CLASSIFICATION OF RECEIPTS AND EXPENDITURE IN TERMS OF CAPITAL AND REVENUE

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What is Capital?

• Capital is the amount of cash and other assets owned by a business.
What is Revenue?

- **Revenue or revenues** is income that a company receives from its normal business activities, usually from the sale of goods and services to customers.
What are receipts?

- The materials or transactions associated with the receiving process.
CLASSIFICATION OF RECEIPTS

RECEIPTS

CAPITAL RECEIPTS

REVENUE RECEIPTS
CAPITAL RECEIPTS

• Consists of payments made to the business by:
  1. Shareholders of the company.
  2. Proprietors of the business.

  and

• Receipts from the sales of fixed assets of the company.

• They affect the balance sheet by either appearing on the credit side or by reduction in the value of some asset
CAPITAL INCOME

• Income which does not grow out of or pertain to the running of business proper.
• Synonymous to the term ‘CAPITAL GAIN’.
• Profit realized over and above the cost of the fixed asset is considered as capital income or gain.
Eg.

- Cost of the plant = Rs 10,000
  sold for = Rs 12,000

Then,

Capital receipt = Rs 12,000
Capital Gain = 12,000 - 10,000
= Rs 2,000
REVENUE RECEIPTS

- Revenue receipts are the one which affect the profitability of the company like day to day incomes.
- They appear in the credit side of P & L A/c.
REVENUE INCOME

- Income that arises out of and in the course of the regular business transactions of a concern.
- Synonymous to the term ‘REVENUE PROFIT’.
- For instance, income derived from sale of goods, letting out business property etc.
Eg.

- Goods costing = Rs 20,000
  Sold for = Rs 25,000

Revenue receipts = Rs 25,000
Revenue income = 25,000 - 20,000
= Rs 5,000
What is an expenditure?

- Charges incurred, whether paid or unpaid.
CLASSIFICATION OF EXPENDITURE

EXPENDITURE

- CAPITAL EXPENDITURE
- REVENUE EXPENDITURE
- DEFERRED REVENUE EXPENDITURE
<table>
<thead>
<tr>
<th>TYPE OF EXPENDITURE</th>
<th>MEANING</th>
<th>EXAMPLES</th>
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| **CAPITAL EXPENDITURE** | • Incurred for obtaining a long term advantage for the business.  
• Incurred either for acquisition of an asset or increasing the earning capacity of business. | Expenditure incurred  
• In increasing the quality of fixed assets.  
• In increasing the quantity of fixed assets.  
• For substitution of a new asset  
• In connection with the purchase or receipt of fixed asset.  
• For acquiring the right of carrying on business |
| **REVENUE EXPENDITURE** | • Incurred in the course of regular business transactions.  
• Can simply be termed as “expense”. | Incurred  
• In the normal course of running the business.  
• To maintain the business.  
• Cost of goods purchased for resale.  
• Depreciation on fixed assets. |
| **DEFFERED REVENUE EXPENDITURE** | • Class of revenue expenditure incurred during an accounting period, but applicable either wholly or in part to future period. | • Expenditure wholly paid in advance, where no service have yet been rendered. Eg Telephone rent.  
• Partly paid in advance, portion of benefit availed, rest shown as asset in balance sheet. Eg proportion of rent paid in advance.  
• Losses of exceptional nature eg heavy loss of non insured assets through fire. |
**CAPITAL EXPENDITURE**

- Incurred either for acquiring new fixed asset or improving the existing ones.
- Increases the earning capacity of business.
- Its benefits are available over a period of time.

**REVENUE EXPENDITURE**

- Incurred either for maintaining the existing fixed assets or meeting the routine expenses of business.
- It does not do so.
- Restricted only to the accounting period in which they are incurred.
REVENUE EXPENDITURE TAKING THE SHAPE OF CAPITAL EXPENDITURE IN SOME CASES

• REPAIRS
• WAGES
• LEGAL CHARGES
• TRANSPORT CHARGES
• INTEREST ON CAPITAL
• RAW MATERIALS AND STORES
• DEVELOPMENT EXPENDITURE
• ADVERTISING
• PRELIMINARY EXPENSES
An exercise

State the nature of the following transactions:

1. Carriage paid on goods purchased.
2. Legal expenses incurred for abuse of trademark.
3. Money raised by issue of equity shares.
4. Expenditure incurred on issue of equity shares.
5. Cost of formation of a new company.
6. Cost of experimenting a new product which did not result in success.
7. Cost of Rs 10,000 incurred in increasing the sitting accommodation and Rs 5,000 in repainting of cinema house.
8. Heavy legal expenditure incurred by a newspaper company to defend a legal suit.
Answers

1. Revenue expenditure
2. Revenue expenditure
3. Capital receipt
4. Capital expenditure
5. Capital expenditure
6. Deferred Revenue expenditure
7. Capital expenditure
8. Deferred Revenue expenditure
Thank you