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QUESTION 1

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)

Correct Answer: C

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:

- A. Less than \$50 per share
- B. \$50 per share
- C. \$more than \$50 per share
- D. Less than \$25 per share

Correct Answer: A

QUESTION 3

The purpose of Erickson and Wang study was to empirically quantify the increase in selling price realized by sellers of entire companies in cases where:

- A. The buyer realizes a step-up in tax basis of the underlying assets when acquiring a "seasoned" S corporation
- B. Most acquirers do not want to purchase stock of another corporation because of the potential for liability assumptions
- C. The step-up in tax basis of the assets result in an increase in proceeds
- D. The entire analysis should be based on entire data

Correct Answer: A

QUESTION 4

Which of the following ratios demonstrate the company's ability to meet its current obligations? These can help resolve one of the common controversies in business valuation: whether the company has any assets in excess of those required for its operating needs or, conversely, whether its assets fall short of its needs.

- A. Liquidity ratios
- B. Activity ratios
- C. Leverage ratios
- D. Income statement coverage ratios

Correct Answer: A

QUESTION 5

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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