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Chapter 6: Sources of Funding

Check Your Answers: Section Assessment

Section 1

Review Key Concepts
1. The five C's of credit and a structured and thorough business plan.

2. Personal: assets, consumer loans, home equity loans; private: money borrowed from family or friends

3. Entrepreneurs transform ideas for products or services into real-world businesses. They run about 80% of business operations in the U. S.

4. Commercial debt financing, commercial loans, lines of credit, secured and unsecured loans

5. Start-up costs include all the cash that is needed before operation can begin. Operating costs are the expenses required to keep the business running. A reserve fund is money used for emergencies and future plans.

Higher Order Thinking
6. Fixed—rent; insurance; leases; payments on loans; depreciation; management salaries; advertising. Variable—raw materials; hourly wages; utilities; inventory; supplies; and shipping costs.

21st Century Skills
7. Solve Problems Students should choose one of these options and present a logical explanation for why it is the best choice: personal assets, funds borrowed from family and friends, a consumer loan or secured loan, or commercial debt financing. Katie should avoid high-interest credit cards or a risky home-equity loan.

Mathematics
8. Starting Up Total start-up costs = $11,500 + $7,500 + $12,000 = $31,000; Total loan amount = $31,000 - $22,000 = $9,000; Borrowed percentage of total costs = $9,000/$31,000 = 29%.