

GLENCOE ENTREPRENEURSHIP FINANCE PRACTICE EXAM (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

**VISIT US ONLINE FOR
THE FULL VERSION STUDY GUIDE**

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Table of Contents

Copyright	1
Table of Contents	2
Introduction	3
How to Use This Guide	4
Questions	5
Answers	8
Explanations	10
Next Steps	15

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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 describes the cash needed to run day-to-day business operations?**
 - A. Contingency fund
 - B. Character
 - C. Working capital
 - D. Due diligence

- 2. What is sensitivity analysis and its purpose?**
 - A. Predicts future market trends based on historical data.
 - B. Tests how changes in key inputs affect outputs; assesses risk.
 - C. Measures the efficiency of production processes.
 - D. Calculates the overall budget for a project.

- 3. 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.

- 4. Define capital budgeting and name one common method.**
 - A. Capital budgeting is the process of evaluating long-term investments; method: net present value (NPV).
 - B. Capital budgeting is used to forecast monthly cash receipts.
 - C. Capital budgeting deals with short-term liquidity management.
 - D. Capital budgeting involves setting prices for products.

- 5. Which term is described as a financial diary of a business?**
 - A. Journal
 - B. General journal
 - C. Accrual basis
 - D. Cash basis

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

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

7. What is the formula for the debt ratio?

- A. $\text{Total Liabilities} \div \text{Total Assets}$
- B. $\text{Current Assets} \div \text{Current Liabilities}$
- C. $\text{Total Assets} - \text{Total Liabilities}$
- D. $\text{Net Income} \div \text{Total Assets}$

8. What indicates a startup's runway?

- A. Cash burn rate relative to available cash.
- B. Revenue growth rate.
- C. Gross margin.
- D. Inventory turnover.

9. What is a risk assessment and provide an example relevant to entrepreneurship?

- A. The process of assigning a probability to past events; example: historical sales data accuracy.
- B. The process of identifying and prioritizing risks; example: supplier failure affecting inventory.
- C. The technique for forecasting market growth; example: TAM estimation.
- D. The method of calculating break-even; example: fixed vs variable costs.

10. How do accounts receivable and accounts payable affect cash flow?

- A. AR accelerates inflows; AP delays outflows; both improve liquidity timing.
- B. AR delays inflows; AP accelerates outflows; both improve liquidity timing.
- C. AR delays inflows; AP delays outflows; both affect liquidity timing.
- D. AR delays inflows; AP accelerates outflows; both affect liquidity timing.

Answers

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

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Explanations

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1. Which term describes the cash needed to run day-to-day business operations?

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

Working capital is the amount of liquid resources a business uses to run day-to-day operations. It represents the funds available to cover everyday expenses like payroll, inventory purchases, and paying suppliers, after accounting for short-term obligations. In practical terms, it's current assets (cash, accounts receivable, inventory, etc.) minus current liabilities (short-term debt, accounts payable, etc.). This net pool shows how much liquidity a company has to keep operations moving between cash inflows and outflows. A positive working capital means the business can meet its short-term needs and continue operating smoothly; a negative figure signals potential liquidity problems. For example, if current assets total 500,000 and current liabilities total 420,000, the working capital is 80,000, indicating funds available to support daily activities. Other terms don't describe this ongoing liquidity concept: a contingency fund is for unexpected events, due diligence is the review process before a deal, and character is unrelated to financial measurements.

2. What is sensitivity analysis and its purpose?

- A. Predicts future market trends based on historical data.
- B. Tests how changes in key inputs affect outputs; assesses risk.**
- C. Measures the efficiency of production processes.
- D. Calculates the overall budget for a project.

Sensitivity analysis focuses on how changes in key inputs affect outputs and what that means for risk. In a business or project model, you have variables like sales volume, price, costs, or discount rate. By adjusting these inputs within realistic ranges, you see how results such as net present value, cash flow, or profitability respond. The goal is to identify which assumptions matter most, quantify risk under uncertainty, and guide decisions or prioritization of data collection and stress testing. This isn't about predicting future market trends from historical data—that's forecasting. It isn't about measuring production efficiency—that's evaluating operational performance. And it isn't about calculating the overall project budget—that's budgeting. Sensitivity analysis specifically links input variability to output outcomes to assess risk.

3. 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.

4. Define capital budgeting and name one common method.

- A. Capital budgeting is the process of evaluating long-term investments; method: net present value (NPV).**
- B. Capital budgeting is used to forecast monthly cash receipts.
- C. Capital budgeting deals with short-term liquidity management.
- D. Capital budgeting involves setting prices for products.

Capital budgeting focuses on evaluating and selecting long-term investments whose benefits span multiple years. A common method used in this process is net present value, which estimates the value created by a project by discounting its expected future cash flows back to today and subtracting the initial cost; a positive NPV means the project is expected to add value. The other activities described—forecasting monthly cash receipts, managing short-term liquidity, and setting prices—belong to cash flow forecasting, liquidity management, and pricing decisions, respectively, and are not capital budgeting.

5. Which term is described as a financial diary of a business?

- A. Journal**
- B. General journal
- C. Accrual basis
- D. Cash basis

The main idea here is understanding how transactions are captured in accounting. A journal is the place where every business transaction is recorded in chronological order, with dates, descriptions, and the amounts showing both the debit and credit—like a diary that notes what happened and when. This initial recording is why the journal is described as the financial diary of the business: it preserves the complete, time-stamped history of all financial events before they move on to ledgers for posting. Accrual basis and cash basis are not about recording in a diary. They describe when revenues and expenses are recognized: accrual recognizes them when earned or incurred, and cash basis when cash changes hands. The term “general journal” is a type of journal, but the broader and more classic term for the diary-like record of all transactions is simply the journal.

6. 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.

7. What is the formula for the debt ratio?

- A. Total Liabilities ÷ Total Assets
- B. Current Assets ÷ Current Liabilities
- C. Total Assets - Total Liabilities
- D. Net Income ÷ Total Assets

The debt ratio measures how much of a company's assets are financed with debt, showing the level of financial leverage. It is calculated by dividing total liabilities by total assets. This direct comparison of what is owed to what is owned captures long term solvency and risk: a higher ratio means more of the asset base is funded by debt, which can imply greater risk if earnings don't keep up with obligations. If you see the alternative options, they point to different concepts. Current assets divided by current liabilities is the current ratio, a liquidity measure of short-term ability to cover obligations. Total assets minus total liabilities gives equity, not a ratio. Net income divided by total assets is return on assets, a profitability metric. So the formula for the debt ratio is indeed total liabilities divided by total assets.

8. What indicates a startup's runway?

- A. Cash burn rate relative to available cash.
- B. Revenue growth rate.
- C. Gross margin.
- D. Inventory turnover.

Runway measures how long a startup can keep operating before it runs out of cash. The key is cash burn relative to the cash you have on hand. You estimate the monthly cash outflow (burn rate) and divide the current cash on hand by that burn rate. The result tells you how many months you can continue operating under the present spending and revenue conditions. So, the best indicator of runway is how quickly cash is leaving the business compared with how much cash is available. Gross margin, while important for profitability per sale, doesn't directly tell you how long you can fund operations from existing cash. Revenue growth and inventory turnover influence cash flow in broader ways, but they don't directly quantify the time left given current cash and burn.

9. What is a risk assessment and provide an example relevant to entrepreneurship?

- A. The process of assigning a probability to past events; example: historical sales data accuracy.
- B. The process of identifying and prioritizing risks; example: supplier failure affecting inventory.
- C. The technique for forecasting market growth; example: TAM estimation.
- D. The method of calculating break-even; example: fixed vs variable costs.

Risk assessment is a structured process to spot what could go wrong for a venture and decide which risks to address first. In entrepreneurship, you identify potential events that could disrupt operations or goals, evaluate how likely each event is and how big an impact it would have, and then prioritize them so you can plan mitigations for the most significant threats. The example of a supplier failure affecting inventory shows this clearly: you recognize the risk, judge both its probability and the potential disruption to your supply, and then decide on actions such as diversifying suppliers or building buffer stock. This differs from merely assigning probabilities to past events (descriptive data), forecasting market growth (market potential analysis), or calculating break-even (cost-volume-profit analysis), all of which serve other purposes.

10. How do accounts receivable and accounts payable affect cash flow?

- A. AR accelerates inflows; AP delays outflows; both improve liquidity timing.
- B. AR delays inflows; AP accelerates outflows; both improve liquidity timing.
- C. AR delays inflows; AP delays outflows; both affect liquidity timing.
- D. AR delays inflows; AP accelerates outflows; both affect liquidity timing.

Timing of cash receipts and payments drives liquidity. When customers are billed on credit, the cash isn't received immediately, so accounts receivable delays cash inflows and reduces near-term liquidity. On the other hand, when you delay paying suppliers, accounts payable keeps cash in the business longer, delaying cash outflows and improving short-term liquidity. Together, these timing effects shape the cash conversion cycle: AR determines when cash comes in, AP determines when cash goes out, and both influence how much cash is available at any moment.

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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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