

## ENTREPRENEURSHIP PLANNING

# Comparing Small-Business Funding Options

*Detailed practice, calculation, decision-making, and assessment*

|                                                                                                                                                               |                           |                                      |                         |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|--------------------------------------|-------------------------|
| <b>GRADES</b><br>9-12                                                                                                                                         | <b>TIME</b><br>2 x 42 min | <b>GROUPING</b><br>I / pairs / whole | <b>PRODUCT</b><br>Brief |
| <b>YOUR CHALLENGE</b> Calculate a funding gap, compare fictional debt and equity offers, stress-test cash flow, and write a qualified funding recommendation. |                           |                                      |                         |

## A Business Idea Becomes Stronger When Evidence Tests the Assumptions

Funding can provide needed cash while creating repayment, fee, ownership, control, or personal-risk obligations. Compare the same amount received, the timing and total cost, cash-flow fit, and every important condition before deciding.

| Term                                                                                                                                                                                                               | Student-friendly meaning                                                          |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| Principal                                                                                                                                                                                                          | Amount borrowed before interest and fees.                                         |
| APR                                                                                                                                                                                                                | Annual measure combining interest rate with certain loan fees.                    |
| Term                                                                                                                                                                                                               | Time allowed for repayment.                                                       |
| Personal guarantee                                                                                                                                                                                                 | Promise that may make an individual responsible under the agreement.              |
| Equity                                                                                                                                                                                                             | Ownership interest in a business.                                                 |
| Dilution                                                                                                                                                                                                           | Reduction in existing owners' percentage when ownership is given to someone else. |
| <b>CLASSROOM USE</b> All people, employers, figures, brackets, and documents in this packet are fictional. Never place a real Social Security number, employer ID, bank number, or tax document in classroom work. |                                                                                   |

## Part 1 - Define the Funding Need

A student-run lawn-care venture needs \$6,000 for equipment and launch costs. The owners can contribute \$1,500.

| Item                                 | Amount         | Evidence/source | Risk if wrong |
|--------------------------------------|----------------|-----------------|---------------|
| Total startup need                   | \$6,000        |                 |               |
| Owner contribution                   | \$1,500        |                 |               |
| External funding gap                 |                |                 |               |
| Monthly cash available for repayment | \$275 estimate |                 |               |
| First-year sales estimate            | \$18,000       |                 |               |

Calculate the gap and identify which figures are facts versus estimates.

## Part 2 - Compare Fictional Funding Offers

Use the stated figures; do not recompute an amortization schedule.

| Measure            | Loan A  | Loan B  | Investor C |
|--------------------|---------|---------|------------|
| Cash provided      | \$4,500 | \$4,500 | \$4,500    |
| Upfront fee        | \$135   | \$0     | \$0        |
| Monthly payment    | \$210   | \$155   | \$0        |
| Number of payments | 24      | 36      | 0          |
| Ownership given    | 0%      | 0%      | 20%        |
| Personal guarantee | Yes     | No      | No         |

Calculate total scheduled loan payments and cash cost above the amount received.

### Part 3 - Test Monthly Cash Flow

Normal available cash is \$275; weak-month available cash is \$140.

| Option     | Normal cash after payment | Weak cash after payment | Shortfall? |
|------------|---------------------------|-------------------------|------------|
| Loan A     |                           |                         |            |
| Loan B     |                           |                         |            |
| Investor C |                           |                         |            |

Explain why no monthly payment does not mean free funding.

## Part 4 - Audit the Terms and Risks

Prepare questions before accepting funding.

| Area               | Known fact | Missing information | Question |
|--------------------|------------|---------------------|----------|
| APR/interest       |            |                     |          |
| Fees               |            |                     |          |
| Payment timing     |            |                     |          |
| Late/default terms |            |                     |          |
| Personal guarantee |            |                     |          |
| Ownership/control  |            |                     |          |
| Exit/buyback       |            |                     |          |
| Use restrictions   |            |                     |          |

Why should borrowers compare APR, fees, term, total payments, and risk together?

## Part 5 - Write a Funding Recommendation

The owners want to keep control but cannot safely pay more than \$175 in a weak month.

| Decision check                 | My evidence |
|--------------------------------|-------------|
| Funding gap                    |             |
| Amount received                |             |
| Total payments/cost            |             |
| Normal cash flow               |             |
| Weak-month cash flow           |             |
| Ownership/control              |             |
| Missing terms                  |             |
| Recommendation with limitation |             |

Write 150-200 words using at least five figures and five verification questions.

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