



# **Module-A Unit-7**

## **JAIIB PAPER-3**

**Accounting & Financial  
Management for Bankers(AFM)**



## JAIIB AFM Module A Unit 7- Capital and Revenue Expenditure

### Expenditure

**Expenditure means spending on something. This can be a payment in cash or can also be the exchange of some valuable item in exchange for goods or services.** It is the process of causing a liability by a commodity. Receipts and invoices keep the records of expenditures. An expense is a word very similar to expenditure but expense shows the deduction in the value of the asset while expenditure simply denotes the obtaining of assets. *Two types of expenditures are present on the basis of time durations, That is*

- Capital expenditures
- Revenue expenditures

### Capital Expenditures

**These are expenditures for high-value items that holds longer duration requirements. Capital expenditures are long-term expenditures.** In other words, when the expenses are made for a particular asset but they do not get completely consumed in the specific time. Due to this the earning capacity increases, and in the meanwhile, the price of the assets decreases. **Example:** Cash money spent on business purposes, Purchasing of Plants and machinery items Etc.

### Costs which are classified as Capital Expenditure

- **Initial costs:** These include purchase price including duties and non-refundable taxes, costs directly attributable to bringing the asset to the location and condition necessary for it to be operational. This is also applicable to acquisition of intangible assets.
- **Subsequent costs:** These include costs of parts of some items of the assets requiring replacement at regular intervals. These also include the costs of major inspections for potential faults in the assets.

### Some of the examples of the above costs are:

- Costs of employee benefits arising directly from the construction or acquisition of the asset
- Costs of site preparation
- Initial delivery and handling costs
- Installation and assembly costs
- Costs of testing
- Professional fees
- Research of development expenditure
- All directly attributable costs necessary to create, produce and operate an internally generated intangible asset

## Revenue Expenditures

**In contrast to the capital expenditure, revenue expenditures are not the high-value items, instead,** they are the routine expenditures that takes place in the normal business. In other words, this kind of expenditure maintains fixed assets.

Unlike capital expenditure, earnings do not increase but stay maintained in revenue expenditure. **The assets get consumed in an accounting year and no future benefits are available.**

## Capital VS Expenditure

| Capital Expenditure   | Revenue Expenditure                     |
|---|---|
| Amount spent of usually large.  | Amount spent is relatively small.       |
| The purpose is to improve or enhance business or productive or earning capacity | The Benefit is short duration           |
| The benefit of long duration  | The benefit is short duration           |
| It is non-recurring   | It is recurring                         |
| It is shown in balance sheet  | It is shown in profit and loss account. |
| Not matched with capital receipts   | Matched with revenue receipts           |

## Receipts

### Capital Receipts

Capital Receipts are from issue of Equity/ Preference share/ Capital Instruments or from sale of Disposal of fixed Assets/Long Term investment or from Grants received from Government for Building of Capital Assets. Capital receipts are not routed through Profit & Loss account. However profit/loss, if any, arising from such transactions is recorded in the P & L account.

### Revenue Receipts

Revenue Receipts are from day to day operation of the company or receipts where is no further obligation on the entry to perform certain actions. Revenue Receipts are routed through Profit and loss account.

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