

What is revenue in accounting? Peter Baskerville

The definition and application of 'revenue' in accounting - Foundation level

Revenues or revenue in business is the gross income received by an entity from its normal business activities before any expenses have been deducted. Income may be received as cash or cash equivalent and is typically generated from the sale of goods or the rendering of services for a particular period of time.

'Revenue' in Accounting

Background to 'revenue' in accounting.

The purpose of business is to earn a profit from the sale of products (revenue). These products may be tangible in nature (i.e. goods) or intangible (i.e. services). Profit is the money left over after deducting from the gross sales of these products, the cost of the activities required to generate those sales (expenses). So a business generates revenue when it exchanges its goods or services with its customers in return for money or other assets. A business incurs expenses by exchanging its assets for the goods and service activities that are needed to generate that revenue. A business makes a profit if its revenues exceed its expenses. However, if the costs of generating the revenue (expensed assets and service activities) are greater than the revenue received, then the business makes a loss. *Note: Sometimes a business receives assets (cash) from lenders (loans provided to the business) or from its owners (capital investment). This receipt of assets is not revenue. Only those assets received from customers or clients in exchange for goods or services is treated as revenue in accounting.*

Now, in the 500 years of applied accounting, the terminology of revenue has evolved into names often labeled as 'turnover', 'Top line', 'sales', 'gross receipts', 'fees earned' or even 'income'. Unfortunately the term 'income' also has a use in some circumstances of meaning 'profit' (i.e. after expenses have been deducted) and can be confusing for some.

Revenue is also referred to as the "top line" because that's where it is reported on the income statement (Statement of financial performance). Net Income or Net Profit on the other hand is referred to as the "bottom line" because it is reported in the last line of this same statement. Non-profit organizations may refer to revenue as gross receipts.

Source URL: <http://knol.google.com/k/nowmaster-accounting/what-is-revenue-in-accounting/y2cary3n6mng/65#>
Saylor URL: <http://www.saylor.org/courses/bus103/>

Attributed to: Peter Baskerville



Saylor.org
Page 1 of 4

Revenue in the double-entry bookkeeping system is one of the five account groups where financial transactions can be recorded. The other four are assets, liabilities, owners equity and expenses. Revenue accounts are created in the general ledger to record the various ways that the entity earns it.

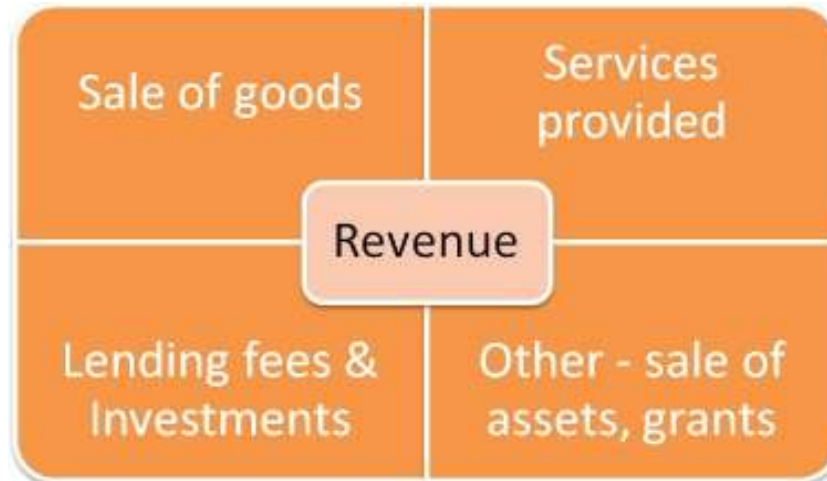


Net Profit Formula

Types of 'revenue' in accounting.

Business revenue is gross income generated from the normal/ordinary activities for a given corporation, company, partnership, or sole-trader.

- Sale of goods - Businesses such as manufacturers, wholesalers and retailers, most revenue is generated from the sale of goods.
- Providing services - Service businesses on the other hand that don't sell goods such as accounting firms, doctors and hairdressers generate most of their revenue from providing (rendering) services.
- Lending fees and investments - Financial services businesses such as car rentals and banks receive most of their revenue from fees and interest generated by lending assets to other organizations or individuals or even royalties earned from the use of intellectual property. Investment firms may receive revenue from dividends paid to them by other companies based on their shareholdings.
- Other - Non-profit organisations will generate revenue that includes donations from individuals and corporations, support from governments, income from fundraising activities or membership dues. Other income in for-profit businesses could be the profit on the sale of assets.



Revenue types

The main features of revenue are detailed below:

- revenue arises from the normal trading activities of a business
- revenue eventually creates an inflow of funds into the business
- revenue is measured in monetary terms
- revenue must be allocated to a particular accounting period
- revenue is earned as a result of revenue generating activities typically expressed as expenses

Net and Other revenue.

While revenue is the gross sales/fees earned, net revenue describes the gross revenue minus any product returns, allowances and any discounts for the early payment of invoices. *Note: Revenue should not include the tax collected by the business in relation to a value adding tax. This cash received should not be recorded as revenue but rather as a liability because it is monies owed to the government.*

While revenue is the gross income received from the normal operations of a business, Other revenue (a.k.a. non-operating revenue) is revenue received from the non-core operations of a business. This could be the profit on the sale of equipment used by the business to generate sales or may be the interest income earned from keeping a checking account with a bank. Other revenue/income is usually separated and reported at the bottom of the income statement because it may distort the view about the sustainable financial performance of the business which should be based on its normal operations.

Source URL: <http://knol.google.com/k/nowmaster-accounting/what-is-revenue-in-accounting/y2cary3n6mng/65#>
 Saylor URL: <http://www.saylor.org/courses/bus103/>

Attributed to: Peter Baskerville



Revenue recognition in cash-accounting and accrual-accounting.

Now one further complication with the concept of 'revenue' is the fact that revenue reported for a particular period will depend on the accounting method a business has adopted. This complication is dealt with under the revenue recognition principle where generally accepted accounting principles or International Financial Reporting Standards determine what is to be reported as revenue in a given period.

Each of the accounting methods (cash-accounting and accrual-accounting) use different approaches for measuring revenue. In essence, accrual-accounting records (recognizes) revenue as soon as the legal obligation to pay has been transferred to the customer regardless of when the cash is exchanged. Under the cash-accounting method the recording (recognition) the revenue is delayed until the cash payment is actually received by the customer.