

CHAPTER 16

CAPITAL AND REVENUE EXPENDITURE/INCOME

❖ Capital Expenditure

Capital Expenditures are those expenditures that are incurred to acquire fixed assets or to increase or to add the value to an existing fixed asset.

❖ Revenue Expenditure

Revenue Expenditure is the expenditure that is incurred to earn or to generate revenue during an accounting year.

❖ Difference between Capital Expenditure and Revenue Expenditure

| Basis of Difference | Capital Expenditure | Revenue Expenditure |
|---------------------|--|---|
| Meaning | Incurred to increase the earning capacity of a business. | Incurred to maintain the earning capacity of a business. |
| Purpose | Incurred to acquire fixed assets to carry out operations. | Incurred to conduct day to day activities. |
| Benefits | The benefits of such expenditures can be availed for more than one year. | The benefits of such expenditures can only be availed for one year. |
| Nature | Non-recurring | Recurring |
| Shown | Shown on the Assets side of the Balance Sheet. | Shown on the debit side of the Trading and Profit and Loss Account. |

❖ **Need and Importance to differentiate between Capital Expenditure and Revenue Expenditure**

- To identify the correct nature of each item and treat them according to the nature. To reflect true and fair view of the financial affairs of an enterprise.

❖ **Deferred Revenue Expenditure**

When the benefits from revenue expenditure are not restricted to only one year but are extended over many years, such class of revenue expenditure is regarded as deferred revenue expenditure.

❖ **Capital Receipts**

Capital receipts are those receipts that are received from disposal or sale of an asset or received in form of additional capital introduced.

❖ **Revenue Receipts**

Revenue receipts are those receipts that are received in conduct of ordinary and day to day business activities.

❖ **Difference between Capital Receipts and Revenue Receipts**

| Basis of Difference | Capital Receipts | Revenue Receipts |
|----------------------------|---|--|
| Meaning | Amount received from the sale of fixed assets, loan taken or additional capital introduced. | Amount received from sale of goods and services. |

| | | |
|------------|---|---|
| Activities | Not received from the ordinary business activities. | Received from the ordinary business activities. |
| Nature | Non-recurring | Recurring |
| Shown | On the Liabilities side of the Balance Sheet. | On the credit side of the Trading and Profit and Loss Account. |
| Examples | Sale of Furniture, Loan from Bank etc. | Sale of Goods, Rent Received, Profit on sale of fixed assets etc. |

❖ Capital Profits

Capital profits are those profits that are earned from the disposal or sale of an asset and redemption of debentures.

❖ Revenue Profits

Revenue profits are those profits that are earned in conduct of ordinary and day to day business activities.

❖ Difference between Capital Profits and Revenue Profits

| Basis of Difference | Capital Profits | Revenue Profits |
|---------------------|---|--|
| Meaning | Amount earned from the disposal or sale of an asset and redemption of debentures. | Amount earned from the sale of goods and services at a price above their cost price. |
| Activities | Not earned from the ordinary business activities. | Earned from the ordinary business activities. |
| Nature | Non-recurring | Recurring |

| | | |
|--------|---|--|
| Shown | On the Liabilities side of the Balance Sheet. | On the credit side of the Trading and Profit and Loss Account. |
| Source | Creation of Capital Reserves | Creation of Revenue Reserves |

❖ Capital Loss

Capital losses are those losses that are incurred from the disposal or sale of an asset and redemption of debentures.

❖ Revenue Loss

Revenue losses are those losses that are incurred in conduct of ordinary and day to day business activities.

❖ Difference between Capital Loss and Revenue Loss

| Basis of Difference | Capital Loss | Revenue Loss |
|---------------------|---|--|
| Meaning | Loss incurred from the disposal or sale of an asset and redemption of debentures. | Loss incurred from the sale of goods and services at a price lesser than their cost price. |
| Activities | Not incurred from the ordinary business activities. | Incurred from the ordinary business activities. |
| Nature | Non-recurring | Recurring |
| Shown | On the Assets side of the Balance Sheet. | On the debit side of the Trading and Profit and Loss Account. |
| Set-off | Can be set-off against capital profits | Cannot be set-off against capital profits |

❖ **Capital Income**

Capital incomes are those incomes that do not arise in the normal course of business operations.

❖ **Revenue Income**

Revenue incomes are those incomes that are earned in the conduct of ordinary and day to day business activities.

❖ **Difference between Capital Income and Revenue Income**

| Basis of Difference | Capital Income | Revenue Income |
|----------------------------|--|--|
| Meaning | Incomes arising from the capital itself, without involving any production work | Incomes earned in conduct of ordinary and day to day business activities |
| Activities | Not earned from the ordinary business activities. | Earned from the ordinary business activities. |
| Nature | Non-recurring | Recurring |
| Shown | On the Liabilities side of the Balance Sheet. | On the credit side of the Trading and Profit and Loss Account. |