

# FINANCE AT A GLANCE

## What is REVENUE ?

## Lesson 15

In the previous lesson, we defined sales to be the amount collectible from a client after the company ships or performs a service to that client. Actually, sales is just one of the company's revenues. Revenues also include:

- rental income from tenants or users of company assets
- income from investments
- commissions
- royalties
- interests on deposits
- earnings of other business entities in which the company has ownership
- settlement of discounts from suppliers
- gains derived from favourable movements of foreign exchange rates

**Revenue, by itself, gives no indication of the business' profitability.**

All of the above will be discussed in detail in future lessons. For now, it suffices to know that the company's total revenues is made up of all of the above, if and when they apply.

A company can have billions of dollars of revenues in a given year, and report a net loss, because expenses during the year must be deducted from the revenues. For example, a trading company sold goods and got \$1,000 from the sales. If the goods cost \$700 to acquire, the net profit from the sales was not just \$1,000 less \$700. Expenses such as marketing expenses that paved the way for the sale had to be deducted as well in order to compute the net profit. Revenue, by itself, gives no indication of the business' profitability.

**Just as revenue must be contrasted with net profit, revenue must be clearly distinguished from the inflow of cash.**

Just as revenue must be contrasted with net profit, revenue must be clearly distinguished from the inflow of cash. Let us go back to the \$1,000 sales example above. The revenue from the transaction remained at \$1,000 regardless of the timing of the receipt of payment from the buyer. Whether the buyer settled the full amount upon delivery, or paid the full amount at a later date, or paid partially upon delivery and the rest a later date, the revenue from the transaction remained at \$1,000

This leads to an important concept in business finance – the accrual concept – which will be the subject of the next e-lesson.

Until then,

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