Test Bank for Entrepreneurial Finance 2nd Edition by Lee

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Entrepreneurial Finance (2nd)

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Total Questions: 50

Multiple Choice (40)

Q1. *[Multiple Choice] · Cognitive Domain: Comprehension*

The personal finances of the nascent entrepreneur and the finances of the start–up venture he creates are inextricably linked. One of the reasons this is true is because most new ventures are founded as ______.

- **a)** corporations
- **b) pass–through entities ✓ correct**
- **c)** non–profits
- **d)** virtual entities

Q2. *[Multiple Choice] · Cognitive Domain: Comprehension*

There are two major causes of business failure that, with some effort on the part of the entrepreneur, are, in many cases, avoidable. They are ______.

- **a)** lack of resources and fierce industry competition
- **b)** ineffective business partners and economic downturns
- **c)** inability to find needed talent and currency fluctuations
- **d) poor timing and lack of proper preparation ✓ correct**

Q3. *[Multiple Choice] · Cognitive Domain: Analysis*

Two examples of business models with which many entrepreneurs are currently finding success are ______.

- **a)** the subscription–based business model and the technological innovation business model
- **b) the subscription–based business model and the marketplace business model ✓ correct**
- **c)** the marketplace business model and the technological innovation business model
- **d)** the technological innovation business model and the diversification business model

Q4. *[Multiple Choice] · Cognitive Domain: Comprehension*

Working capital is ______.

- **a)** a fund that invests in a basket of assets, such as stocks or bonds, and trades on a regulated exchange like the New York Stock Exchange
- **b)** when a customer uses a credit card to buy something and then cancels the transaction
- **c) the capital required to sustain operations and support business growth after a company's start–up phase ✓ correct**
- **d)** equal to current assets divided by current liabilities

Q5. *[Multiple Choice] · Cognitive Domain: Knowledge*

A hybrid legal business entity authorized by state law featuring some of the characteristics of both partnerships and corporations is a ______.

- **a)** limited liability corporation
- **b) limited liability company ✓ correct**
- **c)** hybrid partnership
- **d)** hybrid joint venture

Q6. [Multiple Choice] · Cognitive Domain: Knowledge

A legal entity authorized by state law to act as an artificial person in order to conduct business or engage in certain other activities is a ______.

a) limited liability corporation
b) limited liability company
c) partnership
d) corporation ✓ correct

Q7. [Multiple Choice] · Cognitive Domain: Application

It is a life goal of Nish's to start his own business. Before starting a business, in order to increase his chances for entrepreneurial success, as an aspiring entrepreneur, he should ______.

a) quit his job
b) prevent himself from engaging in distractions like hobbies
c) work in and learn about the industry in which he intends to start the business ✓ correct
d) prepare a will

Q8. [Multiple Choice] · Cognitive Domain: Comprehension

Those who reach the market first with a truly innovative new product or service tend to ______ in the long run compared to later (copycat) entrants to the market.

a) be less profitable and less able to hold onto market share
b) be less profitable but better able to hold onto market share
c) be more profitable and better able to hold onto market share ✓ correct
d) be more profitable but less able to hold onto market share

Q9. [Multiple Choice] · Cognitive Domain: Analysis

The personal finances of the nascent entrepreneur and the finances of the start–up venture they create are inextricably linked. One of the reasons this is true is because many founders ______.

a) take on angel investors for their business
b) utilize venture capital funding for their business
c) successfully execute a crowdfunding campaign for their business
d) personally guarantee the debt or contracts of their business ✓ correct

Q10. [Multiple Choice] · Cognitive Domain: Application

Quintin is interested in starting a business. In order to increase his chances for entrepreneurial success, as an aspiring entrepreneur, he should do which of the following?

a) Establish a small network that is limited to those he is reasonably certain can help him with the business he intends to start.
b) Establish a large network both within and outside of the industry in which he intends to start the business. ✓ correct
c) Establish a large network only within the industry in which he intends to start the business.
d) Establish a large network outside of the industry in which he intends to start the business

Q11. [Multiple Choice] · Cognitive Domain: Comprehension

A feasibility analysis should ______.

a) be performed immediately after a business has commenced operations
b) concentrate on assessing the likelihood of economic success of a business ✓ correct
c) never be shown to potential investors
d) never be over 20 pages long

Q12. [Multiple Choice] · Cognitive Domain: Comprehension

A feasibility analysis is performed to answer four questions. One of those questions is ______.

- **a)** for what price can the business ultimately be sold
- **b)** who will be the primary investors in the business
- **c)** how much capital will the primary investors in the business contribute
- **d) are there enough interested customers that a business based on the concept under consideration can actually turn a profit ✓ correct**

Q13. [Multiple Choice] · Cognitive Domain: Knowledge

The financial plan of a feasibility analysis should include all of the following except ______.

- **a)** a detailed accounting of the amount of start–up capital required by the business and how and when that start–up capital will be used
- **b)** expected product pricing
- **c)** expected customer demand
- **d) a copy of each founder's credit report ✓ correct**

Q14. [Multiple Choice] · Cognitive Domain: Comprehension

The financial plan of a feasibility analysis should include all of the following except ______.

- **a) the expected work hours of the founding entrepreneur(s) detailed on a weekly or monthly basis ✓ correct**
- **b)** expected working capital needs
- **c)** the expected return on investment
- **d)** a breakeven analysis that supports the proposed business's economic viability

Q15. [Multiple Choice] · Cognitive Domain: Comprehension

A business plan is ______.

- **a)** required for entrepreneurial success
- **b) more comprehensive than a feasibility analysis ✓ correct**
- **c)** less comprehensive than a feasibility analysis
- **d)** always inclusive of a map detailing the business's physical location

Q16. [Multiple Choice] · Cognitive Domain: Knowledge

Major components of a business plan include ______.

- **a)** all the components of a feasibility analysis, including the "go" or "no go" feasibility decision
- **b) a growth plan ✓ correct**
- **c)** a map detailing the layout of the CEO's office
- **d)** a cash flow mitigation plan

Q17. [Multiple Choice] · Cognitive Domain: Comprehension

Which of the following statements is not true?

- **a)** Most new businesses require a substantial time commitment from the entrepreneur.
- **b)** Most new businesses require a significant financial investment by the entrepreneur.
- **c) Most start–ups earn no revenue during their first three years of operation. ✓ correct**
- **d)** More than half of start–ups aren't profitable in their first year.

Q18. *[Multiple Choice] · Cognitive Domain: Comprehension*

Which statement is true regarding the three major credit reporting agencies?

- **a) They build your credit report based solely on the information voluntarily reported to them by creditors. ✓ correct**
- **b)** They build your credit report based on information they buy from creditors.
- **c)** They are required to provide you with a free copy of your credit report, at your request, once every 4 months.
- **d)** They are nonprofit agencies of the federal government.

Q19. *[Multiple Choice] · Cognitive Domain: Analysis*

In order to clearly separate himself from his business, an entrepreneur should do all of the following except ______.

- **a)** pay the business rent or some reasonable remuneration for any significant business assets the entrepreneur uses for personal purposes
- **b)** make sure the use of any business vehicle is more than 50 percent business use as documented in a daily mileage log that describes the purpose of every mile driven
- **c) never take personal items to his place of business ✓ correct**
- **d)** keep separate bank and debt accounts for personal versus business use

Q20. *[Multiple Choice] · Cognitive Domain: Analysis*

In order to clearly separate himself from his business, an entrepreneur should do all of the following except ______.

- **a) decline to sign business documents ✓ correct**
- **b)** execute a formal operating agreement between the entrepreneur, the partners (if applicable), and the company
- **c)** decline to personally guarantee a loan of the business
- **d)** decline to personally guarantee a contract of the business

Q21. *[Multiple Choice] · Cognitive Domain: Comprehension*

One of the top 10 legal and financial mistakes entrepreneurs make is ______.

- **a)** failing to sue other business owners when they should
- **b)** bringing outside investors into the business
- **c)** taking too long to review a written agreement before signing it
- **d) failing to keep current with regard to filing tax returns and paying taxes ✓ correct**

Q22. *[Multiple Choice] · Cognitive Domain: Comprehension*

One of the top 10 legal and financial mistakes entrepreneurs make is ______.

- **a)** not leaving enough “wiggle room” in customer payment terms and therefore losing sales
- **b) not putting clear payment terms in place for customers ✓ correct**
- **c)** over–insuring the business
- **d)** investing their own money in the business

Q23. *[Multiple Choice] · Cognitive Domain: Comprehension*

One of the top 10 legal and financial mistakes entrepreneurs make is ______.

- **a)** setting up an LLC instead of a corporation
- **b)** consulting with a tax attorney
- **c)** outsourcing payroll processing
- **d) processing payroll internally ✓ correct**

Q24. *[Multiple Choice]* · *Cognitive Domain: Knowledge*

______ is intangible property created from human intellect, often evidenced by copyrights, patents and trademarks.

- **a)** A feasibility analysis
- **b)** A business plan
- **c) Intellectual property ✓ correct**
- **d)** A trade secret

Q25. *[Multiple Choice]* · *Cognitive Domain: Knowledge*

______ financial statements are financial statements that attempt to estimate the future financial situation of a company based upon certain identified assumptions.

- **a)** Traditional
- **b)** Historical
- **c)** Comparative
- **d) Pro forma ✓ correct**

Q26. *[Multiple Choice]* · *Cognitive Domain: Comprehension*

One of the top 10 legal and financial mistakes entrepreneurs make is ______.

- **a)** putting agreements, terms of doing business, and other understandings in writing
- **b) not adequately identifying, avoiding, reducing, or insuring against the risks that can destroy a business ✓ correct**
- **c)** showing their business plan to potential investors
- **d)** showing their business plan to potential business partners

Q27. *[Multiple Choice]* · *Cognitive Domain: Comprehension*

Generally, the timing is right to start a business when ______.

- **a) the customer is ready for what the entrepreneur has to offer ✓ correct**
- **b)** the industry is ready for what the entrepreneur has to offer
- **c)** the economy has just come out of a recession
- **d)** the economy is about to go into a recession

Q28. *[Multiple Choice]* · *Cognitive Domain: Application*

You can lower your credit score over time by engaging in which of the following behaviors ______.

- **a)** taking on a reasonable amount of debt
- **b) opening too many credit card accounts at one time ✓ correct**
- **c)** making too many on–time debt payments (creditors want to earn interest)
- **d)** overall responsible credit use

Q29. *[Multiple Choice]* · *Cognitive Domain: Comprehension*

Which of the following is not true related to your credit report?

- **a)** Inaccurate information could be included on the report.
- **b)** Some of your credit accounts could be missing from the report.
- **c)** Information that doesn’t belong to you could be included on the report.
- **d) Suspected local identity thieves could be identified on the report. ✓ correct**

Q30. *[Multiple Choice] · Cognitive Domain: Comprehension*

In 1981, the Fair Isaac Corporation (FICO) created a branded version of your credit score called the FICO Score. According to FICO ______.

a) the FICO Score is the credit score most widely used by U.S. lenders to make loan approval decisions ✓ correct

b) to compute credit scores, FICO uses information provided by the three major credit reporting agencies—Equifax, Experian, and Excelsior

c) you may have as many as five different FICO Scores, one computed by each credit reporting agency, one calculated by FICO itself, and one calculated by the bank from whom you are requesting a loan

d) Excelsior is the most reliable credit reporting agency

Q31. *[Multiple Choice] · Cognitive Domain: Analysis*

Common approaches to risk management include risk avoidance, risk reduction, risk transfer, and risk assumption. Risk avoidance is characterized by the avoidance of any hazard that exposes a business or an individual to risk. An example of risk avoidance would be ______.

a) a business self–insuring its employees' medical coverage

b) an entrepreneur installing a security system at his business's facility

c) a business owner instituting a "Cash Only" sales policy at his business ✓ correct

d) a business offering customers trade credit

Q32. *[Multiple Choice] · Cognitive Domain: Comprehension*

Trade credit is a business–to–business arrangement by which ______.

a) the supplier business can purchase items from the customer business on account—paying no cash at the time of purchase, but instead paying for the items at a later date

b) the supplier business can purchase items from the customer business on account—paying cash at the time of purchase and thus receiving a discount as a result

c) the customer business can purchase items from the supplier business on account—paying no cash at the time of purchase, but instead paying for the items at a later date ✓ correct

d) the customer business can purchase items from the supplier business on account—paying cash at the time of purchase and thus receiving a discount as a result

Q33. *[Multiple Choice] · Cognitive Domain: Analysis*

Common approaches to risk management include risk avoidance, risk reduction, risk transfer, and risk assumption. Risk reduction involves engaging in behaviors and programs specifically designed to reduce risk. An example of a risk reduction behavior would be ______.

a) a business self–insuring its employees' medical coverage

b) an entrepreneur installing a security system at his business's facility ✓ correct

c) a business owner instituting a "Cash Only" sales policy at his business

d) accepting checks from customers for purchases

Q34. *[Multiple Choice] · Cognitive Domain: Comprehension*

A factor is a third party who ______.

a) for a fee that is usually equivalent in amount to 5 percent to 10 percent of the total accounts receivable sold, provides the business owner with immediate cash for the accounts receivable

b) for a fee that is usually equivalent in amount to 5 percent to 10 percent of the total accounts receivable sold, provides the business owner with immediate cash for the accounts receivable and then goes about collecting the accounts receivable themselves

c) for a fee that is usually equivalent in amount to 1 percent to 5 percent of the total accounts receivable sold, provides the business owner with immediate cash for the accounts receivable

d) for a fee that is usually equivalent in amount to 1 percent to 5 percent of the total accounts receivable sold, provides the business owner with immediate cash for the accounts receivable and then goes about collecting the accounts receivable themselves ✓ correct

Q35. *[Multiple Choice]* *· Cognitive Domain: Analysis*

Common approaches to risk management include risk avoidance, risk reduction, risk transfer, and risk assumption. Risk transfer involves proactively transferring risk to another party. An example of risk transfer would be ______.

a) a business selling its accounts receivable to a factor ✓ correct

b) a business not offering customers the opportunity to make purchases using credit

c) an entrepreneur installing a sprinkler system at his business's facility

d) a business self–insuring its employees' medical coverage

Q36. *[Multiple Choice]* *· Cognitive Domain: Analysis*

Common approaches to risk management include risk avoidance, risk reduction, risk transfer, and risk assumption. Risk assumption occurs when one proactively assumes risk because one believes that the loss or cost one is likely to incur by assuming that risk is less than the loss or cost associated with risk avoidance, risk reduction, or risk transfer. An example of a risk assumption behavior would be ______.

a) a business self–insuring its employees' medical coverage ✓ correct

b) a business purchasing business insurance

c) an entrepreneur installing a security system at his business's facility

d) a business owner instituting a "Cash Only" sales policy at his business

Q37. *[Multiple Choice]* *· Cognitive Domain: Comprehension*

Accounts receivable represent ______.

a) the amounts a company owes its vendors related to their purchases from those vendors utilizing the credit or trade credit offered by the vendors

b) the amounts customers owe a company related to their purchases from that company utilizing the credit or trade credit offered by that company ✓ correct

c) delinquent customer accounts that have been written off by a company

d) amounts a company owes to its vendors but does not plan to pay

Q38. *[Multiple Choice]* *· Cognitive Domain: Analysis*

The rate of new business failure would likely be significantly ______ if every entrepreneur took the time to ______.

a) lower, obtain the approval of his family and friends before starting a business

b) lower, do a feasibility analysis that includes a breakeven analysis before starting a business ✓ correct

c) lower, get the federal government's approval before starting the business

d) higher, adequately prepare before starting a business

Q39. *[Multiple Choice]* *· Cognitive Domain: Knowledge*

The mistakes that most severely damage a business tend to be either ______.

a) psychological or operational

b) operational or legal

c) legal or financial ✓ correct

d) financial or custodial

Q40. *[Multiple Choice]* *· Cognitive Domain: Comprehension*

A feasibility analysis should include a description of the business concept underlying the proposed business. A description of the business concept should include all of the following except ______.

a) a detailed description of the proposed product or service

b) a description of the product's or service's likely customers

c) a description of the value the product or service will bring to a business's vendors ✓ correct

d) a description of the distribution channels that will most likely be utilized to get the product or service to its customers

True/False (10)

Q41. [True/False] · Cognitive Domain: Knowledge

The rate of new business failure is very high in some industries and very low in others.

a) True

b) False ✓ correct

Correct answer: False

Q42. [True/False] · Cognitive Domain: Comprehension

The topic of entrepreneurial finance recognizes that oftentimes entrepreneurs make decisions for the businesses they've founded with their personal financial goals—and other personal goals—clearly in mind.

a) True ✓ correct

b) False

Correct answer: True

Q43. [True/False] · Cognitive Domain: Knowledge

A secured credit card is a credit card backed by an insurance policy paid for by you.

a) True

b) False ✓ correct

Correct answer: False

Q44. [True/False] · Cognitive Domain: Knowledge

A personal guarantee is, by definition, comprehensive. It cannot have a dollar amount, time, or other type of limitation placed on it.

a) True

b) False ✓ correct

Correct answer: False

Q45. [True/False] · Cognitive Domain: Comprehension

Entrepreneurship is a linear process.

a) True

b) False ✓ correct

Correct answer: False

Q46. [True/False] · Cognitive Domain: Knowledge

A pass–through entity is a business whose profits are not taxed at the company level but instead pass through to the business owners' individual tax returns, where they are taxed.

a) True ✓ correct

b) False

Correct answer: True

Q47. [True/False] · Cognitive Domain: Knowledge

A company's business model indicates how a business concept will make a company—and ultimately the entrepreneur—money.

a) True ✓ correct

b) False

Correct answer: True

Q48. *[True/False] · Cognitive Domain: Comprehension*

If a founder is a solo entrepreneur, it is unnecessary to complete an operating agreement.

a) True

b) False ✓ correct

Correct answer: False

Q49. *[True/False] · Cognitive Domain: Knowledge*

A business plan is required for entrepreneurial success.

a) True

b) False ✓ correct

Correct answer: False

Q50. *[True/False] · Cognitive Domain: Knowledge*

A business plan should not be shown to individuals outside of the organization.

a) True

b) False ✓ correct

Correct answer: False