



# ACCOUNTS

## BOOKS - ARYA ACCOUNTS (HINGLISH)

### CAPITAL AND REVENUE

#### Illustrations

1. State whether the following transactions are capital expenditure or revenue expenditure.

Given reasons :

(i) ₹5,200 spent on repairs before using a second-hand car purchased recently.

During the years ₹ 3,000 were spent on repairing of various machines.

(iii) Freight and cartage on the new machine ₹1,200, erection charges ₹ 600.

(iv) A sum of ₹ 4,000 was spent on white-washing and painting the new factory.

(v) Cost of annual white-washing of building.

(vi) Fire insurance premium was paid on 1 st July, 2018 for full one year ₹2,400.

Books are closed on 31st March every year.

(vii) ₹ 20,000 spent towards additions to the

machinery.

(viii) ₹ 5,000 were spent in connection with the issue of capital and ₹ 3,000 were incurred as legal expenses in raising a debenture loan.



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2. Classify the following into Capital, Revenue and Deferred Revenue expenditure, stating reasons in each case :

(i) ₹ 50,000 paid for the installation of a new machine.

(2) Payment of annual taxes ₹ 20,000 and annual insurance premium of ₹10,000.

(3) Wages paid to workers for converting raw material into finished goods.

(4) A sum of ₹ 40,000 was spent in overhauling its entire plant which resulted in adding five years to its working life.

(5) ₹ 10 Lac spent on the construction of railway sidings.



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3. State with reasons whether the following are Capital or Revenue expenditures : -

(a) An old plant costing ₹ 1,00,000 was purchased, ₹ 2,000 were paid on its carriage, ₹ 3,000 were spent on its repairs and ₹ 4,000 were paid to an engineer who had supervised its installation.

(b) ₹ 2,00,000 spent for repairing the factory building.

(c) Legal expenses incurred on purchase of Land.

(d) ₹ 10,000 were spent on lawyer's fees to

defend a suit claiming that the firm's factory site belonged to the plaintiff.

(e) Expenditure on Advertisement ₹ 25,000.

(f) ₹ 25,000 paid to a discharged employee as compensation.

(g) Repairs for ₹ 2,000 necessitated by negligence.

(h) Insurance claim of ₹ 20,000 received from the insurance company for loss of goods by fire of ₹ 25,000.



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4. State, which of the following receipts would be treated as capital receipts and revenue receipts. Give reasons.

(i) Received ₹5,00,000 from the issue of share and the issue amount to ₹ 10,000.

(ii) Received ₹ 1,00,000 as subsidy from State Government.

(iii) Compensation received from Improvement Trust for compulsory removal of business to another place.

(iv) Investment which were purchased in 2007 for ₹ 10 Lac sold in 2015 for ₹12 Lac.

(v) For the welfare of employees, a

recreation centre was constructed at a cost of ₹ 8 Lac, ₹ 4 Lac was received from the state Govt. as grant for its construction.



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## Long Answer Questions

1. (i) Classify the following as capital expenditure, revenue expenditure and deferred revenue expenditure for a cloth merchant?

(a) Preliminary Expenses.



(b) Purchase of Furniture.

(c) Payment of Salary

(d) Expense paid for construction of buliding .



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## Practical Questions

1. State with reasons whethere the following are capital or revenue expenditures :

(i) A new machine is purchase for ₹ 60,000, ₹ 800 were spent on its carriage and ₹ 1,500

were paid as wages for its installation.

(ii) A sum of ₹ 10,000 was spent on painting the new factory.

(iii) ₹ 5,000 paid for the erection of a new machine.

(iv) ₹ 2,000 were spent on repairs before using a second hand generator purchased recently.

(v) ₹ 1,500 were spent on the repair of a machinery.

(vi) ₹ 10,000 were paid as brokerage on issue of shares and other expenses of issue were ₹ 25,000.



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2. State whether the following expenditure are Capital, Revenue or Deferred Revenue. Give reasons :

(i) Furniture of the book value of ₹ 10,000 were sold off at ₹ 2,500 and new furniture of the value of ₹ 6,000 were acquired, cartage on purchase ₹ 50.

(ii) Property purchased for ₹ 20,00,000 and ₹ 1,50,000 paid for its registration and legal fee.

(iii) Replacement of old machine by a new one.

(iv) Damages paid by a transport company to

its passengers injured in an accident.

(v) Erection of shed for parking of vehicles at a cost of ₹ 10 Lac.



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**3. Classify the following into Capital, Revenue and Deferred Revenue expenditure, stating reasons in each case :**

(a) A sum of ₹ 32,000 has been spent on machine as follows : (i) ₹ 20,000 out of addition to double the output, (ii) ₹ 5,000 for

repairs necessitated by negligence and (iii) ₹ 7,000 for replacement of worn - out parts.

(b) Total expenditure on a cinema building during the year was ₹ 2,00,000 out of which 20 % related to repairs and 80 % represented improvements and additions.

(c ) Compensation paid to a retrenched employee for the loss of employment.

(d) Second - hand furniture worth ₹40,000 was purchased and repairing of this furniture cost ₹ 15,000. The furniture was installed by own workmen - wages for this beins ₹ 5,000.

(e) A person was injured by the motor car of

the company . ₹ 10,000 was paid to him by way of compensation.

(f) Advirtisement expenditure in special advertisement drive.



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4. State with reasons whether the following receipts would be treated as Capital or Revenue : -

(a) ₹ 5,000 received from a customer whose account was previously written off as bad.

(b) ₹ 20,000 received from sale of old machine.

(c) ₹ 2,60,000 received from sale of stock-in trade.

(d) ₹5,00,000 is contributed by a partner as capital.

(e) Took a loan of ₹ 10 Lac from Punjab National Bank.

(f) Received ₹ 4 Lac as subsidy from state Government.

(g) Received ₹ 8 Lac as grant from State Government for the construction of quarters for the staff.



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