ECOMB 105 — Sales Channels & Payment Processing – Comprehensive Outline

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Module 1 — E-Commerce Sales Channels: The Big Picture

Module Overview

This module surveys the major e-commerce sales channels and explains how channel choice affects transaction flow, fees, payout timing, reporting, customer ownership, and operational complexity. It establishes a shared vocabulary for channel types and introduces the structural differences that drive accounting and reconciliation requirements.

1.1 Channel Categories and Core Concepts

Sales Channel Definition

A sales channel is the route through which a customer purchases a product and payment is collected, processed, and settled before funds are deposited to the seller's bank account.

Primary Channel Categories

- Direct-to-Consumer (DTC) storefronts
- Online marketplaces
- Social commerce platforms
- B2B and invoicing channels

Channel Components Common to Most Models

- Product listing and merchandising
- Checkout and payment collection
- Order management and fulfillment coordination
- Customer communications and support
- Refund/return and dispute handling
- Reporting for sales activity and payouts

1.2 Direct-to-Consumer Storefront Channels (DTC)

Typical Platforms

- Shopify
- WooCommerce
- BigCommerce
- Magento/Adobe Commerce (enterprise)

Structural Characteristics

- High control over branding, pricing, checkout experience, and customer data
- Payment processing integrated via platform payments or third-party processors
- Fees generally split between platform subscriptions/apps and payment processing
- Reporting includes detailed order-level data and payout/settlement summaries

Common Cost Areas

- Subscription fees (platform plan)
- Payment processing fees
- App/plugin subscriptions
- Theme and development costs
- Shipping labels and fulfillment services
- Advertising and marketing spend

1.3 Marketplace Channels

Typical Marketplaces

- Amazon
- Etsy
- eBay
- Walmart Marketplace

Structural Characteristics

- Marketplace drives discovery and traffic; seller competes within platform rules
- Fees typically include commissions/referral fees and transaction fees
- Payouts are commonly batched and may include reserves, holds, or delayed availability
- Reporting includes settlement statements that bundle sales, fees, refunds, and adjustments

Operational Notes

- Returns and customer service policies are often marketplace-driven
- Payment flow is frequently controlled by the marketplace rather than the seller's processor
- Tax collection/remittance may be handled by the marketplace depending on jurisdiction and facilitator rules

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1.4 Social Commerce Channels

Typical Platforms

- TikTok Shop
- Instagram/Facebook Shops
- Pinterest shopping (varies by integration)
- Live shopping platforms (varies by provider)

Structural Characteristics

- Sales are driven by content, creators, and paid social distribution
- Returns and refund rates may be higher in trend-driven categories
- Fees may include platform selling fees and payment-related charges; ad spend is often a major cost driver
- Reporting can be less standardized and may require consolidation across platform dashboards and connected storefronts

Operational Notes

- Attribution and performance reporting is influenced by ad platforms and tracking rules
- Inventory synchronization and order routing often depend on integrations

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1.5 B2B and Invoicing Channels

Typical Models

- Wholesale purchase orders
- Net terms invoicing (Net 15/30/60)
- ACH, wire, check, or card-on-file payments
- Distributor or retailer portal ordering

Structural Characteristics

- Fewer, larger transactions and higher documentation requirements
- Payment collection may occur after fulfillment (accounts receivable exposure)
- Fees are often lower for ACH/wire compared to card payments
- Reporting includes invoices, payment receipts, and aging schedules

Operational Notes

- Credit risk, collections, and customer credit limits affect cash flow
- Returns may involve negotiated terms and allowances

1.6 Comparing Channels: Fees, Payout Timing, Data Access, and Risk

Channel Comparison Table

Channel Type	Typical Fee Pattern	Typical Payout Timing	Data/Customer Ownership	Common Risk Areas
DTC Storefront	Subscription + processing fees	Daily/weekly (processor dependent)	High	Chargebacks, ad dependence
Marketplace	Commission + transaction fees	Weekly/biweekly (platform dependent)	Moderate/Low	Returns, policy holds, account risk
Social Commerce	Platform fees + ad costs	Varies (platform dependent)	Low/Moderate	High returns, attribution limits
B2B/Invoicing	Low processing (ACH) or card fees	Terms-based	High	Nonpayment, collections

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1.7 Channel Transaction Flow and "Merchant of Record" (High-Level)

Merchant of Record (MoR) Concept

The merchant of record is the entity recognized as the seller for payment and regulatory purposes. This affects who controls the payment processing, who issues refunds, and how settlement reporting is structured.

Common Patterns

- DTC storefronts: seller is often MoR (through their processor relationship)
- Marketplaces: marketplace may function as MoR or control settlement flow
- Social commerce: varies by platform and integration model
- B2B: seller is MoR and controls invoicing/collections

1.8 Reporting Requirements by Channel

Report Types Commonly Needed

- Orders/sales reports (sales activity)
- Payout/settlement reports (deposit calculation)
- Fees statements (cost detail)
- Refunds/returns reports (contra-revenue activity)
- Disputes/chargeback reports (risk events)
- Bank statements (cash confirmation)

Reporting Emphasis by Channel

Channel Type	Strongest Data Source	Most Important Reconciliation Source
DTC Storefront	Orders report	Processor payouts + bank deposits
Marketplace	Settlement statements	Settlement statements + bank deposits
Social Commerce	Platform dashboards/integrations	Platform payouts + bank deposits
B2B/Invoicing	Invoice ledger	Receipts/AR + bank deposits

1.9 Multi-Channel Selling: Consolidation Considerations

Common Multi-Channel Structures

- DTC storefront + one or more marketplaces
- DTC storefront + social commerce integrations
- Marketplace-only operations with multiple marketplaces
- DTC + B2B wholesale

Common Accounting/Reporting Challenges

- Double counting sales when data sources overlap
- Different fee types and payout schedules by channel
- Returns and disputes managed differently across channels
- Inventory synchronization issues affecting order fulfillment and reporting accuracy
- Channel-specific tax handling differences

1.10 Module Summary

This module defines the main e-commerce sales channels and describes how channel structure drives differences in fees, payout timing, reporting quality, customer ownership, and risk exposure. The content establishes the framework needed to interpret channel reports and prepare for payment processing, settlement analysis, and reconciliation workflows in later modules.

Module 2 — Payment Processing Fundamentals (How Money Moves)

Module Overview

This module explains the payment processing ecosystem and the lifecycle of an e-commerce transaction from **checkout to bank deposit**. It clarifies the roles of gateways, processors, networks, and platforms; defines key payment terms; and shows how **fees, timing, and risk events** affect settlement and payouts.

Module Outcomes

By the end of this module, learners will be able to:

- Describe the payment lifecycle: **authorization → capture → settlement → payout → bank**
- Identify the main parties involved and what each one does
- Explain why **sales activity** and **cash deposits** differ
- Interpret basic settlement concepts: fees, refunds, chargebacks, holds/reserves
- Recognize common payment statuses and failure points

2.1 The Payment Ecosystem (Who's Involved)

Key Participants

- **Customer**: initiates payment at checkout
- **Merchant/Seller**: accepts payment for goods/services
- **Platform** (optional): Shopify, marketplace, social commerce platform
- **Payment Gateway**: routes payment data securely (often integrated into platforms)
- **Payment Processor / Acquirer**: processes card transactions on behalf of the merchant
- **Card Networks**: Visa, Mastercard, Amex, Discover (set rules and route transactions)
- **Issuing Bank**: customer's bank that approves/declines the transaction
- **Merchant Bank Account**: where payouts are deposited

Roles Table

Party	Primary role	Typical artifacts/reports
Gateway	Securely transmits payment info	Transaction logs, auth/capture records
Processor/Acquirer	Submits transactions, settles funds	Settlement/payout reports, fee summaries
Card Network	Routes transactions, sets dispute rules	Network rules, chargeback codes
Issuing Bank	Approves/declines, handles disputes	Authorization/decline reasons, chargebacks
Platform/Marketplace	Manages checkout/sales channel	Orders report, platform fees, settlements

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2.2 Payment Lifecycle (Authorization → Capture → Settlement → Payout)

Lifecycle Definitions

- **Authorization (Auth):** issuer approves and places a temporary hold on funds/credit
- **Capture:** merchant finalizes the charge (turns auth into a completed sale)
- **Settlement:** processor calculates what is owed after fees/adjustments
- **Payout:** processor/platform sends a batch deposit to the merchant bank
- **Posting:** bank records the deposit (may occur later than payout date)

Flow Illustration (Conceptual)

Customer checkout → **Auth → Capture → Settlement batch → Payout → Bank deposit posted**

Example A: Simple single transaction

- Customer pays: $100.00
- Processing fee: $3.20
- Net settlement (before other deductions): $96.80
- Payout deposits: $96.80 (or batched with other transactions)

2.3 Common Payment States and What They Mean

Status Table

Status	Meaning	Common causes
Authorized	Funds reserved, not finalized	Typical at order placement
Captured	Charge finalized	Order confirmed/shipped
Settled	Included in settlement batch	Processor cut-off times
Paid out	Included in payout batch	Payout schedule
Refunded	Money returned	Return/cancellation
Disputed	Customer filed chargeback	Fraud, dissatisfaction
Failed/Declined	Issuer refused transaction	Insufficient funds, AVS/CVV mismatch

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2.4 Payment Methods and Routing (High-Level)

Common Methods

- **Credit/debit cards**
- **Digital wallets** (Apple Pay, Google Pay)
- **PayPal**
- **BNPL** (Afterpay/Klarna/Affirm)
- **ACH/bank transfer** (often B2B)
- **Gift cards/store credit** (internal to merchant/platform)

Method Comparison Table

Method	Typical payout speed	Typical risk profile	Notes
Cards	Fast	Higher chargeback risk	Most common in DTC
Wallets	Fast	Similar to cards	Uses card rails underneath
PayPal	Fast	Medium	Separate reporting often
BNPL	Fast	Medium	Different dispute rules
ACH	Medium	Lower	Common B2B; lower fees
Gift cards	N/A	Low	Liability until redeemed

2.5 How Fees Work (Why Deposits Are Smaller)

Common Fee Types

- **Percentage fee** (e.g., 2.9%)
- **Fixed fee** (e.g., $0.30 per transaction)
- **Platform/marketplace fees** (commissions, listing, transaction fees)
- **Refund fees** (policy varies)
- **Chargeback fees**
- **Currency conversion/FX fees**
- **Subscription fees** (platform/apps)

Example B: Fee math on a batch of sales

100 orders × $50 average = $5,000 processed
Fee rate 2.9% + $0.30:

- Percentage fees: $5,000 × 0.029 = $145.00
- Fixed fees: 100 × $0.30 = $30.00
  Total processing fees = **$175.00**

2.6 Settlement, Payouts, and Cutoff Timing

Key Timing Concepts

- **Cutoff time:** transactions after cutoff settle in the next batch
- **Batching:** many transactions combined into one settlement/payout
- **Payout schedule:** daily/weekly/rolling based on processor/platform
- **Bank posting delay:** deposit may post 1–2 business days later

Example C: Timing difference

- Sales captured Friday evening
- Settlement batch includes them Saturday
- Payout initiated Monday
- Bank posts deposit Tuesday

2.7 Holds, Reserves, and Risk Controls

Definitions

- **Reserve/rolling reserve:** a % withheld temporarily to cover refunds/chargebacks
- **Hold:** payout paused for risk review/compliance
- **Minimum reserve balance:** must be maintained before additional funds are released

Example D: Rolling reserve

- Gross activity: $2,000
- Fees/refunds: $120
- Reserve withheld (10%): $200
- Net payout: $1,680
  Reserve release later increases a future payout when funds are released.

2.8 Refunds and Reversals in the Payment Flow

Key Concepts

- Refunds can occur after settlement, creating negative adjustments in a later payout
- Refund timing can differ from sale timing, affecting reporting by period
- Some processors do not return certain fees on refunds (policy-dependent)

Example E: Refund hits later payout

- Week 1: sale captured $100
- Week 2: refund issued $100
  Week 2 payout may be reduced by $100 even if Week 2 sales are low.

2.9 Chargebacks/Disputes (Where Money Can Be Pulled Back)

Dispute Lifecycle (High-Level)

- Dispute opened → funds may be temporarily withdrawn/held → evidence submitted → outcome won/lost → final adjustment posted

Example F: Chargeback lost

- Sale: $100
- Chargeback fee: $15
- Net cash impact: −$115 (timing depends on processor)

2.10 Connecting Sales Activity to Cash (The Payout Bridge)

Payout Bridge Concept

Gross collected
− refunds/chargebacks
− processing fees
− platform/marketplace fees
− other adjustments (labels if deducted, FX, reserves)
= **net payout/deposit**

Example G: Payout bridge mini-case

Gross collected: $2,400
Refunds: $150
Processing fees: $72
Platform fees: $210
Reserve: $200
Net payout = $2,400 − $150 − $72 − $210 − $200 = **$1,768**

2.11 Documentation and Reports Used in Payment Processing

Report Map Table

Question	Best source
What sold and what did the customer pay?	Orders/Sales report
What fees/refunds/adjustments occurred?	Settlement/payout report
What disputes happened and what were outcomes?	Disputes/chargebacks report
Did cash arrive in the bank?	Bank statement

2.12 Common Problems and What They Usually Indicate

Issues Table

Issue	Likely cause
Deposit doesn’t match sales	Fees/refunds/reserves/timing
Missing payout	Hold, payout schedule delay, bank posting delay
Negative payout	Refunds/chargebacks exceed sales in payout period
Spike in chargebacks	Fraud, fulfillment delays, customer dissatisfaction
Large reserve increase	Risk review due to disputes/refund rate

Module 3 — Payment Methods & Their Accounting Impacts

Module Overview

This module surveys common e-commerce payment methods and explains how each method affects transaction flow, fees, payout timing, reporting structure, risk exposure, and accounting classification. It emphasizes how to interpret method-specific reports and how method differences can change reconciliation and financial statement presentation.

Module Outcomes

Learners will be able to:

- Identify major payment methods used in e-commerce and their typical settlement behavior
- Compare fee structures and payout timing across methods
- Explain method-specific risk events (refunds, disputes, chargebacks) and their cash impact
- Recognize method-driven reporting differences that affect reconciliation
- Classify common method-related items correctly (fees, reserves, gift cards, credits)

3.1 Payment Method Categories

Core Categories

- Card payments (credit and debit)
- Digital wallets (Apple Pay, Google Pay)
- PayPal and PayPal Pay Later
- BNPL (Buy Now, Pay Later)
- ACH / bank transfers (common in B2B)
- Gift cards and store credit
- Wire/check (primarily B2B)
- Cash on delivery (rare)

Category Table

Method Category	Typical use case	Main distinguishing factor
Cards	Most DTC and marketplace checkouts	Highest chargeback exposure
Wallets	Mobile checkout convenience	Uses card rails with wallet tokenization
PayPal	Alternative checkout + buyer protections	Separate reporting ecosystem
BNPL	Higher conversion for higher AOV	Different fee and dispute rules
ACH	B2B or high-ticket	Lower fees, different reversal risk
Gift cards/Store credit	Promotions, loyalty	Liability until redeemed
Wire/Check	B2B wholesale	Manual processing, slower
COD	Limited regions/categories	Higher delivery risk

3.2 Cards (Credit/Debit) — Accounting and Reporting Impacts

Transaction Characteristics

- Authorization and capture often occur close to order placement
- Settlement batches and payouts follow processor schedules
- Fees commonly include percentage + fixed per transaction

Common Costs and Risk

- Processing fees
- Chargebacks/disputes
- Fraud screening costs (tools/services)

Accounting Focus

- Processing fees recorded as expenses
- Chargeback fees recorded as expenses
- Refunds reduce net sales (contra-revenue)

Example A: Card fee math

$100 card sale at 2.9% + $0.30
Fee = $2.90 + $0.30 = $3.20
Net settlement (before other deductions) = $96.80

3.3 Digital Wallets (Apple Pay / Google Pay)

How They Differ

- Typically run on card networks (still card rails)
- Tokenization improves security and can reduce fraud exposure
- Reporting may show wallet as a "payment type" within the same processor

Accounting Focus

- Generally same fee treatment as card payments
- Reconciliation remains within the processor settlement report

Operational Notes

- Higher mobile conversion rates
- Disputes/chargebacks still possible because underlying card rails apply

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3.4 PayPal (and PayPal Pay Later)

Transaction Characteristics

- Often functions as a separate payment ecosystem with distinct reporting
- Payouts can be immediate to PayPal balance or transferred to bank on schedule
- Buyer protection policies can affect dispute handling

Accounting Focus

- PayPal fees recorded as expenses
- PayPal balance may function as a cash-like account (asset) until transferred
- Separate payouts require separate reconciliation streams to the bank

Example B: PayPal balance flow

Customer pays $120 → PayPal fee $4.00 → PayPal balance increases $116 → transfer to bank later

3.5 BNPL (Afterpay/Klarna/Affirm)

Transaction Characteristics

- Customer pays BNPL provider over time; merchant is paid upfront (less fees)
- Higher fees than standard card processing are common
- Dispute/returns processes may differ by provider

Accounting Focus

- BNPL provider fees recorded as expenses (often separated for visibility)
- Payouts may be separate from standard processor payouts
- Refunds and disputes can create adjustments in later settlements

Example C: BNPL fee impact

$200 BNPL order
BNPL fee 6% = $12
Net payout = $188 (before other deductions)

3.6 ACH / Bank Transfer (Common in B2B)

Transaction Characteristics

- Lower fees than card payments
- Different risk profile: fewer chargebacks, but potential returns (depending on rail and timing)
- Payment terms (net terms) may introduce accounts receivable

Accounting Focus

- If paid at time of order: similar to cash receipt with low fees
- If invoiced: accounts receivable tracking and collections workflow
- Bank deposit may be traceable per payment (less batching complexity)

Example D: B2B invoice paid by ACH

Invoice $1,000 → ACH fee $1–$5 typical → net deposit near $995–$999

3.7 Gift Cards and Store Credit

Key Principle

Gift cards are not revenue at sale; they create a liability until redeemed.

Accounting Focus

- Gift card sale: increases cash (or payout receivable) and increases gift card liability
- Redemption: reduces gift card liability and records revenue
- Store credit: treated similarly to a liability until used

Example E: Gift card lifecycle

Sell gift card $50 → Gift Card Liability +$50
Redeem $50 later → Revenue +$50, Gift Card Liability −$50

3.8 Multi-Method Checkouts and Reporting Differences

Common Complexity

- A single store may accept cards, wallets, PayPal, BNPL, gift cards
- Some methods settle through the same processor; others are separate
- Separate reconciliation streams may be required

Reporting Table

Method	Usually reconciles through	Typical "extra step"
Cards/Wallets	Processor settlement report	Cutoff timing explanation
PayPal	PayPal reports + transfers	Track PayPal balance before bank
BNPL	BNPL provider settlements	Separate fee and payout stream
Gift cards	Platform gift card ledger	Liability tracking until redemption
ACH	Bank statement / AR ledger	Invoice tracking if net terms

3.9 Refunds, Disputes, and Risk by Method

Risk Profile Comparison (High-Level)

Method	Refund handling	Dispute/chargeback risk	Typical reporting impact
Cards/Wallets	Standard refund flow	Higher	Chargeback fees + reversals
PayPal	Platform-specific rules	Medium	Separate dispute reporting
BNPL	Provider rules	Medium	Adjustments in later settlements
ACH	Bank return rules	Lower	Cleaner bank matching
Gift cards	Typically non-refundable (policy)	Low	Liability adjustments

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3.10 Chart of Accounts Suggestions (Method Visibility)

Recommended Expense Accounts

- Processing Fees — Cards/Wallets
- Processing Fees — PayPal
- BNPL Fees
- Chargeback/Dispute Fees

Recommended Balance Sheet Accounts (if needed)

- PayPal Balance (asset)
- Gift Card Liability (liability)
- Store Credit Liability (liability)

3.11 Common Issues and Corrections

Issue	Likely cause	Correction
Deposits don’t tie to sales	Mixed methods and separate settlements	Reconcile each method stream separately
PayPal sales missing from bank	Funds in PayPal balance not transferred	Track PayPal balance and transfers
BNPL fees hidden	Mapped to misc	Separate BNPL fee account
Gift cards counted as revenue	Liability not tracked	Record as liability until redemption

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Module 4 — Processor Fees & Pricing Models

Module Overview

This module explains how payment processors charge fees, the major pricing models used in e-commerce, and how fee structures affect deposits, margins, and reporting. It introduces the components of card processing costs at a practical level, shows how to calculate total fees for individual transactions and batches, and outlines how to classify and analyze fees for channel and method profitability.

Module Outcomes

Learners will be able to:

- Identify the main components of processing costs and where they appear in reports
- Compare pricing models (flat-rate, interchange-plus, blended, tiered) at a practical level
- Calculate estimated processing fees for single transactions and batches
- Recognize additional processor-related fees (chargeback, refund, PCI, FX) and how they affect payouts
- Organize fees in a chart of accounts to support margin analysis and reconciliation

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4.1 Core Fee Vocabulary and Components

Common Fee Components (Practical View)

- **Percentage fee** (variable fee based on transaction amount)
- **Fixed per-transaction fee** (flat amount per successful charge)
- **Assessment/network fees** (part of card network costs; included in most pricing)
- **Processor markup** (processor's margin or service fee)

"All-in" Processing Cost Concept

Processing cost is often described as a single effective rate, but it is composed of multiple underlying components that can vary by card type, transaction type, and risk.

4.2 Pricing Models Used by Processors

1) Flat-Rate Pricing

A single advertised rate (often % + fixed fee) for most card transactions.

Characteristics

- Simple and predictable
- Convenient for small businesses
- May be higher than interchange-plus for some businesses

Typical example

- 2.9% + $0.30 per transaction

2) Interchange-Plus Pricing

Actual interchange (set by card networks) plus a processor markup.

Characteristics

- More transparent
- Costs vary by card type and transaction method
- Often beneficial at higher volume

3) Blended Pricing

Averages different underlying costs into one or a few rates.

Characteristics

- Simpler than interchange-plus
- Less transparent; can hide cost drivers

4) Tiered Pricing

Transactions grouped into tiers (qualified/mid-qualified/non-qualified) with different rates.

Characteristics

- Can be difficult to audit
- Often results in unpredictable effective rates

Pricing Model Comparison Table

Model	How it's priced	Predictability	Transparency	Best for
Flat-rate	One rate (% + fixed)	High	Medium	Small/early-stage
Interchange-plus	Interchange + markup	Medium	High	Higher volume
Blended	Averaged rates	High	Low/Medium	Simplicity-focused
Tiered	Tier-based rates	Low/Medium	Low	Often not preferred

4.3 What Changes Processing Costs (Cost Drivers)

Common Cost Drivers

- Card type (credit vs debit; rewards/premium cards)
- Card-present vs card-not-present (e-commerce is typically card-not-present)
- Transaction size (fixed fee impacts small tickets more)
- International payments (cross-border and FX fees)
- Fraud/risk profile (higher disputes can lead to higher costs or reserves)
- Refund volume (policy-dependent fee behavior)

Example: Fixed fee impact on small tickets

- $5 sale at 2.9% + $0.30
  - % fee: $0.145
  - fixed fee: $0.30
  - total fee: $0.445
  - effective rate: 0.445 / 5 = 8.9%

4.4 Fee Math: Single Transactions and Batches

Single Transaction Example A

$100 sale at 2.9% + $0.30

- % fee: $100 × 0.029 = $2.90
- fixed fee: $0.30
- total fee: **$3.20**

Batch Example B

100 orders × $50 = $5,000 processed
2.9% + $0.30:

- % fees: 5,000 × 0.029 = $145
- fixed fees: 100 × 0.30 = $30
- total fees: **$175**

Effective Rate Calculation

Effective rate = total processing fees ÷ total processed volume

- $175 ÷ $5,000 = 3.5% effective

4.5 Additional Fees Beyond Standard Processing

Common Additional Fees Table

Fee Type	What triggers it	Where it appears	Typical classification
Chargeback/dispute fee	Dispute filed	Disputes/settlement report	Expense: Chargeback Fees
Refund fee (policy varies)	Refund processed	Settlement report	Expense or netted policy
PCI/noncompliance fee	Compliance issue	Processor invoice	Expense: Compliance/PCI
Monthly minimum	Low processing volume	Processor statement	Expense: Merchant Services
Gateway fee	Separate gateway service	Monthly invoice	Expense: Gateway Fees
FX/cross-border fee	International card	Settlement report	Expense: FX/Bank Fees
Subscription fees	Platform/apps	Invoice	Expense: Subscriptions

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4.6 How Pricing Models Affect Deposits and Reporting

Key Principles

- Deposits are net of processing fees and adjustments
- The fee model changes:
  - predictability of deductions
  - detail available in statements
  - ability to audit and negotiate costs

Reporting Differences

- Flat-rate: fewer line items, simpler summaries
- Interchange-plus: detailed line items by card category/type
- Tiered: tier labels that are harder to verify

4.7 Fee Classification and Chart of Accounts (COA)

Recommended Expense Accounts

- Payment Processing Fees — Cards/Wallets
- Payment Processing Fees — PayPal (if separate)
- BNPL Fees (if applicable)
- Chargeback/Dispute Fees
- Gateway Fees (if separate)
- FX/Cross-Border Fees
- Merchant Services / Monthly Minimums

Why separate accounts matter

- Better margin analysis
- Easier troubleshooting for deposit mismatches
- Vendor comparison and negotiation support

4.8 Fee Analysis: What to Measure

Practical KPIs

- **Effective processing rate** (fees ÷ processed volume)
- **Fees per order** (total fees ÷ number of orders)
- **Chargeback fee totals** and trend
- **Refund rate** (refunds ÷ gross sales) and its fee impact
- **Cross-border fee share** (FX fees ÷ total fees)

Example: Effective rate by month

- Month A: $300 fees on $10,000 volume → 3.0%
- Month B: $420 fees on $10,000 volume → 4.2%
  Difference might be driven by ticket size changes, card mix, or higher FX.

4.9 Common Issues and Corrections

Issue	Likely cause	Correction
Fees seem “too high”	Small ticket sizes amplify fixed fee	Evaluate pricing model / minimums
Fee totals don’t match expectations	Tiered rates or FX fees	Review statement detail
Chargeback fees rising	Fraud/fulfillment issues	Improve risk controls
Fees buried in misc	No visibility	Separate COA accounts
Deposits don’t tie	Missing adjustments/reserves	Use settlement report + reconciliation

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4.10 Module Summary

Processor pricing models determine how fees are calculated, how predictable deductions are, and how easy it is to audit costs. Accurate bookkeeping and margin analysis require understanding fee components, calculating effective rates, tracking additional fees, and structuring accounts to reveal processing cost drivers.

Module 5 — Payouts, Settlements, Reserves & Holds

Module Overview

This module explains how processors and platforms convert sales activity into cash deposits through settlement batching and payout schedules, and how reserves/holds affect timing and cash availability. It covers payout math, cutoff timing, rolling reserves, risk holds, negative payouts, multi-currency considerations, and practical reconciliation concepts for proving deposits.

Module Outcomes

Learners will be able to:

- Distinguish **settlement vs payout vs bank posting**
- Explain payout schedules and cutoff timing and how they create timing differences
- Build and interpret a **payout bridge** from gross activity to net deposit
- Identify types of reserves/holds and how releases appear in later payouts
- Recognize causes and handling of negative payouts and payout mismatches
- Describe reconciliation workflow using settlement reports and bank statements

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5.1 Key Definitions and Concepts

Core Terms

- **Settlement:** processor/platform batch calculation of net amounts after fees and adjustments
- **Payout:** transfer of net funds to the merchant's bank (or wallet balance) on a schedule
- **Bank posting:** when the bank records the deposit (may lag payout date)
- **Cutoff time:** time that determines which transactions fall into a settlement batch
- **Reserve:** portion of funds withheld to cover refunds/chargebacks (released later)
- **Hold:** payout pause due to risk/compliance review or operational issues
- **Net payout / net deposit:** cash amount transferred after all deductions and withheld amounts
- **Adjustment:** non-sale items affecting payouts (refunds, chargebacks, fee corrections, FX)

5.2 Settlement vs Payout vs Bank Posting

Distinction Table

Step	What it is	What it answers	Where it appears
Settlement	Net calculation batch	"How was net amount computed?"	Settlement/statement report
Payout	Transfer of funds	"How much was sent?"	Payout report
Bank posting	Deposit recorded	"Did cash arrive?"	Bank statement

Timing Concept

A transaction can be captured today, settled in a later batch, paid out on a schedule, and posted by the bank after an additional delay.

5.3 Payout Schedules and Timing Mechanics

Common Payout Schedules

- Daily payouts
- Weekly payouts
- Rolling payouts (e.g., "two business days after capture")
- Marketplace schedules (often weekly/biweekly with longer availability windows)

Timing Drivers

- Settlement cutoff times
- Business days vs weekends/holidays
- Platform-specific "available balance" windows
- Risk review delays
- Bank posting delays

Timing Example (Conceptual)

Captures late Friday may settle after cutoff and appear in next settlement batch; payout initiates later; deposit posts the next business day.

5.4 The Payout Bridge (Gross Activity → Net Payout)

Core Bridge Formula

Gross collected
− refunds/chargebacks
− processing fees
− platform/marketplace fees
− shipping labels/fulfillment charges (if deducted from payout)
− reserves withheld
± other adjustments (FX, corrections)
= **Net payout / deposit**

Example A: Payout Bridge

Gross collected: $2,400
Refunds: $150
Processing fees: $72
Platform fees: $210
Reserve withheld: $200
Net payout = $2,400 − $150 − $72 − $210 − $200 = **$1,768**

5.5 Reserves: Types, Purpose, and Release Behavior

Why Reserves Exist

Reserves reduce processor/platform risk by holding funds to cover potential refunds, disputes, and chargebacks.

Common Reserve Types

- **Rolling reserve:** a percentage withheld from each payout for a set period
- **Minimum reserve balance:** funds held until a minimum threshold is maintained
- **Dispute reserve:** increased holds triggered by higher dispute/refund rates
- **New seller reserve:** holds applied to new accounts or high-risk categories

Reserve Behavior

- Withheld amounts reduce current payout
- Released amounts increase future payouts (often labeled “reserve release”)

Example B: Rolling Reserve Flow

Week 1: gross $1,000, reserve 10% = $100 withheld
Week 2: gross $1,000, reserve 10% = $100 withheld
Week 6: Week 1 reserve $100 released and added to payout (timing depends on hold window)

5.6 Holds: Reasons and How They Appear

Hold Types

- **Risk hold:** suspected fraud, high refund/chargeback rate, sudden sales spike
- **Compliance hold:** verification, identity checks, policy issues
- **Operational hold:** account issues, bank verification, payout method changes

How Holds Show Up

- Missing payout despite sales activity
- "Available balance" not transferring
- Messages/flags in the processor dashboard
- Payout schedule paused until resolved

5.7 Negative Payouts and Netting Behavior

What a Negative Payout Means

Refunds, chargebacks, or fees exceed sales proceeds during the payout period, resulting in:

- A reduced payout to zero, or
- A negative net amount carried forward as an adjustment, or
- A debit to the bank (less common but possible depending on agreement)

Example C: Negative Netting

Gross collected: $500
Refunds: $650
Fees: $40
Net payout = $500 − $650 − $40 = **−$190**
The −$190 is typically carried into the next payout as a negative adjustment.

5.8 Multi-Currency and FX Impacts

Common FX Scenarios

- Customer pays in foreign currency; merchant settles in home currency
- Processor applies conversion rate and FX fee
- Settlement report shows:
    - Gross in original currency
    - Converted amounts
    - FX fee line items

Accounting and Reconciliation Considerations

- Use settlement report as source for converted net amounts
- Track FX fees separately for visibility
- Expect small variances due to rounding and conversion rates

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5.9 Reconciliation Workflow (Settlement → Payout → Bank)

Practical Workflow

1. Pull settlement/payout report for the period
2. List each payout ID, payout date, and amount
3. Match payout amounts to bank deposits
4. Investigate differences:
    - bank posting delay
    - reserve withheld/release lines
    - refunds/chargebacks posted after original sale
    - currency conversion variance
5. Document reconciliation with saved reports and notes

Mini Reconciliation Example

Payout report: $980 payout initiated Friday
Bank statement: $980 deposit posts Monday
This reflects bank posting delay, not missing funds.

5.10 Tracking Recommendations and COA Notes (Optional)

Useful Accounts (if tracking is granular)

- Processing fees (expense)
- Platform/marketplace fees (expense)
- Chargeback/dispute fees (expense)
- FX fees (expense)
- Reserve/hold tracking (balance sheet or memo tracking depending on system)

5.11 Common Issues and Corrections

Issue	Likely cause	Correction
Deposits don't match orders	fees/refunds/reserve/timing	use payout bridge + settlement report
Missing payout	hold or schedule delay	check dashboard flags; confirm payout schedule
Large swing in payouts	reserve changes or refund spike	review reserve lines and refund timing
FX variances	conversion rates/rounding	reconcile using settlement conversions
Negative payout	refunds/fees exceed sales	carry forward adjustment; document

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5.12 Module Summary

Payouts are the result of settlement calculations and payout schedules, not a direct reflection of sales. Reserves and holds are risk controls that delay cash availability and create timing differences across periods. Accurate reporting requires understanding batching/cutoffs, identifying reserve withheld/released lines, and reconciling payout reports to bank deposits with documentation.

Module 6 — Channel Reporting: Orders vs Payouts vs Bank

Module Overview

This module clarifies the purpose and limits of the three most important reporting layers in e-commerce finance: **orders (sales activity)**, **payouts/settlements (net calculation)**, and **bank statements (cash confirmation)**. It explains how each channel produces different report formats, why totals differ across layers, and how to build a reliable "source-of-truth" workflow that prevents double counting and deposit confusion in multi-channel businesses.

Module Outcomes

Learners will be able to:

- Distinguish **sales activity reporting** from **cash reporting**
- Identify which reports answer specific questions across channels
- Explain common reasons order totals do not match payouts or bank deposits
- Map report line items to accounting categories (revenue, contra-revenue, expenses, liabilities)
- Outline a practical reporting workflow that supports reconciliation and month-end close

6.1 The Three Reporting Layers (Core Framework)

Layer Definitions

- **Orders reports (Sales activity):** what customers bought at checkout and the components of the order total
- **Payout/settlement reports (Net calculation):** how sales activity is adjusted for fees, refunds, chargebacks, and holds to arrive at net funds paid out
- **Bank statements (Cash confirmation):** what cash actually posted to the bank account and when

"Best Source for the Question" Table

Question	Best source
What sold (items, quantities, prices)?	Orders report
How much tax did customers pay?	Orders report / tax report
What was refunded and when?	Refunds report
Why was the deposit smaller than sales?	Payout/settlement report
What fees were deducted?	Payout/fees statement
Did cash arrive?	Bank statement
Which payout matches this deposit?	Payout report + bank statement

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6.2 What Orders Reports Contain (and What They Don't)

Typical Orders Report Fields

- Order number / transaction ID
- Order date/time
- Channel/source
- Product subtotal
- Discounts/coupons
- Shipping charged
- Sales tax collected
- Total paid by customer
- Payment method
- Refund status (sometimes)

Orders Report Limitations

- Does not show the full net payout calculation
- May not include all fees (processor/platform fees often separate)
- Refund timing can differ from order timing
- Can include sales tax that is not revenue

Order Anatomy Table

Component	Included in "customer paid"?	Revenue?	Typical accounting treatment
Product subtotal	Yes	Yes	Revenue
Discounts	Yes (reduces total)	Reduces revenue	Contra-revenue
Shipping charged	Yes	Often yes	Shipping income (revenue)
Sales tax	Yes	No	Liability (sales tax payable)

6.3 What Payout/Settlement Reports Contain

Typical Settlement Report Contents

- Gross activity totals (or grouped transaction totals)
- Processor fees and platform/marketplace fees
- Refunds and chargebacks (and related fees)
- Shipping label/fulfillment deductions (when deducted through platform)
- Holds/reserves withheld and released
- Adjustments (corrections, FX, disputes, prior period netting)
- Net payout amount and payout identifier

Settlement Report Strengths

- Explains the "deposit math"
- Shows deductions and adjustments not visible in orders reports
- Provides payout IDs needed for matching to bank deposits

6.4 What Bank Statements Contain

Bank Statement Contents

- Deposit posting date
- Deposit amount
- Merchant account descriptors
- Withdrawals/fees at bank level (separate from processor fees)
- No line-level details about orders, fees, or refunds

Bank Statement Limitations

- Does not explain why deposit equals a certain amount
- Deposits may be batched and may combine multiple payout sources
- Posting date can lag payout date (weekends/holidays)

6.5 Why Totals Differ Across Orders, Payouts, and Bank

Primary Reasons

- Fees deducted before payout (processing, platform, marketplace)
- Refunds processed later than the original sale
- Chargebacks and dispute fees
- Holds/reserves withheld or released
- Cutoff timing and payout schedule differences
- Bank posting delays
- Multi-currency conversion and rounding
- Multi-channel deposits combining into one bank deposit

Differences Table

Difference type	What it affects	Where it shows
Fees	Lowers net payout	Settlement report
Refund timing	Shifts reductions across periods	Refund report + settlement
Reserves/holds	Delays cash	Settlement + payout
Posting delay	Changes bank date	Bank statement
FX conversion	Small variances	Settlement report
Combined deposits	Matching complexity	Bank statement

6.6 Channel-Specific Reporting Differences

DTC Storefront (e.g., Shopify)

- Strong order detail
- Processor payouts show net deposits
- Apps may introduce additional fees and reports

Marketplaces (e.g., Amazon/Etsy)

- Settlement statements are primary source for net payout
- Fees and adjustments are often more complex and bundled

Social commerce

- Reporting may be split across platform dashboards and integrations
- Payout streams may be separate from storefront payouts

B2B / Invoicing

- Orders may be invoices rather than checkout orders
- Cash receipts tie to invoice payments and AR records

6.7 Mapping Report Lines to Accounting Categories

High-Value Mapping Table

Report line item	Typical category	Financial statement location
Product sales	Revenue	P&L
Discounts	Contra-revenue	P&L
Returns/refunds	Contra-revenue	P&L
Sales tax collected	Liability	Balance Sheet
Processing fees	Expense	P&L
Platform/marketplace fees	Expense	P&L
Shipping labels/3PL	Expense	P&L
Chargeback fees	Expense	P&L
Reserve withheld	Timing / tracking item	Payout detail / balance tracking
Reserve release	Timing / tracking item	Payout detail

6.8 Practical Workflow: Building a Reliable Reporting Routine

Workflow Steps

1. Pull orders reports by channel for sales activity totals
2. Pull refunds reports by channel and period
3. Pull payout/settlement reports for net payout math
4. Match payouts to bank deposits (by amount/date/payout ID)
5. Investigate unmatched items:
    - holds/reserves
    - combined deposits
    - bank posting delays
    - FX variances
6. Document the reconciliation and save supporting reports

6.9 Preventing Double Counting in Multi-Channel Reporting

Common Double-Count Scenarios

- Recording deposits as sales while also importing orders
- Importing orders from both an integration and the native channel
- Mixing marketplace "gross sales" reports with storefront totals without normalization
- Counting refunds twice (refund report plus negative sales lines)

Prevention Controls

- Define one source of truth for each metric:
  - sales activity: orders report
  - deductions: settlement report
  - cash: bank statement
- Keep channel-specific clearing or tracking to separate streams
- Use payout IDs to match to bank deposits

6.10 Common Errors and Corrections

Error	Symptom	Correction
Deposits booked as sales	Fees/refunds missing	Use orders + settlement reports
Sales tax included in revenue	Revenue overstated	Track sales tax payable
Refunds treated as expenses	Return rate hidden	Use contra-revenue
Not saving support	Unverifiable books	Save reports + reconciliation notes
Mixed channels in one deposit	Matching issues	Match by payout ID/amount, track combined deposits

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6.11 Module Summary

Orders reports explain sales activity, payout/settlement reports explain net payout calculations, and bank statements confirm posted cash. Totals differ across these layers due to fees, refund timing, reserves, disputes, cutoff schedules, bank posting delays, FX, and multi-channel deposit batching. Reliable reporting requires consistent source-of-truth rules and systematic reconciliation.