

Question 1

Explain the difference between capital and revenue expenditure.

Question 2

Consider the following list of expenses incurred by a company. Examine this list and determine if each expense is revenue or capital expenditure.

- A. Purchase of a motor car
- B. Claim for a meal
- C. Purchase of shares in a supplier
- D. Purchase of a new computer
- E. Payment for hotel accommodation
- F. Receipt for petrol
- G. Purchase of raw materials
- H. Purchase of an autoclave
- I. Purchase of a set of spanners
- J. Payment of an insurance premium
- K. Wages
- L. Purchase of a new plot of land.

Q.3: Explanation capital and revenue expenditure:

Ans: It is the expenditure in which are expected to be productive assets for a long period of time. Revenue expenditures are for costs that are related to specific revenue transactions or operating periods, such as the cost of goods sold or repairs and maintenance expense. Thus, the differences between these two types of expenditures are as follows:

- *Timing.* Capital expenditures are charged to expense gradually via depreciation, and over a long period of time. Revenue expenditures are charged to expense in the current period, or shortly thereafter.
- *Consumption.* A capital expenditure is assumed to be consumed over the useful life of the related fixed asset. A revenue expenditure is assumed to be consumed within a very short period of time.
- *Size.* A more questionable difference is that capital expenditures tend to involve larger monetary amounts than revenue expenditures. This is because an expenditure is only classified as a capital expenditure if it exceeds a certain threshold value; if not, it is automatically designated as a revenue expenditure. However, certain quite large

expenditures can still be classified as revenue expenditures, as long they are directly associated with sale transactions or are period costs.