

# CAPITAL & REVENUE (Expenditure & Receipts)

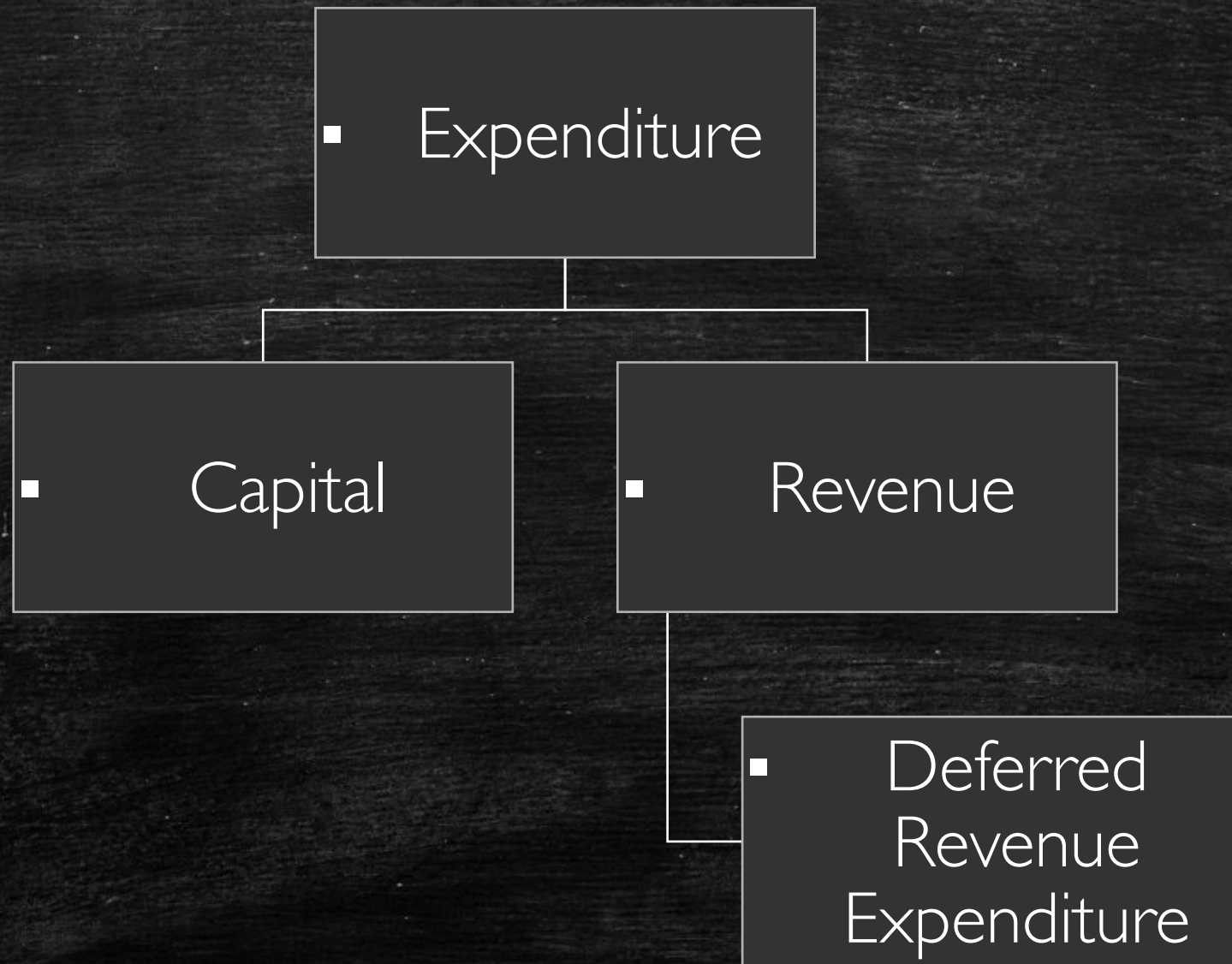
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# INTRODUCTION

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- Expenditure is any amount spent by the business for any consideration.
- Expenditure means a payment made by a business to obtain some benefit i.e. assets, goods or services.

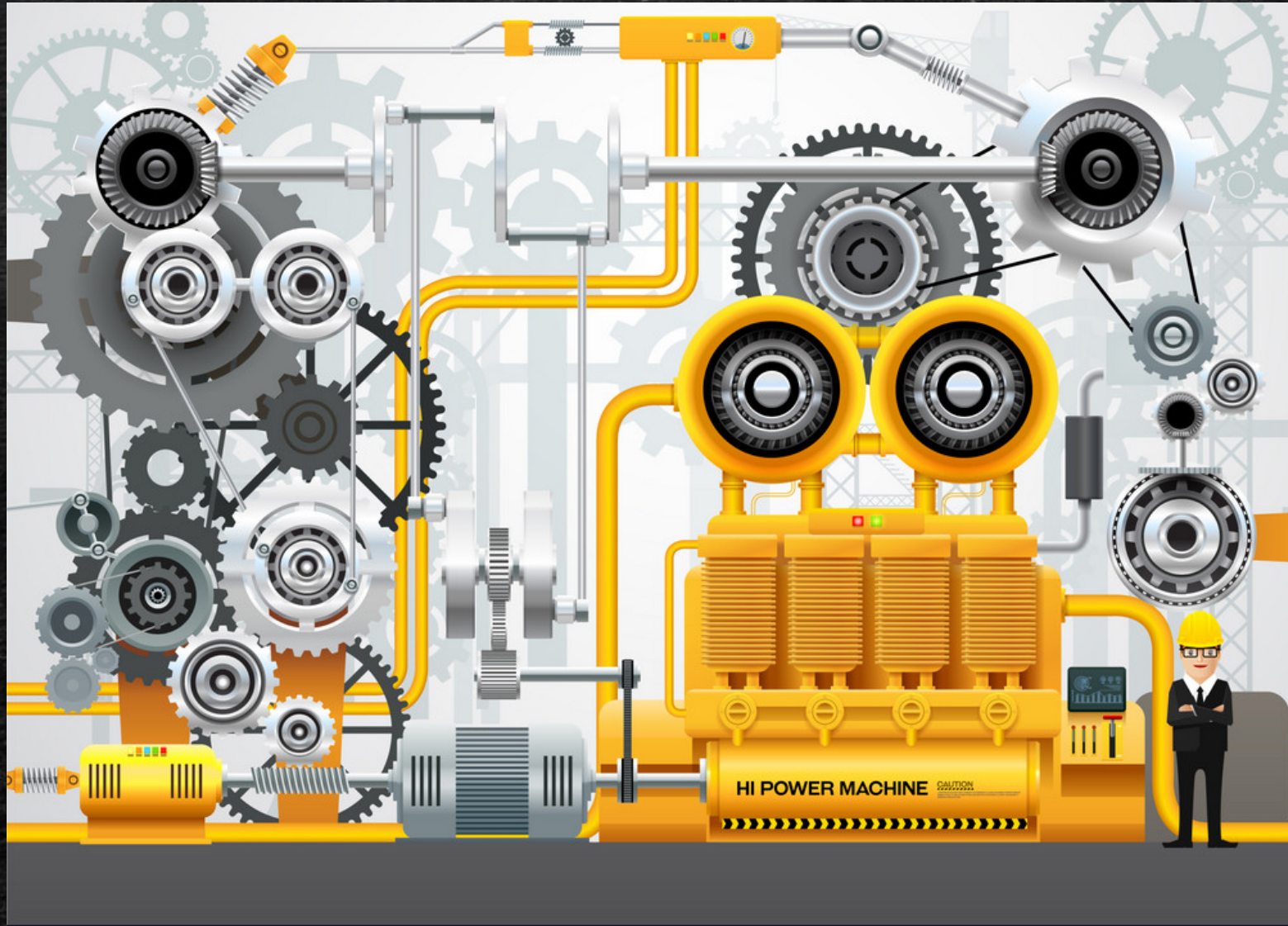




# CAPITAL EXPENDITURE- Characteristics

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- Expenditure incurred to **acquire fixed asset**
- Expenditure to **increase the value** of fixed asset.
- It **increases the earning capacity**
- Benefits are derived for a **longer duration**
- These are **non recurring** in nature
- **Eg. :** Purchase of Machinery, Purchase of computer.



# REVENUE EXPENDITURE – Characteristics

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- Expenditure incurred to **maintain the asset**.
- It **does not increase earning capacity**.
- Required for **day to day operations**.
- Benefits are derived for a **shorter duration**
- These are **recurring** in nature
- **Eg. :** Purchase of raw materials, wages paid

# 1. RAW MATERIALS.



Depending on its origin, **raw materials can be classified into** three groups:

## 1. Animal-based raw materials.

*wool, silk, leather...*



sheep's wool

## 2. Vegetable-based raw materials.

*wood, cork, cotton ...*



wood

cotton

## 3. Mineral-based raw materials.

*clay, sand, marble, iron ore ...*



marble

Capital Expenditure	Revenue Expenditure
1. To <b>acquire</b> Fixed Asset	1. To <b>maintain</b> Fixed asset
2. <b>Increases the value</b> of fixed asset	2. <b>Is required for smooth functioning</b>
3. <b>Benefits</b> required for <b>longer duration</b>	3. <b>Benefits</b> required for <b>shorter duration</b>
4. <b>Non recurring</b> in nature	4. <b>Recurring</b> in nature
5. <b>Eg:</b> Purchase of Machinery	5. <b>Eg:</b> Purchase of Raw materials

# DEFERRED REVENUE EXPENDITURE – Characteristics

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- Expenditure which are **revenue in nature**.
- Benefits are derived **in future**
- Expenditure is **written off** over number of years.

Eg: Heavy expenditure on advertising

Distribution of free sample

Market research of a product

# Did you *K*now?



*Kellogg's*

has  
**11g OF  
PROTEIN**

with 6g from milk  
5g from cereal



*Kellogg's*

has  
**HIGH  
FIBER**



*Kellogg's*

has  
**5g OF SUGAR  
or less**



## NOTE :

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1) Any expenditure which is done **in connection of new asset** will be treated as capital expenditure.

Eg 1. Carriage charges for bringing the new furniture.

Eg 2. Installation charges paid for new machinery.

2) Any recurring expense which starts with the letters **RE** such as repairs, renewal, renovation will be treated as revenue expenditure.

Classify the following  
into Capital Expenditure  
or Revenue Expenditure



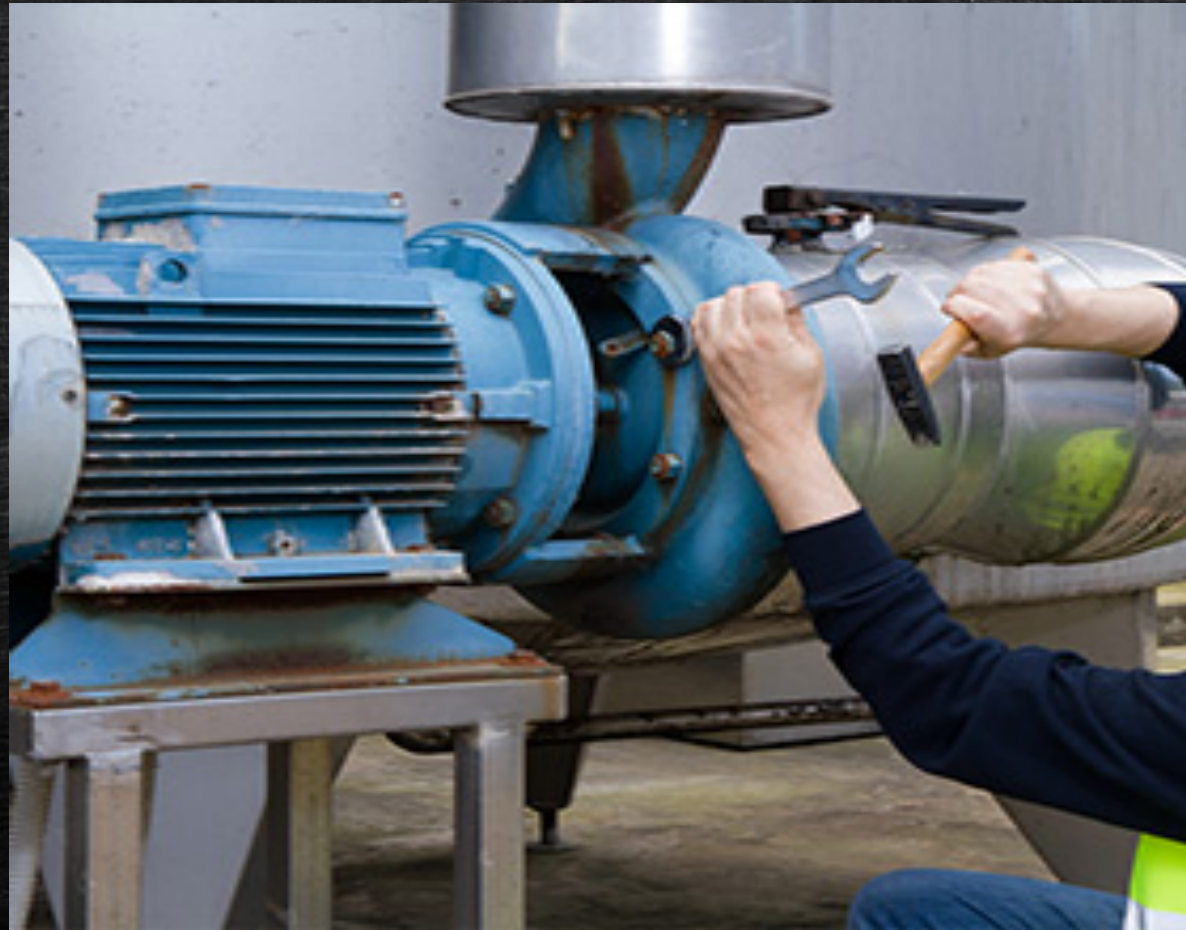
Payment of wages

Revenue Expenditure



Purchase of Motor Car

# Capital Expenditure



Repair of Machinery

Revenue Expenditure



Travelling Expense

Revenue Expenditure



Purchase of Computer

# Capital Expenditure



Insurance Premium paid

Revenue Expenditure



Free Sample Distribution

Deferred Revenue Expenditure

Q1. Classify the following into **Capital Expenditure** or **Revenue Expenditure**

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1. Salary paid to staff.
2. Purchase of Motor Car.
3. Repairs of machinery.
4. Heavy advertisement expenditure.
5. Purchase of stationery.

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6. Spent on custom duty on machinery imported.
  7. Wages incurred to install the machinery.
  8. Cost of air-conditioner in the Executive's Office.
  9. Cost of oiling the old machine .
  10. Distribution of free sample.

Q2. Classify the following into **Capital Expenditure** or **Revenue Expenditure**

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1. Insurance of building.
2. Payment of municipal taxes.
3. Renewal of License.
4. Purchase of machinery
5. Brokerage paid.

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6. Market research expenses

7. Replace a petrol engine of a bus by a diesel engine.

8. Cost of conveyance in connection with newly acquired furniture.

9. Cost of repainting and redecorating in a cinema house.

10. Traveling expenses of director for a trip abroad.

# Receipts

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Any kind of income generated from business activities is called as receipts.



# CAPITAL RECEIPTS

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- Income generated from **sale of asset**
- It is **not generated in regular course** of business
- These are **non recurring** in nature
- **Eg. :** Sale of Machinery, Sale of computer.

# REVENUE RECEIPTS

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- Income generated from **regular business activities**
- It is **generated in regular course** of business
- These are **recurring** in nature
- **Eg.** : commission received, interest received

Capital Receipts	Revenue Receipts
1 . Income generated from <b>sale of asset</b>	1 . Income generated from <b>regular business activities</b>
2 . It is <b>not generated in regular course</b> of business	2 . It is <b>generated in regular course</b> of business
3 . These are <b>non recurring</b> in nature	3 . These are <b>recurring</b> in nature.
4 . <b>Eg. :</b> Sale of Machinery, Sale of computer.	<ul style="list-style-type: none"> <li>▪ 4 . <b>Eg. :</b> commission received, interest received.</li> </ul>

Classify the following  
into **Capital Receipts** or  
Revenue Receipts



Loan Received from Bank

# Capital Receipts



Sale of Old Machinery

# Capital Receipts

Interest Received on Investment

# Revenue Receipts



Sale of Shares held as an investment

# Capital Receipts

Dividend Received on Investment

# Revenue Receipts

Q1. Classify the following into  
**Capital Receipts** or **Revenue Receipts**

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1. Motor Van sold
2. Commission received.
3. Sale of old Plant.
4. Recovery of bad debts.
5. Rent Received.

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6. Interest received on investment.

7. Compensation received from insurance company for loss of current assets.

8. Term loan taken from bank.

Q2. Classify the following into  
**Capital Receipts** or **Revenue Receipts**

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1. Marketing services provided.
2. Motor Truck Sold.
3. Machinery costing Rs. 10000 sold for Rs. 12000.
4. Dividend Received from Equity Shares.
5. Sales tax Collected.

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6. Sold Government securities.
  7. Refund of Sales Tax.
  8. Government grants received.