5.1 Business finance

Name: ______________ Class: __________ Date: ____________ **Total: 29 marks**

Objective

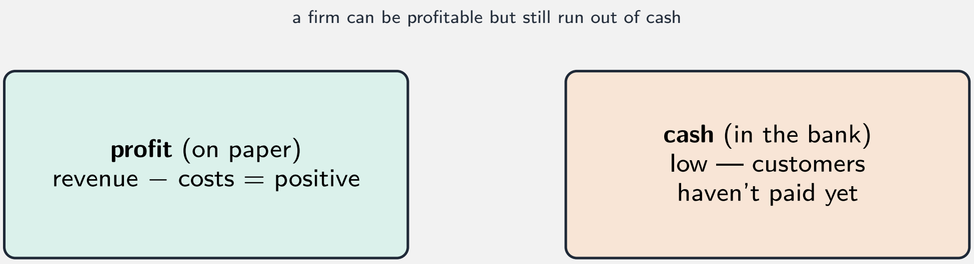
Build the skills to answer exam questions on **business finance** 企业资金—**capital and revenue expenditure** 资本性支出和收益性支出, **working capital** 营运资本, and the key idea that **cash is not the same as profit** 现金不等于利润.

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 Worked examples

■ Working capital, and cash versus profit



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

$$\text{working capital} = \text{current assets} - \text{current liabilities}$$

- **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]

4 Go further

You are now ready for the real exam questions on this subtopic. Open the **5.1 Business finance** past-paper sheet in the Library, or try these in **Practice mode**:

- 9609/11 N25 —Q2 (finance)
- 9609/23 N25 —Q1 (working capital, applied)
- 9609/11 J25 —Q4 (cash and profit)

Solutions

Business answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 the money a business has available for its day-to-day needs, found as current assets minus current liabilities (2 for a clear definition; 1 for a partial idea).

2.2 $\$60{,}000 - \$45{,}000 = \$15{,}000$ (2; award 1 for a correct method with the wrong figure).

2.3 capital expenditure is money spent on fixed assets that last a long time (machines, buildings); revenue expenditure is money spent on day-to-day running (wages, rent, materials) (2 for a clear difference; 1 for a partial idea).

3.1 *[3]* **AO1** 1 —give a reason (sells on credit and customers have not paid; bought too much stock or assets; overtrading). **AO2** up to 2 —develop it, e.g. goods are sold but customers pay 60 days later → the firm has profit on paper but no cash now → it cannot pay wages (2 developed / 1 limited).

3.2 *[8]* For **each** of two reasons: **AO1** 1 + **AO2** 1 + **AO3** up to 2. Example chains —*pay bills*: enough working capital → the firm pays suppliers and wages on time → it keeps trading and its reputation. *Avoid failure*: too little working capital → it cannot meet short-term debts → it may be forced to close even if profitable. Maximum 4 per reason, 8 total.

3.3 *[12]* **AO1** 2 / **AO2** 2 / **AO3** 2 / **AO4** up to 6. **For** holding cash: it pays bills, covers emergencies and avoids failure. **Against:** idle cash earns nothing and could be invested in stock, assets or marketing that raise profit. Judgement: a firm needs *enough* cash to stay safe, but too much is wasted —good working-capital management means a sensible balance, not "as much as possible"; the right level depends on how steady its cash flow is.