

Series of Model Test Papers

For

Valuation Examination for Asset Class- Securities or Financial Assets

by



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MODEL TEST PAPER – 2

Instructions:

1. The examination is conducted with objective multiple-choice questions;
2. The duration of the examination is 2 hours;
3. All questions are required to be answered
4. A wrong answer attracts a negative mark of 25% of the marks assigned for the question;
5. Candidate needs to secure 60% of marks for passing;
6. Candidate may use a non-memory based calculator. No mobile phone is allowed.
7. Candidate is issued a temporary mark sheet on submission of answer paper;
8. No workbook or study material is allowed or provided.

1. Which of the following statements are true with respect to gross domestic product (GDP)?
 - a. GDP is the market value of the goods produced in the country, by the residents as well as the foreign nationals.
 - b. GDP includes all the raw materials, intermediate goods and final products.
 - c. GDP includes the goods and services produced by all the people of one nationality irrespective of locality.
 - d. None of the above.

Ans. A. GDP is the market value of the goods produced in the country, by the residents as well as the foreign nationals.

2. What happens when the government increases public spending during recessionary period?
 - a. The increased spending leads to mobilisation of resources in the economy and helps create demand and generate employment.
 - b. It has no effect on the economy.
 - c. The increased spending worsens the recessionary situation.
 - d. None of the above.

Ans. A. The increased spending leads to mobilisation of resources in the economy and helps create demand and generate employment.

3. Repo rate is the _____ tool of the monetary policy.
 - a. Reserve Requirement
 - b. Open market operations
 - c. Bank rate
 - d. Fixed margin requirements

Ans. C. Bank rate

4. What completes a business cycle?
 - a. The period between boom and contraction.
 - b. The prolonged period of boom.
 - c. The prolonged period of contraction.

- d. A cycle of single boom and contraction in a sequence.

Ans. D. A cycle of single boom and contraction in a sequence.

5. Net Profit Ratio Signifies:
- a. Operational Profitability
 - b. Liquidity Position
 - c. Big-term Solvency
 - d. Profit for Lenders

Answer: a

6. Which of the following may not be a part of projected financial statements?
- a. Income Statements
 - b. Trial Balance
 - c. Cash Flow Statements
 - d. Balance Sheets

Answer: b

7. The long-run objective of financial management is to:
- a. maximize earnings per share
 - b. maximize the value of the firm's common stock
 - c. maximize return on investment
 - d. maximize market share

Answer: b

8. The rules by which an individual lives his/her life, is called the _____ ethics.
- a. Professional
 - b. Personal
 - c. Applied
 - d. Normative

Ans. B. Personal

9. While conducting a valuation assignment, the valuer comes to know that a conflict of interests arises due to him being associated to the company's major income generating entity. What should be the course of action for the valuer thereon?
- a. The valuer shall carry on the valuation assignment as if the conflict of interest was never discovered.
 - b. The valuer shall excuse himself from the assignment, after explaining to the management the conflict of interest arisen.

- c. The valuer shall disclose the conflict of interest and carry on the valuation assignment without letting it affect his independence.
- d. None of the above.

Ans. B. the valuer shall excuse himself from the assignment, after explaining to the management the conflict of interest arisen.

10. The scope of work includes information on

- a. Identity of the client
- b. Identity of the valuer
- c. Assets being valued
- d. All of the above.

Ans. D. all of the above.

11. Valuation date is the date on which,

- a. The valuation report is issued.
- b. Investigations relating to valuation assignment are undertaken.
- c. The date on which the valuation is assigned.
- d. The date as on which the value of the asset is sought, in the valuation exercise.

Ans. D. the date as on which the value of the asset is sought, in the valuation exercise.

12. Ethics indicates the _____ choices made by each person in relationship with other persons.

- a. Personal
- b. Professional
- c. Moral
- d. All of the above.

Ans. C. Moral

13. Cash payments made for forward contract, not held for trading or dealing purposes is an example of which type of activity?

- a. Operating activity
- b. Investing activity
- c. Financing activity
- d. Both a. and b.

Ans. B. Investing activity

14. Which of the following standards are partially applicable to small and medium sized company?

- a. Leases
- b. Borrowing costs

- c. Related party disclosures
- d. Discontinuing operations

Ans. A. Leases

15. The values shown in the balance sheet for different accounts show _____
- a. Current market values
 - b. Historical costs
 - c. Replacement costs
 - d. Investment costs

Ans. B. historical costs

16. The authority grants certificate of registration to a registered valuer in _____
- a. Form A
 - b. Form B
 - c. Form C
 - d. Form D

Ans. C. Form C

17. Who amongst the following is not eligible to be registered as the registered valuer as per the Companies (Registered valuer and valuation) rules, 2017?
- a. Is a valuer member of a registered valuers association
 - b. is recommended by the registered valuers organization of which he is a valuer member for registration as a valuer;
 - c. has been convicted by any competent court for an offence punishable with imprisonment for a term exceeding six months
 - d. is a fit and proper person

Ans. C. has been convicted by any competent court for an offence punishable with imprisonment for a term exceeding six months.

18. A company shall make an application for registration as a registered valuer in _____
- a. Form A.
 - b. Form B
 - c. Form C
 - d. Form D

Ans. B. Form B

19. When an agent acts without the knowledge of his principal, what are the options before the principal as regards to such acts?
- a. The principal can ratify such acts

- b. The principal can deny responsibility of such acts.
- c. Both a. and b.
- d. None of the above.

Ans. C. Both a. and b.

20. When there is a breach of contract, the party which is aggrieved by the breach is entitled for

- a. Compensation for any loss or damage caused to him thereby
- b. No compensation at all
- c. The penalty as stipulated in the contract
- d. Both a. and c.

Ans. D. both a. and c.

21. The contract of _____ is voidable at the option of the bailor, if the bailee does any act with regard to the goods bailed, inconsistent with the conditions of contract.

- a. Guarantee
- b. Bailment
- c. Indemnity
- d. All of the above.

Ans. B, Bailment.

22. When sale can be made in case of joint-owners

- a. With the permission of the co-owners
- b. With the help of agreement
- c. No permission is required in case of substantial interest
- d. None of the above

Answer: A. Section 28.

23. In case of breach of contract by the seller, buyer has the option to

- a. Reject the goods
- b. sue the seller for damages for breach of warranty
- c. set up against the seller the breach of warranty in diminution or extinction of the price
- d. All of the above

Answer: D. Section 59

24. Where through the fraud, misrepresentation or gross neglect of prior mortgagee, another person has been induced to advance money on the security of the mortgaged property,

- a. The prior mortgagee shall be postponed to the subsequent mortgagee.
- b. The prior mortgagee shall not be postponed to the subsequent mortgagee.
- c. The subsequent mortgagee shall be postponed
- d. None of the above

Ans.: A. Section 78.

25. In which of the following cases the mortgagee has the right to sue for the mortgage-money

- a. where the mortgagor binds himself to repay the same
- b. where the mortgagee is deprived of the whole or part of his security by or in consequence of the wrongful act or default of the mortgagor
- c. both of the above
- d. none of the above

Ans.: C. Section 68

26. On what amount will the stamp duty be payable in case of an annuity payable in perpetuity or for an indefinite time, not terminable with any life?

- a. Stamp duty will be payable on each payout.
- b. Stamp duty will be payable on the total amount which will be payable during the period of twenty years calculated from the date on which the first payment becomes due.
- c. Stamp duty will be payable on the total amount which will be payable during the period of ten years calculated from the date on which the first payment becomes due.
- d. None of the above.

Ans. B. Stamp duty will be payable on the total amount which will be payable during the period of twenty years calculated from the date on which the first payment becomes due.

27. An instrument chargeable to duty, other than bill or promissory note executed out of India, may be stamped within _____ after it has been first received in India.

- a. One month
- b. 45 days
- c. Two months
- d. Three months

Ans. D three months. (S. 18)

28. Financial Institution includes:

- A. Scheduled bank
- B. Financial institution as defined in section 45-I of the Reserve Bank of India Act, 1934
- C. Public financial institution as defined in clause (72) of section 2 of the Companies Act, 2013
- D. All of above

Ans. is D. Refer Section 3(14) IBC.

29. Debt includes?

- A. Financial Debt
- B. Operational Debt
- C. Both of above
- D. None of the above

Ans. is C. Refer Section 3(11) of the IBC.

30. Financial Service includes:

- A. accepting of deposits
- B. effecting contracts of insurance
- C. safeguarding and administering assets consisting of financial products, belonging to another person, or agreeing to do so
- D. All of above

Ans. is D. Refer Section 3(16) of the IBC.

31. The periodic payment of money for the past service is known as

- a) Gratuity
- b) Pension
- c) Commuted pension
- d) Leave salary

Ans.: b.

32. Pension is taxable under which head.

- A. Salary
- B. House property
- C. Capital gains
- D. other sources

Ans. a

33. Receipt of amount on maturity of LIC Policy is

- A. A revenue receipt
- B. A capital receipt
- C. A casual receipt
- D. None of these.

Ans. B.

34. The value determined by the government agencies to determine ad valorem taxes is called

_____.

- a. Scrap value
- b. Assessed value
- c. Fair market value
- d. Book value

Ans. B. Assessed Value.

35. _____ is an important basis in financial reporting.

- a. Fair value
- b. Intrinsic value
- c. Investment value
- d. Liquidation value

Ans. A. fair value.

36. _____ value means the quantified worth of one good or service expressed in terms of the worth of another.

- a. Exchange value
- b. Investment value
- c. Liquidation value
- d. Esteem value

Ans. A. Exchange value.

37. The fundamental value of the asset to company or a security _____

- a. Scrape value

- b. Fair value
- c. Intrinsic value
- d. Book value

Ans. C. Intrinsic value

38. Scrape value = _____ - Total Depreciation

- a. Purchase price
- b. Purchase price + Freight + Installation
- c. Purchase Price + Installation
- d. Purchase price + Freight

Ans. B. Purchase price + Freight + Installation

39. Which of the following is not a method of valuation under Income approach?

- a. Discounted cashflow method.
- b. Comparable transactions method
- c. Replacement value method.
- d. Both b. and c.

Ans. D. both b. and c.

40. Which is not a risk or factor related to the valuation of instrument as per income approach?

- a. Credit risk
- b. Market risk
- c. Risk of changes in regulatory or legal framework
- d. None of the above

Ans. D. none of the above.

41. Which of the following does not form part of valuation process as per the replacement cost method?

- a. Calculation of all the costs that would be incurred by a typical participant seeking to create or obtain an asset providing equivalent utility.
- b. Calculation of all of the costs that would be incurred by a typical participant seeking to create an exact replica of the subject asset.
- c. determine whether there is any depreciation related to physical, functional and external obsolescence associated with the subject asset.

- d. deduct total depreciation from the total costs to arrive at a value for the subject asset.

Ans. B. Calculate all of the costs that would be incurred by a typical participant seeking to create an exact replica of the subject asset.

42. _____ is equal to the total market value of the firm's common stock divided by (the replacement cost of the firm's assets less liabilities).
- A. Book value per share
 - B. Liquidation value per share
 - C. Market value per share
 - D. Tobin's Q

Answer: d

43. _____ is equal to (common shareholders' equity/common shares outstanding).
- A. Book value per share
 - B. Liquidation value per share
 - C. Market value per share
 - D. Tobin's Q

Answer: a.

44. What are the characteristics of a business strategy?
- a. It's the long-term business planning
 - b. A means by which an entity achieves its desired ends
 - c. A solution to the problems faced by the business
 - d. All of the above

Ans. D. all of the above

45. A business strategy is mainly concerned with
- a. Proper allocation of resources
 - b. Scope of business activities
 - c. Growth of the business
 - d. All of the above.

Ans. D. all of the above.

46. Which of the following is a competitive business strategy?
- a. Growth
 - b. Product differentiation

- c. Globalisation
- d. Retrenchment or sticking to major expertise of the entity

Ans. B. product differentiation

47. Which of the following is included in the business growth strategy?
- a. Market share
 - b. Gross profit
 - c. Customer demand
 - d. All of the above

Ans. C. Customer demand

48. Introducing new products or adding new features to existing products, is an example of _____ strategy of an entity.
- a. Growth
 - b. Product differentiation
 - c. Globalisation
 - d. Retrenchment or sticking to major expertise of the entity

Ans. A. Growth

49. _____ strategy of an entity attracts quick competition
- a. Price skimming
 - b. Product differentiation
 - c. Globalisation
 - d. Retrenchment or sticking to major expertise of the entity

Ans. A. Price skimming

50. Treasury bills are traded on _____
- a. Primary market
 - b. Secondary market
 - c. Both a. and b.
 - d. None of the above

Ans. B. secondary market

51. When the market's required rate of return for a particular bond is less than its coupon rate, the bond is selling at
- a. A premium
 - b. A discount
 - c. At par
 - d. Cannot be determined

Ans. A. a premium

52. Interest rates and bond prices

- a. Move in same direction
- b. Move in opposite direction
- c. Have no relationship
- d. Sometimes in same direction, in opposite direction at other times

Ans. B. move in opposite direction

53. If the coupon rate is constant, the value of bond when close to maturity will be

- e. issued value
- f. par value
- g. redemption value
- h. all of the above

Ans. C. redemption value.

54. Of the listed below, who is not allowed to do transactions in debt instruments?

- i. Primary dealers
- j. Secondary dealers
- k. Banks
- l. Financial Institutions

Ans. B. Secondary dealers

55. Bonds are issued by

- m. Government
- n. Municipalities
- o. Corporations
- p. All of the above

Ans. D. all of the above

56. The value of put option decreases due to change in which of the following factors of option valuation?

- a. Increase in value of underlying asset
- b. Increase in strike price
- c. Increase in rate of interest
- d. Both a. and c.

Ans. D. both a. and c.

57. The value of the call option decreases due to the change in which of the following factors of option valuation?

- a. Increase in strike price
- b. Increase in income from asset

- c. Increase in rate of interest
- d. Both a. and b.

Ans. D. both a. and b.

58. Complete the following equation:

Call option Intrinsic Value = _____ - Call strike price

- a. Current rate of interest
- b. Current value of the underlying asset
- c. Expected income from the asset
- d. Expected value of the underlying asset at the end of the period.

Ans. B. Current value of underlying asset

59. Complete the following equation:

Put option intrinsic value = _____ - current value of the underlying asset

- a. Put strike price
- b. Call strike price
- c. Option premium
- d. Both a. and c.

Ans. A. put strike price.

60. Type of options that do not have stock in portfolio to back up options is classified as

_____.

- a. Undue options
- b. Naked options
- c. Due options
- d. Total options

Ans. B. Naked options.

61. The current value of portfolio is Rs. 900 and the current value of stock in portfolio is

Rs. 1200, then the current option price will be_____.

- a. Rs. 2100
- b. Rs. -2100
- c. Rs. 300
- d. Rs. -300

Ans. C. Rs. 300.

62. Under this method it is assumed that the investor will not invest in the startup more money than it would cost to duplicate the business. which method of valuation is referred to here?

- a. Scorecard valuation method

- b. Cost to duplicate method
- c. Valuation by stage
- d. Discounted cashflow method

Ans. B. Cost to duplicate method

63. While using the discounted cashflow method for the valuation of a startup, the rate of discount used is _____.

- a. Low
- b. High
- c. Same as in any other similar business
- d. any rate, as suggested by the promoters.

Ans. B. High

64. Amongst the ones listed below, which of the factors is not considered in valuation of business by the Economic Value-Added method?

- a. Net assets of the business
- b. Cost of funds employed
- c. Taxes
- d. Earnings before interest and tax.

Ans. A. Net assets of the business

65. _____ is the expected price of the startup if it is sold in future.

- a. Book value
- b. Enterprise value
- c. Terminal value
- d. Comparable value

Ans. C. Terminal value

66. As per the venture capital method of valuation of startups, post-money valuation = _____ ÷ anticipated ROI.

- a. Book value
- b. Enterprise value
- c. Terminal value
- d. Comparable value

Ans. C. Terminal value

67. When A Ltd. merges with B Ltd., the merger is said to be beneficial in which of the following situations?

- a. Value of A Ltd + value of B Ltd = value of AB Ltd.
- b. Value of A Ltd + value of B Ltd < value of AB Ltd.
- c. Value of A Ltd+ value of B Ltd > value of AB Ltd.

d. In all the above situations.

Ans. B. Value of A Ltd + value of B Ltd < value of AB Ltd.

68. As per section 53 of the Companies Act, 2013, any share issued by a company at a discounted price shall be _____.

- a. Void
- b. Voidable
- c. Invalid
- d. Valid with certain conditions

Ans.: A

69. The present value of portfolio is Rs. 850 and the current option price is Rs. 1620, then the value of stock included in portfolio will be,

- a. 1.90%
- b. 1.90 times
- c. Rs. 770
- d. Rs. 2470

Ans. C. Rs. 770.

70. Option pricing model in which it is assumed that stock price can have one of two possible prices, is classified as _____.

- a. Black and Scholes model
- b. Monte Carlo approach
- c. Black Scholes and Merton method
- d. Binomial Model

Ans. D. Binomial Model

71. The following is not a forecasting tool?

- a. Cashflow statement
- b. Production charts
- c. Organisation charts
- d. None of the above.

Ans. D. none of the above.

72. Which of the following is not a factor affecting method of selection of forecasting technique?

- a. The relevance and availability of historical data
- b. The degree of accuracy desirable
- c. The availability of current data
- d. The value of the forecast to the company

Ans. C. the availability of current data

73. _____ elements of a timeseries sit above or below the trend line and may recur for a year or longer.
- a. Trend
 - b. Cyclical
 - c. Seasonal
 - d. Irregular

Ans. B. Cyclical

74. _____ is used to generate various imagined outcomes, based on different sets of starting conditions and anticipated trends in key strategic factors.
- a. Casual models
 - b. Time series analysis
 - c. Delphi technique
 - d. Scenario writing

Ans. D. Scenario writing

75. Cost of capital is equal to required rate of return on equity in case if investors are only
- a. Valuation manager
 - b. Common stockholders
 - c. Debenture holders
 - d. Bond holder

Ans. B. common stockholders

76. Interest rate is 12% and tax savings (1-0.40) then after-tax component cost of debt will be
- a. 7.20%
 - b. 7.2 times
 - c. 17.14 times
 - d. Rs. 17.14

Ans. 7.20%

77. The embedded option that allows the issuer to redeem a bond prior to the maturity date at a predetermined price and date is called _____
- a. Bondholder puts
 - b. Issuer calls

- c. Puttable bonds
- d. None of the above

Ans. B. Issuer calls

78. An unlisted company may issue sweat equity shares of a class of shares which has already been issued by passing a _____.

- a. Ordinary resolution
- b. Special resolution
- c. Not mentioned
- d. Ordinary resolution, as prescribed by the Central Government

Ans.: B

79. Amongst the members of the audit committee, as per SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, _____ members shall be independent directors.

- a. One-third
- b. Two-third
- c. Two-fifth
- d. All the directors shall be independent directors

Ans. B. two-third

80. Which of the following is not a committee to be formed under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015?

- a. Finance committee
- b. Audit committee
- c. Stakeholders relationship committee
- d. Risk management committee

Ans. A. Finance Committee

81. When the outstanding loan is converted to equity, debentures or other financial instruments, under what investment category should they be classified?

- a. HTM
- b. AFS
- c. HFT
- d. Any of the above

Ans. AFS. as per the MC on prudential norms for classification, valuation and operation of investment portfolio by Banks.

82. Which of the following is not included in calculating 100% of the net worth of the Indian party on the date of last audited balance sheet?
- a. Capitalisation of export proceeds and other dues and entitlements as mentioned in Regulation 11
 - b. Investment in agricultural operations through overseas offices or directly.
 - c. Cash remittance by market purchase and /or equivalent rupee investments
 - d. Fifty percent of the value of guarantees issued by the Indian party to or on behalf of the JV or WOS.

Ans. C. Cash remittance by market purchase and /or equivalent rupee investments, is included only in case of investment to be made in Nepal and Bhutan. (Reg. 6 of FEMA (transfer or issue of any foreign security) Regulation, 2000.)

83. What are DTAAAs?
- a. Double Taxation Allowance Agreements
 - b. Double Taxation Avoidance Agreements
 - c. Double Trouble Avoidance Agreements
 - d. None of the above.

Answer: B. Double Taxation Avoidance Agreements

84. The long term loss under the head of income "Capital Gains" can be set off against:
- a. Income under any other head of incomes
 - b. House property income
 - c. Long term capital gains
 - d. Profits and gains from business and profession

Answer C. Long term Capital gains

85. Which of the Following Ind AS deals with the Fair Value Measurement

- a. 104
- b. 113
- c. 230
- d. 115

Ans. B. 113

86. When a price for an identical asset or liability is not observable, an entity measures fair value using another valuation technique that _____.

- a. maximises the use of relevant observable inputs and minimises the use of unobservable inputs
- b. minimises the use of relevant observable inputs and minimises the use of unobservable inputs
- c. is most relevant for the given situation
- d. none of the above

Ans.A. maximises the use of relevant observable inputs and minimises the use of unobservable inputs

Attempt questions 87-89 based upon following case study:

TintinPvt. Ltd. is a company with a business in the field of manufacturing machine parts used for machines in textile industry. Due to recessionary conditions and due to changes in technology, the company is not in good financial health.

The company has four directors. Two of them are of the view that they should liquidate the business and payoff the debts, while the other two believe they should keep the business going and with the change in the market trends the business will turnaround.

The fixed assets of the company mainly comprise of the plant and machinery and other office equipment. The premises from where the company operates is leased.

Questions:

87. What should be the appropriate assumption for the valuation of the business?
- a. The valuation should be done on going concern basis.
 - b. The valuation should be done to find the liquidation value of the asset.
 - c. Valuation should be made with both the assumptions as in a. and b.

- d. None of the above

Ans. C. Valuation should be made with both the assumptions as in a. and b.

88. If the business is to be reorganised, and the valuation is to be done accordingly, which approach of valuation to be selected?
- a. Cost approach
 - b. Income approach
 - c. Market approach
 - d. Any of the above based on available information

Ans. D. Any of the above based on information available.

89. The company owns a few assets which are kept at the residence of one of the directors. These assets were not made available to you for the purpose of valuation. In such a situation, what should be your stand?
- a. Mention the limitation in carrying out valuation due to lack of inspection of the asset in the Valuation report.
 - b. Value those assets on the basis of the books of the business.
 - c. Accept the value as stated by the directors and give the valuation report accordingly.
 - d. Both a. and c.

Ans. A. Mention the limitation in carrying out valuation due to lack of inspection of the asset in the Valuation report.

Attempt questions 90-93 based upon following case study:

Orange Ventures is a start up in the field of home delivery of groceries based on orders through mobile apps. The company is in business since past ten months and has started gaining the market with the timely deliveries and pleasant customer experiences.

They want to expand their services to new areas of the city and to include more products to their order lists.

For the purpose, they need to infuse finance from outside sources and before they could approach a party to invest in its business, it need to establish the value of its running

business and get some insight into the future possible growth, by implementing the expansion plans.

The company had appointed a valuer Mr. Supandi for the purpose, who valued the running business at Rs. 1.5 Crores. But the promoters of the company are not satisfied with the valuation and they approach you to review the valuation done by the other valuer.

Questions:

90. In this valuation, what should be the bases on which the assets of the company can be valued by Mr. Supandi?

- a. Market value
- b. Investment Value
- c. Liquidation Value
- d. Both a. and b.

Ans. D. both a. and b.

91. Amongst the following, which will be the most appropriate technique from Income approach, for the valuation of the business of Orange Ventures?

- a. Discounted Cashflow method
- b. Comparable transactions method
- c. Gordon Growth model
- d. All of the above.

Ans. A. Discounted Cashflow method.

92. You have been appointed to review the valuation done by Mr. Supandi. As per your understanding a review assignment is reviewing the work of the previous valuer, but the clients may not have a similar understanding.

- a. You will issue a written scope of work statement listing out your scope of work for the assignment and give it to the client at the onset of the assignment.
- b. You will communicate the scope of your work orally to the client.
- c. You will mention the scope of work done in the valuation report to be issued.
- d. Both a. and c.

Ans. D. Both a. and c.

93. As a valuer, you have completed the review assignment and given the report for the same.

- a. You will do away with all the working papers by putting them through the shredder.
- b. You will file all the working papers in an appropriate manner for future reference and preserve them for a reasonable period.
- c. You will give all your working papers to the client along with your valuation report.
- d. Preservation of working papers differs for each case and it is not necessary in this particular case of valuation, as it was the review assignment.

Ans. B. you will file all the working papers in an appropriate manner for future reference and preserve them for a reasonable period.