

MyStudyBro - Revision Exercise Tool

This Revision Handout includes the Questions and Answers of a total of 5 exercises!

Chapters:

Capital and Revenue Expenditure - Paper 1 (Pearson Edexcel)

Page 1	(4AC0) 2019 Winter
Page 3	(4AC0) 2019 Winter - Answer
Page 5	(4AC0) 2017 Summer
Page 6	(4AC0) 2017 Summer - Answer
Page 8	(4AC0) 2015 Summer
Page 9	(4AC0) 2015 Summer - Answer
Page 10	(4AC0) 2013 Winter Bad Debts and Provision
Page 12	(4AC0) 2013 Winter - Answer Also Includes: Bad Debts and Provision
Page 13	(4AC0) 2012 Summer
Page 16	(4AC0) 2012 Summer - Answer

- 15 (a) Complete the table below, using a tick (✓), to indicate how each item would be classified in the books of Javid, a sole trader.

(10)

	Capital receipt	Revenue receipt	Capital expenditure	Revenue expenditure
Additional capital invested by Javid				
Bank interest received				
Discount allowed				
Discount received				
Installation cost of new machine				
Interest on bank loan				
Maintenance contract on new machine				
New bank loan				
Payment by tenant of rent				
Purchase of goods for resale				

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA



- (b) Evaluate the effect on a business's financial statements of the incorrect treatment of capital expenditure and revenue expenditure.

(5)

(Total for Question 15 = 15 marks)

TOTAL FOR SECTION B = 90 MARKS
TOTAL FOR PAPER = 100 MARKS



Question Number	Mark				
15 (a)	Award 1 mark for each correct response as indicated				
		Capital receipt	Revenue receipt	Capital expenditure	Revenue expenditure
	Additional capital invested by Javid	✓ (1)			
	Bank interest received		✓ (1)		
	Discount allowed				✓ (1)
	Discount received		✓ (1)		
	Installation cost of new machine			✓ (1)	
	Interest on bank loan				✓ (1)
	Maintenance contract on new machine				✓ (1)
	New bank loan	✓ (1)			
	Payment by tenant of rent.		✓ (1)		
	Purchase of goods for resale				✓ (1)
					(10)

Question Number	Mark	
15 (b)	<p>Award (1) mark for comment related to the effect on the income statement and (1) mark for the effect on the balance sheet.</p> <p>Award up to (2) marks for a relevant example</p> <p>Award (1) mark for a conclusion.</p> <p>Sample response</p> <p>The incorrect treatment of revenue expenditure would result in the net profit being either overstated or understated (1).</p> <p>The incorrect treatment of capital expenditure would result in the fixed assets section of the balance sheet being either overstated or understated (1).</p> <p>If, for example, a business enters the purchase of a motor vehicle in the motor expenses account this would result in the net profit being understated (1) and the value of the motor vehicles in the balance sheet being understated (1).</p> <p>By treating capital expenditure and revenue expenditure incorrectly this would result in the financial statements not providing a true and fair view of the business (1).</p>	(5)

(Total for Question 15 = 15 marks)

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- (a) Complete the following table to indicate with a tick (✓) whether the transactions are capital expenditure or revenue expenditure.

Transaction	Capital expenditure	Revenue expenditure
Insurance		
Delivery charge		
Import duty		
Maintenance contract		
Operator training cost		
Installation		

- (b) Evaluate, using an appropriate example, the effect on a business's financial statements of the incorrect treatment of capital expenditure and revenue expenditure.

(5)

(Total for Question 15 = 11 marks)

TOTAL FOR SECTION B = 90 MARKS

TOTAL FOR PAPER = 100 MARKS



Question Number	Answer	Mark																								
15 (a)	<p>Award 1 mark for each correct category</p> <table> <tr> <td></td><td></td><td></td></tr> <tr> <td>Transaction</td><td>Capital expenditure</td><td>Revenue expenditure</td></tr> <tr> <td>Insurance</td><td></td><td>✓ (1)</td></tr> <tr> <td>Delivery charge</td><td>✓ (1)</td><td></td></tr> <tr> <td>Import duty</td><td>✓ (1)</td><td></td></tr> <tr> <td>Maintenance contract</td><td></td><td>✓ (1)</td></tr> <tr> <td>Operator training cost</td><td>✓ (1)</td><td></td></tr> <tr> <td>Installation</td><td>✓ (1)</td><td></td></tr> </table>				Transaction	Capital expenditure	Revenue expenditure	Insurance		✓ (1)	Delivery charge	✓ (1)		Import duty	✓ (1)		Maintenance contract		✓ (1)	Operator training cost	✓ (1)		Installation	✓ (1)		(6)
Transaction	Capital expenditure	Revenue expenditure																								
Insurance		✓ (1)																								
Delivery charge	✓ (1)																									
Import duty	✓ (1)																									
Maintenance contract		✓ (1)																								
Operator training cost	✓ (1)																									
Installation	✓ (1)																									

Question Number	Answer	Mark
15 (b)	<p>Award (1) mark for comment related to the effect on the profit and loss account and (1) mark for the effect on the balance sheet.</p> <p>Award up to (2) marks for a relevant example.</p> <p>Award (1) mark for a conclusion.</p> <p>Sample response</p> <p>The incorrect treatment of revenue expenditure would result in the net profit being either overstated or understated (1).</p> <p>The incorrect treatment of capital expenditure would result in the fixed assets section of the balance sheet being either overstated or understated (1).</p> <p>If, for example, a business enters the purchase of a motor vehicle in the motor expenses account this would result in the net profit being understated (1) and the value of the motor vehicles in the balance sheet being understated (1).</p> <p>By treating capital expenditure and revenue expenditure incorrectly would result in the financial statements not providing a true and fair view of the business (1).</p>	(5)

- 15** Columbo Manufacturing Limited maintains a full set of accounting records and prepares financial statements at the end of each financial year.

Complete the table below to show, for each item of expenditure, whether the item would be regarded as revenue expenditure or capital expenditure, and in which financial statement the item should appear at the end of the company's financial year.

The first row has been completed for you.

Item of expenditure	Type of expenditure	Financial statement
Payment of administration expenses	Revenue	Profit and loss account
Cost of improvements to factory air conditioning		
Payment of directors' salaries		
Payment of share dividend		
Payment of debenture interest		
Purchase of raw materials		
Purchase of new plant and machinery		
Cost of installing new plant and machinery		
Maintenance charges for new plant and machinery		

(Total for Question 15 = 16 marks)

TOTAL FOR SECTION B = 90 MARKS

TOTAL FOR PAPER = 100 MARKS



Question Number	Answer			Mark
15	Item of expenditure	Type of expenditure	Financial statement	(16)
	Payment of administration expenses	Revenue	Profit and loss account	
	Cost of improvements to factory air conditioning	Capital (1)	Balance sheet (1)	
	Payment of directors' salaries	Revenue (1)	Profit and loss account (1)	
	Payment of share dividend	Revenue (1)	Appropriation account (1)	
	Payment of debenture interest	Revenue (1)	Profit and loss account (1)	
	Purchase of raw materials	Revenue (1)	Manufacturing account (1)	
	Purchase of new plant and machinery	Capital (1)	Balance sheet (1)	
	Cost of installing new plant and machinery	Capital (1)	Balance sheet (1)	
	Maintenance charges for new plant and machinery	Revenue (1)	Manufacturing account (1)	

- 15** During the year ended 31 December 2012, Streep, a trader, wrote off the sum of £650 in bad debts. At this date she was also advised that a debtor, Thatcher, who owed £800 on 1 January 2012 had been declared bankrupt. Streep received £350 in full settlement of this debt and the remainder was to be written off.

- (a) Prepare the bad debts account in the books of Streep for the year ended 31 December 2012.

(4)

Bad Debts Account

Date	Narration	£	Date	Narration	£

- (b) Prepare the account of Thatcher for the year ended 31 December 2012.

(3)

Thatcher Account

Date	Narration	£	Date	Narration	£



Streep has recently purchased a new motor vehicle for use in the business.

- (c) Explain the difference between capital and revenue expenditure and state how each is treated in the end-of-year accounts.

(4)

- (d) Indicate by placing a tick (✓) which transactions are capital expenditure and which are revenue expenditure.

(4)

Transaction	Capital expenditure	Revenue expenditure
Purchase of new premises		
Insurance of premises		
Installing and testing an air conditioning system		
Repairs to premises roof		

(Total for Question 15 = 15 marks)

TOTAL FOR SECTION B = 90 MARKS
TOTAL FOR PAPER = 100 MARKS



Question Number	Answer	Mark																								
15 (a)	<div><div>Bad Debts Account</div><table><tr><th>Date</th><th>Narration</th><th>£</th><th>Date</th><th>Narration</th><th>£</th></tr><tr><td>Dec 31</td><td>Sundry debtors</td><td>650 (1 cf)</td><td>Dec 31</td><td>Profit and Loss (1)</td><td>1 100 (1 of)</td></tr><tr><td>Dec 31</td><td>Thatcher</td><td>450 (1 of)</td><td></td><td></td><td></td></tr><tr><td></td><td></td><td>1 100</td><td></td><td></td><td>1 100</td></tr></table></div>	Date	Narration	£	Date	Narration	£	Dec 31	Sundry debtors	650 (1 cf)	Dec 31	Profit and Loss (1)	1 100 (1 of)	Dec 31	Thatcher	450 (1 of)						1 100			1 100	(4)
Date	Narration	£	Date	Narration	£																					
Dec 31	Sundry debtors	650 (1 cf)	Dec 31	Profit and Loss (1)	1 100 (1 of)																					
Dec 31	Thatcher	450 (1 of)																								
		1 100			1 100																					

Question Number	Answer						Mark
15 (b)	Thatcher Account						(3)
	Date	Narration	£	Date	Narration	£	
	Jan 1	Balance b/d	800 (1)	Dec 31	Bank	350 (1)	
				Dec 31	Bad Debts	450 (1)	
			800			800	

Question Number	Answer	Mark
15 (c)	<p>Capital expenditure is money spent by a business on purchasing fixed assets or improving existing fixed assets (1). These costs will appear in the balance sheet (1) Revenue expenditure is money spent on running a business on a day-to-day basis (1). These costs will appear in the profit and loss account (1).</p>	(4)

Question Number	Answer	Mark															
15 (d)	<table border="1"> <thead> <tr> <th>Transaction</th><th>Capital expenditure</th><th>Revenue expenditure</th></tr> </thead> <tbody> <tr> <td>Purchase of new premises</td><td>✓ (1)</td><td></td></tr> <tr> <td>Insurance of premises</td><td></td><td>✓ (1)</td></tr> <tr> <td>Installing and testing an air conditioning system</td><td>✓ (1)</td><td></td></tr> <tr> <td>Repairs to premises roof</td><td></td><td>✓ (1)</td></tr> </tbody> </table>	Transaction	Capital expenditure	Revenue expenditure	Purchase of new premises	✓ (1)		Insurance of premises		✓ (1)	Installing and testing an air conditioning system	✓ (1)		Repairs to premises roof		✓ (1)	(4)
Transaction	Capital expenditure	Revenue expenditure															
Purchase of new premises	✓ (1)																
Insurance of premises		✓ (1)															
Installing and testing an air conditioning system	✓ (1)																
Repairs to premises roof		✓ (1)															

12 James Ford, a sole trader, repairs and sells used motor vehicles. On 31 March 2012 his books of account contained the following balances after the preparation of his final accounts.

	£
Equipment (net book value)	5 000
Motor vehicles (net book value)	12 500
Stock of vehicles	45 000
Stock of materials	2 250
Debtors	560
Creditors	430
Capital	64 880

(a) (i) State the accounting equation.

(3)

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(ii) Using the figures above, state the accounting equation for James Ford's business.

(3)

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- (iii) James is considering creating a provision for doubtful debts of £100. Explain the effect that this would have on the accounting equation.

(3)

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- (b) (i) Explain how capital expenditure differs from revenue expenditure.

(6)

Capital expenditure

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Revenue expenditure

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- (5)

(5)

(Total for Question 12 = 25 marks)

Section B

Question Number	Answer						Mark
11(a)	Sales ledger (total debtors) control account						(10)
	Date	Narration		£	Date	Narration	
	Mar 1	Balance b/f	(1)	12 800	Mar 31	Returns inwards	
	Mar 31	(Credit) Sales	(1)	26 780	Mar 31	Bad Debts	
	Mar 31	Cash Book	(1)	125	Mar 31	Cash Book (Bank)	
					Mar 31	Discount Allowed	
					Mar 31	PL Set off (Contra)	
					Mar 31	Balance c/d	
				<u>39 705</u>			
	Apr 1	Balance b/d	(2cf) (1of)	24 513			

Question Number	Answer	Mark
11(b)	A contra entry can arise when a customer is also a supplier of the business (1). Instead of the customer paying us for goods supplied (1) their balance is offset against the amount owing to them for good or services supplied (1).	(3)

Question Number	Answer	Mark
11(c)	<p>Award one mark for each clear advantage identified</p> <p>Sample answers: Verifies the arithmetical accuracy of the sales ledger (1). Assists in the prevention of fraud (1). Provides management with total debtors (1) Helps in the preparation of the balance sheet (1). Detects errors in individual ledgers (1).</p>	(2)

Question Number	Answer	Mark
12(a)(i)	Assets (1) = Capital (1) + Liabilities (1) (must be correct direction)	(3)

Question Number	Answer		Mark
12(a)(ii)	Assets	Liabilities	(3)
	Equipment 5 000	Creditors 430 (1cf)	
	Motor vehicles 12 500		
	Stock of vehicles 45 000	Capital 64880	
	Stock of materials 2 250		
	Debtors 560		
	Total Assets = 65 310 (1cf)		
	Assets 65310 = Capital (64880) + Liabilities (430) ((1) for correct formula)		

Question Number	Answer	Mark
12(a)(iii)	<p>The marks are awarded for identifying the effect on assets, and capital.</p> <p>Sample Answer</p> <p>The asset of debtors would be reduced by £100 (1) and capital would also be reduced by £100 (1) as the provision would reduce profit (1)</p>	(3)

Question Number	Answer	Mark
12(b)(i)	<p>The marks are awarded for a correct definition. Do not award any marks for examples.</p> <p>Sample Answer</p> <p>Capital expenditure is monies spent on the purchase of or addition to a fixed asset (1) and are included on the balance sheet (1). They are purchased to generate profit for the business and not for resale (1). They will last longer than one year (1) (Max 3)</p> <p>Revenue expenditure is monies spent on the day to day running of a business (1) and are included on the trading, and profit and loss account (1). The cost is written off against profit in the year incurred (1). They are used up within one year (1) (Max 3)</p>	(6)

Question Number	Answer	Mark
12(b)(ii)	<p>Revenue</p> <p>Revenue</p> <p>Revenue</p> <p>Neither</p> <p>Capital</p>	(5)

Question Number	Answer	Mark
12(c)	<p>Award one mark for stating that this would result in an incorrect set of final accounts and up to a further four marks for a good example.</p> <p>Sample Answer If a business does not treat capital and revenue expenditure correctly their final accounts will not be accurate and will not reflect a true and fair view (1) of the businesses profits or assets. For example if they were to include the cost of a new motor vehicle (capital expenditure) (1) as an item of expenditure in the profit and loss account (revenue expenditure) (1) their profits would be understated (1) and the valuation on the balance sheet would also be understated (1)</p>	(5)

Question Number	Answer	Mark																																																																																				
13(a)	<table><tr><th colspan="4">Twilight Ltd</th></tr><tr><th colspan="4">Trading and Profit and Loss Account</th></tr><tr><th colspan="4">For Year Ended 31 March 2012</th></tr><tr><th></th><th>£ 000</th><th>£ 000</th><th></th></tr><tr><td>Sales</td><td></td><td>940</td><td></td></tr><tr><td>Cost of Sales</td><td></td><td></td><td></td></tr><tr><td>Opening stock</td><td>125</td><td></td><td></td></tr><tr><td>Purchases</td><td><u>472</u></td><td></td><td></td></tr><tr><td></td><td>597</td><td></td><td></td></tr><tr><td>Closing stock</td><td><u>127</u></td><td></td><td></td></tr><tr><td></td><td></td><td><u>470</u></td><td>(1cf)</td></tr><tr><td>Gross profit</td><td></td><td>470</td><td>(1cf)</td></tr><tr><td>Running expenses</td><td></td><td></td><td></td></tr><tr><td>Salaries and wages</td><td>64</td><td></td><td></td></tr><tr><td>Directors' remuneration</td><td>10</td><td></td><td></td></tr><tr><td>Audit fees (4 + 1)</td><td>5</td><td></td><td>(2)</td></tr><tr><td>Heat & light</td><td>28</td><td></td><td></td></tr><tr><td>Debenture interest (10 + 10)</td><td>20</td><td></td><td>(2)</td></tr><tr><td>Communication expenses</td><td>20</td><td></td><td></td></tr><tr><td>Provision for depreciation: Buildings</td><td>25</td><td></td><td>(2cf)</td></tr><tr><td></td><td>16</td><td></td><td>(2cf)</td></tr></table>	Twilight Ltd				Trading and Profit and Loss Account				For Year Ended 31 March 2012					£ 000	£ 000		Sales		940		Cost of Sales				Opening stock	125			Purchases	<u>472</u>				597			Closing stock	<u>127</u>					<u>470</u>	(1cf)	Gross profit		470	(1cf)	Running expenses				Salaries and wages	64			Directors' remuneration	10			Audit fees (4 + 1)	5		(2)	Heat & light	28			Debenture interest (10 + 10)	20		(2)	Communication expenses	20			Provision for depreciation: Buildings	25		(2cf)		16		(2cf)	
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