**ACCOUNTING QUESTIONS**

PART 1:

1. If the company continues with its current growth rate, the value per share of company’s stock will be:

 Book value per share=Total common shareholder’s equity/number of common shares

 =Total equity 100000 x 3.75 =375000

 Dividends claim 48000 x 2 =96000

 Total shareholder’s equity=375000-96000=279000

 Value per share of company’s stock will be: 279000/100000

 BVPS=$ 2.79 per share

1. If $ 1.30=$ 25.34

 3.75=?

25.34 x3.75/1.30

 =73.096

 Therefore, the stock price will be $ 73.0961

1. (a) The company’s average price earnings ratio will be:

$ 25. 77+ $ 19. 49=45.26

 =45.26/2=22.63

 (b) The price earnings ratio =Stock price/EPS

 = 73.0961/3.75

 =$ 19.49 per share.

# 4. The payout ratio in this case is directly proportional to the P/E

# This means that when the P/E is higher, the payout ratio is still high. A higher payout ratio decreases the growth rate (ROE\*Retention Ratio), because no reinvested earnings in the company.  If you don't hold all else equal, then a higher payout ratio does not necessarily command a higher P/E, especially if return on capital is much higher than cost of capital.

**5.** Return on equity= Net income/shareholders’ equity

 Net income =$ 19.49 x 100000x 5= 9745000

 Shareholder’s equity= 100000

ROE= 9745000/100000= 97.45

 ROE =97.45%

**6**. This can increase the price of introducing new by products into the industry. Introducing new products will counteract the decline in customers which will in turn increase revenues. There are no conditions under the price of the stock; the condition under which the introduction of a new product strategy would not increase the stock price is when the product introduced is of low and poor quality compared to the existing products in the market.