Chapter 7

Capital & Revenue Expenditure & Receipts

Revenue Expenditure:

Revenue expense is incurred to earn income for a particular accounting period. The benefits arising out of revenue expenditure expires in the same accounting period. (Short Term)

Revenue Expense relates to an accounting period. Revenue Expenses are shown in the Profit & Loss Account. Revenue Expenditures are transferred to profit and loss account in the year of spending.

Capital Expenditure :

Capital Expenditure contributes to the income earning capacity of a business for more than one accounting period Capital

Capital Expenditure generates benefits for a longer duration and helps in revenue generation over more than one accounting period. Capital expenditures are shown on the asset side of the balance sheet. Capital expenditures are transferred to profit and loss account of the year in which their benefits are used.

Expenditure may represent acquisition of any tangible or intangible fixed assets for enduring future benefits. Therefore, the benefits arising out of capital expenditure lasts for more than one accounting period whereas those arising out of revenue expenses expire in the same accounting period.

Distinction between Capital and Revenue Expenses depends on :

1. Nature of Business
2. Purposes of Expenses
3. Effect on Income earning capacity of business

Deferred Revenue Expenditure :

"Deferred Revenue Expenditure is an expenditure for which payment has been made but it is assumed that the benefit will extend over a subsequent period or periods." Deferred revenue expenditure is a revenue expenditure by nature.

Capital Receipts and Revenue Receipts : Receipts which arise in course of normal business activities are revenue receipts. Receipts which are not revenue are capital receipts (e.g. receipts from sale of fixed assets or investments, loan taken, Capital introduced). Revenue and capital receipts are recognized on accrual basis as soon as the right of receipts is established. Revenue receipts are credited to the Profit and Loss A/c.

Capital and Revenue Expenditure

	Capital	Revenue
1)	Long Term benefit	Short Term benefit (Maximum 12 months)
2)	Non-recurring or One time expenditure.	Recurring or Regular expenditure.
3)	Recorded in balance sheet	Recording in Manufacturing, Trading or Profit and Loss A/c
4)	a) ↑ in production capacity b) ↑ in earning capacity c) ↑ in profitability d) ↑ in effeciency	Amt. is spent to conduct day to day business Activities and to maintain asset in proper working condition
5)	Eg. Purchase of Assets, Manufacturing Asset for own use, incidental expenses related to purchase of asset	Eg. All expenses debited in above three A/c

MULTIPLE CHOICE QUESTIONS

1. Capital expenditure provides benefit
(a) Very short term (b) Long term (c) Short term (d) All of the above

2. Capital expenditures are recorded in the
(a) Trading A/c (b) P & L A/c (c) Balance sheet (d) All of the above

3. The expired portion of capital expenditure is
(a) An asset (b) A liability (c) An income (d) An expense

4. Preliminary expenses in connection with flotation of a new company is
(a) Miscellaneous capital expenditure (b) Current assets
(c) Fixed assets (d) All of the above

5. Dismantling and demolition charges is a
(a) Deferred revenue expenditure (b) Capital expenditure
(c) Revenue expenditure (d) None of the above

6. Recovery of bad debt is a
(a) Revenue expenditure (b) Revenue receipt
(c) Deferred revenue expenses (d) Capital receipt

7. The un-expired portion of capital expenditure is shown in the financial statement
   (a) As a liability (b) As an asset (c) As an income (d) As an expense

8. ₹ 40,000 spent by a factory in overhauling of its existing plant & machineries. It has enhanced its working life by five years. The aforesaid expenditure is
   (a) Capital expenditure (b) Revenue expenditure
   (c) Deferred revenue expenditure (d) None of the above

9. Revenue expenditures are recorded in the
   (a) Manufacturing A/c (b) Trading A/c (c) P & L A/c (d) All the above

10. Heavy amount spent for the advertisement of new company product is
    (a) Revenue expenditure (b) Deferred revenue expenditure
    (c) Capital expenditure (d) Either (a) or (c)

11. Amount spent for the construction of temporary huts which were necessary for construction of the over bridge (flyover) and demolished when the flyover was ready is a
    (a) Capital expenditure (b) Deferred revenue expenditure
    (c) Revenue expenditure (d) Both (a) and (c)

12. A sum of ₹ 50,000 was spent on painting the new plant. It is a
    (a) Revenue expenditure (b) Capital expenditure
    (c) Deferred revenue expenditure (d) None of these

13. Amount spent on "Structural alteration" under pressure of law is a
    (a) Capital loss (b) Revenue expenditure
    (c) Capital expenditure (d) Deferred revenue expenditure

14. Money spent ₹ 10,000 as travelling expenses of the directors on trips abroad for purchase of capital assets is
    (a) Capital expenditures (b) Revenue expenditures
    (c) Deferred revenue expenditures (d) None of the above

15. Amount of ₹ 5,000 spent as lawyers' fee to defend a suit claiming that the firm's factory site belonged to the plantiff's land.
    (a) Capital expenditures (b) Revenue expenditures
    (c) Deferred revenue expenditures (d) None of the above

16. Subsidy of ₹ 40,000 received from the government by a manufacturing concern.
    (a) Capital receipt (b) Revenue receipt
    (c) Capital expenditures (d) Revenue expenditures

17. Insurance claim received on account of machinery damaged completely by fire.
    (a) Capital receipt (b) Revenue receipt
    (c) Capital expenditures (d) Revenue expenditures

18. Interest on investments received from UTI.
(a) Capital receipt (b) Revenue receipt
(c) Capital expenditures (d) Revenue expenditures

19. Amount received from IDBI as a medium term loan for augmenting working capital.
(a) Capital expenditures (b) Revenue expenditures
(c) Capital receipt (d) Revenue receipt

20. ₹ 2,500 spent on the overhaul of machines purchased second-hand.
(a) Capital expenditure (b) Revenue expenditure
(c) Deferred revenue expenditure (d) None of the above

21. Advertising campaign to launch a new product.
(a) Capital expenditure (b) Revenue expenditure
(c) Deferred revenue expenditure (d) None of the above

22. An expenditure which benefits the __________ period is called revenue expenditure.
(a) current (b) future (c) past (d) none

23. Any expenditure incurred in acquiring a Fixed asset for the business is called __________ expenditure.
(a) Revenue (b) Capital (c) Deferred revenue (d) none

24. Any expenditure incurred in achieving operative economy is known as __________ expenditure.
(a) Revenue (b) Capital (c) Differed revenue (d) None

25. Any expenditure incurred in acquiring the right to carry on a business is __________ expenditure.
(a) Capital (b) Revenue (c) Differed revenue (d) None

26. Money obtained by the issue of debentures is_________ receipt.
(a) Capital (b) Revenue (c) Other (d) None

27. An expenditure is capital in nature when -
(a) The receiver of the amount is going to treat it for the sale of fixed assets.
(b) It increases the quantity of fixed assets
(c) It is paid as interest on loans for the business
(d) wages are paid to labour

28. An expenditure is revenue in nature, when -
(a) It benefits the current period (b) It benefits the future period
(c) It belongs to the previous period (d) Computer is purchased

29. Discount allowed on issue of shares is an example of -
(a) Capital expenditure (b) Revenue expenditure
(c) Deferred revenue expenditure. (d) none

30. ₹ 400 paid for removal of stock from new site.
(a) Deferred Revenue Expenditure
(b) Capital Expenditure
(c) Capital Expenditure & Deferred Revenue Expenditure
(d) Revenue expenditure

31. Car's piston and rings changed at a cost of ₹ 2,000.
(a) Deferred Revenue Expenditure
(b) Revenue expenditure
(c) Capital expenditure
(d) Deferred Revenue Expenditure & Revenue Expenditure

32. Temporary rooms constructed for storing raw materials for the construction of a big building.
(a) Capital expenditure
(b) Deferred Revenue Expenditure
(c) Revenue expenditure
(d) Deferred Revenue Expenditure & Revenue Expenditure

33. A machinery costing ₹ 5,000 has been sold; It realises ₹ 3,000. A new machine is purchased for ₹ 9,000.
(a) Revenue Loss & Capital expenditure (b) Capital expenditure
(c) Revenue expenditure (d) Deferred Revenue expenditure

34. Amount realised from sale of old furniture.
(a) Revenue Receipt (b) Capital Receipt
(c) Revenue & Capital Receipt (d) Capital expenditure

35. Amount received from a debtor whose account was previously written off as bad
(a) Revenue Receipt (b) Capital Receipt
(c) Revenue & Capital Receipt (d) Capital expenditure

36. Fees received from apprentices.
(a) Capital expenditure (b) Revenue receipt
(c) Capital Receipt (d) Capital Receipt & Revenue Receipt

37. Amount contributed by the proprietor to augment his capital.
(a) Capital Receipt & Revenue receipt (b) Capital receipt
(c) Revenue receipt (d) Capital Expenditure

38. ₹ 4,000 spent towards addition to machinery in order to double the production.
(a) Capital Expenditure
(b) Revenue Expenditure
(c) Deferred Revenue Expenditure
(d) Deferred Revenue Expenditure & Revenue Expenditure

39. ₹1,500 incurred on repairs of machinery, necessitated by the negligence of the employees.
(a) Revenue Expenditure
(b) Capital Expenditure
(c) Deferred Revenue Expenditure
(d) Capital Expenditure & Revenue Expenditure

40. Underwriting commission paid on the issue of shares.
(a) Deferred Revenue Expenditure
(b) Revenue Expenditure
(c) Capital Expenditure
(d) Revenue Expenditure & Deferred Revenue Expenditure

41. An honorarium paid ₹3,500 to an architect for supervising the construction of the factory building.
(a) Capital Expenditure
(b) Deferred Revenue Expenditure
(c) Revenue Expenditure
(d) Revenue Expenditure & Deferred Revenue Expenditure

42. Loss caused by theft of cash by cashier during business hours.
(a) Revenue Expenditure/Loss
(b) Capital Expenditure
(c) Deferred Revenue Expenditure
(d) Deferred Revenue Expenditure & Revenue Expenditure

43. Mahender is a partner. He agrees to leave the partnership on payment of compensation of ₹ 20,000.
(a) Capital Expenditure (b) Revenue Expenditure
(c) Deferred Revenue Expenditure (d) Revenue Expenditure & Deferred Revenue Expenditure

44. Security deposit of ₹ 5,000 paid when submitting tender which is forfeited for breach of contract.
(a) Revenue Expenditure/Loss (b) Capital Expenditure
(c) Deferred Revenue Expenditure (d) Revenue Expenditure & Deferred Revenue Expenditure

45. Cost incurred ₹ 25,000 for moving the plant from one place to a favourable location.
(a) Capital Expenditure (b) Revenue Expenditure
(c) Deferred Revenue Expenditure (d) Revenue Expenditure & Deferred Revenue Expenditure

46. Replacement of a vital component part costing ₹ 1,500 which was damaged in transit for a new machine purchased
(a) Deferred Revenue Expenditure (b)Revenue Expenditure
(c) Capital Expenditure (d) Deferred Revenue Expenditure & Revenue Expenditure

47. Legal expenses incurred in a sales tax appeal.
(a) Revenue Expenditure (b) Deferred Revenue Expenditure
(c) Deferred Revenue Expenditure & Revenue Expenditure (d) Capital Expenditure

48. Amount spent on increasing the seating capacity in a cinema hall is a
(a) Capital expenditure (b) Revenue expenditure
(c) Deferred revenue expenditure (d) none

49. Which of the following is capital expenditure?
(a) Purchased a pencil sharpener at a cost of ₹ 2
(b) Installing an escalator at cost of ₹ 5,600 in a three storey building which had previously been used without escalators
(c) Painted delivery truck at a cost of ₹ 450 after two years of use
(d) ₹ 200 spent for minor alterations in building

50. Furniture of the book value of ₹ 1,500 was sold for ₹ 600 and new fixture of ₹ 1,000 was purchased and cartage of ₹ 25 paid What is the amount of capital expenditure?
(a) ₹ 1,500 (b) ₹ 900 (c) ₹ 1,000 (d) ₹ 1,025

51. An expenditure is a classified as capital expenditure when
(a) The amount is large (b) It is shown in the balance sheet
(c) It is to benefit a number of future years (d) It benefits only the current year

52. Which of the following receipts is of capital nature
(a) Amount realised from sale of old furniture
(b)Amount received from debtor whose account was previously written off as bad
(c) Amount of interest receipt from bank on a fixed deposit
(d) Amount realised from debtors against their debts

53. Which of the following receipts is of revenue nature
(a) Amount realised from sale of investments
(b) Dividend received on investments
(c) Amount borrowed from a bank
(d) Compensation received from municipal corporation on acquisition of land for the construction of a road

54. Charging of capital expenditure to revenue results in
(a) Revenue reserve (b) Capital reserve (c) Secret reserve (d) None of these

55. Expenses incurred on Trial Run is:
(a) Capital Expenditure (b) Revenue Expenditure
(c) Deferred Revenue Expenditure (d) Prepaid Expenses

56. Brokerage on the issue of shares and debentures is a ______________ expenditure :
(a) Revenue (b) Capital (c) Deferred Revenue (d) Partly Capital partly revenue

57. What is the difference between deferred revenue expenditure and prepaid expenses?
(a) Accounting treatment (b) Estimation of amount
(b) Benefit for more than one accounting period (d) Nature of expenditure

58. Entrance fee of ₹2,000 received by Ram and Shyam Social Club is
(a) Capital receipt (b) Revenue receipt (c)Capital expenditures (d) Revenue expenditure

59. A second hand car is purchased for ₹10,000, the amount of ₹1,000 is spent on its repairs, ₹500 is incurred to get the car registered in owner's name and ₹1,200 is paid as dealer's commission. The amount debited to car account will be
(a) ₹10,000 (b) ₹10,500 (c) ₹11,500 (d) ₹12,700

60. Revenue from sale of products, ordinarily, is reported as part of the earning in the period in which
(a) the sale is made. (b) the cash is collected.
(c) the products are manufactured. (d) the planning takes place.

61. If repair cost is ₹25,000, whitewash expenses are ₹5,000, cost of extension of building is ₹2,50,000 and cost of improvement in electrical wiring system is ₹19,000; the amount to be expensed is
(a) ₹2,99,000 (b) ₹44,000 (c) ₹30,000 (d) ₹49,000

62. ₹ 1,200 spent on the repairs of machine is
(a) capital expenditure; (b) revenue expenditure;
(c) deferred revenue expenditure; (d) None of the above

63. ₹ 2,500 spent on the overhaul of machines purchased second-hand is
(a) capital expenditure; (b) revenue expenditure;
(c) deferred revenue expenditure; (d) None of the above

64. Whitewashing expenses are
(a) capital expenditure; (b) revenue expenditure;
(c) deferred revenue expenditure; (d) None of the above

65. Paper purchased for use as stationery is
(a) capital expenditure; (b) revenue expenditure;
(c) deferred revenue expenditure; (d) None of the above