

ENGINEUITY TUTORIAL



Dividend



Dividend

MAKING Financial decisions for period 5 in the Early Years

Change period Key information Help

ASSET BASE		
	Before decisions	After decisions
Cash account:	-249,890	-249,890
Capital base:	4,383,088	4,383,088
Investments:	719,767	719,767
Company value:	4,852,965	4,852,965

(The current overdraft limit for the cash account is 600,000)

DIVIDEND

Amount to pay shareholders: (0% of Equity of 5,200,000)

CAPITAL

DIVIDEND

Dividends are taxable payments declared by a company's board of directors and given to its shareholders, normally quarterly. They provide an incentive to own stock in stable companies even if they are not experiencing much growth.

The dividend paid to shareholders is one of the key factors that affects the company **share price** :-

- **Insufficient dividend** will disappoint the shareholders and reduce the share price
- **Sufficient dividend** will keep the shareholders content, with no change in the share price
- **Ample dividend** will make the shareholders very happy, and increase the share price

The affect on share price is determined by the **% of the company's equity** that is paid as a dividend.

The **equity** of the company at any time is the overall share value.

$$\text{EQUITY} = \text{NUMBER OF SHARES} \times \text{CURRENT SHARE PRICE}$$

Clues as to the affects of different levels of dividend are available by examining what happened in the History, using the **Key information/Share price history** option.



Dividend

Financial Performance Navigate to "Main menu/Making decisions/Financial decisions/Key information/Share price history"

Management consultants report Graphical analysis

OPERATIONAL **SHAREHOLDERS** INVESTMENTS

Summary
 Dividend payments to shareholders
 Other internal factors affecting the company share price

Dividend payments to shareholders							
Period	Status	Year/qtr	Shareholder expectation	Initial equity	Dividend paid	Dividend paid as a % of equity	Change in share price
1	History	2023 (Q1)	History Level	5,000,000	100,000	2.00 %	0.00 %
2	History	2023 (Q2)	History Level	4,650,000	93,000	2.00 %	0.00 %
3	History	2023 (Q3)	History Level	5,300,000	106,000	2.00 %	0.00 %
4	History	2023 (Q4)	History Level	5,250,000	105,000	2.00 %	0.00 %

Since period 1 the company has paid a dividend of 2% of equity every period (8% per annum), and this has been **sufficient to keep the shareholders content** because there has been no change in the share price.

In period 5 we could pay a higher dividend than 2% to try and improve the share price. However, this strategy could be counter productive because dividend payments come out of the cash account and reduce the company value, which adversely affects the company share price, and the positive affects of the extra dividend could be offset by the reduction in the value of the company.

The key is to find a careful balance so that dividend levels do not compromise the financial stability of the business, but do improve the share price.

In period 5 we will continue to pay a 2% dividend, to at least keep the shareholders satisfied, **but look to increase this in the future as the company grows and becomes more profitable.**

KEY POINTS

Shareholder expectations can change as the operating performance of the company changes, and may be higher or lower than the History level. This will affect the level of dividend that needs to be paid to keep them content.



Dividend

MAKING Financial decisions for period 5 in the Early Years

Change period Key information Help

ASSET BASE

	Before decisions	After decisions	
Cash account:	-249,890	-353,890	(The current overdraft limit for the cash account is 600,000)
Capital base:	4,383,088	4,383,088	
Investments:	719,767	719,767	
Company value:	4,852,965	4,748,965	

The dividend payment comes out of the cash account, and the value of the company is reduced by 104,000.

DIVIDEND

Amount to pay shareholders: (2% of Equity of 5,200,000)

CAPITAL BASE

Increase by: (limited to 262,985)

Reduce by: (limited to 876,618)

INVESTMENTS

Name	Description	Initial Value	Increase by	Reduce by	Required
Dubai Bank Ltd	Banking services	102,900	0	0	102,900
Emirate Solutions	Management consultants	208,067	0	0	208,067
HSC Crossing	Travel company	102,100	0	0	102,100
The JT Flower Partnership	Management consultants	102,700	0	0	102,700
The Saxon Group	Management consultants	102,000	0	0	102,000
Thermoguard	Suppliers	102,000	0	0	102,000