**Topic C2: Types of Expenditure**

**Read:** Text book pages 87 to 90 (stop at topic D) (pdf pages 29 to 33)

**Watch**: Bee Business Bee Topic Video - Capital and Revenue Expenditure <https://www.youtube.com/watch?v=FcqGMwX8YUc&list=PLBuW3SAj0djly2MaKyOzL4cnmeaPbEJj1&index=25> (approx. 4 minutes)

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| **Expenditure** |  |
| **Statement of financial statement**  (Balance Sheet) |  |
| **Tangible assets** |  |
| **Intangible assets** |  |
| **Depreciation** |  |

Money spent by a business and can be split into two categories:

* Capital expenditure
* Revenue expenditure

**Capital Expenditure**

Spending on **CAPITAL ITEMS**. **Also known as non-current assets or fixed assets.**

* + Examples of non-current assets: Premises, furniture, vehicles, machinery.
  + These are TANGIBLE – i.e. they have a physical presence and can be seen, touched

The idea is, a business will spend its capital income on its capital expenditure.

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| In which financial document is capital expenditure be accounted for? |

These items tend to **DEPRECIATE** in value. Depreciation must also be accounted for on the Statement of Financial Position: each year these items of capital expenditure will be recorded as having less and less value.

There are also **INTANGIBLE** non-current assets: Goodwill, patents, trademarks and brands. They also have a value although it is very difficult to put a £ value on them.

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| **Goodwill** |  |
| **Patent** |  |
| **Trademark** |  |
| **Brand** |  |

**Revenue Expenditure**

Revenue expenditure is when a business spends on a regular, day-to-day basis. They are also known as EXPENSES.

Examples: Inventory (a.k.a. stock such as raw materials, components etc), Rent, Rates, Heating and Lighting, Water, Insurance, Administration, Salaries, Wages, Marketing, Bank charges, Interest paid,, Discount allowed, and Depreciation

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| In which financial document is Revenue Expenditure accounted for? |

**IMPORTANT NOTE**: depreciation is accounted for twice – on the STATEMENT OF FINANCIAL POSITION (balance sheet) and on the STATEMENT OF COMPREHENSIVE INCOME (profit and loss account).

Usually, revenue expenditure is spending on services rendered – so the business has already used the product/service for which they are paying in the day-to-day running of the business. In other words, there are usually very few TANGIBLE assets to show for this type of expenditure.

**Insurance** – a business is legally required to take out a number of types of insurance to protect itself from the possibility of serious loss:

* Building insurance
* Content insurance
* Public liability insurance
* Employer’s liability insurance

**KNOWLEDGE QUESTIONS**

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| **Q1.** Explain, with the use of examples, the difference between capital expenditure and revenue expenditure |

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| **Q2.**  State and explain two types of intangible assets a business could have |

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| **Q3.** What is the difference between wages and salaries and why are these examples of revenue expenditure? |

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| **Q4.** Outline what is meant by “depreciation”. (*Extension*: why is it accounted for twice?) |