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CAPITAL AND REVENUE

Problem No. 1

S. No.	Capital or Revenue	Reasons
1.	Capital expenditure	Because it is to purchase a fixed asset.
2.	Capital expenditure	Because it is incurred in connection with the carriage and freight of new machinery which is a fixed asset.
3.	Capital expenditure	As the expenses as incurred on fixed assets to make it usable.
4.	Revenue expenditure	Because helps in maintaining to asset in its proper working order.
5.	Revenue expenditure	Because it helps in maintaining the plan in working order.
6.	Capital expenditure	Because the removal of the machinery to the new and better site will enhance the income.

Problem No. 2

S. No.	Capital or Revenue	Reasons
1.	Revenue Expenditure	As it has been incurred in connection with the purchases of goods meant for resale.
2.	Capital Expenditure	Because it is improvement in the fixed asset.
3.	Capital Expenditure	It is capital expenditure because it is the improvement in the fixed asset and the benefits of the expenditure will be available for a number of years.
4.	Capital Expenditure	Cost for the purchase of patent rights are capital expenditure.
5.	Capital Expenditure	This expenditure is necessary in order to bring motor car in working condition.
6.	Revenue expenditure	It is a revenue expenditure because it is incurred in the purchase of goods and raw-material which are ment for resale.

Problem No. 3

S. No.	Capital or Revenue	Reasons
1.	Capital Expenditure	It will increase the earning capacity of the business.
2.	Capital Expenditure	The use of the name of the old business concern will benefit the purchase for a longer time.
3.	Capital Expenditure	It will increase the earning capacity of the business.
4.	Capital Expenditure	It is incurred on the purchase of fixed asset which will be used in business for earning income.
5.	Deferred Revenue Expenditure	The benefit of the expenditure will be available for a number of years.
6.	Capital Expenditure	It is a capital expenditure because it is incurred in heavy amount and to initiate a business.

Problem No. 4

Sr. No.	Capital or Revenue	Reasons
1.	Capital Expenditure	As it will decrease the cost of business operation in future.
2.	Capital Expenditure	As fixed liability is being discharged.
3.	Revenue Expenditure	Because these are incurred in the ordinary course of the business.
4.	Capital Expenditure	As it is incurred to purchase a fixed asset.
5.	Capital Expenditure	Because the investment is a fixed asset.
6.	Revenue Income	Because it is earned in the ordinary course of the business.

Problem No. 5

Sr. No.	Capital or Revenue	Reasons
1.	Capital Expenditure	As the sign board is fixed asset.
2.	Capital Expenditure	Because as landed property is a fixed asset.
3.	Revenue Expenditure	Because being expenses of carrying on the business.
4.	Revenue Receipt	Because it is recovered by the sale of the saleable goods.
5.	Capital Expenditure	Because new machinery is a fixed asset.
6.	Capital Expenditure	Because investment is a fixed asset.

Problem No. 6

Sr. No.	Capital or Revenue	Reasons
1.	Revenue Expenditure	Because the company will get the benefit only for one year.
2.	Capital Expenditure	Because this is a long term loan for business.
3.	Revenue Expenditure	Because it has been incurred in order to keep the Motor Cycle in working condition.
4.	Capital Profit	Because being mount earned on the sale of debentures.
5.	Revenue Capital	Because being the amount paid for business expenses.
6.	Capital Loss	Because a fixed asset has been destroyed.

Problem No. 7

Sr. No.	Capital or Revenue	Reasons
a.	Capital Expenditure	Because it has been incurred in acquisition of an asset.
b.	Revenue Expenditure	Because it is incurred in the ordinary course of the business.
c.	Revenue Expenditure	Because it has been incurred in the purchase of floating asset.
d.	Capital Expenditure	Because it will increase the value of the building.
e.	Capital Expenditure	Because this expenditure will be included in the cost of factory.

Problem No. 8

Sr. No.	Capital or Revenue	Reasons
1.	Capital Expenditure	Because benefits from this air conditioning will be received for many years to come.
2.	Capital Expenditure	Because benefits from this goodwill will be received for many years to come.
3.	Revenue Expenditure	Because this has been incurred as damages for infringement of a patent.
4.	Revenue Receipt	Because the amount of this debt was previously written off as a revenue loss.
5.	Capital Receipt	Because loan taken from the bank is repayable, therefore it is a liability.
6.	Revenue Expenditure	Because these expenses are incurred to carry on business and they do not chance the revenue earning capacity of the concern in any way.

Problem No. 9

Sr. No.	Capital or Revenue	Reasons
1.	Capital Expenditure	Because compensation paid to retrenched employees will enable the business to be carried on more economically.
2.	Revenue Expenditure	Because it has not been earned in the ordinary course of business.
3.	Revenue Expenditure	Because they are the expenses incurred in the ordinary course of trading.
4.	Revenue Receipt	Because it has been received from the cultivation of crops.
5.	Capital Receipt	Because Rs. 10000 being the proceeds of capital issued.
6.	Revenue Receipt	Because it is a source of income during the course business.

Problem No. 10

Sr. No.	Capital or Revenue	Reasons
1.	Capital Expenditure	As they have been incurred in securing capital for the business.
2.	Revenue Expenditure	As they have been incurred for the maintenance of an asset.
3.	Capital Expenditure	Because legal expenses incurred in connection with the purchase of a landed.
4.	Revenue Expenditure	Because being expenses of carrying on the business.
5.	Revenue Expenditure	Because being expenses of carrying on the business.
6.	Capital Expenditure	Because legal expenses incurred in raising a loan for the business.

Problem No. 11

Sr. No.	Capital or Revenue	Reasons
1.	Revenue Expenditure	As it is incurred to maintain the asset in working condition.
2.	Capital Expenditure	Because it is necessary to put the machine in working order.
3.	Revenue Expenditure	As it has been incurred in connection with the purchase of merchandise meat for resale.
4.	Capital Expenditure	As it is incurred to acquire the machinery.
5.	Capital Expenditure	Collect profit on sale of fixed assets.
6.	Revenue Expenditure	Because profit earned on sale on merchandise.

Problem No. 12

Sr. No.	Capital or Revenue	Reasons
1.	Capital Expenditure	Because these expenditure are made for construction of fixed asset.
2.	Capital Expenditure	Because this expenditure is made for obtain a fixed asset.
3.	Capital Expenditure	Because this expenditure are made for extension of fixed asset.
4.	Revenue Expenditure	Because these are the running expenditure of business.
5.	Capital Expenditure	Because this expense is made on purchase of fixed asset.
6.	Revenue Expenditure	Because this is the maintenance cost of asset.
7.	Revenue Expenditure	Because loan is taken for short term.
8.	Capital Expenditure	Because these expenditures are made to put the asset in the working condition.

Problem No. 13

1. Compensation paid to person injured by the company's car is revenue expenditure because it is incurred in the ordinary course of business.
2. Compensation paid to a retrenched employee for loss of employment will enable the business to be carried on more economically; therefore, it is capital expenditure.
3. The necessary alterations made in the location of windows under order from municipal authorities would not in any way add to the capital value of the building, therefore, it is Revenue expenditure.
4. It is a capital expenditure because it has been incurred on the painting of newly constructed building to bring it in working condition.
5. It is capital expenditure because it has been incurred on the renewal of the patent, which is a fixed asset.
6. It is revenue expenditure because merchandise has been purchased for the purpose of resale.

Problem No. 14

Sr. No.	Capital or Revenue	Reasons
1.	Revenue Expenditure	Because wages are incurred in manufacturing of goods.
2.	Revenue Expenditure	Because the regular fee of the legal advisor of the company is paid in the ordinary code of the business.
3.	Capital Receipt	Because it is from the sales of old machinery which is a fixed asset.
4.	Deferred Revenue Expenditure	Because heavy amount has been incurred on the intensive advertising to popularized a new product.
5.	Revenue Expenditure	Because it has to be incurred again and again to decorate the cinema hall.
6.	Capital Expenditure	Because these expenses has been incurred in purchasing a building, which is a fixed asset.

Problem No. 15

Journal

Date	Particulars	L. f.	Debit	Credit
1.	Building Account To Cash Account Building purchased and brokerage paid therein.		102000	102000
2.	Building Account To Cash Account Cost of Demolishing the old building		4000	4000
3.	Building Account To Cash Account Cost of Construction of a new building.		403000	403000
4.	Building Account To Cash Account Cost of Sewerage and Water Connection		3000	3000
5.	Rates and Taxes Account To Cash Account Rates and Taxes paid.		1000	1000
6.	Cash Account To Building Account Building sold for cash.		600,000	600,000

Building Account

Particulars	Amount	Particulars	Amount
To Cash Account	102000	To Cash Account	600,000
To Cash Account	4000		
To Cash Account	403000		
To Cash Account	3000		
To Profit and Loss A/c (Balancing Figure)	90,000		
	600,000		600,000