

Purchasing an Established Pharmacy/Junior Partnership Self-Assessment Questions

1. A pharmacy has annual sales of \$2,400,000. Using the annual sales rule of thumb, which of the following would be the best estimate of the value of the pharmacy?
 - A. \$100,000
 - B. \$200,000
 - C. \$400,000
 - D. \$600,000
 - E. \$800,000

2. A pharmacy has a net profit of \$90,000. Which of the following would be the best estimate of the purchase price, which would yield a return on investment of 15%.
 - A. \$100,000
 - B. \$200,000
 - C. \$400,000
 - D. \$600,000
 - E. \$800,000

3. In using the Bank of America method to value a pharmacy, which of the following would be the best figure to use for the “years of profit factor” for a pharmacy that was extremely unprofitable and in poor financial condition?
 - A. 1
 - B. 2
 - C. 3
 - D. 4
 - E. 5

4. Using the percentage of sales plus inventory method, the best estimate for the selling price of an average pharmacy with annual sales of \$2,000,000 and an inventory of \$100,000 is:
 - A. \$100,000
 - B. \$200,000
 - C. \$400,000
 - D. \$600,000
 - E. \$800,000

5. The direct sale of a pharmacy results in more compensation to the owner than the establishment of a junior partnership.
 - A. True
 - B. False

6. An attorney should be engaged to prepare the junior partnership agreements between the owner and the junior partner.
 - A. True
 - B. False

7. After the purchase of 50% of the business by the junior partner, the pharmacy may be used as collateral to borrow the money necessary to purchase the remaining 50%.
- A. True
 - B. False
8. In a junior partnership agreement, the owner receives compensation payment from the junior partner, but not from the net profit of the business.
- A. True
 - B. False
9. In normalizing the income statement for a pharmacy you are considering purchasing you note that the owner has been taking a salary of \$60,000 and pays himself (he owns the building) \$80,000 rent. The average salary and rent for a pharmacy this size is \$100,000 and \$40,000. If the net profit were \$50,000, the “normalized” or adjusted net profit would be:
- A. \$10,000
 - B. \$50,000
 - C. \$90,000
 - D. \$130,000
 - E. \$160,000
10. Goodwill
- A. Is an intangible asset of a business
 - B. Is valued at 1-2 years net profit of the pharmacy
 - C. All of the above
 - D. None of the above