

Best Accounting Practices for Online Businesses

Name:

Institution:



Chapter 1: Introduction

1.1. Background

As technologies continue to advance, the use of the internet for services that would, in the past, be sought through analog means, including accounting practices, is steadily increasing.

According to a survey conducted by IBISWorld (2023) in the U.S., the percentage of businesses conducted online grew by 2.8% between 2018 and 2023. In 2023 only, 26.9% of businesses were conducted online. The survey further estimates that between 2023 and 2028, the percentage of businesses conducted online will increase at an annualized rate of 4.0% (IBISWorld, 2023).

Accounting is one of the most powerful aspects of any business, whether brick-and-mortar or online businesses (Xero, 2023). While traditional accounting practices are integral, they do not wholly address the complex procedures involved in accounting for online transactions,

automated processes, and digital revenue. As discussed by Quinto (2022), the need to tailor accounting practices to the requirements of online operations is now more urgent than ever to ensure accurate financial reporting, compliance with regulations, and informed decision making.

Online businesses present entrepreneurs with a number of advantages, e.g., global presence and lower maintenance costs. The survey earlier mentioned that was conducted by IBISWorld (2023) reported that one of the things that has contributed to the increase of online businesses is the low cost of internet services. Servers are the only fixed cost for internet-based services, while cloud computing has significantly decreased the cost of services, which has made internet-based services cheaper for businesses and consumers (IBISWorld, 2023). As such, it is expected that the number of online businesses will grow and they will still need to follow strict accounting principles and regulations, even though e-commerce can pose significant challenges for such businesses.

1.2. Problem Statement

After conducting an extensive literature research, it was noted that despite the huge growth of online businesses, a gap exists in studies recommending the best accounting practices for online businesses. Teru et al. (2019) write that traditional accounting models hardly address the challenges of online transactions and e-commerce revenue recognition, the use of cloud-based technologies, and other issues as automation. This research will bridge this gap by discussing the current state of accounting practices in online businesses, highlighting the weaknesses and methods of improving financial processes.

1.3. Research Aim and Objectives

The aim of this research is:

- To conduct a comprehensive review of current accounting practices in online businesses

The above aim will be guided by the following objectives:

- i. To contextualize the influence of technology on online business accounting
- ii. To critically evaluate regulatory compliance challenges in online business accounting
- iii. To synthesize recommendations for improve accounting practices in online businesses

1.4. Research Questions

The above aim and objectives will be guided by the following research questions:

- i. What are the current accounting practices in online businesses?
- ii. How has technology impacted accounting practices for online businesses?
- iii. What are the legal and regulatory frameworks governing online businesses?

- iv. What are the recommended best practices for accounting in online businesses, taking into consideration the unique challenges and opportunities they face in the digital world?



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