

Unit 7

Capital and Revenue Expenditure

TOPIC

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

Capital Exp. ⇒ Recorded in BIS

Recorded in PL = Revenue Exp.

Buy Furniture ⇒ Furniture business = Rev.
 ⇒ Normally = Capital
"Nature of business"

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

* Deferred Rev. Exp : ✓
Revenue Exp. of big Amount
 but not creating an Asset
 and Provides long term benefit
 Eg:-
 ⇒ Heavy Adv. Exp
 ⇒ Marketing Exp. on New Product launch
 ⇒ Res. and dev. Exp.

Eg:-

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

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Capital Expenditure	Revenue Expenditure
Amount spent of <u>usually large</u> . ✓	Amount spent is <u>relatively small</u> . ✓
The purpose is to improve or enhance business or <u>productive or earning capacity</u> . ✓	<u>No change in productivity</u> . ✓
The benefit of <u>long duration</u> . ✓	The benefit is <u>short duration</u> . ✓
It is <u>non-recurring</u> . ✓	It is <u>recurring</u> . ✓
It is shown in <u>balance sheet</u> . ✓✓	It is shown in <u>profit and loss account</u> . ✓✓
Not <u>matched with capital receipts</u> . ✓✓	<u>Matched with revenue receipts</u> . ✓✓

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

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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Cost < Sale

⇒ Capital Profit
Sale - Cost
Rev. Profit

eg:- 1.4.2022 Cost = 100000

Dep @ 20% ,

Sold = ₹1,20,000 ⇒
5.4.2025

Cost 100000 ✓
- 20% (20000) ✓
80000 × 20%
- 20% - 16000 ✓
64000 × 20%
- 20% - 12800 ✓
WDV 51200 ✓
31.3.2025

Total Profit = 1,20,000 - 51200 = 68800 ✓

↓
Capital Profit

↓
Sales > Cost

⇒ 1,20,000 - 100000
= 20000 ✓

↓
Revenue Profit

68800 - 20,000
= 48,800 ✓

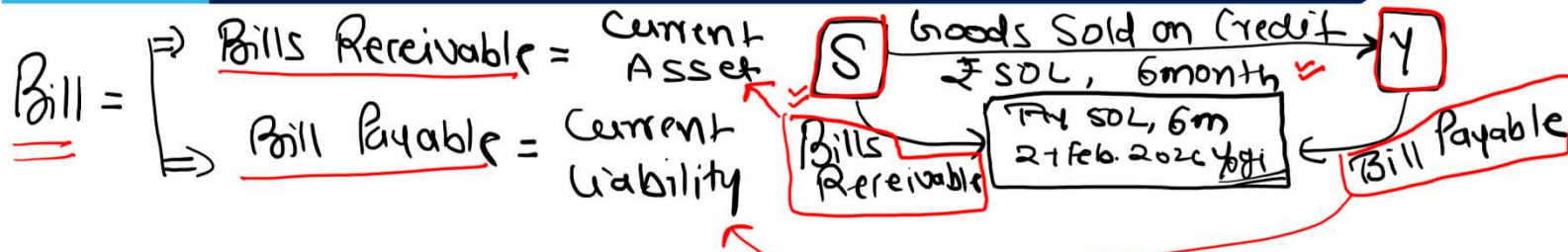
⇒ Cost - WDV
⇒ 100000 - 51200
= 48800 ✓

* What if Sold @ 80000
- 51200 WDV
28800 = Revenue Profit

TOPIC



TOPIC



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'**. The serves as a proof of existence of credit.

- Bills of Exchange
- Promissory Notes

TOPIC

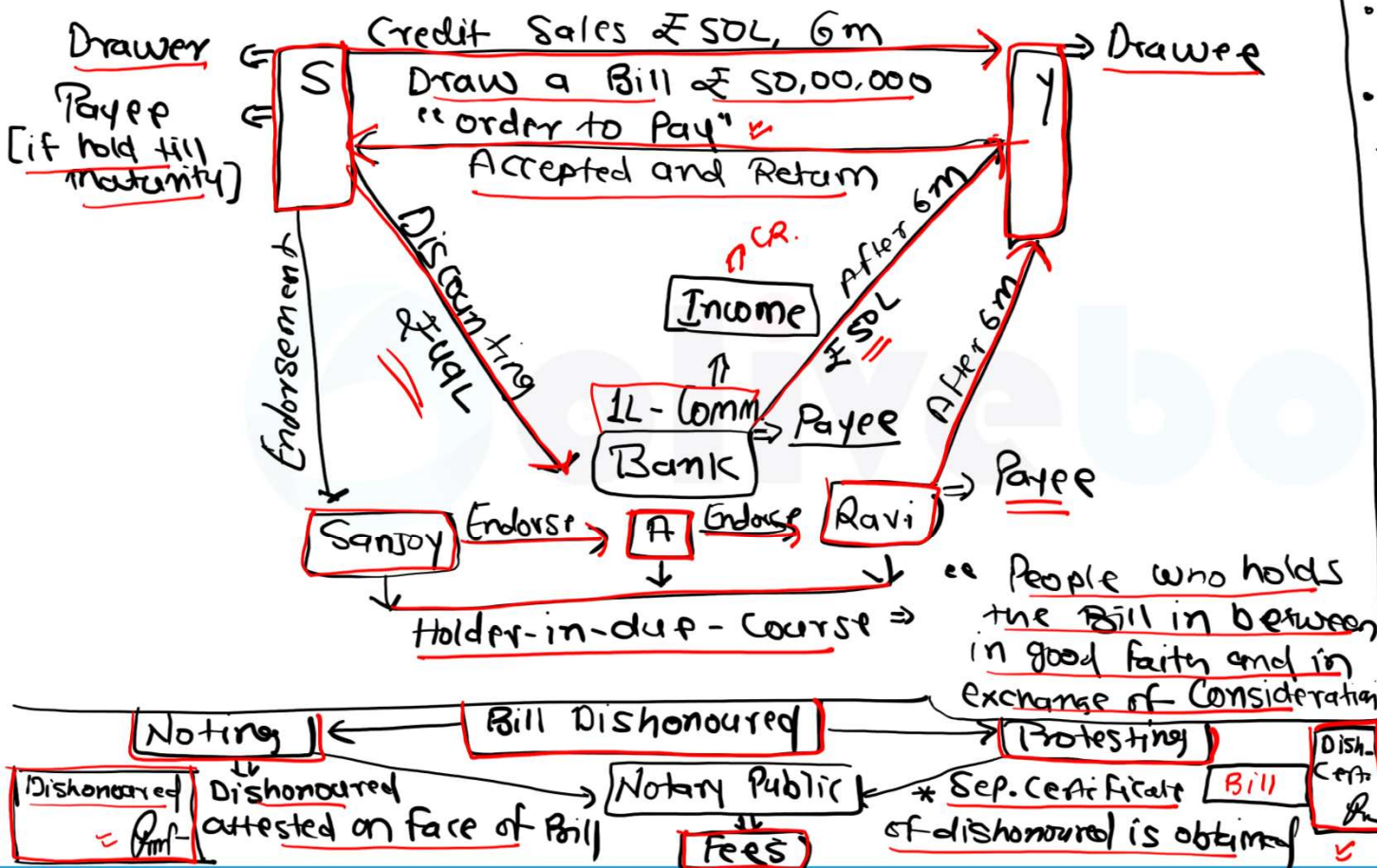
Bills of Exchange

- **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. ✓

TOPIC



- 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
 - \downarrow
 - 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)

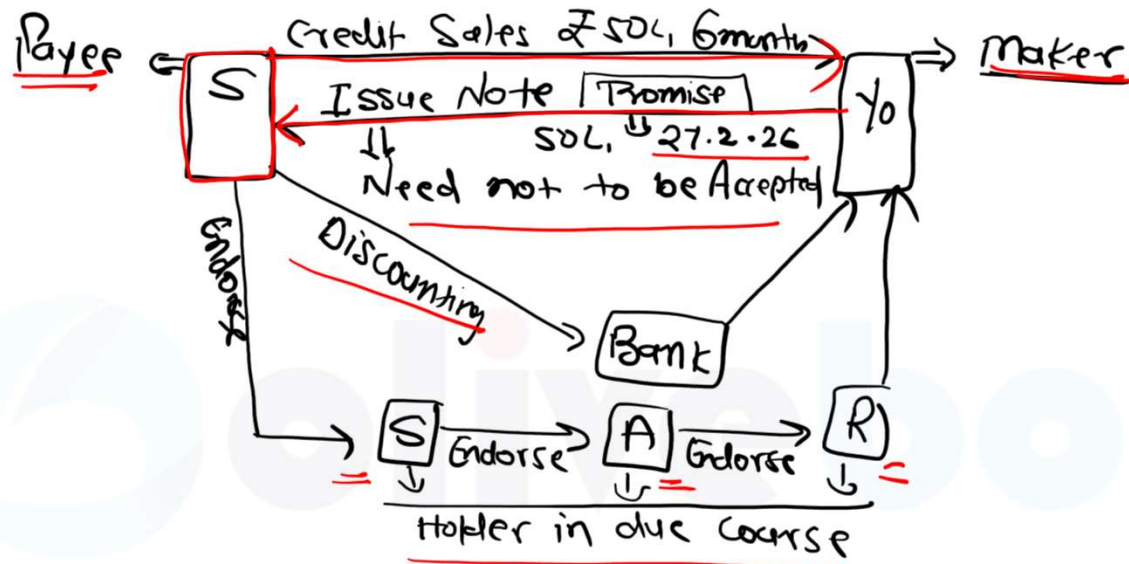
In a case of Promissory notes, there are two parties:

- 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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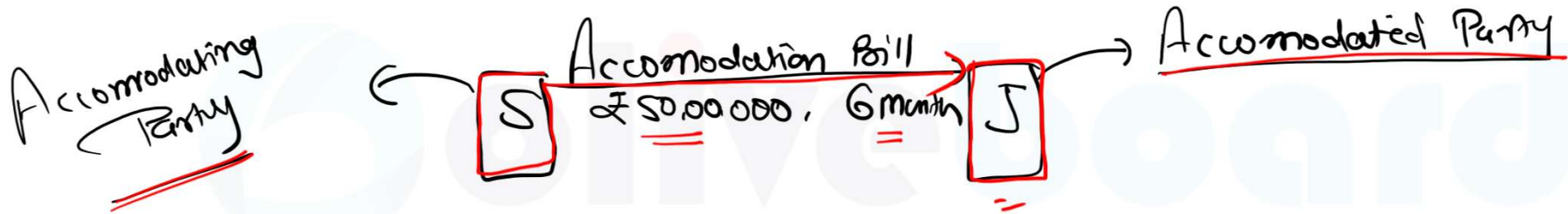


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Purpose ⇒ mutual help

⇐ Accommodation Bill / wind bills / wind mills

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



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Term And Due Date Of A Bill

Eg:- 1 D.O.B = 2.4.25 days = 78 days due date?

⇒ A M J + Grace days
28 + 31 + 19 → 20, 21, 22 June

↓
Sunday

↓
21 June

↓
Sudden Holiday

↓
23 June

"Date of Settlement of Bill"

⇒ Always Add 3 days of grace

⇒ Holiday

↓
Declared

↓
1 day before

↓
Sudden

↓
Next day

* 15 Aug. 26 Jan. 2021

* Leap year
↓
Feb-29 day

Eg:- 2 D.O.B = 4.11.2025 days = 92 days due date?

⇒ N D J F + Grace
26 31 31 4 day → 5, 6, 7 Feb

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eg:-3 D.O.B. 11.11.25
 N 19 D 31 J 31 F 28 March 5 → 6, 7, 8 March
 Days = 114 days Due date? ⇒ What if D.O.B = 11.11.2023
 2024 ↓ 29 Feb
 7 March

eg:-4 D.O.B. = 1.3.2025
 I → II → III
 1.4.25 1.5.25 1.6.25 → 2, 3, 4 June
 Tenure = 3 months Due date? Grace ↓

eg:-5 D.O.B. = 10.5.25 Tenure = 5 months
 Due date? = I 10.6 II 10.7 III 10.8 IV 10.9 V 10.10
 11, 12
 13 Oct

eg:-6 D.O.B. ⇒ 12.4.25 Tenure = 4 months
 12.5, 12.6, 12.7 ↓ 12.8, 13, 14, 15 Aug
 Due date? ⇒ 14 Aug. A day before

Important Terms

- ✓ **Honouring of Bill**: When the drawee pays the amount of the bill on due date
- ✓ **Dishonour of Bill**: When the drawee pays the amount of the bill on due date ⇒ ⇒ Noting
⇒ Protesting
- ✓ **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:- \Rightarrow S issued a bill to Y of ₹20,00,000

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

\Rightarrow S discounted Bill from Bank for ₹19,00,000

S Book		Bank Book	
<u>Bank A/c</u>	Dr. 19L	<u>Bills Receivable A/c</u>	Dr. 20L
Loss \Rightarrow <u>Discount on Bill A/c</u>	Dr. 1L Loss DR.		19L
	TO <u>Bills Receivable A/c</u>		1L \Rightarrow Income
	20L		Transfer \downarrow
<u>P/L A/c</u>	Dr. 1L		P/L A/c
	TO <u>Discount on Bill A/c</u>		1L
	1L		

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Drawer

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

19L ✓

1L ✓

20L ✓

1L ✓

1L ✓

TOPIC



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)			

Most
✓ Long
=