CAPITAL EXPENDITURE AND REVENUE EXPENDITURE

Rapid Concept Revision | Accountancy

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Golden Rule: Do not classify an expenditure only by its name or amount. Ask: WHY was it incurred and WHAT benefit does it create?

1. Capital Expenditure

Meaning: Expenditure incurred to acquire, construct, install or substantially improve a non-current asset, normally providing benefit beyond the current accounting period.

Logic: Creates / acquires / substantially improves an asset -> future benefit -> capitalised -> shown as an asset in the Balance Sheet.

Examples: Purchase of machinery; construction of building; installation cost of machinery; major modification increasing production capacity.

2. Revenue Expenditure

Meaning: Expenditure incurred for normal operations, earning current revenue, or maintaining assets in their existing working condition. Its benefit is normally consumed in the current accounting period.

Logic: Runs or maintains the business -> current-period benefit -> charged as expense -> Profit & Loss Account.

Examples: Salaries, rent, electricity, routine repairs, annual maintenance, depreciation.

Factor	Capital Expenditure	Revenue Expenditure
Purpose	Acquire/create/substantially improve asset	Run and maintain normal business
Benefit	Normally beyond current period	Normally current accounting period
Effect	May increase capacity, useful life or future benefits	Maintains existing capacity/condition
Treatment	Capitalised as asset	Charged as expense
Statement	Balance Sheet	Profit & Loss A/c

3. Looks Like Capital - But Actually Revenue

Situation	Answer	Logic
Purchase of goods for resale	**Revenue**	Purchased items are stock for resale, not non-current assets.
Purchase of raw materials	**Revenue**	Consumed in normal production.
Large routine repair of machinery	**Revenue**	Amount may be large, but it only maintains existing efficiency.
Annual painting of office building	**Revenue**	Maintains the existing condition; normally no additional future benefit is created.
Normal servicing of a vehicle	**Revenue**	Keeps the vehicle operational; does not substantially improve it.
Replacement of minor machine parts	**Revenue**	Ordinary maintenance/restoration rather than substantial improvement.
Annual computer maintenance contract	**Revenue**	Recurring cost of maintaining existing assets.
Annual insurance premium on building	**Revenue**	Protection for the current insurance period; does not acquire the building.
Property tax on office building	**Revenue**	Recurring cost of holding/using the property.
Depreciation on machinery	**Revenue**	Periodic allocation of the asset's depreciable amount to expense.
Bulk purchase of stationery	**Revenue**	Quantity or value does not change its operating nature.
Monthly/annual software subscription	**Revenue**	Normally a period-based operating service rather than acquisition of an owned long-term a

Key idea: Large amount does not automatically mean capital expenditure. If it merely runs or maintains the business, it is generally revenue expenditure.

4. Looks Like Revenue - But Actually Capital

Situation	Answer	Logic
Wages for installation of machinery	**Capital**	Directly attributable to bringing the machine into working condition.
Wages for construction of own building	**Capital**	Directly creates a non-current asset.
Freight/carriage on new machinery	**Capital**	Cost of bringing the asset to its required location.
Installation charges of new machinery	**Capital**	Necessary to make the asset ready for intended use.
Site preparation for machinery	**Capital**	Necessary for installation and intended use.
Architect's fee for new building	**Capital**	Directly attributable to construction.
Legal fees for acquiring land	**Capital**	Directly attributable acquisition cost.
Stamp duty/registration on property purchase	**Capital**	Forms part of acquisition cost.
Brokerage for acquiring property	**Capital**	Directly attributable to acquiring the asset.
Repairs to second-hand machine before first use	**Capital**	Necessary to bring the acquired asset into usable condition.
Major modification increasing machine capacity	**Capital**	Creates additional future economic benefit.
Cost of adding another floor to building	**Capital**	Extends the asset and creates additional capacity.
Import duty on machinery (non-recoverable)	**Capital**	Directly attributable cost of acquiring the asset.
Non-refundable tax on machinery purchase	**Capital**	Included in asset cost when directly attributable and non-recoverable.
Major component replacement meeting recognition criteria	**Capital**	Capitalised when it creates qualifying future benefits; replaced component is dealt with ap

5. High-Value Examination Comparisons

Repair: Annual repair of an existing machine = **Revenue**. Repair of a second-hand machine before it can first be used = **Capital**.

Wages: Wages for normal production = **Revenue**. Wages for installing a new machine or constructing own building = **Capital**.

Transport: Delivery cost of finished goods to customers = **Revenue**. Freight for bringing new machinery to factory = **Capital**.

Painting: Routine annual painting = **Revenue**. Initial finishing/painting necessary to make a newly constructed asset ready for use may form part of **Capital** cost.

Improvement vs Maintenance: Expenditure that substantially increases capacity/useful life/future benefits may be **Capital**; expenditure that merely preserves existing performance is **Revenue**.

6. Student Decision Rule

CAPITAL = A.C.I.I.
A - Acquisition   C - Construction   I - Installation / intended-use preparation   I - Improvement creating additional future benefit

REVENUE = R.O.M.
R - Routine   O - Operating   M - Maintenance

Ask: Does it acquire/create/substantially improve a non-current asset, or merely operate/maintain the business?

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