



CAPITAL & REVENUE RECEIPTS, PAYMENTS & EXPENDITURE

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Need for classification

- To match cost against revenue
- For proper ascertainment of profit or loss
- For proper valuation/presentation of assets & liabilities

How to classify ?

- Application of various tests
- Single test may not be conclusive
- Use different type of tests for proper conclusion

Capital expenditure

- Acquisition of capital asset
- Benefit of enduring nature or for long period
- Quantum – usually large
- Frequency of expenditure - usually low
- Increase in earning capacity or production capacity
- Improved profitability by reducing costs
- Related to raising capital for business
- Related to acquiring right to carry on business
- Extends useful life of an asset
- Incidental expenses
- Expenses during construction period
- Reflected in balance sheet
- Subject to depreciation or amortization

Revenue expenditure

- Benefit for short period, usually less than a year
- Quantum – usually small
- Frequency of expenditure - usually high
- Maintenance of earning capacity or production capacity or asset in working condition
- Relates to normal business activities
- Reflected in profit & loss account



Deferred revenue expenditure

- Expenditure incurred in one year but benefit is presumed to last beyond one financial year

Revenue receipts & Capital receipts

Revenue receipts

- Relates to normal business activities
- Considered in profit & loss account
- Usually non refundable
- Arises frequently
- Received from a source of income

Capital receipts

- Relates to financing of investment activities
- Frequency of occurrence is less
- Arises when a source of income is disposed off
- Any Profit is considered as capital profit

Functional test

Function	Type of receipt, payment or expenditure
Operating	Usually revenue
Financing	Usually capital
Investment	Usually capital