5 Things Every Fashion Brand CFO Needs to Know About Shopify Accounting

INTRODUCTION

As the Chief Financial Officer for a successful apparel business, your role is pivotal in ensuring the financial integrity and accuracy of your company's operations. Among other things, you're also responsible for ensuring the right channels are used to maximize revenue. Such analysis likely led your company to leverage the power of Shopify.

Because Shopify makes it so easy and delightful for customers to purchase with just a couple of clicks, marketing teams often add selling channels to help maximize the places where customers can discover and purchase your brand's garments. Think Facebook, Instagram, or TikTok, to name just a few. However, these additional selling channels can seriously complicate the accounting, especially when combined with Shopify as the main selling channel.
It's therefore crucial to understand the specific considerations that come with managing finances in a Shopify selling environment, and to create a plan to mitigate each.

Unfortunately it's not a matter of simply relying on the Shopify Summary Financials to book revenues. Today's fashion brand CFO needs to go deeper and know where to look to uncover insights and nuances that, left unchecked, can seriously hurt the integrity of the company's financial statements.

This ebook delves into five key areas every CFO for an apparel brand must be aware of in order to safely navigate Shopify's complexities. By creating a plan to manage these challenges, you can ensure accurate, timely, audit-proof financial reporting and simultaneously create the conditions for sound decision-making and cash flow management.

At the end of this ebook, you'll have the opportunity to learn about how Automation can alleviate challenges and bring a stronger sense of confidence to your Shopify revenue accounting and payout reconciliation processes.

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1. The Challenge that Shopify Reports Pose for Accurate Revenue Recognition for a Growing Fashion Brand

Accurate revenue recognition forms the cornerstone of reliable financial reporting. The biggest driving force behind the need to ensure accuracy is that as CFO, you need confidence in your numbers. Understanding how much revenue is generated by channel, how much cash you can actually spend, how much sales tax is due, and what your margins are by item or product type is critical.

Additionally, your brand may be looking ahead to either being acquired by a larger brand, or, possibly even planning to go public. Therefore, managing cash flow and recognizing revenue properly from day one is best practice.

Recognizing revenues correctly and consistently can mitigate the risk of being re-traded in the 11th hour because revenues have been found to be incorrectly stated during the due diligence period of an acquisition.

When selling on Shopify, it is vital to understand the basis of the revenue numbers, and act accordingly.

Shopify's default reporting is based on order date, which can pose challenges for revenue recognition, especially for larger fashion brands and those who may ship bespoke product days, weeks, or even months after the order is placed.

In Shopify, orders are recorded as revenue upon order placement, which may not align with the actual fulfillment of customer obligations. This can lead to inaccurate revenue recognition and potential audit issues. Best practice is to implement proper revenue recognition practices based on ship date to ensure financial statements accurately reflect the revenue earned during each reporting period.

First, analyze the risk to your business of booking revenues based on Order Placement Date. Analyze the typical number of days between the customer placing their order, and the actual fulfillment of the order (ie: the shipping date). If this is more than a day or two, make a note and consult your company's tax accountant.

For Brands who typically have a delay of more than a few days, steps may need to be taken to ensure that Revenues are booked based on Fulfillment Date, versus Order Date. Under this method, the value of orders that have not yet been fulfilled are held in a Deferred Revenue account on the P&L and moved to Revenue each day as items are shipped to customers.

Unfortunately, Shopify's standard reporting does not give you the option to simply run a Summary Financial Report based on Fulfillment Date, so a manual method will need to be employed.

Alternatively, CFOs in this situation may choose to use an industry-leading revenue accounting automation software like Bookkeep, which has the capability to choose to recognize Shopify revenue based on Fulfillment Date, or Order Date, depending on which is best for the Brand in question.

2. The Risk of Mixing Revenue Recognition Methods when Selling on Shopify And Amazon

Fashion brands often add selling channels as they grow in order to maximize the number of places that customers can purchase their garments and related fashion items. It's therefore not uncommon for a Brand to start out on Shopify, then expand to Amazon. More customers can discover the Brand's fashion items in places they are naturally in, sales roll in from each channel and the company revenue grows.

While growing revenues is always a good thing, additional channels also add complexity to the Brand's revenue accounting. Specifically, selling on multiple platforms like Shopify and Amazon can lead to challenges in revenue recognition.

Shopify's order date-based revenue reporting contrasts with Amazon's ship date-based approach, potentially resulting in mixed revenue recognition methods within the same set of books.

While the impact is likely minimal for companies that typically ship orders the same or next day, it can become a serious issue for companies that ship days or even weeks after each order is taken. If special care is not taken, orders placed on Amazon will be correctly allocated to the right period (ie: when they are fulfilled), while orders placed on Shopify will be booked to revenue when the order is placed (assuming the accounting department is using the standard Shopify reporting).

This inconsistency can jeopardize the integrity of the Brand's financial reporting and lead to discrepancies in revenue figures across selling channels.

> **The revenue recognition principle is a crucial concept in financial reporting that ensures accuracy and consistency. Outlined in Accounting Standards Codification (ASC) 606, it states that revenue should be recognized when goods or services are fulfilled, not when payment is received or the order is placed.**

No CFO wants to hear that their P&L may contain discrepancies that were caused by trusting the reports from the selling platforms their Brand uses. CFOs must therefore consider implementing strategies to harmonize revenue recognition methods in order to ensure accurate and consistent financial reporting across all selling channels.

Here is what to do to ensure your brand is using a consistent revenue recognition method across channels:

1. First, understand and document how the Summary Financial Reports are calculated for each of your selling channels.
    - Shopify reports revenue when an order is placed.
    - Amazon reports revenue when an order is fulfilled.
    - Other channels may align with Shopify, or with Amazon's method.
2. Determine which method is best for your company (order date, or fulfillment date-based revenue recognition).
3. Create a process to align the channel (s) that do not match your Brand's proper revenue recognition method, so that consistency is achieved across all channels.
    - This may require restating the books for the current fiscal year to date, so it's best to consult a tax accountant for proper guidance.
4. Document this process and ensure that staff are trained in order to ensure consistency from person-to-person, and from month to month.

Alternatively, CFOs in this situation may choose to use an industry-leading revenue accounting automation software like Bookkeep, which has the capability to choose to recognize Shopify revenue based on Fulfillment Date, or Order Date, depending on which is best for the Brand in question.

Additionally, should financials need to be restated (to correct the Shopify reporting basis, as example), Bookkeep has the ability to pull and calculate summary journal entries based on historical data in Shopify and other platforms, potentially saving hundreds of hours of manual work.

3. Protecting Margin Accuracy when Influencer Gifting and Zero-Dollar Orders are used in Shopify

Growing fashion brands often use Influencer Marketing techniques, like Paid Collaborations and Influencer Gifting, to help extend the Brand's reach and accelerate sales. Because influencers often have very loyal followers who model their own fashion choices after their influencers' style, and the Brand may not have a close enough relationship with them to do a paid collaboration yet, influencer gifting can be an extremely effective way for brands to extend their reach and increase sales at a relatively low cost overall.

If your fashion brand employs Influencer Gifting (also known as Zero Dollar Orders), there are some key watchouts, accounting-wise. Simply put, influencer gifting and zero-dollar orders in Shopify can significantly distort gross margin calculations if not properly managed.

> **Influencer gifting is the process of getting your products into the hands of influencers so they can share them with their audiences. This allows influencers to have an authentic experience with your products so they can create high-value content on your behalf. However, it requires special handling in Shopify in order to maintain accurate margin analysis**

Many accountants recommend using a manual application of 100% discount to create a zero-dollar order for influencer gifts. This is certainly allowable in Shopify, but the downside is that this method can distort key financial metrics like Gross Margins for all products gifted, especially if a lot of items are gifted over a period of time.

CFOs must therefore establish clear guidelines and processes for handling influencer gift orders, then take steps to ensure staff are trained on the correct method to use when fulfilling influencer gift orders in Shopify.

Here is how to ensure your margins remain accurate across all items for which Influencer Gifting is occurring.

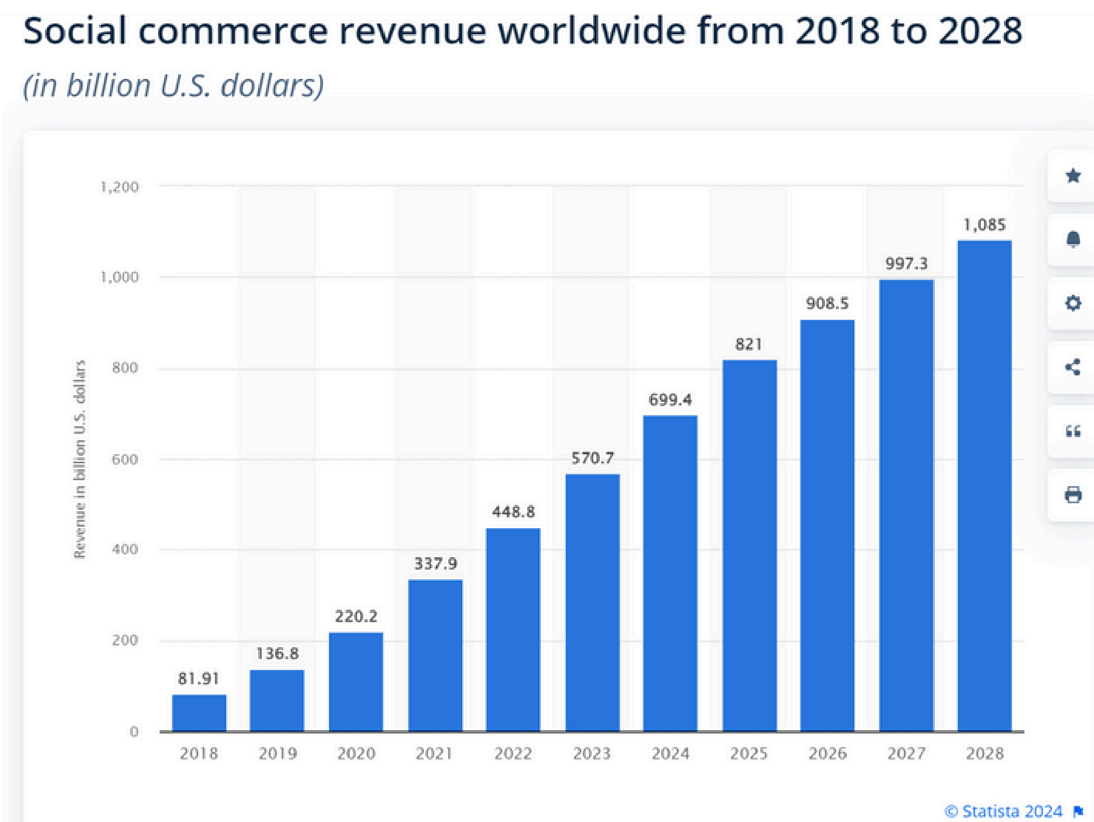
1. First, create a separate **manual tender method** in Shopify called "Influencer Gifting."
2. Then, so that customers don't see this new payment method in the checkout process, customize the payment methods available in the Shopping Cart to hide the Influencer Gifting tender method. Note that you may need to use a Shopify Checkout App to customize the Payment Methods available to customers in the Shopping Cart. These tend to be very affordable. (Payfy, as example, is only $3.99 per month, and can be found in the Shopify App Store.)
3. Train staff to apply this manual method of payment on all Influencer Gift Orders, instead of applying a 100% discount.
4. In this way, margins are protected, since the "sales" from these gifts are recorded at 100% in Shopify.
5. Also - the order will still ship out, and payment will not be demanded or collected since a manual payment method was applied.
6. At month-end, move the total collected in the Influencer Gifting manual payment "bucket" into Marketing Expense as part of each month's closing process.

This method will ensure your Brand accurately tracks monthly marketing expenses related to influencer gifting. Implementing these practices also ensures transparent financial reporting and maintains accurate gross margins. It also allows the practice of Influencer Gifting to continue by giving staff an easy way to fulfill the orders without charging the influencer.

4. Sales Tax Management for Shopify Sellers - Special Watchout

As fashion brands grow, marketing teams often add selling channels to extend the brand's reach and sell in places their ideal customers are naturally, like Instagram, Facebook, and TikTok.

This can be very effective, as data from Shopify suggests that "**customers increasingly prefer to make purchases on social media platforms. In 2023, global social commerce revenues were estimated at $570 billion and could reach $1.1 trillion by 2028.**"



While the increase in sales is more than welcome, selling on external channels through Shopify can present serious challenges for managing the reporting, especially for sales tax.

There is a specific watch-out for brands who use Shopify as the primary selling platform, and who then add various social media platforms like Facebook, Instagram and TikTok as additional channels inside Shopify.

Simply put, the challenge is this:

> ***Marketplace facilitator tax laws require platforms to withhold and remit sales tax on behalf of sellers, but Shopify's standard reporting may not always show these withholdings—in fact, the withheld sales taxes are usually buried several layers deep.***

This creates the very real possibility of overpaying sales tax for any sales that are generated on Facebook, Instagram or TikTok, because the main reports in Shopify only show the gross amount due, across all channels. Since some of that gross amount has been withheld from payouts and remitted by Facebook, Instagram or TikTok on behalf of the seller's account, it can result in overpayment if not subtracted on the sales tax returns when they are submitted.

CFOs must therefore carefully reconcile sales tax figures to avoid overpayment and ensure compliance with tax regulations. Utilizing Shopify's detailed reporting features along with a sales tax automation tool like Bookkeep, with powerful Avalara Sales Tax functionality built right in, can streamline sales tax management and mitigate the risks of overpaying sales tax moving forward.

If the company in question finds that past sales tax returns have been completed using the Shopify Summary Financials figures for sales tax due, there is a very real possibility that sales tax has been overpaid and an amended return may be in order to claim back the overpayments. Consult a qualified accountant to assist with this

5. Properly Unpacking and Booking Your Shopify Payouts

It is not advisable to code your books based on the net payout you receive from Shopify. The main reason is that the deposits don't reflect the actual revenue and sales tax, etc., due to adjustments that are netted into the Payout figure. This means that while Cash will be correct, you will not see the entire financial picture of all your sales and costs.

Additionally, the amount you received could cover up to four days of sales transactions in Shopify, based on GMT time zone (not your own time zone). This means you could be booking income and expenses into the wrong periods, as is the case with deposits that cross over different months.

The Shopify Payout report (on its own - see example below) simply shows Charges, Refunds, Adjustments and Fees. We will break each one down so you can see the things that are typically netted into those figures.

	Gross	Fees	**Total**
Charges	$64,247.47	-$1,493.87	$62,753.60
Refunds	-$13,099.51	$0.00	-$13,099.51
Adjustments	-$56.36	$0.00	-$56.36

Charges, Gross

- *Sales* – This is the total sales that Shopify processed for you, for items you sold, during the period covered for the payout.
- *Sales Tax* – the amount collected by Shopify on those sales.
- *Gratuities* – received from customers.
- *Gift Cards issued* – this is something you got money for, but actually isn't sales.

Fees

- *Shopify Payment Processing Fees.*
- Note that Shopify Platform fees come out separately each month and are typically not deducted from payouts.

Refunds

- *Note* – these are shown at GROSS, so they still need to be broken down into the Sale, the Sales Tax, and if there's a Gratuity included that gets refunded as well.

Adjustments (Net)

Adjustments (added):

- *Channel Promotion Credits* – eg. payments from Meta (for Facebook and Instagram coupons and incentives as example).
- *Shop Cash Payments* – these are added net of fees.
- *Shipping Label Adjustments* – note that these can be added, or subtracted.

Adjustments (subtracted):

- *Sales Tax withheld by Meta* (or another marketplace) and remitted on your behalf.
- *Shop Cash Campaign Promotions* – for each customer they bring to you, they take a certain dollar amount out of your deposits.
- *Chargebacks or Payment Disputes* – these get subtracted from your net deposit. The annoying thing is that you can't find which order it applies to – you just lose the money.
- *Shopify Loan repayments* – sometimes these come out of deposits, sometimes they are deducted separately, so you have to watch out for these.
- *Shipping Label Adjustments* – note that these can be added, or subtracted.

Net of all of the above, is the payout you received.

This situation can get even more complicated because the Shopify Payout report does not include money coming in from Paypal, Shop Pay Installments, and other payment methods like Cash or Check.

Since you cannot accurately book accrual revenue and expenses based on your Payout Deposit reports, you'll need to pull a number of reports in Shopify and use a spreadsheet to back into the Payout amounts.

Here are the steps to follow:

1. In Shopify, go to Analytics > Reports > Summary.
2. Run the Summary for each day and generate a journal entry based off that report.
3. Enter the journal entry, booking the expected Shopify Payment amounts, as a debit to an asset clearing account.
4. Then when the actual Shopify Payout is settled, use the asset clearing account to book the deposit amount as a credit (the other half of the entry will be a debit to cash).
5. The two should net out to zero when taking into account the different time zones involved, and the fact that Shopify nets several sales days into each Payout.
6. If it doesn't net to zero, and you have factored in the time zone difference, it means you have an error in your calculations and will need to backtrack and check each figure.

Alternatively, you can choose to use an ecommerce and retail accounting automation software like Bookkeep. The advantage of using automation is that the system can quickly skim every single order and then summarize them correctly by day, into the respective General Ledger Accounts in your accounting system. Deposits will exactly match what your bank shows, and reconciliation from each day's sales to the deposits, is automatic.

The best news is that this is all done magically while you sleep, and time zones are not an issue for ecommerce and retail automation software like Bookkeep.

CONCLUSION

CFOs can leverage smart automation tools like Bookkeep to address key areas such as revenue recognition alignment, automating sales tax compliance, and ensuring revenues, payouts, and related selling expenses are booked accurately on an accrual basis, every day.

Because Bookkeep connects directly to the selling and payment platforms that Fashion Brands like yours use, we can see each sale and properly categorize and summarize the various elements in each order. Payouts are reconciled automatically and will always match your bank feeds.

By harnessing the power of smart automation, and eliminating the need for complex spreadsheets and dedicated staff to manage accounting for multi-channel revenue and payouts, Fashion Brand CFOs can enhance financial transparency and accuracy, mitigate risks, and drive informed decision-making for sustainable business success.

Book a Discovery Call today, to see how Bookkeep's Smarter Ecommerce and Retail Accounting Automation can help you effortlessly increase confidence in your financials, without adding staff or incurring overtime.

Smarter ecommerce and retail accounting automation

Bookkeep is a revenue and **financial automation (RFA) platform for unified commerce businesses and the accounting teams that serve them**. Bookkeep automates the time-consuming, complex process of posting and reconciling daily accrual financials from multiple sales channels into accounting platforms like **QuickBooks**, **Xero**, **Zoho Books**, and **Sage Intacct**.

The platform integrates with over **60 platforms, such as Shopify, Walmart, PayPal, Square, Amazon Seller, Stripe, Squarespace**, and vertically specialized point-of-sale systems. Our sales tax automation files and pays sales tax across all 50 states in the USA. As revenue data and payment flows become increasingly complex, accounting teams can no longer keep up. Our automation transforms complex manual processes prone to human error and delivers accurate, daily accrual-based revenue data, saving accounting teams at least 20 hours per month.

For more information visit:

www.bookkeep.com