

# CVA<sup>Q&As</sup>

Certified Valuation Analyst (CVA)

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**QUESTION 1**

If a \$1000 per share value of convertible bond is issued for \$1000, and is convertible into 20 shares of issuer's common stock that pays no dividend, there will be no economic benefit in converting the debt to stock as long as the common stock is selling for less than \$50 per share. If the bond value is indeed in the equity-equivalent region, as the value of a single share of common stock increases \$1, the bond value will increase:

- A. \$25
- B. \$50
- C. \$20
- D. \$10

Correct Answer: C

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**QUESTION 2**

An interesting form of debt security, known as \_\_\_\_\_, allows the issuer to avoid paying cash to the debt holder for interest prior to the debt's maturity. The only cash payment from the debt issuer comes at maturity, when the debt's face value is repaid to security holder.

- A. Callable bonds
- B. Zero coupon debt
- C. Convertible debt
- D. Collateral provisions

Correct Answer: B

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**QUESTION 3**

In setting the interest rate in Buy-Sell agreement, we face the problem that market interest rates fluctuate considerably over time, and we have no way of knowing at what time in the future the Buy-Sell transaction will be triggered nor what the market level of interest rates will be at that time. There are several possible approaches to dealing with this dilemma. One approach is

- A. Simply to agree on an interest rate despite these uncertainties
- B. To set the interest rate by trying it to some index of interest rates
- C. Might be appropriate to use an interest rate index that represents securities
- D. Spread out the tax on the seller's gain

Correct Answer: AB

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**QUESTION 4**

It is important to point out that \_\_\_\_\_ of the business can have an impact on the valuation conclusions, especially when it comes to partnership and limited liability companies.

- A. Interim statements
- B. Financial Schedule
- C. The importance of seasonality to the subject company
- D. A different legal status

Correct Answer: D

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**QUESTION 5**

S corporations, limited liability corporations, limited liability partnerships, family limited partnerships, professional corporations, real estate investment trust, investment companies registered under the investment company act of 1940 and personal holding companies are the examples of:

- A. General and limited partnerships
- B. Cooperatives
- C. Entities\' structures giving rise to special legal or tax considerations (specified structure)
- D. Companies following valuation standards

Correct Answer: C

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**QUESTION 6**

Which of the following is NOT the advantage of leasing to the lessee?

- A. The financing terms of the lease usually take into considerations the lessor\'s ability to more efficiently use the tax advantages of asset ownership
- B. Most leases are short-term operating leases, and that reduces the transaction costs (i.e. identifying qualified buyers and complications associated with equipment obsolescence) at the end of anticipated period of use
- C. Installment sales agreements
- D. There is less of a capital commitment so that equity and borrowing power are freed for the other financing

Correct Answer: C

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**QUESTION 7**

A common first step in ratio analysis of financial statements is to prepare what are sometimes called \_\_\_\_\_. On these statements, each line item is expressed as a percentage of the total. For example,

on the balance sheet, each line is shown as a percentage of total assets.

- A. Pre-analysis statements
- B. Common-size statements
- C. Short-term analysis
- D. Status diagnosis analysis

Correct Answer: B

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#### **QUESTION 8**

The assumptions underlying the capital asset pricing model are as follows:

- A. Investors are risk averse
- B. Rational investors seek to hold efficient portfolios-that is, portfolios that are fully diversified
- C. All investors have identical investment time horizons (i.e., expected holding periods)
- D. The rate received from lending money is more than the cost of borrowing money

Correct Answer: D

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#### **QUESTION 9**

Proprietary technology is also counted in intangibles such as, a trained and assembled workforce, special know-how, customer relationships, supplier relationships, or other intangible assets that make the company available competitors and give it earning power. Some closely held business owners call these intangibles:

- A. Blue sky
- B. Good will
- C. Patents
- D. A or B

Correct Answer: D

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#### **QUESTION 10**

Which one of the following is perhaps the most valuable source of authoritative information on a particular industry?

- A. Financial data
- B. Industry surveys
- C. Business press

D. Trade associations

Correct Answer: D

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**QUESTION 11**

1- \_\_\_\_\_ 1+ premium This is a formula for:

- A. Converting a control premium
- B. Identifying a total of shareholders
- C. Converting a control premium to a market based premium
- D. Converting a control premium to an implied minority discount

Correct Answer: D

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**QUESTION 12**

A control owner or potential owner might make control adjustments, but a minority owner, generally, could not force the same changes. Therefore, control adjustments normally would be made only in the case a controlling interest valuation, unless there was reason to believe that the changes were imminent and probable. These include all of the following EXCEPT:

- A. Excess or deficient compensation and perquisites
- B. Gains, losses or cash realization from sale of excess assets
- C. Discounted operations
- D. Elimination of operations involving company insiders (e.g. employment, non-market rate leases)

Correct Answer: C

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**QUESTION 13**

\_\_\_\_\_ indicates that the collective going-on concern value of the total subject entity is less than the sum of the individual values of the entity's total tangible assets.

- A. Goodwill
- B. Positive goodwill
- C. Negative goodwill
- D. Trademarks

Correct Answer: C

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**QUESTION 14**

\_\_\_\_\_ applies option pricing methods to value economic projects, companies, and financial securities. Just as option pricing models incorporate the flexibility of option holders' decision as to whether and when to exercise an option by paying the exercise price.

- A. Corporation based valuation
- B. Valuing the built-in gains
- C. Return option valuation
- D. Real option valuation

Correct Answer: D

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**QUESTION 15**

In creating employee stock options, the issuing company usually endeavors to set the option's strike price at the fair market value of the underlying shares. When the strike price is set at the fair market value, the intrinsic value is \_\_\_\_\_, and the only value of the option is its \_\_\_\_\_.

- A. One Value, market value
- B. Zero value, time value
- C. Current market value, zero value
- D. Par value, zero value

Correct Answer: B

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