BREAKING INTO WALL STREET 400 PRACTICE TEST (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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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.

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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!

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Questions

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1. **Which action would directly increase levered FCF under the levered FCF from CFS framework?**

   A. Decreasing capex

   B. Increasing net working capital

   C. Retiring equity

   D. Issuing net debt

2. **What is a non-cash item that is added back in calculating free cash flow?**

   A. Capital expenditures

   B. Interest expense

   C. Taxes payable

   D. Depreciation and amortization

3. **When presenting valuation methodologies, which type of chart is typically used to show ranges?**

   A. Pie chart with single values

   B. Football field chart showing ranges

   C. Bar chart of market caps

   D. Line chart of stock prices

4. **How does increasing the debt-to-equity ratio affect levered beta, assuming tax rate remains constant?**

   A. Levered beta increases when D/E increases, regardless of tax rate

   B. Levered beta decreases as D/E increases

   C. Levered beta stays the same with changes in D/E

   D. Levered beta increases when D/E increases, assuming tax rate remains constant

5. **How would you value Facebook in its early days when profits were absent?**

   A. EV/Pageviews

   B. P/E

   C. EV/Revenue

   D. EV/Unique Visitors

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6. Which valuation method involves valuing a company's assets as if they were sold off and subtracting liabilities to determine equity value?

A. Replacement Value

B. LBO Analysis

C. Sum of the Parts

D. Liquidation Valuation

7. A change in AR or inventory affects which balance sheet item among the following?

A. Cash

B. Revenue

C. Net income

D. PP&E

8. Under what condition should you not use the treasury stock method for dilutive effects of convertibles?

A. When the company has repurchased shares.

B. When convertibles are in the money.

C. When the company is not receiving any cash from converts.

D. When there are no convertibles.

9. Changes from issuing dividends

A. IS: no change; CFS: dividends, CFF, NCIC; BS: Cash, SE

B. IS: no change; CFS: Dividends, CFF, NCIC; BS: Cash, SE

C. IS: no change; CFS: Dividends, CFF; BS: Cash, SE

D. IS: no change; CFS: Dividends, CFF, NCIC; BS: Cash, SE

10. Under what circumstances would Goodwill increase?

A. It never increases

B. The company re-assesses its value and finds it is worth more, though rare

C. Revenue increases

D. The company pays off debt

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Answers

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

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Explanations

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1. Which action would directly increase levered FCF under the levered FCF from CFS framework?

A. Decreasing capex

B. Increasing net working capital

C. Retiring equity

D. Issuing net debt

The main idea is that levered FCF (to equity) comes from cash flows after debt payments, and the framework explicitly tallies net debt issued as a source of cash for equity holders. In the levered FCF from the cash-flow-statement framework, FCFE equals CFO minus capex minus changes in working capital plus net debt issued minus debt repayments. When a company issues net debt, it brings in cash now, which directly increases the amount available to equity holders under this formula. Decreasing capex reduces cash outflows, which can raise levered FCF, but that's a change in investment spending rather than a financing decision that adds cash to equity holders. Increasing net working capital ties up cash and would reduce levered FCF. Retiring equity uses cash to buy back shares, which typically reduces the cash available to remaining equity holders. Therefore, issuing net debt most directly increases levered FCF.

2. What is a non-cash item that is added back in calculating free cash flow?

A. Capital expenditures

B. Interest expense

C. Taxes payable

D. Depreciation and amortization

Depreciation and amortization are non-cash charges that reduce reported income but don't involve actual cash in the period. When you're calculating free cash flow, you're trying to capture the cash the business generates, so you add back these non-cash expenses to net income (or to operating cash flow) to reflect the true cash available after operating activities. Capital expenditures are actual cash outlays, not non-cash items. Interest expense is a financing cash outflow (or reflected differently in levered vs. unlevered analyses), not a non-cash adjustment. Taxes payable is an accrual balance item and doesn't represent a non-cash expense to adjust in the same way. Hence, the non-cash item added back is depreciation and amortization.

3. When presenting valuation methodologies, which type of chart is typically used to show ranges?

A. Pie chart with single values

B. Football field chart showing ranges

C. Bar chart of market caps

D. Line chart of stock prices

When you present valuation methodologies, you want to show the spread of values those methods produce. A football field chart does exactly that: it displays each method as a horizontal bar that spans from its low to high value, often with a marker for the central estimate. This lets the audience instantly compare the ranges and see where the values overlap or diverge, which is key in assessing a fair value range. The other charts aren't designed to depict ranges across multiple valuation methods: a pie chart shows shares of a whole, a bar chart of market caps presents single-point sizes, and a line chart tracks price over time rather than ranges. Therefore, the football field chart is the most effective tool for showing valuation ranges.

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4. How does increasing the debt-to-equity ratio affect levered beta, assuming tax rate remains constant?

A. Levered beta increases when D/E increases, regardless of tax rate

B. Levered beta decreases as D/E increases

C. Levered beta stays the same with changes in D/E

D. Levered beta increases when D/E increases, assuming tax rate remains constant

When equity beta (levered beta) changes, it reflects how debt makes shareholders' returns more volatile. Increasing debt relative to equity raises the financial risk borne by equity holders, because fixed interest payments and debt obligations magnify the impact of business fluctuations on equity. With taxes, some of the debt cost is shielded by the tax deductibility of interest, which reduces the overall effect a bit. But as long as the tax rate is held constant, the levered beta grows as the debt-to-equity ratio grows. This relationship is captured by the idea that levered beta = unlevered beta × [1 + (1 − tax rate) × (D/E)]. So higher D/E increases the multiplier, boosting levered beta. That's why the correct statement is that levered beta increases when D/E increases, assuming the tax rate remains constant.

5. How would you value Facebook in its early days when profits were absent?

A. EV/Pageviews

B. P/E

C. EV/Revenue

D. EV/Unique Visitors

When profits aren't available, the focus is on how big the audience is and how much that audience could be monetized in the future. For a social network, the number of unique users represents reach, network effects, and the potential ad inventory you can sell as the platform grows. Valuing the company on enterprise value per unique visitor captures how much value investors are assigning to each user and, by extension, to the growth path of monetization. The other options rely on current earnings or traffic that isn't as directly tied to future profit. P/E needs profits to be meaningful, and EV/Revenue reflects already earned revenue, which is often minimal in early stages. EV/Pageviews depends on engagement per user and can be volatile or misleading when monetization isn't established yet. Thus, EV/Unique Visitors best aligns with valuing growth potential from the user base in the early days.

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6. Which valuation method involves valuing a company's assets as if they were sold off and subtracting liabilities to determine equity value?

A. Replacement Value

B. LBO Analysis

C. Sum of the Parts

D. Liquidation Valuation

Liquidation valuation prices a company as if its assets were sold off quickly and then subtracts any liabilities to determine the value left for equity holders. This approach focuses on the recovery value in a wind-down scenario, where assets are liquidated and debts are paid off, often resulting in a lower or even negative equity value compared to ongoing operations. This matters because, in distress or bankruptcy, buyers typically value assets at liquidation prices rather than at their full operating worth. By estimating how much could be recovered from asset sales and then paying off obligations, you get a realistic picture of what shareholders might receive if the company were dissolved. Replacement value, for contrast, looks at how much it would cost to replace the company's assets at current prices, not what they would fetch in a sale. LBO analysis builds a model around financing a purchase of the company and projecting returns to investors. Sum of the parts values each business segment separately and adds them up. None of these capture the asset-sale-and-liability-deduction framework the way liquidation valuation does.

7. A change in AR or inventory affects which balance sheet item among the following?

A. Cash

B. Revenue

C. Net income

D. PP&E

When you look at accounts receivable and inventory, you're dealing with working capital that ties up cash. If accounts receivable increases, you've made a sale but haven't collected cash yet, so cash isn't as available as it would be if you had been paid. If inventory increases, you've spent cash to stock more goods. In both cases, cash flow in the current period is affected because cash is being used or released as these items turn into cash later. Over time, collecting on AR and selling off inventory converts those assets back into cash, changing the cash balance on the balance sheet. Revenue and net income come from the income statement, and PP&E is a long-term asset; neither is directly driven by short-term changes in AR or inventory. So the cash balance is the balance sheet item most affected by changes in AR or inventory.

8. Under what condition should you not use the treasury stock method for dilutive effects of convertibles?

A. When the company has repurchased shares.

B. When convertibles are in the money.

C. When the company is not receiving any cash from converts.

D. When there are no convertibles.

When calculating diluted EPS, the treasury stock method assumes that options or convertibles are exercised and the cash proceeds are used to repurchase shares. If the convertible instruments don't bring in any cash upon conversion, there's nothing to repurchase with, so the treasury stock method can't be applied. In that case, you would use the if-converted method to measure dilution instead. So the condition to avoid using the treasury stock method is when the company is not receiving any cash from converts.

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9. Changes from issuing dividends

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B. IS: no change; CFS: Dividends, CFF, NCIC; BS: Cash, SE

C. IS: no change; CFS: Dividends, CFF; BS: Cash, SE

D. IS: no change; CFS: Dividends, CFF, NCIC; BS: Cash, SE

Dividends are distributions of a company's earnings, not expenses, so they do not affect net income on the income statement. On the cash flow statement, the payment of dividends reduces cash and is recorded as a financing activity (Dividends paid). This shows up as a cash outflow in financing activities, reflecting the return of profits to shareholders. On the balance sheet, paying cash dividends lowers cash (an asset) and lowers retained earnings, a component of shareholders' equity, by the same amount. This mirrors the equity reduction caused by the distribution. So the correct pattern is no change on the income statement, a financing-activities cash outflow for the dividends, and a decrease in both cash and stockholders' equity on the balance sheet.

10. Under what circumstances would Goodwill increase?

A. It never increases

B. The company re-assesses its value and finds it is worth more, though rare

C. Revenue increases

D. The company pays off debt

Goodwill is the premium a buyer records when acquiring another company, representing what is paid over the fair value of the identifiable net assets. It doesn't rise just because a company generates more revenue or pays down debt—the ordinary course of business doesn't create or increase goodwill. An increase happens only when a new acquisition occurs and the purchase price exceeds the fair value of the acquired net assets, creating additional goodwill. That idea—an upward adjustment only resulting from a new acquisition (a re-assessment that shows a higher value leading to more goodwill, though rare)—is what the correct option reflects.

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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://breakingintowallstreet400.examzify.com

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

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