

## CAPTIAL AND REVEUNE EXPENDITURE

### Capital Expenditure:

It consists of expenditure, the benefit of which is not fully consumed in the accounting period but spread over several periods. Any expenditure, which is undertaken for the purpose of increasing profit either by way of increasing earning capacity or by decreasing costs, is capital expenditure.

Capital expenditure is one which

- (a) increase in quantity of fixed assets
- (b) increase in quality of fixed assets and
- (c) Replacement of fixed assets.

An expenditure cannot be said to be a capital expenditure only because

- 1] the amount is large
- 2] the amount paid in lump-sum
- 3] the receiver of amount is going to treat it for purchase of fixed asset

**Examples:** plant and machinery, motor car, lease, trademark, patent, copy right, Goodwill, expansion or erection of machinery, expansion expenditure(increasing seating capacity in theatre), experiment expenses, development expenses in case of mines, etc.

### Revenue Expenditure:

It constitutes the expenditure incurred for the payment of money for services of whatever type such rent, salaries, commission, repair, carriage etc. It is incurred for carrying on business and maintains assets in their existing conditions. It doesn't increase the profit earning capacity but merely maintains it at existing level. It is used in the sense of immediate or short term importance.

**Examples:** cost of goods purchased, administrative expenses (rent, salary.etc.), manufacturing (oil, fuel, etc,) selling and distribution expenses (Commission,

discount, advertising, etc.), Depreciation, interest on loan, loss on sale of assets, etc.

**Deferred Revenue Expenditure:**

It involves a heavy expenditure of revenue nature and it is not prudent and desirable to write it off from the profit of one financial year and hence a part is taken to profit and loss account and the balance is shown on the assets side of the balance sheet. The benefit from such expenditure may spread over for 3 to 5 years.

Example: preliminary expenses, brokerage on issue of shares or debentures, exceptional repairs, heavy advertisement cost, research and development expenses, special type of losses, etc.

<b>Capital Expenditure</b>	<b>Revenue expenditure</b>
It is non –recurring in nature	It is recurring in nature
It is heavy in volume	It is modest in volume
It involves of acquisition of asset	It incurred in the conduct of the business
Decision regarding capital expenditure is taken by top management	Decision regarding revenue expenditure is taken by middle and lower level management
It represent assets of the business and appears in the balance sheet	It is day today expenditure and appear in the profit and loss account
This expenditure is not deductible from income for Incometax purpose	This expenditure is deductible from income for Incometax purpose
This expenditure is met out of loans, funds borrowed from outside, capital	This expenditure is met out of short term funds, sale proceeds
It increases the earning capacity of the business	It maintains the present capacity of the business

**CAPITAL RECEIPTS Vs REVENUE RECEIPTS**

<b>CAPITAL RECEIPTS</b>	<b>REVENUE RECEIPTS</b>
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It includes capital contributed by the proprietors, partners, shareholders, loans from bank, financial institutions, sale proceeds of fixed assets	It includes receipts such as cash from sales, discount received, commission received, interest on investment, etc
These are the monies received by the enterprise for the purpose of establishing, expanding or modernizing its business.	Receipts which are obtained during the course of trading and operations are revenue receipts
These receipts are not directly credited to profit and loss account	These receipts are directly credited to profit and loss account.

### Objective Type questions

1. Capital expenditure is any expenditure benefiting .....period

A] current	B] future	C] past	D] more than one accounting period
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2. The cost of housing plot purchased for sale is a..... expenditure

A] Capital	B] revenue	C] deferred revenue	D] miscellaneous
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3. Amount spent on asset to make it useable conditions is debited to

A] profit and loss Account	B] Income and expenditure account	C] Assets account	D] Receipts and payment account
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4. A heavy expenditure incurred in introducing a new product into the market is

A] Capital expenditure	B] revenue expenditure	C] deferred revenue	D] miscellaneous
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		expenditure	
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5. Rs.200000 spent as traveling expenses by the directors to go to abroad for purchase of capital asset is

A] Capital expenditure	B] revenue expenditure	C] deferred revenue expenditure	D] miscellaneous
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6. Rs.20000 spent on the repairs of machine is

A] Capital expenditure	B] revenue expenditure	C] deferred revenue expenditure	D] miscellaneous
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7. Rs.25000 spent on overhauling the second hand machinery

A] Capital expenditure	B] revenue expenditure	C] deferred revenue expenditure	D] miscellaneous
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8. White washing expenses is a

A] Capital expenditure	B] revenue expenditure	C] deferred revenue expenditure	D] miscellaneous
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9. TVS limited received a subsidy of Rs 1 crore from the central government is a

A] Revenue receipt	B] Revenue expenditure	C] Capital expenditure	D] Capital receipt
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10. A debt recorded as bad in the earlier year recovered during the year is a

A] Revenue receipt	B] Revenue expenditure	C] Capital expenditure	D] Capital receipt
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11. Failure to make distinction between capital and revenue items will result in

A] under trading	B] overtrading	C] Receipts and payment A/c being false and misleading	D] Final accounts being false and misleading
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12. Wages paid for installation of machinery included in the wages will affect

A] wages account	B] wages and machinery	C] Profit and loss account	D] Machinery account
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	account		
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13. If an old machinery whose book value is Rs.4000 and is sold at Rs.4200

A] Rs.4200 treated as capital receipt	B] Rs. 4200 treated as revenue receipt	C] Rs.4000 treated as capital balance ignore	D] Rs.4000 treated as capital & 200 treated as revenue receipt
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14. Consider the following - cost of extension of building Rs.250000/- cost of improvement of electrical wiring system Rs.19000, cost of repair to building Rs.25000 and whitewashing charges Rs.5000/- what is the amount of revenue expenditure?

A] Rs.30000/-	B] Rs.299000/-	C] Rs. 44000/-	D] Rs.49000/-
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15. Donation received by a non-trading concern is normally

A] Revenue receipt	B] Revenue expenditure	C] Capital expenditure	D] Capital receipt
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### Problems on accounting equations

Assets = Capital + liabilities

Owner's equity or capital = Assets – liabilities

Gross profit = Sales – cost of goods sold

Cost of goods sold = Opening stock + Net purchases+ Direct expenses – Closing Stock

Net profit = Gross profit – indirect expenses

16. Goods purchased Rs.100000/- Sales Rs.90000/- Margin 20% on sales. Closing stock is

A] Rs.10000/-	B] Rs.25000/-	C] Rs. 28000/-	D] Rs.30000/-
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17. Soman starts business with a capital of Rs.45000. He purchases goods on credit worth Rs.5000. How these transactions can be expressed in an Accounting Equation

A] 5000=50000-45000	B] 50000 = 50000	C] 50000 = 45000+5000	D] 45000 = 50000-5000
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18. The capital at the beginning is Rs.50000. Goods withdrawn during the year is Rs.16000 and additional capital introduced during the year is Rs.20000. The capital at the end of the year Rs.52000. The net effect of the transactions is

A] loss Rs.2000/-	B] profit Rs.2000/-	C] profit Rs. 30000/-	D] loss Rs.4000/-
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19. In a balance sheet, if total assets amount to Rs.80000/- while the liabilities to outsiders amount to Rs.29000/- and profit during the year Rs.11000/-. What the amount of capital?

A] Rs.40000/-	B] Rs.51000/-	C] Rs. 80000/-	D] Rs.72000/-
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20. 25. Ascertain the cost of goods sold from the following: Opening stock 8500, purchase 30700, direct expenses 4800 indirect expenses 5200 closing stock 9000

A] 3500	B] 35000	C] 29800	D] 30000
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### ANSWERS

1] d	2] b	3] c	4] c	5] a	6] b	7] a	8] b	9] d	10] a
11] d	12] b	13] d	14] a	15] d	16] b	17] c	18] a	19] a	20] B

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