CVA[Q&As]

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QUESTION 1

"The amount at which property would change hands between a willing seller and a willing buyer, when neither is acting under compulsion and when both have reasonable knowledge of the relevant facts". This definition is related to:

A. Investment value

B. Fair market value

C. Litigation value

D. Standard of value

Correct Answer: B

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

QUESTION 3

The work-in-process inventory of a professional service firm is essentially the unbilled receivables of the firm. Therefore, the same net realizable value rules discussed with respect to accounts and notes

receivable would apply to this asset as well. With regard to tangible merchandise inventory, there are some common valuation methods such as:

A. The cost of reproduction method

B. The income expenditure method

C. The comparative sales method

D. A and C

Correct Answer: D

QUESTION 4

A seller who does not own a security (a short seller) will simply accept price of the security

from the buyer and agree to settle with the buyer on some future date by paying him an amount equal to

the price of the security on that date. While this short sale is outstanding, the short seller will have the use,

of, or interest on, the proceeds of the sale. This is the assumption of:

A. An option market

B. Market of underlying stock in an option trading

C. Near-perfect market

D. Volatile market

Correct Answer: C

QUESTION 5

The Build-Up model divides the risk premium into its subcomponents and estimates the cost of capital as the sum of the following:

1.A risk-free

2.A

risk premium, including one or all of following subcomponents EXCEPT:

A.

An equity risk premium

B.

A size premium

C.

A company-specific risk premium

D.

Investment-specific risk

Correct Answer: D