

Capital expenditure is reported on the quizlet

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Distinction between Capital and Revenue Expenditure

Purpose	It is incurred for acquisition of fixed assets for use in business	It is incurred for running of business
Capacity	It increases the earning capacity of the business	It is incurred for earning profits
Period	Its benefit is extended to more than one year	Its benefit extends to only one accounting year
Depiction	It is shown in the balance sheet	It is part of trading or Profit or Loss account



Plan expenditure vs. non-plan expenditure

Plan expenditure

- Plan expenditure is spent on current development and investment outlays.
- It arises only when the plans provide for such expenditure

non-plan expenditure

- It is spent on the routine functioning of the government.
- It is a must for every economy and the government cannot escape from it.



How should you record a capital expenditure quizlet.

As opposed to an ordinary (or operating expense), which covers the day-to-day costs necessary to keep a business running, a capitalized expenditure is an expense that is made to 1) acquire an asset (whether tangible or intangible) that has a useful life longer than a year or 2) improve the useful life of an existing capital asset (like property, plants, buildings, technology and equipment). Such expenses are recorded, or capitalized, on a company's balance sheet as an investment, whereas ordinary expenses are expensed on a company's income statement and deducted fully in the year the expense is incurred. Capitalization requires that a company spread the cost of a capitalized expenditure over the useful life of the asset. Capitalized expenditures are made by companies in order to maintain their existing property and equipment, increase the scope of their operations, or create some other economic benefit. Examples of capital expenditures made to increase or improve assets include the purchase of: new work equipment, machinery, land, plants, buildings, warehouses, furniture, fixtures, vehicles, hardware, software, and intangible assets such as patents and licenses. The type of industry in which a company operates largely determines the nature of its capital expenditures. Naturally, the most capital-intensive industries (like oil exploration and production, telecommunication, manufacturing, and utility industries) have the highest levels of capital expenditures. These expenditures have a substantial effect on both the short-term and long-term financial standing of companies. [Last updated in June of 2021 by the Wex Definitions Team] For purposes of this federal prior approval requirement, the Office of Management and Budget (OMB) guidance define "equipment" as any item of nonexpendable personal property with a useful life of more than one year and an acquisition cost that equals or exceeds the federal per-item capitalization threshold of \$5,000, or a lower threshold set by state or local-level regulations. Background The federal requirements found in the OMB guidance cited at Title 2, Code of Federal Regulations (CFR), Part 200.313 (Cost Principles for Equipment and other capital expenditures), require a grantee or subgrantee to obtain prior written approval from its awarding agency before incurring the cost of a capital expenditure. Both the OMB guidance and generally accepted accounting principles identify equipment as a capital expenditure. Submitting a Capital Expenditure Request The local educational agency (LEA) is required to obtain prior approval from the California Department of Education (CDE) prior to making a capital expenditure purchase with a unit cost of \$5,000 or more from the following funding sources: Title I, Part A, Title I Every Student Succeeds Act (ESSA), Section 1003 funds for Comprehensive Support and Improvement (CSI), or Title I, Part D funds. Note: The requirement is per item, not the grand total. If an item is priced \$4,999.99 or less before taxes and other fees, no approval is needed from the CDE to make a purchase. Including replacement equipment, other capital assets, and improvements which materially increase the value or useful life of equipment or other capital assets are allowable as a direct cost when approved by the awarding agency. A request for approval form should be signed by the authorized representative of the LEA and submitted to the CDE prior to purchasing the equipment. The approval request must describe the justification for the capital expenditure as it relates to the requirements for the use of Title I funds along with supporting bids or price quotations. Approval from the CDE for proposed capital expenditures exceeding \$5,000 per item must be obtained prior to the expenditure of federal Title I, Part A, Title I, ESSA Section 1003 funds for CSI, or Title I, Part D funds. Title I, Part A and Title I, Part D Including replacement equipment, other capital assets, and improvements which materially increase the value or useful life of equipment or other capital assets are allowable as a direct cost when approved by the awarding agency. Title I, Part A Capital Expenditure Request Form (Coming Soon) Title I, Part D Capital Expenditure Request Form (Coming Soon) To request a Capital Expenditure form for Title I, Part A or Part D, email SDavis@cde.ca.gov. Title I for CSI For the purpose and intent of the ESSA CSI LEA subgrant, the LEA shall request approval from the CDE for the following proposed Capital Outlay expenditures only: Object Code 6400 - Equipment Object Code 6500 - Equipment Replacement No other Capital Outlay expenditure requests within the object code 6000 series will be approved, as they do not align with the purpose and intent of the ESSA CSI LEA subgrant. The Title I CSI Capital Outlay Expenditures Request Form can be found at the ESSA CSI Authorized Use of Funds web page. Email the completed form to CSICapEx@cde.ca.gov. Disposal of Equipment If the equipment items with an acquisition cost/current per unit fair market value of less than \$5,000 may be retained, sold, or disposed, with no further obligation to the awarding Federal agency. The disposition of such items should be so noted on the equipment inventory maintained by the recipient (2 CFR 200.313). If the current per unit fair market value is \$5,000 or more, the equipment may be retained or sold and the awarding Federal agency shall have a right to an amount calculated by multiplying the current market value or proceeds from the sale by the awarding Federal agency's share of the equipment. However, the recipient is permitted to deduct and retain from the Federal agency's share \$500 or 10% of the sales proceeds, whichever is less, for the recipient's selling and handling expenses. The disposition of items purchased with Title I, Part A or Title I, Part D funds should be noted on the equipment inventory maintained by the LEA. The LEA is also responsible for completing and submitting to the Title I Policy, Program, and Support Office a "Title I Equipment Removal Form" for approval before the equipment can be removed from the inventory. Title I Equipment Removal Form Coming soon. To request an Equipment Removal form email SDavis@cde.ca.gov. Questions: Sherry Davis | SDavis@cde.ca.gov Last Revised: Monday, February 7, 2022 In accounting, a capital item is any asset, from real estate to office furniture to company vehicles, that's carried on the balance sheet and depreciated over a set period of time. But that's only part of the story. Say you're a commercial baker and need to get your products to restaurant customers. Do you spend \$50,000 on a delivery van, lease that same vehicle for \$350 per month or hire a contract delivery service for a variable weekly fee based on mileage? The objective is to serve customers effectively, use available cash wisely and advance short- and long-term business goals. Companies that manage to do all three effectively tend to do a good job tracking how much they're investing in capital versus operating costs and determining which CapEx investments generated a profit—and which emerged as financial losses. What Are Capital Expenditures (CapEx)? Capital expenditures are funds used to purchase, maintain or upgrade assets, such as buildings, equipment, infrastructure, computer hardware and other tangible property. Also referred to as "CapEx," these outlays often are used to acquire and keep in good working order the means of production and distribution of the organization's goods and services. GAAP rules for CapEx state that, generally, the test is whether an item has a useful life of more than one year. These assets are typically physical and non-consumable and remain on the balance sheet for multiple accounting periods. Examples of CapEx include purchasing business vehicles, buildings, furniture, land, machinery, computer equipment, even patents and licenses that could be resold. Types of Capital Expenditures Capital expenditures include expenses for fostering an increase in a company's future growth and expenses for maintaining present operating levels. These expenses can be both tangible and intangible. However, amounts spent on conducting normal and continuous operations or upkeep should not be capitalized. Therefore, these are not period expenses on an income statement at the time they are incurred. Capital Expenditure vs. Operating Expenditure vs. Revenue Expenditure Say a chef decides to open a restaurant and purchases a building that formerly housed offices. The cost of the real estate, renovations needed to make the space suitable for a restaurant, fixtures and furniture, kitchen equipment and computers are capital expenses, able to be depreciated over varying periods of time. Server salaries, food and a subscription for accounting software are considered operating expenditures, while a quarterly fee for a service technician to keep a walk-in refrigeration system in good working order is a revenue expenditure, as it refers to costs to keep a capital item in a condition to contribute to revenue generation. What are Operating Expenses (OpEx)? Operating expenses are ongoing costs—ordinary and necessary expenses—for the day-to-day operations required to operate the business. These can include utilities, rent, salaries, property taxes, pension plan contributions and business travel to name a few. What are Revenue Expenditures? Revenue expenditures are shorter-term expenditures that are made for the generation of revenues. The cost of goods sold (COGS), also referred to as the cost of sales or cost of services, is how much it costs to produce your products or services. COGS include direct material and direct labor expenses that go into the production of each good or service that is sold. Key Differences Between CapEx, OpEx and Revenue Expenditures Capital expenditures are for investments meant to be used for an extended time greater than one year. These purchases remain on an asset sheet for multiple accounting periods. Companies tend to prepare a separate capital expense budget to reflect costs recovered through depreciation. For example, our restaurateur could depreciate the cost of computer systems, tables and chairs and light fixtures over these asset's useful lives which may be five to seven years. In contrast, OpEx and revenue expenditures are expenses required to operate a business. They make up most of an organization's ongoing costs. OpEx purchases will be used in the accounting period in which they are incurred. Operating expenditures for the restaurant may include the cost of subscriptions for point-of-sale systems, food, paper goods and beverages. Our chef has contractors who come in periodically to clean grease traps and check refrigerant levels in the walk-ins. These are recurring revenue expenditures. CapEx Formula and Calculation CapEx purchases made in the current year are normally presented on the company's cash flow statement. The accumulated amount of CapEx and the associated accumulated depreciation is normally displayed on the company's balance sheet, and subtracting the accumulated depreciation from the accumulated CapEx purchases results in the net amount of CapEx or Fixed Assets at any point in time. The amount depreciated each year is accounted for on the company's income statement. How to Calculate Capital Expenditures Calculating capital expenditures includes locating the current and prior period's property, plant and equipment (PP&E) on the balance sheet and the amortization and depreciation on the income statement—all you need to do is look at the financial statements to get this information as this is, in effect, what the financial statements do. To get Net Book Value of fixed assets you would just look at the balance sheet which shows total fixed assets less accumulated depreciation to arrive at net fixed assets or net book value. The income statement would show the depreciation expense recognized for the year. The formula for valuing a capital expenditure is as follows: CapEx = PP&E (current) - PP&E (prior) + depreciation Example of CapEx In 2019, the clothing supplier that provides uniforms to our restaurant purchased new computers and expanded its facilities to grow revenue. After looking at the balance sheet and income statement, the information necessary to calculate CapEx for that year is as follows: PP&E at the start of 2019: \$30,000 PP&E at the end of 2019: \$40,000 Depreciation: \$10,000 Taking the above values, begin by subtracting the starting PP&E value (\$30,000) from the ending value (\$40,000). This equals a \$10,000 change in PP&E. Then, add in depreciation (\$10,000), which results in a \$20,000 capital expenditure. What Does CapEx Tell You About Your Business? Your CapEx strategy reveals how much your business is investing in new and existing fixed assets to grow or maintain revenue. Bigger picture, it also indicates how accurately and confidently leaders believe they can predict future demand using principles of scenario planning and weighing of opportunity costs versus the benefits of ownership. Increasing income and profitability is tied to strategically sound CapEx. For example, say our restaurateur acquired in 2019 an adjacent building and had a choice between purchasing more furniture to outfit the space as an extended dining room or expanding the kitchen with specialty equipment to launch a takeout, catering and packaged-meal business. The path our chef chose matters significantly in 2020. In addition, making smart choices on whether to spend on a CapEx or OpEx basis reveals the effectiveness of an organization's finance team by making the best use of funds that will drive the greatest return on investment. Using Capital Expenditures in Your Accounting Capital expenditures are cash outlays for a specific accounting period, so they're recorded on a cash flow statement—found under investing activities. They are also recorded on the balance sheet under the PP&E section as assets. Importance of Capital Expenditures in Business As discussed, smart capital expenditures help businesses grow. From a long-term financial planning perspective, CapEx analysis helps leaders understand whether an asset offers an attractive rate of return. That way, companies can balance maintaining existing equipment and property with having enough capital to invest in growth. Other important considerations include: Initial costs: Depending on the industry, capital expenditures are generally more expensive than acquiring use of the same asset on an operating basis. Think purchasing a fleet vehicle versus leasing or signing on a contract delivery service. It's crucial to understand the long-term benefits of owning an asset. Irreversibility: A company will most likely incur losses when undoing a capital expenditure. That's because the market for capital equipment tends to be poor, which means acquired assets are likely better off used by the company itself. Depreciation: Once an asset is being put to use, depreciation begins and may lead to a decrease in an organization's asset accounts. Challenges of CapEx Decisions around capital expenditures can often be challenging. They're also crucial to the well-being of a company. The three main challenges of planning for CapEx are: Unpredictability: When it comes to investing in capital assets, predictions are not guaranteed simply because no one can see into the future. Although companies can and should use risk management principles and insurance to predict and offset the possibility of potential losses related to capital assets, it's impossible to eradicate uncertainty. Measurement problems: Some results of capital expenditures, such as boosting employee morale, are intangible and therefore won't be captured on a balance sheet. And, it can be complicated to measure all related costs. Take the delivery van example: a driver's salary is OpEx, and that expense must be considered along with fuel, insurance and other costs to decide whether purchasing is better than hiring a contractor. Spread: Benefits related to capital expenditures are generally stretched over a longer period and can lead to problems when it comes to establishing equivalence and discount rate estimation. Simply, cash invested in capital equipment is no longer available for potentially more advantageous opportunities.

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