

Section - 2

Q 1 Discuss the difference between capital and Revenue nature ?

Ans 1

Basis of Comparison	Capital Expenditure	Revenue Expenditure
Definition	Expenditure incurred for acquiring assets, to enhance the capacity of an existing assets	The expense incurred for maintaining the day to day

	that results in increasing its lifespan.	activities of a business.
Term	Long term	Short term
Value addition	Enhances the value of an existing assets.	Does not Enhances the value of an existing assets.
Physical Existence	Have a physical presence except for intangible assets.	Do not have a physical presence.
Occurrence	Non-recurring in nature.	Recurring in nature.
Capitalisation	Yes	No
Benefits	Long term benefits for business	Short term benefits for business

~~Q~~ what is the meaning of royalty?

Ans ① Royalty is the sum payable by the lessee to the lessor for the use of rights vested in the lessor. It is a periodic payments.

Royalty is generally paid on the basis of output or sale. It is paid for extraction of mines, for use of the patent, for use of technical know-how to an author for sale of his books etc.

It is the amount that has to be paid by the lessee to the lessor whether or not he has derived benefit from the asset. Hence it is called Dead Rent or Minimum Rent.

① When the actual royalty for a year is less than the minimum rent, the lessee will pay the minimum rent to the lessor.

② When the actual royalty for a year is more than the minimum rent the lessee will pay the actual royalty to the lessor.