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## Chapter 9: Business Funding—Checkpoint Solutions

### Checkpoint 9.1

1. List five common bootstrapping practices.

Answer: Have no employees or postpone owner salary, barter, use free resources, use personal assets, negotiate, and monitor expenses closely.

2. Why do some entrepreneurs use bootstrapping?

Answer: They may not be able to get a loan or prefer not to get into debt with a loan.

3. What is a risk of equity financing?

Answer: You have to give up part of your business to someone else and lose full control.

4. Give examples of financial institutions where you can obtain debt financing.

Answer: Banks, credit unions, trade credit, and SBA-assisted loans.

5. List some of the typical start-up costs new owners encounter.

Answer: Rent deposit, furniture, equipment, inventory, and utility deposits.

### Checkpoint 9.2

1. Why do banks use the three Cs of Credit to evaluate applicants for loans?

Answer: These criteria serve as a way for banks to evaluate creditworthiness.

2. What purpose do pro forma statements serve?

Answer: Pro forma statements provide estimates of how you think your business will perform.

3. Name three pro forma statements required in the loan application process.

Answer: Cash flow, income statement, and balance sheet.

4. What is the difference between a fixed asset and a liquid asset?

Answer: The amount of time necessary. Fixed assets take time to sell. Liquid assets can be easily sold.

5. What is the difference between a short-term liability and a long-term liability?

Answer: The amount of time—short term is generally less than one year, where as a long term could be any number of years.