LINK MY BOOKS

HOW TO ACCOUNT FOR AMAZON SALES PROPERLY

AMAZON ACCOUNTING

11 COMMON AMAZON BOOKKEEPING MISTAKES TO AVOID

TABLE OF **CONTENTS**

INTRODUCTION

Amazon accounting can be very complicated. With confusing reports, sporadic payouts and multiple potential VAT registrations to be dealing with, it's easy to get completely lost in it all. I know I did.

As an ex Amazon seller, I have had my fair share of Amazon Accounting headaches. Before I sold it, my Amazon business was turning over 7 figures annually, had VAT registrations in 7 EU countries and sold across all of Europe and North America.

In this guide I will outline 11 of the top Amazon Accounting and Bookkeeping mistakes I myself, and other sellers I know, have fallen for and address how you can avoid making the same mistakes.

Daniel Little

Co-Founder of Link My Books

DISCLAIMER

The content of this ebook is created for educational purposes only and should not be considered as tax or accounting advice. Speak to your accountant or tax advisor before making any decisions based on this content.

USING DATE RANGE
SUMMARY SHEETS

Some sellers may be using the Date Range Summary Report each month to account for their sales and expenses from Amazon. This report is available in seller central via:

Reports > Payments > Date Range Reports

Date Range Summary Reports do not contain enough information to be sure that you are correctly accounting for your sales and expenses through Amazon. The reason for this is because the summary includes all income from several sources that is outside the scope of UK VAT:

- FBA Inventory Credits – when Amazon lose or damage your inventory at FBA warehouses, they reimburse you for the ex. VAT cost of the item. They calculate this credit amount by taking an average of your sales price over 30 days and deducting what the FBA and seller fees would have been if you sold it at that price and also removing the VAT element. This leaves you with the net amount and since they are paying you this in the form of compensation for them losing or damaging your inventory, this is outside the scope of VAT and therefore you should not be paying VAT on this income.

- Sales where the destination is outside the EU – these sales are also outside the scope of UK VAT and if you are registered for Amazon's VAT Calculation Service then they will not even have charged the customer VAT on the order anyway – the customer will pay the ex. VAT price.

- Sales where the destination is an EU country where you hold a VAT registration – these sales are also outside the scope of UK VAT as you will pay VAT on them in the other EU country. If you do not identify and exclude these transactions, you will in effect being paying VAT twice on them – once in the EU country and once in the UK.

Link My Books identifies all of the above transaction types and allows you to set a "No VAT" tax rate against them so that you never overpay your UK VAT bill again.

✓ Step 1   ✓ Step 2   3 Step 3

Please select the Tax Rates you want to assign to each category below:

Transaction Category	Tax Rate
UK VAT-able Sales ❓	20% (VAT on Income) ▾
UK Non VAT-able Sales ❓	No VAT ▾
Amazon Fees ❓	Reverse Charge Expenses (20%) ▾
Amazon Reserved Balances ❓	No VAT ▾
Amazon Loans ❓	No VAT ▾
Amazon Advertising Costs (UK) ❓	20% (VAT on Expenses) ▾
Amazon Advertising Costs (EU) ❓	Reverse Charge Expenses (20%) ▾
Amazon FBA Reimbursements ❓	No VAT ▾

Previous   Help document.   Confirm Tax Rates

USING "ALL STATEMENTS" SCREEN

Some sellers may be using the All Statements overview page to account for their sales and expenses from Amazon. This page is available in seller central via:

Reports > Payments > All Statements

Using the information on this page is also inaccurate for the same reasons as above due to the lack of detail included on the page.

PAYING VAT ON REIMBURSEMENTS

As mentioned above, when Amazon reimburse you for an item that they lost or damaged in the warehouse the payment you receive should be treated as non-vatable. This is because the amount that Amazon reimburse you is not including VAT.

The way to check this is to go to Amazon Seller Central and navigate to:

Reports > Fulfilment by Amazon > Reimbursements

Take your latest reimbursement from Amazon and find the "Amount Per Unit" for a SKU that was reimbursed by cash.

Here we have an example where the top row shows an amount per unit of £6.12.

This SKU sells for £11.95.
The Referral fee is £1.79.
The FBA fee is £2.05.
The VAT element of the sales price is £1.99.

£11.95 - £1.79 - £2.05 - £1.99 = £6.12.

Net Proceeds   ×

Product economics

Dimension	Value
Item price	£11.95
Shipping	£0.00
Customer pays	£11.95

Summary of charges

Referral fee	-£1.79
Other fees	£0.00
FBA rates	-£2.05
Fee discounts	£0.00
Taxes	(click to load)
Estimated net proceeds (excluding VAT)	**£8.11[1]**

This proves that the amount Amazon reimburse you for lost or damages inventory is excluding VAT and therefore you should not be marking this income as Vatable.

Link My Books separates out these reimbursements and allows you to account for them separate to sales and with a No VAT tax rate.

PAYING DOUBLE VAT
ON EU SALES

As mentioned in the first section, sales that are destined for an address in another EU country where you hold a VAT registration are not liable for UK VAT.

Since you will pay the VAT on those sales in the other EU country (where you hold a VAT registration also) you should not be paying UK VAT on them.

However, many sellers do exactly this. They unknowingly include these sales in their UK Vatable turnover and pay VAT on the same sales twice!!

Working out which sales this applies to is actually quite difficult because even if you use the Amazon Settlement reports to account for your sales, they still do not include enough detail (namely the destination address) in order to see if the sale is in fact vatable in the UK.

Let's take a look at some examples:

Jimmy has an Amazon business, he is VAT registered in the UK, Germany and France. He sells on all 5 of Amazon's European Marketplaces (UK, DE, FR, IT & ES) **but only stores inventory in UK FBA warehouses.**

UK Company	Marketplaces	VAT Registrations
🇬🇧	🇬🇧 🇩🇪 🇫🇷 🇮🇹 🇪🇸	🇬🇧 🇩🇪 🇫🇷

Example 1: 🇬🇧 ⟶ 🇮🇹

A sale from Amazon.co.uk which was delivered to a customer in Italy.
This would be vatable in the UK as Jimmy does not hold a VAT registration in Italy and the sale was fulfilled from the UK where Jimmy does hold a VAT registration, so UK VAT applies.

Example 2: 🇬🇧 ⟶ 🇩🇪

A sale from Amazon.co.uk which was delivered to a customer in Germany.
This would NOT be vatable in the UK as Jimmy does hold a German VAT registration, so they have first claim on the VAT. Since Jimmy will pay VAT on this sale in Germany it is therefore outside the scope of UK VAT and should be treated in Xero as "No VAT".

Example 3: 🇩🇪 ⟶ 🇦🇹

A sale from Amazon.de which was delivered to a customer in Austria.
This would be vatable in the UK as Jimmy does not hold a VAT registration in Austria and the sale was fulfilled from the UK where Jimmy does hold a VAT registration, so UK VAT applies.

Example 4: 🇫🇷 ⟶ 🇫🇷

A sale from Amazon.fr which was delivered to a customer in France.
This would NOT be vatable in the UK as Jimmy does hold a French VAT registration, so they have first claim on the VAT. Since Jimmy will pay VAT on this sale in France it is therefore outside the scope of UK VAT and should be treated in Xero as "No VAT".

Link My Books detects the delivery destination for each sale, splitting them into different country groups and allows you to set separate tax rates for each. This means that you will never pay VAT on sales that are outside the scope of UK VAT again.

10

PAYING VAT ON SALES OUTSIDE EU

Just as in the previous section, it is important that you determine the destination of every sale regardless of which marketplace it was sold on as you could be paying VAT for no need on sales that have been delivered outside of the EU.

Sales that are delivered to customers located outside the EU are outside the scope of UK VAT and therefore you need to be accounting for those sales with "No VAT" tax rates.

Let's take a look at some examples again:

Jimmy has an Amazon business, he is VAT registered in the UK, Germany and France. He sells on all 5 of Amazon's European Marketplaces (UK, DE, FR, IT & ES) **but only stores inventory in UK FBA warehouses.**

UK Company 🇬🇧

Marketplaces 🇬🇧 🇩🇪 🇫🇷 🇮🇹 🇪🇸

VAT Registrations 🇬🇧 🇩🇪 🇫🇷

Example 1: 🇬🇧 ┄➤ 🇳🇴

A sale from Amazon.co.uk which was delivered to a customer in Norway.
This would NOT be vatable in the UK as Norway is outside the EU and therefore no VAT would be liable on this sale.

Example 2: 🇬🇧 ┄➤ 🇨🇭

A sale from Amazon.de which was delivered to a customer in Switzerland.
This would NOT be vatable in the UK as Switzerland is outside the EU and therefore no VAT would be liable on this sale.

Example 3: 🇩🇪 ┄➤ 🇭🇰

A sale from Amazon.de which was delivered to a customer in Hong Kong.
This would NOT be vatable in the UK as Hong Kong is outside the EU and therefore no VAT would be liable on this sale.

Link My Books identifies the destination country for each sale and groups them into country groups, allowing you to set different tax rates for each group and ensure you never pay UK VAT on sales that are delivered outside the EU.

GETTING REVERSE CHARGED VAT WRONG

If you have provided Amazon with your UK VAT number, then you will likely be being reverse charged VAT on your Amazon fees excluding Amazon.co.uk Sponsored ad costs (which we will cover in the next section).

Since Amazon is invoicing your UK VAT registered company from their Luxembourg entity, they are not applying VAT to their fees. Instead they do what is called "Reverse Charging VAT". This means that both parties need to account for the VAT, but you don't pay it to them and they don't pay it to the tax authority.

Where lots of sellers can go wrong is, they assume that Amazon is charging them VAT on their fees when they are in fact being reverse charged. This results in those sellers claiming back VAT they never actually paid.

Some sellers do the opposite. They pay VAT on their Amazon fees (because they have not entered their VAT number in seller central) but they don't claim it back.

It is important that you check your latest VAT Invoices from Amazon to see if they are charging 20% VAT on your fees or if they are reverse charging the VAT.

To do that, visit seller central and navigate to:

Reports > Tax Document Library

Tax Document Library

| Seller Fee Invoices | Amazon VAT calculation |

(i) **VAT transaction reports are available**
This provides detailed tax relevant information for all activity on Amazon European websites.

View Amazon VAT transaction reports

Seller Fee Invoices
Your e-mail address :

Invoice Type	Invoice Number	Payer Name	Payer Registration	Supplier Name	Supplier Registration	Marketplace	Start Date	End Date	Select
Merchant VAT Invoice				Amazon Services Europe S.à r.l.	LU19647148	Amazon.de	Wed May 01 12:47:05 UTC 2019	Fri May 31 23:00:00 UTC 2019	☐
Fulfillment by Amazon Tax Invoice				Amazon Services Europe S.à r.l.	LU19647148	SI Prod IT Marketplace	Wed May 01 12:47:05 UTC 2019	Fri May 31 23:00:00 UTC 2019	☐
Merchant VAT Invoice				Amazon Services Europe S.à r.l.	LU19647148	Amazon.co.uk	Wed May 01 12:47:05 UTC 2019	Fri May 31 23:00:00 UTC 2019	☐
Merchant VAT Invoice				Amazon Services Europe S.à r.l.	LU19647148	Amazon.co.uk	Mon Apr 01 12:47:05 UTC 2019	Tue Apr 30 23:00:00 UTC 2019	☐
Fulfillment by Amazon Tax Invoice				Amazon Services Europe S.à r.l.	LU19647148	Amazon.it	Mon Apr 01 12:47:05 UTC 2019	Tue Apr 30 23:00:00 UTC 2019	☐

The two invoice types you need to check are "Merchant VAT Invoice" and "Fulfilment by Amazon Tax Invoice".

Request copies of some of the invoices and scroll to the bottom of them, look at the VAT rates being applied – are they 20% or 0%?

If they are 20%, you'd need to use 20% VAT on Expenses as your tax rate for Amazon fees.

If they are 0%, you'd need to use "Reverse Charge Expenses (20%)" as your tax rate for Amazon fees.

GETTING VAT ON
SPONSORED ADS WRONG
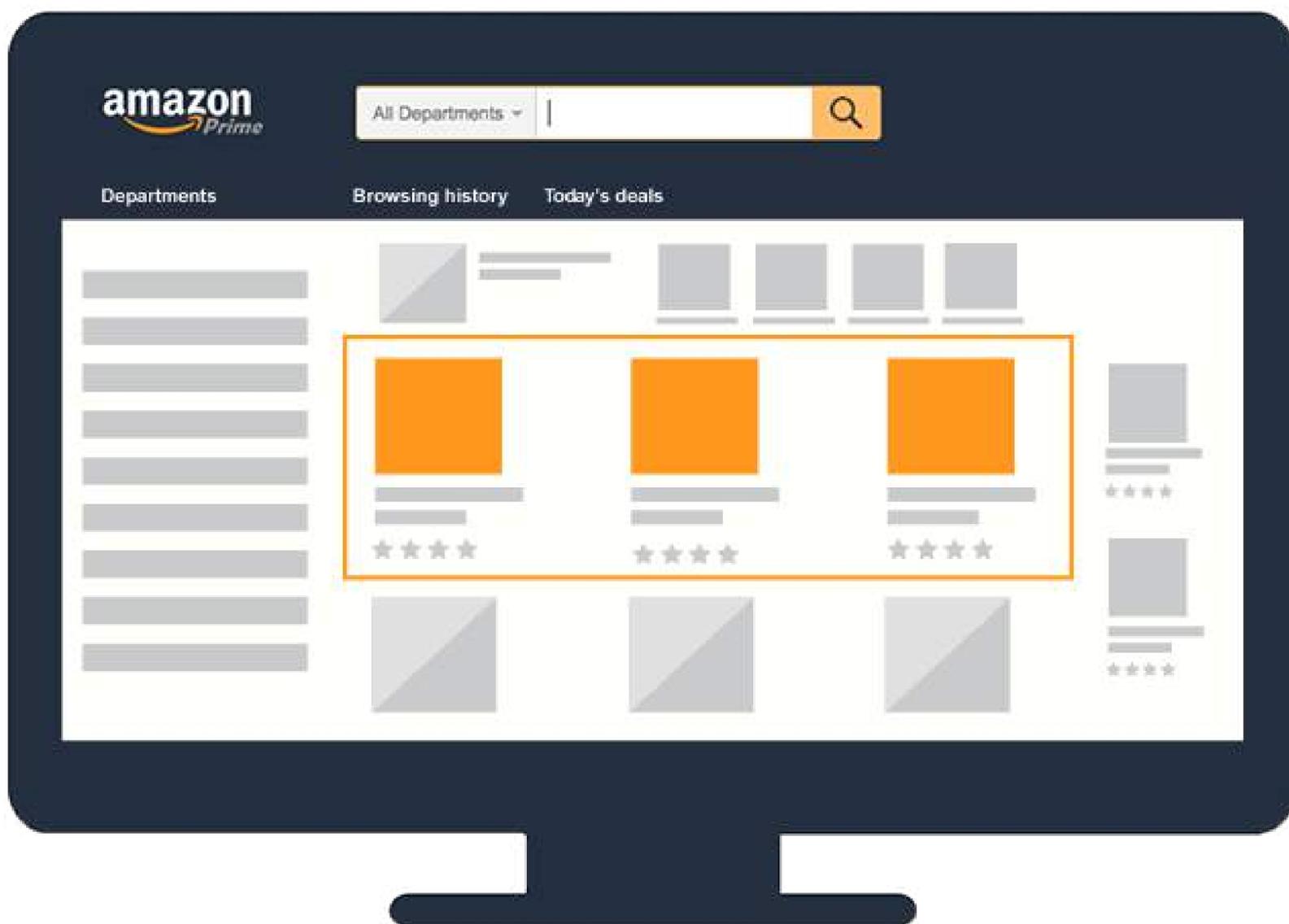
Since October 2018 Amazon.co.uk Sponsored Ads have been billed from Amazon Online UK Limited using a UK VAT number meaning that for all Amazon.co.uk sponsored ads billed from that date 20% VAT on expenses would apply if your company is also based in the UK.

Some sellers are still classifying their Amazon.co.uk sponsored ad costs as reverse charged VAT meaning that that are not claiming back the 20% VAT they are now paying on them.

The other European Amazon marketplaces are not affected by this as they are still being billed from Amazon Services Europe S.à r.l. using a Luxembourg VAT number. Therefore, they are still being reverse charged as long as you have entered your VAT number on Seller Central.

Link My Books splits the Sponsored Ads costs between each of the marketplaces allowing you to set different VAT rates for them meaning that you claim back any VAT you have paid and are not out of pocket by 20% unnecessarily.

15

NOT TRACKING
MARKETPLACE PROFITS

Some sellers make the mistake of accounting for all of their Amazon sales from all marketplaces as simply "Amazon Sales" and then when it comes to looking at their Profit and Loss report they can only see overall figures for sales, fees and net profit instead of seeing which marketplaces are making them the biggest returns.

It's important to focus on where your greatest returns are coming from otherwise it's easy to get sucked into spending loads of time on one marketplace when another is making you a far greater return.

Link My Books allows you to add a tracking code to each of the marketplaces with one click, meaning that you can break down your profit and loss reports inside Xero by marketplace and finally see at a glance where your best performers are.

NOT ACCOUNTING FOR
COGS PROPERLY

Most sellers use some form of profit tracker outside of their accounting system to see how their sales and margins are growing, however these can be very inaccurate due to the fact that there are so many different Amazon fees that are not charged on a per sale basis.

Storage fees, sponsored ads, removal fees, reimbursements and inbound transportation are just a few of the types of transactions that most profit trackers forget about since they are not directly linked to a specific order/sale.

This means that you are seeing inflated margins which are not a true reflection of your real bottom line.

Using Link My Books and Xero to account for and evaluate your real net profits is 100% accurate and means that you will be able to see the actual bottom line figure for your Amazon sales.

To do this you also need to be accounting for your Cost of Goods Sold correctly.

If you are one of the sellers that simply does a once a year stock count for your end of year accounts, then you are only really able to truly know what your net profits have been for the year then. Month to month, since you're not accounting for COGS you are not seeing a true net profit figure on your profit and loss report.

What you should be doing is accounting for every unit of inventory that has been sold as a cost in that month, hence the name Cost of Goods Sold.

Link My Books has a built in COGS tracker meaning you can accurately account for the cost of the items you have sold for each Amazon settlement. This means that every time you get a payment from Amazon you will know with 100% confidence what your exact profits are for that payout plus you can then track your monthly net profits with ease in Xero.

NOT FILING AN EC SALES LIST

If you are storing inventory in FBA warehouses outside the EU or are on the Amazon PAN-EU FBA program, then Amazon may be moving your inventory around European fulfilment centres to meet customer demand.

Since you need to be VAT registered in any EU country that you hold inventory in you may also need to be filing an EC Sales List each month. Speak to your accountant to ensure you need this but if you're moving inventory between countries you are VAT registered in then you should be recording these transfer values on your EC Sales List.

EC Inventory Movement		2019-APR
Country	Total Imports To UK (GBP)	Total Exports From UK (GBP)
Czechia	£103.60	£710.40
Germany	£0.00	£1544.60
Spain	£5.40	£2138.60
France	£3.70	£717.80
Italy	£11.10	£710.40
Poland	£0.00	£4719.20

Link My Books has a built-in monthly EC Inventory Movement report showing you a summary of the movement of your inventory between the UK and Amazon's other European Fulfilment Centre countries. You can then use these Import and Export figures within your EC Sales List.

(Your accountant may do this for you now and it may take them a good while to get the info they need from Amazon so they will love this feature.)

18

SPENDING TOO MUCH TIME ON BOOKKEEPING

Overall the single biggest mistake we see sellers making is spending far too much time on bookkeeping instead of driving their businesses forwards.

As you will now have gathered, Amazon bookkeeping is complex and has a lot of potential pitfalls. Whilst it is important to ensure that you are accounting for everything correctly and not overpaying any taxes etc. it is equally important to make sure you don't have to spend hours and hours each month doing so.

Link My Books Amazon to Xero integration can help you to automate your Amazon bookkeeping so that you never have to spend more than a few minutes each month on it.

Most sellers can have Link My Books set up and running on autopilot within as little as 30 minutes – which in our eyes is a very worthwhile investment of time to save potentially hours and hours of headaches each month, not to mention the potential tax saved for accounting for Amazon fees and sales correctly.

We offer a 14-day free trial plus we can walk you through set up one-to-one if needed and we even have accounting and bookkeeping partners who can do it all for you should you want that too.

So, stop wasting time each month on bookkeeping and instead use Link My Books and Xero to automate your Amazon accounting.

Start your free trial of Link My Books today.