

Western Governors University (WGU) FINC6000 C214 Financial Management 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. If a firm's goal is to maximize stockholder wealth, which type of investments should the firm avoid?**
 - A. Investments with high risk**
 - B. Investments with negative NPV**
 - C. Investments in emerging technologies**
 - D. Investments with uncertain returns**
- 2. If the current coupon rate on a bond is 6% and the bond is selling at a 5% discount, what is the yield to maturity on the bond?**
 - A. Higher than 6%**
 - B. Lower than 6%**
 - C. Equal to 6%**
 - D. Uncertain**
- 3. Which financial ratio assesses a company's ability to meet short-term obligations using its most liquid assets?**
 - A. Current ratio**
 - B. Debt to equity ratio**
 - C. Quick ratio**
 - D. Return on equity**
- 4. If the stock price of a company increases and the market is deemed efficient, what assumption can be made?**
 - A. A new patented product was introduced to the market**
 - B. Investor sentiment has improved**
 - C. Market competition has decreased**
 - D. The company released favorable earnings**
- 5. How do you calculate the change in retained earnings?**
 - A. Net Income + Dividends**
 - B. Net Income - Expenses**
 - C. Net Income - Dividends**
 - D. Net Income + Equity**

- 6. Which organization was created by Dodd-Frank to monitor how systematic risk could impact the banking industry?**
- A. Federal Reserve System**
 - B. Securities and Exchange Commission**
 - C. Financial Stability Oversight Council**
 - D. Consumer Financial Protection Bureau**
- 7. Which of the following is NOT typically a characteristic of stocks?**
- A. Ownership in a company**
 - B. Fixed income**
 - C. Potential for capital appreciation**
 - D. Volatility**
- 8. If market interest rates rise, what impact does it typically have on a given bond?**
- A. Its price increases**
 - B. Its price remains unchanged**
 - C. Its price decreases**
 - D. Its yield to maturity decreases**
- 9. In the context of the comparable multiples method, which ratio is most commonly used?**
- A. Debt to equity ratio**
 - B. Price earnings ratio**
 - C. Asset turnover ratio**
 - D. Return on investment ratio**
- 10. What is the term for the return gained on an investment over a specified period, often expressed as a percentage?**
- A. Yield**
 - B. Growth**
 - C. Return on equity**
 - D. Net profit margin**

Answers

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

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Explanations

1. If a firm's goal is to maximize stockholder wealth, which type of investments should the firm avoid?

- A. Investments with high risk**
- B. Investments with negative NPV**
- C. Investments in emerging technologies**
- D. Investments with uncertain returns**

Maximizing stockholder wealth is fundamentally about ensuring that the firm generates the highest possible value for its shareholders. One key metric that reflects this value is the Net Present Value (NPV) of investments, which considers the present value of cash inflows the investment is expected to generate against its costs. Investments with a negative NPV indicate that the present value of expected cash flows from the investment is less than the initial investment cost. In essence, these investments are expected to destroy value rather than create it. Therefore, if a firm aims to maximize stockholder wealth, it should avoid investments with a negative NPV, as these will lead to a decrease in the overall value of the firm and, consequently, a decline in stockholder wealth. While investments with high risk, uncertain returns, and those in emerging technologies can all pose challenges, they do not inherently mean that they will lower stockholder wealth. Instead, they may present opportunities for high returns that could enhance shareholder value if successful. In contrast, a negative NPV signals that the investment decision is not conducive to wealth maximization. Hence, it is crucial for firms to avoid these investments to align with the goal of maximizing stockholder wealth.

2. If the current coupon rate on a bond is 6% and the bond is selling at a 5% discount, what is the yield to maturity on the bond?

- A. Higher than 6%**
- B. Lower than 6%**
- C. Equal to 6%**
- D. Uncertain**

To determine the yield to maturity (YTM) on a bond when it is selling at a discount, it is essential to recognize how YTM is calculated and its relationship with the bond's coupon rate and market price. In this scenario, the bond has a current coupon rate of 6%, meaning it will pay 6% of its face value in interest annually. However, since the bond is selling at a 5% discount, it implies that the bond's market price is less than its face value. When a bond sells at a discount, the YTM will typically be higher than the coupon rate because, at maturity, the bondholder will receive the full face value of the bond, thus benefiting from the difference between purchase price and face value along with the interest payments. Therefore, with the bond selling at a discount and a coupon rate of 6%, the YTM must logically be higher than 6%. This reflects the additional return the investor earns due to buying the bond for less than its face value. The correct answer is that the YTM is higher than 6%, aligning with the principles of bond pricing and yield calculations.

3. Which financial ratio assesses a company's ability to meet short-term obligations using its most liquid assets?

- A. Current ratio**
- B. Debt to equity ratio**
- C. Quick ratio**
- D. Return on equity**

The quick ratio, also known as the acid-test ratio, is specifically designed to evaluate a company's ability to meet its short-term obligations using its most liquid assets. It focuses on assets that can quickly be converted into cash, such as cash and cash equivalents, marketable securities, and accounts receivable, while excluding inventory and other less liquid current assets. This ratio provides a clearer view of financial health in the short term, especially when a company's inventory may not be quickly convertible to cash. By contrast, the current ratio includes all current assets, which can sometimes give a misleading indication of a company's liquidity if inventory takes a long time to be sold. The debt to equity ratio assesses the proportion of debt and equity financing used by a company, providing insights into its capital structure but not its short-term liquidity. Return on equity is a measure of profitability that indicates how effectively a company is generating profit from shareholders' equity, rather than its liquidity position. Thus, the quick ratio is the best choice for assessing how well a company can meet its short-term liabilities with its most liquid assets, making it an essential tool for financial analysis.

4. If the stock price of a company increases and the market is deemed efficient, what assumption can be made?

- A. A new patented product was introduced to the market**
- B. Investor sentiment has improved**
- C. Market competition has decreased**
- D. The company released favorable earnings**

In an efficient market, stock prices reflect all available information at any given time. Therefore, if the price of a company's stock increases, it indicates that new information has become publicly available that positively affects the valuation of the company. The assumption that can be drawn from an increase in stock price is that there has likely been favorable news about the company, which could encompass various factors like improvements in financial performance, better-than-expected earnings, or the introduction of new products. While the introduction of a new patented product is one possible reason for an increase in stock price, it is not the only explanation and cannot be solely substantiated without specific information supporting that claim. Other possibilities, such as improved earnings or investor sentiment, could also contribute to the increase in stock price. Thus, the most applicable broad assumption is that the company released favorable earnings or other positive information, which could include the other options provided. It underscores the necessity of evaluating various factors that may influence stock price changes in an efficient market context.

5. How do you calculate the change in retained earnings?

- A. Net Income + Dividends
- B. Net Income - Expenses
- C. Net Income - Dividends**
- D. Net Income + Equity

To calculate the change in retained earnings, you use the formula that takes into account the net income of a company and the dividends paid out to shareholders. Retained earnings are essentially the portion of net income that is retained in the company after dividends have been distributed. When a company earns a profit, that income increases retained earnings. However, when dividends are paid, this reduces the amount of earnings that are retained in the company. Therefore, to determine how much retained earnings have changed over a specific period, you subtract the total dividends paid out from the net income. This reflects the earnings retained in the business for reinvestment or other uses, rather than being distributed to shareholders. In summary, net income provides the starting point, reflecting the company's profitability, and subtracting dividends gives you the change in retained earnings, capturing how much of that profit remains within the company.

6. Which organization was created by Dodd-Frank to monitor how systematic risk could impact the banking industry?

- A. Federal Reserve System
- B. Securities and Exchange Commission
- C. Financial Stability Oversight Council**
- D. Consumer Financial Protection Bureau

The correct choice is the Financial Stability Oversight Council (FSOC), which was established by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The primary purpose of the FSOC is to monitor and assess systemic risks that could potentially threaten the stability of the financial system, particularly focusing on the banking industry and other financial institutions. The FSOC is responsible for identifying risks and vulnerabilities within the financial markets and making recommendations to mitigate these risks. This includes the ability to designate certain non-bank financial companies as systemically important, which subjects them to stricter regulatory oversight. By doing so, the FSOC plays a pivotal role in maintaining stability in the banking sector and the broader economy. The other organizations listed have different roles: the Federal Reserve System primarily manages monetary policy and regulates banks but does not solely focus on systemic risk; the Securities and Exchange Commission (SEC) regulates securities markets and protects investors but is not specifically focused on systemic risk in the banking industry; and the Consumer Financial Protection Bureau (CFPB) is dedicated to protecting consumers in financial transactions and enforcing consumer financial laws, rather than monitoring systemic risks affecting the banking sector.

7. Which of the following is NOT typically a characteristic of stocks?

- A. Ownership in a company**
- B. Fixed income**
- C. Potential for capital appreciation**
- D. Volatility**

The characteristic that is not typically associated with stocks is fixed income. Stocks represent ownership in a company, which means that shareholders have a claim on a portion of the company's assets and earnings. The income derived from stocks primarily comes in the form of dividends, which can vary based on the company's performance and its decision to distribute profits. The potential for capital appreciation is a key feature of stocks, as investors purchase stocks with the expectation that their value will increase over time, enabling them to sell the shares at a higher price in the future. Likewise, volatility is inherent in the stock market due to various factors, including market sentiment, economic indicators, and company performance, which can lead to significant price fluctuations. In contrast, fixed income is a characteristic associated with debt instruments, such as bonds, where investors receive regular interest payments and the return of principal at maturity. Stocks do not guarantee fixed payments, making "fixed income" an attribute that does not apply to them.

8. If market interest rates rise, what impact does it typically have on a given bond?

- A. Its price increases**
- B. Its price remains unchanged**
- C. Its price decreases**
- D. Its yield to maturity decreases**

When market interest rates rise, the price of existing bonds typically decreases. This relationship is rooted in the mechanics of bond valuation. Bonds pay fixed interest payments, and when market interest rates increase, new bonds are issued that offer higher yields. As a result, existing bonds with lower interest payments become less attractive to investors, leading to a decline in their market price. For example, consider an existing bond that pays a fixed interest rate of 5%. If new bonds are issued at a 7% interest rate, investors will seek the new bonds for their better returns. Consequently, the price of the existing bond must drop to offer an equivalent yield that competes with the new market rates; this adjustment ensures that the existing bond remains appealing. Understanding this fundamental principle helps clarify why the correct answer aligns with the premise of bond investment and market behavior. Thus, as market interest rates rise, the value of existing bonds falls, resulting in a decrease in their price.

9. In the context of the comparable multiples method, which ratio is most commonly used?

A. Debt to equity ratio

B. Price earnings ratio

C. Asset turnover ratio

D. Return on investment ratio

The price-earnings (P/E) ratio is widely recognized as the most commonly used metric in the comparable multiples method. This approach assesses a company's market value relative to its earnings, providing a clear lens through which investors can gauge its performance against peers within the same industry. The P/E ratio is favored because it effectively reflects investor expectations about the company's future growth. By comparing the earnings generated by a company to its trading price, investors can identify whether a stock is overvalued or undervalued compared to its peers. This comparative analysis aids in making informed investment decisions and provides a straightforward measurement that is readily available and understood by market participants. In contrast, other ratios such as the debt-to-equity ratio, asset turnover ratio, and return on investment ratio, while useful in their own contexts, do not specifically facilitate direct comparisons of company valuations based on earnings. The debt-to-equity ratio focuses on a company's financial leverage, asset turnover measures operational efficiency, and return on investment evaluates profitability relative to its cost. These metrics play important roles in comprehensive financial analysis, but they do not serve the same purpose as the P/E ratio in the context of stock valuation and comparison.

10. What is the term for the return gained on an investment over a specified period, often expressed as a percentage?

A. Yield

B. Growth

C. Return on equity

D. Net profit margin

The term that refers to the return gained on an investment over a specified period, commonly expressed as a percentage, is yield. Yield provides investors with a way to gauge the earnings generated from an investment relative to its cost or current market value. In financial analysis, yield can be pivotal for comparing different investment opportunities, as it indicates how effectively an investment has performed over time. This term is often used in contexts such as bonds, stocks, and other investments where income is generated. Yield helps investors assess their investment's productivity and make informed decisions about where to allocate resources to achieve the best potential returns. In contrast, growth generally refers to an increase in the value of an investment or a company over time, but it does not necessarily provide a percentage return. Return on equity specifically measures a company's profitability relative to shareholders' equity, and net profit margin indicates the percentage of revenue that constitutes profit but is more about operational efficiency than investment return.

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-finc6000-c214.examzify.com>

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