

WESTERN GOVERNORS UNIVERSITY (WGU) FINC6000 C214 FINANCIAL MANAGEMENT PRACTICE EXAM (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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THE FULL VERSION STUDY GUIDE

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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 section of the Statement of Cash Flows describes the production and sales of the firm's product?**
 - A. Investing activities
 - B. Financing activities
 - C. Operating activities
 - D. Equity transactions

- 2. 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

- 3. What is beta, in the context of finance?**
 - A. An absolute measure of systematic risk
 - B. A metric for company performance
 - C. A measurement of liquidity
 - D. The volatility of a stock

- 4. If an industry has very high fixed costs and very cyclical sales, what is the best financial leverage strategy to adopt?**
 - A. Use high financial leverage to maximize profits
 - B. Use low financial leverage to offset high operating leverage
 - C. Maintain neutral financial leverage
 - D. Increase fixed costs to stabilize financial leverage

- 5. What practice is limited by the Volcker rule of the Dodd-Frank Act?**
 - A. Bank investments in hedge funds
 - B. High-frequency trading
 - C. Prop trading in commodities
 - D. Excessive risk-taking in derivatives

- 6. What advantage does the Gordon growth model have compared to the capital asset pricing model (CAPM)?**
- A. It provides a more detailed analysis of risk
 - B. It offers an easier to understand, relatively accurate forecast when growth rates are stable
 - C. It considers market volatility more effectively
 - D. It requires less historical data to assess performance
- 7. What is the significance of estimating salvage value in accounting?**
- A. It impacts future revenue projections
 - B. It affects the calculation of depreciation
 - C. It determines overall market value
 - D. It influences cash flow forecasts
- 8. Which statement is true about how the global market affects the U.S.?**
- A. Foreign investors make decisions based on overseas financial reporting standards
 - B. U.S. companies can only attract domestic investors
 - C. The U.S. is insulated from foreign economic downturns
 - D. All financial reporting is centralized in the U.S.
- 9. Which of the following is a key indicator of a company's liquidity?**
- A. Current ratio
 - B. Debt to equity ratio
 - C. Return on equity
 - D. Profit margin
- 10. What is the relationship between annual percentage rate (APR) and annual percentage yield (APY)?**
- A. The APR will be less than the APY
 - B. The APR will be greater than the APY if compounding occurs annually
 - C. The APR will be greater than the APY if compounding occurs more frequently than annually
 - D. The APR and APY are always equal

Answers

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

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Explanations

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1. Which section of the Statement of Cash Flows describes the production and sales of the firm's product?

- A. Investing activities
- B. Financing activities
- C. Operating activities**
- D. Equity transactions

The section of the Statement of Cash Flows that describes the production and sales of the firm's product is operating activities. This section focuses on the cash inflows and outflows related to the core business operations, including revenue received from sales of goods and services, as well as cash paid for expenses like rent, wages, and supplies that are essential for the company's day-to-day functions. Operating activities provide insight into the firm's ability to generate cash from its regular operational cycle, which is critical for evaluating the financial health of the business. It reflects how well the business is performing in generating cash from its primary activities, which is fundamental for sustaining ongoing operations and providing returns to investors. In contrast, the investing activities section deals with cash flows related to the acquisition and disposal of long-term assets, while financing activities relate to cash transactions involving equity and debt—such as issuing stock, borrowing, or repaying loans. Equity transactions primarily focus on changes in equity capital, which is separate from the core operational cash flows represented in operating activities.

2. 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.

3. What is beta, in the context of finance?

A. An absolute measure of systematic risk

B. A metric for company performance

C. A measurement of liquidity

D. The volatility of a stock

Beta, in the context of finance, serves as an absolute measure of systematic risk, which reflects the sensitivity of an asset's returns to the overall market movements. It quantifies the degree to which an individual stock's price will move in relation to the price movements of a market index, such as the S&P 500. A beta of 1 indicates that the stock tends to move with the market, while a beta greater than 1 suggests that the stock is more volatile than the market, implying higher risk but potentially higher returns. Conversely, a beta of less than 1 indicates that the stock is less volatile than the market. Understanding beta is crucial for investors as it helps to assess the risk associated with holding a particular stock in relation to market fluctuations and assists in constructing a diversified portfolio that aligns with risk tolerance and investment goals. The other options do not accurately represent what beta refers to in financial terms. While volatility is related to beta, beta specifically measures the stock's risk in relation to the broader market, distinguishing it from merely being a measure of volatility. Additionally, beta does not directly indicate company performance or measure liquidity, which pertain to different financial aspects.

4. If an industry has very high fixed costs and very cyclical sales, what is the best financial leverage strategy to adopt?

A. Use high financial leverage to maximize profits

B. Use low financial leverage to offset high operating leverage

C. Maintain neutral financial leverage

D. Increase fixed costs to stabilize financial leverage

In an industry characterized by high fixed costs and cyclical sales, adopting a low financial leverage strategy is particularly advantageous. High fixed costs mean that a large portion of expenses does not change with the level of sales; thus, during downturns, profits can quickly turn to losses if sales decline significantly. Cyclical sales imply that revenue will fluctuate with the economy, potentially leading to periods of insufficient cash flow. Using low financial leverage helps mitigate the risks associated with high operating leverage and cyclical sales. Financial leverage refers to the use of debt to finance business operations. If a company utilizes high financial leverage, it may amplify profits during good economic conditions; however, this comes with the risk of heavy losses during downturns when revenue drops. Maintaining low financial leverage means the company would rely less on borrowed funds, reducing interest obligations. This conserves cash during lean periods and provides financial stability, allowing the company to navigate through cycles without the added burden of high debt payments. In contrast, increasing fixed costs or maintaining neutral financial leverage does not directly address the risk introduced by the cyclical nature of sales combined with existing high fixed costs. Thus, a strategy of using low financial leverage is the most prudent approach in this situation, as it balances the unique

5. What practice is limited by the Volcker rule of the Dodd-Frank Act?

- A. Bank investments in hedge funds**
- B. High-frequency trading
- C. Prop trading in commodities
- D. Excessive risk-taking in derivatives

The Volcker Rule, which is part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, primarily restricts banking entities from engaging in proprietary trading, specifically targeting investments in hedge funds and private equity funds. This regulation was developed to prevent banks from making high-risk investments that could jeopardize customer deposits and financial stability. Proprietary trading refers to financial institutions investing their own funds for their own profit, rather than on behalf of customers. By limiting banks' ability to invest in hedge funds, the Volcker Rule aims to reduce systemic risk within the financial system and protect the broader economy from excessive risk-taking behavior by banks that could result in significant losses. In the context of the other choices, while high-frequency trading, trading in commodities, and excessive risk-taking in derivatives can be risky practices, they are not specifically limited by the Volcker Rule. The focus of the rule is primarily on proprietary trading as it pertains to hedge funds and private equity, thereby making the connection clearer for the specific practice being restricted.

6. What advantage does the Gordon growth model have compared to the capital asset pricing model (CAPM)?

- A. It provides a more detailed analysis of risk
- B. It offers an easier to understand, relatively accurate forecast when growth rates are stable**
- C. It considers market volatility more effectively
- D. It requires less historical data to assess performance

The Gordon growth model, also known as the dividend discount model, is particularly advantageous because it allows for a straightforward calculation of a stock's present value based on expected future dividends that grow at a constant rate. This model is especially useful in scenarios where a company has a stable growth rate for its dividends, making it easy to apply and understand. In contrast to the capital asset pricing model (CAPM), which incorporates various risk factors and can be complex due to its reliance on expected market returns, beta, and the risk-free rate, the Gordon growth model simplifies the valuation process. By focusing strictly on dividends and their growth, it enables investors to quickly estimate a stock's value without needing to analyze extensive historical data or market volatility patterns. This ease of understanding and relatively accurate forecasting in stable growth environments enhances its practicality for investors who prioritize dividend income and who may prefer a less involved modeling approach in stable market conditions.

7. What is the significance of estimating salvage value in accounting?

- A. It impacts future revenue projections
- B. It affects the calculation of depreciation**
- C. It determines overall market value
- D. It influences cash flow forecasts

Estimating salvage value is significant in accounting primarily because it affects the calculation of depreciation. Salvage value represents the expected value of an asset at the end of its useful life, which is essential for determining the amount of depreciation to allocate each accounting period. When calculating depreciation, the total depreciable amount is derived by deducting the salvage value from the asset's original cost. For example, if a piece of machinery costs \$50,000 and is expected to have a salvage value of \$5,000 at the end of its useful life, only \$45,000 is subject to depreciation. This calculation reflects how much value is being utilized over time and can greatly impact financial statements, including profit and loss and balance sheets. Correctly estimating salvage value can also influence tax deductions, investment decisions, and financial forecasting, but its primary role lies in determining the depreciation expense, thus impacting the overall financial analysis and reporting of an organization. Understanding this concept is crucial for financial management as it directly affects asset management and profitability calculations.

8. Which statement is true about how the global market affects the U.S.?

- A. Foreign investors make decisions based on overseas financial reporting standards**
- B. U.S. companies can only attract domestic investors
- C. The U.S. is insulated from foreign economic downturns
- D. All financial reporting is centralized in the U.S.

The statement that foreign investors make decisions based on overseas financial reporting standards is accurate in the context of how the global market influences the U.S. This reflects the reality that investment decisions by foreign entities often rely on the financial reporting standards and regulations that apply in their own countries or in the international markets they operate in. Globally, financial markets are interconnected, and investors take into account the standards of reporting and transparency that can vary by country. This influences their willingness to invest in U.S. companies, as they assess how U.S. financial statements compare with those prepared under different standards, such as International Financial Reporting Standards (IFRS). Therefore, the ability of foreign investors to make informed decisions about U.S. investments is substantially affected by the financial reporting framework in use around the world, making this statement true. Understanding this dynamic is crucial for U.S. companies seeking to engage with and attract foreign investment, as they may need to consider conforming to global standards or providing additional disclosures that align with foreign investors' expectations. This highlights the importance of recognizing the interplay between domestic financial practices and the broader international financial landscape.

9. Which of the following is a key indicator of a company's liquidity?

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

The current ratio is a key indicator of a company's liquidity because it measures the company's ability to meet its short-term obligations using its short-term assets. The current ratio is calculated by dividing current assets by current liabilities. A higher current ratio indicates that the company has more short-term assets relative to its short-term liabilities, which suggests a stronger liquidity position. This is crucial for assessing a company's financial health, as it shows that the business should be able to cover its immediate debts as they come due. In contrast, the debt to equity ratio measures the relative proportion of shareholder's equity and debt used to finance a company's assets, which is more focused on capital structure than liquidity. Return on equity signifies how well a company is generating profits from its equity, while profit margin assesses the efficiency of generating profit per dollar of sales. Both these measures provide insight into profitability rather than liquidity.

10. What is the relationship between annual percentage rate (APR) and annual percentage yield (APY)?

- A. The APR will be less than the APY
- B. The APR will be greater than the APY if compounding occurs annually
- C. The APR will be greater than the APY if compounding occurs more frequently than annually**
- D. The APR and APY are always equal

The relationship between annual percentage rate (APR) and annual percentage yield (APY) is primarily influenced by the frequency of compounding. When compounding occurs more frequently than annually, the effective return on an investment is higher than the nominal interest rate represented by the APR. This occurs because APY accounts for interest that is earned on previously accrued interest, thus providing a more accurate measure of the total interest earned over a year. In cases where compounding happens multiple times within a year, such as monthly or daily, the APY will exceed the APR. This difference arises due to the compounding effect, where interest is calculated on top of interest, leading to greater total returns. Since the correct choice identifies that the APR will be greater than the APY only if compounding is done annually or not at all (where it would be equal on a one-time calculation), it accurately describes the scenario where APR may still remain lower than APY when the compounding frequency increases. This relationship highlights the importance of understanding both APR and APY, especially in personal finance and investment decisions, as they can significantly impact how much interest one ultimately earns or pays over time.

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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