

Basic Technical Investment Banking Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. When merging two income statements, which items are typically added together?**
 - A. Revenue and Operating Expenses**
 - B. Operating Expenses only**
 - C. Taxes only**
 - D. Revenue only**

- 2. How do you select the exit multiple for Terminal Value?**
 - A. Normally you look at the Comparable Companies and pick the median of the set, or something close to it. Show a range of multiples**
 - B. Always use 8x**
 - C. Use highest multiple**
 - D. Use lowest multiple**

- 3. Can precedent transactions sometimes not yield a higher value than comparables?**
 - A. They always produce higher values.**
 - B. Sometimes not the case when there is a mismatch between the M&A market and the public market.**
 - C. They always produce lower values.**
 - D. They are irrelevant to valuation.**

- 4. If the options' exercise price is \$15 while the current share price is \$10, what is the dilutive effect?**
 - A. Fully dilutive impact is zero; no additional shares are created**
 - B. The fully diluted value is \$1,500**
 - C. The company must issue new debt**
 - D. The options are exercised**

- 5. What is the general rule about leverage in LBOs?**
 - A. 50x EBITDA is typical**
 - B. 5-10x EBITDA is typical**
 - C. 2x EBITDA is maximum**
 - D. 20x EBITDA is baseline**

- 6. When inventory increases by \$10 and is paid with cash, which statement is true?**
- A. No changes to the Income Statement; Cash Flow from Operations decreases by \$10**
 - B. Income Statement increases; Cash Flow from Operations increases**
 - C. Income Statement decreases; Cash Flow from Operations increases**
 - D. Income Statement increases; Cash Flow from Operations decreases**
- 7. What is meant by the "tax shield" in an LBO?**
- A. Tax deduction from depreciation**
 - B. Interest on debt is tax-deductible - so cash flow increases**
 - C. Taxes eliminated**
 - D. Tax credits**
- 8. Under which circumstance would Goodwill increase?**
- A. It increases when the company is acquired and the purchase price exceeds identifiable assets**
 - B. The company issues stock**
 - C. The company sells assets**
 - D. The company reduces cash**
- 9. Which are the three major financial statements?**
- A. Statement of Cash Flows; Income Statement; Cash Flow Statement**
 - B. Income Statement; Balance Sheet; Cash Flow Statement**
 - C. Balance Sheet; Income Statement; Statement of Changes in Equity**
 - D. Income Statement; Retained Earnings Statement; Cash Flow Statement**

10. Why is cash subtracted when computing Enterprise Value?

- A. Because cash is a non-operating asset and Equity Value implicitly accounts for it.**
- B. Because cash increases EV by default.**
- C. Because cash is a debtor asset.**
- D. Because cash is always excess cash.**

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Answers

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1. A
2. A
3. B
4. A
5. B
6. B
7. B
8. A
9. B
10. B

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Explanations

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1. When merging two income statements, which items are typically added together?

A. Revenue and Operating Expenses

B. Operating Expenses only

C. Taxes only

D. Revenue only

When you merge two income statements, you consolidate by adding like items from each company to show the combined results. The most straightforward items to sum are revenues and operating expenses. Adding revenues reflects the total sales from both entities, while adding operating expenses reflects the overall cost of running the combined business. Taxes aren't simply added as a separate line because tax expense depends on the combined pre-tax income, which is then taxed under the merged entity's rules. Other non-operating items or interest would be combined as appropriate, but the primary ones you sum to form the consolidated operating picture are revenue and operating expenses.

2. How do you select the exit multiple for Terminal Value?

A. Normally you look at the Comparable Companies and pick the median of the set, or something close to it. Show a range of multiples

B. Always use 8x

C. Use highest multiple

D. Use lowest multiple

When you set Terminal Value using an exit multiple, the idea is to mimic how the market would price a similar business at the end of the forecast period. You pull multiples from comparable companies—such as EV/EBITDA or EV/EBIT—in the same year and then use a representative value from that set. Using the median helps avoid distortion from extreme outliers and gives a fair, market-based anchor for the value. Presenting a range is common practice because it captures uncertainty about future market conditions and how similar companies might be valued at that point. You typically show a base case with a central multiple (often the median) plus upside and downside scenarios using higher and lower multiples. Choosing a fixed number like 8x, or always taking the highest or the lowest multiple, ignores current market data and can misprice the firm. The whole point of the exit-multiple approach is to ground Terminal Value in market-based evidence and to reflect the inherent uncertainty with a sensible range. Make sure the multiple aligns with the metric used in the forecast (e.g., applying an EBITDA multiple to the final year's EBITDA).

3. Can precedent transactions sometimes not yield a higher value than comparables?

A. They always produce higher values.

B. Sometimes not the case when there is a mismatch between the M&A market and the public market.

C. They always produce lower values.

D. They are irrelevant to valuation.

Precedent transactions typically carry a control premium and reflect deal-specific synergies, which can push values above public comps. But this isn't guaranteed. If there's a misalignment between the M&A market and the public market, the prices seen in past deals may not end up higher than what the public-market multiples imply. For instance, public markets might be pricing in strong growth or undervalued risk in a way that buyers in the M&A market can't capture due to financing constraints, deal friction, or competitive dynamics. In those conditions, the transaction-based value can be the same as or even below the comparable-based value. So it's entirely possible for precedent transactions to not yield a higher value when the M&A market and public market diverge.

4. If the options' exercise price is \$15 while the current share price is \$10, what is the dilutive effect?

A. Fully dilutive impact is zero; no additional shares are created

B. The fully diluted value is \$1,500

C. The company must issue new debt

D. The options are exercised

The key idea is when options actually cause more shares to be issued. If the option's strike price is higher than the current share price, the option is out-of-the-money and holders wouldn't exercise it. In diluted EPS calculations, out-of-the-money options are considered anti-dilutive and are ignored, so no additional shares are created. That means the fully diluted impact is zero. The other statements don't fit: there isn't a defined fully diluted value to compute without knowing how many options there are, issuing debt isn't part of how options affect dilution, and the options would not be exercised under these price conditions.

5. What is the general rule about leverage in LBOs?

- A. 50x EBITDA is typical
- B. 5-10x EBITDA is typical**
- C. 2x EBITDA is maximum
- D. 20x EBITDA is baseline

In an LBO, the amount of debt used is measured as a multiple of the target's EBITDA, reflecting how aggressively the deal is financed relative to the company's cash flow. The common rule of thumb is that leverage sits in a range of about 5 to 10 times EBITDA. This balance exists because debt amplifies equity returns when cash flows are steady, but too much leverage makes debt service risky if earnings slip or interest costs rise. So 5-10x EBITDA is seen as a practical, achievable target that lenders are comfortable with while still enabling meaningful upside for equity investors. The other figures are outside the typical band. 50x EBITDA would be impractical and likely unserviceable for almost any real-world company. 2x EBITDA is too conservative to classify as a typical LBO leverage level, as it doesn't reflect the common risk-and-return trade-off. 20x EBITDA is possible in exceptionally stable or highly cash-generative situations, but it's not the baseline rule of thumb used in most LBO practice.

6. When inventory increases by \$10 and is paid with cash, which statement is true?

- A. No changes to the Income Statement; Cash Flow from Operations decreases by \$10
- B. Income Statement increases; Cash Flow from Operations increases**
- C. Income Statement decreases; Cash Flow from Operations increases
- D. Income Statement increases; Cash Flow from Operations decreases

When you buy inventory with cash, you're swapping one current asset for another and not recording an expense yet. The cost remains on the balance sheet as Inventory until the goods are sold, so the Income Statement shows no change this period. However, paying cash for inventory reduces cash, which lowers cash flow from operating activities. In other words, the purchase is a use of cash in operations, so cash flow from operations decreases by the amount spent (10 in this case). If you later sell the inventory, the expense (cost of goods sold) will hit the Income Statement then, not at the moment of purchase. So the correct idea is: no change on the Income Statement now; cash outflow from operations decreases by 10.

7. What is meant by the "tax shield" in an LBO?

- A. Tax deduction from depreciation
- B. Interest on debt is tax-deductible - so cash flow increases**
- C. Taxes eliminated
- D. Tax credits

In an LBO, the tax shield is the tax savings generated by deductions that lower taxable income. The dominant shield comes from interest on the debt being tax-deductible. Because the company must pay interest on the debt, that interest expense reduces taxable income, which in turn reduces the taxes owed. This tax saving effectively boosts after-tax cash flow, making more cash available to service the debt and return value to equity holders. The size of the shield is roughly the corporate tax rate multiplied by the annual interest expense. For example, with a 21% tax rate and \$50 million of annual interest, the tax savings are about \$10.5 million, increasing after-tax cash flow by that amount. While depreciation can also provide a tax shield, in the typical LBO the key mechanism is the interest deduction on debt. Taxes aren't fully eliminated, and tax credits operate differently from the deduction-based shield.

8. Under which circumstance would Goodwill increase?

- A. It increases when the company is acquired and the purchase price exceeds identifiable assets**
- B. The company issues stock
- C. The company sells assets
- D. The company reduces cash

Goodwill increases when a company is acquired for a price that exceeds the fair value of its identifiable net assets. The extra amount paid reflects intangible value—things like brand strength, customer relationships, synergies, and other expected benefits that aren't separately identifiable on the balance sheet. That premium is recorded as goodwill on the acquirer's books. Other actions don't create goodwill. Issuing stock changes the company's equity and financing, not the value of acquired intangible assets. Selling assets or reducing cash affects assets directly but doesn't generate the premium over identifiable net assets that goodwill represents.

9. Which are the three major financial statements?

- A. Statement of Cash Flows; Income Statement; Cash Flow Statement
- B. Income Statement; Balance Sheet; Cash Flow Statement**
- C. Balance Sheet; Income Statement; Statement of Changes in Equity
- D. Income Statement; Retained Earnings Statement; Cash Flow Statement

Three financial statements provide a complete view of a company's finances: how it performed financially over a period, what it owns and owes at a moment, and how cash moved through the business. The Income Statement shows revenues and expenses to yield net income for the period. The Balance Sheet lays out assets, liabilities, and equity at a specific date. The Cash Flow Statement details cash inflows and outflows across operating, investing, and financing activities. This combination is the standard trio used in most financial reporting because it covers performance, financial position, and liquidity. The option that repeats the cash flow statement and omits the balance sheet misses an essential piece of the picture. The inclusion of a Statement of Changes in Equity or a Retained Earnings Statement reflects other formats some reports use, but they are not the three core statements used in typical presentations. Therefore, the three major financial statements are the Income Statement, the Balance Sheet, and the Cash Flow Statement.

10. Why is cash subtracted when computing Enterprise Value?

- A. Because cash is a non-operating asset and Equity Value implicitly accounts for it.
- B. Because cash increases EV by default.**
- C. Because cash is a debtor asset.
- D. Because cash is always excess cash.

Cash is subtracted when computing Enterprise Value because EV measures the value of a company's operating assets and the total financing needed to acquire those assets. Cash is a non-operating asset sitting on the balance sheet; when you buy the business, that cash comes along and can be used to pay down debt or be returned to you as the buyer. So, the net cost to acquire the operating business is lower by the amount of cash. In the EV formula, you start from equity value, add debt, and subtract cash to reflect that the buyer would receive or utilize that cash, focusing EV on the value of the core operations rather than liquidity.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://basictechinvestmentbanking.examzify.com>

We wish you the very best on your exam journey. You've got this!

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