

Week 1 Homework

14.1 Residual Distribution Model:

Given the following information:

- \$5 Million in capital expenditures
 - Capital structure 60% debt
 - 40% equity.

If net income next year is \$3 million and Puckett follows a residual distribution policy with all distributions as dividends, what will be its dividend payout ratio?

In order to find out the dividend payout (distribution) ratio, I must first find out what the distribution is.

Formula: Distribution = Net Income - [(equity) (Capital Expenditures)]

Net income = \$3 mil

Equity = 40%

Capital expenditures = \$5

mil 3 - [(0.40) (5)]

3 - 2 = 1

Formula: Distribution Ratio = Distribution / Net Income

1 / 3 = 33.33%

(Brigham, 2017 p.579)

14-7 Stock Split

Given the following information:

- Own 2000 common shares of Laurence Inc.
- EPS (Earnings Per Share) is \$10
- DPS (Dividends per share) is \$3
- Stock sells for \$80 per share
- Announced 2 for 1 split

Immediately after the split: