CFI FINANCIAL MODELING AND VALUATION ANALYST (FMVA) PRACTICE EXAM (SAMPLE)

STUDY GUIDE

SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

VISIT US ONLINE FOR
THE FULL VERSION STUDY GUIDE

https://cfifmva.examzify.com

Table of Contents

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

1. In cash accounting method, when are income and expenditures recorded?

A. record income and expenditures at the time the money changes hands

B. record income when earned and expenditures when incurred

C. record on a cash basis but only annually

D. record revenues when accrued

2. An accounting system entering expenses and revenues only when cash is received or paid out?

A. Accounts Payable

B. Inventory

C. Accounts Receivable

D. Cash Flow Accounting System

3. How is Ending PP&E computed in BASE analysis?

A. Ending PP&E = Beginning PP&E + Additions - Depreciation

B. Ending PP&E = Beginning PP&E - Additions + Depreciation

C. Ending PP&E = Beginning PP&E + Net Income - Depreciation

D. Ending PP&E = Beginning PP&E + Impairment - Depreciation

4. What is the current portion of long-term debt?

A. The total long-term debt

B. The amount of loan repayments due within the next 12 months

C. Interest payable

D. The current portion of short-term debt

5. Which statement best describes preferred shares?

A. Debenture issued by the company.

B. Shares that entitle owner to a fixed dividend amount and have priority in dividends and assets before common stock owners, usually without voting rights.

C. Shares that must be voted on by all shareholders every year.

D. A type of tax payable.

6. **What is the formula for Terminal Value using a perpetuity growth model (TVn(GP))?**
   A. FCFn*(1+g)/(WACC + g)
   B. FCFn*(1-g)/(WACC - g)
   C. FCFn*(1+g)/(WACC - g)
   D. FCFn*(1+g)/WACC

7. **Under cash accounting, when is revenue recognized?**
   A. When earned
   B. When cash is received
   C. When expenses are incurred
   D. At year-end

8. **Which section reports cash flows from investments in noncurrent assets?**
   A. Operating activities
   B. Financing activities
   C. Investing activities
   D. Tax activities

9. **What characterizes the Quick & Simple D&A Forecast approach?**
   A. Forecast PP&E requirements directly
   B. Forecast D&A as % of opening PP&E balance or revenue
   C. Use a fixed depreciation rate
   D. Ignore D&A and use cash flow

10. **When authorized shares are increased, how do common stock and APIC change?**
   A. Common stock increases by par value; APIC increases by issue price minus par
   B. Common stock and APIC both increase by the full issue price
   C. Common stock increases but APIC decreases
   D. No change to common stock or APIC

Answers

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

Explanations

1. In cash accounting method, when are income and expenditures recorded?

- A. record income and expenditures at the time the money changes hands
- B. record income when earned and expenditures when incurred
- C. record on a cash basis but only annually
- D. record revenues when accrued

Under cash accounting, income and expenditures are recorded when cash actually changes hands. Income is recognized when cash is received and expenses are recognized when cash is paid out. This timing mirrors real cash flow and is simpler for many small businesses. In contrast, accrual accounting records revenues when earned and expenses when incurred, regardless of cash movement. Descriptions about recording on a cash basis only annually or recording revenues when accrued describe accrual timing or a misfit for cash accounting, not how cash accounting works.

2. An accounting system entering expenses and revenues only when cash is received or paid out?

- A. Accounts Payable
- B. Inventory
- C. Accounts Receivable
- D. Cash Flow Accounting System

This tests a cash-based timing approach to recognizing revenues and expenses. Recording revenues and expenses only when cash actually changes hands is cash-basis (cash flow) accounting. It focuses on when cash inflows and outflows occur, rather than when the underlying economic events happen. Under this method you don't record a sale until cash is received, and you don't record a purchase until cash is paid. This is different from accrual accounting, where revenue is recognized when earned and expenses when incurred, regardless of cash movements, which is why accounts like Accounts Receivable and Accounts Payable are central in that framework. Inventory matters for asset and cost tracking, but it doesn't define the timing rule. So the described system aligns with the Cash Flow Accounting System.

3. How is Ending PP&E computed in BASE analysis?

- A. Ending PP&E = Beginning PP&E + Additions - Depreciation
- B. Ending PP&E = Beginning PP&E - Additions + Depreciation
- C. Ending PP&E = Beginning PP&E + Net Income - Depreciation
- D. Ending PP&E = Beginning PP&E + Impairment - Depreciation

Ending PP&E shows the net value of property, plant, and equipment at the close of the period. It changes mainly through two items: capital expenditures (additions) that increase the asset base, and depreciation that reduces it over time. In a typical BASE analysis, you don't directly adjust PP&E with net income or with impairment unless those items are explicitly included in the model. So the straightforward way to compute ending PP&E is Beginning PP&E plus Additions minus Depreciation. For example, starting with 100, adding 20 in capital expenditures, and recording 5 of depreciation yields an ending PP&E of 115. Impairment would lower the ending value if included, but the standard approach shown here uses only additions and depreciation.

4. What is the current portion of long-term debt?

A. The total long-term debt

B. The amount of loan repayments due within the next 12 months

C. Interest payable

D. The current portion of short-term debt

The part being tested is how debt is classified on the balance sheet. The current portion of long-term debt is the amount of principal that must be repaid within the next 12 months from the balance sheet date. This portion is shown as a current liability, while the remainder of the long-term debt stays classified as non-current. This isn't the total long-term debt, which includes amounts due beyond one year. It isn't interest payable, which relates to the cost of borrowing, not the principal repayments. And it isn't the current portion of short-term debt, which would be the portion of short-term borrowings due within the year but classified under short-term liabilities. In practice, you determine the current portion by reviewing the debt amortization schedule and summing the principal repayments due in the next 12 months. This item directly affects liquidity measurements and cash flow planning.

5. Which statement best describes preferred shares?

A. Debenture issued by the company.

B. Shares that entitle owner to a fixed dividend amount and have priority in dividends and assets before common stock owners, usually without voting rights.

C. Shares that must be voted on by all shareholders every year.

D. A type of tax payable.

Preferred shares are a class of equity that sits between common stock and debt. They typically offer a fixed dividend, providing a predictable income stream, and they have priority over common shares for both dividend payments and the distribution of assets in liquidation. At the same time, they usually don't carry voting rights, so holders don't participate in corporate governance like common shareholders do. This combination—fixed dividend, priority in dividends and assets, and often no voting rights—best describes preferred shares. A debenture is a debt instrument, not equity; requiring all shareholders to vote annually is not a defining feature of preferred stock; and a tax is not a type of share.

6. What is the formula for Terminal Value using a perpetuity growth model (TVn(GP))?

A. FCFn*(1+g)/(WACC + g)

B. FCFn*(1-g)/(WACC - g)

C. FCFn*(1+g)/(WACC - g)

D. FCFn*(1+g)/WACC

In a perpetuity growth model, terminal value represents the value of a forever-going stream of cash flows that grow at rate g and are discounted at the firm's cost of capital. The standard Gordon growth form is TV_n = FCF_{n+1} / (WACC - g). If you're given the final forecasted year's cash flow, FCF_n, you convert to next year's cash flow by multiplying by (1+g), giving TV_n = FCF_n*(1+g) / (WACC - g). This requires WACC to be greater than g. For example, if FCF_n = 100, g = 3%, and WACC = 10%, TV_n = 100*1.03 / (0.10 - 0.03) ≈ 1,471.43. The other forms misplace growth or use the wrong denominator. Using a plus in the denominator (WACC + g) or using no growth in the denominator (WACC) or using (1 - g) in the numerator does not reflect the Gordon growth logic of perpetual cash flows growing at g and being discounted by WACC minus g.

7. Under cash accounting, when is revenue recognized?

A. When earned

B. When cash is received

C. When expenses are incurred

D. At year-end

Revenue is recognized when cash is actually received. The timing hinges on cash inflows rather than when the sale occurs or the service is performed. For example, if a client pays you in January for a service you delivered in December, revenue is recorded in January under cash accounting. This contrasts with accrual accounting, where revenue is recognized when it is earned, regardless of when cash is collected.

8. Which section reports cash flows from investments in noncurrent assets?

A. Operating activities

B. Financing activities

C. Investing activities

D. Tax activities

Cash flows are categorized by activity: investing, operating, and financing. The investing section specifically tracks cash that relates to acquiring and disposing of long-term assets—things like property, plant and equipment, intangible assets, and long-term investments. When a company spends cash to buy a noncurrent asset, or receives cash from selling one, that cash flow belongs here. Operating activities reflect the day-to-day business operations, financing activities cover borrowing and repaying debt or issuing equity, and taxes are generally shown within operating activities. Therefore, cash flows from investments in noncurrent assets are reported in the investing activities section.

9. What characterizes the Quick & Simple D&A Forecast approach?

A. Forecast PP&E requirements directly

B. Forecast D&A as % of opening PP&E balance or revenue

C. Use a fixed depreciation rate

D. Ignore D&A and use cash flow

Estimating depreciation and amortization quickly relies on linking it to a simple driver that tends to move with the business: the asset base or the level of activity. Forecasting D&A as a percentage of the opening PP&E balance or of revenue captures how depreciation tends to scale with how much asset you own or how much you're selling, without building a detailed, asset-by-asset schedule. This approach is favored in Quick & Simple because it avoids the complexity of modeling every asset or a detailed amortization calendar, yet still yields a reasonable, consistent estimate that tracks with base assets or sales. Forecasting PP&E requirements directly focuses on capex planning, not on D&A itself. Using a fixed depreciation rate can be rigid and may not reflect changes in asset base or aging. Ignoring D&A and using cash flow ignores the important non-cash charge that affects net income and taxes, which you still need to consider in most analyses.

10. When authorized shares are increased, how do common stock and APIC change?

- A. Common stock increases by par value; APIC increases by issue price minus par
- B. Common stock and APIC both increase by the full issue price
- C. Common stock increases but APIC decreases
- D. No change to common stock or APIC

Increasing authorized shares is a charter adjustment that expands how many shares the company may issue, but it does not itself create new capital or affect equity accounts. There is no journal entry to common stock or APIC simply from authorizing more shares. The only time common stock and APIC change is when shares are actually issued: common stock increases by the par value per share issued, and APIC increases by the amount paid over par (issue price minus par). If issued at par, APIC does not change. Therefore, the authorization increase does not alter common stock or APIC.

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://cfifmva.examzify.com

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