CHAPTER 18
Dividend and Other Payouts

Multiple Choice Questions:

I. DEFINITIONS

DIVIDENDS

a 1. Payments made out of a firm's earnings to its owners in the form of cash or stock are called:
   a. dividends.
   b. distributions.
   c. share repurchases.
   d. payments-in-kind.
   e. stock splits.

   Difficulty level: Easy

DISTRIBUTIONS

b 2. Payments made by a firm to its owners from sources other than current or accumulated earnings are called:
   a. dividends.
   b. distributions.
   c. share repurchases.
   d. payments-in-kind.
   e. stock splits.

   Difficulty level: Easy

REGULAR CASH DIVIDENDS

c 3. A cash payment made by a firm to its owners in the normal course of business is called a:
   a. share repurchase.
   b. liquidating dividend.
   c. regular cash dividend.
   d. special dividend.
   e. extra cash dividend.

   Difficulty level: Easy

LIQUIDATING DIVIDENDS

a 4. A cash payment made by a firm to its owners when some of the firm's assets are sold off is called a:
   a. liquidating dividend.
   b. regular cash dividend.
   c. special dividend.
   d. extra cash dividend.
   e. share repurchase.

   Difficulty level: Easy

DECLARATION DATE

e 5. The date on which the board of directors passes a resolution authorizing payment of a dividend to the shareholders is the _____ date.

a. ex-rights
b. ex-dividend
c. record
d. payment
e. declaration

Difficulty level: Easy

EX-DIVIDEND DATE

b 6. The date before which a new purchaser of stock is entitled to receive a declared dividend, but on or after which she does not receive the dividend, is called the _____ date.

a. ex-rights
b. ex-dividend
c. record
d. payment
e. declaration

Difficulty level: Easy

DATE OF RECORD

c 7. The date by which a stockholder must be registered on the firm's roll as having share ownership in order to receive a declared dividend is called the:

a. ex-rights date.
b. ex-dividend date.
c. date of record.
d. date of payment.
e. declaration date.

Difficulty level: Easy

DATE OF PAYMENT

d 8. The date on which the firm mails out its declared dividends is called the:

a. ex-rights date.
b. ex-dividend date.
c. date of record.
d. date of payment.
e. declaration date.

Difficulty level: Easy

HOMEMADE DIVIDENDS

e 9. The ability of shareholders to undo the dividend policy of the firm and create an alternative dividend payment policy via reinvesting dividends or selling shares of stock is called (a):

a. perfect foresight model.
b. MM Proposition I.
c. capital structure irrelevancy.
d. homemade leverage.
e. homemade dividend policy.

Difficulty level: Medium

INFORMATION CONTENT EFFECT

a 10. The market's reaction to the announcement of a change in the firm's dividend payout is likely the:

a. information content effect.
b. clientele effect.
c. efficient markets hypothesis.
d. MM Proposition I.
e. MM Proposition II.

Difficulty level: Medium

CLIENTELE EFFECT

b 11. The observed empirical fact that stocks attract particular investors based on the firm's dividend policy and the resulting tax impact on investors is called the:

a. information content effect.
b. clientele effect.
c. efficient markets hypothesis.
d. MM Proposition I.
e. MM Proposition II.

Difficulty level: Easy

SHARE REPURCHASE

e 12. A _____ is an alternative method to cash dividends which is used to pay out a firm's earnings to shareholders.

a. merger
b. tender offer
c. payment-in-kind
d. stock split
e. share repurchase

Difficulty level: Easy

STOCK DIVIDENDS

a 13. A payment made by a firm to its owners in the form of new shares of stock is called a _____ dividend.
- a. stock
- b. normal
- c. special
- d. extra
- e. liquidating

Difficulty level: Easy

STOCK SPLITS

b 14. An increase in a firm's number of shares outstanding without any change in owners' equity is called a:
- a. special dividend.
- b. stock split.
- c. share repurchase.
- d. tender offer.
- e. liquidating dividend.

Difficulty level: Easy

TRADING RANGE

c 15. The difference between the highest and lowest prices at which a stock has traded is called its:
- a. average price.
- b. bid-ask spread.
- c. trading range.
- d. opening price.
- e. closing price.

Difficulty level: Easy

REVERSE SPLITS

d 16. In a reverse stock split:
- a. the number of shares outstanding increases and owners' equity decreases.
- b. the firm buys back existing shares of stock on the open market.
- c. the firm sells new shares of stock on the open market.
- d. the number of shares outstanding decreases but owners' equity is unchanged.
- e. shareholders make a cash payment to the firm.

Difficulty level: Easy

II. CONCEPTS

DIVIDEND PAYMENTS

c 17. The last date on which you can purchase shares of stock and still receive the dividend is the date _____ business day(s) prior to the date of record.
- a. zero
- b. one
- c. three
- d. five
- e. seven

Difficulty level: Easy

DIVIDEND PAYMENTS

b 18. Leslie purchased 100 shares of GT, Inc. stock on Wednesday, July 7^{th}. Marti purchased 100 shares of GT, Inc. stock on Thursday, July 8^{th}. GT declared a dividend on June 20^{th} to shareholders of record on July 12^{th} and payable on August 1^{st}. Which one of the following statements concerning the dividend paid on August 1^{st} is correct given this information?
- a. Neither Leslie not Marti are entitled to the dividend.
- b. Leslie is entitled to the dividend but Marti is not.
- c. Marti is entitled to the dividend but Leslie is not.
- d. Both Marti and Leslie are entitled to the dividend.
- e. Both Marti and Leslie are entitled to one-half of the dividend amount.

Difficulty level: Medium

DIVIDEND PAYMENTS

b 19. All else equal, the market value of a stock will tend to decrease by roughly the amount of the dividend on the:
- a. dividend declaration date.
- b. ex-dividend date.
- c. date of record.
- d. date of payment.
- e. day after the date of payment.

Difficulty level: Medium

FACTORS FOR LOW DIVIDENDS

a 20. Which one of the following is an argument in favor of a low dividend policy?
- a. the tax on capital gains is deferred until the gain is realized
- b. few, if any, positive net present value projects are available to the firm
- c. a preponderance of stockholders have minimal taxable income
- d. a majority of stockholders have other investment opportunities that offer higher rewards with similar risk characteristics
- e. corporate tax rates exceed personal tax rates

Difficulty level: Medium

FACTORS FOR LOW DIVIDENDS

e 21. The fact that flotation costs can be significant is justification for:

a. a firm to issue larger dividends than its closest competitors.
b. a firm to maintain a constant dividend policy even if it frequently has to issue new shares of stock to do so.
c. maintaining a constant dividend policy even when profits decline significantly.
d. maintaining a high dividend policy.
e. maintaining a low dividend policy and rarely issuing extra dividends.

Difficulty level: Medium

FACTORS FOR LOW DIVIDENDS

e 22. Which of the following tend to keep dividends low?

I. state laws restricting dividends in excess of retained earnings
II. terms contained in bond indenture agreements
III. the desire to maintain constant dividends over time
IV. flotation costs

a. II and III only
b. I and IV only
c. II, III, and IV only
d. I, II, and III only
e. I, II, III, and IV

Difficulty level: Medium

FACTORS FOR HIGH DIVIDENDS

d 23. Ignoring capital gains as an alternative, the tax law changes in 2003 tend to favor a:

a. lower dividend policy.
b. constant dividend policy.
c. zero-dividend policy.
d. higher dividend policy.
e. restrictive dividend policy.

Difficulty level: Easy

FACTORS FOR HIGH DIVIDENDS

e 24. Which of the following are factors that favor a high dividend policy?

I. stockholders desire for current income
II. tendency for higher stock prices for high dividend paying firms
III. investor dislike of uncertainty
IV. high percentage of tax-exempt institutional stockholders

a. I and III only
b. II and IV only
c. I, III, and IV only
d. II, III, and IV only
e. I, II, III, and IV

Difficulty level: Medium

FACTORS FOR HIGH DIVIDENDS

b 25. An investor is more likely to prefer a high dividend payout if a firm:
- a. has high flotation costs.
- b. has few, if any, positive net present value projects.
- c. has lower tax rates than the investor.
- d. has a stock price that is increasing rapidly.
- e. offers high capital gains which are taxed at a favorable rate.

Difficulty level: Easy

INFORMATION CONTENT

c 26. The information content of a dividend increase generally signals that:
- a. the firm has a one-time surplus of cash.
- b. the firm has few, if any, net present value projects to pursue.
- c. management believes that the future earnings of the firm will be strong.
- d. the firm has more cash than it needs due to sales declines.
- e. future dividends will be lower.

Difficulty level: Medium

DIVIDEND SURVEY RESULTS

b 27. Of the following factors, which one is considered to be the primary factor affecting a firm’s dividend decision?
- a. personal taxes of company stockholders
- b. consistent dividend policy
- c. attracting retail investors
- d. attracting institutional investors
- e. sustainable changes in earnings

Difficulty level: Medium

DIVIDEND SURVEY RESULTS

a 28. Financial managers:
- a. are reluctant to cut dividends.
- b. tend to ignore past dividend policies.
- c. tend to prefer cutting dividends every time quarterly earnings decline.
- d. prefer cutting dividends over incurring flotation costs.
- e. place little emphasis on dividend policy consistency.

Difficulty level: Easy

STOCK REPURCHASE

c 29. If you ignore taxes and transaction costs, a stock repurchase will:

I. reduce the total assets of a firm.
II. increase the earnings per share.
III. reduce the PE ratio more than an equivalent stock dividend.
IV. reduce the total equity of a firm.

a. I and III only
b. II and IV only
c. I, II, and IV only
d. I, III, and IV only
e. I, II, III, and IV

Difficulty level: Medium

STOCK REPURCHASE

b 30. From a tax-paying investor's point of view, a stock repurchase:

a. is equivalent to a cash dividend.
b. is more desirable than a cash dividend.
c. has the same tax effects as a cash dividend.
d. is more highly taxed than a cash dividend.
e. creates a tax liability even if the investor does not sell any of the shares he owns.

Difficulty level: Medium

STOCK DIVIDENDS

b 31. All else equal, a stock dividend will _____ the number of shares outstanding and _____ the value per share.

a. increase; increase
b. increase; decrease
c. not change; increase
d. decrease; increase
e. decrease; decrease

Difficulty level: Easy

STOCK DIVIDENDS

c 32. A small stock dividend is defined as a stock dividend of less than _____ %.

a. 10 to 15
b. 15 to 20
c. 20 to 25
d. 25 to 30
e. 30 to 35

Difficulty level: Easy

STOCK DIVIDEND

d 33. Nu Tech, Inc. is a technology firm with good growth prospects. The firm wishes to do something to acknowledge the loyalty of its shareholders but needs all of its available cash to fund its rapid growth. The market price of its stock is currently trading in the middle of its preferred trading range. The firm could consider:

a. issuing a liquidating dividend.
b. a stock split.
c. a reverse stock split.
d. issuing a stock dividend.
e. a special cash dividend.

Difficulty level: Medium

STOCK DIVIDENDS

d 34. Which of the following are valid reasons for a firm to reduce or eliminate its cash dividends?

I. The firm is on the verge of violating a bond restriction which requires a current ratio of 1.8 or higher.
II. A firm has just received a patent on a new product for which there is strong market demand and it needs the funds to bring the product to the marketplace.
III. The firm can raise new capital easily at a very low cost.
IV. The tax laws have recently changed such that dividends are taxed at an investor's marginal rate while capital gains are tax exempt.

a. I and III only
b. II and IV only
c. II, III, and IV only
d. I, II, and IV only
e. I, II, III, and IV

Difficulty level: Medium

STOCK SPLITS

c 35. A stock split:

a. increases the total value of the common stock account.
b. decreases the value of the retained earnings account.
c. does not affect the total value of any of the equity accounts.
d. increases the value of the capital in excess of par account.
e. decreases the total owners' equity on the balance sheet.

Difficulty level: Medium

STOCK SPLITS

a 36. Stock splits are often used to:

a. adjust the market price of a stock such that it falls within a preferred trading range.
b. decrease the excess cash held by a firm.
c. increase both the number of shares outstanding and the market price per share simultaneously.
d. increase the total equity of a firm.
e. adjust the debt-equity ratio such that it falls within a preferred range.

Difficulty level: Easy

STOCK SPLITS

d 37. Which of the following tend to increase the appeal of a firm's stock to the average investor?

I. a cessation of dividends by a firm which has a long history of increasing dividends
II. the distribution of a special dividend by a dividend-paying firm
III. a reverse stock split for a low-priced stock
IV. the declaration of a stock dividend by a growth firm

a. I and III only
b. II and IV only
c. I, II, and IV only
d. II, III, and IV only
e. I, II, III, and IV

Difficulty level: Medium

STOCK SPLIT

d 38. Wydex, Inc. stock is currently trading at $82 a share. The firm feels that its primary clientele can afford to spend between $2,000 and $2,500 to purchase a round lot of 100 shares. The firm should consider a:

a. reverse stock split.
b. liquidating dividend.
c. stock dividend.
d. stock split.
e. special dividend.

Difficulty level: Medium

REVERSE STOCK SPLITS

d 39. A one-for-four reverse stock split will:

a. increase the par value by 25%.
b. increase the number of shares outstanding by 400%.
c. increase the market value but not affect the par value per share.
d. increase a $1 par value to $4.
e. increase a $1 par value by $4.

Difficulty level: Medium

REVERSE STOCK SPLITS

d 40. A reverse stock split is sometimes used as a means of:

a. decreasing the liquidity of a stock.
b. decreasing the market value per share of stock.
c. increasing the number of stockholders.
d. keeping a firm's stock eligible for trading on a stock exchange.
e. raising cash from current stockholders.

Difficulty level: Easy

DIVIDEND DATES

d 41. Which of the following lists events in chronological order from earliest to latest?
- a. date of record, declaration date, ex-dividend date.
- b. date of record, ex-dividend date, declaration date.
- c. declaration date, date of record, ex-dividend date.
- d. declaration date, ex-dividend date, date of record.
- e. ex-dividend date, date of record, declaration date.

Difficulty level: Medium

EX-DIVIDEND DATES

b 42. In an efficient market, ignoring taxes and time value, the price of stock should:
- a. decrease by the amount of the dividend immediately on declaration date.
- b. decrease by the amount of the dividend immediately on ex-dividend date.
- c. increase by the amount of the dividend immediately on declaration date.
- d. increase by the amount of the dividend immediately on ex-dividend date.
- e. Both B and C.

Difficulty level: Medium

DATE OF RECORD

c 43. On the date of record the stock price drop is:
- a. a full adjustment for the dividend payment.
- b. a partial adjustment for the dividend payment because of the tax effect.
- c. zero because it happens on ex-dividend date.
- d. zero because it happens on payment date.
- e. None of the above.

Difficulty level: Medium

HOMEMADE DIVIDENDS

b 44. The use of homemade dividends allows stockholders to change the:
- a. return pattern of the firm by leveraging their position like the firm.
- b. cash dividend payout received by selling off shares to receive current dividends or purchasing added shares with the dividends, as desired.
- c. value of the company by sending dividend requirement letters to the home office of the corporation.
- d. Both A and C.
- e. Both B and C.

Difficulty level: Medium

HOMEMADE DIVIDENDS

c 45. Homemade dividends are described by Modigliani and Miller to be the:

a. dividend one pays oneself to avoid risky stocks.
b. re-arrangement of the firm's dividend stream as management needs.
c. re-arrangement of the firm's dividend stream by investors in their holdings by buying or selling stock.
d. present value of all dividends to be paid.
e. None of the above.

Difficulty level: Medium

DIVIDEND IRRELEVANCE

c 46. The dividend-irrelevance proposition of Miller and Modigliani depends on the following relationship between investment policy and dividend policy.

a. The level of investment does not influence or matter to the dividend decision.
b. Once dividend policy is set the investment decision can be made as desired.
c. The investment policy is set before the dividend decision and not changed by dividend policy.
d. Since dividend policy is irrelevant there is no relationship between investment policy and dividend policy.
e. Miller and Modigliani were only concerned about capital structure.

Difficulty level: Medium

DIVIDEND RELEVANCE

b 47. Dividends are relevant and dividend policy irrelevant when:

a. cash dividends are always constant and dividend policy is changed as management needs.
b. cash dividends are increased for one year while others are held constant, thus causing an increase in stock price, and dividend policy establishes the trade-off between dividends at different dates.
c. cash dividends are always constant and dividend policy establishes the trade-off between dividends at different dates.
d. cash dividends are increased for one payment while others are held constant and dividend policy is changed as management needs.
e. None of the above.

Difficulty level: Medium

REVERSE SPLIT

d 48. A reverse split is when:

a. the stock price gets too high for investors to purchase in round lots.
b. the stock becomes too liquid and highly marketable.
c. the stock price moves into the popular trading range.
d. several old shares, such as 4, are replaced by 1 new share.
e. None of the above.

Difficulty level: Easy

III. PROBLEMS

STOCK DIVIDENDS

c 49. You owned 200 shares last year and received a stock dividend of 5% at the end of last year. The number of shares you now have is _____ and your wealth has increased by ______ %.

a. 10; 5
b. 210; 5
c. 210; 0
d. 50,000; 5
e. 50,000; 0

Difficulty level: Easy

STOCK DIVIDEND

e 50. The Rent It Company declared a dividend of $.60 a share on October 20th to holders of record on Monday, November 1st. The dividend is payable on December 1st. You purchased 100 shares of Rent It Company stock on Wednesday, October 27th. How much dividend income will you receive on December 1st from the Rent It Company?

a. $0
b. $1.50
c. $6.00
d. $15.00
e. $60.00

Difficulty level: Medium

STOCK DIVIDEND

c 51. You purchased 200 shares of ABC stock on July 15th. On July 20th, you purchased another 100 shares and then on July 22st you purchased your final 200 shares of ABC stock. The company declared a dividend of $1.10 a share on July 5th to holders of record on Friday, July 23rd. The dividend is payable on July 31st. How much dividend income will you receive on July 31st from ABC?

a. $0
b. $220
c. $330
d. $440
e. $550

Difficulty level: Medium

STOCK DIVIDEND

a 52. The KatyDid Co. is paying a $1.25 per share dividend today. There are 120,000 shares outstanding with a par value of $1.00 per share. As a result of this dividend, the:

a. retained earnings will decrease by $150,000.
b. retained earnings will decrease by $120,000.
c. common stock account will decrease by $150,000.
d. common stock account will decrease by $120,000.
e. capital in excess of par value account will decrease by $120,000.

Difficulty level: Medium

STOCK DIVIDEND

d 53. On May 18th, you purchased 1,000 shares of BuyLo stock. On June 5th, you sold 200 shares of this stock for $21 a share. You sold an additional 400 shares on July 8th at a price of $22.50 a share. The company declared a $.50 per share dividend on June 25th to holders of record as of Thursday, July 10th. This dividend is payable on July 31st. How much dividend income will you receive on July 31st as a result of your ownership of BuyLo stock?

a. $100
b. $200
c. $300
d. $400
e. $500

Difficulty level: Medium

HOMEMADE DIVIDENDS

b 54. You own 300 shares of Abco, Inc. stock. The company has stated that it plans on issuing a dividend of $.60 a share one year from today and then issuing a final liquidating dividend of $2.20 a share two years from today. Your required rate of return is 9%. Ignoring taxes, what is the value of one share of this stock today?

a. $2.36
b. $2.40
c. $2.62
d. $2.80
e. $2.85

Difficulty level: Medium

HOMEMADE DIVIDENDS

d 55. Priscilla owns 500 shares of Delta stock. It is January 1, 2006, the company recently issued a statement that it will pay a $1.00 per share dividend on December 31, 2006 and a $.50 per share dividend on December 31, 2007. Priscilla does not want any dividend this year but does want as much dividend income as possible next year. Her required return on this stock is 12%. Ignoring taxes, what will Priscilla's homemade dividend per share be in 2007?

a. $0
b. $.50
c. $1.50
d. $1.62
e. $1.68

Difficulty level: Medium

STOCK REPURCHASE

d 56. A firm has a market value equal to its book value. Currently, the firm has excess cash of $600 and other assets of $5,400. Equity is worth $6,000. The firm has 500 shares of stock outstanding and net income of $900. What will the new earnings per share be if the firm uses its excess cash to complete a stock repurchase?

a. $1.20
b. $1.50
c. $1.80
d. $2.00
e. $2.40

Difficulty level: Medium

STOCK REPURCHASE

c 57. A firm has a market value equal to its book value. Currently, the firm has excess cash of $800 and other assets of $5,200. Equity is worth $6,000. The firm has 600 shares of stock outstanding and net income of $700. The firm has decided to spend all of its excess cash on a share repurchase program. How many shares of stock will be outstanding after the stock repurchase is completed?

a. 480 shares
b. 500 shares
c. 520 shares
d. 540 shares
e. 560 shares

Difficulty level: Medium

CASH DIVIDEND

b 58. A firm has a market value equal to its book value. Currently, the firm has excess cash of $500 and other assets of $9,500. Equity is worth $10,000. The firm has 250 shares of stock outstanding and net income of $1,400. What will the stock price per share be if the firm pays out its excess cash as a cash dividend?

a. $36
b. $38
c. $40
d. $42
e. $44

Difficulty level: Medium

CASH DIVIDEND

e 59. A firm has a market value equal to its book value. Currently, the firm has excess cash of $400 and other assets of $7,600. Equity is worth $8,000. The firm has 200 shares of stock outstanding and net income of $900. The firm has decided to pay out all of its excess cash as a cash dividend. What will the earnings per share be after the dividend is paid?

a. $0.25
b. $0.45
c. $2.50
d. $3.80
e. $4.50

Difficulty level: Medium

SMALL STOCK DIVIDEND

a 60. Murphy's, Inc. has 10,000 shares of stock outstanding with a par value of $1.00 per share. The market value is $8 per share. The balance sheet shows $32,500 in the capital in excess of par account, $10,000 in the common stock account, and $42,700 in the retained earnings account. The firm just announced a 10% (small) stock dividend. What will the balance in the retained earnings account be after the dividend?

a. $34,700
b. $35,700
c. $42,700
d. $49,700
e. $50,700

Difficulty level: Medium

SMALL STOCK DIVIDEND

b 61. Murphy's, Inc. has 10,000 shares of stock outstanding with a par value of $1.00 per share. The market value is $8 per share. The balance sheet shows $32,500 in the capital in excess of par account, $10,000 in the common stock account and $42,700 in the retained earnings account. The firm just announced a 10% (small) stock dividend. What will the market price per share be after the dividend?

a. $7.20
b. $7.27
c. $7.33
d. $8.00
e. $8.80

Difficulty level: Medium

LARGE STOCK DIVIDEND

a 62. Bruno's has 7,000 shares of stock outstanding with a par value of $1.00 per share and a market value of $12 per share. The balance sheet shows $7,000 in the common stock account, $58,000 in the capital in excess of par account and $32,500 in the retained earnings account. The firm just announced a 50% (large) stock dividend. What is the value of the capital in excess of par account after the dividend?

a. $58,000
b. $61,500
c. $87,000
d. $96,500
e. $100,000

Difficulty level: Medium

LARGE STOCK DIVIDEND

a 63. Bruno's has 7,000 shares of stock outstanding with a par value of $1.00 per share and a market value of $12 per share. The balance sheet shows $7,000 in the common stock account, $58,000 in the capital in excess of par account and $32,500 in the retained earnings account. The firm just announced a 50% (large) stock dividend. What is the value of the retained earnings account after the dividend?

a. $29,000
b. $30,500
c. $32,500
d. $34,500
e. $36,000

Difficulty level: Medium

LARGE STOCK DIVIDEND

d 64. Bruno's has 7,000 shares of stock outstanding with a par value of $1.00 per share and a market value of $12 per share. The balance sheet shows $7,000 in the common stock account, $58,000 in the capital in excess of par account and $32,500 in the retained earnings account. The firm just announced a 50% (large) stock dividend. What is the value of the common stock account after the dividend?

a. $7,000
b. $8,500
c. $9,000
d. $10,500
e. $14,000

Difficulty level: Medium

LARGE STOCK DIVIDEND

b 65. Bruno's has 7,000 shares of stock outstanding with a par value of $1.00 per share and a market value of $12 per share. The balance sheet shows $7,000 in the common stock account, $58,000 in the capital in excess of par account, and $32,500 in the retained earnings account. The firm just announced a 50% (large) stock dividend. What is the market value per share after the dividend?

a. $6.00
b. $8.00
c. $9.00
d. $10.50
e. $12.00

Difficulty level: Medium

STOCK SPLIT

d 66. Robinson's has 15,000 shares of stock outstanding with a par value of $1.00 per share and a market price of $36 a share. The balance sheet shows $15,000 in the common stock account, $315,000 in the capital in excess of par account, and $189,000 in the retained earnings account. The firm just announced a 3-for-2 stock split. How many shares of stock will be outstanding after the split?

a. 10,000 shares
b. 12,500 shares
c. 20,000 shares
d. 22,500 shares
e. 27,500 shares

Difficulty level: Medium

STOCK SPLIT

b 67. Robinson's has 15,000 shares of stock outstanding with a par value of $1.00 per share and a market price of $36 a share. The balance sheet shows $15,000 in the common stock account, $315,000 in the capital in excess of par account, and $189,000 in the retained earnings account. The firm just announced a 3-for-2 stock split. What will the market price per share be after the split?

a. $18
b. $24
c. $42
d. $48
e. $54

Difficulty level: Medium

STOCK SPLIT

c 68. Robinson’s has 15,000 shares of stock outstanding with a par value of $1.00 per share and a market price of $36 a share. The balance sheet shows $15,000 in the common stock account, $315,000 in the capital in excess of par account, and $189,000 in the retained earnings account. The firm just announced a 3-for-2 stock split. What will the value of the common stock account be after the split?

a. $10,000
b. $12,500
c. $15,000
d. $18,500
e. $22,500

Difficulty level: Medium

STOCK SPLIT

d 69. Robinson’s has 15,000 shares of stock outstanding with a par value of $1.00 per share and a market price of $36 a share. The balance sheet shows $15,000 in the common stock account, $315,000 in the capital in excess of par account, and $189,000 in the retained earnings account. The firm just announced a 3-for-2 stock split. What will the paid in surplus account value be after the split?

a. $126,000
b. $210,000
c. $283,500
d. $315,000
e. $472,500

Difficulty level: Medium

STOCK SPLIT

c 70. The Retail Outlet has 6,000 shares of stock outstanding with a par value of $1.00 per share. The current market value of the firm is $420,000. The balance sheet shows the capital in excess of par account value of $136,000 and retained earnings of $234,000. The company just announced a 2-for-1 stock split. What will the common stock account balance be after the split?

a. $3,000
b. $4,500
c. $6,000
d. $9,000
e. $12,000

Difficulty level: Medium

STOCK SPLIT

a 71. The Retail Outlet has 6,000 shares of stock outstanding with a par value of $1.00 per share. The current market value of the firm is $420,000. The balance sheet shows the capital in excess of par account value of $136,000 and retained earnings of $234,000. The company just announced a 2-for-1 stock split. What will the market price per share be after the split?

a. $35
b. $40
c. $55
d. $70
e. $140

Difficulty level: Medium

STOCK SPLIT

b 72. The Retail Outlet has 6,000 shares of stock outstanding with a par value of $1.00 per share. The current market value of the firm is $420,000. The balance sheet shows the capital in excess of par account value of $136,000 and retained earnings of $234,000. The company just announced a 2-for-1 stock split. What will the retained earnings account balance be after the split?

a. $117,000
b. $234,000
c. $351,000
d. $410,000
e. $468,000

Difficulty level: Medium

STOCK SPLIT

e 73. The Tinslow Co. has 125,000 shares of stock outstanding at a market price of $93 a share. The company has just announced a 5-for-3 stock split. How many shares of stock will be outstanding after the split?

a. 62,500 shares
b. 75,000 shares
c. 83,333 shares
d. 175,000 shares
e. 208,333 shares

Difficulty level: Medium

STOCK SPLIT

b 74. The Tinslow Co. has 125,000 shares of stock outstanding at a market price of $93 a share. The company has just announced a 7-for-3 stock split. What will the market price per share be after the split?

a. $38.27
b. $39.86
c. $40.40
d. $46.18
e. $55.80

Difficulty level: Medium

STOCK SPLIT

d 75. The common stock of Margot, Inc. is selling for $56 a share. The par value per share is $1. Currently, the firm has a total market value of $89,600. How many shares of stock will be outstanding if the firm does a 2-for-1 stock split?

a. 800 shares
b. 1,200 shares
c. 1,600 shares
d. 3,200 shares
e. 4,800 shares

Difficulty level: Medium

REVERSE STOCK SPLIT

c 76. Bob's Auto Group has 25,000 shares of stock outstanding at a market price of $4.50 a share. What will the market price per share be if the company does a 1-for-5 reverse stock split?

a. $18.00
b. $20.00
c. $22.50
d. $27.00
e. $29.50

Difficulty level: Medium

REVERSE STOCK SPLIT

a 77. Edie's Health and Beauty Supply has 125,000 shares of stock outstanding with a par value of $1 per share and a market value of $5 a share. The company has retained earnings of $76,500 and capital in excess of par of $340,000. The company just announced a 1-for-5 reverse stock split. How many shares of stock will be outstanding after the split?

a. 25,000 shares
b. 250,000 shares
c. 312,500 shares
d. 500,000 shares
e. 625,000 shares

Difficulty level: Medium

REVERSE STOCK SPLIT

e 78. Edie's Health and Beauty Supply has 125,000 shares of stock outstanding with a par value of $1 per share and a market value of $5 a share. The company has retained earnings of $76,500 and capital in excess of par of $340,000. The company just announced a 1-for-5 reverse stock split. What will the par value per share be after the split?

a. $0.20
b. $0.50
c. $1.00
d. $2.50
e. $5.00

Difficulty level: Medium

REVERSE STOCK SPLIT

e 79. Edie's Health and Beauty Supply has 125,000 shares of stock outstanding with a par value of $1 per share and a market value of $5 a share. The company has retained earnings of $76,500 and capital in excess of par of $340,000. The company just announced a 1-for-5 reverse stock split. What will the market value per share be after the split?

a. $1.00
b. $2.50
c. $5.00
d. $12.50
e. $25.00

Difficulty level: Medium

IV. ESSAYS

DIVIDEND POLICY

80. Schaeffer Shippers announced that on May 1, 2004, that it will pay a dividend of $5.00 per share on June 15 to all holders on record as of May 31st. The firm's stock price is currently at $70 per share. Assume that all investors are in the 33% tax bracket. Given that the ex-dividend date is May 29, what should happen to Schaeffer's stock price on May 29?

The stock price should fall by $5.00(1-.33) = $3.35
New price = $70 – $3.35 = $66.65

DIVIDEND POLICY

81. It has been shown that in the absence of taxes and other market imperfections firm value will be unaffected by dividend policy. Explain the logic behind this conclusion. Next, describe three real-world factors that may cause one dividend policy to be preferable to another.

The first part of the question asks the student to explain the "homemade dividends" proposition. The second part requires the student to identify and describe the effects on dividend policy of such things as taxes, transactions costs, the desire for current income, and information effects.

Chapter 18

49. # shares = 200(1.05) = 210 The only change is in value per share.
50. Dividend received = $.60 × 100 = $60.00
51. Dividend received = $1.10 × (200 + 100) = $330
52. Decrease in retained earnings = $1.25 × 120,000 = $150,000
53. Dividend received = $.50 × (1,000 – 200) = $400
54. Value per share = ($.60 ÷ 1.09^1) + ($2.20 ÷ 1.09^2) = $2.40
55. Homemade dividend = ($1.00 × 1.12) + $.50 = $1.62
56. Price per share = $6,000 ÷ 500 = $12; Number of shares repurchased = $600 ÷ $12 = 50 shares; New EPS = $900 ÷ (500 – 50) = $2.00
57. Price per share = $6,000 ÷ 600 = $10; Number of shares repurchased = $800 ÷ $10 = 80; New number of shares outstanding = 600 – 80 = 520
58. Price per share = ($10,000 – $500) ÷ 250 = $38
59. Earnings per share = $900 ÷ 200 = $4.50
60. Retained earnings = [10,000 shares × .10) × $8 × -1] + $42,700 = $34,700
61. Market price per share = (10,000 shares × $8) ÷ (10,000 shares × 1.10) = $7.27; Note that the total market value of the firm does not change.
62. The capital in excess of par account does not change with a large stock dividend.
63. Retained earnings = [(7,000 shares × .50) × $1 × -1] + $32,500 = $29,000
64. Common stock = [(7,000 shares × .50) × $1] + $7,000 = $10,500
65. Market value per share = (7,000 shares × $12) ÷ (7,000 × 1.5) = $8.00; Note that the total market value of the firm does not change.
66. Number of shares = 15,000 × 3 ÷ 2 = 22,500 shares
67. Market price per share = $36 × 2 ÷ 3 = $24
68. A stock split does not change the total value of the common stock account.
69. A stock split does not change the total value of the capital in excess of paid account.
70. Common stock account value = 6,000 × $1 = $6,000; A stock split does not change the total value of the common stock account.
71. Market price per share = ($420,000 ÷ 6,000 shares) × 1 ÷ 2 = $35
72. A stock split does not change the total value of the retained earnings account.
73. Number of shares = 125,000 × 5 ÷ 3 = 208,333 shares
74. Market price per share = $93 × 3 ÷ 7 = $39.86
75. Number of shares = ($89,600 ÷ $56) × 2 ÷ 1 = 3,200 shares
76. Market price = $4.50 × 5 ÷ 1 = $22.50
77. Number of shares = 125,000 ÷ 5 × 1 = 25,000 shares
78. Par value per share = $1 × 5 ÷ 1 = $5
79. Market value per share =$5 × 5 ÷ 1 = $25