**BUSINESS VALUATIONS MULTIPLE CHOICE QUESTIONS**

**The following scenario applies to questions 1 and 2 although each question should be considered independently.**

Marigold Mining, incorporated in 2000, is a mining exploration company, which searches and processes gold deposits. The company is owned by 2 individuals, Peter Brock and Lam Chung. Over the years they have been very successful, but the market price for gold is difficult to predict and competition has increased rapidly over the last few years. Recently, Peter and Lam have taken an interest in investments, specifically in other resource companies. Since Marigold Mining has been profitable every year since 2000 they have managed to build their cash position in the company to a point where they were able to use funds to invest in other companies as well as purchase marketable securities. Currently, they believe that the Company's investments in these resource companies have a fair market value of $800,000. Given their new interest in investing, they have decided to devote their full time to this activity and will attempt to sell Marigold Mining. They will determine a fair price to charge for the business based on a valuation they will perform. The following financial information has been prepared for the year ending December 31, 2014.

| Selected information re the Income Statement | |
|---|---|
| Sales | $2,200,560 |
| Investment income (note 1) | 57,500 |
| Salaries | 1,450,000 |
| Bad debt expense (note 2) | 32,000 |
| Net income before taxes | 125,000 |
| Taxes | 25,000 |

| Selected information re the Balance Sheet | |
|---|---|
| Cash | $ 552,000 |
| Marketable securities (FMV - $150,000) | 150,000 |
| Accounts receivable | 197,500 |
| Capital assets | 1,225,750 |
| Investments in other resource companies | 295,000 |
| Accounts payable | 72,000 |
| Long term debt (prime + 3%) | 120,000 |

Notes

1) Investment income is dividends and interest received from the investments in resource companies.
2) Historically bad debts are rare. The recent downturn in commodity prices led to the bankruptcy of a number of companies.
3) Prime rate is currently 5%.
4) The tax rate is 20%.

1. Which of the following multipliers would be **most** appropriate to use in coming up with a valuation of Marigold Mining for the year ended December 31, 2014?

   (A) 11 times

   (B) 13 times

   (C) 14 times

   (D) 18 times

2. Assuming the capitalized earnings approach and a multiplier of 11 times (not necessarily the correct multiplier), what is the valuation of Marigold Mining for the year ended December 31, 2014?

   (A) $875,600

   (B) $1,825,600

   (C) $2,050,000

   (D) $2,044,500

3. Cabric Inc. is a residential construction company and its profitability is very dependent on the construction industry which tends to be cyclical. The owner is considering selling the company and requires a business valuation. The company owns approximately $100 million dollars of equipment and must continually reinvest in modern equipment to remain competitive. Which of the following methods would be most appropriate for valuing the company?

   (A) Capitalized earnings using the most recent year's financial statements as a starting point for computing maintainable earnings

   (B) Capitalized earnings using the financial statements for a number of prior years as a starting point for computing maintainable earnings

   (C) Capitalized cash flows using the financial statements for a number of prior years as a starting point for computing maintainable cash flows

   (D) Capitalized cash flows using the most recent year's financial statements as a starting point for computing maintainable cash flow

**The following scenario applies to questions 4 and 5**

Melon Inc. is considering purchasing another company, Finly Inc (FI) and would like to value FI. The following information relates to FI's most recent fiscal year, which is the year ended, August 31, 2014

| | |
|---|---|
| Pre-tax maintainable earnings | $850,000 |
| Annual Depreciation: | $100,000 |
| CCA class for its assets | Class 39 (25%) |
| Prospective Income Tax Rate | 40% |
| Required rate of return/capitalization rate | 10% |

The Undepreciated Capital Cost and book value of its capital assets is $250,000 and $200,000 respectively). The fair market value and book value of its redundant assets is $120,000 and $100,000 respectively. In order to maintain its existing levels of operations, the company must spend $50,000 a year on capital investment. They however intend to spend $90,000 per year, as they would like to grow the operations.

4. Which of the following is the amount of the sustaining capital reinvestment net of the tax shield for FI?

   (A) $50,000

   (B) $36,364

   (C) $90,000

   (D) $65,455

5. Melon Inc. wishes to value FI based upon the capitalized cash flows method. Which of the following is the value of FI based upon FI's most recent year's financial statements, for the year ended, august 31, 2014?

   (A) $5,513,492

   (B) $5,820,000

   (C) $5,507,778

   (D) $5,527,778

6. Soloc Inc (SI) is a medium sized private company in the furniture manufacturing industry. Most of its competitors are private companies. Its earnings have historically been very stable, however due to changes in the industry, it is expected that future earnings will be quite volatile. The company owns its plant and equipment. Which of the following methods would be most appropriate for valuing SI?

(A) Discounted cash flows

(B) Capitalized cash flows

(C) Capitalized earnings

(D) Market based approach