

Little Flower Matriculation Higher Secondary School
Nathakkarai, Thalaivasal - 636112

M.Varadarajan, M.Com., M.Ed., M.Phil.,
PG Assistant in Commerce
E-mail: mvaradarajan76@gmail.com
Mobile: 9786868699 & 9842868699

11 – Accountancy
Unit – 11 Capital and Revenue Transactions

I. Choose the correct answer

1. Amount spent on increasing the seating capacity in a cinema hall is
(a) Capital expenditure (b) Revenue expenditure
(c) Deferred revenue expenditure (d) None of the above
2. Expenditure incurred ₹ 20,000 for trial run of a newly installed machinery will be
(a) Preliminary expense (b) Revenue expenditure
(c) Capital expenditure (d) Deferred revenue expenditure
3. Interest on bank deposits is
(a) Capital receipt **(b) Revenue receipt**
(c) Capital expenditures (d) Revenue expenditures
4. Amount received from IDBI as a medium term loan for augmenting working capital
(a) Capital expenditures (b) Revenue expenditures
(c) Revenue receipts **(d) Capital receipt**
5. Revenue expenditure is intended to benefit
(a) Past period (b) Future period **(c) Current period** (d) Any period
6. Pre-operative expenses are
(a) Revenue expenditure (b) Prepaid revenue expenditure
(c) Deferred revenue expenditure **(d) Capital expenditure**

II. Very short answer questions

1. What is meant by revenue expenditure?

- (i) 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.
- (ii) It is recurring in nature.

2. What is capital expenditure?

- (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.
- (iii) It is non- recurring in nature.

3. What is capital profit?

- (i) The profit realised over and above the cost of the fixed asset is called capital profit.
- (ii) Example: Profit on sale of fixed asset.

4. Write a short note on revenue receipt.

- (i) Receipts which are obtained in the normal course of business are called revenue receipts.
- (ii) It is recurring in nature.
- (iii) The amount received is generally small.

5. What is meant by deferred revenue expenditure?

- ⇒ An expenditure, which is revenue expenditure in nature, the benefit of which is to be derived over a subsequent period or periods is known as deferred revenue expenditure.

III Short answer questions

1. Distinguish between capital expenditure and revenue expenditure.

Basis	Capital expenditure	Revenue expenditure
(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.

2. Distinguish between capital receipt and revenue receipt.

Basis	Capital receipts	Revenue receipts
(i) Nature	Non-recurring in nature.	Recurring in nature.
(ii) Size	Amount is generally substantial.	Amount is generally smaller.
(iii) 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.

3. What is deferred revenue expenditure? Give two examples.

- (i) An expenditure, which is revenue expenditure in nature, the benefit of which is to be derived over a subsequent period or periods is known as deferred revenue expenditure.
- (ii) The benefit usually accrues for a period of two or more years.
- (iii) It is for the time being, deferred from being charged against income.

❖ Examples

- (a) Considerable amount spent on advertising
- (b) Major repairs to plant and machinery