

Western Governors University (WGU) BUS2040 D076 Finance Skills for Managers 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

- 1. What is the purpose of the perpetuity model in finance?**
 - A. To assess risk management**
 - B. To calculate market trends**
 - C. To value preferred stock**
 - D. To determine cash flow projections**
- 2. What is meant by 'Ethics' in a business context?**
 - A. Maximizing shareholder profits**
 - B. Following accepted standards of moral conduct**
 - C. Strategies for competitive advantage**
 - D. Manipulating market information for gain**
- 3. What does risk retention involve?**
 - A. Delegating risk to another party**
 - B. A decision to accept and manage the risk personally**
 - C. Minimizing risk exposure through diversification**
 - D. Avoiding risky activities altogether**
- 4. What does 'par value' refer to in the context of bonds?**
 - A. The market price at which a bond is sold**
 - B. The face value of a bond as stated when it is issued**
 - C. The stated interest rate on a bond**
 - D. The minimum price set for trading bonds**
- 5. In finance, what does 'liquidity risk' refer to?**
 - A. The risk of changes in market prices**
 - B. The risk of not being able to sell an asset quickly**
 - C. The risk associated with interest rate fluctuations**
 - D. The risk involved in currency exchange rates**
- 6. What does the Time Value of Money (TVM) concept primarily state?**
 - A. Future money is more valuable than present money**
 - B. Investment risk decreases over time**
 - C. Money available now is worth more than the same amount in the future**
 - D. Interest rates have no impact on money value**

- 7. What type of interest is calculated only on the principal amount?**
- A. Compound Interest**
 - B. Simple Interest**
 - C. Variable Interest**
 - D. Fixed Interest**
- 8. What type of risk is inherent in the economy as a whole and cannot be diversified away?**
- A. Systematic Risk**
 - B. Specific Risk**
 - C. Operational Risk**
 - D. Unsystematic Risk**
- 9. What are capital budgeting criteria used for?**
- A. To measure a company's current stock prices**
 - B. To evaluate ongoing expenses**
 - C. To determine whether a project adds value**
 - D. To manage employee relationships**
- 10. What are U.S. Treasuries considered in terms of quality?**
- A. High-risk investments**
 - B. Lowest quality securities**
 - C. Highest-quality securities**
 - D. Speculative assets**

Answers

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

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Explanations

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1. What is the purpose of the perpetuity model in finance?

- A. To assess risk management
- B. To calculate market trends
- C. To value preferred stock**
- D. To determine cash flow projections

The perpetuity model is specifically utilized in finance to value assets that provide cash flows indefinitely into the future, with a common application being the valuation of preferred stock. Preferred stocks typically pay fixed dividends, making their valuation similar to that of a perpetuity—where cash flows are received continuously over an indefinite period. When using the perpetuity model, the present value of an infinite series of cash flows is calculated by dividing the annual cash flow by the discount rate. This helps in determining the worth of preferred stock based on its fixed dividend payments. In this context, the perpetuity model becomes a practical tool for investors looking to assess the value of investments that promise fixed returns over an extended duration. By contrast, while assessing risk management, calculating market trends, and determining cash flow projections are crucial aspects of financial analysis, they do not specifically utilize the perpetuity model. Risk management often involves analyzing potential losses or uncertainties in investments, market trends focus on the movements and patterns in asset prices over time, and cash flow projections deal with estimating future inflows and outflows of cash based on various factors rather than a fixed, indefinite series of cash flows. Thus, the application of the perpetuity model is distinctly aligned with valuing preferred stock due to its unique cash

2. What is meant by 'Ethics' in a business context?

- A. Maximizing shareholder profits
- B. Following accepted standards of moral conduct**
- C. Strategies for competitive advantage
- D. Manipulating market information for gain

In a business context, 'Ethics' refers to following accepted standards of moral conduct. This concept encompasses the principles that guide behavior and decision-making processes within a business environment. Ethical considerations ensure that companies operate not just legally, but in a way that is fair, responsible, and conducive to the wellbeing of all stakeholders, including employees, customers, suppliers, and the community at large. Adhering to ethical standards helps in building trust and credibility, which are crucial for long-term success. It requires businesses to go beyond profit maximization and consider the impact of their actions on society and the environment. Ethical frameworks can influence organizational culture, corporate reputation, and stakeholder relations, ultimately contributing to sustained profitability and success. In contrast, the other options reflect approaches that may not align with ethical considerations, as they focus on profit at the expense of moral standards or involve manipulation. While maximizing shareholder profits can be a goal in business, it should not overshadow ethical responsibilities. Strategies for competitive advantage are important but must be implemented with integrity, and manipulating market information is fundamentally unethical and potentially illegal.

3. What does risk retention involve?

- A. Delegating risk to another party
- B. A decision to accept and manage the risk personally**
- C. Minimizing risk exposure through diversification
- D. Avoiding risky activities altogether

Risk retention involves a proactive approach where an individual or organization decides to accept and manage the risk personally rather than transferring it to another entity. This means that they acknowledge the existence of potential risks and choose not to seek external measures such as insurance to cover those risks. Instead, they take on the responsibility for the consequences that might arise from those risks. In practice, this could mean setting aside funds to cover potential losses or developing internal strategies to mitigate impact if a risk manifests. By choosing to retain the risk, the stakeholder may benefit from any potential rewards while also preparing for adverse outcomes. This strategy can be particularly beneficial for risks that are deemed manageable or that have a low probability of occurring. Understanding risk retention is crucial for effective financial management as it requires a balance between risk-taking and risk mitigation, allowing managers to align their risk exposure with their organizational objectives and risk tolerance.

4. What does 'par value' refer to in the context of bonds?

- A. The market price at which a bond is sold
- B. The face value of a bond as stated when it is issued**
- C. The stated interest rate on a bond
- D. The minimum price set for trading bonds

Par value, also known as face value, refers to the amount that a bond will be worth at maturity and the amount the bond issuer agrees to pay the bondholder upon maturity. It is the value that is printed on the bond certificate and is a crucial aspect of bond investing because it establishes the principal that the investor will receive back at the end of the bond's term. When bonds are issued, they typically have a par value of \$1,000, although this can vary. The bondholder receives periodic interest payments based on this par value, and when the bond matures, the par value is repaid to the investor. Understanding par value is essential because it is fundamental to calculating the yield and the pricing dynamics of bonds in the market, yet it remains distinct from concepts such as the market price or interest rates associated with the bond.

5. In finance, what does 'liquidity risk' refer to?

- A. The risk of changes in market prices
- B. The risk of not being able to sell an asset quickly**
- C. The risk associated with interest rate fluctuations
- D. The risk involved in currency exchange rates

Liquidity risk refers to the potential difficulty or inability of an investor or company to sell an asset quickly without significantly impacting its price. In the context of finance, this risk is crucial because it can affect the ability to convert assets into cash when needed. For example, if an asset is not easily tradable, it may take longer to sell, or the seller may have to accept a lower price, which could lead to financial losses. This is especially relevant in market situations where demand for certain assets may decline, making it harder to find a buyer. Therefore, focusing on the ability to sell or liquidate assets efficiently highlights the core concept of liquidity risk.

6. What does the Time Value of Money (TVM) concept primarily state?

- A. Future money is more valuable than present money**
- B. Investment risk decreases over time**
- C. Money available now is worth more than the same amount in the future**
- D. Interest rates have no impact on money value**

The Time Value of Money (TVM) concept primarily states that money available now is worth more than the same amount in the future. This principle is foundational in finance because it recognizes the potential earning capacity of money. When you have money today, it can be invested to earn interest or generate returns over time. Therefore, a dollar received today can grow to more than a dollar in the future due to the ability to earn returns on that money. This concept underscores the importance of considering the timing of cash flows, as a dollar today is not equivalent to a dollar tomorrow because of its potential growth through investment opportunities. Thus, recognizing that immediate cash has intrinsic value due to its earning potential is crucial for financial decision-making, whether it involves making investments, evaluating projects, or assessing the value of future cash flows.

7. What type of interest is calculated only on the principal amount?

- A. Compound Interest**
- B. Simple Interest**
- C. Variable Interest**
- D. Fixed Interest**

The correct response is that simple interest is calculated solely on the principal amount, which is the initial amount of money invested or borrowed. This type of interest does not take into account any interest that has already been added to the principal; instead, it is a straightforward calculation based exclusively on the original sum. In contrast, compound interest is calculated not only on the principal but also on any previously accrued interest, leading to interest on interest over time. Variable interest can change over the duration of a loan or investment, while fixed interest remains constant throughout the term. Understanding these differences is essential in finance as they impact the total amount of interest paid or earned over time.

8. What type of risk is inherent in the economy as a whole and cannot be diversified away?

A. Systematic Risk

B. Specific Risk

C. Operational Risk

D. Unsystematic Risk

Systematic risk refers to the potential for a broad market or economy-wide event to impact the values of all investments within the market. This type of risk is linked to factors such as economic recessions, interest rate changes, political instability, and natural disasters, which can affect entire markets or sectors simultaneously. Because it is tied to overall market performance, systematic risk cannot be eliminated through diversification; meaning, even a well-diversified portfolio will still be subject to this type of risk. In contrast, other types of risks, such as specific risk, operational risk, and unsystematic risk, are more localized and can often be mitigated through diversification or internal management strategies. Specific risk is associated with particular assets or companies, operational risk involves failures in internal processes or systems, and unsystematic risk pertains to specific events impacting a single investment or industry. These can be reduced or controlled, highlighting why systematic risk is unique in its nature as an unavoidable risk affecting all investments collectively.

9. What are capital budgeting criteria used for?

A. To measure a company's current stock prices

B. To evaluate ongoing expenses

C. To determine whether a project adds value

D. To manage employee relationships

Capital budgeting criteria are utilized to evaluate potential investments or projects to determine whether they will add value to an organization. This process involves assessing the expected cash flows, costs, risks, and overall financial implications of potential projects to ensure that funds are allocated efficiently. By focusing on how a project may contribute to the company's profitability and growth, organizations can make informed decisions about which projects to pursue. In contrast, measuring a company's current stock prices primarily relates to market valuation and investor sentiment rather than project evaluation. Evaluating ongoing expenses focuses on the management of current operations rather than new investments. Managing employee relationships falls within human resource management and does not pertain to the assessment of capital projects. Thus, the purpose of capital budgeting is specifically connected to understanding and enhancing a company's value through strategic investment choices.

10. What are U.S. Treasuries considered in terms of quality?

- A. High-risk investments
- B. Lowest quality securities
- C. Highest-quality securities**
- D. Speculative assets

U.S. Treasuries are considered the highest-quality securities primarily due to the full faith and credit of the U.S. government backing them. This backing implies that the likelihood of default is extremely low, making them one of the safest investments available. Investors often turn to Treasuries during uncertain economic times as they provide a guarantee of returns and are free from credit risk associated with corporate or municipal bonds. The stability and predictability of cash flows, combined with the strong demand for these securities, contribute to their classification as high-quality. In contrast, other options imply varying levels of risk that do not apply to U.S. Treasuries. High-risk investments would involve a greater chance of potential loss, while the term "lowest quality securities" contradicts the robust reputation of these bonds. Speculative assets involve higher volatility and uncertainty regarding returns, which is not characteristic of U.S. Treasuries. Overall, the classification of U.S. Treasuries as the highest-quality securities stems from their reliability and the security they offer to investors.

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://wgu-bus2040-d076.examzify.com>

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