

Capital Expenditure VS Revenue Expenditure

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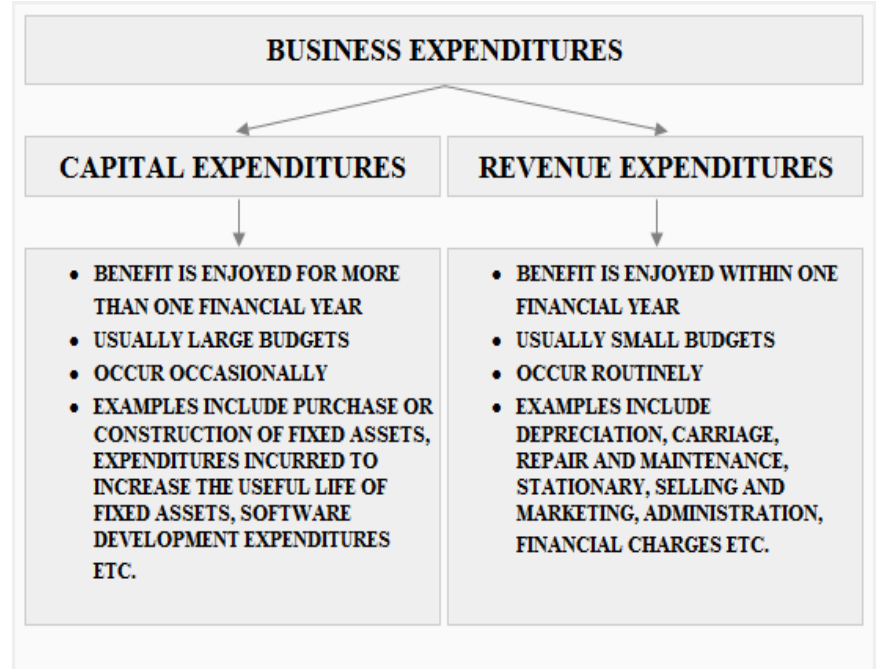
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Introduction to Expenditures

Expenditures can be classified into two main categories: capital and revenue.

Understanding the differences between these types is crucial for financial management.

This presentation will explore the definitions, characteristics, and implications of each type of expenditure.



What is Capital Expenditure?

Capital expenditure refers to funds used by an organization to acquire or upgrade physical assets.

This type of expenditure is typically associated with long-term investments in property, plant, and equipment.

Examples include purchasing machinery, buildings, or vehicles that enhance operational capacity.



Characteristics of Capital Expenditure

Capital expenditures usually require a significant outlay of cash or resources.

They are recorded as assets on the balance sheet and depreciated over time.

These expenditures are often subject to budgeting and require detailed planning.

AMAZON.COM, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	Year Ended December 31,		
	2015	2016	2017
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	\$ 14,557	\$ 15,890	\$ 19,334
OPERATING ACTIVITIES:			
Net income	596	2,371	3,033
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation of property and equipment, including internal-use software and website development, and other amortization, including capitalized content costs	6,281	8,116	11,478
Stock-based compensation	2,119	2,975	4,215
Other operating expense, net	155	160	202
Other expense (income), net	250	(20)	(292)
Deferred income taxes	81	(246)	(29)
Changes in operating assets and liabilities:			
Inventories	(2,187)	(1,426)	(3,583)
Accounts receivable, net and other	(1,755)	(3,367)	(4,786)
Accounts payable	4,294	5,030	7,175
Accrued expenses and other	913	1,724	283
Unearned revenue	1,292	1,955	738
Net cash provided by (used in) operating activities	12,039	17,272	18,434
INVESTING ACTIVITIES:			
Purchases of property and equipment, including internal-use software and website development	(5,387)	(7,804)	(11,955)
Proceeds from property and equipment incentives	798	1,067	1,897
Acquisitions, net of cash acquired, and other	(795)	(116)	(13,972)
Sales and maturities of marketable securities	3,025	4,733	9,988
Purchases of marketable securities	(4,091)	(7,756)	(13,777)
Net cash provided by (used in) investing activities	(6,450)	(9,876)	(27,819)

What is Revenue Expenditure?

Revenue expenditure refers to the costs incurred for the day-to-day functioning of a business.

This type of expenditure is typically short-term in nature and does not lead to asset creation.

Examples include salaries, rent, and utility bills that maintain operational efficiency.

Characteristics of Revenue Expenditure

Revenue expenditures are usually smaller in amount compared to capital expenditures.

They are recorded as expenses on the income statement and affect profit in the current period.

These expenditures are necessary for maintaining ongoing operations and generating revenue.

Revenue Expenditure Examples



Key Differences Between Capital and Revenue Expenditure

Capital expenditure is focused on asset acquisition, while revenue expenditure is concerned with operational costs.

The impact on financial statements differs: capital expenditures capitalize, whereas revenue expenditures are expensed.

Capital expenditures are long-term investments, whereas revenue expenditures are short-term and recurring.

Capital Expenditure



Revenue Expenditure



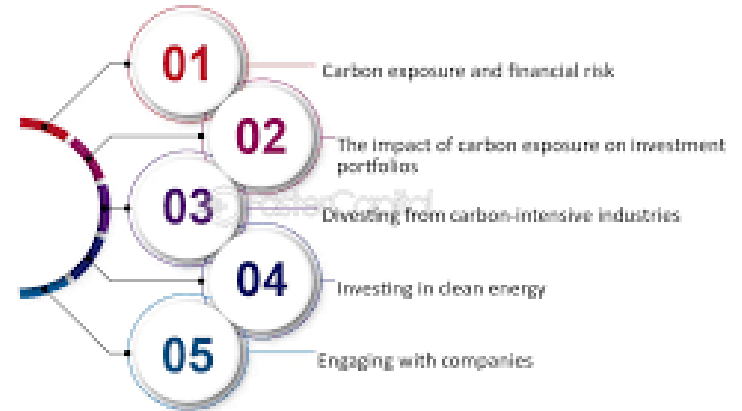
Financial Implications

Capital expenditures can improve a company's capacity and efficiency over time.

Revenue expenditures, while necessary, do not contribute to long-term asset value.

Proper classification of expenditures is essential for accurate financial analysis and reporting.

Understanding the Financial Implications



Real-World Examples

A company investing in a new factory represents capital expenditure aimed at expanding production.

Conversely, monthly office supply purchases are classified as revenue expenditures necessary for daily operations.

Each type of expenditure serves a distinct role in the overall financial strategy of an organization.

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Conclusion

Understanding the differences between capital and revenue expenditures is essential for financial planning.

Both types of expenditures play critical roles in an organization's strategy and operations.

Accurate classification and management of these expenditures contribute to long-term sustainability and profitability.

Chart of Difference Between Capital and Revenue Receipts

Basis of Difference	Capital Receipts	Revenue Receipts
Meaning	Capital Receipts are that amount which is received from non operational activities i.e. Bank Loan, Debenture etc.	Revenue Receipts are that amount which is received/earned from operational activities i.e. Sale of goods and services.
Year of Benefit	we will drive the benefit from these Receipts in the current year as well as in the future year also	we will drive the benefit from these Receipts in the current year only
Repayment	It has to repay after fixed maturity or in installments.	It has not to repay.
Financial Statement	It will be posted in the Balance sheet.	It will be posted in the Trading and Profit/Loss account.
Capitalized	These Receipts will be capitalized.	These Receipts will not be capitalized.
Nature	It is non-recurring in nature.	It is recurring in nature.
Need	To improve the working capacity or to grow the business	To run the existing business capacity properly.
Matching Concepts	These are not matched with the capital Expenditure	These are matched with the revenue receipts to know the profit/loss for the year.
Sub Categories	It has no subcategories.	It has two subcategories. 1. Direct Income 2. Indirect Income



THANK YOU

