STRATEGIC ALLIANCE
Mergers & Acquisitions, Inc.

Exam Questions

Complete Guide to Mergers & Acquisitions of CPA Firms

10 CPE Credit Hours (circle your answers)

1) Determining the benefits of an asset sale verses a stock sale falls into what part of a merger/acquisition plan.
   a) Acquisition Opportunities
   b) Business & Legal Issues
   c) Transition Issues
   d) Post Closing Issues

2) A type of "Buy-In" structure is one where a candidate is not vested until their shares are paid in full, but they enjoy the same privileges and responsibilities of a partner after closing. TRUE OR FALSE

3) Often the acquisition of a CPA firm yields enough profits from the economies of scale to cover 100% of the debt service. TRUE OR FALSE

4) A common misconception is that seller's compensation will be reduced after the sale if they stay with the firm. TRUE OR FALSE

5) Whether a firm wants to expand its practice or plan an exit strategy, a merger or acquisition is the most efficient way to achieve either of these goals. TRUE OR FALSE

6) The industry standard for valuing CPA practices is applying an appropriate capitalization rate to its discounted cash flow. TRUE OR FALSE

7) The following are all factors considered when valuing a CPA firm, except for:
   a) Fee Structure
   b) Book Value
   c) Client Retention
   d) Scope of Services

8) The Staff Utilization Rate is determined by subtracting total non-chargeable hours from the total annual hours worked and dividing that answer by the total hours worked. TRUE OR FALSE

9) When valuing a CPA firm based on market sales one of the key indicators compared is a firm's realization rate. TRUE OR FALSE

10) Which of the following attributes diminishes a firm's value?
    a) Not having any single client that represent more than 5% of a firm's annual revenue
    b) Attrition greater than growth
    c) Non-compete Agreements with Employees

d) Steady increase in revenues over the past 5 years

11) A firm's effective billing rate is derived by dividing a firm's annual revenue by the total billable hours worked. TRUE OR FALSE

12) Presenting a practice for sale should include all of the following, except:
    a) Practice Profile
    b) Executive Summary
    c) Letter of Intent
    d) Acquisition Highlights

13) An important statistic in determining the compatibility of an acquisition candidate is the percentage of tax revenue verses accounting revenue. TRUE OR FALSE

14) A firm's corporate culture and work ethic are not important factors in the long-term success of a merger or acquisition. TRUE OR FALSE

15) A significant number of clients are lost when a CPA sells their firm, regardless of the deal's structure. TRUE OR FALSE

16) Compatibility between two firms is defined by the synergy of personalities, practices and defined expectations. TRUE OR FALSE

17) A few of the 'sensitive issues' in negotiating a merger or acquisition transaction are listed below, except:
    a) Office Décor
    b) Firm Name
    c) Management Team
    d) Seller's Compensation

18) Some of the problems a merger or acquisition can solve for a firm are as follows, except:

    a) Gaining talented staff members

    b) Access to new markets

    c) Increased market share

    d) New products and services

    e) All of the above

19) Firms should always sign a Confidentiality Agreement before having discussions or meetings with potential buyer/seller/merger candidates. TRUE OR FALSE

20) A practice may find a merger candidate compatible because it offers the same services, or because it offers different, complimentary, services. TRUE OR FALSE

21) The following items are included in the Letter of Intent, except:
    a) Purchase Price
    b) Down Payment

c) Complete list of Clients to be Sold
d) Terms of Note & Interest Rate
e) Terms of Employment

22) The longer the purchase price adjustment period (or look back period), the greater the risk to the seller. TRUE OR FALSE

23) A restrictive covenant not to compete is considered a 'capital gain' in the allocation of the purchase price for tax purposes. TRUE OR FALSE

24) A well written Letter of Intent will include language that protects the buyer in the event of excessive attrition, while also protecting the seller in the event of unusual growth from the seller's practice after the sale. TRUE OR FALSE

25) The Letter of Intent includes language that prevents the seller from soliciting clients being sold, indefinitely, as long as the buyer has paid the seller in full for the practice, including any financing. TRUE OR FALSE

26) It is not a good idea to perform a 'mock' due diligence preceding the buyer's actual due diligence in order to flush out any skeletons beforehand. TRUE OR FALSE

27) Allowing buyer candidates to review select tax returns prepared by the seller's firm, during due diligence, is customary. TRUE OR FALSE

28) A complete inventory of all IT hardware and software is required during due diligence, along with their age, costs, and renewals. TRUE OR FALSE

29) Buyers are not interested in a restatement of the seller's financials to add back non-operating expenses and owners' perks. TRUE OR FALSE

30) Sellers must prepare an explanation of any unusual variances in their financials over the prior five year period. TRUE OR FALSE

31) The' Asset and Purchase Agreement' for the acquisition of a CPA firm is highly specialized requiring language, exhibits and contracts specific to the accounting industry. TRUE OR FALSE

32) Some of the legal documents and exhibits required for a CPA buy/sell transaction include the following, except:
a) Non-Compete Agreement
b) Promissory Note
c) List of Accounts Receivable
d) Liabilities to be Assumed by the Buyer
e) All of the Above

33) Many merger and acquisition transactions include seller financing. TRUE OR FALSE

34) An 'indemnity agreement' is not required by the buyer in the acquisition of a CPA firm. TRUE OR FALSE

35) When the buyer gives the seller a promissory note for seller financing, a personal guarantee is usually not required. TRUE OR FALSE

36) One of the exhibits required at closing is a complete list of the clients being sold and not sold. TRUE OR FALSE

37) Proration's of expenses and/or income maybe due to the buyer or the seller at closing, depending upon the items. TRUE OR FALSE

38) Who does the accounts receivable belong to after the closing if no other arrangements have been made.

a) The buyer
b) The seller

39) A Corporate Resolution is one of the documents required at closing. TRUE OR FALSE

40) Work in process is usually prorated between the buyer and the seller as of the date of closing, whereby the buyer will owe the seller his/her portion once it is billed and collected by the buyer.

41) A well planned and executed transition plan is a critical component of a successful merger or acquisition transaction. TRUE OR FALSE

42) The creation of a new legal entity is never required when two firms merge. TRUE OR FALSE

43) The market approach to valuing CPA firms is similar to a residential appraisal in that similar firms that have sold recently are compared to the subject firm, on an item by item basis, to see if they are more or less valuable (i.e. a higher or lower multiple). TRUE OR FALSE

44) Economies of Scale projections demonstrate redundant expenses that may be eliminated or reduced when two firms merge. TRUE OR FALSE

45) A buyer profile is a summary of the buyer's firm prepared for sellers to review the likelihood of their compatibility prior to a first meeting. TRUE OR FALSE

46) Customary add-backs to the bottom line in order to determine true operating costs may include the following categories, except:

a) Auto Expenses
b) Depreciation
c) Travel & Entertainment
d) Cell Phones
e) All of the Above

47) A common misconception among CPAs is that many clients will leave the firm after they sell the practice. TRUE OR FALSE

48) If one firm has unusually high fees, and another has unusually low fees, the two firms would be considered compatible for a merger or acquisition. TRUE OR FALSE

49) We say that 'sellers can have it all' when selling their practice because there are typically many more buyers than there are sellers in the market at any given time. TRUE OR FALSE

50) When applying for bank financing, which firm is the bank more interested in with respect to its financial performance?

a) The buyer
b) The seller