

**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: Sunny citrus

**Resource reference:** Agribusiness 3.9A 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 mandarin orchard business. This includes evaluating the consequence(s) using financial and non-financial information and justifying the best option for the business. The justification includes evaluating the impact of this option on the business.

**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**

Access to the Internet and to relevant sources of information.

**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 mandarin orchard 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**

Read the background information on the mandarin orchard below.

Use the background information (and any other additional research) to write a proposal outlining the financing options Mandy (the business owner) has available to her, and recommend which option she should use, to purchase the harvester.

Your proposal should:

* thoroughly explain each financing option
* evaluate the consequences of each option on Mandy’s business, using both financial and non-financial information
* select and justify the best option for Mandy’s business including evaluating the medium to long-term impacts of this option on the business.

You can present your proposal in a format of your 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.

**Background information – Mandarin Orchard**

Mandy Orange owns a mandarin orchard in Gisborne. She currently employs people (30 people at the peak of the season) to hand pick her fruit but in recent times this is becoming problematic – the supply and quality of labour is not always available. Over the past three seasons approximately 15% of her crop has remained unpicked. Mandy’s orchard has a current valuation of $2,000,000.

She has been reading about alternative methods to pick her fruit and has seen a relatively new second-hand harvester for sale, for $120,000. Mandy is keen to own the harvester outright, but does not have sufficient cash on hand to purchase the machine without arranging some sort of financing option. She has initially estimated that she will need to borrow the full purchase price of the machine, and anticipates being able to pay off the purchase price over a 6 year period. It is important to Mandy that she retains full personal control over the decision-making in her business.

One of the companies that she is considering purchasing the equipment from offers financing; 12-month interest free period and a one-off $2,000 establishment fee.

* She has also approached her current bank to increase her current mortgage of $750,000 to purchase the machine.
* She is also aware that crowd funding is becoming more popular and wonders if this is a method she should also be investigating in order to purchase the harvester.

Mandy knows that the harvester may mean that some fruit is picked that is too unripe to sell and she estimates her loss would be 5% of all fruit.

She realises that by using a harvester to pick the fruit she will need to employ an additional five workers in the sorting shed, as she wants to make sure that she is maintaining her standards and is only supplying the top quality fruit, especially to her customers in Japan.

**Assessment schedule: Agribusiness 91870 - Sunny citrus**

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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 mandarin farm business.  In their presentation, the student explains:   * 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 effect and consequences of the financing options of a strategic capital expenditure decision on Mandy’s mandarin business are:  Mortgage.  Mandy could purchase the harvester using an increase to the mortgage on the orchard. She currently has sufficient equity in her business to increase the mortgage by $120,000 needed to buy the harvester outright. This means that Mandy will own the harvester and any repairs will be at her cost. She will have to find this money within her current budget. As the harvester is relatively new Mandy is not expecting any major repair bills. However, the increase to the mortgage will increase the interest and mortgage repayments too. This may put Mandy’s cash flow under pressure at certain points, e.g. when she needs to increase the labour costs at harvest time.  Crowd Funding.  Another finance option available to Mandy is crowd funding which would see her acquiring the necessary finances for her harvester through payments from numerous members of the public through the company PledgeMe Projects. PledgeMe Project’s financial repayment requirements mean Mandy would be expected to raise over $120,000, as the company charges 6.50% on the total captured. Mandy would be required to repay a total of $127,800 to pay off the harvester through this financial option. In order to repay this financial option, there is a required additional fee of 2.5% plus a further 25 cents if repaid through a credit card, which totals to a fee of $3,195. This means that Mandy would be repaying a total of $130,995.25 over an estimated 6 years of repayments if she used her credit card.  *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 mandarin farm business.  In their presentation, the student:   * thoroughly explains the effect of financing options of a strategic capital expenditure decision * examines the consequence(s) using financial and non-financial information * selects 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 Mandy’s mandarin business are:  Mortgage.  This may mean that Mandy needs to reduce spending in other areas to cope with the increased amount of the mortgage and interest repayments, e.g. she may need to do more of the pruning and thinning of the plants herself and not employ as many pruners to do the work. With Mandy employing fewer locals to prune the trees this could damage the reputation of Sunny Citrus as a local employer.  Crowd Funding.  Mandy’s orchard is not a charity and therefore it could be difficult for her to be able to raise the funds to buy the harvester through PledgeMe Projects. Crowd funding requires a large number of people to invest to make it work. There usually is an incentive to providing the funds such as equity in the business or a reward of product. As her profitability could fluctuate over the estimated 6 years of repayment and product demand and availability could change seasonally, she could find it hard to raise the adequate funds to put towards her repayments to the company.  The best financing option for Mandy’s mandarin business is to extend her mortgage.  *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 mandarin farm business.  In their presentation, the student:   * evaluates the consequence(s) using financial and non-financial information * justifies 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 financing option for Mandy’s mandarin business is to extend her mortgage through her bank.  Even though Mandy will have additional costs, she likes the idea of owning the harvester outright. Mandy does not like the idea of using crowd funding as she wants to make all business decisions herself and does not want to have to deal with others, which could slow up her decision-making process. The bank should also be happy to extend her mortgage as she has the security of her orchard, which is valued at $2,000,000. By continued borrowing from her bank, Mandy is also helping to grow her relationship with the bank, which will ultimately lead to benefits in the future such as possible lower interest rates. The advantage that increasing the mortgage has over crowdfunding is that the bank is a reliable source of finance. Once the mortgage is approved, Mandy is guaranteed the money, unlike through crowdfunding, and knows that she is tied to a company that is very unlikely to fold.  The medium-term financial impact of using a mortgage is an increased portion of her monthly profits would have to be set aside to put towards her repayments because her monthly repayments for the harvester are added to her monthly repayments for her mortgage. With the interest rate currently at 5.79%, she would be looking to pay $1,977 per month on top of her monthly mortgage repayments. As her monthly profits could alter (due to product demand and availability), she may struggle to meet her monthly repayments should they increase due to the floating interest rate.  The medium-term non-financial impact would be that Mandy has complete ownership of the harvester because she will have the finances available to her instantly through her bank. This means that she has complete control over the functioning of the harvester on her orchard and is able to use it at her own disposal – this means she could lease it to her neighbours and earn additional income.  The main long-term financial impact of using a mortgage is that the interest rate for repayments is floating, which means that her monthly repayments could increase or decrease having the potential to impact on her profits. In addition to this, she would also be paying back more money in total over the 6 years of estimated repayment time.  The long-term non-financial impact is that Mandy’s harvester is being held against her mortgage, which could put her plant, property and equipment (including the harvester) at risk of being seized by the bank should she be unable to repay the estimated $142,335 over a 6 year period.  *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.