

**Internal Assessment Resource**

Agribusiness Level 3

This resource supports assessment against Achievement Standard 91870

Standard title: Analyse the effect of financing options of a strategic capital expenditure decision on a business

**Credits:** 4

Resource title: To buy or not to buy?

**Resource reference:** Agribusiness 3.9B Version 1

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| This resource:   * Clarifies the requirements of the achievement standard * Supports good assessment practice * Should be subjected to the school’s usual assessment quality assurance process * Should be modified to make the context relevant to students in their school/kura environment and ensure that submitted evidence is authentic |

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| Date version published by Ministry of Education | December 2017 Version 1  To support internal assessment from 2018 |
| Authenticity of evidence | Teachers must manage authenticity for any assessment from a public source, because students may have access to the assessment schedule or exemplar material.  Using this assessment resource without modification may mean that students’ work is not authentic. Teachers may need to change figures, measurements or data sources or set a different context or topic to be investigated or a different text to read or perform. |

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Teacher guidelines

The following guidelines are supplied to enable teachers to carry out valid and consistent assessment using this internal assessment resource.

Teachers need to be very familiar with the outcome being assessed by the achievement standard. The achievement criteria and the explanatory notes contain information, definitions, and requirements that are crucial when interpreting the standard and assessing students against it.

**Context/setting**

This activity requires students to comprehensively analyse the effect of financing options of a strategic capital expenditure decision on a business. This includes evaluating the consequence(s) using financial and non-financial information and justifying the best option for the business. The justification incudes evaluating the impact of this option on the business.

Students will prepare questions and interview a visiting speaker. Teachers will need to organise this (or support the students to). Another option might be to arrange a visit.

Teachers might like to support students with writing appropriate interview questions.

**Conditions**

Where a group approach is used, the teacher needs to ensure that there is evidence that each student has met all aspects of the standard. It is suggested that this task is completed individually.

A student can present their information in a format of their own choice. For example, written paragraphs, tables, graphs, videos and/or diagrams, which could form part of a poster, slideshow, a blog or website. You may want to give students guidance on the appropriate style and format for their findings. This achievement standard does not assess format or style.

As a guide, this assessment should reflect approximately 40 hours of teaching, learning and assessment in and out of the classroom.

Conditions of Assessment related to this achievement standard can be found at <http://ncea.tki.org.nz/Resources-for-Internally-Assessed-Achievement-Standards>

**Resource requirements**

It is suggested that the teacher organises an owner/manager of an agribusiness to visit the class and answer prepared questions on the effect of financing options of a strategic capital expenditure decision on a business. Alternatively the students could visit or contact a local agribusiness.

The owner/manager should be given the questions beforehand so they are able to prepare.

With teacher guidance, the students prepare the questions for the owner/manager, leaving some time at the end for any individual questions for clarification.

Please note that the standard does not require the student to generate their own questions individually, this can be done as a class activity.

**Additional information**

If you are choosing an agribusiness context for this assessment, there is no expectation to cover all seven primary industries.

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Student instructions

**Introduction**

This activity requires you to analyse the effect of financing options of a strategic capital expenditure decision on a business. This includes evaluating the consequence(s) using financial and non-financial information and justifying the best option for the business including evaluating the impact of this option on the business.

You are going to be assessed on how comprehensively you analyse the effect of financing options of a strategic capital expenditure decision on a business.

Teacher note: Insert due dates and timeframes

**Task**

You or your teacher will have organised a visiting speaker or a visit to an agribusiness.

As a group, write a set of questions to ask the owner/manager about a strategic capital decision that the business has made or will make in the future and the financing options that they investigated. These questions need to cover:

* what financing options the business investigated
* what the consequences (financial and non-financial) of these options were for the business
* the reasons why the specific option was selected
* what the medium to long term impacts of the selected option was on the business.

As a class group, interview the business owner/manager.

Write a report individually, to analyse the effect of financing options of a strategic capital expenditure decision on the business. This includes evaluating the consequence(s) using financial and non-financial information and justifying the best option for the business including evaluating the impact of this option on the business.

You can present your information in a format of your own choice. For example, written paragraphs, tables, graphs, videos and/or diagrams which could form part of a poster, slideshow, a blog or website. This should be no longer than 2000 words.

**Assessment schedule: Agribusiness 91870 - To buy or not to buy?**

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| **Evidence/Judgements for Achievement** | **Evidence/Judgements for Achievement with Merit** | **Evidence/Judgements for Achievement with Excellence** |
| The student has analysed the effect of financing options of a strategic capital expenditure decision on a business.  In their presentation, the student has explained:   * the effect of financing options of a strategic capital expenditure decision * the consequence(s) of these options on a business.   **For example: (partial evidence)**  The Lockhart family have been crayfishing around Stewart Island for centuries. Currently they have one cray boat. Another crayfishing business is up for sale including the boat, equipment and quota, and the Lockharts are investigating whether they should purchase it as a second crayfishing boat.  The effect and consequences of the financing options of a strategic capital expenditure decision on the Lockhart’s crayfishing business are:  The Lockharts can borrow money from a number of different sources. Their options are to borrow from family or a long term loan from a bank.  Family investors.  Family investors could put money into the Lockhart business and they take the risk that if the business fails, they don’t get their money back. In return for taking this risk, family investors will own a share of the Lockhart business. The family investors will have a say in all the business’s decisions and this means there will be many other people in the decision-making process, which could complicate decision making.  Long term loan from a bank**.**  The current crayfishing business has sufficient equity to obtain a long term loan from the bank for the amount needed to buy the equipment outright. This means that the Lockharts will own it all and any repairs will be at their cost. However, there must be enough profit in the second business to meet operation and taxation expenses, as well as the interest and principal repayments on the loan. This may put the businesses cash flow under pressure at certain points, e.g. when they need to pay for unexpected bills. The family have their business as a company, so individual shareholders cannot be liable for losses over and above the amount of their shareholding. However, the bank usually requires some personal guarantee from directors in a smaller company.  *The examples above are indicative samples only.* | The student has analysed, in-depth, the effect of financing options of a strategic capital expenditure decision on a business.  In their presentation, the student has:   * thoroughly explained the effect of financing options of a strategic capital expenditure decision * examined the consequence(s) using financial and non-financial information * selected the best option for the business.   **For example: (partial evidence)**  In addition to the evidence for achieved:  The effect and consequences of the financing options of a strategic capital expenditure decision on the Lockhart’s crayfishing business are:  Family investors.  The Lockharts can borrow money from family, however, if anything goes wrong and they can’t pay them back, this can affect their relationship. Family investors could put money into the Lockhart business and they take the risk that if the business fails, they don’t get their money back. In return for taking this risk, family investors will own a share of the Lockhart business. The Lockharts need to make sure that they tell potential investors about any risks involved in the crayfishing business, so that they know there is no guarantee they’ll get their money back. The family will expect a share of any profits and the Lockharts will need to consult them on any major decisions. Family investors can also bring valuable and in-depth experience, vision, and connections to the Lockhart business.  Long term loan from a bank**.**  With a long term loan from the bank, the Lockharts will retain control of the business and own the profits that they make, but they will need to pay back the loan, with current interest rate or annual interest amount. The interest that they will pay on the loan is tax-deductible. As it is a substantial business expense, the Lockharts need to be sure that they can make the loan payments on time to maintain their credit rating. If they have a good cash flow and can meet loan payments, a business loan is a good choice.  However, they may have to make loan payments at a time when their business really needs the cash, like during the start-up. In addition, if they guarantee their personal assets against the loan and are unable to make the repayments, they can lose these assets. This may mean that the Lockharts needs to reduce spending in other areas to cope with the increased amount of the loan and interest repayments, e.g. they may need to work on the boat themselves rather than employing a day labourer. Different banks and lenders offer various incentives and fee structures for business loans, so the Lockharts should shop around. With the second crayfishing business, the employees will be continuing on and therefore will retain their jobs, and this will have a flow on effect to the local community.  The best option is to take a long term loan from a bank.  *The examples above are indicative samples only.* | The student has comprehensively analysed the effect of financing options of a strategic capital expenditure decision on a business.  In their presentation, the student has:   * evaluated the consequence(s) using financial and non-financial information * justified the best option for the business, including evaluating the impact of this option on the business.   **For example: (partial evidence)**  In addition to the evidence for achieved and merit:  The best option is to take a long term loan from a bank.  Even though the Lockharts will have additional costs, with a second crayfishing boat, they like the idea of owning the boat outright – this means they could also lease it out to other fishing businesses or when their quota is finished, they could use it for fishing charters around Stewart Island to earn additional income. The Lockharts do not like the idea of using a family investor as they want to make all business decisions themselves and do not want to have to deal with others, which could slow up the decision making process. Unlike a bank loan, the capital raised through a family investor is not paid back in monthly instalments with interest. Instead, when the investors put their money into the business, they become partial owners of that business and are therefore entitled to a share of the business’s profits.  Family investment does not divert capital from the business to pay debt and so would initially enable the Lockharts to get the second crayfishing business up and running without worrying about making a profit immediately, allowing for more time to grow the business. The biggest disadvantage of using a family investor is that they will own a percentage of the business. Owners who unintentionally give up too much equity in their business can quickly lose control. This can become a serious problem for business owners who also want to secure additional debt financing.  The main long-term financial impact of using a mortgage to buy the boat works out much more expensive in the long term than a family investor because having to pay interest means fewer people are involved in the decision making process. The relationship the Lockharts enter into with the bank ends as soon as the bank is paid back.  The medium term financial impact of using a long term loan from a bank, is the lending criteria for debt financing can be quite strict so this can have a medium term impact. Debt must be repaid every month, regardless of how well the crayfish business is doing. Unfortunately, that means that if the business has a decline in sales, the Lockharts may find themselves unable to make the monthly loan payment.  The medium term non-financial impact would be that the Lockharts have complete ownership of the new boat because they will have the finances available to them instantly through their bank. This means that they have complete control over the functioning of the boat and are able to use it at their own disposal. This means they could do fishing charters, lease it to another company to earn additional income but more importantly they are able to work the hours and days that are convenient to them and are able to be flexible around their young family.  The long-term non-financial consequence is the Lockharts like the idea of owning another boat on Stewart Island as they are ensuring that they are making a living but also helping other members of the Stewart Island community to earn a living. If the boat was to be bought by someone particularly on the mainland, locals will not have as much work and they may struggle with their cash management, so this could have a spin off into the wider community.  *The examples above are indicative samples only.* |

Final grades will be decided using professional judgement based on a holistic examination of the evidence provided against the criteria in the Achievement Standard.