Barringer

Chapter 1

1. Pure Fix Cycles, the company profiled in the opening feature of Chapter 1, was launched by four co-founders and sells fixed gear, single speed bikes.

2. Which of the following is an accurate characterization of interest in entrepreneurship?

There is tremendous interest in entrepreneurship across the world.

3. According to the Global Entrepreneurship Monitor (GEM) 2013 survey, about 12.7 percent of adults in the United States are either starting a business or are running a business that has been in existence for less than 3 1/2 years.

4. According to the Global Entrepreneurship Monitor (GEM) 2013 study, the majority of people in high-income countries are drawn to entrepreneurship to take advantage of an attractive opportunity.

5. Which of the following statements regarding survival rates of entrepreneurial firms in the United States is correct? As high as 50 percent after four years.

6. Established firms with an entrepreneurial emphasis are proactive, innovative, and risk-taking.

7. Apple -> corporate entrepreneurship.

8. Entrepreneurship is the process by which individuals pursue opportunities within the constraints of the resources they can not control.

9. What is entrepreneurship? What is the essence of entrepreneurial behavior?

Entrepreneurship is the process by which individuals pursue opportunities without regard to the resources they currently control. The essence of entrepreneurial behavior is identifying opportunities and putting useful ideas into practice.

10. Describe the three primary reasons that people become entrepreneurs and start their own firms.

Three primary reasons people become entrepreneurs are to 1. be their own boss, 2. pursue their own ideas, 3. realize financial rewards. 1) many entrepreneurs want to be their own boss and are tired of working in a traditional jobs, or wanted to own their own frim, 2)they have a desire to see their oppurtunites realized, once an oppurtunity comes, 3) they want money(secondary to the first two)

11. According to the textbook, starting a business to make a lot of money often fails to live up to its hype.

12. four characteristics of successful entrepreneurs are - passion for the business, tenacity despite failure, product/customer focus, and execution intelligence.

13. failed startup in the laundry industry - a lack of passion and resolve.

14. Describe the four main characteristics of successful entrepreneurs.
The four main characteristics of successful entrepreneurs are: 1)passion for the business, 2)product/customer focus, 3)tenacity despite failure, 4)and execution intelligence. 1)passion typically stems from the entrepreneur's belief that the business will positively influence people's lives. 2) underscores two of the most important elements in any business-products and customers. 3)Because entrepreneurs are typically trying something new, the failure rate associated with their efforts is naturally high. Thus they need to be tenacious for the idea to come to reality. 4) characteristic of successful entrepreneurs is execution intelligence. The ability to effectively execute a business idea means developing a business model, putting together a new venture team, raising money, establishing partnerships, managing finances, leading and motivating employees, and so on.
15. The highest percentage of entrepreneurs falls in the 30 to 39 age range.
16. they would rather fund a strong entrepreneur with a mediocre business idea than fund a strong business idea with a mediocre entrepreneur.
17. entrepreneurs are moderate risk takers.
18. Entrepreneurial firms bring new products and services to market by creating and seizing opportunities.
19. participating in a start-up incubator or accelerator is an excellent way to gain access to mentors, partners and investors.
20. Identify the three types of startup firms, and discuss how they differ. Provide examples of each type of firm.
The three types of startup firms are: salary-substitute firms, lifestyle firms, and

entrepreneurial firms. Salary-substitute firms are small firms that afford their owners a level of income similar to what they would earn in a conventional job. For exmple dry cleaners, convenience stores, restaurants. Lifestyle firms provide their owner or owners the opportunity to pursue a particular lifestyle and earn a living while doing so. for example ski instructors, golf pros, and tour guides. Entrepreneurial firms bring new products and services to market by creating and seizing opportunities. for example facebook, dropbox, linkedln.
21. There has been a substantial increase in the number of minority entrepreneurs in the United States over
the past several years.
22. 40% of 5-12 graders say that they want to start a business.
23. new products that are better than the existing generation of products are introduced - creative destruction.
24. Joseph Schumpeter.
25. Identify and discuss the three primary reasons that entrepreneurial behavior has a strong impact on the United States economy.
Two reasons are innovation and job creation, Innovation is the process of creating something new, which is central to the entrepreneurial process. Small businesses outperform their larger counterparts in terms of patent activity. about job creation, small businesses create a substantial number of new jobs in the United States.
26. correct sequence for the four steps in the entrepreneurial process is Deciding to become an entrepreneur, developing successful business ideas, moving from an idea to an entrepreneurial firm, managing the growing entrepreneurial firm.
27. Triggering event - an event that prompt an individual to become an entrepreneur.
28. Business plan - is a written document that describes all the aspects of a business venture in a concise manner.
29. Business model - is a plan for how it competes, uses its resources, structures its relationships, interfaces with customers, and creates value to sustain itself on the basis of the value it creates.

Chapter 2

1. opportunities are hard to spot.

2. The term "window of opportunity" is a metaphor describing the time period in which a firm can realistically raise money.

3. Describe the difference between an idea and an opportunity. Why is the distinction important?

An opportunity is a favorable set of circumstances that creates a need for a new product, service, or business. An opportunity has four essential qualities. It is (1) attractive, (2) durable, (3) timely, and (4) is anchored in a product, service, or business that creates or adds value for its buyer or end user. In contrast, an idea is a thought, impression, or notion. It may or may not meet the criteria of an opportunity. Entrepreneurs often fail not because they didn't work hard, but rather because there was no real opportunity to begin with.

4. Economic forces - Interest rates, consumer spending patterns, and level of disposable income.

5. SafetyWeb is a Web-based service that helps parents protect their children's online reputation, privacy, and safety – solving a problem.

6. The Savvy Entrepreneurial Firm focuses on – social media.

7. serendipitous - occurring or discovered by chance in a happy or beneficial way.

8. Describe the three separate ways that entrepreneurs identify new business, product, and service opportunities?

The three ways that entrepreneurs identify new business, product, and service opportunities are through observing trends, solving a problem, and finding gaps in the marketplace. observe trends and study how they create opportunities to pursue. Economic forces, social factors, technological advances, and political action and regulatory changes are the most important trends to follow. The second approach to identifying opportunities is solving a problem. Sometimes identifying opportunities simply involves noticing a problem and finding a way to solve it. The third approach is finding gaps in the marketplace. This approach is accomplished by finding a need that customers have that is not being satisfied-by either large, established firms or entrepreneurial ventures. Large retailers like Wal-Mart, Costco, and Home Depot compete primarily on price by serving large groups of customers with similar needs. They do this by offering the most popular items targeted towards mainstream consumers. While this approach allows the large retailers to achieve economies of scale, it leaves gaps in the marketplace.

Entrepreneurs step in to start businesses to fill these gaps. There are also gaps in the marketplace that represent consumer needs that aren't being met by anyone.

9. Everpix - spent too much time and energy perfecting their service at the expense of building a business.
10. The ability to notice things without engaging in deliberate search is referred to as entrepreneurial alertness.
11. 40-50% got their ideas through social contacts.
12. Solo entrepreneur - individual who identifies a business idea on his own.
13. Network entrepreneur - individual who identifies a business idea through social contacts.
14. Creativity - the process of generating a novel or useful idea.
15. Creative process - Preparation, incubation, insight, evaluation, elaboration.
16. Incubation – mulling over an idea.
17. Insight - 'eureka', flash of recognition.
18. Elaboration – final form.
19. Describe the difference between strong-tie and weak-tie relationships. Is it more likely that an entrepreneur will get new ideas through strong-tie or weak-tie relationships?

Strong-tie relationships are relationships with people you have frequent interactions with, like family, friend, spouse, weak-tie relationships are relationships with people you have infrequent interactions with, it is more like;y that an entrepreneur will get new ideas through weak-tie relationships, because people we have strong-tie relationships with think more like us, making them unable to give us new ideas. one person may say something to another that sparks a completely new idea in weak-tie relationships, because they are not like-minded.

20. focus group - a gathering of 5 to 10 people who are selected Because of their relationship to the issue being discussed.
21. utilizing a library - discuss your general area of interest with a reference librarian.
22. IBISWorld - database of industry-related information.
23. day-in-the-life research - To make sure that its customers are satisfied and to probe for new product ideas, Intuit routinely sends employees to the facilities of their customers.

24. Describe how brainstorming can help facilitate the generation of ideas, and outline the four rules for conducting a brainstorming session.

Brainstorming is a technique that is used to generate a number of ideas quickly. Among the purposes a brainstorming session could be used for include the generation of new business, product, or service ideas. In a brainstorming session, the leader of the group of people is instructed to come up with ideas-one person shares an idea, another person reacts to it, another person reacts to the reaction, and so on. The four strict rules of brainstorming are as follows:

1. No criticism is allowed.
2. Freewheeling is encouraged—the more ideas, the better.
3. The session moves quickly, and nothing is permitted to slow down the pace.
4. Leapfrogging is encouraged. This means using one idea as a means of jumping forward quickly to other ideas.

25. Describe how library and Internet research can be used to generate new business ideas.

Library and internet research are vital for generating business ideas. The best approach is to discuss your general area of interest with a reference librarian for guidance to industry-specific resources. Browsing trade journals can inspire new ideas. Online, start with a Google search for "new business ideas" or set up keyword alerts for your specific topic. Blogs also offer valuable insights on various subjects.

26. Idea bank - physical or digital repository for storing ideas.

Chapter 3

1. LuminAid did an exemplary job validating its business idea, and its solar pillow is now available via the company's Web site, Amazon.com, LL Bean and several similar outlets.

2.primary research - research that is collected by the person completing the analysis.

3. secondary research probes data that is already collected.

4. The four forms of feasibility analysis include - product/service feasibility, industry/target market feasibility, organizational feasibility, and financial feasibility.

5. Describe the purpose of feasibility analysis. When should a feasibility analysis be conducted relative to opportunity recognition and the development of a business plan?

Feasibility analysis is the process of determining if a business idea is viable. As a preliminary evaluation of a business idea, a feasibility analysis is completed to determine if an idea is worth pursuing and to screen ideas before spending resources on them. Feasibility analysis follows the opportunity recognition stage but comes before the development of a business plan.

6. Product/service feasibility – an assessment of the overall appeal of the product or service being proposed. Does it make sense? Is it reasonable? Is it something consumers will get excited about? Does it take advantage of an environmental trend, solve a problem, or fill a gap in the marketplace?

7. The two components of product/service feasibility analysis - product/service desirability, product/service demand.

8. A/B split testing services - PickFu and Ubounce.

9. feedback on business ideas - Foundersuite, Quirky and Unassumer.

10. determining product/service demand - talking face-to-face with potential customers; utilizing online tools, such as Google AdWords and landing pages; and library, Internet and gumshoe research.

11. the only way to know if your product or service is what people want is by - talking to them.

12. landing page - single Web page that typically provides direct sales copy, like "click here to buy a Hawaiian vacation."

13. Describe what a concept statement is, and what it should include.

A concept statement is a preliminary description of a business, it should be one page long and It should include:

• A description of the product or service being offered.
• The intended target market.
• The benefits of the product or service.
• A description of how the product will be positioned relative to similar ones in the market.
• A description of how the product or service will be sold and distributed.

The concept statement is administered as part of product/market feasibility analysis and should be used to get initial feedback and input regarding a business idea

14. What is gumshoe research and why is it important?
Gumshoe research involves doing what it takes to collect information to assess a product idea's market feasibility, much like a detective gathering clues. For instance, if you plan to sell educational toys, you could volunteer at a daycare center to observe how children interact with toys or study popular toys in a store. It's about being inventive in understanding your industry and target market's appeal.
15. two components of industry/target market feasibility analysis - industry attractiveness and target market attractiveness.
16. The Savvy made a 180-degree turn - observing how customers acted when buying their product.
17. Mintel, IBISWorld, and Bizminer - industry/target market.
18. Organizational feasibility analysis - conducted to determine whether a proposed business has sufficient management expertise, organizational competence, and resources to successfully launch its business.
19. two primary issues to consider in organizational feasibility analysis - management prowess and resource sufficiency.
20. Describe the purpose of industry/target market feasibility analysis, and identify the two primary issues that should be considered. What is the difference between a firm's industry and its target market?
Industry/market feasibility analysis is an assessment of the overall appeal of the industry and the target market for the product or service being promoted. When evaluating a business idea, two key factors to consider are industry attractiveness and target market appeal. An industry is a group of firms producing a similar product or service (e.g., computers, cars, or electronic games), while the target market is the limited portion of the industry that it goes after or to which it wants to appeal. Most firms focus on a chosen target market rather than attempting to serve the entire industry.
21. New venture team - the group of founders, key employees, and advisers that either manage or help manage a new business in its startup years.
22. Two factors of management prowess - the passion the sole entrepreneur or the management team has for the business idea and the extent to which the management team or sole entrepreneur understands the markets in which the firm will participate.
23. The focus in organizational feasibility analysis is on nonfinancial resources.

24. Pick a business partner that is similar rather than different from you in terms of skills, abilities, and functional background(incorrect).
25. Resource sufficiency testing - list 6-12 most critical non-financial resources that it will need to move its business idea forward and determine if those resources are available.
26. Financial feasibility analysis - a quick financial assessment of the viability of a business idea.
27. Financial feasibility analysis important issues - total startup cash needed, financial performance of similar businesses, and the overall financial attractiveness of the proposed venture.
28. First screen - The template for completing a feasibility analysis.
29. Briefly describe the purpose of the First Screen and how it's used.
The "First Screen" is a feasibility analysis template for entrepreneurs to assess their business ideas quickly. First screen worksheet is straightforward, It covers four key areas and suggests potential improvements. Its value lies in giving an initial sense of an idea's feasibility and identifying areas for enhancement, like reducing startup costs.

Chapter 4

1. Her Campus's unparalleled access to college females
2. business model - firm's plan or recipe for how it creates, delivers, and captures value for its stakeholders.
3. The Savvy is difficult to copy - it has raised over $91 million and has over 550,000 people in its network.
4. when a firm should develop a business model - Initial validation of the business idea, preparation of the business model, fleshing out the operational details of the firm.
5. hire freelancers - Odesk, Elance, and Guru.
6. What is a business model? Why is it important? Provide an example to illustrate your answer.
A business model is a plan for creating, delivering, and capturing value for stakeholders. It's essential for a firm's short and long-term success. For example, Dropbox uses a freemium model, offering free and premium accounts with

different storage options to attract more paid users. The business model defines how a company's core activities work together.

7. business models – disruptive and standard business models.

8. churn - the number of subscribers that a subscription-based business loses each month.

9. Airbnb – peer-to-peer business model.

10. New-market - Google and its AdWords.

11. Low-end - Southwest Airlines.

12. Salesforce.com - disruptive business model.

13. What is the difference between standard business models and disruptive business models? Include examples of both in your answer.

Standard business models depict existing plans or recipes firms can use to determine how they will create, deliver, and capture value for their stakeholders. For example, advertising business model, the auction business model, the low-cost business model. Disruptive business models are impactful enough that they disrupt or change the way business is conducted in an industry or an important niche within an industry. (two types: low-end, new-market). For examples Dell (direct-to-consumer computer sales model), Google (online advertising model).

14. Mission statement – why it exists and what its business model is supposed to accomplish.

15. Business mission – first box in the Barringer's business model template.

16. Basis of differentiation – limit to 2-3 points.

17. Key assets - physical, financial, intellectual, or human.

18. Revenue streams – the ways a firm makes money, (Advertising, commissions, download fees, licensing, and product sale).

19. Cost structure - the most important costs incurred to support its business model.

20. Fixed costs - costs that remain the same despite the volume of goods or services produced.

21. Variable costs - vary proportionally with the volume of goods or services provided.

22. Financing/funding (three categories barringer)- operating costs, capital costs, and costs associated with setting up the firm.

23. Quadrant in barringer business model includes three sections - product (or service) production, channels, and key partners.

24. joint venture - An entity created by two or more firms pooling a portion of their resources to create a separate, jointly-owned organization.

25. Describe the Barringer/Ireland Business Model Template and discuss its purpose.

The Barringer/Ireland Business Model Template visually outlines a firm's business model into 4 major categories and 12 parts. Entrepreneurs use this tool to create a viable and exciting business by configuring these components. It provides flexibility for recording, revising, and pivoting ideas as they evolve. The four categories and 12 parts cover Core Strategy (including mission and target market), Resources (core competency and assets), Financials (revenue and cost structure), and Operations (production, channels, and partners).

26. Briefly describe the four main components of the Barringer/Ireland Business Model Template. Identify the subcomponents of each the four main components of a business model.

The four main components of a business model are as follows:

•Core Strategy - how the firm plans to compete relative to its competitors.
The primary elements of core strategy are: business mission, basis of differentiation, target market, and product/market scope.

•Resources - inputs a firm uses to produce, sell, distribute, and service a product or service. a firm must have a sufficient amount of resources to enable its business model to work. Resources are developed and accumulated over time. The primary elements of resources are core competencies and key assets.

•Financials - For most businesses, the manner in which it makes money is one of the most fundamental aspects around which its business model is built. The primary aspects of financials are: revenue streams, cost structure, and financing/funding.

•Operations - represent the day-to-day heartbeat of a firm. The primary elements of operations are: product or service production, channels, and key partners.

27. What are core competencies? Provide an example of the core competencies that are utilized by an entrepreneurial firm.

A core competency is a specific factor or capability that support's a firm's business model and sets it apart from rivals. various forms of core competencies, like technical know-how, an efficient process, a trusting relationship with customers etc. For example, Her Campus Media has three core competencies: (1) creating content of interest to college-aged girls, (2) recruiting and managing a volunteer network, and (3) connecting active college-aged females with major brands.

Chapter 5

1. greenvelope barriers of entry - its international presence, the price-point of its products, its social mission, and the innovative nature of its products.
2. competitor analysis – when a firm gains an understanding of its competetive environment.
3. 8-30% of the variation in firm profitability is directly attributable to the industry in which a firm competes.
4. partnering for success in ch5, three things that are important for startups to become active in to learn the ins and outs of their industries - trade associations, trade shows, and trade journals.
5. The two trends that are most important to focus on in an industry analysis are business trends and environmental trends.
6. Business trends - economic trends, social trends, technological advances, and political and regulatory changes.
7. What is industry analysis? Why is it important for a new venture to complete a thorough analysis of the industry it is entering?

Industry analysis is business research that focuses on the potential of an industry. An industry is a group of firms producing a similar product, such as tires, fitness drinks, or electronic games. Once it is determined that a new venture is feasible in regard to the industry and market in which it will compete, a more in-depth analysis is needed to learn the ins and outs of the industry the firm plans to enter. This analysis helps a firm determine if the target market it identified during its feasibility analysis is accessible and which ones represent the best point of entry for a new firm.

8. In general, industries are more attractive when the - threat of each of the five forces is low.
9. Barriers of entry – Product differentiation, capital requirements, access to distribution channels, government and legal barriers.
10. First-mover advantage - If a startup pioneers an industry or a new concept within an industry, the name recognition the startup establishes may create a formidable nontraditional barrier to entry.

11. Ww.1800contacts.com - internet domain name.
12. Bargaining power of suppliers - Supplier concentration, switching costs, attractiveness of substitutes, and threat of forward integration.
13. In most industries, the major determinant of industry profitability is the level of competition among the firms already competing in the industry.
14. If the buyers are concentrated and they buy from a large number of suppliers, then the bargaining power of buyers is increased.
15.Identify the five competitive forces that determine industry profitably. Explain the purpose of analyzing these forces?
The five competitive forces that determine industry profitability are the threat of substitutes, the threat of new entrants, rivalry among existing firms, bargaining power of suppliers, and bargaining power of buyers. The five competitive forces model is a framework for understanding the structure of an industry. Each of five forces impacts the average rate of return for the firms in an industry by applying pressure on industry profitability. Companies analyze the five forces to try to position their firms in a way that avoids or diminishes the negative impacts of these forces.
16. Discuss the nontraditional barriers to entry identified in the chapter. Why is it important that entrepreneurial firms utilize one or more of these forms of barriers to entry?

The nontraditional barriers to entry, which are particularly suitable for entrepreneurial firms, are strength of management team, first-mover advantage, passion of management team and employees, unique business model, a unique Internet domain name, and inventing a new approach to an industry and executing the idea in an exemplary fashion. It is important that startups utilize one or more of these forms of barriers to entry because many of the traditional barriers to entry, like economies of scale, are expensive. It is difficult for startups to erect expensive barriers to entry because money is usually tight.

17. Five forces model 2 ways - first, to help a firm determine whether it should enter a particular industry, and second, to help a firm discern whether it can carve out an attractive position in that industry.

18. Fragmented industry - characterized by a large number of firms of approximately equal size.

(Chipotle Mexican Grill in fast-casual restaurants and 1-800- GOT_JUNK)

19. Mature industry - experiencing slow or no increase in demand.

(Justin's in peanut butter, Pure Fix Cycles in bicycles, and Flings Bins in trash bags)

20.declining industy - Nucor in steel, JetBlue in airlines, and Cirque du Soleil in circuses.(oppurtunity: leadership, niche, harvest and divestment)

21. Global industry - experiencing significant international sales.(two common strategies: multidomestic, global)

22. Multidomestic - compete for market share on a country-by-country basis and vary their product or service offerings to meet the demands of the local market.

23. The primary opportunity available to firms in fragmented industries is consolidation. The most common way to do this is through a geographic roll-up. strategy, in which one firm starts acquiring similar firms that are located in different geographic areas.

24. What is an emerging industry? What is the primary opportunity available to entrepreneurial firms in emerging industries? Name three examples of firms in emerging industries.

An emerging industry is a new industry in which standard operating procedures have yet to be developed. The firm that pioneers or takes the leadership of an emerging industry often captures a first-mover advantage, which is a sometimes insurmountable advantage gained by the firm initiating the first significant move into a new market. Examples of firms in emerging industries include Apple with its iTunes music store.

25. First step in a competitor analysis is to determine who the competition is.

26. 3 types of competitors - direct, indirect, and future.

27. Direct - businesses that offer identical or similar products.

28. Indirect - competitors offer close substitutes to the product sold by the firm completing the analysis.

29. Future - companies that are not yet direct or indirect competitors but could move into one of these roles at any time.

30. The savvy, 3 firms doing well in crowded industries - they create meaningful value for customers at a fair price and have differentiated themselves from their competitors.

31. Digg – lost its way and place in its industry.

32. The first step in a competitor analysis is to determine who the competition is.

33. A competitive analysis grid is a tool for organizing the information a firm collects about its competitors.

34. What is competitive intelligence? What are some of the ways that a firm can ethically obtain information about its competitors?

The information that is gathered by a firm to learn about its competitors is referred to as competitive intelligence. There are a number of ways that a firm can ethically obtain information about its competitors. These ways include: attend conferences and trade shows, read industry-related books, magazines, and Web sites, along with general business magazines, talk to potential customers about what motivated them to buy your product as opposed to your competitor, purchase competitors' products to understand their features, benefits, and shortcomings, study competitors' Web sites, and study Web sites that provide information about competitors.

Chapter 8

1. gymflow – projecting future income.

2. Financial management - deals with raising money and managing a company's finances in a way that achieves the highest rate of return.

3. stability — the overall health of the financial structure of the firm, particularly as it relates to its debt-to-equity ratio.

4. accounts receivable – money owed to a company by its costumers.

5. inventory – company's merchandise, raw materials, and products waiting to be sold.

6. If a firm's debt-to-equity ratio gets too high, it may have trouble meeting its obligations and securing the level of financing needed to fuel its growth.

7. Financial statement – written report that quantitatively describes a firm’s financial health.

8. Budgets - itemized forecasts of a company's income, expenses, and capital needs and are also an important tool for financial planning and control.

9. ‘buying group’ - A partnership that bands small businesses together to attain volume discounts on common products and services that they buy.

10. Financial ratios – relationships between firm’s financial statements.

11. Describe the difference between historical and pro forma financial statements.

Historical financial statements reflect past performance and are usually prepared on a quarterly and annual basis. Pro forma financial statements are projections for future periods based on forecasts and are typically completed for two to three years into the future. Pro forma financial statements are strictly planning tools, while historical financial statements reflect actual information.

12. Net sales - total sales minus allowances for returned goods and discounts.

13. the three numbers that receive the most attention when evaluating an income statement are net sales, cost of sales, and operating expenses.

14. A firm's profit margin, or return on sales, is computed by dividing net income by net sales.

15. The left-hand side of a balance sheet shows a firm's assets, The assets on a balance sheet are shown in order of liquidity, The right-hand side of a balance sheet shows a firm's liabilities and its owners' equity, Intellectual property receives value in some cases and in some cases it does not.

16. Fixed assets - Real estate, buildings, equipment and furniture.

17. The savvy, CEO for New Venture Fitness Drinks look at multiple years of an income statement rather than a single year to fairly assess how well a firm is performing financially.

18. Current assets - Cash plus items that are readily convertible to cash, such as accounts receivable, marketable securities, and inventories.

19. Long-term liability – real estate mortgage.

20. Evaluating a balance sheet - whether a firm has sufficient short-term assets to cover its short-term debts and whether it is financially sound.

21. Working capital – current assets minus its current liabilities.

22. Current ratio – currents assets divided by its current debt.

23. Cash flows- operating activities, investing activities, financing activities.

24.investing activities – purchase, sale, or investment in fixed assets.

25. Financing activities – cash raised during the period by borrowing money or selling stock and/or cash used during the period by paying dividends, buying back outstanding stock, or buying back outstanding bonds.

26. The major categories of assets listed on a balance sheet include current, fixed, and other assets.

27. Describe the purpose of the income statement, the balance sheet, and the statement of cash flows.

The income statement records all the revenues and expenses for the given period and shows whether the firm is making a profit or is experiencing a loss. Unlike the income statement, which covers a specified period of time, a balance sheet is a snapshot of a company's assets, liabilities, and owners' equity at a specific point in time. The statement of cash flows summarizes the changes in a firm's cash position for a specified period of time and details why the change occurred. The statement of cash flows is similar to a month-end bank statement. It reveals how much cash is on hand at the end of the month as well as how the cash was acquired and spent during the month.

28. What is ratio analysis? Why is it important?

The most practical way to interpret or make sense of a firm's historical and pro forma financial statements is through ratio analysis. The ratios described in the textbook are divided into profitability ratios, liquidity ratios, and overall financially stability ratios. These ratios provide a means of interpreting the historical and pro forma financial ratios for a firm.

29. Assumption sheet - explanation of the sources of the numbers for the forecast and the assumptions used to generate them.

30. Percent-of-sales method – a method for expressing each expense item as a percentage of net sales.

31. constant ratio method of forecasting - net result is that each expense item on its income statement will grow at the same rate as sales.

32. The break-even point for a new restaurant or product is the point where the total revenue received equals total costs associated with the output of the restaurant or the sale of the product.

33. What are forecasts? What role do they play in the preparation of pro forma financial statements?

Forecasts are projections of a firm's future sales, expenses, income, and capital expenditures. A firm's forecasts provide the basis for its pro forma financial statements. A well-developed set of pro forma financial statements helps a firm create accurate budgets, build financial plans, and manage its finances in a proactive rather than a reactive manner.

34. A firm's pro forma financial statements are similar to its historical financial statements except that they look forward rather than back.

35. Acre Frozen Treats failed largely because it - grew too quickly, which overwhelmed its cash flow.

36. The pro forma balance sheet provides a firm a sense of how its activities will affect its ability to meet its short-term liabilities and how its finances will evolve over time.

37. the most important function of the pro forma statement of cash flows is to project whether the firm will have sufficient cash to meet its needs.

38. The same financial ratios used to evaluate a firm's historical financial statement should be used to evaluate the pro forma financial statements.

39. Describe each of the four primary financial objectives of firms.

The four primary financial objectives of most firms are: profitability, liquidity, efficiency, and stability. Profitability is the ability to earn a profit. Liquidity is a company's ability to meet its short-term financial obligations. Efficiency is how productively a firm utilizes its assets relative to its revenue and its profits. Stability is the strength and vigor of the firm's overall financial posture.