Revenue Expenditure

Any form of income is called revenue, but the term 'revenue' refers to either income or expenditure. Revenue income implies profits, whereas revenue expenditure is the money spent on running the business on a day to day basis.

Salaries paid to employees and payments for miscellaneous expenses are the examples of revenue expenditures. Therefore, revenue expenditure is incurred to carry on the normal cause of business and maintain the fixed assets in good condition. Since revenue expenditure is of benefit for the current accounting period only, it is debited to an expense account which is ultimately transferred to the trading and PSC a/c.

Revenue expenditure has the following characteristics:

1. The amount involved in such type of expenditure is relatively small.
2. The benefit acquiring from such expenditure is available for one accounting period only.
3. The expenditure is of securing value.

Capital

In the accounting sense, capital is the money contributed by the owner to an organisation to enable it to function. It is measured by the excess of assets over liabilities.

Capital = Asset – Liabilities

OR

Internal liabilities = Assets – External Liabilities

Therefore, capital account is the account that shows the interest of the owner in the net assets of the business.

Capital Expenditure

It is the money spent on buyer fixed assets or adding to their value. These assets are expected to provide benefits to the business for more than one accounting period. Purchase of land at the cost of extensions of existing buildings is examples of capital expenditure.

Capital expenditure is debited to a fixed asset account which appears on the balance sheet. Therefore, it is an expenditure or asset which is not written off completely against income in the accounting period in which it is included.

A capital expenditure has the following characteristics:

1. The amount involved in such expenditure is generally large.

2. The benefit acquiring from such an investment is available for more than one accounting period.

3. The expenditure is of non-recurring nature.

Examples:

Capital Expenditure –

1. Purchase of land, building, machinery or furniture.
2. Cost of acquisition of long term rights and benefits (E.g. patents, copyrights, etc.)
3. Cost of addition or extension to existing assets.
4. Cost of overhauling second hand machines.
5. Expenditure on putting an asset into working condition

Revenue Expenditure –

1. Salaries and wages paid to employees.
2. Rent and rates for the factory or office premises.
3. Depreciation on plant and machinery.
4. Inventory of raw materials, work in progress and furnished goods.
5. Insurance premium
6. Taxes and legal expenses.

Difference between Capital & Revenue Expenditure –

Capital Expenditure	Revenue Expenditure
1. It is the flow of money to acquire fixed assets of a business adding to their value.	1. It is the outflow to meet the running expenses of a business.
2. It is always an external transaction.	2. It may be external or internal.
3. It is debited to an asset account.	3. It is debited to an expense account.
4. It is a real account.	4. It is a nominal account.
5. It finds a place in the balance sheet.	5. It finds a place in the trading & PSL a/c.
6. It is of non-recurring nature.	6. It is of recurring nature.
7. It does not affect the profit for an accounting period directly.	7. All revenue expenditures affect the profit for an accounting period.