

CONCEPT: RATIOS – PAYOUT RATIO

- The **Payout Ratio (Dividend Payout Ratio)** measures the percentage of earnings distributed to stockholders.

□ The Payout Ratio is a common _____ ratio

$$\text{Dividend Payout Ratio} = \frac{\text{Cash Dividends to Common Stockholders}}{\text{Net Income}}$$

Analysis: The results of the calculation tell how many dollars of dividends are paid out for each dollar of net income. Most companies set a goal for a dividend payout ratio and aim to maintain that payout each year.

Comparison: A low dividend payout ratio is not necessarily a bad thing. Low payout ratios indicate that the company is growing and _____ earnings into the business. However, a significant decrease in payouts could indicate that the company is having _____ problems.

PRACTICE: ConsistoCo has a policy to maintain a constant payout ratio from year to year. During the previous fiscal year, net income totaled \$1,200,000 and ConsistoCo paid \$240,000 in dividends. This year, due to the settlement of a lawsuit, the company had net income of \$700,000. What amount of dividends would investors expect ConsistoCo to declare this year?

- a) \$70,000
- b) \$140,000
- c) \$190,000
- d) \$240,000

PRACTICE: Dive Company maintains a policy to have a consistent payout ratio from year to year. Selected financial information for the company is as follows:

Account	Current	Previous
Total Equity	\$750,000	\$600,000
Retained Earnings	\$240,000	\$480,000
Net Income	\$80,000	\$60,000
Total Assets	\$900,000	\$760,000
Dividends Paid	?	\$15,000

What amount of dividends would the company pay during the current year?

- a) \$20,000
- b) \$8,000
- c) \$18,750
- d) \$15,000