BUS.FI7 Capital Expenditure and Revenue Expenditure

AQA 8132 · Calculators not allowed · about 40 minutes

Total Marks

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)

2 Which one of the following is an example of REVENUE expenditure for a cafe paying regular costs?

- ☐ A) Buying a new dishwasher expected to last five years
- ☐ B) Refurbishing the whole cafe interior every ten years
- ☐ C) Paying the monthly water and electricity bills
- ☐ D) Purchasing a van to make deliveries

(Total for Question 2 is 1 mark)

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

(Total for Question 3 is 1 mark)

4 Define 'revenue expenditure' in the context of running costs for a UK retail shop.

(Total for Question 4 is 1 mark)

5 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 5 is 2 marks)

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6 Callum runs a small barber shop in Birmingham. He pays a monthly electricity bill for lighting and heating. Classify this for Callum as capital or revenue expenditure and explain briefly.

(Total for Question 6 is 2 marks)

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7 Kwame owns a small furniture workshop in Manchester and needs to buy a new CNC router costing 9,500 pounds, expected to be used for at least eight years. Classify this spending and give a one-sentence reason.

(Total for Question 7 is 2 marks)

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8 Erin runs a small online clothing shop and needs to replace the point-of-sale software licence that must be renewed every year for 250 pounds. Explain why this is revenue expenditure and suggest briefly what type of finance would be most appropriate for Erin to cover this annual cost.

(Total for Question 8 is 4 marks)

9 Oliwia runs a small bakery and is deciding whether to refurbish the shop front this year at a cost of 6,500 pounds. Explain why this spending could be treated as capital expenditure and outline briefly how Oliwia might finance it in a way that matches the nature of the spending.

(Total for Question 9 is 4 marks)

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10 Which one of the following statements is true about capital expenditure and revenue expenditure for a small retail business?

- ☐ A) Capital expenditure is usually fully expensed in the accounting period it occurs
- ☐ B) Revenue expenditure is for long-term assets that provide benefit over several years
- ☐ C) Capital expenditure often requires longer-term funding because benefits last several years
- ☐ D) Revenue expenditure increases the value of non-current assets

(Total for Question 10 is 1 mark)

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11 A small gym pays for cleaning supplies and staff wages every month. Which one of the following best describes these payments?

- ☐ A) Capital expenditure because they improve the business premises
- ☐ B) Revenue expenditure because they are regular running costs used up within the accounting period
- ☐ C) Capital expenditure because they increase profits
- ☐ D) Revenue expenditure because they are funded by long-term loans

(Total for Question 11 is 1 mark)

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12 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 12 is 2 marks)

13 Analyse the possible effect on a small catering business of underestimating the capital expenditure needed to replace a refrigerated storage unit. Use the case of a business that budgets 4,000 pounds but finds it needs 6,000 pounds. Consider at least two consequences and make clear how they arise.

(Total for Question 13 is 6 marks)

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

(Total for Question 14 is 2 marks)

Mark scheme · BUS.FI7 Capital Expenditure and Revenue Expenditure

Question 1

- **B1** B cao
- **Answer: B**

Question 2

- **B1** C cao
- **Answer: C**

Question 3

- **B1** a spending on a non-current asset that provides benefit over more than one accounting period
- **Answer: Spending on a non-current asset that provides benefit to the business over more than one accounting period.**

Question 4

- **B1** day-to-day spending on items that are used up within the accounting period, such as wages, rent, stock and bills
- **Answer: Day-to-day spending on items used up within the accounting period, for example wages, rent, stock and utility bills.**

Question 5

- **B1** 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
- **Answer: Capital expenditure, because the delivery van is a non-current asset that will be used for several years.**

Question 6

- **B1** identifies the electricity bill as revenue expenditure
- **B1** gives a brief reason, e.g. it is a regular running cost used up within the accounting period
- **Answer: Revenue expenditure, because the electricity bill is a routine running cost used up within the accounting period.**

Question 7

- **B1** identifies the purchase as capital expenditure
- **B1** gives a reason, e.g. the CNC router is a non-current asset providing benefit over many years
- **Answer: Capital expenditure, because the CNC router is a non-current asset that will be used for many years in production.**

Question 8

- **B1** identifies it as revenue expenditure
- **B1** explains why, e.g. the software licence is a regular, short-term cost used up within a year
- **B1** suggests suitable finance, e.g. pay from working capital/cash or use a short-term overdraft
- **B1** links the finance choice to the reason, e.g. short-term finance matches the recurring annual nature of the cost
- **Answer: Revenue expenditure because the software licence is a regular, one-year cost; Erin should fund it from cash/working capital or short-term borrowing such as an overdraft, since short-term finance suits recurring annual costs.**

Question 9

- **B1** identifies it as capital expenditure
- **B1** explains why, e.g. refurbishment improves a non-current asset (premises) and provides benefit over several years
- **B1** suggests an appropriate finance type, e.g. long-term finance such as a medium-term business loan or leasing over several years
- **B1** links finance choice to the spending, e.g. long-term finance spreads cost to match the long-term benefit from the refurbishment
- **Answer: Capital expenditure, because refurbishment improves the premises, a non-current asset, giving benefit over several years. Oliwia might use longer-term finance such as a medium-term bank loan or a lease, so repayments match the long-term nature of the investment.**

Question 11

- **B1** B cao
- **Answer: B**

Question 12

- **B1** 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
- **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.**

Question 13

- **Level 1** (1-3): Identifies a limited range of consequences of underestimating the capital cost, with simple explanation and little use of the given figures.
- **Level 2** (4-6): Provides a developed analysis of several consequences, using the given figures (4,000 versus 6,000 pounds) to explain impacts on cash flow, operations and choice of finance, and shows how these effects arise.
- **Indicative content:**
  - Immediate cash shortfall: the business budgeted 4,000 pounds but needs an extra 2,000 pounds, creating a shortfall that must be met quickly, putting pressure on cash balances and day-to-day operations.
  - Operational disruption: delay in replacing the refrigerated unit due to lack of funds could cause stock loss or reduced ability to trade, harming revenue and customer service.
  - Need for alternative finance: the business may have to seek additional finance at short notice, which could be more expensive or harder to arrange, or divert funds from other planned spending.
  - Impact on budgeting and plans: funds diverted to cover the extra 2,000 pounds may force postponement of other investments or increase borrowing, raising monthly repayments and reducing future flexibility.
  - Reputational and safety risks: failure of refrigeration risks food safety and customer trust, which could lead to lost customers and costs to recover reputation, beyond the immediate finance issue.
  - Use of figures: reference to the specific numbers (4,000 versus 6,000) to show scale of shortfall (50% more than budgeted) and to justify the degree of likely impact on cash flow and choices.

Question 14

- **B1** purchase of new shop shelving, or similar long-life fittings
- **B1** replacement of the shop's heating system or structural work on the premises
- **Answer: Any two appropriate capital items, e.g. new shop shelving/fixed display units; replacement of the heating system or major structural improvements.**