Financial Statement Modeling Practice Test (Sample)

Study Guide

BY EXAMZIFY

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

1. **Given Net PP&E (excl. land) of 14,947 and Accumulated depreciation of 11,922, what is the gross depreciable PPE (excluding land)?**
   - **A. 26,869**
   - **B. 28,519**
   - **C. 16,597**
   - **D. 14,947**

2. **Of the following changes in working capital line items, which represents an actual cash outflow?**
   - **A. Increase in accounts receivable (A/R)**
   - **B. Increase in accounts payable**
   - **C. Decrease in inventory**
   - **D. Decrease in accrued expenses**

3. **Given 5.0m units sold, a 20.0% growth in the next year, and the average selling price rising from $200 to $225, what is the projected year-over-year revenue growth rate?**
   - **A. 20**
   - **B. 35**
   - **C. 40**
   - **D. 15**

4. **Which of the following would be classified in cash flow from financing activities?**
   - **A. Proceeds from issuing debt**
   - **B. Proceeds from selling equipment**
   - **C. Interest received**
   - **D. Income taxes paid**

5. **Given a 2014 share repurchase plan of $4 billion, an average share price of $60 for the year 2013, and expected EPS growth for 2014 of 10%, what should be the number of shares repurchased by the company be in your financial model?**

   A. 66.7 million

   B. 60.6 million

   C. 50.0 million

   D. 70.1 million

6. **Which metric measures the average number of days to collect payment after a sale?**

   A. DSO

   B. DIO

   C. DPO

   D. CCC

7. **Cash conversion cycle is calculated as CCC = DSO + DIO - DPO. Which formula correctly defines the cash conversion cycle?**

   A. CCC = DSO + DIO - DPO

   B. CCC = DSO - DIO + DPO

   C. CCC = DPO - DSO - DIO

   D. CCC = DSO + DPO - DIO

8. **Which item is used to calculate the DPO in the forecast described?**

   A. Average Accounts Payable

   B. Beginning Accounts Payable

   C. Ending Accounts Payable

   D. Accounts Payable Turnover

9. **If the minimum cash balance is $20 million and the company starts with $60 million in cash and the free cash flow is -$80 million, what is the ending cash balance after the revolver draw to satisfy the minimum?**

   A. $0

   B. $20 million

   C. $40 million

   D. $60 million

10. **Given the same data as above (revenue $10B, gross margin 65%, SG&A $2B), what is EBIT?**

    A. $2.0B

    B. $4.5B

    C. $6.0B

    D. $8.0B

Answers

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

Explanations

1. **Given Net PP&E (excl. land) of 14,947 and Accumulated depreciation of 11,922, what is the gross depreciable PPE (excluding land)?**

   A. 26,869

   B. 28,519

   C. 16,597

   D. 14,947

Gross depreciable PPE is found by reversing the relation Net PP&E = Gross PPE minus Accumulated depreciation. To get Gross PPE, add accumulated depreciation back to net PP&E: 14,947 + 11,922 = 26,869. The correct value is 26,869 because the gross amount reflects the original cost of the depreciable assets before any depreciation was subtracted, and net PP&E already has depreciation applied. The other numbers would result from not adding the accumulated depreciation back to the net figure or from misunderstanding what net PP&E represents.

2. **Of the following changes in working capital line items, which represents an actual cash outflow?**

   A. Increase in accounts receivable (A/R)

   B. Increase in accounts payable

   C. Decrease in inventory

   D. Decrease in accrued expenses

When you look at cash flow, timing matters: cash leaves or stays with you based on when you collect receivables, pay suppliers, or convert inventory to cash. An increase in accounts receivable means you've delivered goods or services on credit but haven't collected the cash yet, so cash on hand is reduced this period. In the cash flow adjustment, this is a use of cash, i.e., an actual cash outflow for the period. The other changes tend to have opposite or different effects on cash: more accounts payable means you've delayed payments to suppliers (a cash source), a decrease in inventory suggests inventory was sold for cash (a cash source), and a decrease in accrued expenses means cash was paid to settle those obligations (a cash outflow). Among these options, the straightforward cash-outflow example highlighted is the increase in accounts receivable because it directly ties to cash not yet received.

3. **Given 5.0m units sold, a 20.0% growth in the next year, and the average selling price rising from \$200 to \$225, what is the projected year-over-year revenue growth rate?**

   A. 20

   B. 35

   C. 40

   D. 15

Revenue comes from price times quantity, so start with current revenue: 5.0 million units at \$200 each equals \$1,000 million. Next year, volume grows 20% to 6.0 million units, and the price rises to \$225. Revenue then is 6.0 million × \$225 = \$1,350 million. The year-over-year growth is (1,350 − 1,000) / 1,000 = 0.35, or 35%. Both changes contribute: a 20% lift from volume and a 12.5% lift from price (since 225 is 12.5% higher than 200). The combined effect is 35% growth in revenue.

4. **Which of the following would be classified in cash flow from financing activities?**

   A. Proceeds from issuing debt

   B. Proceeds from selling equipment

   C. Interest received

   D. Income taxes paid

Financing activities are flows that affect the company's capital structure—borrowing from lenders, repaying debt, issuing or repurchasing stock, and paying dividends. When a company issues debt, it receives cash from lenders and increases its liabilities, which is exactly a financing activity because it changes how the company finances its operations. In contrast, selling equipment involves disposing of a long-term asset (an investing activity), while interest received and income taxes paid are typically shown as operating activities. So the cash inflow from issuing debt fits squarely in financing activities.

5. **Given a 2014 share repurchase plan of $4 billion, an average share price of $60 for the year 2013, and expected EPS growth for 2014 of 10%, what should be the number of shares repurchased by the company be in your financial model?**

   A. 66.7 million

   B. 60.6 million

   C. 50.0 million

   D. 70.1 million

The key idea is to convert the planned buyback in dollars into a number of shares using the expected price per share in the year of the buyback. Since earnings per share are projected to grow 10% in 2014, you typically model the 2014 stock price as price in 2013 grown by that amount: 60 × (1 + 0.10) = 66. Then the number of shares repurchased is the plan amount divided by the expected price per share: 4,000,000,000 / 66 ≈ 60,606,060 shares, which is about 60.6 million. Choosing 60.6 million reflects using the 2014 anticipated price (66) rather than the 2013 price (60), aligning the buyback with the projected earnings-driven price change.

6. Which metric measures the average number of days to collect payment after a sale?

A. DSO

B. DIO

C. DPO

D. CCD

The key concept here is liquidity tied to receivables: it measures how long, on average, customers take to pay after a sale. The metric that captures this is the days sales outstanding (DSO). It reflects the average collection period and is directly tied to accounts receivable and credit sales. A lower DSO means faster collections and stronger short-term liquidity, while a higher DSO indicates slower collections. In practice, you estimate DSO as the average accounts receivable divided by the average daily credit sales (or, equivalently, by net credit sales times the number of days in the period). For annual data, you'd typically compute (average accounts receivable / net credit sales) × 365. This gives you the typical number of days you wait to collect payment. Other metrics measure different parts of the operating cycle. Days inventory outstanding tracks how long inventory sits before it's sold, not how long customers take to pay. Days payable outstanding measures how long you delay paying suppliers. The cash conversion cycle combines these into a single net number, but the specific question—average days to collect payment after a sale—points to DSO as the best fit.

7. Cash conversion cycle is calculated as CCC = DSO + DIO - DPO. Which formula correctly defines the cash conversion cycle?

A. CCC = DSO + DIO - DPO

B. CCC = DSO - DIO + DPO

C. CCC = DPO - DSO - DIO

D. CCC = DSO + DPO - DIO

The cash conversion cycle measures how long cash is tied up in the operating cycle from paying suppliers to collecting cash from customers. It adds the time to collect receivables (DSO) and the time inventory sits before sale (DIO), then subtracts the time you can delay paying suppliers (DPO). Longer collection days or more time in inventory push cash further out, while longer payable terms pull cash outflow later, shortening the cycle. So the correct definition is CCC = DSO + DIO - DPO. For example, if DSO is 40 days, DIO is 60 days, and DPO is 30 days, CCC = 70 days. Subtracting DPO properly accounts for how supplier credit effectively funds part of the cycle; reversing or misplacing these terms would misrepresent how cash flows through operations.

8. Which item is used to calculate the DPO in the forecast described?

A. Average Accounts Payable

B. Beginning Accounts Payable

C. Ending Accounts Payable

D. Accounts Payable Turnover

Days Payable Outstanding shows how long, on average, the company takes to pay its suppliers. To forecast this, you want a measure that represents the payables over the entire period, not just a single snapshot. Average accounts payable does exactly that — it smooths the balances across the period so DPO reflects typical payables rather than a point in time. The usual relationship is DPO ≈ 365 × (Average Accounts Payable) / Cost of Goods Sold, or equivalently DPO = 365 / AP turnover, but the input that drives the period's DPO in this forecast is the average level of payables. Using beginning or ending accounts payable would distort the measure because they don't capture how payables behaved throughout the period.

9. If the minimum cash balance is $20 million and the company starts with $60 million in cash and the free cash flow is -$80 million, what is the ending cash balance after the revolver draw to satisfy the minimum?

A. $0

B. $20 million

C. $40 million

D. $60 million

This question tests how a minimum cash balance covenant is maintained when cash flow is negative and a revolver can be drawn to fund the shortfall. Start with 60 million in cash. Free cash flow of -80 million reduces cash to 60 - 80 = -20 million. To satisfy the minimum cash balance of 20 million, the company must add 40 million from the revolver. After drawing 40 million, ending cash becomes -20 + 40 = 20 million. So the ending cash balance is 20 million.

10. Given the same data as above (revenue $10B, gross margin 65%, SG&A $2B), what is EBIT?

A. $2.0B

B. $4.5B

C. $6.0B

D. $8.0B

EBIT is earnings before interest and taxes, i.e., operating profit after deducting cost of goods sold and operating expenses. With revenue of $10B and a gross margin of 65%, gross profit is 0.65 × 10B = $6.5B. Subtracting SG&A of $2B gives EBIT of $6.5B − $2B = $4.5B. So the value is $4.5B. This is the correct result because EBIT reflects profitability from core operations before borrowing costs and taxes. The other numbers would come from misapplying the margins or omitting the operating expenses entirely (for example, taking SG&A alone or misinterpreting the margin).

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://finstatementmodeling.examzify.com

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