Entrepreneurial Â Finance 7th edition Leach Test Bank

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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