

Subject- Financial Accounting

Topic- Capital Receipts vs Revenue Receipts

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Capital Receipts vs Revenue Receipts

1. Introduction

In accounting and finance, it is important to know the difference between the various types of expenditures and receipts. This is because all businesses make expenditures and receive receipts, but not all of these are of the same kind.

Expenditures can be broadly categorized into Capital Expenditure, which is the spending on assets that increase future earning capacity, and Revenue Expenditure, which includes all the day-to-day expenses that are consumed within the accounting period.

On the other hand, receipts are categorized into Capital Receipts, which are received from non-recurring sources such as loans or sale of assets, and Revenue Receipts, which are received from recurring sources of income such as sales and fees.

In addition, there are specific instances like Deferred Revenue Expenditure, where the expenses made in the current year give rise to future benefits and are shown as assets until they are gradually expensed over the years.

2. Capital Expenditure

It means the costs spent to purchase assets that last beyond a single accounting year. Such assets are generally employed to produce income over an extended period.

Key Feature and Characteristics

- Acquires assets with a useful life of more than one accounting period
- Increases business's productive capacity
- Results in future benefits
- Generally, involves a significant outlay of funds

3. Revenue Expenditure

These are expenses that are incurred in the current accounting period and are fully consumed or used up within that period.

Key Feature and Characteristics

- Consumed or used up within the current accounting period
- Relates to day-to-day operations
- Does not increase future benefits
- Typically involves smaller amounts

4. Capital Receipts:

These are receipts that result from the sale or disposal of capital assets or from long-term loans.

Key Feature and Characteristics

- Result from the sale or disposal of capital assets or long-term loans
- Increase the financial resources of the business
- May be used to finance capital expenditure or reduce liabilities

5. Deferred Revenue Expenditure:

These costs arise in the present accounting year but are anticipated to provide advantages in upcoming years. They are recorded as assets and systematically reduced over their useful lifespan.

Key Features and Characteristics

- Incurred in the current period but benefits future periods
- Treated as assets on the balance sheet
- Gradually written off over their useful life
- Examples include research and development costs, pre-operating expenses

6. Key Differences

Basis	Capital Receipt	Revenue Receipt
Nature	Non-recurring	Recurring
Source	Sale of assets, loans, issue of shares	Sale of goods, services, fees
Effect	Creates liability or reduces asset	No liability, no asset reduction
Accounting	Balance Sheet	Profit & Loss Account
Impact on Profit	No direct impact	Direct impact

7. Easy Way to Remember

- **Capital Receipts** = Big, occasional money (like selling property or borrowing loan).
- **Revenue Receipts** = Small, regular money (like sales, fees, commissions).

References

- ClearTax: *Capital Receipts and Revenue Receipts – Meaning, Difference and Examples*
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- https://siesasc.edu.in/docs/notes/CAPITAL%20AND%20REVENUE_53407.pdf