Loans and Stocks

GoVentureCEO.com

Raising Money

- In GoVenture CEO, the amount of money you have to invest in your business each period is limited by your BUDGET.
- Your BUDGET may be a fixed amount, and it may or may not include a share or REVENUE or PROFIT.
- If you want to increase your BUDGET, you may have the option of taking out a LOAN or issuing STOCK. If your simulation has these options, they will appear under FINANCE.

Cash and Budget

BALANCE SHEET

	P0
Assets	
Cash	100
Inventory	0.00
Property, Plant & Equipment	50.00
Total Assets	**150**
Liabilities	
Short and Long Term Liabilities	0.00
Equity	
Retained Earnings (Net Profit)	0.00
Capital from shares sold	0.00
Startup Capital	150
Total Liabilities & Equity	**150**

- The amount of money you have to invest in your business is limited by your BUDGET.
- Each period, your BUDGET is taken from CASH.
- Normally, a company does not spend all of its CASH in one period, because it would be at risk of running out of money.
- To increase BUDGET, you must increase the CASH in your business by taking out a LOAN or issuing STOCK.

Types of Financing

- Applying for a LOAN is DEBT financing. You are borrowing money (debt) that must be repaid, often with interest.
- Issuing STOCK is EQUITY financing. You are selling a share of your business (equity) in return for money. This money is not repaid like a loan. In the real world, a shareholder may be entitled to a share of profits and other benefits. (In GoVenture World, profits are not shared, dividends are not issued.)

Profit

- Raising money by issuing STOCK or taking out a LOAN does NOT increase PROFIT.
- A business can only generate PROFIT by selling PRODUCTS or SERVICES.
- Raising money by issuing STOCK increases the period BUDGET. This gives a business more money to invest in areas such as marketing, R&D, manufacturing, etc.
- By having more money to invest, a business may be able to generate more REVENUE and PROFIT. But, if a business does not invest the new money wisely, it could end up LOSING the money.

Profit Warning!

- Raising money to increase BUDGET does not automatically give you an competitive advantage.
- If a business does not invest the new money in a way that increases PROFIT, the new money could be LOST and therefore result in the loss of PROFIT.
- In other words, having more money to spend means you risk losing even more money.

LOANS

Apply for a Loan

When a business receives a LOAN, it raises new money that increases CASH. The new money is added to the period BUDGET.

Example:

Loan Principal: $30,000

Cash money raised: $30,000

The business will have $30,000 added to its budget.

Loan Terms

- Applying for a loan in the CURRENT period will make the loan funds available in the NEXT period.
- Loan PRINCIPAL is the amount of funds you will receive. You may take out as many loans as you want, as long as the total PRINCIPAL outstanding (unpaid) does not exceed the maximum amount set by the Simulation Manager.
- INTEREST is the extra amount you have to pay back in addition to the Loan PRINCIPAL.
- INTEREST RATE is compounded each period at a fixed percentage set by the Simulation Manager. It may change in the future for new loans but will not change for any loans you may have outstanding. Note that INTEREST RATE is per PERIOD, based on whatever the PERIOD is in your simulation (week, month, quarter, year, etc.)
- AMORTIZATION PERIOD is the length of time it will take you to repay the loan with interest. Loan must be fully repaid by the end of the Simulation Competition. The Amortization SCHEDULE shows you the payments you have to make each period. The maximum Amortization PERIOD is set by the Simulation Manager, but it cannot be past the expected end of the Simulation Competition.

Loan Payments

- Loan PAYMENTS are automatically withdrawn from your CASH account each period. Loan PAYMENTS do not affect your BUDGET.
- You may fully repay (retire) a loan at any time by paying the remaining balance of the loan principal in full. There may be a fee for repaying a loan early (set by the Simulation Manager). If a Simulation Competition ends earlier than scheduled, the loan will be fully repaid automatically.
- The loan PRINCIPAL appears as a LIABILITY on the BALANCE SHEET. This liability gets reduced each time you make a loan PAYMENT.
- INTEREST payments appear as EXPENSES on the PROFIT AND LOSS statement. Interest payments directly reduce PROFIT.

Loan Example

It is currently period 6. You want to increase your BUDGET by $10,000 in the next period. The Simulation Competition is scheduled to end after 10 periods. You apply for a loan …

Principal: $10,000 (You choose this but cannot exceed maximum set by Simulation Manager.)
Interest Rate Per Period: 10% (Set by the Simulation Manager.)
Amortization Periods: 4 (You choose this but cannot exceed 4 since that is when sim ends.)

At the beginning of period 7, your CASH account will increase by $10,000. This new $10,000 will be allocated to your BUDGET for period 7. If you do not spend all of the money, it will be carried forward to your BUDGET for next period. Your loan payments will be withdrawn from CASH as shown in the AMORTIZATION SCHEDULE below.

Period	Principal	Interest Rate	Principal Payment	Interest Payment	Total Payment Made	Balance Remaining
7	$10,000	10%	$2,155	$1,000	$3,155	$7,845
8	$10,000	10%	$2,370	$785	$3,155	$5,475
9	$10,000	10%	$2,607	$548	$3,155	$2,868
10	$10,000	10%	$2,868	$287	$3,155	$0
			$10,000	$2,619	$12,619	

STOCK

Selling Shares

When a business sells STOCK (SHARES), it raises new money that increases CASH. The new money is added to the period BUDGET.

Example:

Share Price: $20

Shares Issued (sold): 1,000

Cash money raised: $20 x 1,000 = $20,000

The business will have $20,000 added to its budget.

Balance Sheet

Motorama
As of End of Month 7
(€ Millions)

	P0	P4	P5	P6	P7
Assets					
Cash	100	124	122	118	115
Inventory	0.00	0.00	0.00	0.00	0.00
Property, Plant & Equipment	50.00	50.00	50.00	50.00	50.00
Total Assets	**150**	**174**	**172**	**168**	**165**
Liabilities					
Short and Long Term Liabilities	0.00	0.00	0.00	0.00	0.00
Equity					
Retained Earnings (Net Profit)	0.00	24.22	20.72	17.19	13.76
Capital from shares sold	0.00	0.00	0.00	0.00	0.12
Startup Capital	150	150	150	150	150
Total Liabilities & Equity	**150**	**174**	**171**	**167**	**164**

Money raised through issuing stock gets added to CASH. BUDGET is taken from Cash.

Money raised through issuing stock appears on the Balance Sheet here as EQUITY. Note that it does NOT get included as Retained Earnings (Net Profit).

Stock

- Issuing STOCK is EQUITY financing. You are selling a share of your business (equity) in return for money.
- The words STOCK and SHARES are often used to mean the same thing, which is percentage OWNERSHIP in a business.
- All businesses in the same Simulation Competition start with the same SHARE PRICE and the same number of shares ISSUED and OUTSTANDING. These are all set by the Simulation Manager.

Share Price

- SHARE PRICE changes based on NET EARNINGS which is the same as PROFIT.
- As a business adds to PROFIT, the share price will INCREASE. If a business has negative PROFIT, the share price will DECREASE.
- The exact amount the share price will change is based on EARNINGS PER SHARE.
- EARNINGS PER SHARE means PROFIT divided by TOTAL SHARES ISSUED.

  Example: $20,000 profit divided by 1,000 shares equals $2.00. Share price will increase by $2.00.

Dilution

- Issuing new shares to sell risks negatively impacting EARNINGS PER SHARE because there will be more shares outstanding. This results in less profit per share.

  Example: $20,000 profit divided by 1,000 shares equals $2.00.
  $20,000 profit divided by 1,250 shares equals $1.60.

- Issuing and selling new shares does not immediately change the current share price because money is provided in return for the shares.

  Example: $10 share price with 100 shares outstanding providing a total market capitalization (value) of $10x100=$1,000.

  20 new shares are issued and sold at $10 per share for $200 in new money raised. There are now 120 shares issued and outstanding, providing a total market capitalization of $10x120=$1,200. Even though company value has increased with the new money, the share price has stayed the same because now there are more shares outstanding.

Score and Ranking

- Whether or not SHARE PRICE will impact business SCORE or RANKING in GoVenture CEO depends on the Simulation Manager.
- Not all GoVenture CEO simulations will include STOCKS and LOANS modules. If these modules are enabled, they will appear under FINANCE.

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