3.7 Capital Expenditure and Revenue Expenditure: 10-minute Pack

Total Marks

AQA 8132 · Calculators not allowed · about 10 minutes

Name: _____ Date: ____ / ____ / _____

Answer ALL questions in the spaces provided. Short answers may be a phrase or one sentence unless the question asks for more detail. Show any reasoning where asked.

1 Which one of the following is an example of CAPITAL expenditure for a small UK bakery purchasing equipment?

- ☐ A) Replacing a broken oven element next week
- ☐ B) Buying a new industrial oven that will be used for several years
- ☐ C) Paying the electricity bill for the shop last month
- ☐ D) Purchasing flour for this week

(Total for Question 1 is 1 mark)

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2 Define 'capital expenditure' as it applies to a UK small business making a long-term purchase.

(Total for Question 2 is 1 mark)

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3 State two items that are examples of capital expenditure for a small retail business renovating its shop.

(Total for Question 3 is 2 marks)

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4 Priya runs a neighbourhood bakery in Leeds and needs a vehicle for deliveries, expected to last seven years. Classify this purchase for Priya as capital or revenue expenditure and explain briefly. Context: bakery delivery van costing several thousand pounds.

(Total for Question 4 is 2 marks)

5 State two reasons why distinguishing between capital and revenue expenditure matters for a small business's financial planning. Refer to financial reporting or budgeting, not to the general need for finance or to named sources of finance.

(Total for Question 5 is 2 marks)

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Mark scheme · 3.7 Capital Expenditure and Revenue Expenditure: 10-minute Pack

Question 1

B cao **B1**

Answer: B

Question 2

a spending on a non-current asset that provides benefit over more than one accounting period **B1**

Answer: Spending on a non-current asset that provides benefit to the business over more than one accounting period.

Question 3

purchase of new shop shelving, or similar long-life fittings **B1**

replacement of the shop's heating system or structural work on the premises **B1**

Answer: Any two appropriate capital items, e.g. new shop shelving/fixed display units; replacement of the heating system or major structural improvements.

Question 4

identifies the purchase as capital expenditure **B1**

gives a brief reason, e.g. the van is a non-current asset expected to be used for several years **B1**

Answer: Capital expenditure, because the delivery van is a non-current asset that will be used for several years.

Question 5

it affects accounting treatment, for example capital expenditure is capitalised and may be depreciated over years while revenue expenditure is expensed immediately **B1**

it affects budgeting and cash-flow timing, for example capital projects require planning for larger outlays and possibly spreading costs over time **B1**

Answer: It affects accounting, since capital expenditure is capitalised and depreciated while revenue expenditure is expensed immediately; and it affects budgeting, because capital projects need planning for larger, often lumpy outlays and timing of payments.

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