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## Question 1

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**Question Type:** MultipleChoice

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The discount rate is a market-driven rate. It represents the expected yield rate-or rate of return-necessary to induce:

### Options:

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- A- Investors to commit available funds to the subject investment, given its level of risk
- B- Yield rate
- C- Dividends
- D- Investment yield

### Answer:

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A

## Question 2

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**Question Type:** MultipleChoice

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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?

**Options:**

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- 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:**

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C, D

## Question 3

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**Question Type:** MultipleChoice

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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:

**Options:**

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- 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:**

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C

## Question 4

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**Question Type: MultipleChoice**

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The value of an asset is the present value of its expected returns. Specifically, you expect an asset to provide a stream of returns during the period of time you own it. To convert this estimated stream of returns to a value for the security, you must discount this stream at your required rate of return. This process requires estimates of (1) the stream of expected returns and (2) the required rate of return on the investment. Value today always equals future cash flow discounted at the opportunity cost of capital. This is actually:

**Options:**

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- A- Theory of valuation
- B- Theoretical and practical soundness of the valuation approach
- C- Return on investment
- D- Leverage ratios

**Answer:**

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A

## Question 5

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**Question Type:** MultipleChoice

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Due to these complexities, for practical purposes it is acceptable to use the ratio as we defined it. However, the analyst is well advised to research:

**Options:**

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- A- the subject companies' use of short-term debt
- B- the guideline companies' use of short-term
- C- Both the subject and guideline companies' use of short-term debt to determine whether to adjust this ratio to include all interest-

bearing debt

**D-** Whether to adjust this ratio to include all interest-bearing debt

**Answer:**

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C

## Question 6

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**Question Type: MultipleChoice**

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Once in a while, someone perhaps a broker trying to sell a business quotes return on equity computed on a pretax basis. This definition can be very misleading, since:

**Options:**

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- A-** Income taxes are very a real cost
- B-** Inclusion of income taxes is compulsory
- C-** Operating Profit from sales is very significant
- D-** Taxes are calculated on annual basis

**Answer:**

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A

## Question 7

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**Question Type: MultipleChoice**

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The coverage of fixed charges is a more inclusive ratio than the times-interest-earned ratio in that:

**Options:**

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- A-** It excludes coverage of the items in addition to variable earnings
- B-** It excludes coverage of the items in addition to interest
- C-** It includes coverage of the items in addition to fixed earnings
- D-** It includes coverage of the items in addition to interest

**Answer:**

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D

## Question 8

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**Question Type:** MultipleChoice

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The general purpose of \_\_\_\_\_ is to aid in making some quantifiable assessments of the long-term solvency of the business and its ability to deal with financial problems and opportunities as they arise.

**Options:**

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- A- Capital Structure
- B- Balance sheet leverage ratio
- C- Both A and B are same
- D- Liquidity ratios

**Answer:**

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C

## Question 9

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**Question Type:** MultipleChoice

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Financial risk is measured in the following ways EXCEPT:

**Options:**

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- 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:**

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A, B

## Question 10

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**Question Type: MultipleChoice**

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Some judicial circuits use a multifactor test to determine whether compensation is reasonable or excessive. For example, the Ninth Circuit has used a five-factor test. Which of the following is out of those factors?

**Options:**

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- A- The employee's role in the company
- B- Compensation paid to similarly situated employees in similar companies
- C- The character and condition of the company
- D- All of these

**Answer:**

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D

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