

Test Bank for Entrepreneurial Finance 7th Leach

TEST BANK SAMPLE PREVIEW

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RESOURCE TYPE

Test Bank

TRUE/FALSE

1 : Only a small number of new business ideas become viable business opportunities with funded business plans.

A : true

B : false

Correct Answer : A

2 : It has been estimated that venture capitalists invest in about 10 to 30 percent of business plans presented to them.

A : true

B : false

Correct Answer : B

3 : Salary-replacement firms provide their owners with income levels comparable to what they could have earned working for much larger firms.

A : true

B : false

Correct Answer : A

4 : Lifestyle firms are growth driven in terms of revenues, profits, and cash flows and also performance oriented as reflected in rapid value creation over time.

A : true

B : false

Correct Answer : B

5 : An entrepreneur may start a number of different types of businesses, including salary-replacement firms, lifestyle firms, and entrepreneurial firms or ventures.

A : true

B : false

Correct Answer : A

6 : Entrepreneurial ventures are firms that allow owners to pursue specific lifestyles while being paid for doing what they like to do.

A : true

B : false

Correct Answer : B

7 : Entrepreneurial ventures emphasize survival and providing an acceptable living for their owners, with growth being a secondary goal.

A : true

B : false

Correct Answer : B

8 : A well-designed entrepreneurial venture begins with an idea that survives an analysis of its feasibility and results in a business plan.

A : true
B : false

Correct Answer : A

9 : The process of moving from entrepreneurial opportunities to new businesses, products, or services begins with ideas, then moves to the preparation of a business plan, and finally ends with a feasibility study.

A : true
B : false

Correct Answer : B

10 : A sound business model should provide a plan to generate revenues, make profits, and produce free cash flows.

A : true
B : false

Correct Answer : A

11 : A sound business model is a plan to generate investor interest, make profits, and grow asset investments.

A : true
B : false

Correct Answer : B

12 : The first component of a sound business model is the need to generate revenues.

A : true
B : false

Correct Answer : A

13 : For ventures that get to market first or create intellectual property rights, it is common to price new products or services at high markups or profit margins.

A : true
B : false

Correct Answer : A

14 : A successful, sound business model does not have to ultimately produce free cash flows.

A : true
B : false

Correct Answer : B

15 : Best practices of high-growth, high-performance firms applied in the marketing practices area include "developing new products or services that are considered to be the best."

A : true
B : false

Correct Answer : A

16 : Best practices of high-growth, high-performance firms applied in the marketing practices area include "preparing detailed monthly financial plans for the next year and annual financial plans for the next five years."

A : true

B : false

Correct Answer : B

17 : Best practices of high-growth, high-performance firms applied in the financial practices area include "preparing detailed monthly financial plans for the next year and annual financial plans for the next five years."

A : true

B : false

Correct Answer : A

18 : Mark Twain said, "Like I tell anybody, if you fail to plan, you're planning to fail."

A : true

B : false

Correct Answer : B

19 : Best practices of high-growth, high-performance firms applied in the management practices area include "assembling a management team that is balanced in both functional area coverage and industry/market knowledge."

A : true

B : false

Correct Answer : A

20 : Business opportunities exist in real time, and most ideas have a relatively narrow window of opportunity to become successful business ventures.

A : true

B : false

Correct Answer : A

21 : Being first to market does not guarantee success.

A : true

B : false

Correct Answer : A

22 : Ideas that are said to be ahead of their time are too late to become viable business opportunities for the inventor or innovator.

A : true

B : false

Correct Answer : B

23 : Once conceptualized, a new idea should be examined for its business feasibility.

A : true

B : false

Correct Answer : A

24 : A viable venture opportunity creates or meets a customer need, provides an initial competitive advantage, is timely in terms of time-to-market, and offers the expectation of added value to investors.

A : true

B : false

Correct Answer : A

25 : A SWOT analysis is an examination of the strengths, weaknesses, opportunities, and threats to determine the business opportunity viability of an idea.

A : true

B : false

Correct Answer : A

26 : A SWOT analysis focuses on strengths (S), worries (W), opportunities (O), and threats (T).

A : true

B : false

Correct Answer : B

27 : A SWOT analysis should consider as potential strengths or weaknesses whether there are unfilled customer needs and the extent to which intellectual property rights exist.

A : true

B : false

Correct Answer : A

28 : A SWOT analysis should consider as potential strengths or opportunities the extent of existing competition and the likelihood of substitute products or services.

A : true

B : false

Correct Answer : B

29 : Venture opportunity screening involves assessment of an idea's commercial potential to produce revenue growth, financial performance, and value.

A : true

B : false

Correct Answer : A

30 : A venture opportunity screening is the same thing as preparing a business plan.

A : true

B : false

Correct Answer : B

31 : A venture opportunity screening guide, called the VOS Indicator™, is used to screen venture opportunities for potential attractiveness.

A : true

B : false

Correct Answer : A

32 : The VOS Indicator™ is useful in assessing the commercial potential of a venture, but should not be used as the sole tool to determine a venture's fate.

A : true

B : false

Correct Answer : A

33 : The VOS Indicator™ provides both qualitative and quantitative information about a venture's commercial potential.

A : true

B : false

Correct Answer : A

34 : A venture with a low score on the VOS Indicator™ should always be abandoned.

A : true

B : false

Correct Answer : B

35 : Asset intensity is the net after-tax profit divided by total assets.

A : true

B : false

Correct Answer : B

36 : One way to describe asset intensity is the dollar investment in assets needed to generate a dollar in sales.

A : true

B : false

Correct Answer : A

37 : Asset intensity and asset turnover are calculated as revenues divided by total assets.

A : true

B : false

Correct Answer : B

38 : A high asset intensity implies a large investment in fixed assets and/or net working capital is needed to support revenue growth.

A : true

B : false

Correct Answer : A

39 : Business changes resulting in higher net profit always increases ROA.

A : true

B : false

Correct Answer : B

40 : The compound rate of return that equates the present value of the cash inflows with the initial investment outlay is called the internal rate of return (IRR).

A : true

B : false

Correct Answer : A

41 : Financial bootstrapping refers to the process of minimizing resources such as the need for financial capital and finding unique sources for financing a new venture.

A : true

B : false

Correct Answer : A

42 : Free cash flow to equity is the cash flow from producing and selling a product or providing a service.

A : true

B : false

Correct Answer : B

43 : In a typical business plan, the section covering the management team does not need to disclose the management team's expertise and experience.

A : true

B : false

Correct Answer : B

44 : The nonfinancial options available to managers as the venture progresses through its life cycle are known as real options.

A : true

B : false

Correct Answer : A

MULTIPLE CHOICE

45 : Venture capitalists invest in approximately what percent of business plans presented to them?

A : 1%–3%

B : 10%–13%

C : 20%–23%

D : 30%–33%

Correct Answer : A

46 : Firms that allow owners to pursue specific lifestyles while being paid for doing what they like to do are referred to as:

A : salary-replacement firms

B : lifestyle firms

C : entrepreneurial ventures

D : rapid-value-creation firms

Correct Answer : B

47 : U.S. small businesses are predominately:

A : salary-replacement or entrepreneurial firms

B : lifestyle or entrepreneurial firms

C : entrepreneurial ventures

D : salary-replacement or lifestyle firms

Correct Answer : D

48 : The definition of an entrepreneurial firm is:

A : survival

B : high growth

C : high growth and high performance

D : survival and average performance

Correct Answer : B

49 : A well-designed entrepreneurial venture typically includes:

A : generating ideas

B : analyzing the feasibility of ideas

C : producing a business plan

D : generating ideas, analyzing the feasibility of ideas, and producing a business plan

Correct Answer : D

50 : A sound business model provides a plan to do all of the following except:

A : generate revenues

B : make profits

C : retain all its earnings

D : produce free cash flows

Correct Answer : C

51 : A sound business model includes a plan to:

A : generate revenues and make profits

B : make profits and produce free cash flows

C : produce free cash flows for the owners of the venture

D : generate revenues, make profits, and produce free cash flows

Correct Answer : D

52 : Which of the following is not a standard component of a sound business model?

A : produce low-cost products

B : generate revenues

C : make profits

D : produce free cash flows

Correct Answer : A

53 : The first two requirements of a sound business model are:

- A : generate revenues and make profits
- B : make profits and produce free cash flows
- C : produce free cash flows for creditors and owners of the venture
- D : generate revenues and produce free cash flows

Correct Answer : A

54 : When moving from entrepreneurial opportunities to new businesses, products, or services, which of the following is not considered a component?

- A : ideas
- B : feasibility
- C : business plan
- D : harvest of venture

Correct Answer : D

55 : A venture's value is determined by its:

- A : future free cash flows (to equity)
- B : revenues
- C : profits
- D : assets

Correct Answer : A

56 : In a study of high-growth, high-performance firms by the Kauffman Center for Entrepreneurial Leadership of best practices, which of the following practices was not included?

- A : marketing practices
- B : financial practices
- C : management practices
- D : production/operations practices

Correct Answer : D

57 : Developing new and delivering high-quality products or services that command higher prices and margins best describes strong:

- A : marketing practices
- B : financial practices
- C : operating practices
- D : management practices

Correct Answer : A

58 : An effective entrepreneurial management team should do all of the following except:

- A : provide expertise in the areas of marketing, finance, and operations
- B : have successful experience in the ventures industry and markets
- C : always work independently of each other
- D : share the entrepreneurial spirit

Correct Answer : C

59 : A viable venture opportunity is characterized by all of the following except:

- A : creating or meeting a customer need
- B : having perceived attraction to prospective investors

- C : providing an initial competitive advantage
- D : being timely in terms of time-to-market

Correct Answer : B

60 : A SWOT analysis does not focus on which of the following components or areas?

- A : strengths
- B : weaknesses
- C : new ideas
- D : opportunities

Correct Answer : C

61 : A SWOT analysis focuses on which of the following components or areas?

- A : strengths and weaknesses
- B : weaknesses and opportunities
- C : strengths, opportunities, and threats
- D : threats, opportunities, weaknesses, and strengths

Correct Answer : D

62 : When conducting a SWOT analysis, assessing unfilled customer needs is examined in terms of:

- A : strengths or weaknesses
- B : weaknesses or threats
- C : opportunities or threats
- D : threats or strengths

Correct Answer : A

63 : When conducting a SWOT analysis, which of the following areas would not be considered as a potential opportunity or threat?

- A : existing competition
- B : reputation value
- C : possibility of new technologies
- D : recent or potential regulatory changes

Correct Answer : B

64 : Which of the following assessment categories is not used at the end of a qualitative-based venture opportunity screening exercise?

- A : natural commercial potential
- B : high commercial potential
- C : average commercial potential
- D : low commercial potential

Correct Answer : A

65 : Which of the following is not one of the factor categories of the VOS Indicator™?

- A : industry/market considerations
- B : pricing/profitability considerations
- C : financial/harvest considerations
- D : location/profitability considerations

Correct Answer : D

66 : The evaluation of entry barriers occurs under which of the factor categories of the VOS Indicator™?

- A : industry/market considerations
- B : pricing/profitability considerations
- C : financial/harvest considerations
- D : management team considerations

Correct Answer : A

67 : A VOS Indicator™ stands for:

- A : "venture opportunity screening" indicator
- B : "viable opportunity statement" indicator
- C : "venture only success" indicator
- D : "viable assessment screening" indicator

Correct Answer : A

68 : The factor categories in a VOS Indicator™ are:

- A : industry/market considerations
- B : industry/market and pricing/profitability considerations
- C : industry/market, pricing/profitability, and financial/harvest considerations
- D : industry/market, pricing/profitability, financial/harvest, and management team considerations

Correct Answer : D

69 : A score in the range of 2.34–3.00 using the VOS Indicator™ would be considered a(n):

- A : low score
- B : average score
- C : high score
- D : very high score

Correct Answer : C

70 : An average score using the VOS Indicator™ would fall in the range:

- A : 0.00–0.99
- B : 1.00–1.66
- C : 1.67–2.33
- D : 2.34–3.00

Correct Answer : C

71 : Some venture investors like to draw analogies between baseball terms and venture performance. The baseball term used to reflect a total loss of an investment is:

- A : "home run"
- B : "single"
- C : "strikeout"
- D : "double"

Correct Answer : C

72 : The direct costs of producing a product or providing a service is called:

- A : gross profit

- B : gross profit margin
- C : net profit margin
- D : cost of goods sold

Correct Answer : D

73 : Revenues minus the cost of goods sold is called:

- A : gross profit
- B : gross profit margin
- C : net profit
- D : net profit margin

Correct Answer : A

74 : The dollar profit left after all expenses, including financing costs and taxes, have been deducted from the firm's revenues is called:

- A : gross profit
- B : gross profit margin
- C : net profit
- D : net profit margin

Correct Answer : C

75 : Asset intensity is:

- A : total assets divided by total revenues
- B : total revenues divided by total assets
- C : calculated the same as asset turnover
- D : one-half of the asset turnover

Correct Answer : C

76 : If the asset intensity is 0.80, the asset turnover would be:

- A : 0.80 times
- B : 1.00 times
- C : 1.25 times
- D : 1.50 times

Correct Answer : C

77 : Return on assets can be stated as:

- A : net after-tax profit divided by total assets
- B : total assets divided by net after-tax profit
- C : total assets divided by revenues
- D : revenues divided by total assets

Correct Answer : A

78 : All else held constant, a higher asset turnover:

- A : increases ROA
- B : decreases ROA
- C : has no effect on ROA
- D : may raise or lower ROA, depending on how it affects revenues.

Correct Answer : A

79 : The return on assets (ROA) model measures:

- A : revenues divided by net profit multiplied by the asset turnover
- B : net profit margin multiplied by the equity multiplier
- C : net profit margin multiplied by the asset turnover
- D : net profit divided by total assets multiplied by the asset turnover

Correct Answer : C

80 : Free cash flow, which can be paid back to investors, occurs when cash generated from operations exceeds all of the following except:

- A : borrowing costs
- B : noncash depreciation
- C : taxes
- D : investment in assets

Correct Answer : B

81 : Free cash flow to equity is the cash available to the entrepreneur and venture investors after all of the following except:

- A : net cash flows
- B : net increases in debt capital
- C : financing and tax cash flows
- D : investment in assets needed to sustain the ventures growth

Correct Answer : A

82 : Free cash flow to equity of an entrepreneurial firm includes cash flows to:

- A : venture investors
- B : creditors
- C : the entrepreneur
- D : venture investors and the entrepreneur

Correct Answer : D

83 : A venture's value to its owners is determined by the:

- A : size and timing of its future free cash flows (to equity)
- B : level of its past revenues
- C : prior losses and expenses
- D : all of these choices

Correct Answer : A

84 : Determine the cost of goods sold for a venture with the following financial information: revenues = \$50,000; net profit margin = 20%; and gross profit margin = 70%

- A : \$40,000
- B : \$35,000
- C : \$15,000
- D : \$10,000

Correct Answer : C

85 : Determine the return on assets (ROA) for a venture with the following financial information: revenues = \$500,000; net profit = \$70,000; and asset turnover = 2.0 times.

- A : 10%
- B : 14%
- C : 28%
- D : 34%

Correct Answer : C

86 : Determine the dollar amount of total assets for a venture with the following financial information: revenues = \$500,000; net profit = \$70,000; and asset turnover = 2.0 times.

- A : \$100,000
- B : \$250,000
- C : \$375,000
- D : \$500,000

Correct Answer : B

87 : Determine the net profit for a venture with the following financial information: revenues = \$500,000; return on assets = 20%; and asset turnover = 2.0 times.

- A : \$10,000
- B : \$25,000
- C : \$50,000
- D : \$60,000

Correct Answer : C

88 : Determine the dollar amount of revenues for a venture with the following financial information: net profit = \$60,000; assets turnover = 1.5 times; and return on assets 30%.

- A : \$300,000
- B : \$500,000
- C : \$800,000
- D : \$1,200,000

Correct Answer : A

89 : Determine the asset intensity of a venture with the following financial information: net profit = \$22,000; revenues = \$132,000; and return on assets 30%.

- A : 0.1
- B : 0.6
- C : 1.8
- D : 2.0

Correct Answer : B

90 : A written document that describes the proposed venture in terms of the product or service opportunity, current resources, and financial projections is called a(n):

- A : financial plan
- B : business plan
- C : entrepreneurial plan
- D : survival plan

Correct Answer : B

91 : In the venture life cycle, moving from the development stage to the startup stage frequently begins with the preparation of a business plan. The business plan is a written document that describes the proposed venture in all of the following terms except:

- A : the proposed product or service opportunity
- B : the accounting data for the last five years
- C : current resources available to the venture
- D : financial projections

Correct Answer : B

92 : A typical business plan includes all of the following sections except:

- A : executive summary
- B : business description
- C : marketing plan and strategy
- D : disclosure of pending litigation

Correct Answer : D

93 : When composing the financial plans and projections section of a business plan, all of the following should be included except:

- A : income statements and balance sheets
- B : statements of cash flows
- C : past and present dividends per share information
- D : funding needs and sources

Correct Answer : C

94 : A typical business plan includes all of the following sections except:

- A : management team
- B : financial plans and projections
- C : risk and opportunities
- D : initial public offering information

Correct Answer : D

95 : The process involving minimizing the need for financial capital and finding unique sources for financing a new venture is referred to as:

- A : mezzanine financing
- B : financial bootstrapping
- C : seed financing
- D : startup financing

Correct Answer : B

96 : A firm's option to abandon a venture is an example of a:

- A : bootstrapping option
- B : financial option
- C : survival option
- D : real option

Correct Answer : D