



# RIZVI COLLEGE OF ARTS, SCIENCE AND COMMERCE

**Subject : Financial Accounting-I**

**Class : FYBAF**

**Semester : I**

**Module 2 : Chapter 1**

**Topic : Capital And Revenue: Expenditure And Receipts**

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# OBJECTIVES :-

- Introduction
- Capital Receipts
- Revenue Receipts
- Difference between Capital & Revenue Receipts
- Capital Expenditure
- Revenue Expenditure
- Difference between Capital & Revenue Expenditure
- Deferred Revenue Expenditure

# INTRODUCTION

- The preparation of Trading and Profit & Loss Account requires the knowledge of :
  - Revenue Expenditure
  - Revenue Receipts
  - Capital Expenditure and
  - Capital Receipts
- To determine which items appear in which Financial Statement
  - Revenue items - Profit & loss Account
  - Capital items - Balance Sheet
- Determination of Net Profit – As per Matching concept Revenue Receipts = Revenue Expenses





## DIFFERENCE BETWEEN EXPENSE AND EXPENDITURE

- If the Utility of Payment is availed during the same accounting period – *Expense*
- If the Utility of Payment is availed for more than one year - *Expenditure*

# Transactions

Income/Receipts

Payments/Expenses

Capital

Revenue

Capital

Revenue

Deferred  
Revenue

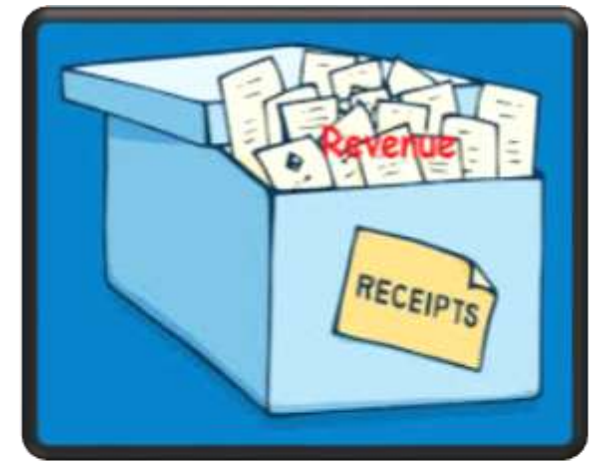
# CAPITAL RECEIPTS

- Do not arise due to normal course of business.
- Non recurring in nature because not regularly earned by the business.
- Which can be invested in business for more than 1 accounting period.
- E.g.
  - Receipts from sale of fixed Assets
  - Receipts on account of raising of capital for business
  - Loans borrowed
  - Receipts on account of payments received towards debenture or other loan.



# REVENUE RECEIPTS

- Receipts earned due to routine course of business.
- Recurring in Nature.
- Available to meet day to day expenses of business concern.
- E.g.
  - Earned by selling goods or services
  - Interest received on Investment
  - Commission received
  - Dividend received on business Investments



# DIFFERENCE BETWEEN CAPITAL AND REVENUE RECEIPTS

## Capital Receipts

- Capital Receipts do not arise during normal course of business.
- Capital Receipts are non recurring in Nature.
- Capital Receipts pertains to financing activity.
- Capital Receipts is shown as Liability in Balance Sheet.
- Capital Receipts may be returned back.
- Capital Receipts increases funds available for investment, but may reduce profits as interest is to be paid on loans obtained.

## Revenue Receipts

- Revenue Receipts arise during normal course of business.
- Revenue Receipts are recurring in Nature.
- Revenue Receipts pertains to business activity.
- Revenue Receipts pertaining to current year is shown as income in P&L a/c and those pertaining to future period is shown as Liability in Balance Sheet.
- Revenue Receipts need not be returned or refunded.
- Revenue Receipts increases profits and funds



# CAPITAL EXPENDITURE

- Any expenditure which is used to increase the earning of business is known as Capital Expenditure.
- Expenditure incurred for getting long term benefit.
- Non recurring in Nature.
- E.g.
  - Amount spent for construction, acquisition or purchase of Fixed Assets
  - Amount spent on installation of Assets or bringing it in working condition.



# REVENUE EXPENDITURE

- Expenditure incurred in running business and maintaining the earning capacity of business are known as Revenue Expenditure.
- They are recurring in nature.
- These are expenses whose benefit expires within one year of expenditure.
- E.g.
  - Cost of Raw Material
  - Wages
  - Administrative expenses such as salaries, rent etc.
  - Selling & Distribution expenses such as commission, advertising etc.

# DIFFERENCE BETWEEN CAPITAL AND REVENUE EXPENDITURE

## Capital Expenditure

- Capital Expenditure pertains to investing activity.
- Capital Expenditure helps to set up and develop the business.
- Capital Expenditure is shown as Assets in Balance Sheet.
- Capital Expenditure helps to acquire new assets.
- Capital Expenditure is non recurring in nature.

## Revenue Expenditure

- Revenue Expenditure pertains to business activity.
- Revenue Expenditure helps to run a business.
- Revenue Expenditure pertaining to current year is shown as expense in P&L a/c and those pertaining to future period is shown as assets in Balance Sheet.
- Revenue Expenditure helps to maintain an asset.
- Revenue Expenditure is recurring in nature.

# DEFERRED REVENUE EXPENDITURE

- The expenditure primarily of Revenue nature but benefit is not exhausted in the year in which it is incurred are known as Deferred Revenue Expenditure.
- Such expenditure is not charged to revenue in the year in which they are incurred, but a part of it is written off every year and the balance is capitalized and is shown in Balance Sheet.
- Deferred Revenue Expenditure once incurred cannot be recovered back.
- Deferred Revenue Expenditure benefits lesser number of years in comparison to capital expenditure.
  - Deferred Revenue Expenditure 3-5 years
  - Capital Expenditure 10-12 years
- E.g.
  - Heavy Advertisement expenses.
  - Preliminary expenses
  - Discount on Issue of Shares.





**Thank  
You!!!**