Q10

Consider the following statements: I. Capital receipts create a liability or cause a reduction in the assets of the Government. II. Borrowings and disinvestment are capital receipts. III. Interest received on loans creates a liability of the Government. Which of the statements given above are correct? (a) I and II only (b) II and III only (c) I and III only (d) I, II and III Official key: A.

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Explanation

(a) Official key

I and II only. Capital receipts create a liability or reduce assets; borrowings and disinvestment are capital receipts. Interest received is a revenue receipt, not a liability.

(b)

II and III only. III fails, and I is dropped even though it is the definition.

(c)

I and III only. III is false.

(d)

All three. III is the trap.

Summary

Official Set A key is (a) I and II only. A capital receipt either creates a liability (borrowing) or runs down an asset (disinvestment) - that is I, and II are examples. Interest received on loans is revenue income; it does not create a government liability (III fails). So I and II.

Related possible facts

These can be asked in a future Prelims paper.

Capital receipts

Create a liability (borrowings) or reduce assets (disinvestment, loan recoveries). The usual Statement I.

Revenue receipts

Tax and non-tax; no liability, no asset sale. Interest received is revenue in the Budget manual.

Disinvestment

Sale of government shareholding - a capital receipt.

Interest paid vs interest received

Interest paid is revenue expenditure. Interest received is revenue receipt in the Union Budget. III's wording is the trap.

Fiscal deficit

Total expenditure minus (revenue receipts + non-debt capital receipts). Neighbour of this classification PYQ.