(c) **Capital Expenditure :** Capital expenditure can be defined as expenditure incurred on the purchase, alteration or improvement of fixed assets. For example, the purchase of a car to be use to deliver goods is capital expenditure. Included in capital expenditure are such costs as:

(i) Delivery of fixed assets;

(ii) Installation of fixed assets;

(iii) Improvement (but not repair) of fixed assets;

(iv) Legal costs of buying property;

(v) Demolition costs;

(vi) Architects fees;

Revenue Expenditures : Revenue expenditure is expenditure incurred in the running / management of the business. For example, the cost of petrol or diesel for cars is revenue expenditure. Other revenue expenditure:

(i) Maintenance of Fixed Assets;

(ii) Administration of the business;

(iii) Selling and distribution expenses.

Capitalized Expenditure : Expenditure connected with the purchase of fixed asset are called capitalized expenditure e.g. wages paid for the installation of machinery.

18. What are the treatment of Capital and Revenue Expenditures?

Ans : Capital expenditures are shown in the Balance Sheet Assets Side while Revenue Expenditures are shown in the Trading and Profit And Loss Account debit side.

Revenue Receipts: Amount received against revenue income are called revenue receipt.

Capital Receipts: Amount received against capital income are called capital receipts.

Capital Profits: Capital profit which is earned on the sale of the fixed assets.

Revenue Profit: The profit which is earned during the ordinary course of business is called revenue profit.

cost of an asset) and at times unexpired costs are also treated as assets. Prepaid expense is an example for such unexpired costs (treated as assets). Step 4: After ascertaining all revenues (as in Step 2) and expenses (as in Step 3) incurred to earn revenues, business income is calculated by preparing Income Statement (Profit and Loss Account) for the accounting period.

15. Explain the salient features of business income.

Ans : *Some of the special features of business income are detailed as follows:*

(a) **Accounting period convention:** The very first step in the computation of business income is the determination of accounting period. So, business income is based on the accounting period convention. It reflects the financial position of the business entities for a specified accounting period.

(b) **Revenue principles:** Business income is also based on the revenue principles, as the computation of business income requires the definition, measurement and recognition of revenue.

(c) **Realisation concept:** This concept plays a vital role in revenue recognition. Realisation concept is another important feature of business income.

(d) **Objective evidence:** All transactions relating to measurement of business income are based on objective evidence. They are verifiable; thereby depicting a true and accurate figure on net income arrived at. Only the actual transactions which occurred in the specified accounting period are taken into account.

(e) **Historical cost:** Business income measures expenses in terms of historical costs.

(f) **Matching principle:** Matching revenue with related cost or expense, i.e. matching principle is applied for the business income measurement.

(g) **Ex-post income:** Ex-post income represents the excess of the capital of the accounting year over that of the previous year. Future

10. What do you mean by "matching principle"?

Ans : This approach to measurement of net income of the business is "matching of incomes and expenses." This concept of matching principle is defined by Finney and Miller: "The concept of business income is a matter of matching revenue with related cost or expense, that is, if revenue is deferred because it is regarded as not yet earned, all elements of expenses related to such deferred revenue must be deferred also in order to achieve a matching of revenue which is essential to a proper determination of income." Expenses that are directly associated with a particular type of revenue are recognised expenses in the period in which the revenues are recognised. Expenses that are not directly associated with revenues are treated as expenses of the period in which they are recognised.

11. What is "realisation concept"?

Ans : This concept speaks about recording of only those transactions which are actually realized. For example Sale or Profit on sales will be taken into account only when money is realized i.e. either cash is received or legal ownership is transferred.

12. Explain the term "accounting period."

Ans : Determination of accounting period. First, the accounting period has to be determined for computing the business income. A pre-determined and specified period of time is the basic need for the measurement of business income. Generally, the accounting period is of 12 months, i.e. one year. The financial statement should be prepared on a periodic basis. The notion of realisation, matching and accounting are interrelated and better results cannot be obtained in the absence of any of the three. Once the date is determined, expenses can be matched with revenues, relating to the specified period. A calendar year is the accounting period which begins on Jan 1 and ends on Dec 31, whereas a financial year begins from Apr 1 and ends on Mar 31.

13. What do you mean by economic concept of income?

Ans : Economic income results from consumption in a specified period plus changes in the value of capital. This means that the economic income arises from the changes in the "value of assets" and "capital." According

Transaction Approach : Transactions are mostly related to production or the purchase of goods and the sale of goods and all these transactions directly or indirectly related to the revenue or to the cost. Therefore, surplus collection of the revenue by selling goods, spent over for production or purchasing the goods is the measure of income. This system is widely followed by the enterprises where double entry system adopted.

5. Which are factors helpful in Measurement of Business Income?

Ans : ***There are following two factors which are helpful in the estimation of an income :***

Revenues : Sale of goods and rendering of services are the way to generate revenue. Therefore, it can be defined as consideration, recovered by the business for rendering services and goods to its customers.

Expenses : An expense is an expired cost. We can say the cost that have been consumed in a process of producing revenue are the expired cost. Expenses tell us - how assets are decreased as a result of the services performed by a business.

Measurement of Revenue : Measurement of the revenue is based on an accrual concept. Accounting period, in which revenue earned, is the period of revenue accrues. Therefore, a receipt of cash and revenue earned are the two different things. We can say that revenue is earned only when it is actually realized and not necessarily, when it is received.

Measurement of Expenses : In case of delivery of goods to its customers is a direct identification with the revenue.

Rent and office salaries are an indirect association with the revenue. There are four types of events that need proper consideration about as an expense of a given period and expenditure and cash payment made in connection with those items "Expenditure, which are expenses of the current year.

Some expenditure, which are made prior to this period and has become expense of the current year.

Expenditure, which is made this year, becomes expense in the next accounting periods. For example, purchase of fixed assets and depreciation cost of an asset) and at times unexpired costs are also treated as assets. Prepaid expense is an example for such unexpired costs (treated as assets). Step 4: After ascertaining all revenues (as in Step 2) and expenses (as in Step 3) incurred to earn revenues, business income is calculated by preparing Income Statement (Profit and Loss Account) for the accounting period.

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