

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. What is a break-even analysis and its required inputs?**
 - A. The volume at which revenues equal costs; fixed costs, price, variable cost per unit.**
 - B. A forecast of a company's future profits based on market share.**
 - C. A plan for financing project uses and debt ratios.**
 - D. A valuation of assets using book value.**

- 2. How do depreciation and taxes interact in financial statements?**
 - A. Depreciation reduces accounting income; lowers taxable income; affects cash tax payment via tax shield.**
 - B. Depreciation increases accounting income; raises taxes.**
 - C. Depreciation has no effect on taxes.**
 - D. Depreciation only affects cash flow from investing activities.**

- 3. Expenditures to acquire or upgrade long-term assets are called**
 - A. Operating Expenses**
 - B. Depreciation**
 - C. Capital Expenditures**
 - D. Revenue Expenditures**

- 4. What is the term for the comparison of two or more amounts on a financial statement and the evaluation of the relationship between these two amounts?**
 - A. Current Ratio**
 - B. Ratio Analysis**
 - C. Debt Ratio**
 - D. Net Profit on Sales Ratio**

- 5. In the budgeting process for a startup, which step normally follows forecasting revenues?**
 - A. Prepare budget**
 - B. Monitor variances**
 - C. Estimate costs**
 - D. Revise as needed**

- 6. Which term represents the owner's claims to the assets of the business?**
- A. Cash basis**
 - B. General journal**
 - C. Owner's equity**
 - D. Accounts payable**
- 7. Which statement best describes inventory turnover?**
- A. It indicates how quickly inventory converts to sales; higher turnover implies efficient inventory use.**
 - B. It shows how long it takes to collect receivables.**
 - C. It measures how many units are in inventory on hand at year end.**
 - D. It reveals the company's profitability margin.**
- 8. Which statement about the cost of capital as used in capital budgeting is correct?**
- A. The interest rate charged on a specific loan.**
 - B. The rate used to calculate depreciation.**
 - C. The cost of goods sold divided by average inventory.**
 - D. The required return by investors; used as a discount rate for capital budgeting.**
- 9. Which measure compares current assets to current liabilities?**
- A. Debt Ratio**
 - B. Current Ratio**
 - C. Net Profit on Sales Ratio**
 - D. Working Capital**
- 10. Which financial statement shows the final balances of assets, liabilities, and owner's equity at the end of a period?**
- A. Income Statement**
 - B. Balance Sheet**
 - C. Cash Flow**
 - D. Ratio Analysis**

Answers

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

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Explanations

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1. What is a break-even analysis and its required inputs?

- A. The volume at which revenues equal costs; fixed costs, price, variable cost per unit.**
- B. A forecast of a company's future profits based on market share.**
- C. A plan for financing project uses and debt ratios.**
- D. A valuation of assets using book value.**

Break-even analysis finds the sales level where total revenues equal total costs, so there is no profit or loss. The required inputs are fixed costs (costs that don't change with output), the selling price per unit, and the variable cost per unit (costs that vary with each unit produced). With these, you can calculate how many units must be sold to cover all costs—the break-even point in units equals fixed costs divided by (price minus variable cost per unit). This approach helps determine pricing, production targets, and whether a venture can reach profitability. The other descriptions describe different financial concepts—forecasting profits based on market share, planning financing and debt, or valuing assets by book value—which do not define break-even or rely on the same inputs.

2. How do depreciation and taxes interact in financial statements?

- A. Depreciation reduces accounting income; lowers taxable income; affects cash tax payment via tax shield.**
- B. Depreciation increases accounting income; raises taxes.**
- C. Depreciation has no effect on taxes.**
- D. Depreciation only affects cash flow from investing activities.**

Depreciation is a non-cash expense that reduces reported accounting income in the period it's recorded. Because it's deductible for tax purposes, it lowers taxable income and thus reduces the tax bill—creating a tax shield. This tax saving reduces cash taxes payable in the period, which improves cash flow. In the cash flow statement, depreciation is added back to net income under operating activities because no cash was actually spent on that expense, even though it lowered accounting income. So the effect is to lower accounting income, lower taxes, and increase operating cash flow via the tax shield.

3. Expenditures to acquire or upgrade long-term assets are called

- A. Operating Expenses**
- B. Depreciation**
- C. Capital Expenditures**
- D. Revenue Expenditures**

Capital expenditures are investments in assets that will benefit the business for more than one year, such as buying new equipment, upgrading machinery, or expanding facilities. These costs are recorded on the balance sheet as assets and are depreciated (or amortized) over the asset's useful life, rather than being expensed all at once in the period incurred. This contrasts with operating expenses, which cover routine, day-to-day costs and are expensed in the period they occur. Depreciation is the gradual allocation of an asset's cost over time, not the initial outlay, and revenue expenditures are costs that are expensed immediately because they only support current-period revenue (like routine maintenance). So expenditures to acquire or upgrade long-term assets are called capital expenditures.

4. What is the term for the comparison of two or more amounts on a financial statement and the evaluation of the relationship between these two amounts?

- A. Current Ratio**
- B. Ratio Analysis**
- C. Debt Ratio**
- D. Net Profit on Sales Ratio**

The idea being tested is ratio analysis—the process of comparing two or more figures from financial statements to understand how they relate to one another. Ratios turn raw numbers into meaningful measurements by placing one amount in relation to another, which helps you assess aspects like liquidity, profitability, solvency, and efficiency. This approach lets you compare performance over time or against other firms. The other options are specific ratios that fall under ratio analysis: the current ratio looks at short-term liquidity, the debt ratio measures leverage, and the net profit on sales ratio (net profit margin) gauges profitability relative to revenue. The term that encompasses comparing amounts and evaluating their relationship in a broad sense is ratio analysis.

5. In the budgeting process for a startup, which step normally follows forecasting revenues?

- A. Prepare budget**
- B. Monitor variances**
- C. Estimate costs**
- D. Revise as needed**

The step that normally follows forecasting revenues is estimating costs because you need to translate the expected level of activity into the resources and expenses required to support it. By projecting both fixed and variable costs—such as salaries, rent, materials, and marketing—the startup can see how much will be spent to achieve the forecasted revenue. This cost information is essential to build a realistic budget and determine profitability, cash needs, and resource allocation. After costs are estimated, the next move is to prepare the budget, then monitor variances and revise as needed.

6. Which term represents the owner's claims to the assets of the business?

- A. Cash basis**
- B. General journal**
- C. Owner's equity**
- D. Accounts payable**

Owner's equity represents the owner's claim to the assets of the business. In accounting, assets are the resources a business controls, while liabilities are what the business owes to others. What remains after settling those obligations is the owner's claim, or equity. This is reflected on the balance sheet as the residual interest: Assets equal Liabilities plus Owner's Equity. When the owner puts in cash or other value, both assets and owner's equity rise; when the business earns profits, those earnings increase equity; losses or withdrawals reduce it. Equity is made up of contributed capital and retained earnings, showing the owner's ongoing stake in the company. Cash basis has to do with when revenue and expenses are recognized, not the owner's claim to assets. The general journal is a book for recording transactions, and accounts payable is a liability representing amounts owed to others.

7. Which statement best describes inventory turnover?

- A. It indicates how quickly inventory converts to sales; higher turnover implies efficient inventory use.**
- B. It shows how long it takes to collect receivables.**
- C. It measures how many units are in inventory on hand at year end.**
- D. It reveals the company's profitability margin.**

Inventory turnover measures how quickly you sell through your stock. The statement that best describes it says that it shows how quickly inventory converts to sales, and that a higher turnover implies more efficient use of inventory. When you move inventory faster, you're turning stock into revenue sooner, which typically improves cash flow and reduces carrying costs and the risk of obsolescence. In practice, turnover is often calculated as cost of goods sold divided by average inventory. A larger ratio means you're turning over stock more rapidly. If turnover is too low, it can indicate slow-moving inventory and tied-up capital; if it's unusually high, it might signal stockouts or insufficient inventory, which can hurt sales. The other ideas describe different concepts: one relates to how long it takes to collect money from customers (receivables turnover), another to how many units you have on hand at year end (ending inventory), and another to profit margins (profitability). These are useful in their own right, but they don't describe how quickly inventory is converted into sales.

8. Which statement about the cost of capital as used in capital budgeting is correct?

- A. The interest rate charged on a specific loan.**
- B. The rate used to calculate depreciation.**
- C. The cost of goods sold divided by average inventory.**
- D. The required return by investors; used as a discount rate for capital budgeting.**

In capital budgeting, the cost of capital is the return that investors require on the firm's overall financing, and it is used as the discount rate when evaluating new projects. This rate reflects the opportunity cost of using funds now rather than elsewhere with similar risk, and it combines the costs of debt and equity in the firm's capital structure (often as the weighted average cost of capital). Using this rate to discount expected project cash flows sets the hurdle a project must clear: if the present value of inflows exceeds outflows, the project adds value and should be pursued. It isn't simply the interest charged on a single loan, nor does it relate to depreciation or to the ratio of cost of goods sold to average inventory. Therefore, describing the cost of capital as the required return by investors used as the discount rate for capital budgeting best captures its role.

9. Which measure compares current assets to current liabilities?

- A. Debt Ratio**
- B. Current Ratio**
- C. Net Profit on Sales Ratio**
- D. Working Capital**

Current ratio is a liquidity measure that compares current assets to current liabilities by dividing them. It directly shows how well assets expected to be converted to cash in the near term cover obligations due within the same period. Current assets include items like cash, accounts receivable, and inventory, while current liabilities include accounts payable and short-term debt. This ratio is the best answer because it specifically expresses the proportion of assets available to meet short-term obligations. In contrast, working capital is just the difference between current assets and current liabilities, not a ratio; the debt ratio looks at total liabilities relative to total assets, and net profit on sales measures profitability, not liquidity. For example, if current assets are \$200,000 and current liabilities are \$100,000, the current ratio is 2.0, signaling strong short-term liquidity.

10. Which financial statement shows the final balances of assets, liabilities, and owner's equity at the end of a period?

A. Income Statement

B. Balance Sheet

C. Cash Flow

D. Ratio Analysis

A balance sheet is a snapshot of a business's financial position at the end of a period, showing the final balances of assets, liabilities, and owner's (or shareholders') equity. It presents what the company owns, what it owes, and the residual interest of the owner at a specific date, and it adheres to the accounting equation: $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$. This makes it the go-to statement for assessing the company's financial position as of that date. In contrast, the income statement tracks performance over the period by listing revenues and expenses to determine net income or loss, not the ending balances. The cash flow statement shows how cash moved during the period, broken down into operating, investing, and financing activities. Ratio analysis is a tool for interpreting relationships between numbers across statements, not a statement of position itself.

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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://glencoeentrepfinance.examzify.com>

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

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