ASSET INTENSITY ADJUSTMENTS FOR COMPARABLE A
FOR TAXPAYER'S 1998 YEAR (COMPARABLE'S FYE 0199)

<u>To get adjusted sales:</u>

average receivables[1]:

(25.210 + 36.607) / 2
= 30.9085

average receivables holding period:

average receivables divided by sales
= 30.9085 / 127.546
= .242

Adjustment to receivables to make it like tested party:

(tested party's receivables to sales ratio times comparable's sales)
minus comparable's receivables
= (.078 * 127.456) - 30.908
= 9.948 - 30.908
= -20.960

Interest multiplier:

short term AFR divided by
(1 plus (short term AFR times receivables holding period))
= i / (1 + i*h)
= .0530 / (1 + .0530*.242)
= .0530 / 1.0128
= .0523

Adjustment to sales:

adjustment to receivables[2] times interest multiplier
= (-20.960) * .0523

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[1]Throughout, "receivables" refers to trade receivables.

[2]One assumes that if a company holds receivables longer, it gets a higher unit price.

= -1.096

Adjusted sales:

unadjusted sales plus adjustment to sales
= 127.546 - 1.096
= 126.450 (differs from computer printout, 126.449, because of rounding)

To get adjusted cogs:

average payables:

(13.848 + 29.596) / 2
= 21.722

average payables holding period:

average payables divided by cogs
21.722 / 77.850
= .279

Adjustment to comparable's payables to make it like tested party:

(tested party's payables to sales ratio times comparable's sales)
minus comparable's payables
= (.187 * 127.546) - 21.722
= 23.851 - 21.722
= 2.129

Interest multiplier:

short term AFR divided by
(1 plus (short term AFR times payables holding period))
= $i / (1 + i*h)$
= .0530 / (1 + .0530*.279)
= .0530 / 1.0148
= .0522

Adjustment to cogs from payables:

adjustment to payables[3] times interest multiplier

= 2.129 * .0522

= .111

Average inventory[4]:

(36.335 + 34.166) / 2

= 35.2505

Adjustment to inventory to make it like tested party:

(tested party's inventory to sales ratio times comparable's sales)
minus comparable's inventory

= (.240 * 127.546) - 35.205

= 30.611 - 35.2505

= -4.639

Adjustment to cogs from inventory:

sign-reversed adjustment to inventory[5] times short term AFR

= 4.639 * .0530

= .246

Adjusted cogs:

unadjusted cogs plus adjustment to cogs from payables
plus adjustment to cogs from inventory

= 77.850 + .111 + .246

= 78.207

<u>To get adjusted operating expense:</u>

average other operating assets (defined as the sum of net PP&E, prepaid expenses, other current assets, deferred charged, and other assets):

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[3]One assumes that if a company holds payables longer, it pays a higher unit price.

[4]Throughout, we use inventory stated on a FIFO basis.

[5]One assumes that if a company holds inventory for longer, it pays the supplier less per unit.

(16.917 + 13.069) / 2
= 14.993

Adjustment to comparable's other operating assets to make it like tested party:

(tested party's other operating assets to sales ratio times comparable's sales)
minus comparable's other operating assets
= (.158 * 127.546) - 15.020
= 20.152 - 14.993
= 5.159

Adjustment to operating expense:

sign-reversed[6] adjustment to other operating assets times medium term AFR
= -5.159 * .0544
= -.281

Adjusted operating expense:

unadjusted operating expense plus adjustment to operating expense
= 48.135 - .281
= 47.854

[6]One assumes that if a company has more other operating assets, it will have less operating expenses.