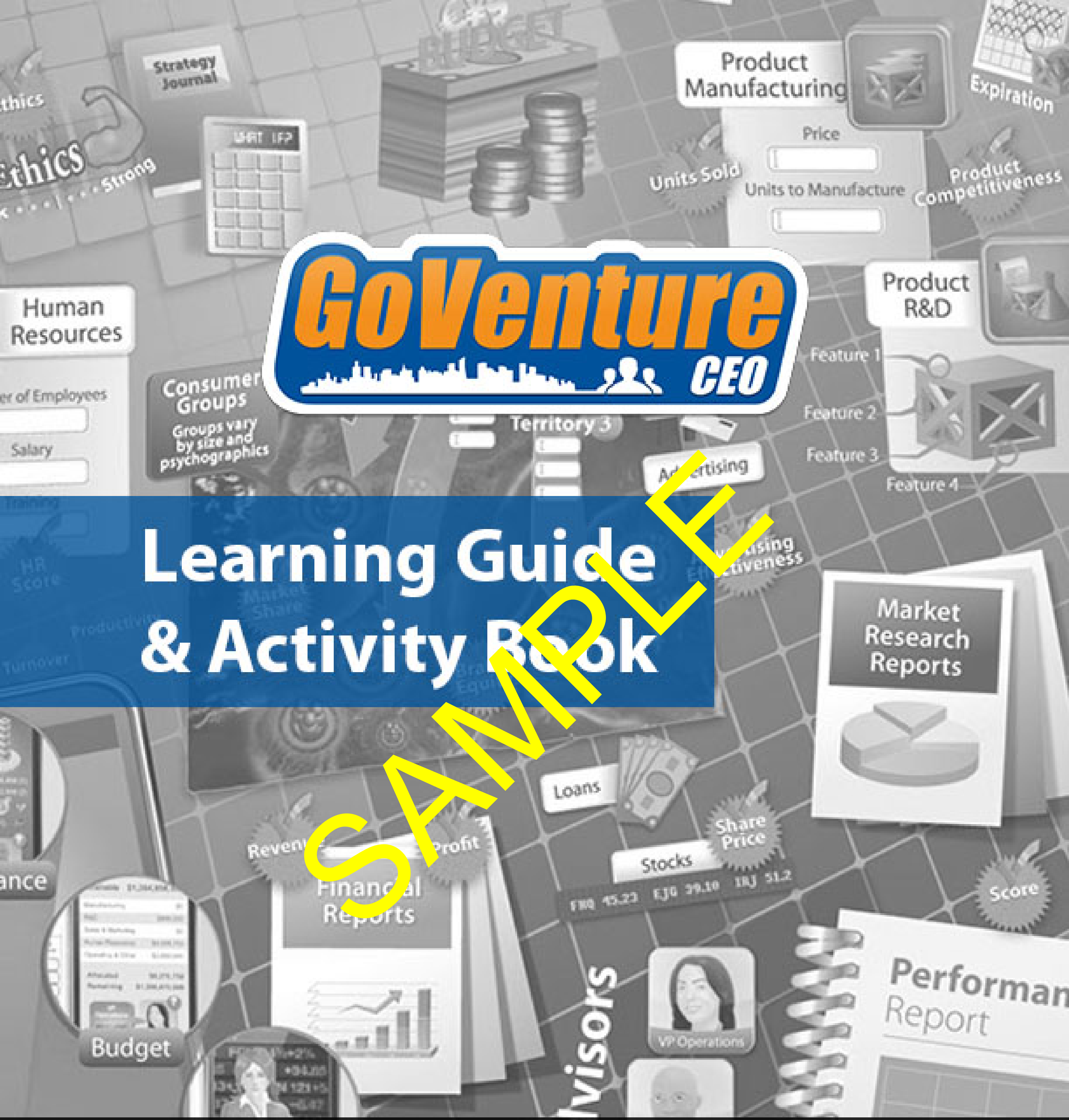

GoVenture CEO

Learning Guide & Activity Book

This guide helps you learn the fundamental concepts of business as they are applied in the **GoVenture CEO** simulation.

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How to use this Adobe PDF Document

Read this document before or while playing the **GoVenture CEO** simulation. This document also includes activities that you can complete. The answers to these activities are available to your instructor.

This document includes input fields where you can type answers to questions in the activities. After you enter your answers, you must SAVE the file to store your answers. You may then send the new save file to your instructor.

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2 Market Demand

Market Demand

Market Demand is the amount money that is spent by consumers to purchase a type of product.

When you know the Market Demand, you can calculate the number of product units that can be sold to consumers, as shown in the table below using this formula:

Product Units Sold = Market Demand ÷ Product Price

MARKET DEMAND	$100	$20,000	$150,000
PRODUCT PRICE	$2	$20	$1,000
PRODUCT UNITS SOLD	50	1,000	150

Complete the table below with additional examples.

MARKET DEMAND	$50	$40,000	$300,000
PRODUCT PRICE	$10	$20	$1,000
PRODUCT UNITS SOLD	$ ______	$ ______	$ ______

Potential Revenue

Money your business receives by selling products is called **Revenue**.

Revenue is calculated by multiplying the number of products sold by the product price, as follows:

Revenue = Price X Units Sold

PRODUCT PRICE	$2	$20	$1,000
PRODUCT UNITS SOLD	50	1,000	150
REVENUE	$100	$20,000	$150,000

Complete the table below with additional examples.

PRODUCT PRICE	$3	$30	$1,500
PRODUCT UNITS SOLD	50	1,000	150
REVENUE	$ ______	$ ______	$ ______

Competition

Your ability to make sales and meet the Market Demand depends on a number of factors, one of which is competition.

If two competing companies are offering similar products at the same price, then it is likely that some consumers will buy one product while some consumers will buy the other. The table below shows two competing products selling the same number of product units.

MARKET DEMAND	$100	
PRODUCT PRICE	$2	
PRODUCT UNITS SOLD	50	
	PRODUCT A	**PRODUCT B**
PRODUCT UNITS SOLD	25 = 50%	25 = 50%

The table below shows Product A selling many more units than Product B.

MARKET DEMAND	$100	
PRODUCT PRICE	$2	
PRODUCT UNITS SOLD	50	
	PRODUCT A	**PRODUCT B**
PRODUCT UNITS SOLD	40 = 80%	10 = 20%

Product Differentiation

Why would Product A sell more than Product B? This could happen for one or more reasons:

- Better price (Price is same in the example above)
- Better features
- Better brand
- Better marketing
- Better placement (easier to find)
- Available product inventory (available, not out of stock)

What does better mean? Better means that one product matches the needs of consumers better than the other.

15 Balance Sheet

Financial Statements

There are two primary financial statements for a business: **Balance Sheet** and the **Profit & Loss** (sometimes called a P&L or an Income Statement).

The **Profit & Loss** shows all of the money flowing in and out of the business to determine if the business is profitable or not.

The **Balance Sheet** shows the value of the business by adding up everything the business owns and subtracting everything that the business owes. The actual value of a business is often more complex than the Balance Sheet shows, but the Balance Sheet provides an accurate view of its financial position.

Assets and Liabilities

To understand a Balance Sheet, you must first understand some key definitions.

Asset
This is something that a business owns. This could be cash, furniture, property, buildings, computer software, and more.

Liability
This is something that a business owes. This could be money owed to employees, vendors, the government, or loans owed to banks and others.

The Balance Sheet adds up all the Assets and the Liabilities and then applies this simple formula:

Assets – Liabilities

If the business owns more value in Assets than it owes in Liabilities, then it has positive Equity. Equity is the value held in the business and is the third component of the Balance Sheet formula, as shown here:

Here is an example that applies the Balance Sheet formula:

Assets – Liabilities = Equity

ASSETS $5,000	Cash $4,000 Furniture $600 Computer $400
LIABILITIES $3,000	Bank Loan $2,000 Credit Card $1,000
EQUITY $2,000	

One way to read the above is to say that if the business is shut down and everything in it sold (“liquidated”) and the liabilities paid off to $0, there would be $2,000 left over. This is how much value currently exists in the business.

Complete the table below with additional examples.

ASSETS	Cash $8,000 Furniture $700 Computer $400	Cash $12,000 Unpaid Sales $1,000 Land $10,000
LIABILITIES	Bank Loan $2,500 Credit Card $900	Bank Loan $9,500 Owed to Suppliers $6,000
EQUITY	$ ______	$ ______

Business Value

Intangible Assets

The concept of business value is somewhat simplified in the examples above, as a business may also have **Intangible Assets** which contribute to its value.

Intangible Assets may include patents, trademarks, customer contracts, goodwill, and more. Intangible means something that is not physical and cannot be touched. Furniture and computers are tangible assets — they have physical form.

Assigning value to Intangible Assets can be subjective, but generally equates to the value of what the intangible asset could be sold for if it had to be sold. This means that there has to be a reasonable expectation that a buyer can be found that is willing and able to purchase the Intangible Asset at the price set. However, sometimes intangible assets are valued differently based on generally-accepted accounting principles.

This is an advanced topic beyond the scope of this document, but is noted here to help frame the Balance Sheet.

See the table below and complete the second example. Notice that Intangible Assets (Patents and Customer Contracts) have been added to the Balance Sheet.

BALANCE SHEET		
ASSETS	Cash $8,000 Furniture $1,000 **Patents $2,000**	Cash $12,000 Land $10,000 **Customer Contracts $2,000**
LIABILITIES	Bank Loan $7,000	Bank Loan $12,,000
EQUITY	$4,000	$ ________

Tangible Assets

Another element that affects business value is the value of the Tangible Assets on the Balance Sheet. The value shown for Assets is not the original purchase price, but the depreciated value of the Asset. Depreciation is also an advanced topic, but it generally means that most Assets will lose value over time, and so the Balance Sheet should properly reflect this change in value.

For example, a computer may cost $900 brand new today, but if you tried to sell that computer in one year, you may only get a few hundred dollars for it. The Balance Sheet should show the computer at this reduced value.

See the table below and complete the additional example. Notice that the value of the computer has changed from Year 1 to Year 2 on the Balance Sheet because it has depreciated.

	YEAR 1	YEAR 2
ASSETS	Cash $8,000 **Computer $900**	Cash $8,000 **Computer $400**
LIABILITIES	Bank Loan $7,000	Bank Loan $7,000
EQUITY	$1,900	$ ________

Equity

How does a business create value, or Equity? Reviewing the Balance Sheet formula:

Assets – Liabilities = Equity

This may suggest to increase Assets. But, how does a business increase the value of an Asset? Most Assets lose value over time, like furniture and computers. Real estate may or may not increase in value over time.

Buying a new Asset will not increase Equity. This is because if a business buys a new Asset, then Cash may be reduced to pay for the new Asset. In this case, the Equity has not changed, as shown in the table below.

ASSETS	Cash $8,000	Cash $6,000 **Computer $2,000**
LIABILITIES	Bank Loan $7,000	Bank Loan $7,000
EQUITY	$1,000	$1,000

What if the business buys the computer using a credit card? In this case, the credit card balance will appear as a Liability, and again the Equity does not change, as shown in the table below.

ASSETS	Cash $8,000	Cash $8,000 **Computer $2,000**
LIABILITIES	Bank Loan $7,000	Bank Loan $7,000 **Credit Card $2,000**
EQUITY	$1,000	$1,000

Buying, renting, or leasing Assets does not increase the value or Equity of a business. It's what the business does with those Assets that may contribute to increasing Equity.

For example, buying a new computer may allow you to serve more customers to sell more product and generate more Revenue and Profit. This additional Profit increases Equity. Buying the computer did not directly increase Equity, but how it was used did.

Again, reviewing the Balance Sheet formula:

Assets – Liabilities = Equity

This may suggest that decreasing Liabilities will increase Equity. But, decreasing a Liability normally means using an Asset, like Cash.

For example, you can pay off a $7,000 Bank Loan to eliminate the Liability, but if you use Cash to pay the Loan, then your

Cash Asset will also decrease, as shown in the table below.

ASSETS	Cash $8,000	Cash **$1,000**
LIABILITIES	Bank Loan $7,000	
EQUITY	$1,000	$1,000

Increasing Equity

Equity is most often increased in two ways:

Profit
As a business generates Profits over its history, the total cumulative Profits (and losses) over its entire time in business are added to its Equity.

Selling Shares
When a business sells Stock or Shares in the business, which means ownership in the business, those who buy the Shares give the money to the business and this money is recorded as Equity.

Equity is reduced if the business suffers losses (negative Profit) or if the business issues Dividends to its shareholders (owners). A Dividend is simply a share of the profits (which are shown as Equity).

Profit (Retained Earnings)

Profit increases Equity. For example, if you make or buy 100 widgets for $5 each and sell them for $7, you will make a profit of $2 per widget, as shown in the table below. This assumes there were no other expenses incurred with buying and selling the widgets.

BUY $500	100 Widgets $5 Each
SELL $700	100 Widgets $7 Each
PROFIT $200	$700 – $500

The $200 profit shown above gets added to the Equity on the Balance Sheet, as shown in the table below. Notice that before the Widgets are purchase, you have $1,000 Cash. Then $500 is used to purchase the Widgets, so Cash is reduced by $500 and Widgets are added as an Asset that you own. Then, the Widgets are sold for $700 that is added to Cash, and the Widgets no longer appear as Assets.

	BEFORE	DURING	AFTER
ASSETS	Cash $1,000	Cash $500 Widgets $500	Cash $1,200
LIABILITIES			
EQUITY	$1,000	$1,000	$1,200

Profit is the most common way that businesses increase Equity. Profit is tracked on the **Profit and Loss Statement** (or P&L or Income Statement). The Profit (more specifically, the Net Profit) at the bottom of the Profit and Loss Statement is added to the Equity on the Balance Sheet.

Profit is added under Equity as what is called **Retained Earnings** — more on this below.

Selling Shares

When a business sells Stock or Shares in the business, which means ownership in the business, those who buy the Shares give the money to the business and this money is recorded as Equity

For example, let's say you sell a certain number of Shares for a total of $500. The new shareholder gives your company $500 Cash and you record this transaction on the Balance Sheet by increasing Cash by $500 and increasing Equity by $500, as shown in the table below. Money gained through the sales of Shares is not considered Profit and does not appear on the Profit and Loss statement.

Notice that the Balance Sheet equation still remains in balance: Assets – Liabilities = Equity

	BEFORE	AFTER
ASSETS	Cash $1,000	Cash $1,500
LIABILITIES		
EQUITY	$1,000	$1,500

Balance

The Balance Sheet has the word “balance” in the name to indicate that it must always remain in balance. This means that the formula always remains true:

Assets – Liabilities = Equity

The formula can also be rearranged as follows:

Assets – Equity = Liabilities

Liabilities + Equity = Assets

Whichever format the formula takes, it must always balance, otherwise it indicates that there has been an accounting error made that needs to be corrected. See the example below.

	IN BALANCE	OUT OF BALANCE
ASSETS	Cash $3,000	Cash $2,500
LIABILITIES	Bank Loan $1,000	Bank Loan $1,000
EQUITY	$2,000	$2,000

In the table below, identify if each Balance Sheet example is in or out of balance and by how much. Enter $0 if in balance.

ASSETS	Cash $5,500	Cash $2,500 Computer $300	Cash $3,500 Furniture $500
LIABILITIES	Bank Loan $1,500	Bank Loan $2,000	Bank Loan $2,000 Credit Card $500
EQUITY	$4,000	$900	$1,000
IN OR OUT OF BALANCE?	$ ______	$ ______	$ ______

Dividends and Retained Earnings

Profit is added under Equity as what is called **Retained Earnings**. "Earnings" means profit. "Retained" means held or kept — as opposed to Profit or Earnings that are paid out to company shareholders.

When Profit is paid out to the company shareholders, it is called a Dividend. When Profit is paid out of a company, the

Equity in the company is reduced, as shown in the table below. Notice also that Cash has been reduced by the amount of the Dividend paid.

	BEFORE $1,000 DIVIDEND	**AFTER $1,000 DIVIDEND**
ASSETS	Cash $9,000	Cash $8,000
LIABILITIES	Bank Loan $1,000	Bank Loan $1,000
EQUITY	$8,000	$7,000

Complete the table below with additional examples.

	BEFORE $2,000 DIVIDEND	**AFTER $2,000 DIVIDEND**
ASSETS	Cash $7,000	Cash $________
LIABILITIES	Bank Loan $2,000	Bank Loan $2,000
EQUITY	$5,000	$ ________

Period

When generating a Balance Sheet, you have to choose a date. The data that will be displayed will include all past history up to and including the date you select.

Balance Sheet in *GoVenture CEO*

Below is a sample Balance Sheet.

Balance Sheet
Drinkzzz
As of End of Month 1
($ Thousands)

	[illegible]	[illegible]
Assets		
Cash	[illegible]	327
Inventory	[illegible]	1.27
Property, Plant & Equipment	[illegible]	50.00
Total Assets	**350**	**378**
Liabilities		
Short and Long Term Liabilities	0.00	0.00
Equity		
Retained Earnings (Net Profit)	0.00	28.37
Capital from shares sold	0.00	0.00
Startup Capital	350	350
Total Liabilities & Equity	**350**	**378**