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| Name: Date: |

# 3. Types of expenditure

Do now activity:

|  |  |
| --- | --- |
| **Question:** | **Your answer:** |
| What are the two types of income? | 1.2. |
| Explain the difference in the two types of income |  |
| What is a mortgage? |  |
| What is meant by ‘owner’s capital’? |  |
| What is ‘expenditure’? |  |

**Types of expenditure:** annotate the text as a class -

Expenditure can be split into two categories: capital expenditure and revenue expenditure.

1. **Capital expenditure:**

Capital expenditure is used to by capital items:

|  |  |
| --- | --- |
| Non-current assets |  |
| Intangibles |  |

**Case Study: easyJet**

When Stelios Haji-Ioannou, founder of easyJet, launched easyMobile in 2004 he planned to launch the brand with their signature colour of orange, a competitor in the phone market, had already trademarked the colour orange in relation to telecommunications products and services.

‘Orange’, the phone company, felt that two mobile phone companies using the same colour would cause confusion to customers and wanted to protect their customers’ best interests. Orange had trademarked a specific shade of orange, but Haji-Ioannou felt that Orange had no case and that easyMobile had the right to use any colour they wanted.

The case eventually went to court, but easyMobile ended mobile phone service in 2006 and so it was never brought to a resolution.

The European Court of Justice confirmed in 2003 that colour could be trademarked but that had to be identified by a colour code not just a sample of colour. Other colour trademarks include Heinz’s distinctive turquoise cans and Cadbury Schweppes plc’s famous shade of purple.

**Case study questions:**

1. Should Orange be able to stop a competitor from using a specific colour? Justify your answer

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1. Why is it important to show a value for these trademarks in a business’ accounts?

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1. How would you go about attaching a monetary value to these trademarks?

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1. **Revenue expenditure**

Revenue expenditure is spending on items on a day-to-day or regular basis. These are the expenses incurred by a business that are shown on a statement of comprehensive income that we will learn about later in the unit.

*Try to fill in the table explaining what each revenue expenditure is*

Types of revenue expenditure:

|  |  |
| --- | --- |
| Inventory |  |
| Rent |  |
| Rates |  |
| Heating and lighting |  |
| Water |  |
| Insurance |  |
| Administration |  |
| Salaries |  |
| Wages |  |
| Discounts given to customers |  |
| Depreciations |  |
| Marketing |  |
| Bank charges |  |
| Interest paid |  |

**Knowledge check**

1. Explain, using examples, the difference between revenue and capital expenditure

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1. Outline what is meant by ‘depreciation’.

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1. List three examples of revenue expenditure

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1. What is a non-current asset?

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1. Why is discount given to customers seen as a revenue expenditure?

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1. Explain the difference between salaries and wages.

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