FINANCE AT A GLANCE

Defining SALES

Lesson 14

Before we define SALES, we need to clarify first that the income statement says nothing about when the company collects the cash proceeds from what it has sold, nor how much cash the company has on hand. The income statement is, therefore, not a cash document. At the very top of this report is SALES, which may be greater or less than the cash collected from customers.

What do we mean by SALES ?

SALES is the figure recorded on the income statement when the company actually ships products or performs services to customers. Customers now have the obligation to pay for the value of the products or services received, and this value represents the SALES resulting from the delivery of the said products or services. Customers may pay cash outright, or opt to pay at a later time. In case of the latter, an *account receivable* arises, and is entered on the company's balance sheet.

Regardless of whether the customer pays outright, or pays later, or pays some in cash and the rest later, the amount of SALES recorded is not affected, because SALES is based on the value of the products or services delivered, and has nothing to do with the timing of the payment.

A **sale** is made when the company actually dispatches a product or renders a service to a customer. An **order**, however, is another thing. An order becomes a sale when a product has left the company's premises en route to the customer (or when a service is completed). Simply receiving an order does not result in a sale unless delivery takes place.

Sales is usually reported as NET SALES. This is the amount that the company will ultimately collect from its customer less any discounts offered.

We shall have some examples in the next e-lesson.

Until then,

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