

5.1 Business finance

Name: _____ Class: _____ Date: _____

Total: 29 marks

KEY WORDS cash

• capital expenditure

• working capital

• revenue expenditure

• profit

Objective

Build the skills to answer exam questions on **business finance** – **capital and revenue expenditure**, **working capital**, and the key idea that **cash is not the same as profit**.

You must be able to:

- distinguish capital from revenue expenditure
- calculate **working capital** and explain why it matters
- explain why a profitable business can still run out of cash

1 Key knowledge and worked examples

■ Working capital, and cash versus profit

a firm can be profitable but still run out of cash

profit (on paper)
revenue – costs = positive

cash (in the bank)
low — customers
haven't paid yet

Profit (on paper) and cash (in the bank) are different

working capital = current assets – current liabilities

- **Worked:** current assets \$80,000, current liabilities \$50,000 → working capital = \$30,000.
- **Capital expenditure** = fixed assets (machines, buildings); **revenue expenditure** = day-to-day (wages, rent).
- A profitable firm can run out of cash if customers have not yet paid – **profit** ≠ **cash**.

Answer shapes: AO1 + AO2 + AO3 (reasoning chain) + AO4 (a supported judgement *in context*).

2 Practice

2.1 Define the term *working capital*. [2]

2.2 A firm has current assets of \$60,000 and current liabilities of \$45,000. Calculate its working capital. [2]

2.3 State the difference between *capital* and *revenue* expenditure. [2]

3 Exam-style questions

3.1 Explain one reason why a profitable business might still run short of cash. [3]

3.2 Analyse two reasons why working capital is important to a business.

[8]

3.3 'A business should always hold as much cash as possible.' Evaluate this view.

[12]