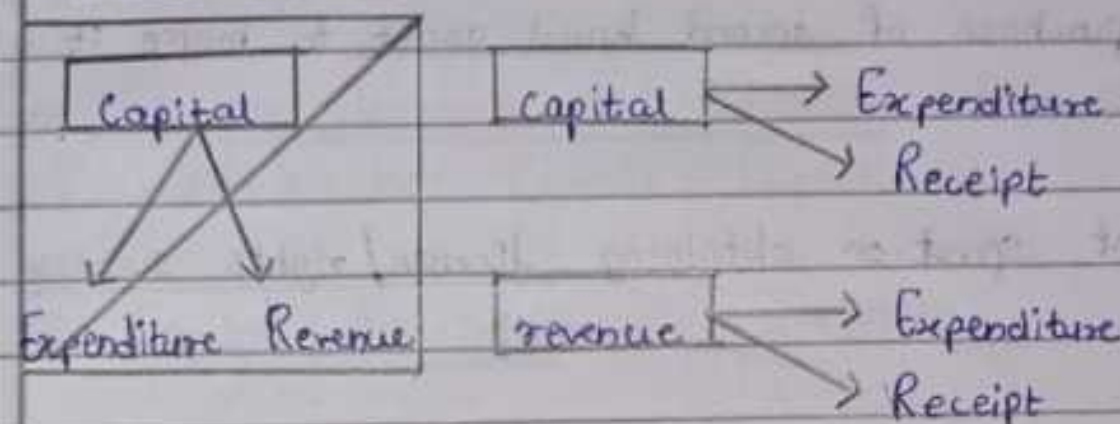


Chp-1. Theoretical Framework

Unit 3 : Capital & Revenue Expenditures and Receipts.

→

⇒ Introduction



→ Consideration in determining Capital & Revenue items

(i) Nature of business - Revenue or Capital Business

(ii) Recurring Nature - Regular Nature; Recurring → Revenue
Non-Recurring → Capital

(iii) Purpose - Productive Capacity Increase → Capital
No Productive Capacity Increase → Revenue

(iv) Materiality of amount involved - Ex ₹ 1 → Revenue
Ex ₹ 1,00,000 → Capital

① Capital Expenditure

→ Acquisition [Purchase] of fixed assets.

→ Repairs that increases productive capacity.

→ Any expenditure incurred on the same day just after purchase of second hand asset to make it suitable use.

→ Amount spent on obtaining license/rights successfully.

→ Trial Run expenses of new assets.

→ Cost of temporary huts while construction of building & demolition cost of these huts after the construction of building, etc.

② Revenue Expenditure

→ Directly related to sales revenue like salary, rent, etc.

→ Benefits expires within 1 accounting period.

→ Maintenance expenses like white wash.

→ Amount spent on obtaining license/rights unsuccessfully.

→ Renewal fees paid like insurance premium, etc or the expenses that occur annually.

- Damages paid on account of breach of contract.
- Inauguration expenses of new showroom.

* If Revenue Expenditure is treated as ~~Cap~~ Capital Expenditure then it will lead to overstatement of profits and assets.

* Security deposits and advances are neither Capital Expenditure nor Revenue Expenditure.

③ Capital Receipts

- Loan taken [Short term or Long term]
- Share Capital raised
- Sale of fixed asset
- Insurance claim received [Non-Recurring], etc.

④ Revenue Receipts

- Receipts from sale of goods or services.
- Interest income, dividend income, bad debt recovered, etc.

[Item that are Credited in P&L A/c are Revenue Receipts].