**CARSON’S INN – QUESTIONS**

Use the report writing guide from the course website, performing the analysis and answering the questions that follow:

Q. 1. Ms. Ivy originally approached the company, Peterson Accounting, when she discovered problems with her faulty title to the vacant land. She hired the company to value the hotel property so she could provide lenders an independent appraisal of the collateral value of the property.

Peterson Accounting researched valuation approaches used to determine most banks’ collateral value of bed and breakfast Inns in the Laguna area and discovered that most bank appraisers calculate the collateral value using the expected value approach. They place weights on appraisals that result from two methods. First, many bed and breakfast operations are valued at four times the past two years' average gross margin. Appraisers assume that this appraisal is correct about 40% of the time, and accordingly place a 40% weight on the number derived from this method. Second, many properties are valued by taking the present value of the average of the past three years' cash flows discounted at an 8% discount rate for 10 years. (Appraisers assume that the past cash flows are a good estimate of future cash flows and those cash flows should continue for 10 years in the future.) Appraisers place a weight of 60% on the number derived from this method.

Using the income statement and footnotes for Carson’s Inn for the past three years provided by the existing owner's accountant to help in the appraisal process, verify the value of the hotel determined by Peterson Accounting by using:

a. Four times the past two years' average gross margin

1. The present value of the average of the past three years' cash flows discounted at 8% for the next 10 years. In order to do this, first prepare an estimate of cash flow from operations for the three years. Then discount the average of this amount at 8% for 10 years to determine the hotel's implied value.
2. Combine the values calculated in a) and b) using the weights provided. What is the appraised value of the Bed and Breakfast? Assume the appraised value is the total amount that the bank will loan Ms. Ivy unless she either pays 25% of the purchase in cash or pledges to the bank a first priority lien on the vacant land as collateral. If Ms. Ivy has $500,000 available as a down payment, could she have borrowed enough money based on this appraisal without pledging the vacant land as collateral?
3. Should Peterson Accounting have relied on the income statement and footnote information provided by Ms. Rivera’s accountant? Why or why not?

Q.2. Assume the verification of Peterson’s accounting did not result in enough loan value to avoid needing title to the vacant land and that the lien release was critical for the loan to proceed. Using the materials provided to you in the attached library (assume that the applicable precedent is from the fictional jurisdiction of the state of Green provided to you in the attached library), please address all elements of Ms. Ivy’s negligence cause of action against Bank of Land. Assume Bank of Land is liable for its employees’ actions.