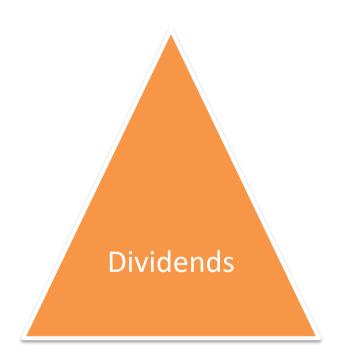


What Company will do of Profits?





Dividends

Cash Dividend

- When company decides not to use money for operations but transfer economic value to Investors
- Company share price falls
- It gives you Income but shareholders has to pay tax on them

Stock Dividend

- No cash available or if they want to invest cash somewhere else
- Avoid Tax and price doesn't falls
- They may come with Cash

Dividend

- A dividend is the share of profits that is distributed to shareholders in the company and the return that shareholders receive for their investment in the company
- The company's management must use the profits to satisfy its various stakeholders, but equity shareholders are given first preference as they face the highest amount of risk in the company. A few examples of dividends include:

1. Cash Dividend

A dividend that is paid out in cash and will reduce the cash reserves of a company.

2. Bonus Shares or Stock Dividend

Bonus shares refer to shares in the company are distributed to shareholders at no cost. It is usually done in addition to a cash dividend, not in place of it.

Dividends

- Declaration date: The day the Board of Directors announces their intention to pay a dividend. On the declaration date, the Board will also announce a date of record and a payment date
- Date of record (ex-dividend date): The day when the stockholders are entitled to the dividend payment. A stock will usually begin trading ex-dividend or ex-rights the fourth business day before the payment date. In other words, only the owners of the shares on or before that date will receive the dividend
- Payment date: The date the dividend will actually be given to the shareholders.



Case Study

On March 15 a board of directors approves dividend of \$0.40 per share to pay on May1 to stockholders of record on April 15 (Shares 2,000)

Declaration Date
15th March

Retained Earnings (2,000 X \$0.40)

Dividends Payable

800

800

Record/Ex Date 15th April

No Entry

The record date merely determines the names of the stockholders that will receive the dividends

Payment Date

1st May

Dividends Payable Cash

800

800

Dividend Policy

- A company's dividend policy dictates the amount of dividends paid out by the company to its shareholders and the frequency with which the dividends are paid out.
- When a company makes a profit, they need to make a decision on what to do with it.

 They can either retain the profits in the company (retained earnings on the balance sheet), or they can distribute the money to shareholders in the form of dividends.

Dividend Policy

- Regular Dividend
- Stable Dividend
- Irregular Dividend
- No Dividend

