

DPBS (PG) COLLEGE , ANOOPSHAHR

PAPER : FINANCIAL MANAGEMENT

PAPER CODE : C 305

TOPIC : DIVIDEND POLICY

PRACTICE SET (II)

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1. The factors involved in setting a dividend policy include all of the following EXCEPT

- (a) Restrictive covenants in a bond indenture.
- (b) Growth prospects.
- (c) The legal prohibition on paying dividends which exceed current earnings.
- (d) Capital impairment restrictions.

Answer: C

2. The dividend policy must be formulated considering two basic objectives, namely

- (a) Delaying the tax liability of the stockholder and information content.
- (b) Maximizing shareholder wealth and delaying the tax liability of the stockholder.
- (c) Maximizing shareholder wealth and providing for sufficient financing.
- (d) Maintaining liquidity and minimizing the weighted average cost of capital.

Answer: C

3. The problem with a constant payout ratio dividend policy from the shareholder's perspective is that

- (a) It bores the shareholders.
- (b) If the firm's earnings drop, so does the dividend payment.
- (c) Even when earnings are low, the company must pay a fixed dividend.
- (d) There is no informational content.

Answer: B

4. The problem with the regular dividend policy from the firm's perspective is that

- (a) It bores the shareholders.
- (b) If the firm's earnings drop, so does the dividend payment.
- (c) Even when earnings are low, the company must pay a fixed dividend.
- (d) It increases the shareholders' uncertainty.

Answer: C

5. The advantage of using the low regular and extra dividend policy is that

- (a) The firm avoids giving the shareholders false hopes.
- (b) If the firm's earnings drop, so does the dividend payment.
- (c) The extra dividend may become a regular event.
- (d) Cyclical shifts in earnings may be avoided.

Answer: A

6. The shareholder receiving a stock dividend receives

- (a) A share of common stock of equal value to their existing shares of common stock.
- (b) Cash.
- (c) Additional shares of common stock and cash.
- (d) Nothing of value.

Answer: D

7. The purpose of a stock split is to

- (a) Affect the firm's capital structure.
- (b) Decrease the dividend.
- (c) Enhance the trading activity of the stock by lowering the market price.
- (d) Increase the market price of the stock.

Answer: C

8. A stock split has _____ effect on the firm's capital structure.

- (a) Little
- (b) No
- (c) A measurable
- (d) A detrimental

Answer: B

9. The purpose of a reverse stock split is to

- (a) Issue additional shares
- (b) Increase the dividend.
- (c) Increase the price of stock.
- (d) Reduce trading activity.

Answer: C

10. Stock repurchases are made for all of the following reasons EXCEPT

- (a) To obtain shares to be used in acquisition.
- (b) To retire outstanding issues.
- (c) To have shares available for stock option plans.
- (d) To decrease the book value of equity.

Answer: D

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