(4) Classify the following items into
(*a*) capital (*b*) revenue and (*c*) deferred revenue expenditures :

(*i*) Expenses incurred as cost of goods purchased meant for resale.
(*ii*) Expenditure incurred on research and experiments.
(*iii*) Amount paid for acquiring goodwill.
(*iv*) Cost of experimenting on a chemical product which did not result in success.
(*v*) Expenditure incurred by a publisher for acquiring copyright.
(*vi*) Outstanding expenditure such as wages, salaries, rent etc.
(*vii*) Expenditure incurred on painting the name of the company and other advertisement material on a newly purchased motor van.
(*viii*) Depreciation on fixed assets.
(*ix*) Renewal of the lease of a land.
(*x*) Purchase of stationery.
(*xi*) Freight on goods sold.

(5) Which of the following are (1) Capital Expenditure; (2) Revenue Expenditure; and (3) Deferred Revenue Expenditure?

(*i*) Machinery repaired at a cost of ₹4,000.
(*ii*) Cartage paid to bring new machinery to factory.
(*iii*) Heavy advertising to launch a new product.
(*iv*) Whitewashing of factory premises.
(*v*) Second-hand machinery purchased and overhauled at a cost of ₹20,000.
(*vi*) Expenses incurred to move the stock of goods from one site to another. New site is more suitable in comparison to the old.
(*vii*) Brokerage paid for purchase of land.
(*viii*) ₹5,000 spent to remove a worn out part of a machine and replace it with a new part.
(*ix*) A petrol driven engine of a passenger bus was replaced by a diesel engine.
(*x*) Compensation paid to employees who were retrenched.

PRACTICAL QUESTIONS

Q. 1. State with reasons whether the following are capital or revenue expenditures:

(*i*) A new machine is purchased for ₹60,000, ₹800 were spent on its carriage and ₹1,500 were paid as wages for its installation.

(*ii*) A sum of ₹10,000 was spent on painting the new factory.

(*iii*) ₹5,000 paid for the erection of a new machine.

(*iv*) ₹2,000 were spent on repairs before using a second hand generator purchased recently.

(*v*) ₹1,500 were spent on the repair of a machinery.

(*vi*) ₹10,000 was paid as brokerage on issue of shares and other expenses of issue were ₹25,000.

Q. 2. State whether the following expenditure are Capital, Revenue or Deferred Revenue. Give reasons :

(*i*) New furniture of the value of ₹6,000 was acquired, cartage on purchase ₹50.

(*ii*) Temporary huts were constructed costing ₹25,000. These were necessary for the construction of the new building and were demolished when the building was ready.

(*iii*) Replacement of old machine by a new one.

(*iv*) Damages paid by a transport company to its passengers injured in an accident.

(*v*) ₹40,000 were spent in dismantling and removing the machinery from old site to a more suitable site.

(*vi*) Removal of stock from old site to new site cost ₹20,000. The new site is more favourably located.

Q. 3. Classify the following into Capital, Revenue and Deferred Revenue expenditure, stating reasons in each case :

(*a*) A sum of ₹32,000 has been spent on a machine as follows : (*i*) ₹20,000 for addition to double the output, (*ii*) ₹5,000 for repairs necessitated by negligence and (*iii*) ₹7,000 for replacement of worn-out parts.

(*b*) Total expenditure on a cinema building during the year was ₹2,00,000 out of which 20% related to repairs and 80% represented improvements and additions.

(*c*) Compensation paid to a retrenched employee for the loss of employment.

(*d*) Second-hand furniture worth ₹40,000 was purchased and repairing of this furniture cost ₹15,000. The furniture was installed by own workmen-wages for this being ₹5,000.

(*e*) A person was injured by the motor car of the company. ₹10,000 was paid to him by way of compensation.

(*f*) Advertisement expenditure in special advertisement drive.

Q. 4. State by giving reasons whether the following items of expenditure are Capital or Revenue :

(*i*) Purchased raw-materials for ₹1,00,000.

(*ii*) ₹2,00,000 paid to Govt. as excise duty.

(*iii*) Legal expenses incurred in connection with the issue of capital.

(*iv*) Legal expenses incurred by the company for income-tax appeal ₹15,000.

(*v*) Legal expenses incurred to prevent the misuse of our trade-mark ₹10,000.

(*vi*) Legal expenses incurred in connection with raising a loan for the business.

(*vii*) A sum of ₹5 Lac was paid for the purchase of an agriculture farm. Annual land revenue paid ₹10,000.

(*viii*) Damages paid on account of breach of contract ₹20,000.

(*ix*) ₹50,000 paid as wages to the workers.