

# QB365 Question Bank Software Study Materials

## Capital and Revenue Transactions Important 2, 3 & 5 Marks Questions With Answers (Book Back and Creative)

11th Standard

Accountancy

Total Marks : 75

### 2 Marks

10 x 2 = 20

- 1) State with reasons whether the following are capital or revenue expenditure:
- Expenses incurred in connection with obtaining a licence for starting the factory for Rs.25,000.
  - A factory shed was constructed at a cost of Rs.2,00,000. A sum of Rs.10,000 had been incurred in the construction of temporary huts for storing building material.
  - Overhaul expenses of second-hand machinery purchased amounted to Rs.5,000.

**Answer :** i) It is a capital expenditure since it is incurred to acquire the right to carry on business.  
ii) Cost of construction of building including cost of temporary huts is capital expenditure.  
iii) It is a capital expenditure because overhaul expenses are incurred to put second-hand machinery in working condition to get long-term advantage.

- 2) State whether the following are capital, revenue or deferred revenue expenditure.

- Carriage of Rs.1,000 spent on machinery purchased and installed.
- Office rent paid Rs.2,000.
- Wages of Rs.5,000 paid to machine operators.
- Hire charges for the use of motor vehicle, hired for five years, but paid yearly.

**Answer :** i) Carriage of Rs.1,000 spent on machinery purchased and installed is capital expenditure.  
ii) Office rent paid Rs.2,000 is revenue expenditure.  
iii) Wages of Rs.5,000 paid to machine operators is revenue expenditure.  
iv) Hire charges for the use of motor vehicle, hired for five years, but paid yearly is revenue expenditure.

- 3) State whether the following are capital or revenue items.

- Rs.5,000 spent towards additions to buildings.
- Second-hand motor car purchased for Rs.30,000 and paid Rs.2,000 as repairs immediately.
- Rs.10,000 was spent on painting the new factory.
- Freight and cartage on the new machine Rs.150, erection charges Rs.200.
- Rs.150 spent on repairs before using a second hand car purchased recently.

**Answer :** i. Rs.5,000 spent towards additions to buildings is capital expenditure.  
ii. The entire amount of Rs.32,000 should be treated as capital expenditure.  
iii. Rs.10,000 spent on painting the new factory should be treated as capital expenditure.  
iv. Freight, cartage and erection charges are capital expenditures.  
v. Rs.150 being expense to bring the asset in usable condition, is a capital expenditure.

- 4) Classify the following expenses as capital or revenue.

- The sum of Rs.3,200 has been spent on a machine as follows:
  - Rs.2,000 for additions to double the output.
  - Rs.1,200 for repairs necessitated by negligence.
- Overhauling expenses of Rs.25,000 for the engine of a motor car to get better fuel efficiency.

**Answer :** i) a) Rs.2,000 spent on additions should be treated as capital expenditure  
b) Rs.1200 spent on repairs should be treated as revenue expenditure.  
ii) Overhauling expenses are incurred for the engine of a motor car to get better fuel efficiency. So this expenditure should be treated as capital expenditure.

- 5) Classify the following expenditures and receipts as capital or revenue:

- Rs.10,000 spent as travelling expenses of the directors on trips abroad for the purchase of fixed assets.

- ii) Amount received from trade receivables during the year.
- iii) Amount spent on demolition of building to construct a large building on the same site.
- iv) Insurance claim received on account of a machinery damaged by fire.

**Answer :** i) Capital expenditure

- ii) Revenue receipt
- iii) Capital expenditure
- iv) Capital receipt.

6) What is meant by revenue expenditure?

**Answer :** The expenditure incurred for day to day running of the business or for maintaining the earning capacity of the business is known as revenue expenditure. It is recurring in nature.

7) What is capital expenditure?

**Answer :** (i) It is an expenditure incurred during an accounting period, the benefits of which will be available for more than one accounting period.  
(ii) It includes any expenditure resulting in the acquisition of any fixed asset or contributes to the revenue earning capacity of the business. It is non- recurring in nature.

8) Write a short note on revenue receipt.

**Answer :** Revenue receipt is the receipt of income which is earned during the normal course of business. It is recurring in nature. Examples.

- i) Proceeds from sale of goods
- ii) Interest on investments received
- iii) Rent received
- iv) Dividend received

9) What is Capital profits?

**Answer :** Capital profit is the profit which arises not from the normal course of the business. Profit on sale of fixed asset is an example for capital profits.

10) What is Revenue profit?

**Answer :** Revenue profit is the Profit which arises from the normal course of the business. i.e., Net profit the excess of revenue receipts over revenue expenditure.

3 Marks

10 x 3 = 30

11) Distinguish between capital expenditure and revenue expenditure.

**Answer :**

<b>BASIS</b>	<b>CAPITAL EXPENDITURE</b>	<b>REVENUE EXPENDITURE</b>
i) Nature	It is non - recurring in nature	It is recurring in nature
ii) Purpose	To contribute to the revenue earning capacity of the business.	To carry on the day to day activities of the business
iii) Period of benefits	Its benefit is available for a longer period.	Its benefit is obtained within one accounting period.
iv) Effect on profit earning capacity	It increases the profit earning capacity of the business.	It maintains the profit earning capacity of the business.
v) Accounting treatment	It will appear on the assets side of the balance sheet.	It will be shown on the debit side of the trading and profit and loss account depending on whether direct or indirect in nature.

12) Distinguish between capital receipt and revenue receipt.

**Answer :**

<b>BASIS</b>	<b>CAPITAL RECEIPTS</b>	<b>REVENUE RECEIPTS</b>
1. Nature	Non-recurring in nature	Recurring in nature
2. Size	Amount is generally substantial	Amount is generally smaller
3. Distribution	These amounts are not available for distribution as profits	The excess of revenue receipts over the revenue expenses can be used for distribution as profits.

13) What is deferred revenue expenditure? Give two examples.

**Answer :** (i) A heavy expenditure of revenue nature the benefit of which is to be derived over a number of years, is known as deferred revenue expenditure.

(ii) The benefit usually accrues for period of two or more years.

**Examples:**

(a) Preliminary expenses

(b) Research and development expenditure.

14) Write any three examples of revenue expenditure.

**Answer :** 1. Purchase of goods for sale

2. Administrative, selling and distribution expenses

3. Manufacturing expenses

15) How are expenditure classified?

**Answer :** Expenditure may be classified into the following three categories:

i) Capital expenditure

ii) Revenue expenditure

iii) Deferred revenue expenditure.

16) Give examples for revenue expenditure.

**Answer :** (i) Purchase of goods for resale.

(ii) Administrative, selling and distribution expenses.

(iii) Manufacturing expenses.

17) Explain any three considerations to differentiate between capital and revenue expenditure.

**Answer :** The basic considerations to differentiate between capital and revenue expenditures are:

**Nature of business:**

Expenditure on purchase of goods is revenue expenditure. Expenditure on purchase of asset is capital expenditure. Whether an item of expenditure is goods or asset depends on the nature of business. Goods include articles or commodities in which the business is dealing with. For example, for a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset. Therefore, the nature of business is very important criteria in classifying expenditure between capital and revenue.

**Effect on revenue generating capacity of business:**

If expenditure helps to generate income or revenue in the current accounting period, it is revenue expenditure. On the other hand, if expenditure helps to generate revenue for more than one accounting period, it is capital expenditure.

**Purpose of expenditure:**

If expenditure is incurred in the normal course of maintenance of an asset, it is revenue expenditure. On the other hand, if expenditure is incurred for major repair of an asset which increases its productive capacity it is capital expenditure.

18) Give examples for capital expenditure and revenue expenditure.

**Answer : Example of Capital expenditure:**

- (i) Purchase cost of fixed assets
- (ii) Purchase cost of long term investments
- (iii) Expenses to increase the earning capacity of fixed assets
- (iv) Loan given to outsiders
- (iv) Cost of acquisition of goodwill, copyright, trademark etc.
- (v) Installation expenditure of fixed assets
- (vi) Expenses incurred for trial run of a machinery

**Example of Revenue expenditure:**

- (i) Maintenance expenses of fixed assets
- (ii) Insurance premium
- (iii) Postage and stationery
- (iv) Administrative, selling and distribution expenditure
- (v) Advertisement expenditure, the benefit of which will accrue for one accounting period
- (vi) Payment of honorarium
- (vii) Annual subscription
- (viii) Entertainment expenses

- 19) Give examples for capital receipts and revenue receipts.

**Answer : Example of Capital Receipts:**

- (i) Life membership fees
- (ii) Special donations received
- (iii) Loan borrowed
- (iv) Sale of fixed assets
- (v) Contribution towards capital fund
- (vi) Long term investment sold
- (vii) Government grants. (specific purpose)
- (viii) Amount received not in normal course of business

**Example of Revenue Receipts:**

- (i) Sale proceeds of goods
- (ii) Commission received
- (iii) Sale of old news paper
- (iv) Rent received
- (v) Interest on investments
- (vi) Government grants (general purpose)
- (vii) Bad debts recovered

- 20) A textile business unit sells some part of its unused land and received the amount.
- (i) Can it be considered as normal sale?
  - (ii) state the transaction is of Capital or revenue nature explain.

**Answer :** 1) It cannot be considered as normal sale.

2) The Transaction is of capital receipt.

**Capital receipt:**

- 1) Receipt which is not revenue in nature is called capital receipt
  - 2) It is non recurring in nature
  - 3) The amount is normally substantial
- According to matching price

**5 Marks**

5 x 5 = 25

- 21) State whether the following expenditures are capital, revenue or deferred revenue.
- i) Advertising expenditure, the benefits of which will last for three years.
  - ii) Registration fees paid at the time of registration of a building.
  - iii) Expenditure incurred on repairs and whitewashing at the time of purchase of an old building in order to make it usable.

**Answer :**

S.NO	TRANSACTIONS	CLASSIFICATION
i)	Advertising Expenditure, the benefits of which will last for three years.	Deferred Revenue Expenditure
ii)	Registration fees paid.at the time of registration of a building.	Capital Expenditure
iii)	Expenditure incurred on repairs and whitewashing of an old building.	Capital Expenditure

22) Classify the following items into capital and revenue.

- i) Registration expenses incurred for the purchase of land.
- ii) Repairing charges paid for remodelling the old building purchased.
- iii) Carriage paid on goods purchased.
- iv) Legal expenses paid for raising of loans

**Answer :**

S.NO	TRANSACTIONS	CLASSIFICATION
i)	Registration expenses incurred for the purchase of land.	Capital expenditure
ii)	Repairing charges paid for remodeling the old building purchased	Capital expenditure
iii)	Carriage paid on goods purchased	Revenue expenditure
iv)	Legal expenses paid for raising of loans	Capital expenditure

23) State whether they are capital and revenue.

- i) Construction of building Rs.10,00,000.
- ii) Repairs to furniture Rs.50,000.
- iii) White-washing the building Rs.80,000
- iv) Pulling down the old building and rebuilding Rs.4,00,000

**Answer :**

S.NO.	TRANSACTIONS	CLASSIFICATION
i)	Construction of building Rs.10,00,000	Capital expenditure
ii)	Repairs to furnitures Rs.50,000	Revenue expenditure
iii)	White-washing the building Rs.80,000	Revenue expenditure
iv)	Pulling down the old building and rebuilding Rs.4,00,000.	Capital expenditure

24) State whether the following are capital, revenue and deferred revenue.

- i) Legal fees paid to the lawyer for acquiring a land Rs.20,000.
- ii) Heavy advertising cost of Rs.12,00,000 spent on introducing a new product.
- iii) Renewal of factory licence Rs.12,000.
- iv) A sum of Rs.4,000 was spent on painting the factory.

**Answer :**

S.NO.	TRANSACTIONS	CLASSIFICATION
i)	Legal fees paid to the lawyer for acquiring a land Rs.20,000	Capital expenditure
ii)	Heavy advertising cost of Rs.12,00,000 spent on introducing a new product.	Deferred revenue expenditure
iii)	Renewal of factory licence Rs.12,000	Revenue expenditure
iv)	A sum of Rs.4,000 was spent on painting the factory,	Revenue Expenditure

25) Classify the following into capital and revenue items.

- (i) Expenditure in acquiring land and building.

- (ii) Expenditure to additions to double the output of a machine
- (iii) Heavy expenditure on advertisements.
- (iv) Brokerage on issue of shares and debentures.
- (v) Preliminary expenses.

**Answer :**

(i)	Expenditure in acquiring land and building	Capital expenditure
(ii)	Expenditure to additions to double the output of a machine.	Capital expenditure
(iii)	Heavy expenditure on advertisements	Deferred revenue expenditure
(iv)	Brokerage on issue of shares and debentures	Deferred revenue expenditure
(v)	Preliminary expenses	Deferred revenue expenditure