

B-23.07

Sherwin Corporation has three business segments: paint, wallpapers, and tools. The company's assumed cost of capital is 10%. Financial information about each segment follows.

	<u>Paint Segment</u>	<u>Wallpaper Segment</u>	<u>Tools Segment</u>
Segment operating income	\$ 650,000	\$ 475,000	\$ 900,000
Invested capital	6,500,000	3,500,000	7,500,000

- (a) Prepare an analysis of residual income for each segment, and note which segment has the highest residual income.
- (b) Assuming a reduction in assumed cost of capital to 5%, prepare a revised analysis of residual income. Does this revised assumption alter the rankings?