

ETS Major Field Test Business 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. What does a Debt-Equity Ratio greater than 1 indicate?**
 - A. The company is highly conservative**
 - B. The company has a balanced capital structure**
 - C. The company is a leveraged firm**
 - D. The company generates low interest returns**

- 2. What process involves moving away from less profitable operations by either selling or closing them?**
 - A. Liquidation**
 - B. Retrenchment**
 - C. Divestiture**
 - D. Joint Venture**

- 3. What term describes the act of sharing concerns about wrongdoing within an organization?**
 - A. Insider trading**
 - B. Whistle-blowing**
 - C. Accountability**
 - D. Corporate restructuring**

- 4. How does a high Dividend Yield Ratio appeal to investors?**
 - A. It indicates rapid growth potential**
 - B. It signifies a significant return through dividends**
 - C. It shows a company is debt-free**
 - D. It measures asset management efficiency**

- 5. What is an annuity due?**
 - A. A series of payments at the end of each period**
 - B. A single payment made upfront**
 - C. A series of payments at the beginning of each period**
 - D. A payment that continues forever**

6. What does perpetual inventory accounting involve when merchandise is received?

- A. Counting inventory at the end of the period**
- B. Recording a purchase in the purchases account**
- C. Adding merchandise purchases to the inventory account**
- D. Subtracting from the Cost of Goods Sold**

7. What does the Accounts Payable Turnover ratio represent?

- A. The frequency a company pays suppliers**
- B. The number of times inventory is sold**
- C. The efficiency of collecting customer payments**
- D. The speed of converting cash into receivables**

8. In the context of business management, what does the term "discretion" refer to?

- A. Restrictions on decision making**
- B. The freedom to make choices within certain limits**
- C. Mandatory compliance with laws**
- D. Standard operating procedures**

9. What is a perpetuity?

- A. A loan that must be repaid over a fixed term**
- B. An annuity that lasts for a specific number of years**
- C. An investment that continues indefinitely**
- D. A limited duration financial tool**

10. Which of the following is included in a statement of cash flows?

- A. Revenues and Gains**
- B. Assets and Liabilities**
- C. Cash receipts and cash payments**
- D. Investments by Owners and Distributions to Owners**

Answers

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

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Explanations

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1. What does a Debt-Equity Ratio greater than 1 indicate?

- A. The company is highly conservative
- B. The company has a balanced capital structure
- C. The company is a leveraged firm**
- D. The company generates low interest returns

A Debt-Equity Ratio greater than 1 indicates that a company has more debt financing relative to its equity financing. This situation reveals that the company is using leverage, or borrowed capital, to fund its operations and growth. Leverage can amplify both potential returns and risks; thus, a firm with a debt-equity ratio greater than 1 is typically considered a leveraged firm. In terms of capital structure, a higher ratio suggests reliance on debt financing, which can be beneficial for growth but also raises financial risk since the company has obligations to meet regardless of its operational performance. This can lead to higher interest payments and potential challenges in economic downturns. Other options may imply different characteristics of a firm's capital structure. For example, a company that is highly conservative would typically maintain a lower debt level relative to equity. A balanced capital structure implies that the proportions of debt and equity are relatively equal, which is not indicated by a ratio greater than 1. Generating low interest returns suggests poor performance or utilization of capital but does not directly correlate with the debt-equity ratio measurement. Thus, the correct interpretation of a debt-equity ratio greater than 1 as indicative of a leveraged firm is well-founded in financial theory.

2. What process involves moving away from less profitable operations by either selling or closing them?

- A. Liquidation
- B. Retrenchment
- C. Divestiture**
- D. Joint Venture

The process of divestiture specifically refers to the strategic decision to sell, spin off, or close down certain parts of a business that are deemed less profitable or non-core to the company's overall objectives. This allows a company to focus its resources on more profitable segments and can improve overall financial health by shedding operations that are not performing well or do not align with the strategic vision. By engaging in divestiture, organizations can streamline operations, increase efficiency, and potentially enhance shareholder value. While liquidation refers to selling off assets, often in the context of going out of business, retrenchment generally involves cutting back on operations to improve financial stability but doesn't specifically involve selling units. A joint venture is a collaborative agreement between two or more companies to pursue a specific project or goal, which does not directly relate to the process of abandoning less profitable operations. Therefore, divestiture is the term that most accurately describes the action of moving away from certain parts of the business that do not contribute positively to profitability.

3. What term describes the act of sharing concerns about wrongdoing within an organization?

- A. Insider trading**
- B. Whistle-blowing**
- C. Accountability**
- D. Corporate restructuring**

Whistle-blowing refers to the act of reporting unethical, illegal, or harmful activities or practices occurring within an organization. This can involve disclosing concerns regarding misconduct to authorities, management, or the public, aiming to expose wrongdoing and promote accountability. It serves as a critical mechanism for fostering transparency and ethical behavior within organizations, encouraging individuals to speak out when they witness unethical actions. Regarding the other terms, insider trading pertains to buying or selling securities based on non-public, material information about a company, which does not involve reporting wrongdoing. Accountability relates to the responsibility of individuals or organizations to account for their actions, and while it is important for ethical behavior, it does not directly capture the act of reporting concerns. Corporate restructuring involves reorganizing a company's structure, but does not encompass the concept of reporting unethical practices. Thus, whistle-blowing is the most accurate term for the act of sharing concerns about wrongdoing within an organization.

4. How does a high Dividend Yield Ratio appeal to investors?

- A. It indicates rapid growth potential**
- B. It signifies a significant return through dividends**
- C. It shows a company is debt-free**
- D. It measures asset management efficiency**

A high Dividend Yield Ratio is particularly appealing to investors because it signifies a significant return through dividends. This ratio measures the annual dividends paid by a company relative to its stock price, providing an insight into the income an investor can expect to receive from holding shares in that company. Investors who are seeking income, particularly those looking for stable cash flow such as retirees, often find higher dividend yields attractive since these dividends can serve as a regular income source. High dividend yields may also suggest that a company has strong cash flow and management practices that allow it to return profits to shareholders rather than reinvesting all of its earnings back into the business. Consequently, investors often interpret a high dividend yield as an indicator of financial stability and potential for long-term returns, making option B the most relevant choice in appealing to investors motivated by income from dividends. Other options relate to different aspects of a company. For example, rapid growth potential is generally indicated by capital gains rather than dividends and does not necessarily correlate with a high dividend yield. Similarly, showing a company is debt-free or measuring asset management efficiency are not directly related to the dividend yield but rather would focus on financial health and operational effectiveness, which are separate considerations for investors.

5. What is an annuity due?

- A. A series of payments at the end of each period
- B. A single payment made upfront
- C. A series of payments at the beginning of each period**
- D. A payment that continues forever

An annuity due refers to a series of payments made at the beginning of each period, which is a key aspect that distinguishes it from other types of annuities. This timing affects the present value and future value calculations of an annuity due; since payments are made earlier, each payment earns interest for a longer time than payments made at the end of the period, as seen in ordinary annuities. In financial planning and calculations, recognizing that annuity due payments occur at the start of each period is crucial for accurately determining cash flows and valuations. This structure is commonly used in lease agreements, insurance premiums, and certain pension plans where payments are due at the beginning rather than at the end. Understanding this definition of an annuity due is essential, particularly in areas like retirement planning, where cash flow timing can significantly impact the total amount of money accumulated over time.

6. What does perpetual inventory accounting involve when merchandise is received?

- A. Counting inventory at the end of the period
- B. Recording a purchase in the purchases account
- C. Adding merchandise purchases to the inventory account**
- D. Subtracting from the Cost of Goods Sold

Perpetual inventory accounting involves continuously updating inventory records to reflect the current level of stock on hand. When merchandise is received, the correct action is to add the value of that merchandise directly to the inventory account. This real-time tracking allows businesses to maintain an accurate record of inventory levels at any point during the accounting period, enabling better inventory management, forecasting, and decision-making. In this system, each purchase updates the inventory account immediately, rather than being recorded in a separate purchases account, and adjustments to Cost of Goods Sold occur only when inventory is sold. This method contrasts with periodic inventory systems where inventory counts and valuations are typically done at the end of a period.

7. What does the Accounts Payable Turnover ratio represent?

- A. The frequency a company pays suppliers**
- B. The number of times inventory is sold**
- C. The efficiency of collecting customer payments**
- D. The speed of converting cash into receivables**

The Accounts Payable Turnover ratio reflects how often a company pays its suppliers within a given period, typically a year. This ratio is a measure of the company's liquidity and efficiency in managing its short-term obligations. A higher turnover ratio indicates that a company is paying its suppliers quickly, which can be a sign of good cash flow management and strong supplier relationships. Conversely, a lower ratio might suggest that the company is taking longer to pay its obligations, which could be due to tighter cash flow or potentially strained supplier relationships. Focusing on the other options: the number of times inventory is sold pertains to inventory turnover, which measures how efficiently a business uses its inventory. The efficiency of collecting customer payments relates to accounts receivable turnover, indicating how well a company manages its sales on credit. Lastly, converting cash into receivables is not directly related to the accounts payable turnover and instead refers to a company's ability to generate credit sales from its cash on hand. Each of these metrics provides important insights but is distinct from the accounts payable turnover ratio.

8. In the context of business management, what does the term "discretion" refer to?

- A. Restrictions on decision making**
- B. The freedom to make choices within certain limits**
- C. Mandatory compliance with laws**
- D. Standard operating procedures**

The term "discretion" in business management specifically refers to the freedom or authority to make choices and judgments within certain established limits or guidelines. This concept allows managers and employees to tailor their decisions to specific situations or contexts, rather than being strictly bound by rigid rules or protocols. In practical terms, discretion empowers individuals to interpret policies or adapt their responses based on the nuances of the circumstances they encounter. For example, a manager may exercise discretion in deciding how to allocate resources, handle employee issues, or respond to customer complaints, taking into account the unique factors at play in each situation. This option underscores the balance between having established frameworks and the need for flexibility in decision-making, which is crucial for effective management and responsiveness in a business environment. The other choices do not capture this essence of discretion; instead, they refer to limitations or compliance practices that restrict freedom of choice.

9. What is a perpetuity?

- A. A loan that must be repaid over a fixed term**
- B. An annuity that lasts for a specific number of years**
- C. An investment that continues indefinitely**
- D. A limited duration financial tool**

A perpetuity refers to an investment or financial instrument that continues indefinitely without a fixed end date. This means that it pays a consistent stream of cash flows or dividends forever, making it distinct from other financial products that have a defined term or duration, such as loans or annuities. The concept of perpetuity is significant in finance because it allows for the calculation of present value using the formula for valuing a stream of cash flows that lasts indefinitely. In contrast to other options: loans have a specific repayment schedule, annuities are defined by their limited time frames, and limited duration financial tools inherently do not provide the infinite cash flow characteristic that defines a perpetuity. Thus, the nature of a perpetuity as an ongoing investment with no termination point is what makes it the correct definition in this context.

10. Which of the following is included in a statement of cash flows?

- A. Revenues and Gains**
- B. Assets and Liabilities**
- C. Cash receipts and cash payments**
- D. Investments by Owners and Distributions to Owners**

The statement of cash flows is a financial statement that provides a detailed analysis of what happened to a company's cash during a specified period of time. It focuses specifically on cash inflows and outflows from operating, investing, and financing activities. When considering the components of the statement, cash receipts and cash payments are central. Cash receipts represent the inflows of cash from various sources, such as sales of goods and services, while cash payments refer to the outflows of cash for expenses, purchases, and other obligations. This direct focus on cash transactions is fundamental to true financial health and liquidity analysis, which is the primary purpose of the statement of cash flows. The other options mention elements that are not specifically classified as cash inflows or outflows. For instance, revenues and gains are more reflective of the income statement, while assets and liabilities pertain to the balance sheet, which details a company's financial position at a specific moment in time. Investments by owners and distributions to owners relate to the financing section of a statement of changes in equity rather than directly indicating cash flow activities. Thus, cash receipts and cash payments are indeed key elements that define what is included in a statement of cash flows.

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://etsmajfieldtestbusiness.examzify.com>

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

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