

## Capital and Revenue Expenditure and Receipts

- 1 Nabil owns a food store. He purchases goods on credit terms and sells on cash terms. Nabil's financial year ends on 31 March.

Nabil's receipts and payments during the year ended 31 March 2019 included both capital and revenue items.

### REQUIRED

- (a) State whether **each** of the following represents capital expenditure, revenue expenditure, a capital receipt or a revenue receipt.

The first one has been completed as an example.

Payment of annual insurance premium	<i>revenue expenditure</i>
Purchases of goods for resale	.....
Proceeds of sale of old shop fittings at book value	.....
Cost of new shop fittings	.....
Delivery charge on new shop fittings	.....
Cash sales	.....
Loan from bank	.....

[6]

2 (a) Explain the difference between capital expenditure and revenue expenditure.

.....  
.....  
.....  
..... [2]

(b) Complete the table below, indicating with a tick (✓) how each item would be classified. The first has been completed as an example.

	Capital expenditure	Revenue expenditure
Salesman's commission		✓
Carriage of raw materials		
Purchases of goods for resale		
Purchases of plant and equipment		
Payment of insurance		
Legal fees on purchase of property		

[5]

- 3 Bamber is a manufacturer. He knows that it is important to distinguish between capital expenditure and revenue expenditure.

**REQUIRED**

- (a) (i) Explain the effect on Bamber's income statement of recording capital expenditure as revenue expenditure.

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 .....  
 .....  
 ..... [2]

- (ii) Explain the effect on Bamber's balance sheet of recording capital expenditure as revenue expenditure.

.....  
 .....  
 .....  
 ..... [2]

On 1 April 2011 Bamber bought a new computer for his business costing \$4800. He also bought a new laser printer costing \$750.

On 1 January 2012 Bamber replaced the hard disk in the computer as the existing one had failed. The cost was \$450.

**REQUIRED**

- (b) In the table below, place a tick (✓) under the most appropriate heading to show whether the item is capital or revenue.

	Capital expenditure	Revenue expenditure
Purchase of new computer		
Purchase of new laser printer		
Replacement of hard disk in computer		

[3]