

### **3.2.3. Classification of Receipts**

When the business receives money it is again of two sorts. It may be a long-term receipt, a contribution by the owner, either to start the business off or to increase the funds available to it. It might be a mortgage or an asset which brings money into the business for a long-term, but in this case it is not the owner of the business but some other investor who is supplying the money.

The receipt may be a short-term receipt, one which is truly a profit of the business. It may be rent received, commission received or cash for sale of goods made that day, or at some previous time.



## Differences between Capital Receipts and Revenue Receipts

### 3.2.3.1. Capital Receipt

Receipts which are non-recurring (not received again and again) by nature and whose benefit is enjoyed over a long period are called "Capital Receipts", e.g. money brought into the business by the owner (capital invested), loan from bank, sale proceeds of fixed assets, etc. Capital receipt is shown on the liabilities side of the Balance Sheet. **For example**, the amount contributed by the proprietor is a capital receipts. Similarly if a firm sells its machinery for a sum of ₹25,000, the receipt is a capital receipt. Capital receipts are not considered while preparing the trading and profit and loss account.

### 3.2.3.2. Revenue Receipt

Receipts which are recurring (received again and again) by nature and which are available for meeting all day to day expenses (revenue expenditure) of a business concern are known as "Revenue receipts", e.g. sale proceeds of goods, interest received, commission received, rent received, dividend received etc.

In other words, a revenue receipt is a receipt which represents a gain and which is not repayable. Money received on sale of goods in trade or of things like old newspapers or packing cases which have no book value is called a revenue receipt. All items of revenue receipts go in the trading and profit and loss account.

### 3.2.3.3. Differences between Capital Receipts and Revenue Receipts

Basis of Differences	Capital Receipt	Revenue Receipts
1) Effect	It has long-term effect. The benefit is enjoyed for many years in future.	It has short-term effect. The benefit is enjoyed within one accounting period.
2) Occurrence	It does not occur again and again. It is nonrecurring and irregular.	It occurs repeatedly. It is recurring and regular.
3) Visibility	It is shown in the Balance Sheet on the liability side.	It is shown in profit and loss account on the credit side.
4) Generation of receipt	Capital receipt, when invested, produces revenue receipt e.g. when capital is invested by the owner, business gets revenue receipt (i.e. sale proceeds of goods etc.).	It does not produce capital receipt.

5) <b>Increase or decrease of the value of asset or liabilities</b>	The capital receipt decreases the value of asset or increases the value of liability e.g. sale of a fixed asset, loan from bank etc.	This does not increase or decrease the value of asset or liability.
6) <b>Example</b>	Sometimes expenses of revenue nature are to be incurred for such receipt e.g. on obtaining loan (a capital receipt) interest is paid until its repayment.	Sometimes, expenses of capital nature are to be incurred for revenue receipt, e.g. purchase of shares of a company is capital expenditure but dividend received on shares is a revenue receipt.



## 3.3. APPLICATION OF COMPUTER IN ACCOUNTING

### 3.3.1. Meaning of Computerized Accounting System

Computerized accounting system refers to the method or scheme by which financial information on business transactions are recorded, organized, summarized, analyzed, interpreted, and communicated to stakeholders through the use of the computer and computer-based systems such as the internet and accounting software. This also refers to the mechanized process of facilitating financial information flows as well as the automation of accounting tasks such as database recording and report generation.

In other words, the computerized accounting systems involve installation of computers, equipments, specialized and very skilled workforce, which may raise the united cost for an organization but sufficiently provides information as and when required. There is a system catering to the needs of the enterprise and a general set-up may not be sufficient.

Therefore, a specially designed system for specific organization may be needed. The utility of this system and its effectiveness involves the skill of the accountants and the technology features that are made available to them.

### 3.3.2. Features of Computerized Accounting System

The features of computerized accounting system are as follows:

- 1) **Fast, Powerful, Simple, and Integrated:** Computerized accounting system is designed to automate and integrate all the business operations, such as sales, finance, purchase, inventory, and manufacturing. With computerized accounting, accurate and up-to-date business information is literally at the fingertips. The computerized accounting combine with enhanced MIS, multi-lingual, and data organization capabilities to help the company to simplify all the business processes easily and cost-effectively.
- 2) **Complete Visibility:** Computerized accounting system giving the company sufficient time to plan, increase the customer base, and enhance customer satisfaction. With computerized accounting system the company will have greater visibility into the day-to-day business operations and access to vital information.
- 3) **Enhanced User Experience:** Computerized accounting system allows the company to enter data in a variety of ways which makes work a pleasure. Adapting to the specific business needs is possible through this system.
- 4) **Accuracy, Speed:** Computerized accounting system has a user-definable template which provides fast, accurate data entry of the transactions; thereafter all documents and reports can be generated automatically, at the press of a button.



- 5) **Scalability:** Computerized accounting system adapts to the current and future needs of the business, irrespective of its size or style.
- 6) **Power:** Computerized accounting system has the ability to handle huge volumes of transactions without compromising on speed or efficiency.
- 7) **Improved Business Performance:** Computerized accounting system is a highly integrated application that transforms the business processes with its performance enhancing features which encompass accounting, inventory, reporting, and statutory processes. This helps the company access information faster, and takes quicker decisions. Computerized accounting also guarantees real-time optimization of operations and enhanced communication.
- 8) **Quick Decision-Making:** Computerized accounting system generates real-time, comprehensive MIS reports and ensures access to complete and critical information, instantly.

### 3.3.3. Advantages of Computerized Accounting System

- 1) **Different Forms of Reports:** Since in computerized accounting system everything is done automatically, reports in different forms can be prepared through this system.
- 2) **No Difficulty in Alterations:** Alterations and additions in transactions can be effected easily in computerized accounting system. This helps to provide the changed results instantly.
- 3) **Easy Availability of Books of Accounts:** In computerized accounting system, those who require books of accounts (including final accounts) will get them without any difficulty.
- 4) **Availability of Cost Center Break-Ups:** In computerized accounting system, different transactions can be allotted to different cost centers. Hence, cost center break-ups can be obtained easily.
- 5) **Possibility of Storage and Retrieval of Data:** Under computerized accounting system, a large volume of accounting data can be stored in a very small space. Further, quick retrieval of data from the system is easily possible.
- 6) **Easy Preparation of Documents:** In computerized accounting system, various types of documents, such as ship transmission documents, credit notes, debit notes, etc., can be prepared easily.
- 7) **Facility of Printing Cheques and Vouchers:** Computerized accounting system helps in printing cheques and other vouchers for business purposes.
- 8) **Complete Detail on Specific Areas:** It provides periodical collection from each customer, and the details of transactions alongwith the pattern of collection including bad debts, if any. It gives detailed information about the creditors or suppliers such as value of goods purchased from time-to-time, credit period allowed, discount received, and amount of goods returned. It maintains complete supplier directory.



- 9) **Complete Details of Assets and Liabilities:** The details and particulars of various assets and liabilities can be availed to ascertain the financial position at any time. This information is extremely helpful for making future decisions.
- 10) **Complete Costing Records Available:** It provides complete costing records for job work, order batch and process for managerial analysis purposes.
- 11) **Graphical Presentation of Data:** It gives at a glance the data depiction, complete details of financial status, etc., in the form of diagrams, graphs, charts to determine the trend for the future.

### 3.3.4. Disadvantages of Computerized Accounting System

- 1) **Expensive:** Computerized accounting systems are expensive not only to purchase, but also to maintain. Software changes and there may be new versions to purchase. Operating systems also change and they can be expensive, especially for a small business. If a computer stops working, then it needs to be fixed, incurring costs and delays in processing accounting information. The software installed today may become obsolete tomorrow. Thus, it is a costly venture and small firms cannot afford it.
- 2) **Training:** When getting a new accounting system, there is always time and energy spent in training. After a system is bought, then about every year new versions are released with changes that may need some extra training getting used to.
- 3) **Dependency:** Computerized accounting system is dependent on machines experienced programmer and other software to work properly. Often enough if one thing is wrong with the computer, then there is no access to the software and work cannot be done. Then time and expense are involved in getting all the system and software-up and running. But then, maybe the printer stops working. There are many inter-dependent pieces in this puzzle of a computerized accounting and reliance on it 100% of the time is not realistic. A computer cannot function without the help of its operator and programmer. An experienced programmer is not always available everywhere.
- 4) **Fear of Retrenchment:** Generally, Computerized accounting system is not accepted by common workers because in these workers there is a tendency to resist automation for fear of retrenchment.
- 5) **Delay in Work:** Another limitation of computerized accounting system is delay in work due to breakdown. If the computer is not repaired or replaced immediately, the accounting work may be forced to stop immediately.
- 6) **Data Corruption:** Data may be corrupted due to viruses which may cause a lot of harm to an enterprise.
- 7) **Loss of Data:** Due to failure of power, data may get lost from the memory.
- 8) **Health Problem:** Excessive or intensive use of computers may develop some health problems like eye problem, back pain, etc., to the people.