

CONCEPT: CASH DIVIDENDS AND DIVIDEND PREFERENCES

- There are three important dates related to the payment of dividends:

☐ **Declaration Date** – The date the company publicly states that a dividend will be paid.

On March 14, the board of directors of The Apartment Depot announces a dividend of \$300,000

March 14 Journal Entry:

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
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☐ **Date of Record** – Whoever owns the stock on the date of record will receive the dividend

On March 14, the board of directors of The Apartment Depot announces a dividend of \$300,000. The directors also announced the record date would be April 4.

April 4 Journal Entry:

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
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☐ **Payment Date** – The date that the actual cash dividend is paid to the stockholders

On March 14, the board of directors of The Apartment Depot announces a dividend of \$300,000. The directors also announced the record date would be April 4. On April 11, the company pays the dividend.

April 11 Journal Entry:

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
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- **Dividend Preferences:** Preferred Stock always receive its dividends before Common Stock receives anything

The Apartment Depot currently has outstanding 5,000 shares of \$100 par value 8% preferred stock and 100,000 shares of \$0.50 par value common stock. The Apartment Depot declares and pays a dividend of \$220,000. What is the amount received by preferred shareholders and common shareholders?

Total Preferred Dividend:	Total Common Dividend:
Preferred Dividend per Share:	Common Dividend per Share:

PRACTICE: On December 12, Year 1, ABC Company declared a cash dividend of \$250,000. The date of record was December 28, Year 1. The cash dividend was paid on January 5, Year 2. During which period will the dividend be included on the Statement of Retained Earnings?

- The full amount is included in Year 1
- The full amount is included in Year 2
- The dividend is split between Year 1 and Year 2
- Dividends are not included on the Statement of Retained Earnings

PRACTICE: ABC Company declared and paid a dividend of \$150,000 during the current year. The amount of common stock (\$0.50 par value) outstanding was 125,000. The amount of \$6 preferred shares (par value of \$100) outstanding was 1,000. What is the total dividend received by common stockholders?

- \$0
- \$125,000
- \$144,000
- \$150,000