Key Terms

Operating Cycle
Operating cycle is the time taken buying inventory and receiving cash proceeds from its sales. Gross operating cycle is determined by adding inventory days and the collection period. Net operating cycle is determined by deducting payment period from the gross operating cycle.

Revenue
revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends.

Revenue Recognition
Revenue recognition is the issue of timing of recognizing the revenue in the income statement to determine the profit of loss.

Sale of goods
Sale of goods happens when the seller transfers the property in the goods to the buyer for a consideration.

Proportionate Completion Method
Proportionate completion method is a method of accounting which recognises revenue in the statement of profit and loss proportionately with the degree of completion of services under a contract.

Completed service method
Completed service contract method is a method of accounting which recognises revenue in the statement of profit and loss only when the rendering of services under a contract is completed or substantially completed.

Trade Discount
Trade Discount is generally given as an incentive for large purchases.

Cash Discount
Whereas the cash discount is given as an incentive for prompt payment.

Bad Debts
When the receivables become uncollectible they are called bad-debts. Such bad-debts are shown as a loss in the income statement and the debtors to that extent are reduced in the balance sheet.

Factoring
The process of selling the debtors is called factoring. The party to whom the debtors are sold is called a factor. A factor is a bank or a financial intermediary that buys debtors. The factor, in turn collects money from the debtor on the due date.

Outstanding Expenses

Expenses due but not paid are called outstanding expenses. Outstanding expenses are shown as a liability on the balance sheet.

Prepaid Expenses

Expenses paid but not due are called prepaid expenses. Prepaid expenses are shown as an assets on the balance sheet.