



UNIT 3

UNIT 3.1

INTRODUCTION TO FINANCE

**11 TH GRADES IB
DP DEPARTMENT**

**LESSON BOOKLET
&
WORKSHEET**

UNIT 3.1- INTRODUCTION TO FINANCE

3.1 Introduction to finance



SL/HL content

Role of finance for businesses:

- capital expenditure
- revenue expenditure



Depth of teaching

A02



Two partners opening a floristry business. To get started, they will need money to purchase resources such as plants and flowers and perhaps to hire additional staff.

They will also likely need to purchase hardware and software to keep account of their supplies, costs and revenues. Even the simplest business is likely to need some funding.

Over time, the floristry business will need money to continue operating. If things are going well, the partners should be able to pay for ongoing expenses like new plants, electricity and wages with the revenues they earn from selling their products. Occasionally, they may need to spend a large amount of money.

For example, they could decide to expand their business to another location and set up another shop. At this point, they may need more money than they have available. If this is the case, *they might seek additional funding from a bank or another external source.*

Finance is the process of acquiring and managing money for a business.

Accounting is the process of recording Money flows and assets for a business.

This unit will look at both finance and accounting so that you can understand how businesses acquire and manage money, as well as how they record information about the business for themselves and external stakeholders.

You will also learn about different forms of business spending.



What other things might your school spend money on?

Can you list some other things that are not shown in the picture?



WHY DO BUSINESS NEED \$?

Finance is required for many business activities such as:

- Setting up in business requires start-up capital or cash injections from the owners to purchase essential capital equipment and possibly premises.
- Businesses need to finance their working capital, which is the money needed for the day-to-day running of the business.
- Business expansion needs finance to increase the capital assets held by the firm and will likely involve higher working capital needs.
- Expansion can be achieved by taking over another business. Finance is then needed to buy out the owners of the other firm.
- Special situations such as a decline in sales could lead to cash needs to keep the business stable.
- Apart from purchasing fixed assets, finance is often needed to pay for research and development into new products or invest in new marketing strategies.



UNIT 3.1- INTRODUCTION TO FINANCE



Capital expenditure is often very expensive for a business. These large investments are normally funded using long-term finance.

Investment in capital expenditure allows a business to grow in the future. The idea is that extensive research and development will pay off in the long term, even if it involves significant spending in the short term.

Examples of capital expenditure include:

- Factories
- Delivery trucks or other vehicles needed for the good or service
- Technology
- Production equipment



Revenue expenditure is spending on a company's general operational costs.

It is best thought of as the day-to-day running costs of a company; in other words, the cost a company has to pay on a daily, weekly or monthly basis in order to enable the business to generate revenue.

Examples of revenue expenditure include:

Utility bills, such as gas, electricity and water

- Paying wages and salaries to workers
- Paying suppliers
- Settling tax bills with the government
- Repayments of debts, such as mortgages and loans

Capital & Revenue Expenditure (Differences)



Basis for comparison	Capital Expenditure	Revenue Expenditure
Definition	Expenditure incurred for acquiring or enhancing assets	Expense incurred for maintaining day-to-day business activities
Tenure	Long Term	Short Term
Value Addition	Enhances the value of an existing asset	Does not enhance the value of an existing asset
Physical Presence	Has a physical presence except for intangible assets	Does not have a physical presence
Occurrence	Non-recurring in nature	Recurring in nature
Availability of Capitalisation	Yes	No
Impact on Revenue	Does not reduce business revenue	Reduces business revenue
Potential Benefits	Long-term benefits for business	Short-term benefits for business



ACTIVITY 1 - Exam Practice Question

CASE STUDY

Vestre's new furniture factory in Norway

The Norwegian company Vestre has been making urban furniture for more than 70 years. Its mission to create caring meeting spaces is linked to the networks element of the social foundation in the Doughnut Economics Model.



The figure shows an example of Vestre's 'parklet' furniture. A parklet is a space for social gathering, usually including plant and places to sit, that can be created temporarily or permanently. Parklets are often set up in spaces along the sides of streets, which had previously been used for car parking.

Vestre is using its revenue expenditures to meet human needs within the boundaries of the planet. For example, the company has been working to change its procurement of resources to reduce its environmental impact. Vestre has joined the Ethical Trading Initiative in Norway and has strict human rights and labour requirements for all of its suppliers. It also offers employment training for people who struggle to enter the labour market.

In 2022, Vestre began building a new factory that claims to be the most sustainable factory in the world. Designed by Danish architecture company BIG (Bjarke Ingels Group), the factory will make use of advanced technologies to reduce its carbon footprint, water use and impact on the surrounding forest. The 300 million NOK capital expenditure aims to show the world how manufacturing can move to a sustainable future. In the video, Jan Christian Vestre explains the sustainability of the factory and other actions the company is taking to direct spending in positive ways.

Questions

1. Define 'mission statement'. [2 marks]
2. Distinguish between revenue expenditure and capital expenditure. [4 marks]
3. Explain two ways that Vestre is meeting objectives related to corporate social responsibility (CSR). [4 marks]

UNIT 3.1- INTRODUCTION TO FINANCE

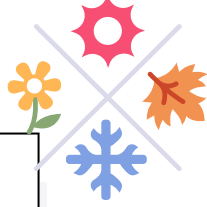


ACTIVITY 2

Learner Profile: Thinker - Approaches to Learning: Thinking Skills – Critical Thinking

	Revenue or Capital Expenditure
Advertising costs	
Bank charges and interest on bank loans	
Computer software and hardware	
Corporate taxes (on company profits)	
Insurance costs	
Machinery and equipment	
Maintenance and repairs	
Management salaries	
Manufacturing equipment and machinery	
Motor vehicles	
Office furniture	
Patents, copyrights, and trademarks	
Purchase of buildings and premises	
Stationery costs	
Utility bills (e.g., gas, electricity, and telecommunications)	
Potlaç Kafe pays its employees their wages.	
The Erhi Music Shop spends money on flyers to distribute to the local community about new music lessons.	
The Beijing Institute of Technology purchases 3D printers.	
Tesla spends five billion euros to build a new car manufacturing factory near Berlin, Germany.	
Alamini purchases new sewing machines for his tailoring business.	
Everlane buys recycled nylon fabric for its swimsuits.	
Zopilote Surf Camp spends money to build new cabins for guests.	

UNIT 3.1- INTRODUCTION TO FINANCE



ACTIVITY 3 – True or False?

	Statement	True / False
a.	Capital expenditure (investment) is spending on fixed assets for the long term, e.g. buildings and machinery.	
b.	Revenue expenditure is spending on items needed for the daily running of a business, e.g. raw materials and wages.	
c.	Capital expenditure is used to pay for the working capital of an organization.	
d.	Capital expenditure is used to pay for current assets which are expected to be productive assets for more than 12 months.	
e.	Capital expenditure refers to the funds used by a business to purchase, update or maintain physical assets used in the production process.	
f.	In general, capital expenditure is a one-off and large purchase of non-current assets that are expected to be used for revenue generation over a long period of time.	
g.	Capital expenditures are used to fund the daily running of business operations.	
h.	Revenue expenditure covers the spending on short-term costs used in the current trading period (typically within one year).	
i.	Revenue expenditure typically refers to recurring costs of a business, rather than one-time purchases.	
j.	Property taxes are an example of capital expenditure.	

ACTIVITY 4 – Case Study - Vibrant Vistas Photography

Vibrant Vistas Photography is a small business offering professional photography services for weddings and events. The company recently secured several high-profile bookings, increasing demand for advanced equipment and additional staff to meet client expectations.

To finance these expenses, Vibrant Vistas is considering using revenue from pre-booked events or applying for a hire purchase agreement to acquire new equipment. The owner is particularly concerned about managing short-term cash flow while ensuring the business can deliver high-quality services.

a) Explain one advantage and one disadvantage of using revenue from pre-booked events to finance equipment purchases at Vibrant Vistas Photography.

UNIT 3.1- INTRODUCTION TO FINANCE



Question preview

- 1) The expenditure on a fixed asset is called: _____
- 2) What is the type of expenditure that is made by businesses on a daily basis to support their sales and production?
- 3) **Which of the following is an example of capital expenditure?**
 - a) Purchase of land
 - b) Paying wages
 - c) Paying suppliers
 - d) Utility bills
- 4) **Which of the following are examples of revenue expenditure?**
 - a) Paying wages, paying suppliers and general operational costs
 - b) Paying wages, purchase of buildings and investment in machinery
 - c) Paying suppliers, general operational costs and investment in machinery
 - d) General operational costs, purchase of buildings and paying wages
- 5) _____ expenditure is investment in fixed assets that allows a company to grow and is normally funded by long-term sources of finance.
- 6) _____ expenditure is spending on a company's general operational costs, for example, paying wages or suppliers.

PAST PAPERS - Directly related questions

21N.2.SL.TZ0.5c:

With reference to OS, explain the difference between capital expenditure and revenue expenditure.

22M.2.SL.TZ0.4c:

With reference to RS, explain the difference between capital expenditure and revenue expenditure.