

BREAKING INTO WALL STREET 400 PRACTICE TEST (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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THE FULL VERSION STUDY GUIDE**

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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. Which is correct for free cash flow multiples when using unlevered FCF?**
- A. Use equity value
 - B. Use enterprise value
 - C. Use revenue
 - D. Use EBITDA
- 2. Why can't you use Equity Value / EBITDA as a multiple instead of Enterprise Value / EBITDA?**
- A. EBITDA is available to all investors and EV is available to all; equity value does not reflect capital structure
 - B. Because EBITDA is not a real metric
 - C. Because EV is less volatile
 - D. Because equity value is always larger than EV
- 3. Which formula represents the Gordon Growth Model value TV?**
- A. $TV = (FCF \cdot (1+g)) / (r-g)$
 - B. $TV = FCF / (r-g)$
 - C. $TV = FCF \cdot (1+g) / (r+g)$
 - D. $TV = (FCF \cdot (1-g)) / (r-g)$
- 4. Which expression represents Accounts Receivable Turnover?**
- A. Average Accounts Receivable / Sales
 - B. AR / Sales
 - C. Sales / AR
 - D. Sales / Average Accounts Receivable
- 5. What is the correct formula for WACC?**
- A. $(\text{cost of debt} \cdot \text{debt}) / (\text{debt} + \text{equity}) + (\text{cost of equity} \cdot \text{equity}) / (\text{debt} + \text{equity})$
 - B. $(\text{cost of debt} \cdot \text{debt} \cdot (1 - \text{tax rate})) / (\text{debt} + \text{equity}) + (\text{cost of equity} \cdot \text{equity}) / (\text{debt} + \text{equity})$
 - C. $(\text{cost of debt} \cdot \text{debt}) / (\text{debt} - \text{equity}) + (\text{cost of equity} \cdot \text{equity}) / (\text{debt} - \text{equity})$
 - D. $(\text{cost of debt} + \text{cost of equity}) / 2$

6. What is a Fairness Opinion in valuation practice?

- A. A document that proves the value their client is paying or receiving is fair from a financial point of view.
- B. A document used to forecast synergies.
- C. A document used to set the purchase price in the deal.
- D. A document used to analyze debt capacity.

7. For deals funded with cash and debt, which quick rule helps determine accretion or dilution?

- A. Sum the foregone interest on cash and the added debt interest, and compare to seller's pretax income
- B. Compare buyer and seller P/E multiples
- C. Only consider synergies
- D. Ignore interest costs and compare cash flow

8. Which ratio is defined as EBITDA divided by Interest Expense?

- A. EBITDA / Interest Expense
- B. Net Income / Interest Expense
- C. EBIT / Interest Expense
- D. Revenue / Interest Expense

9. Why do most mergers and acquisitions fail?

- A. Synergies are overestimated
- B. Deals are pursued for ego or pressure from shareholders
- C. There is perfect integration
- D. There is too much due diligence

10. How are revenue synergies used in merger models?

- A. Add to Revenue with a margin
- B. Reduce COGS
- C. Apply directly to Net Income
- D. Ignore

Answers

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

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Explanations

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1. Which is correct for free cash flow multiples when using unlevered FCF?

- A. Use equity value
- B. Use enterprise value**
- C. Use revenue
- D. Use EBITDA

Unlevered free cash flow is the cash generated by the business after taxes and reinvestment, available to all providers of capital—both debt and equity. That means it reflects the firm's cash-generating power independent of how it's financed. To value the whole firm, you compare this cash flow to the value of the entire enterprise, which is the enterprise value. Using EV as the denominator keeps the multiple tied to the cash flow available to all capital holders and makes comparisons across firms with different debt levels meaningful. Using equity value would tie the cash flow to only the equity claimants, skewing comparisons when leverage varies. Revenue or EBITDA aren't actual cash flows after reinvestment, so they don't measure the same thing as unlevered FCF. So the right approach is to use enterprise value.

2. Why can't you use Equity Value / EBITDA as a multiple instead of Enterprise Value / EBITDA?

- A. EBITDA is available to all investors and EV is available to all; equity value does not reflect capital structure**
- B. Because EBITDA is not a real metric
- C. Because EV is less volatile
- D. Because equity value is always larger than EV

The key idea is that EV/EBITDA lines up a firm's operating profitability with the value that all providers of capital can claim. EBITDA is a pre-financing measure of operating performance—before interest, taxes, and debt service—so it reflects the cash flows available to both debt and equity holders. Enterprise value represents the total price to acquire the whole firm (debt plus equity minus cash), i.e., the value available to all capital providers. Using equity value instead would tie the multiple to the shareholders' claim only and ignore debt and cash, making the metric heavily depend on capital structure and less comparable across firms. That's why the broader, capital-structure-neutral EV/EBITDA is preferred.

3. Which formula represents the Gordon Growth Model value TV?

- A. $TV = (FCF \times (1+g)) / (r-g)$**
- B. $TV = FCF / (r-g)$
- C. $TV = FCF \times (1+g) / (r+g)$
- D. $TV = (FCF \times (1-g)) / (r-g)$

The concept being tested is the Gordon Growth Model for a terminal value in a growing perpetuity. In this model, the value of all future cash flows beyond the terminal year is equal to the next year's cash flow divided by the discount rate minus the growth rate: $TV = CF_1 / (r - g)$. If you start from the current year free cash flow (FCF), you must grow it to next year's level: $CF_1 = FCF \times (1 + g)$. Substituting gives $TV = FCF \times (1 + g) / (r - g)$. That is why the correct form uses FCF times $(1 + g)$ in the numerator and the difference $(r - g)$ in the denominator. The other forms aren't correct here: using FCF without growing it assumes the cash flow is already next year's, which isn't indicated; using $r + g$ in the denominator is incorrect for this model, and using $(1 - g)$ in the numerator implies a shrinking perpetuity, which isn't the standard Gordon Growth setup.

4. Which expression represents Accounts Receivable Turnover?

- A. Average Accounts Receivable / Sales
- B. AR / Sales
- C. Sales / AR
- D. Sales / Average Accounts Receivable**

Accounts receivable turnover shows how many times a company collects its average accounts receivable during a period. In practice, it's net credit sales divided by the average accounts receivable (often calculated as (beginning AR + ending AR) / 2). Therefore, the correct expression is Sales divided by Average Accounts Receivable. Using any other form—such as the ratio inverted, using ending AR rather than the average, or placing AR in the numerator—would not yield the turnover figure and could mislead about collection efficiency. A higher turnover means faster collections; you can also estimate the average collection period as 365 divided by turnover.

5. What is the correct formula for WACC?

- A. (cost of debt * debt) / (debt + equity) + (cost of equity * equity) / (debt + equity)
- B. (cost of debt * debt * (1 - tax rate)) / (debt + equity) + (cost of equity * equity) / (debt + equity)**
- C. (cost of debt * debt) / (debt - equity) + (cost of equity * equity) / (debt - equity)
- D. (cost of debt + cost of equity) / 2

WACC represents the blended cost of financing a company uses, combining the after tax cost of debt with the cost of equity and weighting each by how much of the capital structure comes from debt and from equity. The debt portion is taxed-deductible, so its true cost is $R_d \times (1 - T_c)$. The weights are the proportions of debt and equity in the total capital, $D/(D+E)$ and $E/(D+E)$. Put together, the formula is: $[R_d \times D \times (1 - T_c) + R_e \times E] / (D + E)$. This expands to $(R_d \times D \times (1 - T_c))/(D+E) + (R_e \times E)/(D+E)$, which matches the correct expression. The other forms either omit the tax shield on debt, use an incorrect denominator like $(D - E)$, or simply average the two costs without proper weighting.

6. What is a Fairness Opinion in valuation practice?

- A. A document that proves the value their client is paying or receiving is fair from a financial point of view.**
- B. A document used to forecast synergies.
- C. A document used to set the purchase price in the deal.
- D. A document used to analyze debt capacity.

A fairness opinion is a written assessment by an independent financial advisor that the price and terms of a deal are fair, from a financial point of view, to the client paying or receiving the consideration. It supports a board's fiduciary decision by confirming the financial fairness of the transaction and helps address concerns about whether the deal price reflects value. The opinion relies on valuation analyses and deal structure, but it does not itself set the purchase price, forecast synergies, or analyze debt capacity.

7. For deals funded with cash and debt, which quick rule helps determine accretion or dilution?

- A. Sum the foregone interest on cash and the added debt interest, and compare to seller's pretax income**
- B. Compare buyer and seller P/E multiples
- C. Only consider synergies
- D. Ignore interest costs and compare cash flow

When a deal is financed with both cash and new debt, the main effect on earnings comes from the financing costs you incur versus what the seller already earns. A quick check is to add the foregone interest on the cash you're using to fund the purchase to the interest expense from the new debt, and compare that total to the seller's pretax income. If the financing drag (foregone cash interest plus debt interest) is smaller than the seller's pretax income, there's enough earnings to absorb the financing costs, and the deal tends to be accretive. If the drag exceeds the seller's pretax income, the combined pre-tax earnings shrink, leading to dilution. This provides a fast sense of whether the financing structure will lift or reduce earnings before tax, without delving into tax effects or synergies.

8. Which ratio is defined as EBITDA divided by Interest Expense?

- A. EBITDA / Interest Expense**
- B. Net Income / Interest Expense
- C. EBIT / Interest Expense
- D. Revenue / Interest Expense

This question tests your understanding of the EBITDA-based interest-coverage concept. EBITDA is earnings before interest, taxes, depreciation, and amortization, a proxy for operating cash flow. When you divide EBITDA by interest expense, you're quantifying how many times the company could cover its interest payments from ongoing operating cash flow. That measure is commonly called the EBITDA coverage ratio (an EBITDA-to-interest ratio). It helps assess debt-service capability without the distortions of taxes, depreciation, or financing structure. Other options don't fit as neatly: using Net Income mixes in taxes and other items, not purely operating cash flow; using EBIT/Interest gives the traditional interest-coverage ratio but with depreciation and amortization excluded; using Revenue ignores costs and profits entirely, so it isn't a meaningful measure of debt service capacity.

9. Why do most mergers and acquisitions fail?

- A. Synergies are overestimated
- B. Deals are pursued for ego or pressure from shareholders**
- C. There is perfect integration
- D. There is too much due diligence

The main idea is that the driving force behind many failed mergers and acquisitions is motive: deals get pushed forward to satisfy ego or to placate shareholders, not because the combination makes strategic sense. When executives feel pressure to show growth or prove something to the market, they tend to overpay and rush into integration, skipping careful valuation and cultural fit. That overpayment makes the promised synergies harder to achieve, and rushed or inadequate integration planning often undermines the value the deal was supposed to create. So even if synergies estimates are optimistic or people imagine a perfect integration, the underlying incentive to close for the sake of ego or shareholder pressure is what most frequently sabotages the deal.

10. How are revenue synergies used in merger models?

A. Add to Revenue with a margin

B. Reduce COGS

C. Apply directly to Net Income

D. Ignore

Revenue synergies are the extra top-line growth the merged company expects to generate beyond what each business would achieve on its own, from things like cross-selling, expanded product lines, or broader geographic reach. In a merger model you reflect this by adding incremental revenue to the base revenue and then applying an incremental margin to that revenue to estimate its profitability. This approach shows how much the additional revenue contributes to operating income, after accounting for the costs to produce and sell it. It's not about simply increasing net income or about reducing COGS directly; those are separate effects (cost synergies) that would be modeled differently. Ignoring revenue synergies would understate the deal's value.

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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://breakingintowallstreet400.examzify.com>

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

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