

CHAPTER 8: CAPITAL AND REVENUE EXPENDITURES;

Capital expenditure:

Expenditures related to;

- Purchases of non current assets
- Installation and to bring business premises
- Before first use which are essential to make asset operation
- Improvement of asset after first use

These are recorded in statement of financial position as value of non current assets. These are not incurred in routine.

Revenue expenditures:

- Day to day operational expenditures which are essential to ensure operations of a business.
- These are not capital expenditures.
- Insurance and all kind of interests are revenue expenditures.
- These are recorded in income statement.
- E.g rent, wages, purchases of goods for resale.

Capital receipts:

Receipts due to

- Selling of non current assets
- Capital input by owner or issuance of shares
- Taking loans or issuing debentures

These are only shown in statement of financial position.

Revenue receipts:

Amounts received due to selling of goods or services. These are recurring receipts and recorded as incomes in Income Statement.

Practice Questions:

Q1: For the business of Shanzay, book seller, classify the following between 'capital' and 'revenue' expenditure:

- (a) Purchase of an extra van.
- (b) Cost of rebuilding warehouse wall which had fallen down.
- (c) Building extension to the warehouse.
- (d) Painting extension to warehouse when it is first built.
- (e) Repainting extension to warehouse three years later than that done in (d).
- (f) Carriage costs on bricks for new warehouse extension.
- (g) Carriage costs on purchases.
- (h) Carriage costs on sales.
- (i) Legal costs of collecting debts.
- (j) Legal charges on acquiring new premises for office.
- (k) Fire insurance premium.
- (l) Costs of erecting new machine.

Q2: 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 a bookshelf.
- (i) Purchase of a set of scanners.
- (j) Payment of an insurance premium.
- (k) Wages.
- (l) Purchase of a new plot of land.

Q3: If repair cost is \$25,000, whitewash expenses are \$5,000, cost of extension of building is \$250,000 and of improvement in electrical wiring system is \$19,000, what is total amount of capital expense?

Q4: Classify whether each transaction is a revenue expenditure, a revenue receipt, a capital expenditure or a capital receipt.

- (a) Sold office equipment.
- (b) Cash discount received from the supplier.
- (c) Payment of property insurance.
- (d) Bought a delivery vehicle.
- (e) Purchase of new motor vehicle tyres.
- (f) Received interest on deposit account.
- (g) Took out long term loan from the bank.
- (h) Received sales commission.
- (i) Sale of motor vehicle.
- (j) Built an extension to its existing property.
- (k) Bought a new computer system for the business.
- (l) Redecorated the interiors in the entire property.
- (m) Installation and testing air conditioning in the extended property.
- (n) Started advertising campaign about the improvement of the property.
- (o) Purchased computer CDs for office use.
- (p) Purchase of office furniture and fittings.
- (q) Insurance of entire property.
- (r) Purchase of loose tools for property.
- (s) Repairs to office furniture.
- (t) Aid received from the government for improvement of solar power system.
- (u) Revenue from sale of inventory.
- (v) Very short term Loan from a bank.
- (w) Disposal of old equipment.
- (x) Discount received.
- (y) Long term loan from a bank.
- (z) Commission received.

Q5: Wania Ltd took delivery of a microcomputer and printer on 1 March 2016, the beginning of its financial year. The list price of the equipment was \$4,999 but Wania Ltd was able to negotiate a price of \$4,000 with the supplier. However, the supplier charged an additional \$340 to install and test the equipment. The supplier offered a 5% discount if Wania Ltd paid for the equipment and the additional installation costs within seven days. Wania Ltd was able to take advantage of this additional discount. The installation of special electrical wiring for the computer cost \$110. After initial testing certain modifications costing \$199 proved necessary. Staff were sent on special training courses to operate the microcomputer and this cost \$990. Wania Ltd insured the machine against fire and theft at a cost of \$49 per annum. A maintenance agreement was entered into with Sonoma plc. Under this agreement Sonoma plc promised to provide 24 hour breakdown cover for one year. The cost of the maintenance agreement was \$350.

Required:

Calculate the acquisition cost of the microcomputer to Wania Ltd.