

ACCREDITED BUSINESS VALUATION (ABV) PRACTICE TEST (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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THE FULL VERSION STUDY GUIDE

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. What did the Delaware Open MRI case determine regarding S corporation income?**
 - A. It should not be tax affected
 - B. It should be tax affected reflecting the tax advantages over C corporations
 - C. It leads to increased liability
 - D. It is equivalent to C corporation income
- 2. What is a key advantage of Pratt's Stats compared to BizComps and IBA?**
 - A. Includes economic forecasts
 - B. Contains historical market trends
 - C. Provides more data points for each transaction
 - D. Offers a broader range of asset types
- 3. Which principle component is part of the value of goodwill?**
 - A. Market segment analysis
 - B. Excess economic income
 - C. Cost of goods sold
 - D. Brand loyalty
- 4. According to TAM 94360005, how does the IRS view discounts related to family businesses?**
 - A. They are fully accepted without question
 - B. They face ongoing scrutiny from the IRS
 - C. They are always encouraged for tax advantages
 - D. They are irrelevant to business valuations
- 5. In a calculation engagement, how is the value expressed?**
 - A. As a professional opinion based on market trends
 - B. As a calculated value
 - C. As a projected future valuation
 - D. As a comparative analysis of similar entities

- 6. What factors are generally considered when determining DLOM?**
- A. The company's market potential
 - B. State regulations on capital
 - C. Management strength and financial statement reliability
 - D. Only historical performance
- 7. How does Revenue Ruling 80-213 amplify Ruling 59-60?**
- A. It focuses solely on stock buybacks
 - B. It discusses valuation of subsidiary stock distributed to shareholders
 - C. It emphasizes accuracy in forecasting earnings
 - D. It removes any need for market comparisons
- 8. Which of the following is a common technique for the income approach in business valuation?**
- A. Weighted average cost of capital
 - B. Present value
 - C. Historical cost
 - D. Market capitalization
- 9. Which of the following is a reliable source of industry data?**
- A. Trade associations
 - B. Social media analytics
 - C. Personal interviews
 - D. Online surveys
- 10. What is a potential benefit of testing goodwill at a reporting unit level?**
- A. A more streamlined amortization process
 - B. Increased accuracy in financial reporting
 - C. Reduced scrutiny from regulatory agencies
 - D. Lower tax liabilities in future assessments

Answers

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1. B
2. C
3. B
4. B
5. B
6. C
7. B
8. B
9. A
10. B

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Explanations

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1. What did the Delaware Open MRI case determine regarding S corporation income?

- A. It should not be tax affected
- B. It should be tax affected reflecting the tax advantages over C corporations**
- C. It leads to increased liability
- D. It is equivalent to C corporation income

The Delaware Open MRI case is significant in the context of business valuation, particularly regarding how to treat the income of S corporations. The determination that S corporation income should be tax affected reflects an understanding of the financial advantages that come with such structures as compared to C corporations. In an S corporation, income is typically passed through to shareholders, thus avoiding double taxation (where tax is levied both at the corporate level and again at the individual level for dividends). This feature provides a tax advantage, as S corporation earnings can be taxed at the shareholders' personal tax rates, which may be lower than the corporate tax rates. By tax affecting S corporation income, business valuers acknowledge these advantages and adjust the valuation to appropriately reflect the economic reality that S corporations may provide a higher return on investment due to the tax benefits. Neglecting to tax affect this income could undervalue the business and fail to capture the true benefits an S corporation structure brings. This nuanced understanding is crucial in accurate business valuation, as it allows for a more equitable comparison between different entity types and their resulting financial impacts on owners and investors.

2. What is a key advantage of Pratt's Stats compared to BizComps and IBA?

- A. Includes economic forecasts
- B. Contains historical market trends
- C. Provides more data points for each transaction**
- D. Offers a broader range of asset types

Choosing the option that states "provides more data points for each transaction" highlights a significant advantage of Pratt's Stats. This database is known for its depth in providing not just the transaction value but also a comprehensive set of metrics related to each transaction. More data points enhance the reliability and robustness of valuation analyses, as they allow for more nuanced insights into market conditions and trends. This can lead to more accurate appraisals as valuers can assess a variety of factors, such as transaction size, industry specifics, and economic conditions that influenced the deals. The accumulation of additional data points means that professionals can perform more detailed comparative analysis, which is crucial in a field where understanding market behavior and trends can directly influence a business's valuation. As a result, Pratt's Stats can be seen as a preferable choice because the broader data set can facilitate better-informed conclusions during the appraisal process, ultimately leading to more precise business valuations.

3. Which principle component is part of the value of goodwill?

- A. Market segment analysis
- B. Excess economic income**
- C. Cost of goods sold
- D. Brand loyalty

Goodwill represents the intangible assets of a business that contribute to its overall value beyond its tangible assets and is typically associated with factors like brand reputation, customer relationships, and overall business performance. Excess economic income is a crucial concept tied to goodwill valuation. It is defined as the income generated by a business that exceeds the normal return on invested capital. This excess income is a direct reflection of a company's intangible assets, such as customer loyalty, operational efficiencies, and brand reputation, which are not captured on the balance sheet but contribute significantly to the firm's market value. In the context of goodwill, the calculation often involves determining the earnings that remain after accounting for a rate of return on identifiable tangible and intangible assets. This excess economic income can be attributed directly to goodwill, as it represents the additional profits earned due to the company's established market position and operational advantages. The other options do not encapsulate the essence of goodwill as effectively. For instance, while market segment analysis and brand loyalty are related concepts influencing business value, they are not direct components of goodwill itself. Cost of goods sold, meanwhile, relates to the operational expenses associated with producing goods and does not contribute to the intangible value that goodwill represents. Thus, excess economic income stands out as the key principle component of goodwill

4. According to TAM 94360005, how does the IRS view discounts related to family businesses?

- A. They are fully accepted without question
- B. They face ongoing scrutiny from the IRS**
- C. They are always encouraged for tax advantages
- D. They are irrelevant to business valuations

The IRS views discounts related to family businesses as facing ongoing scrutiny because these discounts often have significant implications for tax calculations and business valuations. The concern arises from the potential for these discounts to be manipulated or used strategically to reduce tax liabilities. As such, the IRS closely examines the rationale presented for such discounts to ensure they are justified and reflect true market conditions. Discounts, such as those for lack of control or lack of marketability, are commonly applied in valuing family-owned businesses, but they must be well-supported by appropriate valuation methodologies and not simply assumed or claimed without rigorous justification. This scrutiny ensures compliance with tax regulations and addresses concerns about equity in taxation, particularly when family members may be engaged in estate planning or transfer of ownership. In contrast, the other options suggest a more simplistic view of the IRS's stance, which does not align with the complexity and regulatory scrutiny that discounts, especially on family businesses, typically involve.

5. In a calculation engagement, how is the value expressed?

- A. As a professional opinion based on market trends
- B. As a calculated value**
- C. As a projected future valuation
- D. As a comparative analysis of similar entities

In a calculation engagement, the value is expressed as a calculated value. This means that the valuation is determined using specified methods and assumptions that are agreed upon by the valuator and the client. The focus in this type of engagement is on reaching a specific number that represents the value of the business based on the selected parameters and formulas. This approach is distinct from other types of valuation engagements where the outcome might be more subjective or opinion-based. By establishing a calculated value, the engagement provides a more structured and tangible figure, allowing all parties involved to have a clear understanding of what the business is worth under the agreed conditions and assumptions. The calculated value often serves specific purposes, such as facilitating a transaction or resolving disputes, and adheres closely to the guidelines set forth by valuation standards. Understanding this helps clarify why the other answer choices do not fit. Options mentioning opinions or future projections reflect different aspects of valuation and analysis but do not adequately capture the definitive nature of a calculated value in a calculation engagement.

6. What factors are generally considered when determining DLOM?

- A. The company's market potential
- B. State regulations on capital
- C. Management strength and financial statement reliability**
- D. Only historical performance

When determining the Discount for Lack of Marketability (DLOM), the strength of management and the reliability of financial statements are indeed key factors to consider. Management strength can impact the perceived value of a business, as strong leadership often instills confidence in potential investors. The capability of management affects operational performance and future profitability forecasts, which can impact marketability. Financial statement reliability is equally important because investors and analysts require accurate, consistent, and verifiable financial information to make informed decisions. If financial statements are poorly prepared or unreliable, it raises concerns about the company's actual performance and potential risks, further decreasing marketability. In contrast to this, other factors might not be as directly influential on DLOM. While market potential and state regulations may play a role in the overall valuation of a business, they are not primary considerations when specifically assessing the lack of marketability of a business ownership interest. Furthermore, historical performance, while relevant for assessing past profitability and trends, does not fully capture the present management effectiveness or financial transparency, which are crucial for investors assessing marketability.

7. How does Revenue Ruling 80-213 amplify Ruling 59-60?

- A. It focuses solely on stock buybacks
- B. It discusses valuation of subsidiary stock distributed to shareholders**
- C. It emphasizes accuracy in forecasting earnings
- D. It removes any need for market comparisons

Revenue Ruling 80-213 amplifies Ruling 59-60 by specifically addressing the valuation of subsidiary stock distributed to shareholders. While Ruling 59-60 provides a framework for the valuation of closely held businesses, including considerations such as earnings, cash flow, and market comparisons, Ruling 80-213 expands on these principles by focusing on how to value stock from subsidiary entities during dividend distributions. This ruling is important because it clarifies how subsidiaries' valuations must be approached differently when assessing their impact on shareholders, particularly in terms of how those valuations relate to the overall value of the parent company. By understanding this amplification, professionals can better navigate the complexities of equity distributions and ensure accurate appraisals of subsidiary interests, which is critical in various tax and financial reporting scenarios. The other options do not capture the essence of how Ruling 80-213 elaborates on Ruling 59-60 in the context of business valuation, particularly the specific focus on subsidiary stock, which is a crucial aspect of this guidance.

8. Which of the following is a common technique for the income approach in business valuation?

- A. Weighted average cost of capital
- B. Present value**
- C. Historical cost
- D. Market capitalization

The income approach is a key business valuation method that focuses on the future income potential of a business. The present value technique is fundamental to this approach as it allows an appraiser to estimate the current worth of future cash flows that the business is expected to generate. By discounting those future cash flows back to their present value using an appropriate discount rate, typically based on an assessment of risk and expected return, the valuer can arrive at a valuation that reflects the anticipated financial performance of the business. This technique emphasizes the underlying principle of time value of money, which asserts that a dollar received in the future is worth less than a dollar received today. Hence, by converting future expected cash flows into present-day values, stakeholders gain a clearer picture of the intrinsic value of the business based on its ability to generate profit. The other options, while relevant in various contexts of business finance and valuation, do not specifically pertain to the income approach. For instance, the weighted average cost of capital is more related to determining the discount rate itself rather than a technique of valuation. Historical cost pertains to asset valuation based on their original acquisition costs rather than their income-generating potential, and market capitalization typically refers to the total market value of a company's outstanding shares, which is

9. Which of the following is a reliable source of industry data?

- A. Trade associations**
- B. Social media analytics
- C. Personal interviews
- D. Online surveys

Trade associations serve as a highly reliable source of industry data because they are organizations formed by businesses within a particular industry that focus on advancing collective interests. These associations often have access to comprehensive and relevant industry-specific information, including statistical reports, economic forecasts, best practices, and regulatory updates. They typically publish research studies and market analyses that are based on rigorous methodologies and data collection processes, providing valuable insights into industry trends, benchmarks, and performance metrics. In contrast, social media analytics may vary in quality and reliability since they rely on user-generated content and can be subject to biases or misinterpretations. While personal interviews can offer qualitative insights, they may not yield comprehensive data applicable to an entire industry due to their subjective nature and small sample size. Online surveys, while potentially useful, can also suffer from low response rates or biased sampling, leading to unreliable conclusions. Therefore, trade associations are regarded as the most credible and authoritative source among the options provided.

10. What is a potential benefit of testing goodwill at a reporting unit level?

- A. A more streamlined amortization process
- B. Increased accuracy in financial reporting**
- C. Reduced scrutiny from regulatory agencies
- D. Lower tax liabilities in future assessments

Testing goodwill at a reporting unit level provides increased accuracy in financial reporting because it allows companies to evaluate the performance of specific segments or units within the organization independently. This granular approach helps in identifying the actual value and impairment of goodwill associated with particular reporting units, thereby reflecting a more precise valuation on the company's financial statements. When goodwill impairment tests are conducted at this level, they can provide clearer insights into whether the carrying amount of that goodwill is justified based on the unit's performance and future cash flow projections. By doing this, companies ensure that their financial reports portray a fair and true state of the company's health, which is vital for both investors and stakeholders looking to make informed decisions. This accuracy can also enhance transparency and trust with investors, as it represents a more reliable financial position. In contrast, aspects like the amortization process, regulatory scrutiny, or tax liabilities are generally not as directly related to the benefits gained from assessing goodwill at such a detailed level.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

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We wish you the very best on your exam journey. You've got this!

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