**12-1 Dividend payment procedures – At the quarterly dividend meeting, Wood Shoes declared a cash dividend of $1.10 per share for holders of record on Monday, July 10. The firm has 300,000 shares of common stock outstanding and has set a payment date of July 31. Prior to the dividend declaration, the firm’s key accounts were as follows:**

Cash - $500,000

Dividends Payable – 0

Retained Earnings - $2,500,000

1. Show the entries after the meeting adjourned.
2. When is the ex dividend date?
3. What values would the key accounts have after the July 31 payment date?
4. What effect, if any, will the dividend have on the firm’s total assets?
5. Ignoring general market fluctuations, what effect, if any, will the dividend have on the firm’s stock price on the ex dividend date?

**12-2 Dividend payment – Kathy Snow wishes to purchase shares of Countdown Computing. The company’s board of directors has declared a cash dividend of $0.80 to be paid to holders of record on Wednesday, May 12.**

1. What is the last day that Kathy can purchase the stock (trade date) and still receive the dividend?
2. What day does this stock begin trading “ex dividend”?
3. What change, if any, would you expect in the price per share when the stock begins trading on the ex dividend day?
4. If Kathy held the stock for less than one quarters of then sold if for $39 per share, would she achieve a higher investment return by (1) buying the stock prior to the ex dividend date at $35 per share and collecting the $0.80 dividend, or (2) buying it on the ex dividend date at $34.20 per share but not receiving the dividend?

**12-3 Residual dividend policy – As president of Young’s of California, a large clothing chain, you have just received a letter from a major stockholder. The stock holder asks about the company’s dividend policy. In fact, the stockholder has asked you to estimate the amount of the dividend that you are likely to pay next year. You have not yet collected all of the information about the expected dividend payment, but you do know the following:**

1. The company follows a residual dividend policy
2. The total capital budget for next year is likely to be one of three amounts, depending on the results of capital budgeting studies that are currently under way. The capital expenditure amounts are $2 million, $3 million, and $4 million.
3. The forecasted level of poetential retained earnings ext year is $2 million.
4. The target or optimal capital structure is a debt ratio of 40%.

You have decided to respond by sending the stockholder the best information available to you.

1. Describe a residual dividend policy.
2. Compute the amount of the dividend (or the amount of new common stock needed) and the dividend payout ratio for each of the three capital expenditure amounts.
3. Compare, contrast, and discuss the amount of dividends (calculated in part b) associated with each of the three capital expenditure amounts.

**12-5 Dividend constraints – A firm has $800,000 in paid-in capital, retained earnings of $40,000 (including the current year’s earnings), and 25,000 shares of common stock outstanding. In the current year, it has $29,000 of earnings available for the common stockholders.**

1. What is the most fir firm can pay in cash dividends to each common stockholder? (assume that legal capital includes all paid-in capital.)
2. What effect would a cash dividend of $0.80 per share have on the firm’s balance sheet entries?
3. If the firm cannot raise any new funds from external sources, what do you consider the key constraint with respect to the magnitude of the firm’s dividend payments? Why?

**12-7 Alternative dividend policies – Given the earnings per share over the period 2002-2009 shown in the following table, determine the annual dividend per share under each of the policies set forth in parts a through d.**

Year earnings per share

2009 $1.40

2008 $1.56

2007 $1.20

2006 -$0.85

2005 $1.05

2004 $0.60

2003 $1.00

2002 $0.44

1. Pay out 50% of earnings in all years with positive earnings
2. Pay $.50 per share and increase to $0.60 per share whenever earnings per share rise above $0.90 per share for two consecutive years
3. Pay $0.50 per share except when earnings exceed $1.00 per share, in which case pay an extra dividend of 60% of earnings above $1.00 per share.
4. Combine the policies described in parts b and c. When the dividend is raised (in part b), raise the excess dividend base (in part c) from $1.00 to $1.10 per share.
5. Compare and contrast each of the dividend policies described in parts a through d.

**12-9 – Cash versus stock dividend – Milwaukee Tool ha the following stockholder’s equity account. The firm’s common stock currently sells for $4 per share.**

Preferred stock $100,000

Common Stock (400,000 shares at $1 par) $400,000

Paid-in capital in excess of par $200,000

Retained earnings $320,000

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Total stockholder’s equity $1,020,000

1. Show the effects on the firm of a cash dividend of $0.01, $0.05, $0.10, and $0.20 per share.
2. Show the effects on the firm of a 1%, 5%, 10%, and 20% stock dividend.
3. Compare the effects in parts a and b. What are the significant differences between the two methods of paying dividends?