

JAIIB



Accounting & Financial Management for Bankers

Module A : Chapter 7 **Capital & Revenue Expenditure**



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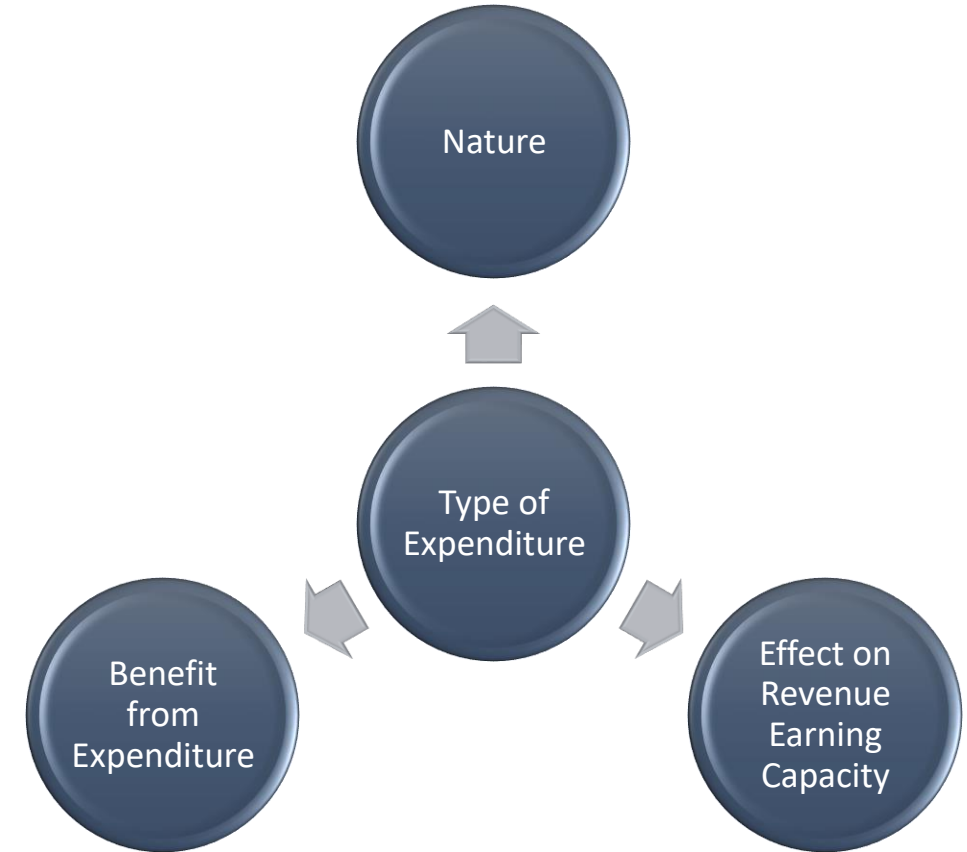
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WHAT IS EXPENDITURE?

- An expenditure represents a payment with either cash or credit to purchase goods or services. It is recorded at a single point in time (the time of purchase), compared to an expense that is recorded in a period where it has been used up or expired.
- Expenditures are normally classified into Capital or Revenue expenditures.



TYPES OF EXPENDITURE

Nature

- Frequency of expenditures
- Recurring exp. are usually Revenue expenditure.
- Non-recurring expenditures are capital in nature.

Revenue Earning Capacity

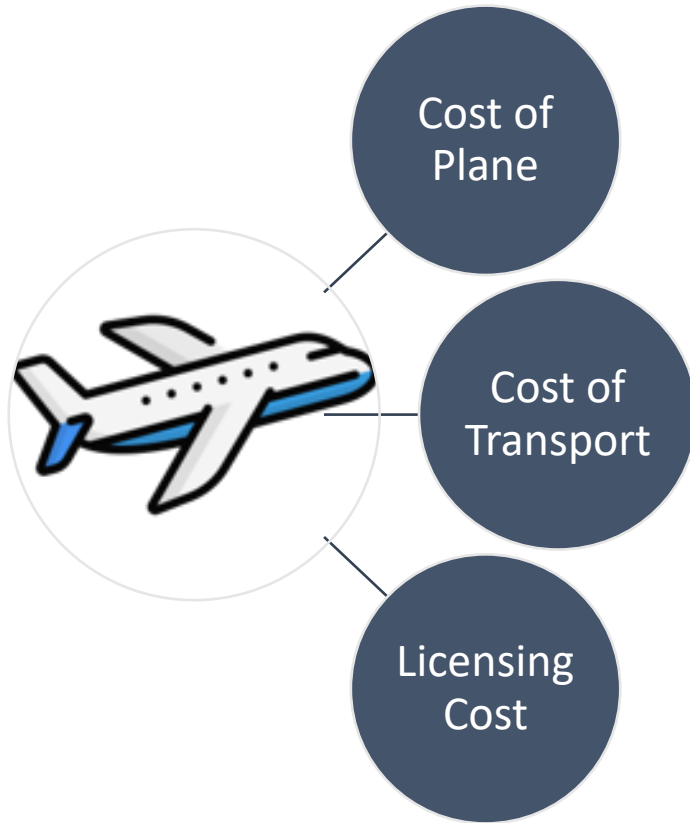
- Expenses which help to generate income in current year are revenue in nature.
- If expenditure helps to generate revenue over more than one accounting period, it is capital exp.

Benefit from Expenditure

- If benefit from exp. Incurred is of short duration, it is revenue in nature.
- Capital exp. is incurred to earn income over a period of years or increase the earning capacity of business.



CAPITAL EXPENDITURE



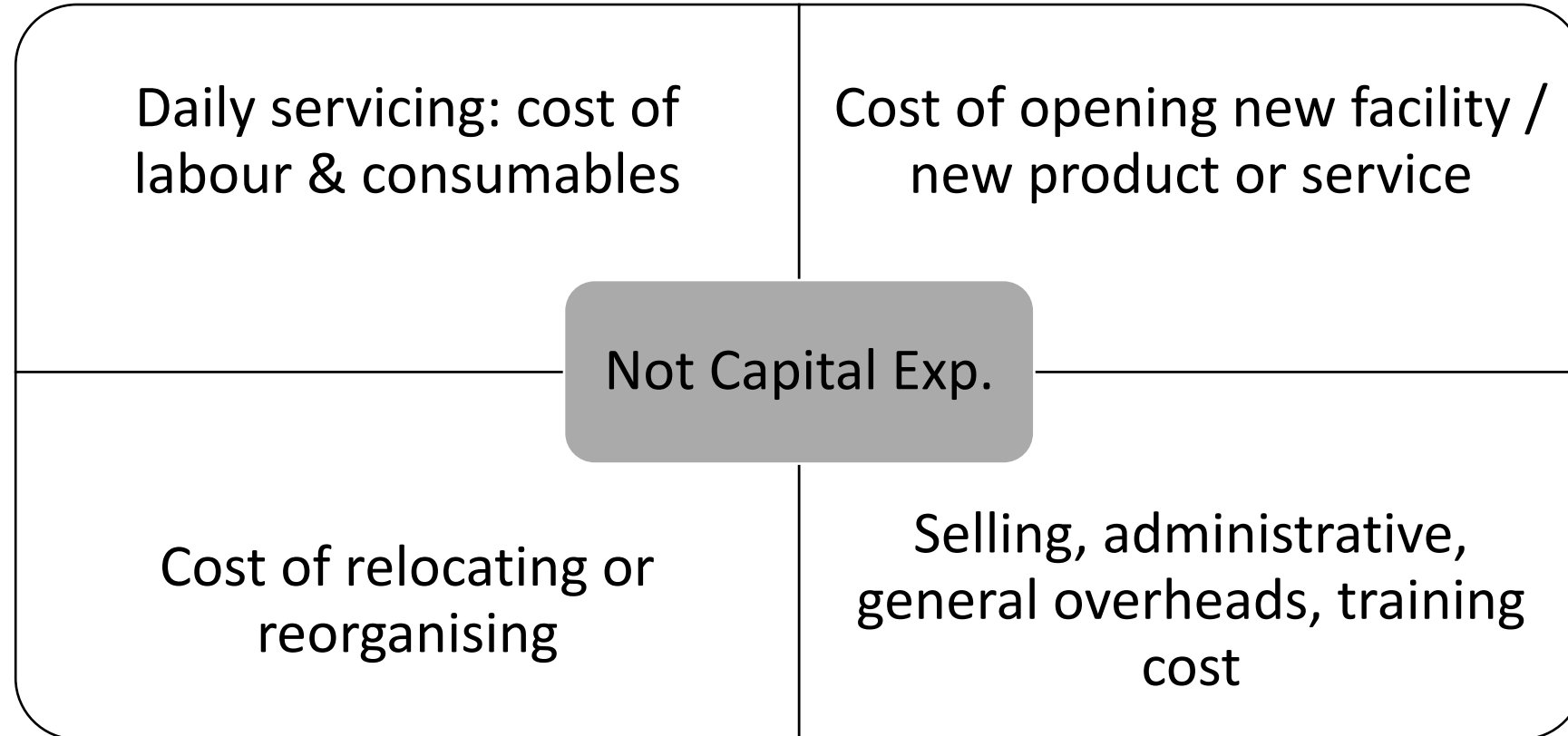
Capital Expenditure

['ka-pə-təl ik-'spen-di-cherz]

Funds used by a company to acquire, upgrade, and maintain physical assets such as property, plants, buildings, technology, or equipment.



CAPITAL EXPENDITURE



CAPITAL vs REVENUE EXP.

	CAPITAL EXPENDITURE	REVENUE EXPENDITURE
1	Amount spent is usually large	Amount spent is relatively small
2	Purpose is to improve or enhance earning capacity	Purpose is to maintain fixed assets and operate them
3	Long duration benefit	Short duration benefit
4	Non-recurring	Recurring
5	Shown in balance sheet	Shown in Profit & Loss account.



RECEIPTS

- Inflow of cash or funds into the firm.

Capital Receipts

- Inflow from issue of equity / bonds.
- Inflow from sale or disposal of fixed asset.
- Not routed through P&L accounts.
- Any profit or loss arising from such transactions is recorded in P&L account.

Revenue Receipts

- Inflow from day to day operations
- Inflow where there is no further obligation / liability is created.
- Routed through P&L account.



LET'S SOLVE!

Which one of the following statements is not correct?

- a) Replacement of defective part of machinery is revenue expenditure.
- b) Daily wages paid to workers for installing machinery is capital expenditure.
- c) Underwriting commission for issue of shares is revenue expenditure.
- d) Receipt from sale of old machinery, which is less than its cost price, is revenue receipt.



Thank You

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