

ICAG BUSINESS LESSONS (WEEK 12)

Good morning

This is **week 12** of the year 2022 in the Gregorian calendar. 40 weeks remain until the end of the year.

MONDAY MOTIVATION

Whatever it is that you think you want to do, and whatever it is that you think stands between you and that, stop making excuses. You can do anything.

Katia Beauchamp

FUN FACT OF THE WEEK

Most employees have mentally checked out from 4pm- 6pm

The Accountemps study also revealed that you are least productive in your workday between 4pm and 6pm.

Working between 10am and noon are meant to be your best hours, although this can depend on the person.

In order to boost your productivity, it is paramount you find the time in which you work the best and then arrange your work schedule around that.

FINANCE AND INVESTMENT QUOTE OF THE WEEK:

“The price of a commodity will never go to zero. When you invest in commodities futures, you are not buying a piece of paper that says you own an intangible of a company that can go bankrupt.”

Jim Rogers

FINANCE AND INVESTMENT CONCEPT OF THE WEEK: 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 or they can distribute the money to shareholders in the form of dividends.

A company's dividend policy is important in the following ways:

- a. It impacts the financing program and capital budget of the firm.

- b. It affects the firm's cash flow position. A company with a poor liquidity position may be forced to restrict its dividend payments.
- c. It lowers stockholders' equity, since dividends are paid from retained earnings, and so results in a higher debt-to-equity ratio.

Types of Dividend Policies

a. **Stable dividend-per-share policy.**

Dividend stability implies a low-risk company. Many investors look upon companies' dividend stability to take decisions.

Even in a year that the company shows a loss rather than profit, the dividend should be maintained to avoid negative connotations to current and prospective investors. By continuing to pay the dividend, the shareholders are more apt to view the loss as temporary.

A stable dividend policy is also necessary for a company to be placed on a list of securities in which financial institutions invest. Being on such a list provides greater marketability for corporate shares.

b. **Constant dividend-payout-ratio (dividend per share/earnings per share) policy.** With this policy a constant percentage of earnings is paid out in dividends. Because net income varies, dividends paid will also vary using this approach.

The problem this policy causes is that if a company's earnings drop drastically or there is a loss, the dividends paid will be sharply curtailed or nonexistent. This policy will not maximize market price per share since most stockholders do not want variability in their dividend receipts.

c. **A compromise policy.** A compromise between the policies of a stable for instance, dollar amount and a percentage amount of dividends is for a company to pay a low dollar amount per share plus a percentage increment in good years. While this policy affords flexibility, it also creates uncertainty in the minds of investors as to the amount of dividends they are likely to receive. Stockholders generally do not like such uncertainty. However, the policy may be appropriate when earnings vary considerably over the years. The percentage, or extra, portion of the dividend should not be paid regularly; otherwise it becomes meaningless.

d. **Residual-dividend policy.** When a company's investment opportunities are not stable, management may want to consider a fluctuating dividend policy. With this kind of policy the amount of earnings retained depends upon the availability of investment opportunities in a particular year. Dividends paid represent the residual amount from earnings after the company's investment needs are fulfilled.

FACTORS THAT INFLUENCE DIVIDEND POLICY

A firm's dividend policy is a function of many factors, some of which have been described. Other factors that influence dividend policy are as follows:

1. **Company growth rate.** A company that is rapidly growing, even if profitable, may have to restrict its dividend payments in order to keep needed funds within the company for growth opportunities.
2. **Restrictive covenants.** Sometimes there is a restriction in a credit agreement that will limit the amount of cash dividends that may be paid.
3. **Profitability.** Dividend distribution is keyed to the profitability of the company.
4. **Earnings stability.** A company with stable earnings is more likely to distribute a higher percentage of its earnings than one with unstable earnings.
5. **Maintenance of control.** Management that is reluctant to issue additional common stock because it does not wish to dilute its control of the firm will retain a greater percentage of its earnings. Internal financing enables control to be kept within.
6. **Degree of financial leverage.** A company with a high debt-to-equity ratio is more likely to retain earnings so that it will have the needed funds to meet interest payments and debts at maturity.
7. **Ability to finance externally.** A company that is capable of entering the capital markets easily can afford to have a higher dividend payout ratio. When there is a limitation to external sources of funds, more earnings will be retained for planned financial needs.
8. **Uncertainty.** Payment of dividends reduces the chance of uncertainty in stockholders' minds about the company's financial health.
9. **Age and size.** The age and size of the company bear upon its ease of access to capital markets.
10. **Tax penalties.** Possible tax penalties for excess accumulation of retained earnings may result in high dividend payouts.

THIS WEEK IN HISTORY - TOP 15 EVENTS

21/03/2018 - African trade deal agreed by 44 African countries in Kigali, Rwanda

21/03/2006 – The social media site Twitter is founded.

21/03/1990 – Namibia becomes independent after 75 years of South African rule.

21/03/1986 -199.22 million shares traded in NY Stock Exchange

21/03/1965 – Martin Luther King Jr. leads 3,200 people on the start of the third and finally successful civil rights march from Selma to Montgomery, Alabama.

21st March is **International Day for the Elimination of Racial Discrimination**

22/03/2014 - Guinea confirms Ebola outbreak has already killed 59 people

22/03/2012 - Ireland returns to recession as GDP falls by 0.2% in the fourth quarter of 2011 following a fall of 1.1% in the third quarter

22/03/1765 – The British Parliament passes the Stamp Act that introduces a tax to be levied directly on its American colonies.

22nd March is **World Water Day**

23/03/2021- First ever tweet by Twitter founder Jack Dorsey "just setting up my twttr" sells for \$2.9 million in digitally autographed version

23/03/2012 - African Union suspends Mali's membership following a coup

23/03/1995 - Dollar equals 88.41 yen (record)

23rd March is **World Meteorological Day**

24/03/1868 - Metropolitan Life Insurance Co forms

25/03/2019 - Apple introduces new TV streaming platform Apple TV+, news service Apple News+ and an Apple credit card at star-studded event featuring Oprah

25/03/1996 - US issues newly-redesigned \$100 bill

25/03/1991 - Nigerian crude becomes competitive in US Gulf Coast as Nigeria cuts crude prices

DID YOU KNOW?

Registration for the April 2022 CA Professional Examination ends tomorrow, **Tuesday, 22nd March 2022**. Students should visit <https://sms.icagh.org> to register.

Do have a fruitful week!

Compiled by:

Technical and Research Directorate, (Institute of Chartered Accountants (Ghana)).

Please send all comments and suggestions to **Alhassan Trawule** on **0242 732976**.

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