FINANCE AT A GLANCE

Major Types of Revenues (2)

Lesson 19

In this lesson, we continue to discuss the major types of revenue.

Rent charged to users of company assets

The accrual concept is applied in computing the rent that is earned within the year.

Here is an example:

A client's rental contract started on October 1, 2007 and ended on September 30, 2008. During this period, the client paid $1,000 per month, or a total of $12,000. In the company's income statement for the period January 1 till December 31, 2008, only the rent collected from January till September 2008, or a total of $9,000, was part of the revenue for the year 2008.

The client renewed the contract for another twelve months commencing October 1, 2008 for $1,100 per month. The total value of the contract was $13,200 (12 x $1,100). Of this amount, only $3,300 (the total amount corresponding to the period October 1 till December 31,2008) was part of the revenue for the year 2008.

Rent for January 1 - September 30, 2008	9,000
Rent for October 1 - December 31, 2008	3,300

Rental revenue for 2008	$12,300

Income from investments

This form of revenue is derived from investments over which the company has neither control nor significant influence. This revenue comes in the form of dividends actually received. Dividends proposed but not yet received are not recorded as revenue because they may be cancelled or reduced by the issuing party.

Income from investments over which the company has control or significant influence is discussed under another category of revenue.

Interest on deposits

In computing the amount of interest that forms part of the revenue, the accrual concept is applied in order to establish the amount that is earned within the year.

Here is an example:

On June 30, 2008, the bank paid $600 interest on a time deposit that the company placed twelve months earlier. Then, another $660 interest was paid on June 30, 2009. For the sake of simplicity, we assume that the amount of interest for every twelve-month period was the same from month to month. For the first twelve-month period (July 1, 2007 till June 30, 2008), the interest was $50 per month. For the next twelve-month period (July 1, 2008 till June 30, 2009), the monthly interest earned was $55 (which was not paid until June 30, 2009).

Interest for January 1 - June 30, 2008	(6 x $50)	300
Interest for July 1 - December 31, 2008	(6 x $55)	330

Interest revenue for 2008		$630

Commissions

For some businesses like insurance brokers, stockbrokers and auctioneers, the main form of revenue is commission. Both the commissions received and not yet collected (excluding uncollectibles) are reported as revenue for the period.

Royalties

Royalties are an important part of the revenue for businesses that license or franchise their technology, intellectual property, etc. They come in the form of an on-going payment made by the licensee to the company, the licensor. Royalties received and collectible are recognized as revenue.

Discounts from suppliers for prompt payment

Suppliers sometimes offer discounts for prompt payment. Such discounts are treated as revenue rather than deduction from the relevant expense. Trade discounts, on the other hand are treated differently. They are deductions from the cost of buying goods or services.

In the next lessons, we shall continue with the rest of the forms of revenue.

Until then,

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