

Tamilnadu Samacheer Kalvi 11th Accountancy Solutions Chapter 11 Capital and Revenue Transactions

Samacheer Kalvi 11th Accountancy Capital and Revenue Transactions Text Book Back Questions and Answers

I. Multiple Choice Questions **Choose the Correct Answer**

Question 1.

Amount spent on increasing the seating capacity in a cinema hall is

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- (a) Capital expenditure
- (b) Revenue expenditure
- (c) Deferred revenue expenditure
- (d) None of the above

Answer:

- (a) Capital expenditure

Question 2.

Expenditure incurred ₹ 20,000 for trial run of a newly installed machinery will be

- (a) Preliminary expense
- (b) Revenue expenditure
- (c) Capital expenditure
- (d) Deferred revenue expenditure

Answer:

- (c) Capital expenditure

Question 5.

Revenue expenditure is intended to benefit

- (a) Past period
- (b) Future period
- (c) Current period
- (d) Any period

Answer:

- (c) Current period

Question 6.

Pre – operative expenses are

- (a) Revenue expenditure
- (b) Prepaid revenue expenditure
- (c) Deferred revenue expenditure
- (d) Capital expenditure

Answer:

(d) Capital expenditure

II. Very Short Answer Questions

Question 1.

What is meant by revenue expenditure?

Answer:

The expenditure incurred for day to day running of the business or for maintaining the earning capacity of the business is known as revenue expenditure. It is recurring in nature. It is incurred to generate revenue for a particular accounting period. The revenue expenditure may be incurred in relation with revenue or in relation with a particular accounting period.

Question 2.

What is capital expenditure?

Answer:

It is an expenditure incurred during an accounting period, the benefits of which will be available for more than one accounting period. It includes any expenditure resulting in the acquisition of any fixed asset or contributes to the revenue earning capacity of the business. It is non-recurring in nature.

Question 3.

What is capital profit?

Answer:

Capital profit is the profit which arises not from the normal course of the business. Profit on sale of fixed asset is an example for capital profit.

Question 4.

Write a short note on revenue receipt.

Answer:

Receipts which are obtained in the normal course of business are called revenue receipts. It is recurring in nature. The amount received is generally small.

Question 5.

What is meant by deferred revenue expenditure?

Answer:

An expenditure which is revenue expenditure in nature, the benefits of which is to be derived over a subsequent period or periods is known as deferred revenue expenditure.

III. Short Answer Questions

Question 1.

Distinguish between capital expenditure and revenue expenditure.

Answer:

S. No.	Capital Expenditure	Revenue Expenditure
1	Purchase cost of fixed assets.	Maintenance expenses of fixed assets.
2	Purchase cost of long term investments.	Insurance premium.

3	Expenses to increase the earning capacity of fixed assets.	Postage and stationery.
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Question 2.

Distinguish between capital receipt and revenue receipt.

Answer:

S. No.	Characteristics	Capital Receipt	Revenue Receipt

1	Nature	Non-recurring in nature.	Recurring in nature.
2	Size	Amount is generally substantial.	Amount is generally smaller.
3	Distribution	These amounts are not available for distribution as profits.	The excess of revenue receipts over the revenue expenses can be used for distribution as profits.

Question 3.

What is deferred revenue expenditure? Give two examples.

Answer:

An expenditure, which is revenue expenditure in nature, the benefits of which is to be derived over a subsequent period or periods is known as deferred revenue expenditure. The benefit usually accrues for a period of two or more years. It is for the time being, deferred from being charged against income. It is charged against income over a period of certain years. Examples: Considerable amount spent on advertising and major repairs to plant and machinery.

IV. Exercises

Question 1.

State whether the following expenditures are capital, revenue or deferred revenue.

- (a) Advertising expenditure, the benefits of which will last for three years.
- (b) Registration fees paid at the time of registration of a building.
- (c) Expenditure incurred on repairs and whitewashing at the time of purchase of an old building in order to make it usable.

Answer:

- (a) Deferred revenue expenditure
- (b) Capital expenditure
- (c) Capital expenditure

Question 2.

Classify the following items into capital and revenue.

- (a) Registration expenses incurred for the purchase of land.
- (b) Repairing charges paid for remodelling the old building purchased.
- (c) Carriage paid on goods purchased.
- (d) Legal expenses paid for raising of loans.

Answer:

- (a) Capital expenditure
- (b) Capital expenditure
- (c) Revenue expenditure
- (d) Capital expenditure

Question 3.

State whether they are capital and revenue.

- (a) Construction of building ₹ 10,00,000.
- (b) Repairs to furniture ₹ 50,000.
- (c) White-washing the building ₹ 80,000.
- (d) Pulling down the old building and rebuilding ₹ 4,00,000.

Answer:

- (a) Capital expenditure
- (b) Revenue expenditure
- (c) Revenue expenditure
- (d) Capital expenditure

Question 4.

Classify the following items into capital and revenue.

- (a) ₹ 50,000 spent for railway siding.
- (b) Loss on sale of old furniture.
- (c) Carriage paid on goods sold.

Answer:

- (a) Capital expenditure

- (b) Capital loss
- (c) Revenue expenditure

Question 5.

State whether the following are capital, revenue and deferred revenue.

- (a) Legal fees paid to the lawyer for acquiring a land ₹ 20,000.
- (b) Heavy advertising cost of ₹ 12,00,000 spent on introducing a new product.
- (c) Renewal of factory licence ₹ 12,000.
- (d) A sum of ₹ 4,000 was spent on painting the factory.

Answer:

- (a) Capital expenditure
- (b) Deferred revenue expenditure
- (c) Revenue expenditure
- (d) Revenue expenditure

Question 6.

Classify the following receipts into capital and revenue.

- (a) Sale proceeds of goods ₹ 75,000.
- (b) Loan borrowed from bank ₹ 2,50,000.
- (c) Sale of investment ₹ 1,20,000.
- (d) Commission received ₹ 30,000.
- (e) ₹ 1,400 wages paid in connection with the erection of new machinery.

Answer:

- (a) Revenue receipts
- (b) Capital receipts
- (c) Capital receipts
- (d) Revenue receipts
- (e) Capital expenditure

Question 7.

Identify the following items into capital or revenue.

- (a) Audit fees paid ₹ 10,000.
- (b) Labour welfare expenses ₹ 5,000.
- (c) ₹ 2,000 paid for servicing the company vehicle.
- (d) Repair to furniture purchased second hand ₹ 3,000.
- (e) Rent paid for the factory ₹ 12,000.

Answer:

- (a) Revenue expenditure
- (b) Revenue expenditure
- (c) Revenue expenditure
- (d) Capital expenditure
- (e) Revenue expenditure

Textbook Case Study Solved

Question 1.

Sadhana decides to start a business of selling air – conditioners. She buys different brands of air – conditioners. She also buys a delivery van, some furniture and some tools to fix air- conditioners. She buys some stationery items and cleaning liquid. She spends some amount on advertising her shop. She records the entire amount spent in the trading account.

Now, discuss on the following points:

Question 1.

Is it correct to record the entire amount spent in the first year of trading in the trading account? What impact will it have on the profit for the year?

Answer:

It is not correct to record the entire amount spent in the first year of trading in the trading account. It will be shown as a capital expenditure. For example: furniture and delivery van.

Question 2.

What are her fixed assets?

Answer:

1. A delivery van.
2. Some furniture.
3. Some tools.

Question 3.

Does she apply accounting concepts? If not which is the concept she does not apply?

Answer:

No, she does not apply accounting concepts. She does not apply business entity concepts.

Question 4.

Can you help Sadhana to classify the expenditure?

Answer:

Yes, I can help Sadhana to classify the expenditure:

Capital expenditure	Revenue expenditure	Deferred Revenue Expenditure
Non-recurring	Recurring	Non-recurring
1. Delivery Van	1. Air-conditioners	She spends some amount on advertising her shop.

2. Furniture	2. Stationery items	
3. Tools	3. Cleaning liquid	

Question 5.

What other capital, revenue and deferred revenue expenditure her business may incur in the future?

Answer:

In the future:

Capital expenditure	Revenue expenditure	Deferred Revenue Expenditure
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1. Building extension	1. Air-conditioners	A huge advertising.
2. Computer for office use	2. Other home appliances	
3. Other furniture		

Samacheer Kalvi 11th Accountancy Capital and Revenue Transactions Additional Questions and Answers

I. Multiple Choice Questions

Choose the correct answer

Question 1.

Cost of acquisition of land and building is an example of

- (a) Capital expenditure
- (b) Revenue expenditure
- (c) Capital receipts
- (d) Revenue receipts

Answer:

- (a) Capital expenditure

Question 2.

There are types of expenditure

- (a) One
- (b) Two
- (c) Three
- (d) Four

Answer:

- (c) Three

Question 3.

..... expenditure is recurring in nature.

- (a) Capital expenditure
- (b) Revenue expenditure
- (c) Capital loss
- (d) Capital profit

Answer:

- (b) Revenue expenditure

Question 4.

Considerable amount spent on advertising is an example of expenditure.

- (a) capital
- (b) revenue
- (c) deferred
- (d) none of these

Answer:

(c) deferred

II. Very Short Answer Questions

Question 1.

What is capital receipt?

Answer:

Receipt which is not revenue in nature is called capital receipt. It is non-recurring in nature. The amount received is normally substantial. It is shown on the liabilities side of the balance sheet.

Question 2.

Write any two features of revenue expenditure.

Answer:

1. It is recurring in nature.

2. It is incurred for maintaining the earning capacity of the business.

III. Short Answer Questions

Question 1.

Write three features of deferred revenue expenditure.

Answer:

1. It is a revenue expenditure, the benefits of which is to be derived over a subsequent period or periods.
2. It is not fully written off in the year of actual expenditure. It is written off over a period of certain years.
3. The balance available after writing off (i.e., Actual expenditure – Amount written off) is shown on the assets side balance sheet.

Question 2.

What are the classifications of expenditures?

Answer:

1. Capital expenditure
2. Revenue expenditure
3. Deferred revenue expenditure

Question 3.

Write any three examples of revenue expenditure.

Answer:

1. Purchase of goods for sale
2. Administrative, selling and distribution expenses
3. Manufacturing expenses