### SESSION PLAN

**COURSE:** ABE Level 5 Effective Financial Management

**ELEMENT:** Element 4 – Sources of finance

## **LEARNING OUTCOME 4**

Evaluate options for the financing of business activities, including the characteristics of different sources of finance and how best to meet the financing needs of the business

* 1. Assess the role of capital markets and the efficient markets hypothesis in order to understand the effects of financing decisions on the business
  2. Analyse the role and characteristics of different sources of finance in order to identify suitable sources of finance that best meet the financing needs of a business
  3. Evaluate sources of finance in order to decide how best to meet the financing needs of the business

**NUMBER OF SESSIONS:** Three - approximately fourteen hours in total, plus self-study

**SESSION TOPICS:** Session 1: Assess the role of capital markets and the efficient markets hypothesis in order to understand the effects of financing decisions on the business

Session 2: Analyse the role and characteristics of different sources of finance in order to identify suitable sources of finance that best meet the financing needs of a business

Session 3: Evaluate sources of finance in order to decide how best to meet the financing needs of the business

**Note to tutors: this is the recommended session plan for learning outcome 4 of element 4 of the ABE Level 5 Effective Financial Management. You should follow the plan, using the resources (referenced as ‘slides’ here) and activities provided. It is important to enhance all sessions with local examples and case studies, involving the learners ACTIVELY wherever possible.**

### SESSION 1: Assess the role of capital markets and the efficient markets hypothesis in order to understand the effects of financing decisions on the business

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Approx.**  **Duration** | **Topic** | **Tutor Activity** | **Slides** | **Learner Activity** | **Formative Assessment** |
| 4-5 hours | The nature, role and purpose of the equity and debt markets | Use **5UEFM Presentation LO4**  Explain the unit, and what is going to be covered.  Discuss the nature of equity and debt finance. Explain that the mix of equity and debt finance together represents a business’s financial structure.  Define the cost of capital.  Play this to help to explain the cost of capital:  <https://www.youtube.com/watch?v=ZiIFtmxt3vU>  **Facilitate E4 LO4 Activity 1** | 1-4  5-9 | In small groups, learners should identify what they want to learn from the unit. Set out some personal learning objectives  Ask all learners to describe an organisation with which they are familiar. Note that the organisation must have raised finance from an equity or debt market. Give them all 5-10 minutes to do this, and explain that you will be using these organisations as examples throughout the module. | **5UEFM E4 LO4 ACTIVITY 1 –** The role of capital markets and EMH |
| Efficient markets hypothesis | Define an efficient market. The efficient markets hypothesis (EMH) reflects the idea that financial markets, whilst not being perfect, are at least efficient. An efficient market is one in which competition amongst rational and intelligent profit maximisers promotes market efficiency.  Explain the different forms of market efficiency.  **Facilitate E4 LO4 Activity 2** | 10-11  12 | Ask learners to consider the organisation that they selected. Ask leaders to consider the market from which their selected organisation raised equity or debt finance: to what form of market efficiency seems to apply in that market?  Allow them 30 minutes to discuss this in small groups, and then 30 minutes to present back to each other in one large group, | **5UEFM E4 LO4 ACTIVITY 2 -** EMH |
| How to measure the market value of equity | Identify the ways in which the market value of equity can be measured.  Use the study guide. Illustrate the answers to question 1 of Activity 2.  Following the learner activity, illustrate the answers to questions 2 and 3.  **Facilitate E4 LO4 Activity 3** | 13-14 | Learners try to prepare responses to questions 2 and 3 of Activity 2.  Allow them 30 minutes to discuss this in small groups, and then 30 minutes to present back to each other in one large group, | **5UEFM E4 LO4 ACTIVITY 3 –** Market value of equity |
| Methods by which share capital can be issued | Outline and explain the key mechanisms by which equity can be issued: initial public offering, seasoned equity offerings, rights issues.  **Facilitate E4 LO4 Activity 4** | 15-18 | Ask learners to discuss the advantages and disadvantages of the use of each of initial public offerings, seasoned equity offerings and rights issues.  Allow them 30 minutes to discuss this in small groups, and then 30 minutes to present back to each other in one large group, | **5UEFM E4 LO4 ACTIVITY 4 –** Raising equity |
|  | Review of session and learning outcomes |  |  |  | Students to work through the second section of chapter 4 in the study guide prior to the next session. |

### SESSION 2: Analyse the role and characteristics of different sources of finance in order to identify suitable sources of finance that best meet the financing needs of a business

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Approx.**  **Duration** | **Topic** | **Tutor Activity** | **Slides** | **Learner Activity** | **Formative assessment** |
| Total for session 4-5 hours | Introduction to session and learning outcomes | Use file: **5UEFM Presentation LO4** | 19 |  |  |
|  | The weighted average cost of capital | Explain the concept of the weighted average cost of capital (WACC): this measure reflects the costs of the individual sources of finance, which are weighted according to their relative importance as sources of finance.  The WACC is a popular approach to the calculation of the cost of capital, but it is not perfect.  Relate WACC to the general concept of the cost of capital that was introduced earlier in the session.  Play this film the help to explain the WACC:  <https://www.youtube.com/watch?v=lVpH4kZZxBE>  Use the study guide. See Activity 5. Illustrate and calculate the WACC using the ‘Whitley plc’ case study.  **Facilitate E4 LO4 Activity 5** | 20-23 | Ask learners to discuss the advantages and disadvantages of the weighted average cost of capital.  Allow them 30 minutes to discuss this in small groups, and then 30 minutes to present back to each other in one large group, | **5UEFM E4 LO4 ACTIVITY 5 –** Weighted average cost of capital |
|  | Internal and external sources of finance | Outline how sources of finance can be categorised as internal or external and as either long-term or short-term in nature. Review the concepts of equity and debt finance that were introduced earlier in the session.  Use the following questions as discussion points:   * Are retained profits a ‘free’ source of finance? * How might shareholders feel if a business consistently uses retained profit as a source of finance, rather than distributed to shareholders in the form of a dividend? * In which industries might working capital represent a significant proportion of a business’s net asset base? * Identify and discuss the costs of holding (a) too little cash and (ii) too much cash   **Facilitate E4 LO4 Activity 6** | 24-25 | Ask learners to identify as many sources of finance as they can. Ask learners to categorise each as internal or external, and then as either long-term or short-term.  As learners to consider and the prepare responses to the discussion point questions.  Allow them 30 minutes to discuss this in small groups, and then 30 minutes to present back to each other in one large group, | **5UEFM E4 LO4 ACTIVITY 6 –** Sources of finance |
|  | Types of debt financing | Review the results of the activity on internal and external sources of finance that was used earlier in the session.  Outline each of the types of debt finance that were identified. Ensure that at least the following types of debt finance are considered: subordinated loan, term loans, loan notes, mortgages and bonds,  Play this to help to explain the cost of capital:  <https://www.youtube.com/watch?v=23Cg4X0caq8>  **Facilitate E4 LO4 Activity 7** | 26-27 | Ask learners to return to the activity they completed earlier in the session. Consider each of the types of debt finance that were identified. Explain the advantages and disadvantages of each.  Allow them 30 minutes to discuss this in small groups, and then 30 minutes to present back to each other in one large group, | **5UEFM E4 LO4 ACTIVITY 7 –** Types of debt financing |
|  | The cost of debt financing, including bonds | Review the concept of debt financing. Identify and explain the elements of the cost of debt financing: finance costs, security charges and fees.  Explain how the annual repayment amount on a loan can be calculated: amount of loan / cumulative present value factor at the relevant rate of interest.  **Facilitate E4 LO4 Activity 8**  Explain the nature of bonds as a form of debt financing. Outline the formula for the calculation of the value of a redeemable bond.  Use the study guide. See Activity 11. Illustrate and calculate the value of the bond.  **Facilitate E4 LO4 Activity 9** | 28-29 | Ask learners to calculate the value of a bond. See the study guide: use Activity 11 as a template. Change one or more elements of annual interest, nominal value and annual rate of return.  Allow them 30 minutes to discuss this in small groups, and then 30 minutes to present back to each other in one large group, | **5UEFM E4 LO4 ACTIVITY 8 –** Loan financing  **5UEFM E4 LO4 ACTIVITY 9 –** Bond financing |
|  | Review of session and learning outcomes |  |  |  | Students to work through the third section of chapter 4 in the study guide prior to the next session. |

### SESSION 3: Evaluate sources of finance in order to decide how best to meet the financing needs of the business

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Approx.**  **Duration** | **Topic** | **Tutor Activity** | **Slides** | **Learner Activity** | **Formative Assessment** |
| 3-4 hours | Introduction to session and learning outcomes | Use file: **5UEFM Presentation LO4.** | 30 |  |  |
| Equity or debt? | Review the concepts of debt and equity financing and of how the mix of equity and debt financing combines to comprise a business’s financial structure.  Play this to help to explain the concept of the need to decide how best to meet the financing needs of the business:  <https://www.youtube.com/watch?v=MrupJdMrpaE>  Explain the concept of tax shields in the concept of the use of equity or debt finance.  **Facilitate E4 LO4 Activity 10**  When they have done the activity ask them to present back their findings to the whole group. | 31-32 | Ask learners to return to the organisations that they selected for use in the previous activities.  Learners to consider the relative use of equity and debt finance in the organisations that they have selected. Ask learners to evaluate the financial structures of their selected business in the context of the financial structure of those businesses.  Allow them 30 minutes to discuss this in small groups, and then 30 minutes to present back to each other in one large group, | **5UEFM E4 LO4 ACTIVITY 10 –** Equity or debt |
| The matching principles of finance and its importance | Outline the matching principle of finance.  Introduce the concept of the need for the type of investment to be matched with an appropriate source of finance.  Following the completion of the activity, review the other factors that might need to be considered when selected a source of finance: cost, flexibility, refinancing risk and interest rates | 33-34 | Ask learners to identify and explain the factors that might need to be considered when selecting a source of finance.  Allow them 30 minutes to discuss this in small groups, and then 30 minutes to present back to each other in one large group, |  |
| Review of session and learning outcomes | Ask students to prepare for the next session by reading the first section of the next chapter in the study guide. | 35 |  | Ask students to read the second section of the study guide prior to the next session. |

### 