

FOB105 FINANCIAL MANAGEMENT BODY OF KNOWLEDGE (FMBOK) PRACTICE EXAM (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. What does the concept of 'time value of money' imply?**
 - A. Money today is worth less than in the future
 - B. Money available today is worth more than the same amount in the future
 - C. Investments are less valuable over time
 - D. Future money has higher purchasing power
- 2. Dividend yield is important for which type of investor?**
 - A. Growth-oriented investors focusing on capital appreciation
 - B. Income-focused investors looking for regular income
 - C. Investors seeking to avoid tax liabilities
 - D. Short-term traders aiming for quick profits
- 3. Which stage represents undelivered orders that are still outstanding?**
 - A. Filled Customer Orders Uncollected
 - B. Accrued Expenditures Unpaid
 - C. Obligation
 - D. Undelivered Orders Outstanding
- 4. What must be evaluated to ensure compliance before spending government funds?**
 - A. Project viability
 - B. Legal implications
 - C. Purpose, Time, and Amount
 - D. Risk assessment
- 5. People who maintain oversight of their unit's funding documents are known as?**
 - A. Finance Managers
 - B. Budget Officers
 - C. Group Resource Advisors
 - D. Headquarters Directors

- 6. How does the capital asset pricing model (CAPM) assist in finance?**
- A. It calculates tax liabilities on assets
 - B. It estimates the expected return on an asset taking into account its risk
 - C. It determines the market value of equity
 - D. It evaluates historical performance of investments
- 7. Which statement best describes conventional loans?**
- A. They typically require mortgage insurance
 - B. They are favored due to lower overall costs
 - C. They have no government backing and depend on the borrower's creditworthiness
 - D. They have flexible repayment terms
- 8. What primary information does a financial analyst use?**
- A. Public relations news and press releases
 - B. Financial statements and market data
 - C. Corporate social responsibility reports
 - D. Supplier assessment charts
- 9. What identifier is used for recording Filled Customer Orders Collected transactions?**
- A. USSGL 425100
 - B. USSGL 490100
 - C. USSGL 425200
 - D. USSGL 480100
- 10. Which of the following is a benefit of diversification?**
- A. Guaranteed higher returns when investing
 - B. Reduced overall investment risk
 - C. Elimination of all financial risk
 - D. Increased likelihood of ownership control

Answers

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

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Explanations

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1. What does the concept of 'time value of money' imply?

- A. Money today is worth less than in the future
- B. Money available today is worth more than the same amount in the future**
- C. Investments are less valuable over time
- D. Future money has higher purchasing power

The concept of 'time value of money' is fundamentally based on the idea that a specific amount of money today has greater value than the same amount in the future. This principle arises from the opportunity to invest or use that money for earning potential, which can increase its worth over time due to interest or return on investment. When you have money today, you have the opportunity to grow that amount through investments, saving it in interest-bearing accounts, or other financial avenues. The rationale is tied to factors such as inflation, interest rates, and the ability to generate returns over time. Essentially, each dollar received today can be invested to earn additional income, whereas a dollar received in the future lacks that immediate earning potential. Therefore, the correct interpretation of the time value of money accurately reflects the higher worth of money in the present compared to its future equivalent.

2. Dividend yield is important for which type of investor?

- A. Growth-oriented investors focusing on capital appreciation
- B. Income-focused investors looking for regular income**
- C. Investors seeking to avoid tax liabilities
- D. Short-term traders aiming for quick profits

Dividend yield is a critical metric for income-focused investors because it provides a clear indication of the income they can expect from their investments in the form of cash dividends relative to the price of the stock. These investors prioritize regular income streams, often seeking stocks that pay consistent and preferably growing dividends. The dividend yield helps them assess how much return they will receive from their investments without the need to sell their shares; it reflects the percentage of the company's earnings returned to shareholders as dividends. For instance, if an investor is focused on generating a steady income to support living expenses, understanding the dividend yield allows them to identify which stocks contribute to that goal effectively. Hence, a higher dividend yield can signal a more attractive investment for those who rely on such distributions for their cash flow. Other categories of investors, such as growth-oriented investors, might prioritize capital gains over income and thus focus more on appreciation in stock price rather than on dividend distributions. Similarly, individuals aiming to avoid tax liabilities might not find dividend yield particularly relevant since the tax implications of dividends can vary based on the investor's tax situation. Short-term traders, on the other hand, are generally more concerned with quick movements in stock prices rather than the dividends they may receive, making dividend yield less significant for their investment.

3. Which stage represents undelivered orders that are still outstanding?

- A. Filled Customer Orders Uncollected
- B. Accrued Expenditures Unpaid
- C. Obligation
- D. Undelivered Orders Outstanding**

The correct answer pertains specifically to the terminology used in financial management and accounting regarding the status of orders. "Undelivered Orders Outstanding" refers to those orders that have been placed but not yet fulfilled. This means that while the orders have been acknowledged and are scheduled for delivery, the goods or services have not yet been received by the buyer. In financial reporting and government accounting, this term helps track commitments that the organization has made for future expenditures. By identifying these outstanding orders, an organization can manage its cash flow and ensure that adequate funds are reserved to fulfill these obligations when the goods or services are delivered. This insight is crucial for maintaining accurate financial records and assessing future spending and budgetary requirements. The other options do not capture the same concept of outstanding orders awaiting delivery. Also, they reference other areas of financial obligations or collections which do not specifically identify the status of unfulfilled orders in the same manner. This distinction highlights the importance of precise terminology in financial management, ensuring that clarity is maintained when discussing obligations and expenditures.

4. What must be evaluated to ensure compliance before spending government funds?

- A. Project viability
- B. Legal implications
- C. Purpose, Time, and Amount**
- D. Risk assessment

To ensure compliance before spending government funds, it's essential to evaluate the Purpose, Time, and Amount of the expenditure. This triad serves as a framework to confirm that the funds will be allocated correctly according to the specific intentions set forth by legal and regulatory mandates. Understanding the purpose is vital because it aligns the spending with the intended governmental objectives, ensuring that funds are directed towards eligible projects or services. Evaluating the time aspect confirms that expenditures are made within the designated period, adhering to any deadlines tied to funding approvals or project timelines. Lastly, assessing the amount ensures that the funding aligns with budgetary constraints and limits set by legislative or regulatory bodies, preventing over-expenditure and potential misuse of funds. While project viability, legal implications, and risk assessment are critical considerations in broader financial management processes, they do not explicitly address the compliance framework regarding the precise execution of government spending related to allowable purposes, timelines, and financial limits. Hence, focusing on Purpose, Time, and Amount is paramount for compliance with government spending protocols.

5. People who maintain oversight of their unit's funding documents are known as?

- A. Finance Managers
- B. Budget Officers
- C. Group Resource Advisors**
- D. Headquarters Directors

People who maintain oversight of their unit's funding documents are best identified as Group Resource Advisors. This role typically involves monitoring and managing the allocation and use of financial resources within their specific unit or department. Group Resource Advisors ensure that financial activities align with both organizational policies and strategic objectives, enabling effective resource utilization. Their responsibilities include not only overseeing funding documents but also providing guidance on budget management and ensuring compliance with relevant regulations. This position is crucial for maintaining financial accountability and facilitating sound financial decision-making within the unit. While Finance Managers and Budget Officers also play significant roles in financial oversight, their functions can encompass broader responsibilities, including strategic planning and overall financial administration, which may not be limited to a particular unit's funding documents. Headquarters Directors usually carry a more overarching organizational leadership focus and may not engage directly with specific funding document oversight. Thus, Group Resource Advisors specifically align with the oversight function described.

6. How does the capital asset pricing model (CAPM) assist in finance?

- A. It calculates tax liabilities on assets
- B. It estimates the expected return on an asset taking into account its risk**
- C. It determines the market value of equity
- D. It evaluates historical performance of investments

The capital asset pricing model (CAPM) plays a crucial role in finance as it provides a framework for understanding the relationship between an investment's risk and its expected return. Specifically, CAPM helps investors determine the expected return on an asset by taking into account the asset's systematic risk, which is measured by its beta coefficient. This model reflects the rationale that investors need to be compensated for taking on additional risk beyond that of a risk-free investment. By estimating expected returns based on the level of risk associated with a particular investment compared to the overall market, CAPM allows investors to make more informed decisions about whether an asset is worth the potential risks involved. As a result, it is a vital tool for portfolio management and capital allocation, ensuring that investors are focused on maximizing returns in relation to their risk tolerance. The other choices do not capture the primary function of CAPM. While tax liabilities and historical performance evaluations are important in their own contexts, they do not pertain specifically to how CAPM aids in assessing expected returns based on risk. Similarly, determining market value pertains to a different aspect of financial analysis and management. Thus, the centrality of CAPM in estimating expected returns while considering risk is its most significant contribution to financial management.

7. Which statement best describes conventional loans?

- A. They typically require mortgage insurance
- B. They are favored due to lower overall costs
- C. They have no government backing and depend on the borrower's creditworthiness**
- D. They have flexible repayment terms

Conventional loans are characterized by their lack of government backing, which means they are not insured or guaranteed by federal entities such as the FHA, VA, or USDA. Instead, the approval of these loans primarily relies on the borrower's creditworthiness. Lenders evaluate the borrower's credit score, income, debt-to-income ratio, and overall financial stability to assess risk. This reliance on the borrower's financial profile distinguishes conventional loans from government-backed options that might have more flexible eligibility criteria. While it is true that conventional loans may come with different conditions regarding mortgage insurance, lower costs, or repayment terms, the defining feature is their dependence on the borrower's credit profile without the safety net provided by government involvement. This makes option C the best description of conventional loans.

8. What primary information does a financial analyst use?

- A. Public relations news and press releases
- B. Financial statements and market data**
- C. Corporate social responsibility reports
- D. Supplier assessment charts

The primary focus for a financial analyst is on financial statements and market data, as these provide crucial quantitative information necessary for evaluating a company's performance and making informed financial decisions. Financial statements, which include the balance sheet, income statement, and cash flow statement, offer insights into a company's financial health, profitability, and liquidity. Market data, such as stock prices, trading volumes, and economic indicators, helps analysts assess market trends and the competitive landscape. This combination allows financial analysts to perform various analyses, including valuation, forecasting, and risk assessment, which are integral to financial management and investment strategy. Other types of information, such as public relations news and press releases, while useful for context, do not provide the core financial metrics required for in-depth analysis. Similarly, corporate social responsibility reports and supplier assessment charts focus on specific aspects of operations and ethics and are not centered on financial performance and market behavior.

9. What identifier is used for recording Filled Customer Orders Collected transactions?

- A. USSGL 425100
- B. USSGL 490100
- C. USSGL 425200**
- D. USSGL 480100

The identifier used for recording Filled Customer Orders Collected transactions is USSGL 425200. This account number is part of the U.S. Standard General Ledger (USSGL), which provides a framework for government accounting and reporting. Specifically, USSGL 425200 is designated for the recognition of revenue related to services rendered or goods sold to customers when the orders have been fulfilled, and the funds have been received. This alignment is crucial for accurate financial reporting, as it ensures that the revenue is recognized in the appropriate accounting period, reflecting the organization's financial performance effectively. When understanding this context, it's important to recognize that the other identifiers, while related to revenue and financial activity, are designated for different types of transactions or specific categories within the financial reporting structure. For example, other USSGL accounts might pertain to different revenue sources or uncollected orders, illustrating the precise categorization needed in financial management practices.

10. Which of the following is a benefit of diversification?

- A. Guaranteed higher returns when investing
- B. Reduced overall investment risk**
- C. Elimination of all financial risk
- D. Increased likelihood of ownership control

Diversification is a fundamental investment strategy that involves spreading investments across various assets to minimize risk. By investing in different asset classes, sectors, or geographical regions, an investor can reduce the impact of any single investment's poor performance on the overall portfolio. The benefit of reduced overall investment risk primarily arises because different assets often respond differently to the same economic events. For instance, when one sector experiences a downturn, another might perform well, thereby balancing the overall performance of the portfolio. This effect of offsetting losses with gains is what helps lower the total risk for the investor. On the other hand, guaranteed higher returns is misleading as diversification does not assure higher returns; rather, it aims to achieve a more stable return. Diversification cannot eliminate all financial risk; there will always be some level of risk inherent in investing. Similarly, increasing the likelihood of ownership control is not a direct benefit of diversification, as spreading investments typically leads to more varied holdings that can dilute control. Thus, the statement regarding reduced overall investment risk accurately reflects one of the core advantages of diversification in financial management.

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://fob105fmbok.examzify.com>

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

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