cost of an asset) and at times unexpired costs are also treated as assets. Prepaid expense is an example for such unexpired costs (treated as assets). Step 4: After ascertaining all revenues (as in Step 2) and expenses (as in Step 3) incurred to earn revenues, business income is calculated by preparing Income Statement (Profit and Loss Account) for the accounting period.

15. **Explain the salient features of business income.**

Ans : ***Some of the special features of business income are detailed as follows:***

(a) **Accounting period convention:** The very first step in the computation of business income is the determination of accounting period. So, business income is based on the accounting period convention. It reflects the financial position of the business entities for a specified accounting period.

(b) **Revenue principles:** Business income is also based on the revenue principles, as the computation of business income requires the definition, measurement and recognition of revenue.

(c) **Realisation concept:** This concept plays a vital role in revenue recognition. Realisation concept is another important feature of business income.

(d) **Objective evidence:** All transactions relating to measurement of business income are based on objective evidence. They are verifiable; thereby depicting a true and accurate figure on net income arrived at. Only the actual transactions which occurred in the specified accounting period are taken into account.

(e) **Historical cost:** Business income measures expenses in terms of historical costs.

(f) **Matching principle:** Matching revenue with related cost or expense, i.e. matching principle is applied for the business income measurement.

(g) **Ex-post income:** Ex-post income represents the excess of the capital of the accounting year over that of the previous year. Future is called as replacement cost.

**7. What is the Basis of Measurement of Income?**

**Ans :** *Following are the two significant basis of measurement of income:*

**Accrual Basis :** In an accrual basis accounting, incomes are recognized in a company's books at the time when revenue is actually earned (however, not essentially received) and expenses is recorded when liabilities are incurred (however, not essentially paid for). Further, expenses are compared with revenues on the income statement when the expenses expire or title has been transferred to the buyer, and not at the time when the expenses are paid.

**Cash Basis :** In a cash basis accounting, revenues and expenses are recognized at the time of physical cash is actually received or paid out.

**Change in the Basis of Accounting :** We have to pass adjustment entries whenever accounting records change from cash basis to accrual basis or vice versa specially in respect of the prepaid expenses, outstanding expenses, accrued income, income received in advance, bad debts & provisions, depreciation, and stock in trade.

**8. What are the Features of Accounting Income?**

**Ans :** *Followings are the main features of accounting income :*
Matching revenue with related cost or expenses is a matter of accounting income. Accounting income is based on an accounting period concept. Expenses are measured in terms of a historical cost and determination of expenses is based on a cost concept. It is based on a realization principal. Revenue items are considered to ascertain a correct accounting income.

**9. Define business income.**

**Ans :** Another important definition is expounded by Eric L. Kohler. He defined income as "money or money equivalent earned or accrued during an accounting period, increasing the total of previously existing net assets, and arising from sales and rentals, of any types of goods or services, commissions, interest, gifts, recoveries from damage and wind falls from any outside source."