Class! 10th
Commercial Studies
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Tender Heart High School

classmate
Date 08/07/24
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Ch-6. Capital and Revenue Expenditure/Income

Good Morning Students,
This lesson is for class 10th for the subject of "Commercial Studies". The topic of today is types of expenditures and incomes, which is covered in chapter 6 titled "Capital and Revenue Expenditure/Income" of your book. This lesson is being submitted to you on 08/07/24.

All the students now please open page number 55 of your book and listen carefully.

In order to ascertain the correct net profits and true financial position of a business, it is necessary to make a clear distinction between the 'Capital' and 'Revenue' items. If any error is committed in differentiating between capital and revenue items, profit and loss account will not show the correct net profit or net loss and the balance sheet will fail to show a true and fair picture of the firm's financial position.

Capital and Revenue items may be classified into the following categories:-
(1) Capital Expenditure and Revenue Expenditure
(2) Capital Receipts and Revenue Receipts.
(3) Capital loss and Revenue loss.
(4) Capital Profit and Revenue Profit.

All the revenue items are shown in trading and profit and loss account whereas capital items are entered in the Balance Sheet.

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Capital Expenditure:-

Capital Expenditure is that expenditure the benefit of which is not exhausted within the current year but is enjoyed over a long period of time. Capital expenditure is of non-recurring nature. Such expenditure results in acquisition of permanent assets. Thus, all expenditure incurred to acquire or increase the value of fixed assets which are used in business for the purpose of earning revenue are called Capital Expenditure.

Some of the examples of Capital Expenditure are given below:-

(i) Purchase of land, building, plant and machinery furniture, loose tools etc.
(ii) Cost of addition, extension and improvements to existing fixed assets.
(iii) Expenses incurred in bringing a new/second hand machinery (asset) into working conditions.
(iv) Expenses incurred in connection with the purchase of land or building such as fees paid to lawyer, brokerage or registration fee.
(v) Expenses incurred on issuing shares and debentures or on raising loans.
(vi) Expenses incurred to establish a business, e.g. preliminary expenses for incorporation of a company.

Revenue Expenditure:-

Revenue expenditure means the expenditure

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the benefit of which is exhausted within the current year. Such expenditure is of recurring nature. Revenue expenditure does not result in the acquisition of permanent assets. Such expenditure does not add to the earning capacity of the firm but helps in maintaining the earning capacity of the firm.

Some of the examples of revenue expenditure are given below:-

(i) Expenses incurred for the day to day running of the business. e.g. rent, salaries, wages, power, fuel etc.
(ii) Depreciation (reduction in the value of assets due to use and wear and tear) of fixed assets.
(iii) Loss on sale of fixed assets.
(iv) Repairs and maintenance charges.
(v) Expenditure incurred on purchase of stocks of materials and goods.
(vi) Interest on loan and interest on capital.

Distinction between Capital Expenditure and Revenue Expenditure

S.No.	Basis	Capital Expenditure	Revenue Expenditure
1.	**Purpose**	It is incurred for acquisition of fixed assets to be used in the business.	It is incurred for day-to-day conduct of business.
2.	**Earning capacity**	Increases the earning capacity of the business.	Does not increase the earning capacity
3.	**Period of benefit**	More than one year.	Only to the current accounting year
4.	**Accounting treatment**	It is shown in the Balance Sheet	It is shown in the Trading Account or Profit and Loss Account
5.	**Nature**	Non-recurring nature	Recurring nature.
6.	**Effect on assets**	Leads to increase in the value of assets	Does not lead to increase in the value of the assets.

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Deferred Revenue Expenditure:-

Deferred revenue expenditure refers to those revenue expenses the benefit of which extends beyond the current year. However, such expenditure does not result in the acquisition of any permanent asset. It has feature of both capital and revenue expenditure.
For example, heavy expenditure on advertisement is incurred to introduce a new product in the market. The benefit of such expenditure is enjoyed over many years like capital expenditure but it does not result in acquisition of permanent asset like revenue expenditure.
A portion of such expenditure is debited to the profit and loss account in the current year and the remaining portion is shown as an asset in the Balance Sheet.
The main examples of deferred revenue expenditure are as follows:-
(i) Heavy Advertisement Expenses
(ii) Heavy Repair
(iii) Research Expenses
(iv) Expenses incurred to move the business to a more convenient place.

Before going further, lets take a short break. Write the answers of the following questions during the break.
(i) What type of expenditure is shown in balance sheet?

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(ii) What is a Revenue Expenditure?
(iii) Give two examples of revenue expenditure.

Capital Receipts:-

Capital receipts are those receipts which are not received during normal course of business operation. These receipts are of non-recurring nature such as additional capital from owners, loans raised by the firm ~~or~~ and money received from sale of fixed assets. These receipts involve in creation of a liability or reduction in the value of fixed assets. Capital receipts that result in creation of liability are shown on the liability side of the Balance Sheet.

Some examples of Capital Receipts are given below:-

(i) Amount received by way of loans
(ii) Capital raised by an issue of shares and debentures.
(iii) Amount received ~~by~~ from the sale of investments and fixed assets.
(iv) Government grants and endowments.

Revenue Receipts:-

Revenue receipts are those receipts which are obtained during the normal course of business operation and are of a recurring nature, e.g. sale proceeds of goods and services, divendend received, rent received etc. These receipts neither create a liability

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nor involve reduction in the value of fixed assets. Rather these receipts increase the income of the business. Revenue receipts are shown on the credit side of the Trading or Profit and loss account. Some examples of revenue receipts are as follows:-

(i) Amount received from sale of goods.
(ii) Interest and dividend received on investment.
(iii) Fees and commission received for services rendered.
(iv) Rent received from tenants

Capital losses:-

Capital losses are the losses which are not related with the normal course of business. These are not related with the operation of the business.
Some examples of Capital losses are as follows:-

(i) Loss on sale of fixed assets.
(ii) Loss on issue of shares and debentures
(iii) Loss of fixed assets like plant and building, vehicles etc. by fire or accident.
(iv) Loss by theft after business hours.

Revenue losses:-

Revenue losses are those losses which are incurred in the normal course of business operation. These losses are related with the business activities. Some of the examples

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of revenue losses are as under:-
(i) Bad debts (amount not paid by the debtors)
(ii) Loss of stock by theft or fire.
(iii) Misappropriation of cash by employees during usual business hours.

Capital Profit:-
Capital profits refer to the profits earned on sale of fixed assets or in connection with the issue of shares and debentures.
For example:-
(i) Profit on sale of machinery, investment etc
(ii) Issue of shares and debentures at premium.

Revenue Profits:-
Revenue profits means the profits earned in the normal course of the business. This is of recurring nature. This helps in running day to day operations of the business.
For example, if goods are purchased for ₹ 50,000 and sold for ₹ 70,000 then ₹ 20,000 is revenue profit.

With this, I am ending my topic here. Write the answers of the following questions in your note-books.

1. Give two difference between Capital Expenditure and Revenue Expenditure.
2. What are Capital Receipts? Give example
3. What are Revenue losses?
4. What are Capital Profits? Give example.

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