



Date: 01st Feb 2021

**VIRTUAL COACHING CLASSES
ORGANISED BY BOS, ICAI**

**FOUNDATION LEVEL
PAPER 1: PRINCIPLES AND PRATICE OF
ACCOUNTING**

Faculty: CA VS Hiranmai



CHAPTER 1- THEORETICAL FRAMEWORK

- There are 9 units in total for this chapter
- This chapter mainly deals with the theory part and introduction to the accountancy subject.
- What is Accounting- purpose and methodology, branches in accounting- the principles/conventions/concepts, the distinction between capital and revenue transactions, the Accounting standards and Ind AS.
- All of the above which form an initial base for understanding the concept in depth have been combined together to understand the entire concept in brief.
- Examination point of approach- Each chapter will have discussion of the past examination question papers at the end along with the MCQ's.

Unit 4-Capital and Revenue Expenditure and Receipts

- Expenses refer to the money outflow from a business where as receipts refer to money inflow into the business.
- The distinction between the expenses and revenue from the angle of whether they are capital or revenue in nature becomes utmost important during the preparation of the final accounts because – we prepare two parts- Profit and loss ac and Balance sheet.
- The assets and liabilities in the balance sheet also represent money inflow and money outflow respectively, hence only if the concept of capital and revenue distinction is clear- we will be able to go ahead with entering them correctly in the FS.
- All the capital nature transactions will find place in the Balance sheet where as the revenue transactions in the Profit and loss account.
- How to classify whether if a transaction is capital or revenue in nature? This is based on the foll 5 factors.

Unit 4-Capital and Revenue Expenditure and Receipts

- **Nature of the business-** If a business purchases furniture it is considered as an asset. But if a business which deals with the purchase and sale of the furniture- furniture will be treated as a part of the inventory hence it will taken as a part of the purchases.
- **Recurring nature of the expenditure-** If the frequency of the expenditure is very often say every accounting period, then it is revenue in nature. If the expenditure is incurred only once during the entire lifetime then it is capital expenditure. For ex- Installation charges and insurance charges
- **Purpose of expenses and income generating capacity-** where the expenses increase the earning capacity then it is capital in nature, but if it is incurred as a pat of normal maintenance, then it is revenue in nature. For ex- cinema hall.
- **Materiality of amount involved-** The amount involved in the transactions also becomes very important factor to classify between the capital and revenue nature of transactions.

Unit 4-Capital and Revenue Expenditure and Receipts

- Illustrations-



THANK YOU