

Solution:

Since the preferred stock was \$3 million 6% cumulative, we see that the interest cumulates at a rate of 6%.

Thus, we get

$$\text{Preferred Dividend per year} = \$3 \text{ million} \times 0.06 = \$0.18 \text{ million}$$

For 3 years, it was not paid, so the stock accumulated value to \$0.54 million. Thus, we get the following:

$$\text{Preferred stock dividend} = \$0.54 \text{ million}$$

$$\text{Common stock dividend} = \$0.46 \text{ million}$$

Since the company decide to give \$1 million to the dividends and preferred stock holders are satisfied first.