

Entrepreneurial Finance: Concepts and Cases

TEST BANK

Chapter 2

1. Which of the following factors should an entrepreneur consider when selecting the form of organization for a business?
 - A. The cost of organization
 - B. Reporting requirements
 - C. Tax consequences
 - D. Impacts on succession planning or future sale of the business
 - E. All of the above

2. Which of the following answers correctly present the order of business organization based on numbers of tax filings, i.e. number of business entities? (From largest to smallest)
 - A. Corporation, partnership, sole proprietorship
 - B. Partnership, sole proprietorship, corporation
 - C. Sole proprietorship, corporation, partnership
 - D. Sole proprietorship, partnership, corporation
 - E. Corporation, sole proprietorship, partnership

3. Which of the following answers correctly present the order of business organization based on business receipts, i.e. total revenues, reported? (From largest to smallest)
 - A. Corporation, partnership, sole proprietorship

- B. Partnership, sole proprietorship, corporation
- C. Sole proprietorship, corporation, partnership
- D. Sole proprietorship, partnership, corporation
- E. Corporation, sole proprietorship, partnership

4. Which of the following factors is the least important when drawing up a partnership agreement?

- A. Simplicity
- B. Comprehensiveness
- C. Clarity
- D. Fairness
- E. Enforceability

5. The distribution of profits in partnerships and LLCs is always based on:

- A. original cash contributions
- B. accumulated cash contributions
- C. accumulated cash and labor contributions
- D. accumulated cash, labor, and asset contributions
- E. terms specified in the partnership agreement and does not need to be based on contributions

6. Corporate bylaws are:

- A. uniform across all corporations
- B. the same as the articles of incorporation
- C. only useful for large corporations traded on stock exchanges
- D. oral agreements among the founders

- E. written documents that specify how a corporation will be governed

7. Voting rights of LLCs are always based on:

- A. accumulated cash, labor, and asset contributions
- B. number of shares of all stocks
- C. number of shares and classes of stocks as specified in the corporate bylaws
- D. terms specified in the partnership agreement and does not need to be based on contributions
- E. levels of participation of each member

8. Which of the following is not an advantage of LLC over S Corporation?

- A. Pass-through tax status is recognized in all 50 states
- B. No limit on the maximum number of owners
- C. No limit on non-human legal entity as owners
- D. Allow nonresident aliens as owners
- E. No limit on corporate characteristics

9. For tax planning purposes, which form of business organization is ALWAYS the best?

- A. Limited Partnership
- B. S Corp
- C. C Corp
- D. LLC
- E. None of the above

10. Which of the following is a common strategy to reduce taxes for business founders?

- A. Form partnerships instead of corporations
- B. Form sole proprietorship instead of partnerships
- C. Designate capital contributions as loans to the business
- D. Designate capital contributions as charitable gifts to the business
- E. Always incorporate in a foreign country

Answers:

- 1. E
- 2. C
- 3. A
- 4. A
- 5. E
- 6. E
- 7. C
- 8. E
- 9. E
- 10. C

Chapter 3

1. Approximately what percentage of venture-backed start-ups succeed?

- A. 5 percent
- B. 25 percent
- C. 50 percent
- D. 75 percent
- E. 100 percent

2. Successful business models _____.

- A. must be completely innovative
- B. must be led by someone who has never failed before
- C. must focus only on financial criteria and not be distracted by any other factor(s)
- D. are often variations on the generic value chain
- E. are unpredictable and cannot be generalized

3. Which of the following is not an important factor when analyzing a business model?

- A. Position in the value creation chain
- B. Business development
- C. Sustainability
- D. Regulation
- E. Being the first in the market

4. What is a potential downside of the lean start-up approach?