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Done Practicing

## Analysis of Dividends and Share Repurchases

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Review Answer ☒ On

Practice Problem

**Q.** The dividend policy of Berkshire Gardens Inc. can be represented by a gradual adjustment to a target dividend payout ratio. Last year Berkshire had earnings per share of US\$3.00 and paid a dividend of US\$0.60 a share. This year it estimates earnings per share will be US\$4.00. Find its dividend per share for this year if it has a 25% target payout ratio and uses a five-year period to adjust its dividend.

- A. US\$0.68.
- B. US\$0.80.
- C. US\$0.85.



Correct

Correct Answer

Your Answer

A

✓

B

C

Confidence Level:

Not Selected

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## Solution

**A is correct.** The estimated dividend per share is US\$0.68.

Previous DPS = US\$0.60

Expected EPS = US\$4

Target payout ratio = 0.25

Five-year adjustment factor =  $1/5 = 0.2$

Expected dividend = Previous dividend + (Expected earnings × Target payout ratio – Previous dividend) × Adjustment factor

= US\$0.60 + [(US\$4.00 × 0.25 – US\$0.60) × 0.2]

= US\$0.60 + US\$0.08

= US\$0.68