



## Current Update in Valuations Self-Study Exam

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**Circle the correct answer**

1. The implied private company pricing line uses what valuation axiom for Point 1 on the line?
  - a. The Gordon Growth Model
  - b. Rule of thumb of five (5) times EBITDA
  - c. Black Scholes Option Pricing Model
  - d. Regression of price paid vs. operating income
  
2. The “Discount for Lack of Marketability Job Aid for IRS Valuation Professionals” can be downloaded from:
  - a. [www.doj.gov](http://www.doj.gov)
  - b. [www.nacva.com](http://www.nacva.com)
  - c. [www.irs.gov](http://www.irs.gov)
  - d. [www.opm.gov](http://www.opm.gov)
  
3. In deposition or litigation, a common question is:
  - a. Are your damages calculated to a reasonable degree of certainty?
  - b. Are your damages calculated to an exact degree of certainty?
  - c. Are your damages calculated to an approximate degree of certainty?
  - d. None of the above
  
4. Which is NOT a key section of an engagement letter?
  - a. The opening paragraph
  - b. A complete description of engagement
  - c. Applicable professional standards
  - d. Premise and standard of value
  
5. Who should be contacted regarding a temporary CPA license if practicing out of state?
  - a. Charter
  - b. State Society
  - c. NACVA HQ
  - d. IBA HQ
  
6. Who should review an engagement letter?
  - a. An appraiser with the Accredited in Business Appraisal Review (ABAR) credential
  - b. An attorney
  - c. Your subordinate
  - d. The managing partner

7. A calculation of value is:
  - a. A conclusion of value
  - b. An opinion of value
  - c. An agreement between the client and expert regarding approaches
  - d. Synonymous with fair market value
  
8. How does the implied private company pricing line connect Point 1 and Point 2?
  - a. Straight line
  - b. Rule of thumb of 7% of price paid (investment banking fees)
  - c. Double Lehman Curve
  - d. The points are not connected
  
9. Which is the highest level of value?
  - a. Financial control
  - b. Strategic control
  - c. Marketable minority
  - d. Nonmarketable minority
  
10. A business valuation document in full compliance with all the required standards does NOT guarantee an effective document.
  - a. True
  - b. False
  
11. According to a recent survey, what percent of business appraisers apply a premium to pass-through entities?
  - a. 25
  - b. 50
  - c. 75
  - d. 100
  
12. Which of the following is generally assumed to be the highest level of value—according to Mercer Capital’s updated Levels of Value?
  - a. Marketable Minority Value
  - b. Nonmarketable Minority Value
  - c. Strategic Control Value
  - d. Financial Control Value
  
13. Which of the following factors do courts NOT require to prove damages?
  - a. Proximate cause
  - b. Foreseeability
  - c. Reasonable certainty
  - d. Fair value

14. Nominal growth rates incorporate:
- Current gross domestic product (GDP)
  - Real output change
  - Earnings adjustments
  - Inflation expectations
15. Which section of the Internal Revenue Code applies to redemption buy-sell agreements?
- Section 318
  - Section 302
  - Section 367
  - Section 482
16. Professional liability insurance is also known as:
- O&E
  - E&A
  - E&O
  - None of the above
17. Most insurance is which mode?
- Claims
  - Deductible
  - Exclusion
  - Service
18. A buy-sell agreement should accomplish the following: (choose the one that does NOT fit)
- Define the various triggering events
  - Provide for liquidity and continuity
  - Establish the cost of the valuation
  - Provide appropriate compensation of a departing shareholder
19. A buy sell agreement should:
- Set expectations
  - Avoid disputes
  - Clear confusion
  - Both a and b
  - All of the above
20. Of the reasons cited below, pick the best reason why the Build-Up Method is unreliable:
- The appropriate risk-free rate is subject to debate
  - It requires a complete guess as to the appropriate company-specific risk premium
  - The historical equity risk premium may have no relevance to the implied equity risk premium
  - The industry risk premium may be suspect for a large number of industries

21. Applying the Equity Method is similar to:
- Fair value determination
  - Market Approach calculation
  - Income Approach calculation
  - Purchase price allocation
22. When comparing BIZCOMPS and the IBA Market Database to arrive at sellers' discretionary earnings:
- Only IBA mentions adding back depreciation
  - Only BIZCOMPS mentions adding back depreciation
  - They both mention adding back depreciation
  - Neither mention adding back depreciation
23. The NACVA standards are:
- Principles-based
  - Rules-based
  - Both a and b
  - Neither a or b
24. When a professional neglects to do something that they should have done, it is known as a(n):
- Omission
  - Error
  - Sacrifice
  - Bunt
25. Which of the following is NOT a typical example of a buy-sell agreement?
- Redemption agreement
  - Cross-purchase agreement
  - Fail-safe agreement
  - Hybrid agreement
26. Insurance is an option in dealing with professional liability.
- True
  - False
27. Restricted stock studies are useful when trying to determine a discount for:
- Lack of control
  - Lack of marketability
  - Loss of a key person
  - Restrictive agreement discount

28. Why is the liquidity discount dilemma solved with the implied private company pricing line?
- It found a 3% average discount for liquidity for controlling interests
  - It found that liquidity for controlling interests and minority interests were the same
  - There definitely is no liquidity discount for controlling interests
  - Whatever liquidity discount exists for privately held companies, it is “baked-in” to the result
29. When a professional gives advice and they have unintentionally said or done something wrong, it is known as a(n):
- Omission
  - Error
  - Sacrifice
  - Bunt
30. Which company/transaction definitely did NOT make it into the “Implied Private Company Pricing Line 500?”
- A company which reported owner’s compensation
  - A company purchased by a public acquirer
  - A company acquired 10 years ago
  - A company whose transaction was reported in Pratt’s Stats
31. Using a Build-Up Model, the component similar to beta used in a CAPM Model would be:
- Risk free rate
  - Size premium
  - Industry risk premium
  - Equity risk premium
32. In general, standards may fall into which type?
- Principles based
  - Rules based
  - Both a and b
  - Neither a or b
33. What factors indicate the presence of ENTERPRISE goodwill?
- Formalized, institutionalized structures
  - Professional does not have a non-compete
  - Not heavily dependent on personal services
  - Significant investments in tangible assets
34. What factors indicate the presence of PERSONAL goodwill?
- Business name is same or similar to owner
  - Highly dependent on practitioner’s skills and relationships
  - Product/knowledge rests with the owner
  - Revenue is dependent on the sales department’s relationships

35. What is the “double dip” in a marital dispute?
- When an expert combines the discount for lack of control and lack of marketability
  - When an expert tax-affects the earnings of an S-Corp
  - When excess earnings are considered in determining the value of a business and to set alimony
  - When an expert adds enterprise goodwill and personal goodwill to determine the value of a business
36. What is NOT a step in the Multiattribute Utility Model (MUM)?
- Establish the objective
  - Define the attributes
  - Assign a value to each attribute and multiply by five (5)
  - Fit results to alternatives
37. What is NOT an application used for “staying up-to-date”?
- Flipboard
  - Pulse
  - Facebook
  - News360
38. What is best to include in your engagement letter regarding hourly rates and fees?
- The possibility the hourly rate could increase over time
  - Hourly rates of staff
  - The fees will be contingent on whether the client wins
  - You reserve the right to stop work if payment is past due
39. In SSVS No. 1, “Documentation” is covered in Paragraphs 44 and 45 and states the following: (choose which one is NOT included)
- Assumptions and limiting conditions
  - Valuation approaches and methods considered
  - Information relation to subsequent events
  - Other experts’ opinions
40. What is NOT one of the four main sections of the NACVA Professional Standards?
- General & Ethical Standards
  - Scope of Services
  - Valuation Method Standards
  - Reporting Standards
41. What is NOT one of the three types of reports listed in NACVA’s Reporting Standards?
- Detailed
  - Appraisal
  - Summary
  - Calculation

42. Fill in the blanks. The American Society of Appraisers' Business Valuation Standards on Calculation Engagements: the objective is to provide an approximate indication of value, and is based on consideration of only limited \_\_\_\_\_ information, collection of limited information, and performing \_\_\_\_\_ analysis.
- applicable, complicated
  - market, simple
  - relevant, limited
  - transaction, stated
43. The proper application of a calculation engagement requires which of the following?
- Pre-engagement planning
  - Mutually agreed upon procedures
  - Adherence to professional standards
  - All of the above
44. In the *Estate of Adell* 2014 Tax Ct. Memo, which valuation issues were addressed?
- Enterprise goodwill, valuation discounts
  - Personal goodwill, understatement penalty
  - Valuation method, discount for lack of control
  - None of the above
45. In the *Estate of Adell* 2014 Tax Ct. Memo, which valuation method was deemed the most appropriate?
- Market Approach
  - Income Approach
  - Asset Approach
  - None of the above
46. In the *Estate of Richmond* 2014 Tax Ct. Memo, what did the court determine was the discount for lack of control?
- 6.00%
  - 7.75%
  - 8.00%
  - 9.75%
47. In the *Estate of Richmond* 2014 Tax Ct. Memo, what did the court determine was the discount for lack of marketability?
- 21.0%
  - 25.4%
  - 32.1%
  - 35.6%



48. NACVA's and IBA's standards are:
- Similar to each other
  - Identical to each other
  - Under development
  - Obsolete since 7/1/2011
49. Regarding appraisal penalties, the Internal Revenue Code Section 6695A Penalty is calculated by which of the following?
- 25.0% of the underpayment
  - 125.0% of the fee charged
  - Return all fees paid for the valuation
  - There is no penalty
50. What is NOT a requirement for appraiser penalties to be triggered?
- An appraisal must have been prepared in connection with a return or a claim for a refund
  - The person preparing the appraisal needs to know or have reason to know that the appraisal will be used for such purpose
  - The appraiser admits the valuation is over or understated for the purpose
  - The appraisal must result in a substantial valuation misstatement
51. What is NOT a factor the courts require to prove damages?
- Proximate cause
  - Reasonable certainty
  - Forseeability
  - Causation
52. When preparing damage calculations, it is best to use:
- Two different numbers, based on different scenarios
  - A range of estimates
  - One number
  - As many numbers as possible
53. When normalizing compensation, the Multi-Factor Method can be used to gather information; what is NOT one of the factors to look for regarding compensation?
- Nature and scope of duties
  - Industry knowledge
  - Special skills
  - Age and gender
54. What is NOT one of the three steps in adjusting owners' financial projections?
- Review cash flows and analyze ratios
  - Qualitative risk assessment
  - Adjustments to biased cash flows
  - Enhanced methods

55. How many factors are deemed important by the IRS in the “Discount for Lack of Marketability Job Aid for the IRS Valuation Professionals?”
- 12
  - 26
  - 33
  - 41
56. What is NOT a key point in the “Discount for Lack of Marketability Job Aid for the IRS Valuation Professionals?”
- Sample report language
  - States the only method to use from the IRS viewpoint
  - Strengths and weaknesses of most common approaches
  - Detailed commentary on other methods
57. What are some of the *benchmark* approaches to the development of the DLOM in the “Discount for Lack of Marketability Job Aid for the IRS Valuation Professionals?”
- Restricted Stock Studies
  - Pre-IPO Studies
  - Mandelbaum* factors
  - All of the above
58. If you are certified by both NACVA *and* the AICPA, you only need to state in your report that you are compliant with AICPA’s SSVS No. 1.
- True
  - False
59. What are NOT some of the *securities-based* approaches to the development of the DLOM in the “Discount for Lack of Marketability Job Aid for the IRS Valuation Professionals?”
- LEAPS Robert Trout 2003
  - The Longstaff Study
  - The Derivative Spread Method
  - The Chaffee Study
60. What is NOT part of the *recommended approach* to the development of the DLOM in the “Discount for Lack of Marketability Job Aid for the IRS Valuation Professionals?”
- Use Restricted Stock Studies and 33 Factors
  - Use Mergerstat data
  - Pluris data or FMV Opinions
  - Use third approach from DLOM Study