

ENT 2112 Homework 8

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Application Questions

I only have questions 8-21 to 8-27. After that it's case studies.

All uncited quotes are from the textbook

21. Suppose a friend of yours showed you the pro forma income statements for his start-up and exclaimed excitedly that during the first three years of operations his firm will make a net income of \$150,000 per year, which is just the amount of money (\$450,000) the firm will need to pay off a three-year loan. Given your study of this chapter, why is it that your friend may not actually have \$450,000 in cash, even though his pro forma income statements say that he will earn that amount of money?
 - Just because your pro-forma says something will happen, doesn't mean that that thing will actually happen. Also, you have to make sure that your pro-forma is accounting for all costs, including recurring costs such as replenishing stock or responding to random lawsuits.
22. According to Hong Kong's Commercial Crime Bureau, four different investment scams cost 85 victims around \$7.7 million in 2017. This was a three-fold increase compared to 2016. To lure victims, fake bank credit statements are often used as proof of assets, fake professionals give talks, and investors are even taken on tours of the businesses they are supposedly buying. In one case, 18 people were scammed out of nearly \$3 million when they thought they were buying a wine and colliery business in mainland China. What advice would you give overseas investors about your country?
 - I don't know. I'm not an investor. Clearly the people trying to buy those business did not do as much research as they could. The US has a lot of scoundrels in it. Best to stay on your toes, do your research, and know when to walk away.
23. In groups of three, visit a business outlet in your vicinity. With the owner or the manager's consent, prepare a sales forecast for the years 2018 and 2019 based on the outlet's sales from 2015 to 2017. You may present the answer in class.
 - It is unwise to go out in a group during a pandemic. Best to stay home and write about it for homework. In addition, sales forecasts are usually private information. Lastly, when I worked at Starbucks, sales forecasts always went up because capitalism only works if businesses keep growing.
24. Jorge Martinez is thinking about buying an existing printing business and has been carefully studying the records of the business to get a good handle on its historical financial performance. Jorge heard that you are taking a class in entrepreneurship and asks you, "What suggestions do you have for me to make the best use of this financial information (i.e., three years of audited

income statements, balance sheets, and statements of cash flow)?” What suggestions would you give Jorge for making the maximum use of the financial statements?

- Hire a forensic accountant to go over everything. It's well above my pay-grade to make any insights other than those. Just like Keith Gill, I am not a financial advisor.

25. A friend has come to you for advice. She needs to prepare a business plan for a potential investor and has prepared a very detailed financial plan that she is confident about. However, she is not sure about what should be included in the section on the financial objectives of her firm. What advice would you give her?

- Make sure you include a section on profitability ("the ability to earn a profit"), liquidity ("a company's ability to meet its short-term financial obligations"), efficiency ("how productively a firm utilizes its assets relative to its revenue and its profits"), stability ("the strength and vigor of the firm's overall financial posture")

26. What items on the left side (or top) and what items on the right side (or bottom) of a firm's balance sheet should receive the greatest scrutiny? In regard to each of these items, what are the most important factors that a new venture should focus on to maintain its overall financial health?

- "Many experts consider the top line, or cash, the most important item on a [company's balance sheet](#). [...] The Bottom Line

A company's balance sheet provides a tremendous amount of insight into its health and dealings. A balance sheet consists of three primary sections: assets, liabilities, and equity.

Depending on what an analyst or investor is trying to glean, different parts of a balance sheet will provide a different insight. That being said, some of the most important areas to pay attention to are cash, accounts receivables, [marketable securities](#), and short-term and long-term debt obligations."

-- <https://www.investopedia.com/ask/answers/050615/what-items-balance-sheet-are-most-important-fundamental-analysis.asp>

27. Suppose a colleague of yours is gearing up to write a business plan for a business she intends to start. She told you she plans to prepare the financial statements first to get that job out of the way before she tackles the rest of the plan. What is the flaw in your colleague's logic as described to you?

- You can't do financial statements if you don't know how your business works. Come on, five-head.

VC 8.1

28. Based on the material covered in this chapter, what questions would you ask the firm's founders before making your funding decision? What answers would satisfy you?

- There are too many questions to list here, but that pitch is bogus. If your kid is deteriorating so fast that they can't wait 45 to 90 minutes to get to the doctor or go get meds, then you need to call 911 ASAP. Second, you can drive from MA to ME in 13 minutes. They're much closer than people think. The shortest possible distance from their headquarters in danvers

to an island three miles off the coast of Maine is ~30 miles. The drone would've had to fly at ~225 miles per hour. Considerably faster than the Drone Racing League top speed of 163.5mph.

29. If you had to make your decision on just the information provided in the pitch and on the company's website, would you fund this company? Why or why not?
- I would not invest because as I said above, their pitch is bullshit or missing critical details. It looks like my judgement is correct as they're permanently closed according to Google.

VC 8.2

30. Based on the material covered in this chapter, what questions would you ask the firm's founders before making your funding decision? What answers would satisfy you?
- I stopped listening when they claimed to be the first company to test autonomous vehicles. In addition, you should never make a statement that you have to add a qualifier to.
31. If you had to make your decision on just the information provided in the pitch and on the company's website, would you fund this firm? Why or why not?
- No for the reason stated above.