

BUSINESS ANALYSIS AND FINANCIAL RATIOS PRACTICE TEST (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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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	15

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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 of the following is NOT one of the five DuPont factors?**
 - A. Tax burden
 - B. Inventory turnover
 - C. Interest burden
 - D. EBIT margin
- 2. Which statement correctly distinguishes physical climate risk from transition climate risk?**
 - A. Physical risk involves damage/disruption; transition risk involves policy, technology or demand changes during economic transition.
 - B. Physical risk involves policy changes; transition risk involves weather events.
 - C. Physical risk is about energy costs; transition risk is about water resources.
 - D. Physical risk is only about natural disasters; transition risk is only about market competition.
- 3. How are finite-life and indefinite-life intangible assets treated?**
 - A. Finite-life assets are not amortized; indefinite-life assets are amortized.
 - B. Finite-life assets are amortized; indefinite-life assets are not systematically amortized and undergo impairment testing.
 - C. Both are amortized.
 - D. Finite-life assets are capitalized; indefinite-life assets are expensed.
- 4. Analytical debt concept: which statement is correct?**
 - A. When underfunded funded status is recognized as a liability for analytical purposes.
 - B. When overfunded funded status is recognized as a liability.
 - C. When cash equivalents are treated as debt.
 - D. When PBO equals plan assets.
- 5. Which items are typically included in debt disclosures to review?**
 - A. Maturity schedule, rates, collateral, seniority, covenants, credit lines and refinancing needs
 - B. Current year revenue, profit margin, and cash dividends
 - C. Tax rates and audit fees
 - D. Employee compensation plans

6. If plan assets exceed PBO, funded status is positive. Which statement is correct?

- A. Plan assets minus PBO; positive means overfunded.
- B. PBO minus plan assets; positive means overfunded.
- C. Plan assets plus PBO; positive means overfunded.
- D. PBO minus plan assets; negative means overfunded.

7. What is a maturity cliff?

- A. A concentration of repayments that can create refinancing and liquidity pressure
- B. A sudden increase in coupon rate
- C. A drop in market value at maturity
- D. A failure to refinance after maturity

8. Which statement about LIFO and IFRS is true?

- A. LIFO is permitted under IFRS.
- B. The US conformity rule requires using LIFO for financial reporting.
- C. IFRS prohibits LIFO.
- D. LIFO is not subject to conformity rules.

9. Cumulative and participating preferred features?

- A. Cumulative arrears do not need to be paid.
- B. Cumulative arrears must be caught up before common payouts; participating shares may share additional profits.
- C. Participating shares never share profits.
- D. Cumulative has no effect on liquidation.

10. Why can LIFO improve cash flow when prices are rising?

- A. It increases gross profit.
- B. It lowers taxable income via higher COGS.
- C. It increases inventory value.
- D. It reduces selling expenses.

Answers

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

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Explanations

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1. Which of the following is NOT one of the five DuPont factors?

- A. Tax burden
- B. Inventory turnover**
- C. Interest burden
- D. EBIT margin

DuPont analysis can be expanded to five factors when breaking down ROE. These factors capture how taxes, interest, operating profitability, asset efficiency, and financial leverage affect return on equity: tax burden (how taxes reduce pre-tax income to net income), interest burden (how interest expense reduces EBIT to EBT), EBIT margin (operating profitability per revenue), asset turnover (revenue generated per unit of assets), and the equity multiplier (financial leverage). Inventory turnover, while important for inventory management, is not one of the five DuPont factors because it's a specific efficiency metric that influences asset turnover but isn't a distinct component in the DuPont decomposition. So the item that isn't part of the five is inventory turnover.

2. Which statement correctly distinguishes physical climate risk from transition climate risk?

- A. Physical risk involves damage/disruption; transition risk involves policy, technology or demand changes during economic transition.**
- B. Physical risk involves policy changes; transition risk involves weather events.
- C. Physical risk is about energy costs; transition risk is about water resources.
- D. Physical risk is only about natural disasters; transition risk is only about market competition.

The main idea is that physical climate risk covers direct impacts from climate-related events and gradual changes to assets and operations caused by climate, while transition climate risk covers risks arising from the shift to a lower-carbon economy through policy, technology, and demand changes. The correct statement captures this distinction: physical risk involves damage or disruption from events like storms or floods, whereas transition risk involves policy changes, technology shifts, or changes in demand during the economic transition. For example, a hurricane damaging a plant is a physical risk event. A new carbon tax or a rapid switch to renewable energy technologies that reduces demand for fossil fuels is a transition risk issue. Other options mislabel the sources: they swap or narrow the concepts (policy changes and weather events, energy costs or water resources, or limit physical risk to natural disasters and transition risk to market competition), which doesn't reflect the broader definitions of physical versus transition risks.

3. How are finite-life and indefinite-life intangible assets treated?

- A. Finite-life assets are not amortized; indefinite-life assets are amortized.
- B. Finite-life assets are amortized; indefinite-life assets are not systematically amortized and undergo impairment testing.**
- C. Both are amortized.
- D. Finite-life assets are capitalized; indefinite-life assets are expensed.

Finite-life intangible assets are written off gradually through amortization because they provide economic benefits for a definite period. The amortization process systematically expense the asset over its useful life, reflecting the consumption of its value as it helps generate revenue. In contrast, indefinite-life intangible assets do not have a foreseeable end to the period of benefit, so there isn't a finite schedule over which to expense them. Instead, these assets are not amortized; they are evaluated for impairment to ensure their carrying amount does not exceed recoverable value. If circumstances suggest value has fallen, an impairment loss is recognized to bring the asset's carrying amount down to its recoverable amount. This distinction explains why finite-life assets are amortized while indefinite-life assets are not, and are tested for impairment instead.

4. Analytical debt concept: which statement is correct?

- A. When underfunded funded status is recognized as a liability for analytical purposes.**
- B. When overfunded funded status is recognized as a liability.
- C. When cash equivalents are treated as debt.
- D. When PBO equals plan assets.

In this analytical debt concept, the funded status of a defined-benefit plan is the difference between the Projected Benefit Obligation (PBO) and the fair value of plan assets. When the plan is underfunded, that difference is negative and represents an obligation the sponsor needs to fund. For analytical purposes, this shortfall is treated as a liability on the balance sheet or in analysis, signaling future cash outflows to address the deficit. If the plan is overfunded, the funded status is positive and would be treated as an asset, not a liability. So the correct statement is that underfunded funded status is recognized as a liability for analytical purposes, while the other options don't fit this approach.

5. Which items are typically included in debt disclosures to review?

- A. Maturity schedule, rates, collateral, seniority, covenants, credit lines and refinancing needs**
- B. Current year revenue, profit margin, and cash dividends
- C. Tax rates and audit fees
- D. Employee compensation plans

Debt disclosures describe the terms attached to a company's borrowings, so you can gauge when payments are due, how expensive the debt is, and how it could affect financial flexibility. The typical elements include a maturity schedule (when each debt obligation must be repaid), interest rates or rate types (fixed or floating), collateral securing the debt, seniority (the creditor's place in the repayment stack), covenants (financial or operating restrictions tied to the debt), lines of credit (available borrowing capacity and limits), and refinancing needs (expected or planned refinancings and associated risks). Collectively, these items illuminate liquidity risk, debt service obligations, and potential constraints on future actions, which is exactly what you want to understand when reviewing debt disclosures. Other items like current year revenue, profit margin, and cash dividends focus on operating performance and profitability rather than the specifics of debt terms. Tax rates and audit fees relate to costs and compliance, not the debt arrangement. Employee compensation plans pertain to personnel costs and incentives. These are not part of debt disclosures, so they don't provide the same insight into debt risk and flexibility.

6. If plan assets exceed PBO, funded status is positive. Which statement is correct?

- A. Plan assets minus PBO; positive means overfunded.**
- B. PBO minus plan assets; positive means overfunded.
- C. Plan assets plus PBO; positive means overfunded.
- D. PBO minus plan assets; negative means overfunded.

Funded status shows whether a defined benefit pension plan has enough assets to cover its projected benefits. It is calculated as plan assets minus the projected benefit obligation (PBO). When plan assets exceed the PBO, the calculation yields a positive funded status, indicating the plan is overfunded. Reversing the subtraction or adding the two numbers would not reflect the true funding position: PBO minus plan assets would flip the sign, and adding assets to the PBO isn't a funding measure. So, plan assets minus PBO with a positive result correctly indicates overfunding.

7. What is a maturity cliff?

- A. A concentration of repayments that can create refinancing and liquidity pressure**
- B. A sudden increase in coupon rate
- C. A drop in market value at maturity
- D. A failure to refinance after maturity

A maturity cliff happens when a large portion of debt repayments come due in a short time window. That clustering creates refinancing and liquidity pressure because borrowers must quickly secure new financing or raise cash to meet those maturities. If credit conditions are tight or markets can't absorb the rollovers, refinancing risk and liquidity strain can intensify. This is exactly what the option describes: a concentration of repayments that can create refinancing and liquidity pressure. The other ideas describe different situations—changes in coupon terms, a decline in value at the date of maturity, or simply failing to refinance after maturities—none capture the timing-driven funding squeeze that defines a maturity cliff.

8. Which statement about LIFO and IFRS is true?

- A. LIFO is permitted under IFRS.
- B. The US conformity rule requires using LIFO for financial reporting.
- C. IFRS prohibits LIFO.**
- D. LIFO is not subject to conformity rules.

Under IFRS, inventories are measured at the lower of cost and net realisable value, and the cost formulas allowed are typically FIFO or weighted average. LIFO would keep older, lower costs in ending inventory and push newer costs into the cost of goods sold, which can distort profits and inventory values and hurts comparability across periods and entities. For these reasons, LIFO is not permitted under IFRS, making the statement that IFRS prohibits LIFO true. Regarding the other ideas: IFRS does not allow LIFO, so any claim that it is permitted is false. The US conformity rule links the method used for tax reporting with the method used for financial reporting when LIFO is chosen for tax, but this is a US-specific rule and does not imply IFRS approval. It's not correct to say LIFO is not subject to conformity rules, since the US rule does apply to those using LIFO for tax purposes.

9. Cumulative and participating preferred features?

- A. Cumulative arrears do not need to be paid.
- B. Cumulative arrears must be caught up before common payouts; participating shares may share additional profits.**
- C. Participating shares never share profits.
- D. Cumulative has no effect on liquidation.

The main idea is that preferred stock can carry two distinct rights: a cumulative dividend feature and a participating feature. Cumulative means any missed dividends (arrears) must be paid before common shareholders receive any payout. Participating means, after the fixed preferred dividend is covered, the preferred holders may share in additional profits with the common shareholders. So, when both features are present, you first catch up on any arrears, then you receive your fixed dividend, and beyond that you may participate in remaining profits with the common stock. For example, if the fixed dividend is \$2 per share and there are two years of missed dividends, \$4 per share must be paid before any common dividends. After that, if there are extra profits, participating preferred shares can share in those profits alongside the common shares. This is why the statement describing both aspects—arrears must be caught up before common payouts, and participating shares may share extra profits—best captures the combined features. The other options misstate either that arrears aren't paid, that participating shares never share profits, or that cumulative has no effect on liquidation.

10. Why can LIFO improve cash flow when prices are rising?

- A. It increases gross profit.
- B. It lowers taxable income via higher COGS.
- C. It increases inventory value.
- D. It reduces selling expenses.**

When prices are rising, using LIFO means the most recently purchased, higher-cost items are sold first. That pushes cost of goods sold higher, which lowers pretax income. Since taxes are a cash outflow, paying less tax frees more cash in hand, improving cash flow. This improvement comes from tax savings, not from a higher gross profit or a higher inventory value. Under LIFO, ending inventory is valued at older, lower costs, so inventory value on the balance sheet doesn't rise with rising prices.

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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://businessanalysisfinratios.examzify.com>

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

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