

TOPIC

Unit 7

Capital and Revenue Expenditure

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Classification of any Exp. in Capital or Revenue, depends on

Capital Exp. \Rightarrow Recorded in BIS

1. Creates Asset
2. Increases Productivity
3. Increases life of Asset
4. Normally big Amount
5. Provides long term benefit
6. Non-Recurring nature

- Eg:-
- Machinery
 - Incidental Exp [Exp. till Asset is Put to use]
 - Furniture
 - Building / New floor
 - long term Investment
 - giving loan

Buy Furniture \Rightarrow Furniture business = Rev.
 \Rightarrow Normally = Capital
Nature of business

Recorded in PIL \Rightarrow Revenue Exp,

1. No Asset
 2. No Increased Productivity
 3. No Increased life of Assets
 4. Normally Small Amount
 5. Provides short term benefit
 6. Recurring nature
- * It maintains Asset in current running condition
- Eg:-
- Raw material Purchase
 - Salary / Rent / Interest
 - Repairs & Maintenance
 - Depreciation

TOPIC**Capital Expenditure**

Amount spent of usually large. ✓

The purpose is to improve or enhance business or productive or earning capacity ✓

The benefit of long duration ✓

It is non-recurring ✓

It is shown in balance sheet ✓

Not matched with capital receipts ✓

Revenue Expenditure

Amount spent is relatively small. ✓

No change in productivity ✓

The benefit is short duration ✓

It is recurring ✓

It is shown in profit and loss account. ✓

Matched with revenue receipts ✓

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Capital expenditure	Revenue expenditure	Deferred revenue expenditure	Capital receipts	Revenue receipts
i) Purchase cost of fixed assets ✓	i) Maintenance expenses of fixed assets ✓	i) Heavy amount on advertisement. ✓	i) Life membership fees ✓	i) Sale proceeds of goods ✓
ii) Purchase cost of long term investments ✓	ii) Insurance premium ✓	ii) Cost of major repairs on fixed assets ✓	ii) Special donations received ✓	ii) Commission received ✓
iii) Expenses to increase the earning capacity of fixed assets ✓	iii) Postage and stationery ✓		iii) Loan borrowed ✓	iii) Sale of old news paper ✓
iv) Loan given to outsiders ✓	iv) Administrative, selling and distribution expenditure ✓		iv) Sale of fixed assets ✓	iv) Rent received ✓

Deferred Revenue Expenditure

- ◆ Expenses incurred during one accounting year but are applicable wholly or in part in future periods.
- ◆ These expenditures are otherwise of a revenue nature.
- ◆ Benefit is not confined to one accounting year - it extends to future accounting year or years also.
- ◆ This expenditure does not result in the acquisition of any fixed asset.

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e.g.: 1.4.2022 Cost = 100000

$$\begin{array}{r}
 \text{Cost} \quad 100000 \\
 - 20\% \quad (20000) \\
 \hline
 80000
 \end{array}$$

$\times 20\%$

$$\begin{array}{r}
 - 16000 \\
 \hline
 64000
 \end{array}$$

$\times 20\%$

$$\begin{array}{r}
 - 12800 \\
 \hline
 51200
 \end{array}$$

WDV
31.3.2025

* What if Sold @ 80000

$$\begin{array}{r}
 - 51200 \text{ WDV} \\
 \hline
 28800
 \end{array}$$

= Revenue Profit

Dep @ 20% ,
S.4.2025

Sold = ₹1,20,000

Cost < Sale

$\frac{\text{Capital Profit}}{\text{Sale - Cost}}$
 \downarrow
 $\frac{\text{Rev. Profit}}{\text{Sale - Cost}}$

$$\text{Total Profit} = \underline{\underline{1,20,000 - 51200}} = \boxed{68800}$$

\uparrow
Capital Profit

$$\begin{array}{r}
 \downarrow \\
 \text{Sales} > \text{Cost}
 \end{array}$$

$$\Rightarrow \boxed{1,20,000 - 100000} = \boxed{20000}$$

\uparrow
Revenue Profit

$$\begin{array}{r}
 \downarrow \\
 68800 - 20000 \\
 = 48,800
 \end{array}$$

$$\begin{array}{r}
 \Rightarrow \text{Cost - WDV} \\
 \Rightarrow 100000 - 51200 \\
 = 48800
 \end{array}$$

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$\text{Bill} = \begin{cases} \Rightarrow \text{Bills Receivable} = \text{Current Asset} \\ \Rightarrow \text{Bill Payable} = \text{Current Liability} \end{cases}$

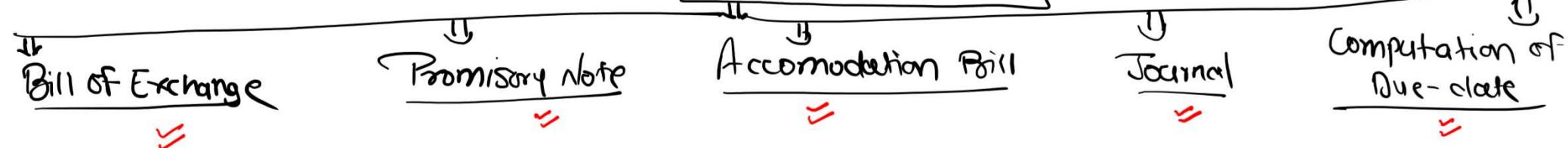
*(S) Goods Sold on Credit
₹ SOL, 6 month
TAN SOL, 6m
21 Feb. 2024 Yogi*

Bills Receivable *Bill Payable*

Unit 8

Bills of Exchange

Credit Instrument



Types of Instruments of Credit

Credit is, generally, provided by obtaining, a written document called '**Instrument of Credit**'. This serves as a proof of existence of credit.

- Bills of Exchange ✅
- Promissory Notes ✅

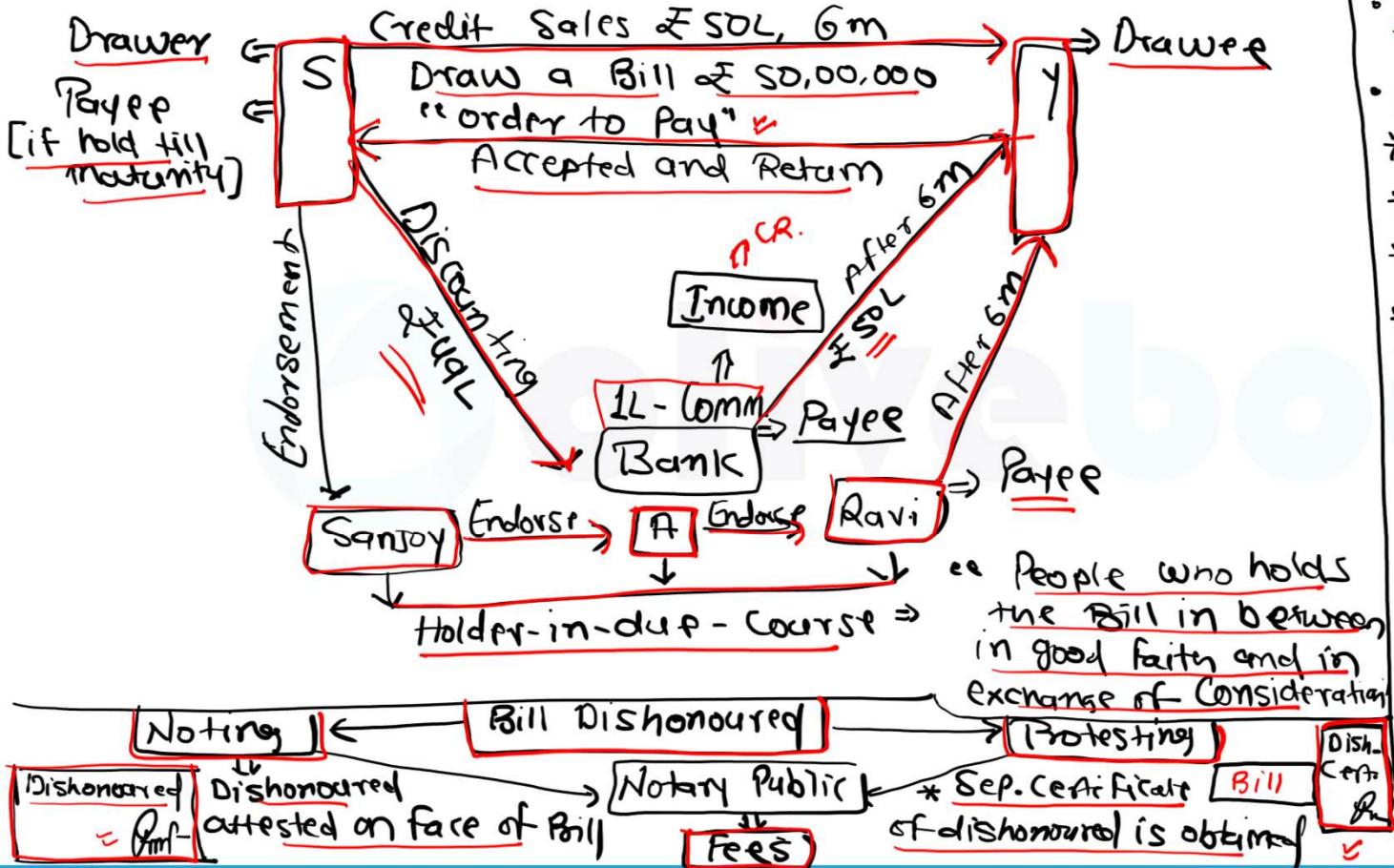
TOPIC**Bills of Exchange**

- Drawer: A person who draws the bill. ✓
- Drawee: A person on whom the bill is drawn ✓
- Payee: A person who is going to receive money. ✓

Features of Bills of Exchange

- A bill of exchange is an instrument in writing. ✓
- It is drawn and signed by the maker i.e. drawer of the bill.
- Contains an unconditional order to a person i.e. drawee.
- The specified amount is payable to the person whose name is mentioned in the bill or to his order or to the bearer. ✓
- It specifies the date by which amount should be paid. (Section 5 of Negotiable Instrument Act).
- Payment of the bill must be in the legal currency of the country. ✓
- It must be properly stamped. ✓
- It must bear a revenue stamp. ✓

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- Drawer = Issuer of Bill
- Drawee = Acceptor of Bill
- Payee = Receiver of money
- Discounting = Early money received from Bank in lieu of Bill
- Endorsement = Transfer of Bill
 - * Written document
 - * Paid on due date = Honouring
 - * if not Paid = Dishonouring
- * Retiring of Bill: Payment of Bill before due date
- * Rebate: for early payment
- * Renewal of Bill: "New Bill is created before due date by Cancelling Previous Bill"
- * Bills Should be Stamped
 - ↓
 - Revenue Stamp

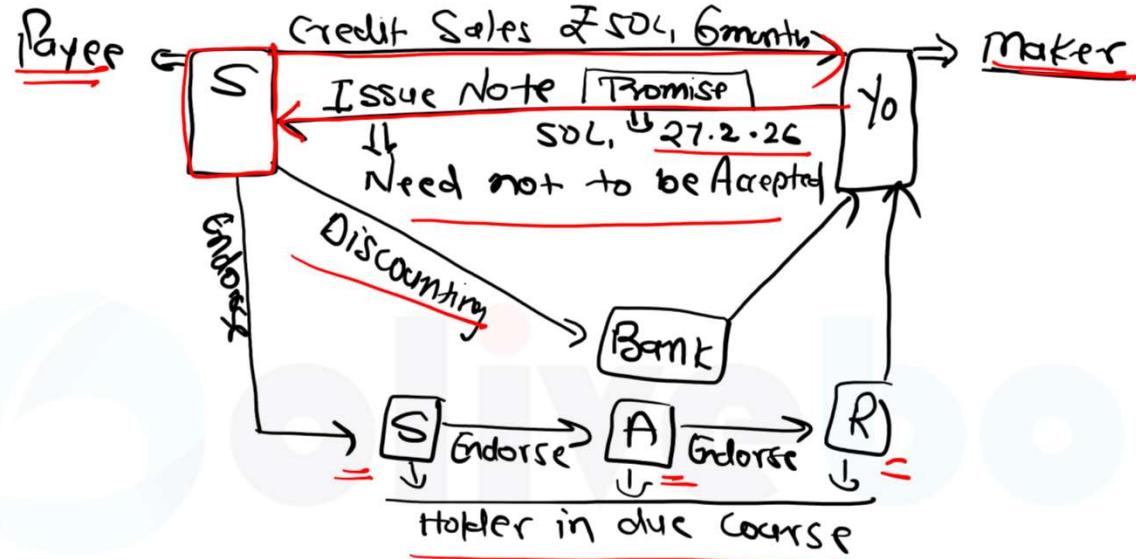
Features of Promissory Notes

- An instrument in writing
- Containing an unconditional undertaking / promise
- Signed by the maker to pay a certain sum of money
- To or to the order of a certain person or the bearer of the instrument
(section 4 of the Negotiable instrument Act)

In a case of Promissory notes, there are two parties:

- Maker: A person who makes the note and promises to make the payment.
- Payee: A person who is to receive money.
Or
- The holder: A holder is basically the person who holds the notes. He may be either the payee or some other person.

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Purpose → Mutual help

← **Accommodation Bill** / Wind bills / Wind mills

Accommodation Bills are drawn and accepted with no consideration passed or received. * "No commercial trans." =

Accommodating Party



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Term And Due Date Of A Bill

Eg:- 1

$$\text{D.O.B} = \underline{\underline{2.4.25}} \quad \text{days} = \underline{\underline{78 \text{ days}}} \quad \text{due date?}$$

\Rightarrow $\begin{array}{|c|c|c|c|} \hline \text{A} & \text{M} & \text{J} & \\ \hline 28 & 31 & 19 & \\ \hline \end{array} + \text{Grace days} \rightarrow \underline{\underline{20, 21, 22 \text{ June}}} \quad \downarrow$

\downarrow Sunday \downarrow Sudden Holiday
 $\underline{\underline{21 \text{ June}}} \quad \underline{\underline{23 \text{ June}}}$

"Date of Settlement of Bill"

⇒ Always Add 3 days of grace



* 15 Aug. 26 Jan. 2025.

* Leap year
Feb-29 dayEg:- 2

$$\text{D.O.B} = \underline{\underline{4.11.2025}} \quad \text{days} = \underline{\underline{92 \text{ days}}} \quad \text{due date?}$$

\Rightarrow $\begin{array}{|c|c|c|c|c|} \hline \text{N} & \text{D} & \text{J} & \text{F} & \text{Grace} \\ \hline 26 & 31 & 31 & 4 \text{ day} & \\ \hline \end{array} \rightarrow \underline{\underline{5, 6, 7 \text{ Feb}}} \quad \leftarrow$

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- Eg:- 3 D.O.B. 11.11.25 Days = 114 days Due date? \Rightarrow What if D.O.B. = 11.11.2023
-
- Eg:- 4 D.O.B. = 1.3.2025 Tenure = 3 months Due date? \downarrow 4 June
- Eg:- 5 D.O.B. = 10.5.25 Tenure = 5 months Due date? \Rightarrow 13 Oct.
- Eg:- 6 D.O.B. \Rightarrow 12.4.25 Tenure \Rightarrow 4 months Due date? \Rightarrow 14 Aug. A day before

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Important Terms

- ✓ **Honouring of Bill:** When the drawee pays the amount of the bill on due date ⇒ Noting
 - ✓ **Dishonour of Bill:** When the drawee pays the amount of the bill on due date ⇒ Protecting
 - ✓ **Discounting of Bills:** The drawer may discount the bill with the bank.
-
- ✓ **Endorsement of bills:** Transfer of bill to same other person by the holder.
 - ✓ **Retirement of bills:** When a drawee pays the bill before its due date.
 - ✓ **Renewal of bill:** Renewal of bill of exchange is an act of cancellation of old bill before its maturity in return of a new bill, including interest
-
- ✓ **Accommodation of bill:** Accommodation bills are sometimes also referred to as windbills or windmills.
 - ✓ **Notary Public:** A notary public of the common law is a public officer
 - ✓ **Rebate:** When a bill is paid by drawee before due date, same allowance is given to him.

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Eg:- S issued a bill to Y of ₹ 20,00,000

<u>S' Book (Drawer)</u>	<u>Yogi (Drawee)</u>
<u>Bill Receivable A/c Dr. 20L</u>	<u>S' A/c Dr. 20L</u>
<u>To Yogi's A/c 20L</u>	<u>To Bills Payable A/c 20L</u>

→ S discounted Bill from Bank for ₹ 19,00,000

<u>(S Book)</u> <u>Bank A/c . Dr. 19L</u> <u>Loss \Rightarrow Discount on Bill A/c Dr. 1L Loss DR.</u> <u>Transfer To Bills Receivable A/c 20L</u> <u>P/L A/c \Rightarrow P/L A/c Dr. 1L</u> <u>\Rightarrow To Discount on Bill A/c 1L</u>	<u>Bank Book</u> <u>Bills Receivable A/c Dr. 20L</u> <u>To S' A/c</u> <u>To Discount on Bill A/c \Rightarrow 1L \Rightarrow Income Transfer</u> <u>Discount on Bill A/c Dr. 1L \Rightarrow P/L A/c</u> <u>To P/L A/c 1L \Rightarrow</u>
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TOPIC**Drawer**

1. Discounting the bill with the bank	Bank A/c (amount actually received)	Dr.	19L ✓
	Discount A/c (amount of discount)	Dr.	1L ✓
	To Bills Receivable A/c		20L ✓
	(Being bill discounted with the bank)		
2. Transfer of discount to P&L A/c	Profit and Loss A/c	Dr.	1 L ✓
	To Discount A/c		1 L ✓

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In the books of Bank

Date	Particulars		Amount (Dr.)	Amount (Cr.)
1. Bill is discounted with the bank	Bill discounted A/c	Dr.	20L	
	To Customer's current A/c			19L
	To Discounting on bill A/c			1L
	(Being bill discounted)			

MOSJ
✓ Long
=