

Capital and Revenue Expenditure/ Income

MEANING OF KEY TERMS USED IN THE CHAPTER

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| 1. Capital Expenditure | Capital Expenditure is that expenditure which gives benefit of enduring nature, <i>i.e.</i> , the benefit of which extends to a period or periods beyond the accounting period. |
| 2. Revenue Expenditure | Revenue Expenditure is that expenditure the benefit of which is consumed or exhausted within the accounting period. |
| 3. Deferred Revenue Expenditure | Deferred Revenue Expenditure is expense or loss incurred which is written off in more than one accounting period. They are categorised as Fictitious Assets. |
| 4. Capital Receipts | Capital Receipts are those receipts which are not received in the normal course of business, such as capital introduced, loan received, premium received on issue of shares, etc. |
| 5. Revenue Receipts | Revenue Receipts are those receipts which are received in the normal course of business, such as revenue from sale of goods and services. |
| 6. Capital Profit | Capital Profit is a profit which is not earned by the business in the normal course of business. For example, gain on the sale of fixed asset or gain on reissue of forfeited shares. |
| 7. Revenue Profit | Revenue Profit is the profit earned by the business in the normal course of business, <i>e.g.</i> , profit on sale of goods, discount received, commission earned, etc. |
| 8. Capital Loss | Capital Loss is the loss which occurs on selling fixed assets or raising capital (discount on issue of debentures). |
| 9. Revenue Loss | Revenue Loss is the loss which arises during the normal course of business, <i>i.e.</i> , in trading operations such as loss on sale of goods. |

CHAPTER SUMMARY

- **Capital Expenditure** is the amount spent by an enterprise on purchase of fixed assets that are used in the business to earn income and not intended for resale. The benefit of capital expenditure is not fully consumed, *i.e.*, exhausted in one accounting period but spreads over accounting periods.
- **Treatment of Capital Expenditure** Capital expenditure is debited to the Fixed Asset Account and is shown in the Balance Sheet.

- **Revenue Expenditure** is the amount spent on running of the business. The benefit of revenue expenditure expires within a financial year.
 - **Treatment of Revenue Expenditure** Revenue Expenditure is shown on the debit side of Trading Account or Profit and Loss Account.
 - **Capital Receipts** are the receipts that are not received in the normal course of business activities. *Examples:* Contribution towards capital, secured or unsecured loans, etc.
 - **Revenue Receipts** are the receipts that are received out of the conduct of business. *Examples:* sales, fee for services, etc.
 - **Capital Profit** is the profit earned on the sale of fixed assets or on raising capital such as premium on issue of shares.
 - **Revenue Profit** is the profit earned out of the business activity.
 - **Capital Loss** is the loss arising from sale of fixed assets or raising capital.
 - **Revenue Loss** is the loss arising out of the business activity.
 - **Capital Income** is the income earned by the business that is capital in nature.
 - **Revenue Income** is the income earned by the business that is revenue in nature.
 - **Deferred Revenue Expenditure** is expenditure in the nature of revenue expenditure, the benefit of which extends beyond an accounting period. *Example:* Large expenditure incurred on advertisement, say to introduce a new product.
 - **Treatment of Deferred Revenue Expenditure:**
Deferred Revenue Expenditure is shown as:
 - (i) Amount to be written off in the Current Year is debited to the Profit and Loss Account, and
 - (ii) Unabsorbed or unwritten amount is shown on the assets side of the Balance Sheet.
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