

CAPITAL AND REVENUE EXPENDITURE

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CAPITAL EXPENDITURE

Capital Expenditure is that expenditure which is incurred in -

- purchasing a fixed asset
- or acquiring a valuable right like patents, trademarks, etc.
- or which increases the life of an asset
- or the earning capacity of the business.

Eg. purchase of land, machinery, computers.

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CAPITAL EXPENDITURE

- Acquiring Fixed Assets – purchase cost plus installation
- Additions to Existing Fixed Assets – Construction of gallery in theatre
- Increase efficiency of existing fixed asset – installing a faster processor in a computer for speedy processing of data
- Reducing cost of production of a machinery - replace petrol engine of a vehicle by diesel engine
- Acquiring Valuable Rights – patents, copyrights, goodwill
- Creation of fixed assets – construction of own building
- Extends the useful life – renewal of lease of a mine for 5 more years

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CAPITAL EXPENDITURE

- Characteristics / Tests -
- Long term benefits
- Investing Activity
- Recoverable
- Non-recurring
- Effect on Funds & Profits
- Disclosure in Final A/cs

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REVENUE EXPENDITURE

An expenditure from which no future benefit is expected.

Characteristics -

- Business Activity
- Maintain Asset
- Not recoverable
- Recurring
- Reduces Funds and profits

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REVENUE EXPENDITURE

- Cost relating to business activities - purchases, wages, rent, travelling, interest on loans
- Cost relating to income earned - interest paid on loans taken for investing in shares
- Costs whose benefits do not extend beyond the accounting year - purchase of tools having useful life of 6 months
- Expired cost - expenditure from which no benefit is expected in future - depreciation, loss on sale of asset
- Revenue losses - goods destroyed in fire, bad debts, unsaleable goods
- Repairs
- Expenditure on intangible items - training, advertising & promotion

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DEFERRED REVENUE EXPENDITURE

Expenditure which is carried forward on the presumption that it will be of benefit over subsequent periods.
Defer means to postpone.

It is either a revenue expenditure whose benefits can be enjoyed for a number of years; or a capital expenditure not represented by any real asset.

The proportionate cost relating to current year is charged as expenses. The balance (unexpired) cost is carried forward as Fictitious asset in the balance sheet and written off in coming years. Such gradual and systematic write off is called amortisation.

Eg. share/debenture issue expenses, discount on issue of shares/debentures, premium payable on redemption of debentures

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7

REVENUE RECEIPTS

Income from sale of goods, rendering of services, interest, dividends, royalty, insurance claims, recovery of bad debts, refund of sales tax, government grant for salaries of employees

Characteristics –

- ⦿ Business Activity
- ⦿ Recurring
- ⦿ Not Returnable
- ⦿ Increases Funds and Profits

⦿ Revenue receipts pertaining to current year is shown as Income in Profit & Loss Account

⦿ Revenue received now but pertaining to future period is shown as Liability in Balance sheet.

⦿ Revenue earned in current year but not yet received is shown as Asset in Balance sheet.

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8

CAPITAL RECEIPTS

An amount received by a concern in the course of its financing activity

Characteristics -

- ⦿ Financing activity - funds received as capital, loan, sale of assets, sale of investment
- ⦿ Returnable - capital, loan is to be repaid
- ⦿ Non-recurring
- ⦿ Effect on funds and profits

Capital receipt is shown as liability in balance sheet.

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9

DEFERRED REVENUE RECEIPTS

- ⦿ Income received before it is earned
- ⦿ It is carried forward to the subsequent period to which it relates
- ⦿ Shown as advance income on Asset side
- ⦿ Eg. coaching class receives tuition fees in advance for a course spread over 2 years, fees relating to the next accounting year are deferred to the next year as 'fees received in advance'.

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10

REVENUE PROFITS AND CAPITAL PROFITS

⦿ Revenue or operating profit means net profit arising from normal operations and activities of a concern

- ⦿ Capital profit arises when a capital asset is sold at a price higher than its cost.
- ⦿ Capital profit on sale of asset is credited to P&L A/c as extraordinary item of income.
- ⦿ Capital profit on sale of shares (Share premium) is credited to Capital Reserve under Reserves & Surplus

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11

REVENUE LOSSES AND CAPITAL LOSSES

- ⦿ Loss in normal course of business is revenue loss.
- ⦿ Eg. Loss of goods due to fire, theft of cash, bad debts
- ⦿ They are debited to P&L A/c

⦿ Losses on sale of fixed asset, loss of building in a fire, issue of shares at a discount are capital losses.

⦿ Capital loss related to assets or investment is debited to P&L A/c

⦿ Capital losses related to shares (discount on shares) is carried forward as 'Fictitious assets' in balance sheet

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12

THE END