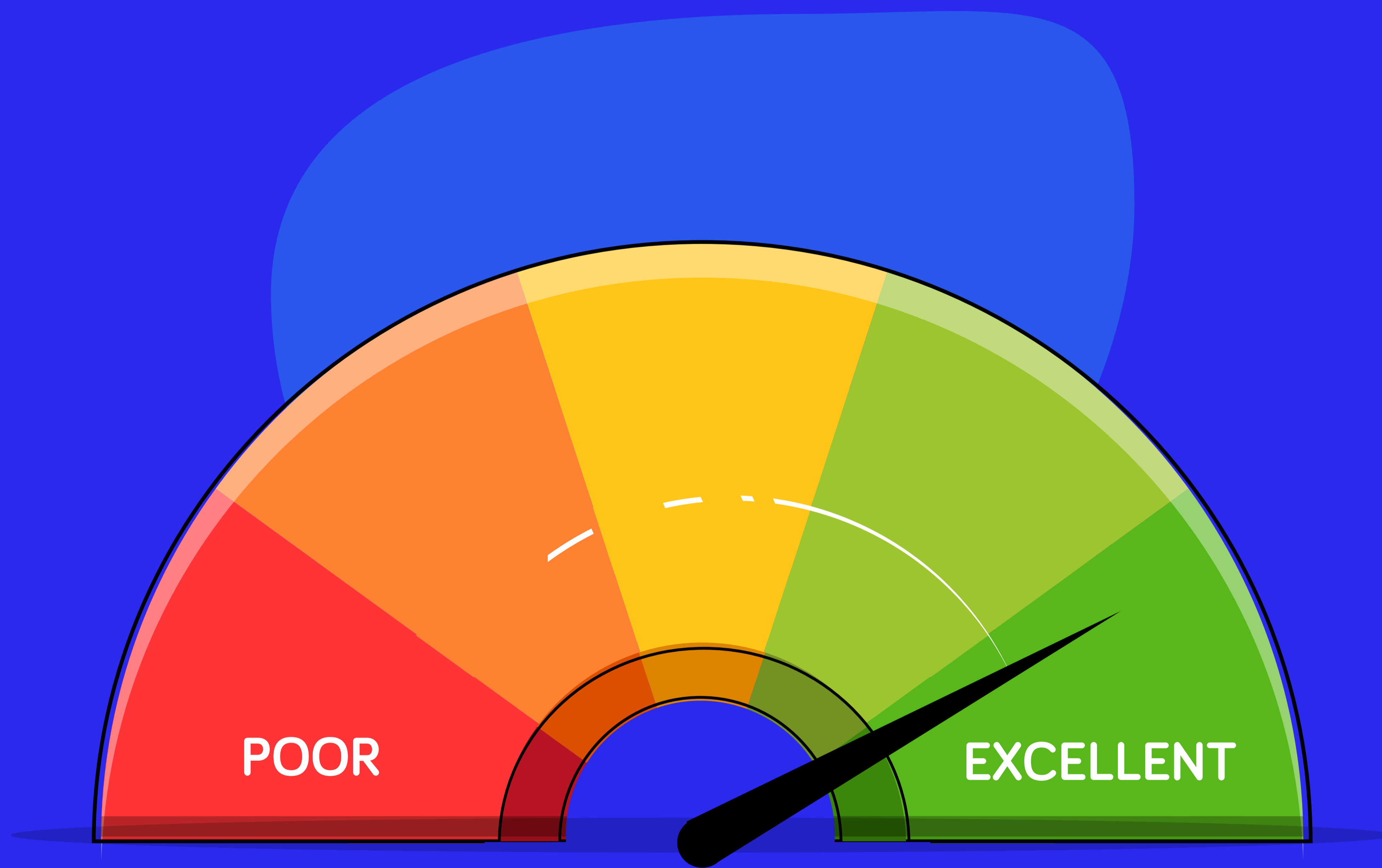
Being able to predict your cash flow is only part of managing it. Essentially, you'll want to have enough cash flow from normal operating activities to cover your current liabilities. There are many more complicated rules and ratios related to cash flow that you may want to get into. However, it's recommended that you work with an accountant if this is the case.

Here, we'll go into a few easy tips that Shopify store owners consider to help in making sure cash flow remains positive:

- Manage inventory by ensuring you don't overstock products and keep inventory turnover high by running campaigns on most-stocked items
- Work on customer retention strategies, increasing repeat orders and building customer lifetime value
- Focus on marketing channels that offer immediate return on investment
- When cash is low, have low budget marketing campaigns ready such as email campaigns and loyalty campaigns
- Make payments, such as to suppliers, as late as possible, without going past the due date (unless you get a discount for paying early)
- Audit your costs and only pay for what you really need or is giving you a strong return on investment
- Avoid large one-off purchases if possible, opt for for payment plans, renting or other forms of payment

CHAPTER 8

# Key performance indicators to measure



## ■ CHAPTER 8

## Key performance indicators to measure

Key performance indicators (KPIs) are the data points that you want to regularly track and use to measure success. When you look up important KPIs to measure, you'll find lists of 30+ or even 60+ to consider. However, for most e-commerce businesses, especially in earlier stages, you won't need to be tracking this many.

Here are five key KPIs that impact your financial position:

- **Cost per acquisition:** The cost it takes to gain a new customer, including advertising, email campaigns, discounts, etc.
- **Customer lifetime value (CLV):** The average revenue that can be earned from a customer throughout their entire lifetime with your company
- **Average order value (AOV):** The average amount a customer spends on an order
- **Gross profit margin:** The actual profit you earn once cost of goods sold (COGS) is considered
- **Inventory turnover:** How often you sell through the inventory you have in-stock within a year, calculated by taking total sales, subtracting the cost of those, and dividing that number by your remaining inventory

When selecting your own KPIs, ask yourself a few questions. How much does the KPI affect the bottom line of your business? How accurately can you measure the metric? How timely are the results? And, can you action upon results?

By using Amaka's business activity tracker, FitBiz, you can keep a finger on your business with an ongoing dose of goals, growth and performance insights sent straight to your inbox. Once you connect your Shopify store, you'll get access to smart sales trends, smart comparisons, and comprehensive breakdowns by time and product.

CHAPTER 9

# Taxes: All the basics you need to know





## ■ CHAPTER 9

# Taxes: All the basics you need to know

As we'll explain in more depth at the end, it's generally recommended that you work with an accountant for your taxes, regardless of what stage in the business you're in. Particularly for the e-commerce industry, tax comes with a lot of complexities. In saying that, it's still useful to understand the basics of income tax and sales taxes.

### **Income tax**

We'll start with the more straightforward one of the two types of taxes you'll need to pay when running a Shopify business; income taxes. The same way you have to report income and pay tax when working a regular job, you need to report income and pay tax when making an income for business.

**Note:** The obligations change if your business is incorporated.

In most cases, you'll be paying income tax to your local government. For instance, if you're living in Australia, you'll need to check the business income and taxes guidelines from the Australian Taxation Office. In some cases, you might have to pay income tax at two levels, such as in the US where you have to pay taxes at the state level and to the federal government.

## International sales taxes

Sales taxes are applied to goods and services, either as a flat rate or a percentage. The end customer has to pay the tax. However, there are different rules on who collects sales tax. As always, the answer is; it depends. If you're selling across the globe, you'll need to understand the different tax regulations in each region.

Fortunately, Shopify automatically collects the right amount of sales tax for you. Even so, it's helpful to understand how different exemptions and rules apply to you. This way, you can avoid making mistakes, overpaying in tax or upsetting customers. We'll go through what you need to know for some of the major regions.

### GST in Australia and New Zealand

If you're selling to customers in Australia, sales tax is relatively simple. Those with revenue under AUD \$75,000 in 12 months don't have to register to collect GST (goods and services tax). After that point, you need to register to charge a flat 10% GST, regardless of whether your business is based on Australia or not.

Sales taxes in New Zealand works in a similar way to Australia. For those with revenue under NZD \$60,000 in a year, registering for GST is voluntary. Businesses with making more revenue, regardless of whether you're based in New Zealand or not, need to register and charge 15% GST on all sales.

### VAT in the EU (European Union) and UK (United Kingdom)

If you're located in the EU and you're selling to customers in the EU, sales tax isn't too complicated. You need to charge VAT (value-added tax) on every sale you make. The rate itself will vary depending on your revenue for the year and distance selling thresholds based on where your customer is.

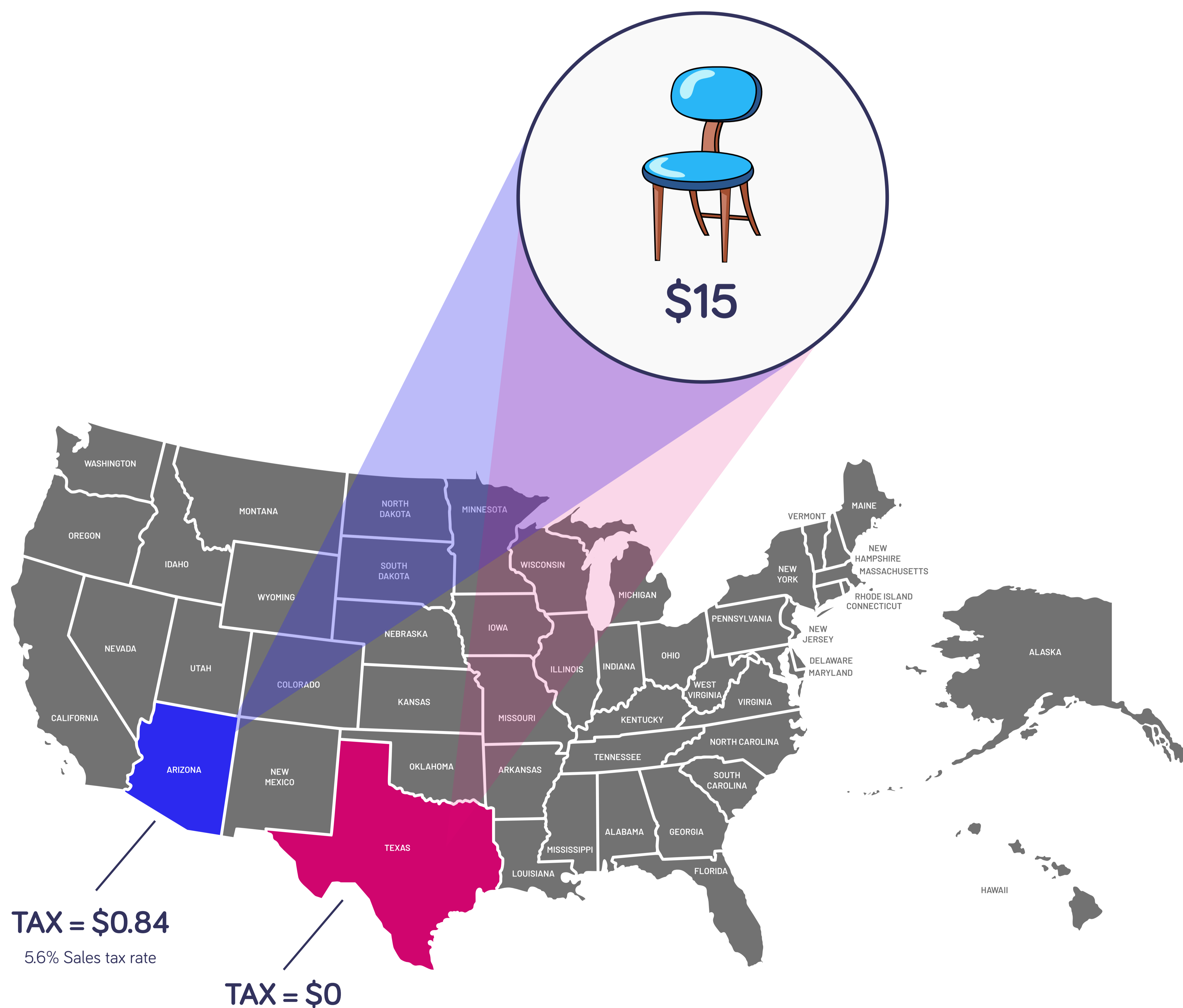
Those located outside of the EU and selling to customers in the EU must register for EU VAT after reaching the annual threshold, typically £85,000. However, it might still be beneficial to register if you're below the threshold, particularly if the EU is one of your main markets. This can help prevent customers from having to pay unexpected taxes or fees.

Changes related to Brexit have come into effect this year, affecting businesses in the UK, in the EU, and outside these regions. If you're a merchant outside of the UK selling goods that do not exceed £135 in value directly (such as on Shopify) to UK customers and not on an online marketplace (such as Amazon), you need to register for UK VAT and collect 20% VAT.

## Sales taxes in the United States (US)

If you're selling to the US but not based there, you don't have to apply for tax unless you meet the tax registration annual threshold, generally 200 transactions or US \$100,000. Once you surpass it, you have what's called an economic nexus in the country and you'll need to meet tax requirements and charge tax within the US.

If you do live in the US, tax rules can get quite complicated depending on where you're based, where your customer is based and where your supplier is based. You'll have to register for tax at a state level wherever you have a physical presence, collect tax there and remit it. You're exempt from charging sales tax from states where you don't have a physical presence. However, some states still require you to charge tax if you have a supplier there.



### **Sales taxes in Asia (Singapore, Philippines & Hong Kong)**

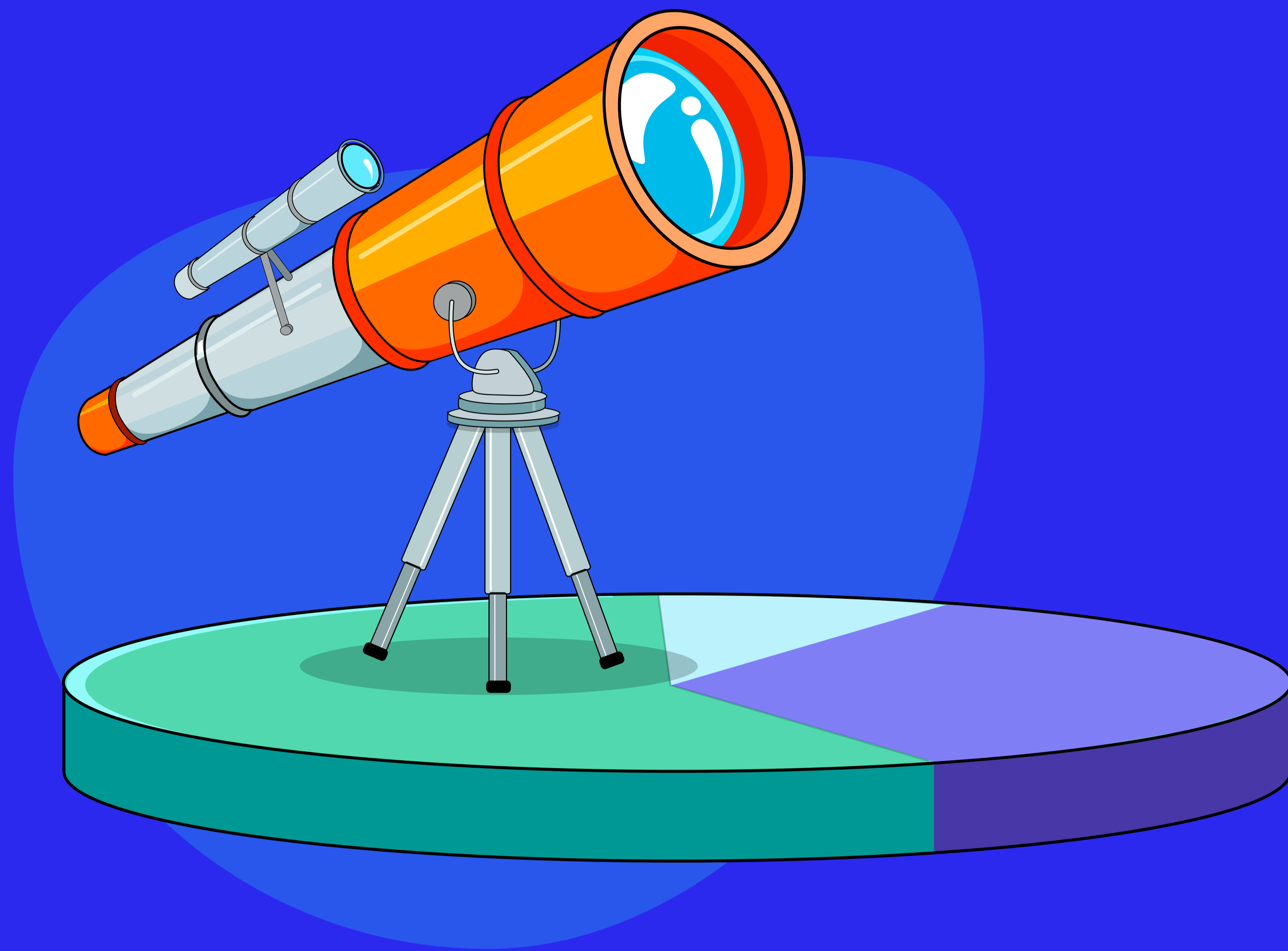
Those based in Singapore and selling to Singaporean customers must charge 7% GST on online purchases for products over SGD \$400. For overseas sellers, there is a 9% GST charge on goods exceeding SGD \$400. In the coming years, it looks as though these exemptions will be removed, at least for overseas sellers.

Those based in the Philippines and selling to Filipino customers must impose a 3% VAT on online sales worth less than PH ₱1.92 million a year and 12% VAT on online sales worth more than that. Residents in the Philippines are responsible for bearing 12% VAT when buying goods worth more than PH ₱10,000 from overseas sellers.

Hong Kong does not impose sales taxes.

CHAPTER 10

# When to hire an accounting professional



## ■ CHAPTER 10

## When to hire an accounting professional

Whether or not you need a bookkeeper or accountant, or both, usually depends on what stage your business is in. First of all, a quick rundown on the difference between a bookkeeper and an accountant; A bookkeeper records and organises your finances whereas an accountant will analyse these records and give financial advice.

### Early stages

If you're in the early stages of your e-commerce business, maybe it's still a side hustle or you're still working by yourself, you can generally manage your own bookkeeping by using a couple tools.

However, it will be useful to have a tax accountant that helps with tax returns. At this stage, an accountant specialising in e-commerce isn't necessary but can definitely be beneficial for business growth.

### Growth phase

Once you're dedicating all your time to your business, maybe you even have employees under your wing, having an accountant becomes significantly more impactful. Working with an accounting firm who specialises in e-commerce will help you level up your processes. Accountants in this space can guide you through how to make bookkeeping easier as well.

### Established business

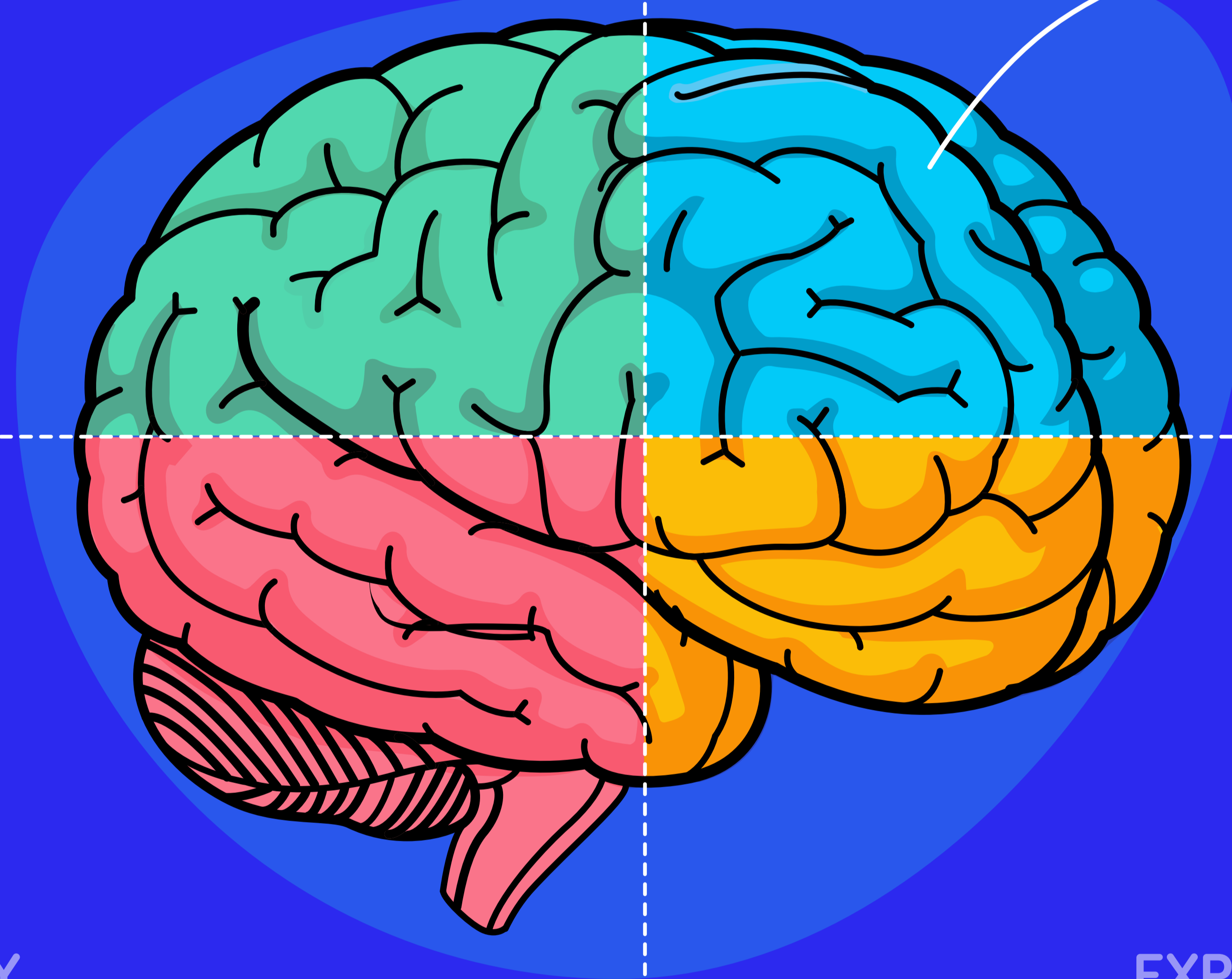
Finally, for established e-commerce businesses with multiple sales channels or massive sales volumes, an accountant becomes pretty much necessary. They can help to drill down on what's performing well and what's not. At this stage, entirely outsourcing your bookkeeping makes sense as well. This gives you more time to focus on your core business.

CHAPTER 11

# What to ask a potential accountant

CLOUD SOFTWARE

TECHNOLOGY



INDUSTRY

EXPERIENCE

## ■ CHAPTER 11

## What to ask a potential accountant

### What qualifications does the accountant have?

One of the first things business owners should look out for, regardless of the industry you're in, is whether or not the accounting professional or accounting firm you're hiring has the right experience and qualifications. First and foremost, are they certified? For example, a Certified Public Accountant (CPA) or Chartered Accountant (CA) are two recognisable qualifications.

Next, since we're looking for a specific type of accountant, check their portfolio of clients and see if there are similar businesses. Have they positioned themselves as experts in e-commerce or Shopify? Of course, a lot of this will be marketing fluff which is why it's important to validate their expertise by going through this list of questions.



### **Does the accountant specialise in Shopify?**

Each e-commerce platform and sales channel has its own unique challenges. It's absolutely crucial that your accountant understands how Shopify works. If you're using multiple sales channels, your accountant needs to be able to manage numbers from different sources that may work differently. Ask them about their experience. They shouldn't be learning as they go. You can find an expert on the Advisors section of our website.

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### **Are they using cloud accounting and other cloud software?**

You're running an online business and need an accountant who understands the online space just as well as you do, if not more. As expected, one of the most important online tools an accountant should be an expert in is cloud-based accounting software. Your accountant should understand how to effectively integrate your sales channels with your accounting software.

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### **Does the accountant understand international tax obligations?**

One area that not all accountants will be able to understand is international sales taxes. The different obligations for sales taxes around the world can get extremely complicated for e-commerce businesses. Be ready to ask potential accountants about their experience managing international taxes for e-commerce businesses.

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### **Can the accountant advise you on inventory management?**

Inventory management and tracking isn't the first thing we think of when we think of an e-commerce accountant. However, inventory is a massive part of your books. Your accountant should be able to fully understand how inventory management software works and how it integrates with accounting software.

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### **What should the accountant be doing once they're hired?**

The process isn't entirely done after you've chosen your accountant. After working with them for a while, you'll want to double check that they're meeting all your standards. If there are issues, you can discuss them with your accountant or even choose to start looking for someone who might better fit your needs.

Questions to ask yourself:

- Is my accountant maintaining my books on a daily or at least weekly basis?
- Can I access real-time information on my inventory and finances?
- Can my accountant tell me which sales channels, categories and products are performing the best?
- Can my accountant advise on inventory solutions, invoicing solutions etc.?
- Does my accountant understand all relevant processes happening in my business?

CHAPTER 12

# Final words



## ■ CHAPTER 12

# Final words

All done! You're ready to tackle your bookkeeping and accounting on your own, at least until you're ready to outsource. By taking advantage of the latest cloud technology and automation, you can cut down the time you're spending to about an hour a month after you've laid down all the groundwork.

Remember that regularly keeping your books in check is particularly important for business owners, regardless of whether you're doing your accounting on your own, or you're working with an accounting professional. It's useful to block out a chunk of time on a regular basis to review your accounting.

For example, you might create a monthly checklist of accounting to dos. This might include uploading your receipts and documentation to your accounting software, checking your inventory levels, and reconciling bank statements. Bank reconciliation could take just a few minutes if you're using one of our accounting integrations.

Good luck!

## Credits and sources

<https://catching-clouds1.teachable.com/p/accounting-for-shopify>  
<https://sbo.financial/blog/guides/ebook-the-definitive-guide-to-ecommerce-accounting/>  
<https://beanninjas.com/blog/guide-to-ecommerce-accounting/>  
<https://www.shopify.com.au/blog/bookkeeping-101>  
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