

PEREGRINE FOUNDATIONS OF BUSINESS FINANCE PRACTICE TEST (SAMPLE) STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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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	16

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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 are derivatives in finance?

- A. Financial assets that have values based on other assets
- B. Assets whose values are independent of other securities
- C. Mutual funds that track stock prices
- D. Stocks that provide fixed returns

2. What do accrued expenses typically include?

- A. Unpaid salaries
- B. Investments in stocks
- C. Cash reserves
- D. Cost of goods sold

3. The required interest rate on any security is composed of what plus a risk premium?

- A. Expected future cash flow
- B. Market demand rate
- C. Risk-free rate of interest
- D. Premium market rate

4. A term loan is characterized by which of the following features?

- A. A single lump-sum payment at the end
- B. Payments of interest and principal on specific dates
- C. No interest charge
- D. Issuance in foreign currency

5. Which financial performance metric reflects the profitability on a per-share basis?

- A. Earnings before interest and taxes
- B. Earnings per share
- C. Return on equity
- D. Gross profit margin

- 6. What is "equity financing"?**
- A. Raising funds by selling company bonds
 - B. Borrowing from financial institutions
 - C. Raising capital by selling shares of stock
 - D. Contributing personal funds by owners
- 7. What is a feature of current liabilities regarding their payment timeline?**
- A. They are due in more than a year
 - B. They are paid periodically
 - C. They are due within one year
 - D. They require collateral
- 8. An increase in inventory represents what in terms of cash flow?**
- A. An inflow of cash
 - B. An outflow of cash
 - C. A neutral cash effect
 - D. A capital gain
- 9. Which type of current liability changes automatically with changes in sales?**
- A. Discretionary liabilities
 - B. Fixed liabilities
 - C. Spontaneous liabilities
 - D. Current liabilities
- 10. The combined value of common stock and paid-in-capital provides insight into which aspect?**
- A. The proceeds received when shares were originally sold to investors
 - B. The cash reserves of the firm
 - C. The total income generated from operations
 - D. The assets the firm owns

Answers

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

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Explanations

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1. What are derivatives in finance?

- A. Financial assets that have values based on other assets**
- B. Assets whose values are independent of other securities
- C. Mutual funds that track stock prices
- D. Stocks that provide fixed returns

Derivatives in finance are defined as financial instruments whose value depends on the price of one or more underlying assets. This could include stocks, bonds, commodities, interest rates, or even market indices. The primary utility of derivatives lies in their ability to provide risk management strategies, leverage investment positions, or speculate on the future price movements of the underlying assets. By understanding that derivatives derive their value from something else, one can appreciate the specific types of derivatives that exist, such as options and futures contracts. These structures allow traders and investors to hedge against potential price fluctuations or to gain exposure to the underlying asset without directly holding it. The other options are focused on financial instruments that do not exhibit the key characteristic of being dependent on other assets for their valuation. For instance, assets with independent values or mutual funds that do not maintain a direct relationship with specific underlying securities would not fit the definition of derivatives. Stocks that provide fixed returns likewise do not correlate with the foundational concept of derivatives, as their values are not contingent upon other financial assets.

2. What do accrued expenses typically include?

- A. Unpaid salaries**
- B. Investments in stocks
- C. Cash reserves
- D. Cost of goods sold

Accrued expenses refer to costs that a business has incurred during a given accounting period but has not yet paid for by the end of that period. This accounting practice ensures that expenses are recognized in the period in which they are incurred, regardless of when the actual cash outflow occurs. Among various accrued expenses, unpaid salaries are a common example. Employees perform their work and earn wages, but the actual payment is often made later, creating an obligation that must be recorded as an accrued expense on the balance sheet. The other options do not fit the definition of accrued expenses. Investments in stocks relate to the purchase of assets rather than incurred obligations, cash reserves involve available funds rather than unpaid liabilities, and the cost of goods sold encompasses expenses related to producing or selling products, which are typically recognized when sales occur rather than as accrued liabilities. This helps clarify why unpaid salaries are considered accrued expenses, as they represent a real liability owed by the business at the end of an accounting period.

3. The required interest rate on any security is composed of what plus a risk premium?

- A. Expected future cash flow
- B. Market demand rate
- C. Risk-free rate of interest**
- D. Premium market rate

The required interest rate on any security is fundamentally based on the risk-free rate of interest, which represents the return on an investment with no risk of financial loss. This serves as the baseline rate for all securities, taking into account that investors will generally expect to earn at least this minimum return to compensate for the time value of money. The risk premium is then added to the risk-free rate to account for the additional risk associated with the specific security. Different securities carry varying degrees of risk, influenced by factors such as credit risk, market volatility, and potential liquidity issues. The risk premium effectively compensates investors for taking on this extra risk above what they would receive from a risk-free investment. In summary, the composition of the required interest rate includes the risk-free rate as a foundational element, with a subsequent risk premium adding to it in accordance with the particular risks associated with the investment.

4. A term loan is characterized by which of the following features?

- A. A single lump-sum payment at the end
- B. Payments of interest and principal on specific dates**
- C. No interest charge
- D. Issuance in foreign currency

A term loan is characterized by structured repayment schedules that typically include payments of both interest and principal on specific dates. This feature provides borrowers with a fixed timetable that helps in managing cash flow, allowing them to plan and budget effectively for each payment. The predictable nature of these payments provides clarity and assurance to both lenders and borrowers about the obligations that need to be met over the life of the loan. In contrast, a single lump-sum payment at the end, while it describes some types of loans, does not apply to the structured nature of term loans where regular payments are expected. Similarly, term loans certainly incur interest charges, so having no interest would not apply to them. Finally, while some loans can indeed be issued in foreign currency, this characteristic is not defining of term loans specifically; they can be issued in domestic currencies as well. Thus, the most salient feature that distinguishes term loans is the scheduled payments of interest and principal on specific dates.

5. Which financial performance metric reflects the profitability on a per-share basis?

- A. Earnings before interest and taxes
- B. Earnings per share**
- C. Return on equity
- D. Gross profit margin

Earnings per share (EPS) is a key financial performance metric that measures the profitability of a company on a per-share basis. It indicates how much profit a company generates for each share of its common stock, providing investors with a straightforward way to assess the company's financial health and performance relative to its share price. EPS is calculated by taking the net income of the company and dividing it by the total number of outstanding shares. This metric allows investors to compare profitability across companies and industries, as it normalizes earnings to a per-share basis. In contrast, earnings before interest and taxes (EBIT) represents a company's operating performance without considering the effects of capital structure and tax rate, while return on equity (ROE) measures the efficiency of a company in generating profits from shareholders' equity. Gross profit margin indicates how much of a company's revenue exceeds its cost of goods sold but does not provide insights per individual share. Hence, EPS is the most relevant metric for assessing profitability on a per-share basis.

6. What is "equity financing"?

- A. Raising funds by selling company bonds
- B. Borrowing from financial institutions
- C. Raising capital by selling shares of stock**
- D. Contributing personal funds by owners

Equity financing refers to the process of raising capital for a business by selling shares of stock to investors. By offering shares, a company allows investors to become partial owners of the business in exchange for their investment, which provides the company with funds for expansion, operations, or other financial needs without incurring debt. This form of financing is attractive to many companies because it does not require repayment like loans do, and it can enhance the company's capital structure by bringing in new investors who may also provide valuable business insight. This distinction is crucial because it emphasizes that equity financing involves ownership stake, whereas other forms, like issuing bonds or taking loans, involve debt that must be repaid. Individuals contributing personal funds represent another form of capital raising but doesn't encompass the broader practice of equity financing that involves the sale of stock on a larger scale.

7. What is a feature of current liabilities regarding their payment timeline?

- A. They are due in more than a year
- B. They are paid periodically
- C. They are due within one year**
- D. They require collateral

Current liabilities are defined as obligations that a company is required to settle within a short time frame, typically within one year from the date of the financial statement. This is a critical aspect of current liabilities because it indicates the company's short-term financial health and its ability to meet its obligations in the near future. The due timeline of one year or less is essential for distinguishing current liabilities from long-term liabilities, which are due beyond one year. This classification helps stakeholders assess liquidity and the potential strain on resources in the near term. Current liabilities might include accounts payable, short-term loans, and other similar obligations that must be paid off quickly. Understanding this timeline provides insight into the financial operations of a business, its cash flow management, and its overall fiscal responsibility, making it a fundamental concept in finance.

8. An increase in inventory represents what in terms of cash flow?

- A. An inflow of cash
- B. An outflow of cash**
- C. A neutral cash effect
- D. A capital gain

An increase in inventory represents an outflow of cash because it indicates that a company has spent money to acquire more goods that are intended for sale but are not yet generating revenue. When inventory increases, it typically means that the company has used its available cash to purchase new products or raw materials. This movement of cash away from operational funds towards inventory assets signifies a reduction in cash availability, thereby classifying it as a cash outflow. In managing working capital, maintaining an optimal level of inventory is essential, as excess inventory can tie up cash that could otherwise be utilized for other operational needs or investments. This is particularly important for businesses that need to ensure they have enough liquidity to cover their day-to-day expenses and operational activities. The increase in inventory does not directly correlate with cash inflow, neutrality, or capital gains, as it reflects a need for cash to fund operational growth rather than an increase in monetary resources.

9. Which type of current liability changes automatically with changes in sales?

- A. Discretionary liabilities
- B. Fixed liabilities
- C. Spontaneous liabilities**
- D. Current liabilities

The type of current liability that changes automatically with changes in sales is known as spontaneous liabilities. These liabilities are not formally contracted but arise naturally through the normal operations of a business, primarily influenced by the level of sales. As sales increase, businesses typically incur higher costs related to inventory purchases and operating expenses, leading to an increase in accounts payable and other short-term obligations automatically. This means that the liabilities adjust in direct proportion to the business activity, reflecting the ongoing nature of day-to-day transactions. Spontaneous liabilities include items such as accounts payable and accrued expenses, which accumulate as the business's sales and revenue grow. This dynamic relationship makes them distinct from other types of liabilities, which may not fluctuate directly with sales volume. In contrast, discretionary liabilities are those that a company has some control over, such as dividends payable, while fixed liabilities usually remain constant over a short period and are not directly tied to sales level changes. Current liabilities, as a broader category, include both spontaneous and fixed liabilities but do not specify the automatic connection with sales that defines spontaneous liabilities.

10. The combined value of common stock and paid-in-capital provides insight into which aspect?

- A. The proceeds received when shares were originally sold to investors**
- B. The cash reserves of the firm
- C. The total income generated from operations
- D. The assets the firm owns

The combined value of common stock and paid-in-capital reflects the total proceeds that a company received from issuing shares to investors. This amount represents the funds raised when the shares were sold to the initial investors at the time of the stock issuance, providing important insight into the capital structure of the company and the resources available for growth and investment. This proceeds figure includes amounts above par value (the nominal value of the stock) that are contributed by shareholders. In contrast, the other options do not accurately capture the meaning of the combined value of common stock and paid-in-capital. While the cash reserves pertain to liquidity and can be influenced by stock issuance, they are not directly tied to the combined value of common stock and paid-in-capital. Total income generated from operations relates to profitability and is separate from equity funding. Finally, the assets the firm owns involve a broader context of the company's overall balance sheet, which extends beyond just the equity contributed by shareholders. Thus, the correct answer focusing on proceeds from shares issued aligns perfectly with the definitions and implications 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:

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

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