

## Video Game Company

26. Five years after the start of The Company, The Founders decide to sell it for \$750 000. To determine their fair share of the sale price, they agree that any contributions made towards start-up costs will be worth 1.5 times their original value. Contributions made after start-up will not be adjusted.

How much should Jae Eun and Ted each receive from the sale of their company?

Explain and justify your solution.

This question is to be answered on paper.

### **Summary of Requirements for a Level 4:**

- ▶ Determine the current value of the initial investments both partners made (Jae Eun \$87 750 and Ted \$33 000)
- ▶ Calculate the total investment over 5 years (Ted \$108 000 and Jae Eun \$87 750)
- ▶ Select and communicate a strategy for sharing the \$750 000
- ▶ Provide evidence to justify solution
- ▶ Communicate solution in context

There are several possible solutions; a few solutions are given.

### **Solution 1**

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This solution is based on each partner receiving a percentage of the total sale price based on what they invested in the company.

The initial investment is worth 1.5 times its original value. Jae Eun and Ted contributed different amounts at the start.

Jae Eun:  $\$50\,000 + \$8\,500 = \$58\,500$   
 $\$58\,500 \times 1.5 = \$87\,750$  (Jae Eun's initial contribution weighted at 1.5x)

Ted:  $\$22\,000 \times 1.5 = \$33\,000$  (Ted's initial contribution weighted at 1.5x)

Ted continued to contribute \$1250/month for 5 years.

$\$1250 \times 5 \text{ years} \times 12 \text{ months/year} = \$75\,000$

In total, Ted invested:  $\$33\,000 + \$75\,000 = \$108\,000$

Altogether, Jae Eun and Ted contributed:  $\$87\,750 + \$108\,000 = \$195\,750$