

MERGERS & INQUISITIONS (M&I) 400 PRACTICE EXAM (SAMPLE)

STUDY GUIDE



**SAMPLE STUDY GUIDE
WITH LIMITED QUESTIONS**

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

<https://mergersandinquisitions400.examzify.com>



Copyright © 2026 by Examzify - A Kaluba Technologies Inc. product.

ALL RIGHTS RESERVED.

No part of this book may be reproduced or transferred in any form or by any means, graphic, electronic, or mechanical, including photocopying, recording, web distribution, taping, or by any information storage retrieval system, without the written permission of the author.

Notice: Examzify makes every reasonable effort to obtain accurate, complete, and timely information about this product from reliable sources.

SAMPLE

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	16

SAMPLE

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

SAMPLE

- 1. What financial metric might indicate that a company is cash-flow negative despite having positive EBITDA?**
 - A. High interest expenses
 - B. Low capital expenditures
 - C. Increased revenue
 - D. High retained earnings
- 2. What happens to the Cost of Equity if a company takes on additional debt?**
 - A. The Cost of Equity decreases significantly
 - B. The Cost of Equity remains the same
 - C. The Cost of Equity increases due to higher risk
 - D. The Cost of Equity becomes irrelevant
- 3. What distinguishes Accounts Receivable from Deferred Revenue?**
 - A. Accounts Receivable is collected but not recognized as revenue
 - B. Accounts Receivable is not collected yet
 - C. Deferred Revenue has been recognized but not collected
 - D. Deferred Revenue is recorded as an asset
- 4. Why is a projection period of 5 to 10 years preferred in DCF analysis?**
 - A. It provides a sufficient timeline for measurable economic growth
 - B. Predicting further than 10 years is too inaccurate, and less than 5 years is insufficient
 - C. Companies typically undergo structural changes within this range
 - D. Short-term forecasts are less impactful on long-term valuations
- 5. What could justify a company being valued at a premium despite similar growth and profitability?**
 - A. Recent stock price drop due to market conditions
 - B. A recent earnings report exceeding expectations
 - C. Absence of a competitive landscape
 - D. Long-standing business operations

- 6. For what purpose is a valuation typically used?**
- A. To determine employee compensation packages
 - B. In pitch books and client presentations for financial updates
 - C. For assessing job candidates in finance roles
 - D. To analyze personal investment strategies
- 7. When might a DCF analysis not be appropriate to use?**
- A. When cash flows are stable and predictable
 - B. When cash flows are highly predictable
 - C. When cash flows are very unpredictable
 - D. When the market is highly efficient
- 8. What happens to Free Cash Flow when Net Working Capital increases?**
- A. It remains unchanged
 - B. It decreases
 - C. It increases
 - D. It becomes negative
- 9. How does the Discounted Cash Flow (DCF) method typically rank in expected value compared to other methodologies?**
- A. Always produces the lowest value
 - B. Always produces the highest value
 - C. Is more variable and can produce varying results
 - D. Is fixed in value regardless of assumptions
- 10. Why is it critical to pair the appropriate valuation metrics with the type of cash flow?**
- A. Different cash flows may skew perceived value
 - B. Cash flows are only relevant to certain investors
 - C. Investment strategy relies on specific cash flow measures
 - D. Market conditions dictate cash flow importance

Answers

SAMPLE

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

SAMPLE

Explanations

SAMPLE

1. What financial metric might indicate that a company is cash-flow negative despite having positive EBITDA?

- A. High interest expenses**
- B. Low capital expenditures
- C. Increased revenue
- D. High retained earnings

The correct answer highlights the significance of high interest expenses as a financial metric that can indicate a company is cash-flow negative, even when it reports positive EBITDA. EBITDA stands for Earnings Before Interest, Taxes, Depreciation, and Amortization, and it provides a measure of a company's operational profitability. However, EBITDA does not account for all cash outflows, particularly interest expenses, which can be substantial if a company has significant debt. If interest expenses are high, they can consume a large portion of the company's cash flows, potentially leading to a situation where the company has to spend more on servicing its debt than it generates from its operations, resulting in cash-flow negativity. While the other options may have implications for a company's overall financial health, they do not directly correlate with the situation described in the question. Low capital expenditures, for instance, might suggest that the company is not investing in growth but does not inherently lead to cash-flow negativity. Increased revenue can improve cash flow, not imply negativity, and high retained earnings reflect historical profitability rather than current cash flow status. Therefore, high interest expenses are the most relevant metric in understanding why a company could be cash-flow negative despite having positive EBITDA.

2. What happens to the Cost of Equity if a company takes on additional debt?

- A. The Cost of Equity decreases significantly
- B. The Cost of Equity remains the same
- C. The Cost of Equity increases due to higher risk**
- D. The Cost of Equity becomes irrelevant

When a company takes on additional debt, the Cost of Equity increases due to the higher risk associated with increased leverage. This phenomenon is primarily explained by the Modigliani-Miller theorem, which suggests that in a world with taxes, as a company takes on more debt, it becomes riskier for equity holders because debt holders have a priority claim on the company's assets in case of bankruptcy. Consequently, equity holders will demand a higher return to compensate for this increased risk. As the company becomes more leveraged, the financial risk increases. Equity investors recognize that with more debt, the variability of returns on equity also increases; if the company does well, equity holders could receive higher returns, but if things go poorly, they could suffer significant losses. Therefore, to attract investors, the company must compensate for this additional risk by raising its Cost of Equity. In summary, taking on additional debt raises the Cost of Equity due to increased financial risk for equity holders, which aligns perfectly with the correct answer.

3. What distinguishes Accounts Receivable from Deferred Revenue?

- A. Accounts Receivable is collected but not recognized as revenue
- B. Accounts Receivable is not collected yet**
- C. Deferred Revenue has been recognized but not collected
- D. Deferred Revenue is recorded as an asset

Accounts Receivable represents amounts owed to a business by customers who have purchased goods or services on credit. It is recorded when a sale is made, and although the revenue is recognized at that point, the cash has not yet been received. This indicates that Accounts Receivable is linked to revenue that has been earned and recognized, but not yet collected. Therefore, the distinguishing characteristic of Accounts Receivable is that it reflects outstanding payments owed from customers. In contrast, Deferred Revenue refers to money that a business has received in advance from customers for goods or services that have not yet been delivered. This means that while the cash has been collected, the revenue has not been recognized in the income statement until the goods or services are provided. As such, it is recorded as a liability on the balance sheet until the performance obligation is fulfilled. Understanding this distinction is key in financial accounting as it impacts how businesses report their financial health and cash flow. The other options either mischaracterize the nature of the accounts or incorrectly assign accounting roles that do not accurately represent how each item is classified within financial statements.

4. Why is a projection period of 5 to 10 years preferred in DCF analysis?

- A. It provides a sufficient timeline for measurable economic growth
- B. Predicting further than 10 years is too inaccurate, and less than 5 years is insufficient**
- C. Companies typically undergo structural changes within this range
- D. Short-term forecasts are less impactful on long-term valuations

A projection period of 5 to 10 years is preferred in DCF (Discounted Cash Flow) analysis primarily because predicting cash flows beyond this time frame often leads to significant inaccuracies. The fundamentals of a company's business and market conditions can change dramatically in a decade, making it challenging to project reliable financial metrics that far into the future. In contrast, projecting cash flows for a shorter period, such as less than 5 years, might not capture the full cycle of a company's performance, especially if it is in an industry that tends to change rapidly or experiences long-term trends. A projection window of 5 to 10 years strikes a balance between capturing meaningful growth and maintaining a level of accuracy that investors can rely on for making informed decisions about a company's value. Longer projections can lead to models that are heavily dependent on assumptions, including market conditions, competitive dynamics, and macroeconomic factors, all of which are more uncertain as time extends. Hence, a 5 to 10 year range is a standard practice that aligns well with the realities of business and economic forecasting.

5. What could justify a company being valued at a premium despite similar growth and profitability?

- A. Recent stock price drop due to market conditions
- B. A recent earnings report exceeding expectations**
- C. Absence of a competitive landscape
- D. Long-standing business operations

A company can be valued at a premium when it has demonstrated stronger-than-expected financial performance, as indicated by a recent earnings report that exceeds expectations. This positive news can instill confidence in investors and analysts, suggesting that the company has a solid operational track record and growth potential that might not be fully reflected in its current stock price. When earnings outperform market expectations, it often leads to bullish sentiment around the stock, as investors anticipate continued success. This optimism can prompt a re-evaluation of the company's valuation, raising it above what might be justified by growth and profitability metrics alone. The premium reflects the market's perception of future earnings potential and overall business health, influencing buy-side activity and potentially driving the stock price higher. Other choices may not support a premium valuation as effectively. For example, a recent stock price drop might indicate underlying issues or market conditions that could justify a lower valuation rather than a premium. Similarly, the absence of a competitive landscape might imply lower risks, but it does not automatically elevate a company's standing in terms of value compared to its peers. Long-standing business operations might suggest stability, yet they don't inherently justify a valuation premium unless tied to recent performance improvements or market conditions.

6. For what purpose is a valuation typically used?

- A. To determine employee compensation packages
- B. In pitch books and client presentations for financial updates**
- C. For assessing job candidates in finance roles
- D. To analyze personal investment strategies

Valuation is primarily used in pitch books and client presentations for financial updates because it provides potential investors or stakeholders with a clear understanding of a company's worth. This information is crucial during fundraising efforts, mergers, acquisitions, or investment discussions, as it allows all parties to make informed decisions based on the financial health and market position of the company in question. The valuation process involves analyzing various financial metrics, market conditions, and comparable companies to arrive at a fair market value. This value is essential for negotiating deals, setting prices, and presenting investment opportunities compellingly to clients or investors. Including valuations in pitch books enhances the credibility of the material and helps convey strategic advice effectively. While the other choices represent important aspects of financial processes, they do not focus on the primary purpose of valuation in the context of client engagement and financial decision-making.

7. When might a DCF analysis not be appropriate to use?

- A. When cash flows are stable and predictable
- B. When cash flows are highly predictable
- C. When cash flows are very unpredictable**
- D. When the market is highly efficient

A discounted cash flow (DCF) analysis is a valuation method that estimates the value of an investment based on its expected future cash flows, which are then discounted back to their present value. This method relies heavily on having accurate and reliable cash flow projections. When cash flows are very unpredictable, DCF analysis becomes less appropriate because the foundational aspect of the model—predicting future cash flows with a reasonable degree of certainty—breaks down. If cash flows are erratic or uncertain, it becomes exceedingly difficult to forecast them accurately, leading to highly speculative or misleading valuation outcomes. This unpredictability can arise from various factors, including volatile market conditions, fluctuating operational performance, or industry shifts, which can all impede accurate cash flow forecasting. In contrast, DCF analysis thrives with stable and predictable cash flows, allowing for reliable estimations and resultant valuations. Similarly, in a highly efficient market, while DCF can still be applied, market participants might already have reflected known cash flows in stock prices, making intrinsic valuations less relevant. The key benefit of DCF is its ability to work effectively in situations where cash flows can be reasonably forecasted. Therefore, when cash flows are very unpredictable, the viability and accuracy of utilizing a DCF analysis become compromised.

8. What happens to Free Cash Flow when Net Working Capital increases?

- A. It remains unchanged
- B. It decreases**
- C. It increases
- D. It becomes negative

When Net Working Capital (NWC) increases, it typically represents a greater amount of funds tied up in current assets, such as inventory and accounts receivable, that are necessary for the ongoing operations of the business. This increase in NWC means that more cash is being used to finance these assets rather than being free for other purposes. Free Cash Flow (FCF) is defined as the cash generated by the business operations that is available for distribution to all capital providers, after accounting for capital expenditures necessary to maintain or expand the asset base. When NWC rises, it implies that cash is likely being consumed to finance additional current assets, thereby reducing the amount of cash available for distribution. Thus, the relationship between an increase in NWC and Free Cash Flow is inversely proportional. As NWC increases, it absorbs cash, leading to a decrease in Free Cash Flow. This understanding is foundational in analyzing a company's liquidity and operational efficiency.

9. How does the Discounted Cash Flow (DCF) method typically rank in expected value compared to other methodologies?

- A. Always produces the lowest value
- B. Always produces the highest value
- C. Is more variable and can produce varying results**
- D. Is fixed in value regardless of assumptions

The Discounted Cash Flow (DCF) method is regarded for its ability to provide a valuation based on the intrinsic cash flows generated by an asset or business over time. This approach involves projecting future cash flows and discounting them back to their present value using a suitable discount rate. The outcome of a DCF can vary significantly based on several factors, including assumptions about growth rates, discount rates, and the timing of cash flows. Due to its reliance on these assumptions, the DCF method can yield a wide range of potential valuations, making it inherently more variable compared to other valuation methodologies, such as comparables analysis or precedent transactions, which tend to provide valuations more closely tied to current market conditions. Consequently, the variances in inputs can lead to different conclusions, illustrating why it ranks as more variable and capable of producing diverse results. This aspect of the DCF method emphasizes the importance of careful consideration and sensitivity analysis, as changes to any of the assumptions can significantly impact the valuation outcome. Thus, the recognition that the DCF methodology can produce differing results based on varying inputs is crucial in its application and valuation conclusions.

10. Why is it critical to pair the appropriate valuation metrics with the type of cash flow?

- A. Different cash flows may skew perceived value**
- B. Cash flows are only relevant to certain investors
- C. Investment strategy relies on specific cash flow measures
- D. Market conditions dictate cash flow importance

Valuation metrics must be aligned effectively with the type of cash flow being analyzed because different cash flows can indeed skew the perceived value of a business or investment. For example, operating cash flows, free cash flows, and EBITDA represent different aspects of a company's financial performance and can yield different valuations if not used appropriately. When using metrics like discounted cash flow (DCF) analysis, it's important to be consistent with the type of cash flows being projected. If you compare a DCF based on operating cash flows to a valuation based on free cash flow, it could lead to misleading conclusions about the company's worth. Different cash flows can reflect varying financial health, growth prospects, and risk levels, which is why pairing the right valuation metric with the right cash flow type is essential for an accurate assessment. This understanding aids investors in making informed decisions and ensures that the valuation reflects the true economic condition of the business. Misalignment could result in significant over- or under-valuation, affecting investment strategies and outcomes. Thus, it is fundamental to carefully select valuation metrics that correspond to the nature of the cash flows involved.

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://mergersandinquisitions400.examzify.com>

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

SAMPLE