

JAIN INSTITUTE OF COMMERCE, CTM-VASTRAL
 YOUR PARTNER IN CMA JOURNEY

Difference between Capital Receipts and Revenue Receipts

Points	Capital Receipts	Revenue Receipts
1. <i>Meaning</i>	Capital receipt is that which is not received regularly and the benefit of which is available for a long time.	The income which is recurring i.e. received regularly and is derived from regular activities of the institution is revenue receipt.
2. <i>Purpose</i>	The purpose of capital receipts is to obtain long term funds.	The purpose of revenue receipt is to obtain regular income for the business.
3. <i>Accounting Treatment</i>	Capital receipt is shown in the Balance Sheet, because it does not have any immediate effect on business.	Revenue receipt is shown in Profit & Loss A/c or in Income and Expenditure A/c, because it is a regular business income.

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4. <i>Balance</i>	The balance of, capital receipt (e.g. capital) is carried forward to the next year.	The balance of revenue receipt is transferred to either P & L A/c or I & E A/c at the end of the year and the account is closed.
5. <i>Examples</i>	Capital receipts include donation, sale proceeds of fixed assets, receipts from issue of shares, debentures, donations received for a specific purpose etc.	Revenue receipts include receipts from sales, interest, commission, subscription, rent, etc. which are regularly received.
6. <i>Financial Position / Profitability</i>	The financial position of a business unit or an institution can be judged from its Capital Receipts.	Profitability of a business unit or institution can be judged from its Revenue Receipts.

Difference between Capital Expenditure and Revenue Expenditure

Points	Capital Expenditure	Revenue Expenditure
1. <i>Meaning</i>	Expenditure which results in acquisition of an asset and which is not recurring or regular is called Capital Expenditure.	An expense which is incurred to maintain the earning capacity of the business and which is paid frequently or regularly is called revenue expenditure.

2. <i>Purpose</i>	The purpose of capital expenditure is to acquire a fixed asset and assist business in earning profit.	The purpose of revenue expenditure is to run the regular business activity and thereby to earn profit for business.
3. <i>Accounting Entry</i>	Capital Expenditure is shown on the Assets side of the balance sheet.	Revenue expenditure is shown in P & L A/c or Income and Expenditure A/c on the debit side.
4. <i>Balance</i>	Balance of Capital expenses is always carried forward to the next year. Generally, depreciation is allowed on it and is deducted therefrom.	Balance of revenue expenses is not carried forward and is transferred to the debit side of P & L A/c or I & E A/c.
5. <i>Examples</i>	Such expenditure includes items like purchase of fixed assets like land, building, books, investments, machinery etc. including expenditure to install it and to purchase it.	Revenue expenditure includes administrative expenses and financial expenses like salaries, rent, postage, telegram, bank interest, repairs, advertisement etc.
6. <i>Benefits</i>	The benefits of capital expenditure are available to the business for a long period of time.	The benefits of revenue expenditure are available only during the current year.

Illustration 5 :

From the following informations, prepare Income and Expenditure Account of the Manmohan Sports Club for the year ending on 31-3-2023 :

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	Rs.		Rs.
Entrance fees received	1,000	Income from annum programme	12,000
Subscription received	15,000	Cricket Tournament Expenses	4,000
Interest received	2,500	Subscription for newspapers	1,200
Salary	10,000	Sale of waste paper (Pasti)	200
Printing and Stationery	1,200	Closing Cash balance	600
General Expenses	400	Investment in Government	
Opening cash balance	800	Securities	20,000
Special donations for		Lockers' Rent	800
Cricket Tournament	10,000	Purchase of Sports Equipment	12,000
Legacy received	20,000	Repairs	1,600
Annual Programme Expenses	8,000	Depreciation on furniture	200
Donations	6,000	Sale of Sports Equipments	
Closing Bank overdraft	2,500	(Book value Rs. 1,400)	1,200
Life Membership fees	3,200	Purchase of Furniture	5,000

50% Entrance fees is to be capitalised. Subscriptions outstanding Rs. 5,000.

Secretary's honorarium outstanding Rs. 3,000.

Solution:

The Manmohan Sports Club

**Income and Expenditure Account
for the year ending on 31-3-2023**

Expenditures	Rs.	Incomess	Rs.
To Salary	10,000	By Subscription	15,000
To Secretary's honourarium	3,000	+ Outstanding	5,000
To Printing and Stationery	1,200	By Entrance fees (50%)	500
To General expenses	400	By Interest received	2,500
To Annual programme expenses	8,000	By Income from annual programme	12,000
To Subscription for newspapers	1,200	By Sale of waste paper	200
To Repairs	1,600	By Lockers' Rent	800
To Depreciation on furniture	200		
To Loss on sale of sports equipments (1,400 - 1,200)	200		
To Excess of Incomes over Expenditures (Profit)	10,200		
	<u>36,000</u>		<u>36,000</u>

Illustration 10 :

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[YOUR PARTNER IN CMA JOURNEY]

From the Receipts and Payments Account of Gujarat Gymkhana for the year 2022-'23, you are required to prepare Income and Expenditure Account for the year ending on 31-3-2023 :

Receipts and Payments Account
for the year 2022-'23

Receipts	Rs.	Payments	Rs.
To Balance (1-4-2022)	2,416	By Purchase of a bicycle	424
To Interest	624	By Rates and taxes.	496
To Subscription	8,740	By Printing and Stationery	1,508
To Rent	540	By Subscription of newspapers	2,694
To Entrance fees	2,400	By Expenses	1,882
To Sale of old newspapers	128	By Salaries	2,400
To Sale of old furniture	420	By Investments	4,770
To Receipts from lectures	732	By Payment to creditors of previous year	1,508
		By Balance (31-3-2023)	318
	16,000		16,000

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Subscription for newspapers paid in 2022-'23 includes Rs. 250 for 2021-'22. Rs. 464 is outstanding for salaries. Subscription received includes Rs. 500 for 2021-'22 and Rs. 200 for 2023-'24.

Provide depreciation of Rs. 300 on books and Rs. 250 on building. Half the entrance fees is to be capitalised.

Solution :

Notes : (1) Opening and closing balance of cash will not be shown in Income and Expenditure Account. (2) Sale of old furniture is a capital receipt and has not been shown in this account. (3) Half the Entrance fees is capitalised, hence only half the amount has been credited to Income and Expenditure Account. (4) Purchase of a bicycle and investments are capital expenses and hence have been excluded from this account. They will be shown in the Balance Sheet. (5) Payment made to creditors of last year will not be shown in the Income and Expenditure Account of the current year.

Gujarat Gymkhana
CMA ABHISHEK JAIN
Income and Expenditure Account

Dr.	for the year ending on 31-3-2023		Cr.
Expenditures	Rs.	Incomes	Rs.
To Rates and Taxes	496	By Interest	624
To Printing & Stationery	1,508	By Subscription	8,740
To Sub. for newspapers	2,694	– for 2023-'24	500
– for last year	250	– for last year	200
To Expenses	1,882	By Rent	540
To Salaries	2,400	By Entrance fees (1/2)	1,200
+ Outstanding	464	By Sale of old newspapers	128
To Depreciation :		By Receipts from lectures	732
Books	300		
Building	250		
To Excess of Income over Expenditures	1,520		
	11,264		11,264

1. From the following transactions of the Sports Club for the year ending on 31-3-2023, prepare Receipts and Payments Account.

	Rs.			Rs.
Cash Balance (1-4-2022)	1,540	Subscriptions :		
Purchase of Furniture	3,000	2021-'22		1,500
Salary paid	2,800	2022-'23		18,000
Rent paid	1,950	2023-'24		2,000
Postage-telegram	780	Sale of Sports Equipments		3,350
Purchase of building	20,000	Donation received		5,000
Purchase of investments	4,000	Interest received		3,000
Adjustments :				

- (1) Write off depreciation on building Rs. 1,000 and on furniture Rs. 400.
- (2) Salary outstanding is Rs. 200.

[Ans. : Closing cash balance Rs. 1,860, Remember that all types of receipts, revenue or capital and all types of expenses whether capital or revenue will be shown in Receipts and Payments Account. Even expenses and incomes of previous year or next year, if paid during the current year will be shown in R & P A/c.]