

# Glencoe Entrepreneurship Finance Practice Exam (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. Which term means the debts of a business?**
  - A. Liabilities**
  - B. Accounts receivable**
  - C. Assets**
  - D. Fixed assets**
  
- 2. Which term refers to assets pledged to a lender as security for a loan?**
  - A. Collateral**
  - B. Capacity**
  - C. Due diligence**
  - D. Private placement**
  
- 3. Which term describes operating as frugally as possible and cutting all unnecessary expenses?**
  - A. Bootstrapping**
  - B. Equity Capital**
  - C. Line of Credit**
  - D. Trade Credit**
  
- 4. Expenses that change from month to month are called**
  - A. Variable Expenses**
  - B. Fixed Expenses**
  - C. Sunk Costs**
  - D. Depreciation**
  
- 5. Which term refers to items that will be held for more than one year?**
  - A. Assets**
  - B. current assets**
  - C. fixed assets**
  - D. liabilities**

- 6. Which term means recording transactions in a journal?**
- A. Journal**
  - B. Journalizing**
  - C. General journal**
  - D. Accounts payable**
- 7. Which describes a security that signifies ownership in a corporation and a claim on its assets and earnings?**
- A. Due diligence**
  - B. Working capital**
  - C. Contingency fund**
  - D. Stock**
- 8. If total liabilities are 600 and total assets are 1200, what is the debt ratio?**
- A. 0.25**
  - B. 0.5**
  - C. 0.75**
  - D. 1.0**
- 9. Which term describes the category that includes cash and other assets expected to be used within one year?**
- A. Assets**
  - B. Fixed assets**
  - C. current assets**
  - D. Liabilities**
- 10. Which statement provides a view of cash inflows and outflows categorized by operating, investing, and financing activities?**
- A. Balance Sheet**
  - B. Ratio Analysis**
  - C. Statement of Cash Flows**
  - D. Income Statement**

## Answers

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

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## **Explanations**

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### 1. Which term means the debts of a business?

- A. Liabilities**
- B. Accounts receivable**
- C. Assets**
- D. Fixed assets**

Debts a business owes to others are called liabilities. They are obligations that will require future outflows of resources, such as loans payable, accounts payable to suppliers, taxes payable, and accrued expenses. This distinguishes liabilities from assets, which are resources the company owns, and from accounts receivable, which is money customers owe the business (an asset). Fixed assets are long-term tangible items like equipment or buildings, not debts. So the term for the debts of a business is liabilities.

### 2. Which term refers to assets pledged to a lender as security for a loan?

- A. Collateral**
- B. Capacity**
- C. Due diligence**
- D. Private placement**

Collateral is the assets a borrower pledges to a lender to secure a loan. By giving collateral, the borrower offers the lender a backup source of repayment; if payments stop, the lender can seize and sell the collateral to recover what's owed. This lowers the lender's risk and can help the borrower obtain better loan terms, such as a lower interest rate or a larger loan amount. Common examples include real estate, equipment, inventory, or accounts receivable. In contrast, capacity is about the borrower's ability to repay from income or cash flow, not assets set aside. Due diligence is the investigation into the borrower's financial health and the loan terms. Private placement is a method of raising capital by selling securities to a select group of investors, not a security pledge for a loan. So, the term that fits is collateral.

### 3. Which term describes operating as frugally as possible and cutting all unnecessary expenses?

- A. Bootstrapping**
- B. Equity Capital**
- C. Line of Credit**
- D. Trade Credit**

Operating as frugally as possible and cutting all unnecessary expenses is bootstrapping. This approach means building and growing a business using internal resources—such as personal funds and reinvested profits—while maintaining a lean operation and avoiding or minimizing external financing. It emphasizes cost discipline, resourcefulness, and staying within means rather than chasing growth through outside investors or borrowed money. Equity capital, by contrast, involves raising funds by selling ownership stakes in the company, which brings in external money but dilutes control. A line of credit is a borrowing arrangement that provides access to funds up to a limit, representing debt financing. Trade credit is a form of supplier financing that allows paying for goods later, also a financing aspect but not the lean, self-funded mindset bootstrapping centers on.

#### 4. Expenses that change from month to month are called

**A. Variable Expenses**

**B. Fixed Expenses**

**C. Sunk Costs**

**D. Depreciation**

Variable expenses are costs that change with your level of activity. As you produce more or sell more, these costs rise; when activity slows, they drop. Think of items like raw materials, direct labor tied to production, utilities based on use, or sales commissions—the more you do, the higher they go. In budgeting and financial analysis, separating variable costs from fixed costs helps you predict how expenses will respond to changes in sales or output. The question points to costs that fluctuate month to month, which is exactly what variable expenses describe. Fixed expenses, in contrast, stay the same regardless of activity (like rent or certain salaries). Sunk costs are money already spent and not recoverable, and depreciation is an accounting allocation of an asset's cost over time, not a monthly cash cost pattern.

#### 5. Which term refers to items that will be held for more than one year?

**A. Assets**

**B. current assets**

**C. fixed assets**

**D. liabilities**

Long-term use in business operations distinguishes different asset categories. Items held for more than one year are fixed assets because they are intended to support operations over several periods rather than be sold within the near term. Examples include land, buildings, machinery, and equipment, which appear on the balance sheet as non-current assets and are typically depreciated over their useful lives (except for land, which isn't depreciated). This is different from current assets, which are expected to be converted to cash or used up within a year, and from liabilities, which are obligations the company owes.

#### 6. Which term means recording transactions in a journal?

**A. Journal**

**B. Journalizing**

**C. General journal**

**D. Accounts payable**

Recording transactions in a journal is called journalizing. This term describes the act of entering each transaction into the accounting journal, noting the date, the accounts affected, and the debit and credit amounts. The journal itself is the book where these entries are kept, but the action of putting the transactions into the journal is journalizing. A general journal is simply a type of journal used for miscellaneous or non-routine entries. Accounts payable is a liability account that represents what the company owes to suppliers, not the recording process. So the best term for the action of recording into the journal is journalizing.

**7. Which describes a security that signifies ownership in a corporation and a claim on its assets and earnings?**

- A. Due diligence
- B. Working capital
- C. Contingency fund
- D. Stock**

Stock is a security that signifies ownership in a corporation and a claim on its assets and earnings. Owning stock means you own a piece of the company and can benefit from its profits through dividends and possible increases in the stock's price. If the company is liquidated, stockholders have a residual claim on assets after all debts have been paid, meaning they are last in line but still own a portion of whatever remains. This combination of ownership rights and potential profit from earnings is what distinguishes stock from other terms like due diligence (an investigative process), working capital (a measure of short-term liquidity), or a contingency fund (a reserve for unforeseen costs).

**8. If total liabilities are 600 and total assets are 1200, what is the debt ratio?**

- A. 0.25
- B. 0.5**
- C. 0.75
- D. 1.0

The debt ratio shows what portion of assets is financed with debt, calculated as liabilities divided by assets. With liabilities of 600 and assets of 1200, the ratio is  $600 / 1200 = 0.5$ , meaning 50% of the assets are financed by debt and the other 50% by equity or other sources. If the ratio were 0.25, liabilities would be 300; if 0.75, liabilities would be 900; if 1.0, liabilities would equal assets (1200). The actual value sits at 0.5, reflecting a balanced leverage level.

**9. Which term describes the category that includes cash and other assets expected to be used within one year?**

- A. Assets
- B. Fixed assets
- C. current assets**
- D. Liabilities

Understanding liquidity and asset classification: current assets are cash and other assets expected to be used up or converted into cash within one year. This includes items like cash, accounts receivable, and inventory, and even short-term investments that you plan to sell within a year. Fixed assets, by contrast, are long-term resources such as buildings and equipment used over many years. Liabilities are obligations the company owes, not assets. Since the description points to cash and assets planned to be used within one year, the correct category is current assets.

**10. Which statement provides a view of cash inflows and outflows categorized by operating, investing, and financing activities?**

**A. Balance Sheet**

**B. Ratio Analysis**

**C. Statement of Cash Flows**

**D. Income Statement**

Cash inflows and outflows categorized by operating, investing, and financing activities are shown in the Statement of Cash Flows. This financial statement traces the actual movement of cash during a period, breaking it into three sections: operating activities (cash generated by core business functions and day-to-day operations), investing activities (cash used for or generated from long-term assets and investments), and financing activities (cash from borrowing, repaying debt, issuing equity, and paying dividends). This focus on cash movements, rather than accounting profits, is what makes the statement of cash flows the best source for viewing how cash enters and leaves the business across its three main activity areas. The Balance Sheet shows the position of assets, liabilities, and equity at a point in time; the Income Statement shows profitability over a period on an accrual basis; and Ratio Analysis is a tool for evaluating relationships between financial statement items, not a standalone cash-flow report.

## 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](mailto:hello@examzify.com).**

**Or visit your dedicated course page for more study tools and resources:**

**<https://glencoeentrepfinance.examzify.com>**

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

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