Q9

With reference to the expenditure made by an organisation or a company, which of the following statements is/are correct? 1. Acquiring new technology is capital expenditure. 2. Debt financing is considered capital expenditure, while equity financing is considered revenue expenditure. Select the correct answer using the code given below: (a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2 Official key: A.

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Explanation

(a) Official key

1 only. Buying new technology is capital expenditure. Debt vs equity finance is a funding choice, not capex vs revenue.

(b)

2 only. Financing route does not classify the spend.

(c)

Both. Statement 2 fails.

(d)

Neither. Statement 1 is standard accounting.

Summary

Official key is (a) 1 only. Acquiring technology that yields benefits over years is capital expenditure. How you fund it - debt or equity - is not itself capex or revenue expenditure.

Related possible facts

These can be asked in a future Prelims paper.

Capital expenditure
Creates an asset or lasting capacity.

Revenue expenditure
Consumed in the period; wages, interest, maintenance.