

## Examrace

# Capital and Revenue Expenditure: Rules to Determine Capital and Revenue Expenditure

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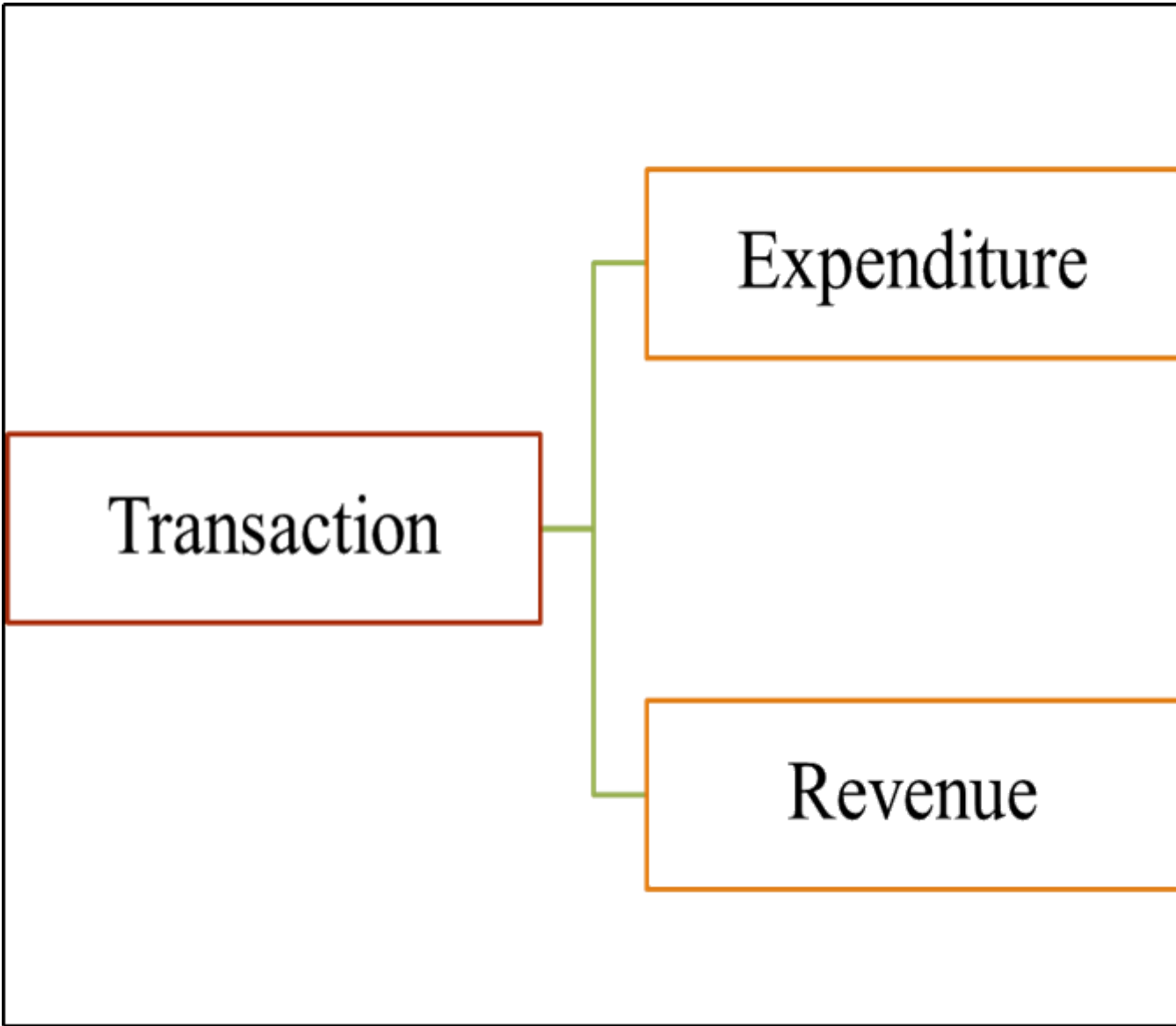
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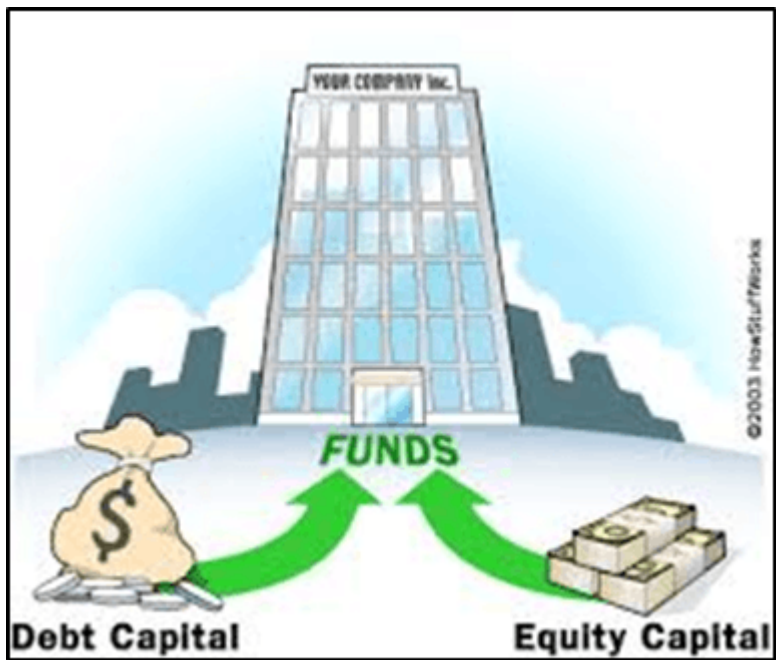
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## Capital and revenue Expenditure: Rules to determine capital and revenue expenditure (Commerce)

- Transaction: The exchange of money or money's Worth for goods and services.
- Expenditure: money spent for the purpose of Running the business.
- Capital: Those assets which are used for production of goods and rendering of services for further production of assets. Capital is something which renders benefit for the long term.
- Revenue: The money earned from various sources of business.



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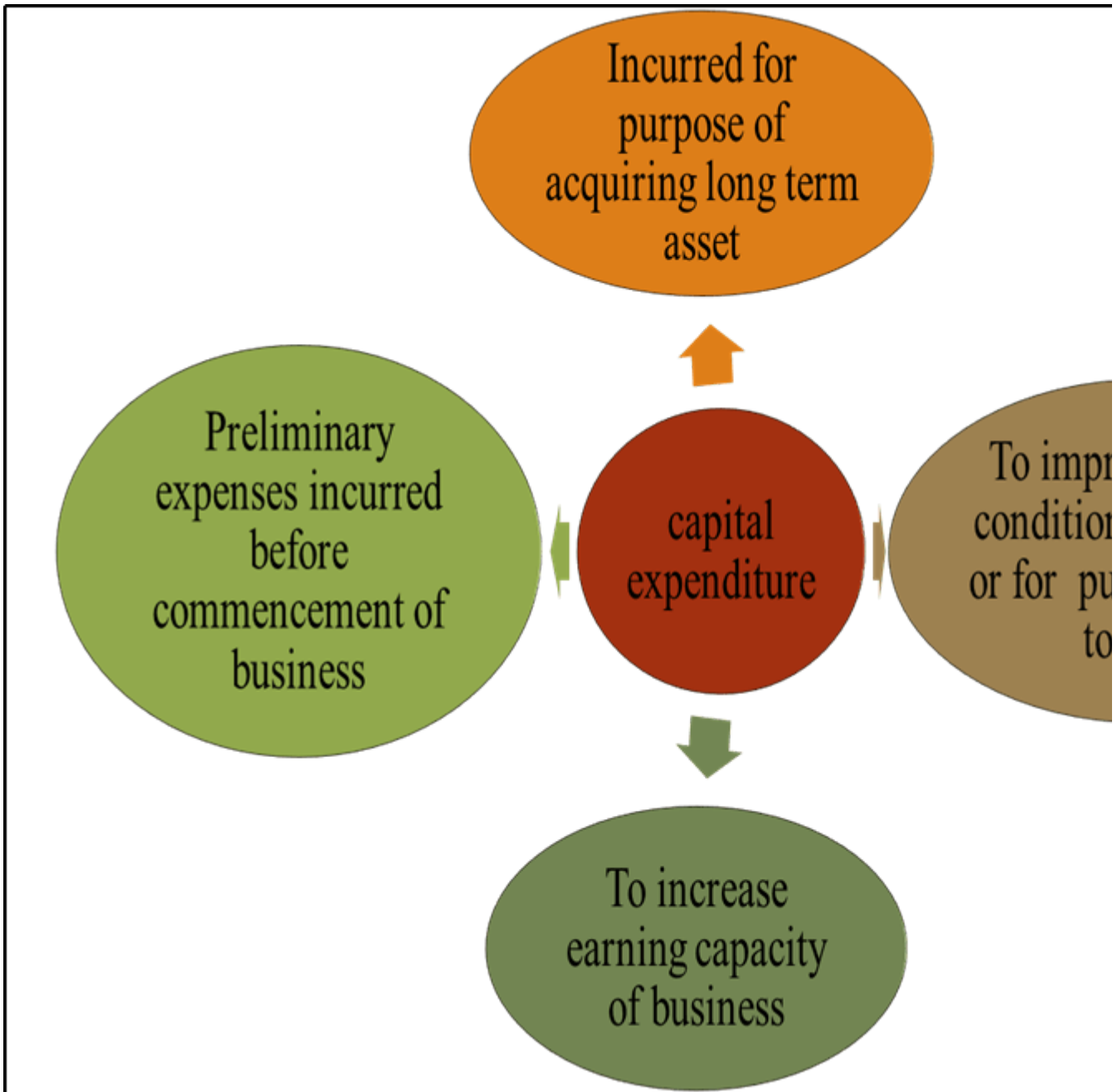


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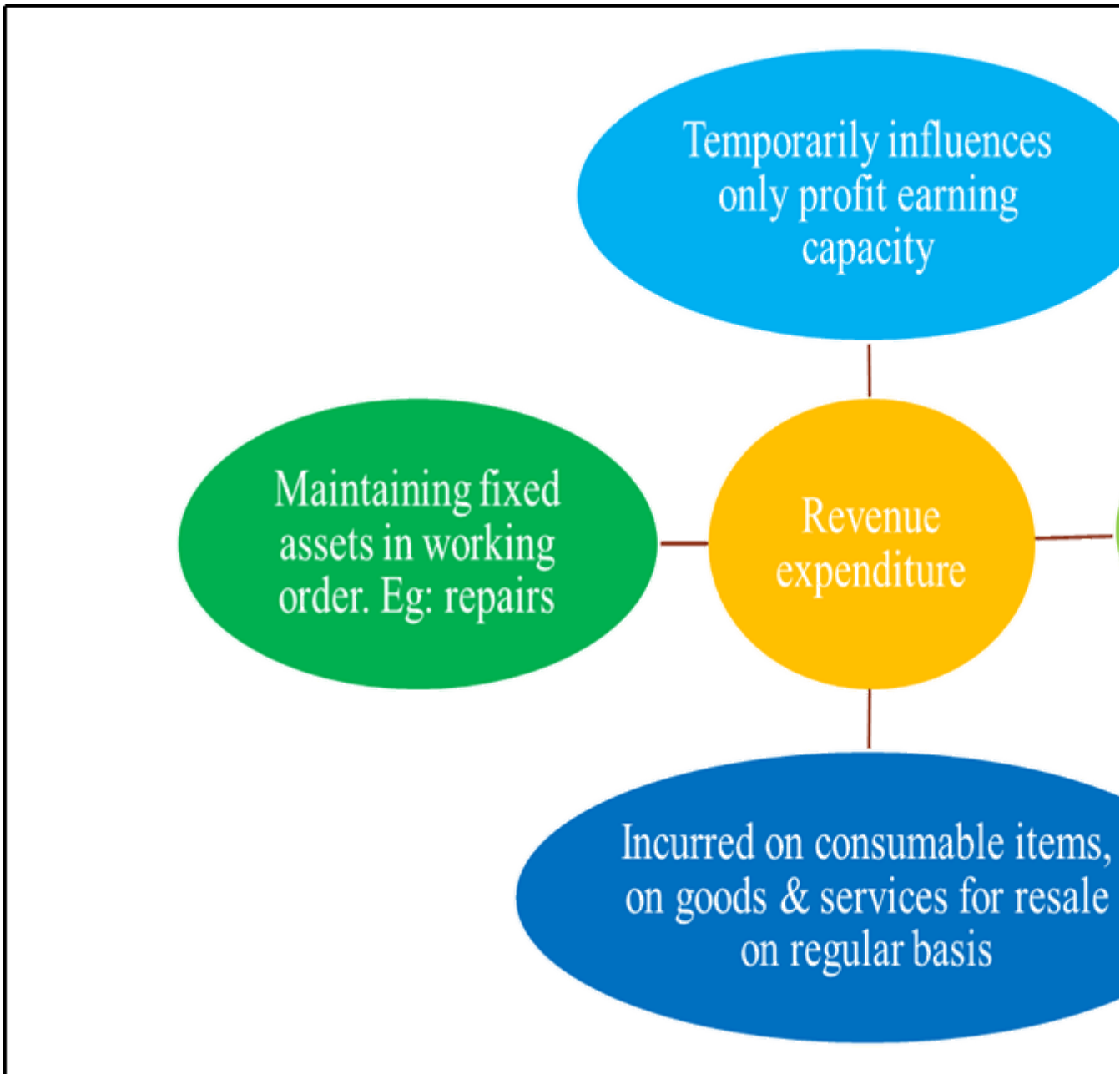
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- Capital Expenditure: Expenditure incurred to acquire an asset which would provide benefit to the firm of more accounting period. The expenditure incurred should be:
  - For the purchase or improvement of fixed asset
  - Asset should not be for resale
- Revenue Expenditure: Outflow of funds to meet running expenses of the business is called Revenue expenditure.
- Rules to determine capital and revenue expenditure
- Capital expenditure:



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## Revenue Expenditure



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## **Need for Distinction between Capital and Revenue Expenditure**

- To find true profit or loss of the business.
- Wrong categorization can lead to incorrect value for expenses, net profit and the value of the assets. For example if an expenditure on a building is incorrectly categorized as revenue rather than expense, the expenses would be overstated and the profit understated while the assets will also be understated.
- For taxation benefit.

#UGC NET Commerce

#Accounting

## #Capital Expenditure

-Manishika

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