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QUESTION NO: 1

In general, the use of life insurance can fulfill all of the following basic needs EXCEPT:

- A. Liquidation of the stock of a disabled stockholder, either by the corporation or by other stockholder
- B. Payment of estate taxes
- C. Minimum interest rate based on U.S. Treasury rates
- D. Provision for continuity of the business after loss of a key person

ANSWER: C**QUESTION NO: 2**

The amount of detail desired in the inventory list varies from one appraisal to another, depending upon:

- A. The inventory's importance to the valuation conclusion
- B. The company's write-down value
- C. To the extent to which inventory accounting methods vary within particular industry
- D. The amount of inventory data to be gathered

ANSWER: A C**QUESTION NO: 3**

The marital estate comes into being upon filing for divorce. It represents the assets that must be divided according to the property laws of the state. Currently, each state adheres to either (1) _____ or (2) _____.

- A. The community property standard, the investment value
- B. The community property standard, the equitable distribution standard
- C. The family property standard, the equitable standard
- D. The standard value, the equitable distribution standard

ANSWER: B

QUESTION NO: 4

Financial risk is measured in the following ways EXCEPT:

- A. Through calculating the degree of financial leverage
- B. Through calculating various leverage ratios
- C. Standard deviation of net income
- D. Calculating the level of company's fixed operating income

ANSWER: A B**QUESTION NO: 5**

The analyst should try to gain an understanding of how the company perceives the industry and the particular aspect within which it operates. Which one of the following is NOT out of such aspects?

- A. What are the nature and rate of technological changes affecting the industry?
- B. How does it try to do the best job of fitting in its niche?
- C. What special industry factors have a bearing on this particular company?
- D. What is the progress and prognosis for new products or services, locations, channels of distribution, etc.?

ANSWER: B**QUESTION NO: 6**

Income that is eventually derived from the qualified stock option (QSO) is determined to be ordinary income if the receipt exercises the option to buy the underlying securities and subsequently sells the securities within 12 months. To get a tax break:

- A. The owner must hold the shares for at least one year
- B. The reader should consult a tax advisor regarding any possible tax consequences
- C. Business valuation professional is to estimate the fair market value
- D. The ISO must have been granted at least two years before the stock is sold

ANSWER: A D

QUESTION NO: 7

Which of the following attribute should be there for an intangible asset to exist from an economic perspective?

- A. It should be subject to legal existence and protection
- B. It should be subject to specific identification and recognizable description
- C. It should be subject to right of private ownership
- D. All of these

ANSWER: D

QUESTION NO: 8

The basic valuation model, which is central to the income approach to valuation, has only two variables. Which of the following is/are NOT out of those variables?

- A. The amount of the expected prospective economic income in each period
- B. The required rate of return (yield rate) by which the expected prospective economic income receipts should be discounted
- C. Common equity
- D. Economic income measured

ANSWER: C D

QUESTION NO: 9

The sales comparison approach is based on the economic principles of:

- A. Efficient markets
- B. Special financing and other terms regarding each sales transactions
- C. Age of each property
- D. Supply and demand

ANSWER: A D

QUESTION NO: 10

There's a tendency for the market for the businesses to change more rapidly than the market for real estate. After all, a business can be thought of as a collection of _____ each with its own price volatility and risks of ownership.

- A. Realized and unrealized earnings
- B. Short and long-term liabilities
- C. Tangible and intangible assets
- D. Unearned Revenues and fixed assets

ANSWER: C

QUESTION NO: 11

The analyst should compare the backlog on the valuation date with that on previous dates. Such comparison, especially with the backlog one year prior to the valuation date, is one of:

- A. The company's future prospects
- B. Indication of process continuous process delay
- C. The company's order blockage phenomenon
- D. The future availability of suppliers

ANSWER: A

QUESTION NO: 12

For valuation purposes, the measurement of economic income to be analyzed can be defined in several different ways. Different measurements of economic income that are commonly analyzed in this approach include the following EXCEPT:

- A. Payouts (e.g. dividends, interest, security sales proceeds, or partnership withdrawals)
- B. Cash flow (often measured as net cash flow)
- C. The discount rate
- D. Some measure of accounting earnings (often net income or net)

ANSWER: C

QUESTION NO: 13

The advantages of the binomial model over the Black-Scholes model and its variations include:

- A.** The binomial model's ability to incorporate a variety of conditions which can increase accuracy, including variations in expected volatility, dividends rates and risk-free discount rates as well as transaction costs.
- B.** The binomial model can be quite useful for valuing employee stock options as it is possible to include potential dilution, blackout periods, delayed vesting provisions, early exercise patterns and employee turnover in the model by increasing the number of periods and adjusting the option values at each node.
- C.** Binomial model does not require more computations
- D.** Binomial Model does not have any liquidity problem

ANSWER: A B

QUESTION NO: 14

Automatic reliance on industry rates such as the return on total assets, tangible net worth or equity. This is the procedure which should NOT be used in the estimation of the:

- A.** Indirect capitalization rate
- B.** Direct capitalization rate
- C.** Normalized level of earnings
- D.** Tangible asset value

ANSWER: B

QUESTION NO: 15

The practical effect/s of Special Valuation Rules is/ are:

- A.** Cumulative dividends or distribution rights
- B.** Non-voters having voting rights
- C.** Flexible and optional redemption rights
- D.** Non-lapsing conversion rights

ANSWER: A D