

FINANCE AT A GLANCE

Major Types of Revenues (1)

Lesson 18

The major types of revenues are:

- Sales of products and services
- Rent charged to users of company assets
- Income from investment
- Interest on deposits
- Commission
- Royalties
- Discounts from suppliers
- Foreign exchange gain
- Earnings of related companies

Sales of products and services

For most business entities, the bulk of the total revenue is made up of sales of products and services. To compute the revenue from sales, we need to clarify issues like credit, rejects, discounts, value-added tax and excise duties.

The value of goods and services that we sell on credit is part of the revenue for the reporting period regardless of whether or not the payments from customers come within or after the reporting period. For example: We sold to a customer last November 2008 goods worth \$1,000. We received payment in January 2009. For reporting purposes, the amount \$1,000 was part of the revenue to be reported for the year 2008.

If that sale was under a retention of title agreement, whereby we would maintain ownership until we got paid, that sales would still be part of the revenue for the period.

If after delivery, we have reasons to believe that the customer will not be able to pay, that sale is still part of the revenue, but we have to make provisions for bad debt. (This will be covered in future lessons.)

If after delivery, the customer is likely to reject the goods due to quality issues, then that sale does not form part of the revenue.

If we offer a trade discount, say 10%, then only 90% of the value of the sale forms part of the revenue. If on top of the trade discount, we offer another 2% for early settlement, we do not take that into consideration because we do not know if the client will avail of it. If the client avails of it, then we record such discount as a cost, not a reduction in revenue.

If we charge value-added tax (VAT), the VAT is not part of the revenue. VAT is a charge we collect because the government requires us to do so, and the VAT amount has to be paid to the tax authorities.

Finally, if we pay excise duties and we pass them on to the customers by including these duties in the selling price, these duties are part of the revenue.

In summary, when we calculate the revenue from a sale, it does not matter if the customer has paid or not, or will not be able to pay. If the customer will not be able to pay, we provide for bad debts, but still include the sale as revenue. If the customer rejects the goods, then that sale does not get reported as revenue. If we offer discounts, the revenue is net of the trade discount, but not of the early settlement discount. Excise duties passed on to customers are part of the revenue, but not the VAT.

In the next lessons, we shall look at the other forms of revenue.

Until then,

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