



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

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### QUESTION 1

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

Correct Answer: AB

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### QUESTION 2

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 3

Impairment is the difference in value between the carrying amount of goodwill and the actual fair value of the goodwill. However, for federal income tax reporting purposes:

- A. The cost of developing, maintenance, or restoring intangibles which are unidentifiable, have indeterminate lives, or are inherent in a continuing enterprise should be expensed as incurred.
- B. Such intangibles assets which are purchased must be carried at cost and amortized over their useful lives and cannot be written down or written off at date of acquisition.
- C. Identifiable intangible assets with an indefinite life should not be amortized
- D. The cost of developing, maintenance, or restoring intangibles which are unidentifiable, have indeterminate lives, or are inherent in a continuing enterprise should be expensed as incurred. By contrast, such intangibles assets which are purchased must be carried at cost and amortized over their useful lives and cannot be written down or written off at date of acquisition.



Correct Answer: D

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#### QUESTION 4

Factors affecting the value of preferred stock are all of the following EXCEPT:

- A. Stated dividend rate and the risk associated with payment of it
- B. Cumulative versus noncumulative dividends
- C. Lack of marketability discount
- D. Redemption privilege

Correct Answer: C

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#### QUESTION 5

If the interest rate on a term contract is below the market interest rate for similar instruments at the time of event that triggers the transaction, the cash equivalent value the seller receives will be \_\_\_\_\_ the contract's face value.

- A. Greater than
- B. Same as
- C. Less than
- D. Depends on agreement

Correct Answer: C

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