

IBBA CBI EXAM REFRESHER

Well – Here you are. You have made it to this point by adhering to the professional standards established by the IBBA. You will soon join the ranks of the professionals who are proud to hold the title of a Certified Business Intermediary (CBI).

The CBI Exam is administered by the CBI Certification Committee of the International Business Brokers Association. The following are the exam rules:

- The time limitation for completion of the exam is three (3) hours. There is no prize for finishing first!
- You must be on time! Plan to be in place ready to begin the Exam no later than 7:30 AM. DO NOT BE LATE!
- You must bring your badge and a picture I.D.
- You should have a calculator and pencils (pens if you think you will not make a mistake).
- The facilitator(s) may not answer any questions on the day of the Exam.
- Consider each question and select the “most correct” answer to each question.
- Do not discuss the CBI exam with potential candidates.

The CBI Exam consists of the following:

Valuation (210, 220, 221)	42%
Financial	23%
Legal	18%
Brokerage	8%
General Knowledge	4%
Marketing & Sales	3%
Licensing	2%

The scoring for the CBI Exam is based on total available points of 165. In order to pass the Exam a candidate must score a minimum of 116 points (70% of 165 = 116). The point totals are as follows:

101 multiple choice questions (1 point each total points = 101)

7 fill in blank (matching) (total points = 34)

20 recasting calculations (total points = 20)

1 discretionary earnings (total points = 6)

1 asset fair market value (total points = 4)

Testing Tips:

- Remember – this exam has a three hour time limit. Use your time wisely. After two hours you should move to the recasting portion of the exam.
- When you have completed the multiple choice and fill in the blank portions of the exam put them to the side and do not revisit them.

- Read the exam slowly, carefully and completely. The exam contains several discriminating questions. Your first response is quite often the best.
- Keep moving through the exam. Do not get stuck on one question as there may be a clue later in the exam. If you do move forward make sure that you return to answer the question. Remember – this exam is based on the number of correct answers (points) so when in doubt guess. Do not leave a question unanswered.
- For the fill in the blank there are more choices than answers.
- The CBI Exam is based on the IBBA University course materials. It is not based on your company's policies and any local practices.

Initial CBI requirements:

- ✓ Course 101 (8 hours)
- ✓ Course 210 (16 hours)
- ✓ Course 220 (8 hours)
- ✓ Course 221 (8 hours)
- ✓ Elective Courses (20 hours)
- ✓ 1 Conference Attendance

Obviously, courses 210, 220 and 221 are of extreme importance. Please carefully review the materials from these three courses.

Some things you may want to think about:

What is the SBA and how does the lending process work?

What are the differences between an asset sale and a stock sale?

Are there tax differences between an asset sale and a stock sale?

What are the different types of business entities and how would the sale of assets or stock be treated when associated with a particular business entity?

What is the process of ethics? (review the IBBA Code of ethics)

Understand and know financial terms such as EBITDA, EBIT, etc.

What is the IBBA Business Brokerage Standards? (review the Standards)

In Analyzing and Recasting Financial Statements you should be able to:

- ✓ Compare an economic financial statement to an owner's financial statement.
- ✓ Compare value, price and cost.
- ✓ Identify the steps to recast financial statements.
- ✓ Evaluate each line of an Income Statement and Balance Sheet for potential recasting.
- ✓ Explain the buyer's justification to purchase.
- ✓ Explain how to use comparative ratios to benchmark a business.

More specifically you should be able to:

- ✓ Differentiate between price, cost and value.
- ✓ Define value to a business broker.
- ✓ Explain the importance of recasting.
- ✓ Compare an owner's and an economic financial statement.
- ✓ Explain why earnings are more important than assets.
- ✓ Define the common earnings definitions.
- ✓ Explain the importance of recasting to discretionary earnings (DE).
- ✓ Explain how cost of goods (CGS) is calculated and how CGS relates to profits and inventory.
- ✓ Describe three methods used to value inventory.
- ✓ Explain how owner's compensation is handled in the Income Statement.
- ✓ Compare depreciation to amortization.
- ✓ Describe how depreciation and amortization are handled.
- ✓ Explain the importance of knowing how equipment is leased when recasting the Income statement and balance sheet.
- ✓ List five items to consider when adjusting for rented or leased property.
- ✓ Explain how individual expense items are handled.
- ✓ Identify non-recurring items.
- ✓ Identify unrecognized expenses/income.
- ✓ Identify potential imminent change that could affect the income statement.
- ✓ Identify non-operating income/expense items.
- ✓ Explain how income taxes are handled.
- ✓ Define a Balance Sheet and its three main components.
- ✓ Explain the goal of the recast balance Sheet.
- ✓ Define Operating Assets, Invested Capital, Adjusted Book Value and Net Assets of the proposed sale.
- ✓ Explain how the five types of current assets are handled in balance sheet recasting.
- ✓ Identify three components of inventory.
- ✓ Describe strategies to properly value inventory.
- ✓ Explain how to determine obsolete inventory.
- ✓ Explain how to handle prepaid expenses, notes receivables and other current assets on the balance sheet.
- ✓ List three classifications of fixed assets.
- ✓ Explain how depreciation is handled on the balance sheet.
- ✓ Define the value used for fixed assets.
- ✓ Explain how real estate, FFE and vehicles are handled on the balance sheet.
- ✓ List the six step process in valuing fixed assets.
- ✓ Define and give examples of non-current/intangible assets.
- ✓ Compare Goodwill to Blue-Sky.
- ✓ Define and give examples of three types of liabilities.
- ✓ List the two conditions that are necessary to reduce the value of the liability of a loan.
- ✓ Define "off-book" assets and liabilities and give three examples.

- ✓ Define equity and other commonly used terms.
- ✓ Explain the “Saleable Deal” theory.
- ✓ Explain buyer’s justification to purchase.
- ✓ Describe benchmarking and how comparative ratios are used.
- ✓ Define the key ratios used by brokers and lenders.
- ✓ Identify the key benefits and issues with comparative ratios.

In reviewing the International Business Brokers Association’s Business Brokerage Standards you should understand:

- ✓ BBS-1 Standard of Conduct in Dealing with other Business Brokers.
- ✓ BBS-II Standard of Conduct in Dealing with Clients.
- ✓ BBS-III Standard of Conduct in Dealing with Customers.
- ✓ BBS-IV Standard for Business Brokerage Advertising & Promotion.
- ✓ BBS-V Document Retention Standard.

In reviewing the International Business Brokers Association’s Code of Ethics you should understand:

- ✓ The Code of Ethics is a part of the Bylaws of the International Business Brokers Association.
- ✓ The purpose of the Code is to establish a uniform standard of conduct for business brokers.
- ✓ There are twenty articles and each involves items associated with the ethical principals of business.

In reviewing business entities and their tax consequences you should understand:

- ✓ “C” corporations (income and capital gain tax consequences)
- ✓ “S” corporations (income and capital gain tax consequences)
- ✓ LLCs (income and capital gain tax consequences)
- ✓ Partnerships (income and capital gain tax consequences)
- ✓ Sole proprietorships (income and capital gain tax consequences)

In reviewing Introduction to Business Brokerage you should understand:

- ✓ The steps in the brokerage process.
- ✓ The role/job of a business broker.
- ✓ The differences among business brokers and related associations, certifications and specialties.
- ✓ Sources of licensing and/or registration information.
- ✓ Key communication and business skills of a business broker.
- ✓ Brokerage decisions based on ethical decision making.
- ✓ The steps in preparing listings.
- ✓ Methods to find sellers.
- ✓ Seller’s goals and motivations.

- ✓ Listing agreement types.
- ✓ One page summary for a Confidential Business Review.
- ✓ Steps in searching for buyers.
- ✓ Questions critical to determining a buyer's seriousness.
- ✓ Common goals and motivations of buyers.
- ✓ Effects of various financing arrangements.
- ✓ Types of information about which buyers should be educated.
- ✓ Broker's role in navigating a sale.
- ✓ How to facilitate negotiations using ethical decision making practices.
- ✓ How to evaluate the quality of sales and purchase agreements.
- ✓ How to define due diligence.
- ✓ The process for removing common contingencies.
- ✓ The closing process.
- ✓ How to identify ethical decisions and situations that might occur in a closing.
- ✓ How to list the task included in follow up.

In reviewing Introduction to Pricing Small Businesses you should know:

- ✓ How to work with potential sellers who seek a broker's opinion of value to assist in pricing their small business.
- ✓ How to use the seven step process in the DMDM to calculate the most probable selling price and to report findings for the subject business.
- ✓ How to distinguish between a broker's opinion of value and a business appraisal.
- ✓ The ethical considerations in pricing a business for sale.
- ✓ The data and information to be collected for calculating the MPSP.
- ✓ The research to be performed in calculating the MPSP.
- ✓ How to summarize the three approaches for calculating value – the Market Approach, the Income Approach, and the Asset Approach.
- ✓ When to use each of the above approaches.
- ✓ How to explain the importance of DE when using the Direct Market Data Method.
- ✓ How to review and articulate the processes in recasting customer financial statements.
- ✓ The procedures used in the Direct market Data Method and explain why this is the preferred method.
- ✓ How to determine the SIC and/or NAICS of the subject business.
- ✓ How and when to use the Bizcomps, IBA and/or Pratt's Stats database to price a business.
- ✓ The best method to present findings, to ensure that the report meets the customers needs and exceeds expectations.

In reviewing Pricing Small Businesses: Level 2 you should know:

- ✓ How to apply the principals of the Income Approach and the Asset Approach to review and critique the work of others who may use or present them to justify a most probable selling price.

- ✓ The concept of present value as it relates to the Income Approach.
- ✓ The difference between MPSP and equity.
- ✓ How to calculate growth rate.
- ✓ How to convert discount rate to capitalization rate.
- ✓ How to establish discount rate using the buildup procedure.
- ✓ How to calculate earnings using recast financial statements.
- ✓ How to convert equity to MPSP.
- ✓ How to apply the Capitalized Economic Income Method to calculate equity.
- ✓ The three most common methods used to apply the Income Approach – Capitalized Economic Method, Discounted Economic Income Method, and Multiple of DE Method.
- ✓ The two most common methods used to apply the Asset Approach – Net Asset Accumulation Method and Excess Earnings Method.
- ✓ The seven step process used in the Direct Market Data Method of the Market Approach.
- ✓ How to reconcile the MPSP arrived at using the DMDM with MPSPs arrived at using the Income and Asset Approaches.

Additional Notes of Caution!

This is a serious examination situation. You should treat it as such and govern your study and social time accordingly. If you need additional assistance in studying please contact:

We wish you all the best!