FINANCE (FINC) TEST 1 PRACTICE (SAMPLE)

STUDY GUIDE

SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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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

1. Which of the following is not a component of the weighted average cost of capital (WACC)?

A. Cost of debt after tax

B. Cost of equity

C. Cost of preferred stock

D. Corporate tax rate

2. In a Limited Partnership, who typically runs the business?

A. Limited partners run the business

B. One or more general partners runs the business

C. The partnership agreement says two people

D. The corporation runs the business

3. What is EBITDA and why is it used as a proxy for operating performance?

A. Earnings Before Interest, Taxes, Depreciation, and Amortization; focuses on operating performance.

B. Net income after tax; includes financing effects.

C. Cash flow from operations; shows liquidity.

D. Gross profit; excludes operating expenses.

4. Net Working Capital is defined as

A. Net Working Capital = Current Assets - Current Liabilities

B. Net Working Capital = Total Assets - Total Liabilities

C. Net Working Capital = Current Liabilities - Current Assets

D. Net Working Capital = Cash + Accounts Receivable

5. If a firm finances an increase in assets entirely with new equity, what must occur?

A. Assets increase; Liabilities unchanged; Equity increases by same amount

B. Assets decrease

C. Liabilities increase

D. Assets remain unchanged

6. Dividend payout ratio

A. Dividend payout ratio = retention ratio

B. Dividend payout ratio = 1 - retention ratio

C. Dividend payout ratio = 1 + retention ratio

D. Dividend payout ratio = 0

7. What is the present value of a single future cash flow of C received in t years at an annual rate r?

A. PV = C × (1 + r)^t

B. PV = C / (1 + r)^t

C. PV = C / (1 − r)^t

D. PV = C × (1 − r)^t

8. Inventory turnover tells us how many times the firm sold through or turned over the entire inventory. Which statement is true?

A. A Higher Turnover Means Slower Sales

B. A Higher Turnover Means Faster Inventory Movement

C. A Higher Turnover Has No Relation to Sales

D. A Higher Turnover Increases Accounts Payable

9. Which expression correctly relates FCFE to FCFF?

A. FCFE = FCFF + Interest × (1 − Tc) + Net debt issued.

B. FCFE = FCFF − Interest × (1 − Tc) + Net debt issued.

C. FCFE = FCFF − Interest × (1 − Tc) − Net debt issued.

D. FCFE = FCFF − Net debt issued + Interest × Tc.

10. Fixed assets have a relatively long life and can be tangible or intangible.

A. Tangible only

B. True

C. False

D. Intangible

Answers

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

Explanations

1. Which of the following is not a component of the weighted average cost of capital (WACC)?

A. Cost of debt after tax

B. Cost of equity

C. Cost of preferred stock

D. Corporate tax rate

WACC is the blended cost of a company's financing sources, found by weighting the costs of debt, equity, and preferred stock. The debt portion is taken after tax because interest is tax-deductible, so we use the after-tax cost kd(1 - T). The costs of equity and preferred stock enter the calculation at their stated rates without an additional tax adjustment. The corporate tax rate itself is not a separate term in the WACC formula; it's the factor that lowers the effective debt cost. In other words, the tax rate affects kd, but it is not a stand-alone component of WACC. Therefore, the corporate tax rate is not a component of WACC.

2. In a Limited Partnership, who typically runs the business?

A. Limited partners run the business

B. One or more general partners runs the business

C. The partnership agreement says two people

D. The corporation runs the business

In a Limited Partnership, the day-to-day operations are run by the general partners. General partners actively manage the business and take on the liability for the partnership's obligations. Limited partners contribute capital and share in profits but are typically passive investors with liability limited to their investment. The partnership agreement may specify who the general partners are and how many there are, but the key idea is that those who actually run the business are the general partners rather than the limited partners (or a corporate entity acting alone).

3. What is EBITDA and why is it used as a proxy for operating performance?

A. Earnings Before Interest, Taxes, Depreciation, and Amortization; focuses on operating performance.

B. Net income after tax; includes financing effects.

C. Cash flow from operations; shows liquidity.

D. Gross profit; excludes operating expenses.

EBITDA isolates operating performance by focusing on earnings generated from core business activities while stripping out financing decisions, tax environments, and non-cash accounting charges. It stands for earnings before interest, taxes, depreciation, and amortization, so it excludes interest (financing effects), taxes (tax environment), and depreciation and amortization (non-cash allocations tied to past investments). This makes it a useful rough measure of how well the business is operating on its own, and it helps compare companies with different debt levels and asset ages. Net income after tax includes financing and tax effects, so it isn't a clean view of operating performance. Cash flow from operations reflects liquidity rather than earnings from operations. Gross profit shows only the direct profitability of goods/services before other operating costs, so it doesn't capture overall operating performance.

4. Net Working Capital is defined as

A. Net Working Capital = Current Assets - Current Liabilities

B. Net Working Capital = Total Assets - Total Liabilities

C. Net Working Capital = Current Liabilities - Current Assets

D. Net Working Capital = Cash + Accounts Receivable

Net working capital measures a company's short-term liquidity—the cushion available to run day-to-day operations. It is calculated as current assets minus current liabilities. Current assets are items that can be converted to cash within a year (cash, receivables, inventory, etc.), while current liabilities are obligations due within a year (payables, short-term debt, accrued expenses). A positive result means the firm can cover its near-term obligations with its near-term assets, while a zero or negative result signals potential liquidity issues or reliance on short-term financing. The given expression matches this concept, making it the correct choice. The other options either describe equity (total assets minus total liabilities), or reverse the order (current liabilities minus current assets), or list only a subset of current assets (cash plus accounts receivable) rather than the net difference.

5. If a firm finances an increase in assets entirely with new equity, what must occur?

A. Assets increase; Liabilities unchanged; Equity increases by same amount

B. Assets decrease

C. Liabilities increase

D. Assets remain unchanged

When a firm finances an asset increase with new equity, the total assets rise and the owners' claim (equity) rises by the same amount, while liabilities stay unchanged. This follows the accounting equation: assets = liabilities + equity. Issuing new equity adds cash or other assets and increases equity, so both sides of the equation grow by the same amount, keeping liabilities constant. So the asset side increases, liabilities remain unchanged, and equity increases by the same amount. The other scenarios would contradict the effect of issuing new equity.

6. Dividend payout ratio

A. Dividend payout ratio = retention ratio

B. Dividend payout ratio = 1 - retention ratio

C. Dividend payout ratio = 1 + retention ratio

D. Dividend payout ratio = 0

In finance, the dividend payout ratio measures the portion of a company's earnings that is paid to shareholders as dividends, while the retention ratio shows the portion kept in the business for reinvestment. Since every dollar of earnings is either paid out or retained, the two fractions must add up to 1. Therefore, the dividend payout ratio equals 1 minus the retention ratio. For example, if a firm retains 40% of its earnings, it pays 60% as dividends, giving a payout ratio of 0.60. The other formulations don't fit this fundamental relationship: the payout ratio can't exceed 1, it isn't simply equal to the retention ratio, and it isn't necessarily zero unless no dividends are paid.

7. What is the present value of a single future cash flow of C received in t years at an annual rate r?

A. PV = C × (1 + r)^t

B. PV = C / (1 + r)^t

C. PV = C / (1 − r)^t

D. PV = C × (1 − r)^t

The present value concept is about how much a future amount is worth today given a cost of capital. For a single payment C received in t years, discount it back t years at the annual rate r. Each year, the value is divided by 1 + r; over t years the factor is (1 + r)^t. So the present value is C divided by (1 + r)^t: PV = C / (1 + r)^t. This reflects the idea that if you invested PV today at rate r for t years, it would grow to C. For example, if C = 100, t = 2, and r = 5%, PV ≈ 100 / (1.05)^2 ≈ 90.70. The other forms would either yield the future value (multiplying by (1 + r)^t) or rely on an incorrect factor like (1 − r)^t, which does not reflect how interest compounds over time.

8. Inventory turnover tells us how many times the firm sold through or turned over the entire inventory. Which statement is true?

A. A Higher Turnover Means Slower Sales

B. A Higher Turnover Means Faster Inventory Movement

C. A Higher Turnover Has No Relation to Sales

D. A Higher Turnover Increases Accounts Payable

Inventory turnover measures how quickly a firm sells through its inventory in a period. A higher turnover means inventory is moving faster, which typically reflects quicker sales relative to the stock on hand. Since turnover is calculated as cost of goods sold divided by average inventory, a higher ratio indicates that goods are being sold and replaced rapidly, not slowly. Therefore, the true statement is that a higher turnover corresponds to faster inventory movement. This concept is tied to sales activity because higher sales (and efficient inventory use) push the COGS up relative to the stock kept. It does not imply slower sales, nor suggest no relation to sales, and it does not automatically increase accounts payable, which is driven by purchasing and payment timing rather than how quickly inventory turns.

9. Which expression correctly relates FCFE to FCFF?

A. FCFE = FCFF + Interest × (1 − Tc) + Net debt issued.

B. FCFE = FCFF − Interest × (1 − Tc) + Net debt issued.

C. FCFE = FCFF − Interest × (1 − Tc) − Net debt issued.

D. FCFE = FCFF − Net debt issued + Interest × Tc.

Understanding how FCFE relates to FCFF involves adjusting for how financing affects cash available to equity holders. FCFF represents cash flow available to all capital providers before financing decisions. To move to FCFE, you need to deduct the after tax cost of debt (the cash flowing to debt holders) and then add any net new debt raised, since new debt provides cash that can be handed to equity holders. The after tax cost of debt is Interest × (1 − Tc) because interest is tax-deductible, reducing the cash that goes to debt holders after taxes. If the firm issues net debt, that extra cash goes to the firm and can be returned to equity holders, so you add Net debt issued. Therefore, FCFE = FCFF − Interest × (1 − Tc) + Net debt issued. If there's no net debt issued, FCFE is FCFF minus the after tax interest; if debt is issued, FCFE increases by that amount.

10. Fixed assets have a relatively long life and can be tangible or intangible.

A. Tangible only

B. True

C. False

D. Intangible

Fixed assets are long-term assets used in the production of goods or services. They have a useful life that extends beyond one year and are not held for resale. They can be tangible, like buildings, machinery, and land, or intangible, like patents, copyrights, and trademarks. Because they provide benefits over many years, they are capitalized on the balance sheet and, depending on type, either depreciated (tangible) or amortized/impaired (intangible). This is why the statement is true: fixed assets are long-lasting and may be either physical items or non-physical rights.

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://finc1.examzify.com

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