[Frequently Asked Questions]

Dividend decision in financial management

Subject:	Business Economics
Course:	B.A., 3rd Semester, Undergraduate
Paper No. & Title:	Paper – 303 Business Finance
Unit No. & Title:	Unit – 4 Dividend Decision
Lecture No. & Title:	Lecture – 1 Dividend decision in financial management

Frequently Asked Questions

Q1. What is dividend?

A1. Dividend is that part of profits of a company which is distributes by the companies among its shareholder

Q2. How many types of dividend are there?

A2. Five types of dividend are there.

Q3. In India which types of dividend is available to shareholder according to SEBI?

A3. Cash dividend

Q4. What is "scrip dividend"?

A4. It is given in the form of promissory notes on a specified period amount is payable.

Q5. Who formulate dividend policy?

A5. Companies Board of Director formulates dividend policy.

Q6. What is dividend policy?

A6. The policy farmed for the distribution of profits in a form of dividend to the shareholders.

Q7. Mention any 3 factors affecting dividend policy for a company?

A7. Earning of current year, types of business and expected profits of future year.

Q8. What is the meaning of "dividend relevance model"?

A8. This model describe that dividend decision is relevant to the cost of capital and capital structure of the company.

Q9. Meaning of irrelevance model?
A9. This model describe that dividend decision is irrelevant to the cost of capital and capital structure of the company.

Q10. Describe the named of dividend relevance model?
A10. Traditional model, Walter's model, Gordan's model and John Williams model.

Q11. Which model is best from the point of view of shareholder?
A11. Gordans model of dividend relevance is the best because investors prefer dividend to capital gains.

Q12. What is arbitrage?
A12. It refers to an act of buying a security in one market having lower price and selling it in another market a higher price.

Q13. List few assumptions of dividend relevance model?
A13.

1. There is no investor large enough to influence the market price of securities.
2. There is no transactional cost.
3. There is no floatation cost of raising new capital.
4. There exists no taxes or there is no difference in tax rates applicable to dividends and capital gains.

Q14. Mention the formula given by Walter for share valuation?

A14. Walter put forward the share valuation formula as:

$$P = D/k + [r\ (E-D)/k]\ /k$$

Q15. Mention the equation given by Gordon for determining market value of the firm?

A15. For determining the market value of the firm:

$P_O = E\ (1-b)/k-g$

Q16. Which model is best suited form the point of the view of shareholder?

A16. Dividend decision model is suitable from the point of the view of shareholder.