

Revenue Recognition for E-Commerce Retailers

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Abstract. The rapid development of E-commerce has radically changed financial accounting methods and theory. In this paper, we use a descriptive analysis to show that E-commerce revenue may be tallied via gross or net methods, depending on several guidelines. The role of the supplier can also have a significant impact on determining whether the E-commerce entity is acting as an agent or a principal. The impact of reporting gross and net income remains the same, as do the current margins of profitability. For investors who value companies based on sales growth rather than profitability, data can be misleading. In May 2014, the Financial Accounting Standards Board issued an Accounting Standards Update, targeting revenue from contracts with customers. This guidance required more detailed disclosures to ensure financial statements would be understandable in terms of nature, amounts, timing, and revenue and cash flows arising from contracts. Companies have not fully adopted this guidance, however. In any case, the new standard may be applied retrospectively or as a cumulative adjustment as of the date of adoption.

Keywords: *revenue recognition, gross method, net method, e-commerce*

1 Introduction

The development of the digital economy has generated many new business models, eliminating geographical boundaries and increasing volume. It has shifted the traditional brick-and-mortar business model into one of E-commerce (e.g., app stores, online ads, cloud computing, participative networking, business platforms, high-speed trading, and online payment services). E-commerce began in the 1960s when traditional transactions were replaced by digital data transfers among mainframes using electronic data interchange. Internet technologies developed rapidly since the mid-1990s. In 1995, one of the first E-commerce sites (i.e., Amazon.com) launched and is now the largest online retailer in the world.

The E-marketer survey reported that global online sales were expected to grow from USD 234B in 2007 to USD 1.09T in 2017, with a compound annual growth rate (CAGR) of 16.2%. In retail sales, E-commerce market share is expected to increase in line with the increasing number of consumers engaging online. In Figure 1, between 2007 and 2012, the Asia-Pacific region contributed the highest share growth at USD 102B, surpassing North America and Western Europe, which grew at 11.6 and 16.9%, respectively, during the same period, at an average CAGR of 17.1%. By 2017, nearly 46% of all global online retail sales transactions took place outside North America and Western Europe.

On March 2016, E-marketer reported total annual retail E-commerce sales of USD 201B, based on a survey of 180 companies. Of the top 25 retailers, total annual retail E-commerce sales amounted to USD 159B. The top three were Amazon, Inc., Wal-Mart Stores, Inc., and Apple, Inc. (see Table 1).

A study prepared by Liu and Li (2017) examined the rapid development of E-commerce and information technology (IT), which has fundamentally changed the accounting environment, including theory. E-commerce, which is based on modern IT, has had a huge impact. Changes in the accounting methods have required major reforms of accounting systems tantamount to a business revolution.

Methods of accounting for E-commerce revenue have evolved according to industry types. Evolving business models and global competition have impacted the increasingly complex guidelines of revenue recognition and recording. Kieso (2014) stated that, in the release issued by the International Finance Reporting Standards, the revenue recognition process is increasingly complex, vulnerable to error, and more material to financial statements than other areas of financial reporting. Furthermore, revenue recognition is a top fraud risk. Even when accounting guidelines are followed, risks of error and inaccuracies remain significant. Traditional brick-and-mortar and internet-based businesses continue to develop new distribution channels and innovative sales agree-

ments that complicate revenue recognition. For example, web-based businesses must each determine how their online sales, services, maintenance agreements, licenses, and subscriptions will be accounted for. Effective controls are, therefore, very important.

The purpose of this study, therefore, is to describe revenue recognition methods of E-commerce retailers in the U.S. and their implementation of International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) revenue recognition rules based on customer contracts.

2. Literature Review

2.1 E-Commerce

According to the Organization for Economic Cooperation and Development (OECD) Working Party on Indicators for the Information Society, the definition of E-commerce is “the sale or purchase of goods or services conducted over computer networks by methods specifically designed for the purpose of receiving or placing of orders. The goods or services are ordered by those methods, but the payment and the ultimate delivery of the goods or service do not have to be conducted online. An E-commerce transaction can be between enterprises, households, individuals, governments, and other public or private organizations” (OECD, 2011).

The definition according to OECD (2010) is “commercial transactions occurring over open networks, such as the internet. Both business-to-business and business-to consumer transactions are included.”

There are five classification of E-commerce, based on India Chartered Accounting (2012): business-to-customers (B2C); business-to-business; government-to-customers; government-to-business; and customers-to-customers.

2.2 Accounting for E-Commerce

The accounting problem for E-commerce is mainly about determining the timing of recognition and presentation of revenue, whether in gross or net amounts (KPMG, 2014). It therefore becomes important to determine when the risks and benefits are transferred to the client.

Most E-commerce companies accept online payments via credit cards, internet banking, and debit or cash cards. Delivery is the responsibility of the selling company. Indicators are used to determine the timing of revenue recognition identifying parties bearing the costs and risks of insurance. In practice, many large retail companies enter into agreements with logistics providers based on contracts, covering the shipment of goods from the warehouse to the customer. Sometimes, the cost of delivery is integrated into the price of the product, and the cost of transport is borne by the E-commerce entity. In this case, the risk of delivery and loss remains with the E-commerce company, and it may be appropriate to recognize revenues only after the products have been delivered.

If there are options for customers to return goods sold, it is important to evaluate offers more specifically to understand the facts and circumstances and their impact on accounting. Generally, when a buyer has the right of return or there is uncertainty about the possibility of return, revenue is not recognized until the shipment has either been accepted by the customer or the period of rejection has expired. E-commerce firms consider historical experiences when assessing the possibility of returns. If, on the basis of past experience, an entity can make a reliable estimate of the amount of goods that will be returned, it becomes appropriate to recognize the revenue for those amounts, assuming that other conditions for recognizing revenues are met.

The difference of gross and net revenue rests on the amount evaluated. Gross methods record all revenue from a sale, whereas net methods record revenue per the amount billed to the customer against the amount paid to the supplier. For example, if there is a commission, the recording entity assesses their commission as the entire amount of revenue. The Emerging Issue Task Force (EITF) published a technical guide prescribing the correct treatment of revenue in issue 99-19, “Reporting Revenue Gross as a Principal vs. Net as an Agent.” Gross reporting guidelines should examine whether the entity is the primary obligator in the sales transaction, if they have general inventory risk, if they can select suppliers, if they have credit risk, and if they have control over the entire transaction. The EITF also required reporting revenues at the net amount if the amount of earning was fixed, if a supplier had credit risk, or if a supplier was responsible for providing products or services to the customer.

To address the inconsistencies and weaknesses of these approaches, the IASB and FASB issued convergent standards for revenue recognition, entitled “Revenue from Contracts with Customers.” This standard now ap-

plies to industry transactions and adopts the asset liability approach. This approach recognizes and measures revenue based on asset and liability changes, which arise from customer agreements (Kieso, 2014).

3. Methodology

A qualitative research method was used for this study. Data were collected from literature studies, annual reports, and Forms 10K. Furthermore, supporting documents and other research results were analyzed. Literature data were collected and analyzed based on the interpretation of the authors.

4. Results and Discussion

This study compares revenue recognition and other risk factors of the top 25 retail companies based on annual sales in 2016, as determined by an E-marketer survey. E-commerce retailers provided massive product selections via third-party sellers and suppliers. The quality of the information presented in the financial statements is very important, because the information is used for stakeholder decision-making. Managers are likely to influence perceptions of company stakeholders (Bowen et al., 1995). Bowen et al. (2002) also found that companies having relatively higher economic incentives to run businesses with relatively higher economic incentives managed with greater likelihood reports of incomes and barter. Recent research has provided evidence supporting the relevance of revenue for internet businesses. However, evidence showing the relevance of earnings has been inconsistent. Rajgopal et al. (2000) found a positive relationship between the values of the revenue market for internet companies that focused on B2C E-commerce. Davis (2002) examined the relevance of the value of internet revenue and whether it differed in the presence gross up or barter. There is evidence of a positive association between the 3-day market and internet company revenue announcements. The evidence also indicated that the market's response to revenue ads was incremental compared with announcements of competing earnings. These results also suggested that internet companies managed revenue as a means of influencing the perception of current and future investors, assuming that managers had incentives to influence share prices. Of the 272 companies surveyed, 14% reported gross revenues and disclosed that they had recorded barter revenue.

Tawfiq (2003) reported that international and local accounting standards were not available to organize various accounting transactions made by electronic means. With the growing expansion of electronic communications networks and continuous development in the areas of banking technologies, he recommended the central bank and the Egyptian Ministry of Commerce to issue a group of accounting regulations and standards for the implementation of the electronic banking system.

Hamid (2006) reported that many individuals believed that the revenue of E-commerce businesses represented cash payments in exchange of commodities and services. This impression is accurate, despite its simplicity. However, this pattern represents only a small percentage of E-commerce patterns. In fact, commodities can be sold and services provided without exchanging cash. It is also possible for cash to be paid prior to delivering the commodities or services. Services or the delivery of commodities can be achieved through stages that are difficult to be identified. Therein lies several problems of E-commerce revenue recognition.

Batali et al. (2007) underlined the need to reconsider accounting theory and to update its concepts regarding E-commerce. He said that, with the intensification of studies in this field, it was necessary to reconsider international accounting standards and to formulate them in line with the changes made by E-commerce firms. Siam (2007) studied revenue in the age of E-commerce, which evolved with the help of many corporations. The revenues were usually accounted for by the exchange of commodities and services for cash or claims by cash. Revenues recognized from the sale of products, recognized through the date of sale or delivery.

Amari (2010) studied the measurement of revenues underlying E-commerce businesses. Revenues were measured based on the value expected to be obtained through the sale of goods or the provision of services, just as revenue can be measured based on the present value of expected cash obtained from the exchange of products on the market. Amari also showed that, in E-commerce, the sale of raw materials and the provision of services in different parts of the world and across multiple currencies resulted in inconsistent revenue from cash units, leading to inconsistent units of measurement for such operations.

Al-Abdali (2011) showed that access to the digital economy required the adoption of new laws and regulations for internet transactions and intellectual rights. He also reported that it was important to have qualified human resources able to manage information technologies. Sami (2013), Oguttu (2009), and Oduntan (2010) studied the significant increase in E-commerce transactions worldwide. Their studies aimed to answer questions

related to the conceptual framework of recognition and measurement in all its concepts, hypotheses, principles, and constraints related to the accounting of transactions underlying E-commerce from the perspective of Jordanian external auditors.

Sanaa (2016) revealed an increase in the arithmetic mean related to the responses of individuals associated with the obstacles of recognition and measurement in the conceptual accounting framework when the E-commerce business corporations prepared financial reports. Thus, the researcher mentioned that the obstacles related to the measurement of financial items, according to the principle of the historical cost, had in turn led to increased obstacles in the revenue recognition underlying E-commerce transactions. Under E-commerce business rules, the concept of accounting principles, assumptions and constraints differ from the prevailing concept of traditional commerce businesses, because the former includes modern electronic means that require greater flexibility. The researcher recommended the amendment of international accounting standards to establish special mechanisms for E-commerce business, to find the required solutions for information security, to determine the implementation of fulfillment processes, and to provide services and commodities aligned with E-commerce business rules.

Below are the stated revenue recognition policies and risk factors affecting the businesses of six E-commerce retailers taken from companies' forms 10K. Apart from the revenue recognition policy, risk factors and other information are used to explain revenue recording decisions.

(notes the author takes a quote from the 10 K form, which deals with the discussion. therefore it must be tolerated to prevent allegations of plagiarism)

Amazon.com. (source Amazon.Com. Inc Form 10-K for the Fiscal Year Ended December 31, 2017)

Amazon's revenue policy requires the evaluation of the appropriateness of product sales, related costs, and commissions according to inventory risks. Amazon retains the latitude of establishing prices and selecting suppliers based on these indicators. Net sales and commissions are generally recorded at the gross sale price. Others are determined using fixed fees, percentages of revenues, per-unit activities, and combinations thereof.

Revenue Recognition Policy

"We evaluate whether it is appropriate to record the gross amount of product sales and related costs or the net amount earned as commissions. Generally, when we are primarily obligated in a transaction, are subject to inventory risk, have latitude in establishing prices and selecting suppliers, or have several but not all of these indicators, revenue is recorded at the gross sale price. We generally record the net amounts as commissions earned if we are not primarily obligated and do not have latitude in establishing prices. Such amounts earned are determined using fixed fees, a percentage of seller revenues, per-unit activity fees or some combination thereof.

Walmart Stores Inc. (source Walmart Stores. Inc Form 10-K for the Fiscal Year Ended January 31, 2018)

Revenue Recognition Policy

"The Company recognizes sales revenue, net of sales taxes and estimated sales returns, at the time it sells merchandize to the customer. E-commerce sales include shipping revenue and are recorded upon delivery to the customer. Additionally, estimated sales returns are calculated using historical experience of actual returns as a percent of sales. The Company recognizes revenue from service transactions at the time the service is performed. Generally, revenue from services is classified as a component of net sales in the Company's Consolidated Statements of Income.

Apple. Inc (source Apple Inc Form 10-K for the period ending September 30, 2017)

Revenue Recognition Policy

"Net sales consist primarily of revenue from the sale of hardware, software, digital content and applications, accessories, and service and support contracts. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collection is probable. Product is considered delivered to the customer once it has been shipped and title, risk of loss and rewards of ownership have been transferred. For most of the Company's product sales, these criteria are met at the time the product is shipped. For online sales to individuals, for some sales to education customers in the U.S., and for

certain other sales, the Company defers revenue until the customer receives the product because the Company retains a portion of the risk of loss on these sales during transit. For payment terms in excess of the Company's standard payment terms, revenue is recognized as payments become due unless the Company has positive evidence that the sales price is fixed or determinable, such as a successful history of collection, without concession, on comparable arrangements. The Company recognizes revenue from the sale of hardware products, software bundled with hardware that is essential to the functionality of the hardware and third-party digital content sold on the iTunes Store in accordance with general revenue recognition accounting guidance.

The Company recognizes revenue in accordance with industry-specific software accounting guidance for the following types of sales transactions: (i) standalone sales of software products, (ii) sales of software upgrades and (iii) sales of software bundled with hardware not essential to the functionality of the hardware. For the sale of most third-party products, the Company recognizes revenue based on the gross amount billed to customers because the Company establishes its own pricing for such products, retains related inventory risk for physical products, is the primary obligor to the customer and assumes the credit risk for amounts billed to its customers. For third-party applications sold through the App Store and Mac App Store and certain digital content sold through the iTunes Store, the Company does not determine the selling price of the products and is not the primary obligor to the customer.

Therefore, the Company accounts for such sales on a net basis by recognizing in net sales only the commission it retains from each sale. The portion of the gross amount billed to customers that is remitted by the Company to third-party app developers and certain digital content owners is not reflected in the Company's Consolidated Statements of Operations. Apple Inc. The Company records deferred revenue when it receives payments in advance of the delivery of products or the performance of services. This includes amounts that have been deferred for unspecified and specified software upgrade rights and non-software services that are attached to hardware and software products.

The Company sells gift cards redeemable at its retail and online stores, and also sells gift cards redeemable on iTunes Store, App Store, Mac App Store, TV App Store and iBooks Store for the purchase of digital content and software. The Company records deferred revenue upon the sale of the card, which is relieved upon redemption of the card by the customer. Revenue from AppleCare service and support contracts is deferred and recognized over the service coverage periods. AppleCare service and support contracts typically include extended phone support, repair services, web-based support resources and diagnostic tools offered under the Company's standard limited warranty.

The Company records reductions to revenue for estimated commitments related to price protection and other customer incentive programs. For transactions involving price protection, the Company recognizes revenue net of the estimated amount to be refunded.

For the Company's other customer incentive programs, the estimated cost of these programs is recognized at the later of the date at which the Company has sold the product or the date at which the program is offered. The Company also records reductions to revenue for expected future product returns based on the Company's historical experience. Revenue is recorded net of taxes collected from customers that are remitted to governmental authorities, with the collected taxes recorded as current liabilities until remitted to the relevant government authority.

Revenue Recognition for Arrangements with Multiple Deliverables

For multi-element arrangements that include hardware products containing software essential to the hardware product's functionality, undelivered software elements that relate to the hardware product's essential software, and undelivered non-software services, the Company allocates revenue to all deliverables based on their relative selling prices.

Staples Inc. (source Staples Inc Form 10-K for fiscal year ended January 28, 2017)

Revenue Recognition Policy

The Company recognizes revenue from the sale of products and services when the following four criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the selling price is fixed or determinable, and collectibility is reasonably assured. Revenue is recognized for product sales at the point of sale for the Company's retail operations and at the time of shipment for its delivery sales. The Company offers its customers various coupons, discounts and rebates, which are treated as a reduction of revenue. For coupons and rebates that are offered by manufacturers directly to customers and which are redeemable at multiple participating retailers, the Company records the reimbursement received from the manufacturer as sales revenue.

The Company evaluates whether it is appropriate to record the gross amount of product and service sales and related costs or the net amount earned as a commission. In making this determination, the Company considers several factors, including which party in the transaction is the primary obligor, the degree of inventory risk, which party establishes pricing, the Company's ability to select vendors, and whether it earns a fixed amount per transaction. Generally, when the Company is the party in the transaction with the primary obligation to the customer or is subject to inventory risk, revenue is recorded at the gross sale price, assuming other factors corroborate that the Company is the principal party in the transaction. If the Company is not primarily obligated and does not have inventory risk, it generally records the net amount as a commission earned.

Revenue arrangements with multiple deliverables that have value on a standalone basis are divided into separate units of accounting. Revenue is allocated to each deliverable using estimated selling prices if the Company does not have vendor-specific objective evidence or third-party evidence of the selling prices of the deliverables. The Company recognizes revenue for each unit of accounting based on the nature of the deliverable and the revenue recognition guidance applicable to each unit.

Revenue is recorded net of taxes collected from customers that are remitted to governmental authorities, with the collected taxes recorded as current liabilities until remitted to the relevant government authority.

Macy's. Inc (source Macy's Inc Form 10-K for fiscal year ended on February 3, 2018)

Net Sales Policy

Net sales include merchandize sales, licensed department income, shipping and handling fees, sales of private brand goods directly to third-party retailers and sales of excess inventory to third parties. Sales of merchandize are recorded at the time of delivery to the customer and are reported net of merchandize returns. The Company licenses third parties to operate certain departments in its stores. The Company receives commissions from these licensed departments based on a percentage of net sales. Commissions are recognized as income at the time merchandize is sold to customers. Sales taxes collected from customers are not considered revenue and are included in accounts payable and accrued liabilities until remitted to the taxing authorities.

The Home Depot. (source The Home Depot Inc Form 10-K for fiscal year ended January 28, 2018)

Revenue Recognition Policy

We recognize revenue, net of estimated returns and sales tax, at the time the customer takes possession of merchandize or when a service is performed. We estimate the liability for sales returns, including the estimated gross profit impact, based on our historical return levels and believe that our estimate for sales returns is a reasonable reflection of future returns.

We defer revenue and the related gross profit for payments received from customers for which the customer has not yet taken possession of merchandize or we have not yet performed the service for the customer. This amount is recorded as deferred revenue. We estimate the gross profit related to deferred revenue using historical rates, which we believe to be a reasonable reflection of future rates. If these estimates significantly differ from actual amounts, our net sales and gross profit could be adversely impacted.

Amazon generally revenue is recognized from product sales or services rendered when the following four criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or service has been rendered, the selling price is fixed or determinable, and collectability is reasonably assured. Amazon not clearly stated gross method or net method used only describe it generally. Walmart recognizes sales revenue, net of sales taxes and estimated sales returns, at the time it sells merchandize to the customer. Digital retail sales include shipping revenue and are recorded upon delivery to the customer. Other income such as membership fee (over the term of membership), shopping card (recognized as revenue until the card is redeemed and the customer purchases merchandize using the shopping card), Financial and Other Services (at the time the service is performed and classified as a component of net sales in the Statements of Income). Apple recognize revenue on net sales consist primarily of revenue from the sale of hardware, software, digital content and applications, accessories, and service and support contracts. Revenue recognizes when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collection is probable. Product is considered delivered to the customer once it has been shipped and title, risk of loss and rewards of ownership have been transferred. For online sales to individuals, for some sales to education customers in the U.S., and for certain other sales, the Company defers revenue until the customer receives the product because the Company retains a portion of the risk of loss on these sales during transit.

Staple recognizes revenue from the sale of products and services with the same four criteria with Amazon. Revenue is recognized for product sales at the point of sale for the Company's retail operations and at the time of shipment for its delivery sales. The Company offers its customers various coupons, discounts and rebates, which are treated as a reduction of revenue. For coupons and rebates that are offered by manufacturers directly to customers and which are redeemable at multiple participating retailers, the Company records the reimbursement received from the manufacturer as sales revenue. Staple also evaluates whether it is appropriate to record the gross amount of product and service sales and related costs or the net amount earned as a commission considers several factors, including which party in the transaction is the primary obligor, the degree of inventory risk, which party establishes pricing, the Company's ability to select vendors, and whether it earns a fixed amount per transaction. Macy's recording net sales include merchandize sales, licensed department income, shipping and handling fees, sales of private brand goods directly to third-party retailers and sales of excess inventory to third parties. Sales of merchandize are recorded at the time of delivery to the customer and are reported net of merchandize returns. The Company licenses third parties to operate certain departments in its stores. The Company receives commissions from these licensed departments based on a percentage of net sales. Commissions are recognized as income at the time merchandize is sold to customers. The Home Depot recognize revenue, net of estimated returns and sales tax, at the time the customer takes possession of merchandize or when a service is performed. Company estimate the liability for sales returns, including the estimated gross profit impact, based on historical return levels and believe that the estimate for sales returns is a reasonable reflection of future returns. Company defer revenue and the related gross profit for payments received from customers for which the customer has not yet taken possession of merchandize or not yet performed the service for the customer. This amount is recorded as deferred revenue. The estimation of the gross profit related to deferred revenue using historical rates, which is reasonable reflection of future rates. If these estimates significantly differ from actual amounts, net sales and gross profit could be adversely impacted.

Deborah (2010) tested a conceptual model of the relationships among firm orientations, strategic resources, and international E-tail performance finding support for the role of brand strength and supplier relations as mediators of market orientation and firm performance. The study provided managerial insights into the types of orientations and resources that could help drive E-commerce retail performance and contributions regarding the indirect effects of orientations on international marketing performance.

The relationship between E-commerce retail and suppliers can help guide revenue recognition. If the E-commerce retailer provides a product or service, revenue recognition can be accounted as gross. If there are no key suppliers running the operation, the E-commerce retailer can select the supplier.

Sometimes E-commerce retailers provide goods and services as an agent. Thus, they would use a net-revenue style of accounting. On the other hand, fixed fee structures indicates a commission structure or fixed payment-per-customer transaction. On SEC Forms 10K, companies disclose risk factors affecting their business, such as inventory risk. If the E-commerce retailer takes title of pre-sale inventory and returns, they can record gross revenue. If the E-commerce retailer discloses contractual obligations or obligations to purchase, there is inventory risk. E-commerce retailers that disclose inventory risk include Walmart, Apple, Staples, and Macy. Whereas neither Amazon nor Home Depot disclose these things, Logan (2017) noted that E-commerce retailers took smaller inventory risk, provided good delivery times, and negotiated better supplier-payment agreements. Logan (2017) also showed the net effect of reporting gross or net revenue was the same for current profitability margins. Gross reporting gives a company the appearance of being larger than it really is, which can mislead investors. Heavy investments in growth weigh down current earnings. Investors would likely overvalue those companies when estimating normalized earnings. The price-to-sales ratio should be understated as well. Companies can inflate sales growth by recognizing third-party seller revenue, which it should technically recognize as net value. The critical variable for equity valuations is revenue growth. A sharp fall in stocks can lead to questionable management practices or restatements of revenue.

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU provided a comprehensive new revenue recognition model requiring companies to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange. This guidance required more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts.

The new standard can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. Entities continue to evaluate the impact of ASU, and the related amendments and the interpretive guidance will have on the entity's consolidated financial statements.

5. Conclusion

Regarding E-commerce, revenue accounting continuously evolves according to various industry types. Evolving business models and global competitors have impacted the increasingly complex guidelines of revenue recognition for worldwide accounting standards, making them increasingly complex to manage, more vulnerable to error, and more reliant on financial statements than other areas of financial reporting. E-commerce retailers generally account for revenue based on persuasive evidence that an arrangement exists, delivery has occurred, or services have been rendered. The selling price can be fixed or determinable, and collectability is reasonably assured. For online sales to individuals, companies typically defer revenue until the customer receives the product, because the company must retain a portion of the risk of sales during transit.

The relationship between E-commerce retailers and supplier can serve as a guideline for revenue recognition. If an E-commerce retailer has the primary obligation in the sales transaction to provide the product or service, then revenue recognition may be accounted as the gross amount. If there is no key supplier running the operation, the fees can be fixed, implying a commission structure or fixed payment-per-customer transaction. There are inventory risks when the E-commerce retailer takes title to the inventory prior selling it to the customer. They can also take title to any returns. Thus, they may record revenue as gross. If the E-commerce retailer discloses contractual or purchase obligations, there is an implied inventory risk. Companies that record net profit but use gross profit are likely to mislead investors that value sales growth rather than profitability.

The FASB requires companies to recognize revenue depicting the transfer of goods and services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. The six E-commerce retailer studied disclosed accounting pronouncements that were not yet adopted in the notes of their financial statements.

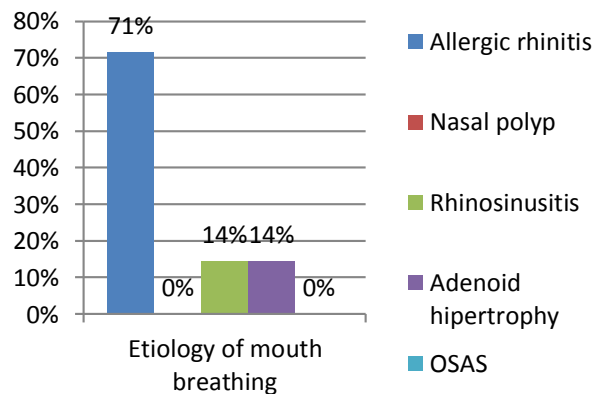


Fig. 1 Distribution of habitual mouth breathing by etiology

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