**Foreword**

To support teachers in adopting different learning and teaching strategies to deliver the Business Management module of the Business, Accounting and Financial Studies curriculum, the Technology Education Section of Curriculum Development Institute, Education Bureau developed this series of learning and teaching resource materials to provide a wide range of learning and teaching activities for teachers’ reference.

This series of resource materials covers six topics of the Business Management Module. Each topic is compiled with guiding notes for teachers, explanatory notes on concepts, reference, suggested reading, and student worksheets, etc.

The resource materials suggest real life examples for conducting the learning and teaching activities. The URL listed in the resources are up-to-date as at 2 Nov 2018. Teachers are advised to update any information adopted in the materials where necessary.

Activity-based Resources for BAFS Topic 6: Sources of Fund for a Business Venture

Business Management Module

Financial Management

**Activity-based Resources for Business. Accounting and Financial Studies**

Business Management Module – Financial Management

***Topic 6: Sources of Fund for a Business Venture***

**Guiding Notes for Teachers**

**1. Learning Objectives**

After the activities, students are expected to:

* demonstrate knowledge on financial management
* collect and analyse macro-environmental information
* develop a preliminary business idea
* suggest and compare various sources of fund
* explain the purposes of budgeting
* apply communication skill to work as a group and present ideas

**2. Prior Knowledge**

*Compulsory Part:*

* Analyse the recent development and characteristics of the Hong Kong economy
* Evaluate how political, legal, economic, social, cultural, physical, competitive environment affect business decisions (including setting up a business to grasp business opportunities)
* Major forms of business ownership
* Role and importance of financial management as one of the key business functions

*Elective Part:*

* Purposes of budgeting
* Sources of financing
* Differences in debt and equity financing, short-term and long-term financing, internal and external financing
* Factors for selecting financing methods

**3. Description of Activities**

**Preparation exercise**: Ask students to collect information on new product/service launches from the media/web search and do a self-assessment to assess their suitability as an entrepreneur running their own business using the form in ***Appendix C***.

***3.1 Sources of Fund for a Business Venture***

***Activity 1(A): Brainstorming of business ideas***

Ask students to form groups of 5-6 students and each student is required to share their initial findings on new product/service launches in groups, e.g. the common marketing strategies, features of products, targets, etc. And then, students should exchange views on their own business ideas with reference to the current business environment.

Discuss briefly the feasibility and the business potential of each member’s idea in order to form their own business idea. Write down the business idea with justification and relevant information on Student Worksheet 1 (**SW** 1).

***Activity 1(B): Projecting the financial needs***

Each group should conduct data/information search and field visit(s) regarding their business idea. Assuming students are the owners of the new business venture, prepare a simple budget which shows the estimated investment and cost/expenditure to get the business started. Write down the estimated amounts on **SW** 1.

***Activity 2(A): Comparing different sources of financing***

As the owners of the new business venture, each group should name different sources of fund based on their projection of budget on **SW**1 and classify them into equity financing or debt financing (short-term or long-term) in table (i) of **SW** 2.

Among different sources of financing, each group should choose the appropriate source of fund for their business idea and explain their choice with justification in table (ii).

***Activity 2(B): Report writing and oral presentation***

After deciding the sources of fund for the business venture, each group is required to write a two-page report using **SW** 3 and conduct a 10-minute oral presentation to describe their business venture and explain the sources of fund for the business.

The report as well as the presentation should include but not limited to a brief description of business idea, industry nature, business objectives, evaluation of sources of fund, etc. Besides, students in groups are required to think about the possible challenges in raising fund. Students can follow the flow and format suggested on **SW** 3 to prepare the report.

Students are encouraged to use multimedia resources such as PowerPoint, video, graphics or other forms wherever appropriate. Feedback will be given to students upon their presentation, and peer assessment can be done.

***Activity 3: Extended activity:***

Students can further evaluate the business venture as a capital project by applying one of capital investment appraisal methods – net present value (NPV).

***3.2 Student Worksheets***

Students will be given **four** worksheets to facilitate their learning when carrying out the activities designed for the topic. The aim of the worksheets is to guide students to complete the activities in a systematic manner, reflect students’ learning and help students organise and consolidate ideas/concepts. Teachers can facilitate in-class discussions and provide guidance whenever necessary. Teachers are also advised to collect students’ worksheets to check their understanding and progress, and give them feedback to enhance their learning.

***Worksheet 1 -------------------------------***

***Activity 1(A)***

* Analyse the current business environment and share business idea with group mates
* Determine group’s business idea with justification, e.g. based on interest, potential, etc.

***Activity 1(B)***

* Search data/information on the financing needs of the business venture
* Discuss and prepare a simple budget

***Worksheet 2 -------------------------------***

***Activity 2(A)***

#### List the possible sources of fund and classify their types

#### Discuss their advantages and disadvantages

#### Provide reasons for the final choice of fund source(s)

***Worksheet 3 -------------------------------***

***Activity 2(B)***

* Describe the business venture to be set up by groups, including the target market, product or service description, promotion, store location, expansion possibility, etc.
* Explain the sources of finance for the venture
* Identify possible challenges

***Worksheet 4 -------------------------------***

***Activity 3***

* List the items needed to compute net present value
* Apply relevant formula and do the investment appraisal to decide whether the project will be accepted or not

***3.3 Oral Presentation***

After formulating the business idea and deciding the sources of fund with consideration of possible challenges, each group is required to write a two-page report and do a 10-minute oral presentation, followed by a 5-minute question-and-answer session. Students are advised to use multimedia resources such as PowerPoint, video, graphics or other forms wherever appropriate. They are also encouraged to pay attention to other groups’ presentation, raise questions and provide feedback.

***3.4 Assessment Criteria***

1. Teachers can assess students’ performance and give overall feedback to them according to the following major criteria:
* oral presentation (flow, audio-visual effect, time control, cooperation)
* creativity and feasibility of business ideas
* suitability of sources of fund
* quality of worksheets
* understanding and application of business knowledge
* analytical skills
* performance on Q & A

ii. Peer assessment for ***Activity*** ***2(B)*** – students are required to assess and rank the performance of all groups for voting the best business idea that will most likely obtain the source of fund from financial institutions, e.g. bank. The following are the basic criteria for the ranking:

* + flow of presentation
	+ feasibility of business idea
	+ profit potential
	+ creativity

**4. Schedule of Work**

|  |  |  |  |
| --- | --- | --- | --- |
| **Process of Activity** | **Student Worksheet** | **In/Outside Class** | **Time Required** |
| ***Pre-lesson exercise*** * Collect information on new product/service launches form media and web search
* Self-assessment to assess their suitability for running their own business
 | *Appendix C* | Home assignment | -- |
| ***Introduction of activity with discussion on the self-assessment result*** | -- | In-class | 10 minutes  |
| ***Activity 1(A)*** * Students are required to form groups to share initial findings on how new products/services are launched and brainstorm feasible business ideas
* Teacher guides students to generate feasible business ideas from analyzing the business environment
* Students in groups formulate their groups’ business ideas with justification
 | *SW 1* | In/Outside Class | 20 minutes  |
| ***Activity 1(B)*** * Teacher can explain the purpose of budget and guide students to project financial needs for their groups’ business ideas
* Students are required to collect data and even conduct field visits in order to project their financial needs
* Students discuss and estimate the financial needs for their proposed business venture
 | *SW 1* | In/Outside class  | 20 minutes  |
| ***Activity 2(A)*** * Each group is required to identify the possible sources of fund
* Teacher guides students to classify different types of funds
* Students discuss the advantages and disadvantages of various types of fund for comparing and selecting the appropriate one for their business
* Choose the right source(s) with justification
 | *SW 2* | In-class | 20 minutes |

|  |  |  |  |
| --- | --- | --- | --- |
| ***Activity 2(B)**** Students are required to write a report to briefly explain the business idea and selected sources of fund with justification
 | *SW 3* | In/Outside class | 20 minutes |
| ***Activity 2(B)*** * Students are required to conduct oral presentation
 | *SW 3* | In-class | 60 minutes |
| ***Activity 3**** Each group is required to discuss the items and make estimates for calculating NPV
* Appraise the investment by applying formula to calculate NPV and then decide whether the project will be accepted or not
 | *SW 3* | In-/Outside class | 15 minutes |
| ***Topic summary*** * Teacher wraps up with reference to Notes in ***Appendix A.***
 | *Appendix A* | In-class | 15 minutes |
| ***Further reading*** * Suggestions are provided in Appendix B
 | *Appendix B* | In/Outside class  | -- |

**Appendix A**

**Notes on Concepts Covered and Applied finance**

***1. Analysis of business environment***

* There are multiple perspectives to analyse business environment, namelypolitical, legal, economic, social, cultural, physical, competitive environment, which will affect business decisions and present business opportunities.

***2. Forms of business ownership***

* One of the most fundamental decisions an entrepreneur must make when starting a business is selecting a form of business ownership. Choices of ownership form include:
	+ Sole proprietorship
	+ Partnership (general or limited)
	+ Limited company (private)

***3. Role of financial management***

* Financial management is concerned with the effective and efficient management of the finances of an organization in order to achieve the organizational objectives. It involves acquiring, managing and financing the business entity’s resources or assets
* Planning for a firm’s money needs and managing the allocation and spending of funds are the foundations of financial management, or finance.

***4. Budget***

* In addition to developing a financial plan, financial managers are responsible for developing a budget which is a financial guide for a given period.
* A **budget** is a planning and controlling tool that reflects the firm’s expected sales revenues, operating expenses, cash receipts and outlays over a particular period. It becomes the standard for comparison against actual performance.

***5. Sources of funds***

* Organisations require funds for day-to-day operations, giving compensations for employees, pay for inventory, make interests payments on loans, pay dividends to shareholders, and purchase property, facilities, and equipment, etc. One basic classification of funds is as follows:
	+ debt capital (short-term & long-term) represents funds obtained through borrowing, e.g. trade credit, short-term loans, long-term loans/debentures
	+ equity capital consists of funds provided by the firm’s owners when they reinvest earnings, liquidate assets, issue stock to the general public or raise capital from venture capitalists and other investors.

***6. Major differences between equity and debt financing***

|  |  |  |
| --- | --- | --- |
| ***Factor*** | ***Equity financing*** | ***Debt financing*** |
| Status | owner | Creditor (outsider) |
| Claim on assets | Residual claim | Higher priority |
| Return/Income | Optional dividend | interest (usually fixed and regular) |
| Effect on profit and tax | Non-tax deductible | Tax deductible  |
| Repayment | No need to repay and no repayment date | Repayment at maturity date |
| Control | Voting right / making final decision | No voting right as they are “outsiders” |
| Management flexibility | Few constraints as they are owners | Creditors may impose some collateral terms and other requirements |

***7. Capital Investment Appraisal***

* When making investment decision, several capital investment appraisal methods can be used to evaluate capital projects. They are payback period, net present value, internal rate of return and accounting rate of return.
* Net present value method is a widely used method in which profitability of the project can be assessed and the concept of time value of money has been taken into consideration,
* Some estimates are required to compute the net present value of a project:
* Economic life of the investment
* Relevant cash inflows and outflows
* Discount rate to be used

**Appendix B**

**Reference and Suggested Reading**

1. Boove, C. L. and Thill, J. V. (2015), *Business in Action (Chapter 1, 5, 18)*, 7th edition, USA: Pearson
2. Ferrell, O. C., Hirt, G. and Ferrell, L. (2016), *Business: A Changing World* *(Chapter 15 & 16)*, 10th edition, USA: McGraw Hill
3. “初創錦言: 初創企業如何尋找合適投資者”林凱源 , Hong Kong Economic Journal, 14 November, 2016
4. 租房網吸金有道 要好勝「做第一」(Hong Kong Economic Times, 3/8/2016)

<http://lifestyle.etnet.com.hk/column/index.php/management/birthofideas/39556> (visited on 14 November, 2016)

1. “All It Takes Is 1 Hong Kong Startup to Break Through” Forbes (26/11/2014)

<http://www.forbes.com/sites/rebeccafannin/2014/11/26/all-it-takes-is-1-hong-kong-startup-to-break-through/#b5314bd20ecf> (visited on 1 November, 2016)

1. “A Chinese-food Delivery man ends up driving one of Hong Kong’s Hottest Startups”, Entrepreneur (15/1/2015), <https://www.entrepreneur.com/article/241826> (visited on 1 November 2016)
2. Hong Kong Courts – Venture Capital, Growth (12/2015)

<http://app1.hkicpa.org.hk/APLUS/2015/12/pdf/26_VC.pdf> (visited on 1 November 2016)

8. 11歲創業女童推App助朋輩學外語 母投資開發 用家既是學生亦是老師 (Hong Kong Economic Times, 14/12/2016)

[http://paper.hket.com/article/1557167/11歲創業%20女童推App助朋輩學外語?dis=pd&pdlist=srap001](http://paper.hket.com/article/1557167/11%E6%AD%B2%E5%89%B5%E6%A5%AD%20%E5%A5%B3%E7%AB%A5%E6%8E%A8App%E5%8A%A9%E6%9C%8B%E8%BC%A9%E5%AD%B8%E5%A4%96%E8%AA%9E?dis=pd&pdlist=srap001) (visited on 14 December 2016)

**Appendix C**

**Self-assessment on suitability for running one’s own business**

*Please put a tick if the following list of 20 factors best describe you:*

|  |
| --- |
| 1. \_\_\_ I am self-disciplined, able to keep control and not let things drift.
2. \_\_\_ I have the full support of my family.
3. \_\_\_ I am ready to work 7 days a week, if necessary.
4. \_\_\_ I can get on with and communicate well with people.
5. \_\_\_ I can make considered decisions.
6. \_\_\_ I can cope under stress.
7. \_\_\_ I do not give in when the going gets tough.
8. \_\_\_ I can learn from mistakes.
9. \_\_\_ I can take advice.
10. \_\_\_ I am patient and prepared to work for success.
11. \_\_\_ I can motivate people.
12. \_\_\_ I am in good health.
13. \_\_\_ I am enthusiastic, determined and committed.
14. \_\_\_ I am aware of the risks involved.
15. \_\_\_ I have specific personal and business aims.
16. \_\_\_ I am innovative and resourceful.
17. \_\_\_ I am good at planning.
18. \_\_\_ I would enjoy doing bookwork.
19. \_\_\_ I am good at controlling my finances.
20. \_\_\_ I am prepared to risk everything if necessary.

*Compare the results with your group members and identify which you think are the most important factor(s) and why?**Scoring* – 1 mark for each description. The higher the score, the higher the potential to be a successful entrepreneur. |

*Source: Danks, S (1993), Advanced Business Studies, Great Britain: The Guernsey Press Co. Ltd.*