Entrepreneurial Finance Version 2 2nd edition Hettinger Test Bank

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True/False Questions

1. Professional service businesses sell the time and skills of their employees.
   Answer: True (easy)

2. Manufacturing businesses are engaged in the process of turning raw materials into finished goods.
   Answer: True (easy)

3. Retail businesses manufacture products to be sold to customers wholesale.
   Answer: False (easy)

4. Any start up business will need some cash to cover expenses until cash is received from customer purchases.
   Answer: True (moderate)

5. Start-up capital is only needed by manufacturing businesses who need to purchase equipment for the factory.
   Answer: False (moderate)

Multiple Choice Questions

1. When starting a manufacturing business, the founder should make sure the business has enough cash .
   a. To pay the bills until customers begin paying
   b. To cover the first years expenses
   c. For a two-month sales cycle
   d. To allow the founder to continue paying his personal bills
   Answer: a: (easy)

2. When a entrepreneurial manufacturing business first moves from the entrepreneur's house to business park, the business is likely to incur significant expenses related to:
   a. Changing the phone number
   b. Purchasing manufacturing equipment
   c. Modifying the cloud based server URLs
   d. Increasing the product mix
   Answer: b: (easy)

3. The period between the manufacturing of a product and the receipt of payment from customers for that product is known as the _______.
   a. Product life-cycle
   b. Production cycle
   c. Sales cycle
   d. Accounting cycle
   Answer: c: (moderate)

4. The period between when raw materials enter the production process and a finished product is created is known as the __________.
   a. Product life-cycle
   b. Production cycle
   c. Sales cycle
   d. Accounting cycle
   Answer: b: (moderate)

5. Which of the following start-up expenses is likely to be unique to a manufacturer?
   a. Paying workers during business start up
   b. The need for start-up cash to sustain the business until customers begin paying
   c. Leasing machinery for the factory
   d. Identifying a viable product
   Answer: c: (moderate)

6. Which of the following is likely to be the most significant expense during the early months of a medical office such as Uptown Chiropractic?
   a. Paying employees
   b. Inventory purchases
   c. Rent
   d. Office furniture
   Answer: a: (moderate)

7. Which of the following is likely to be the most significant start up expense for a retailer occupying store space in the mall?
   a. Paying employees during the start-up period to stock the shelves
   b. Inventory purchases
   c. Equipment leases
   d. Organization costs
   Answer: b: (moderate)

8. A professional service business:
   a. Sells products it has manufactured
   b. Sells products manufactured by others
   c. Sells the time and skills of its employees
   d. Imports products for resale
   Answer: c: (easy)

9. A retail business:
   a. Sells products it has manufactured
   b. Sells products manufactured by others
   c. Sells the time and skills of its employees
   d. Distributes products manufactured internationally
   Answer: b: (easy)

10. A manufacturing business:
    a. Sells products it has manufactured
    b. Sells products manufactured by others
    c. Sells the time and skills of its employees
    d. Imports products for resale
    Answer: a: (easy)

11. Which type of business is most likely to have cost of goods sold?
    a. Manufacturing
    b. Retail
    c. Service
    d. Both a and b
    Answer: d: (easy)

12. Which type of business is most likely to have cost of services?
    a. Manufacturing
    b. Retail
    c. Service
    d. Both a and b
    Answer: c: (moderate)

13. Which type of business might provide its goods/services now yet not be paid until a later date?
    a. Manufacturing
    b. Retail
    c. Service
    d. Both a and c
    Answer: d: (moderate)

14. Which type of business is generally paid when it provides its goods/services to its customers?
    a. Manufacturing
    b. Retail
    c. Service
    d. Both a and c
    Answer: b: (moderate)

15. What is the most likely cause of low cash flow during the first months of operation of a retail store?
    a. It takes time to begin collecting accounts receivable
    b. It takes time for sales volume to build
    c. Inventory reimbursement lags sales
    d. More products are sold than replenished
    Answer: b: (difficult)

16. What is the most likely cause of low cash flow during the first months of operation of a manufacturing business?
    a. It takes time to begin collecting accounts receivable
    b. It takes time for sales volume to build
    c. Inventory must be purchased
    d. All of the above
    Answer: d: (difficult)

17. A business that recognizes all its sales when the accounting event takes place rather than when the money is exchanged is using _________.
    a. Cash accounting
    b. Accrual accounting
    c. Event accounting
    d. Exchange accounting
    Answer: b: (moderate)

18. A business that recognizes all its sales when the money is exchanged, that business is using ___________.
    a. Cash accounting
    b. Accrual accounting
    c. Event accounting
    d. Exchange accounting
    Answer: a: (moderate)

Short Answer/Fill-In the Blanks

1. ________ is needed to sustain a manufacturer between the manufacture of products and the receipt of payment for those products.
   Answer: Cash ((easy)

2. ________ may be needed to sustain a professional service business between the time services are rendered and payment for those services is received .
   Answer: Cash (easy)

3. Which type of business is most likely to receive payment at the time of time?
   Answer: Retailer (easy)

4. A _____________ business sells the time and expertise of their employees.
   Answer: Service (easy)

5. ____________ costs are a significant part of the expenses of a professional services business.
   Answer: Employee (moderate)

6. Which type of business is likely to incur significant start-up expenses for equipment?
   Answer: Manufacturing (easy)

7. Which type of business is not likely to have inventory?
   Answer: Service (easy)

8. Correctly estimating the ___________ of revenue and expenses is an important element in forecasting cash needs for a start-up business.
   Answer: Timing (difficult)

9. A business that recognizes accounting events when cash is either paid or received is using ________ accounting.
   Answer: Cash (easy)

10. ___________ businesses don't have inventory and might be able to use either cash or accrual accounting.
    Answer: Service (moderate)

Short Essay Questions

1. Describe the financial issues that might affect the start-up of a professional service business.

   Answer: Business sells time and expertise and therefore has no inventory to purchase. Revenue may be received months after services have been provided. Paying employees can be a significant cost of the business. The business can use cash or accrual accounting.

2. Describe the financial issues that might affect the start-up of a manufacturing business

   Answer: A factory must be equipped before manufacturing operations can begin. The sales cycle might be long. It might take six months between the manufacture of a product and receipt of payment for the sale of that product. Suppliers and workers will need to be paid in the interim.

3. Describe the financial issues that might affect the start-up of a retail business.

   Answer: Cash will be needed to purchase inventory which must be purchased before sales can be made. Supplies, salaries and operating expenses must be paid even it sales are not occurring.