

Topic 6



Capital and Revenue Expenditures

CAPITAL AND REVENUE EXPENDITURE

Capital Expenditure:

Any expenditure incurred :

- i. On acquisition or purchase of non current asset.
- ii. In increasing life, efficiency, performance or capacity of non current asset.
- iii. In making the non current asset operational.
- iv. Directly or legally on the purchase of non current asset.
- v. Which add value to non current assets.

Accounting Treatment:

They are recorded or shown as **non current assets** in statement of financial position

Revenue expenditures

Any expenditure incurred:

- i. On day to day management or running of the business.
- ii. In maintaining the life, efficiency, performance and capacity of non current asset
- iii. Which are of recurring nature. E.g.: Repairs, renovation, replacement, renewal, repainting
- iv. Which does not add value to non current asset.

Accounting Treatment:

They are classified or shown as **operating expenses** in the income statement

Example 1:

A business incurred the following expenditures:

	\$
1. Purchase price of new machinery	150000
2. Custom/Import Duty [20% of the cost]	
3. Freight/Transport Charges	12000
4. Insurance in Transit	6000
5. Carriage Charges	1000
6. Installation Charges	2500
7. Training of Employees	1500
8. Trial Run/Test Run	1000
9. Fire Insurance	4000

Required :

Calculate the value of machinery to be included in non current assets.

Capital Expenditures

1. Purchase price of new machinery	\$ 150000
2. Custom/Import Duty [20% of the cost]	30000
3. Freight/Transport Charges	12000
4. Insurance in Transit	6000
5. Carriage Charges	1000
6. Installation Charges	2500
7. Trial Run/Test Run	1000
<u>Cost of non current asset to be included in S.O.F.P</u>	<u>202500</u>

Example # 2 :

An item of capital expenditure is incorrectly included as revenue expenditure

Required

- State the effect of this error
- Effect of correcting the error

i. Effect

• Non Current Assets	↓	Capital	↓
• Operating expenses	↑	Profit	↓

ii. Correction

• Non Current Assets	↑	Capital	↑
• Operating expenses	↓	Profit	↑

INTRODUCTION TO COST AND MANAGEMENT ACCOUNTING

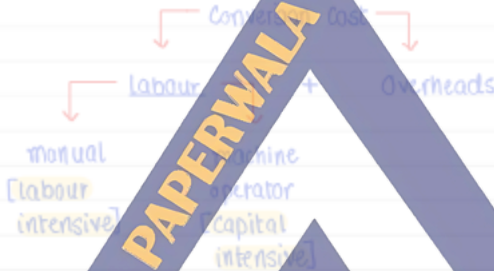
Cost/Expense: Outflow of resources.

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Stages of Manufacturing

1. Input [raw material] → 2. Process → 3. Output [finished goods]



Labour intensive business: Business organisations dependant on manual labour rather than technology or machinery.

Capital intensive business: Business organisations which are more dependant on machines rather than manual labour.