Types of Dividends

Dividends can be classified into different categories depending on the form in which they are paid. These various forms include:

Cash Dividend:
This is a payment made by a company out of its earnings to investors in the form of cash and results in outflow of funds from the firm. Cash dividends transfer the economic value from the company to the shareholders instead of the company using the money for operations. The firm should, therefore, have adequate cash resources at its disposal or provide for such resources so that its liquidity position is not adversely affected on account of distribution of dividends in cash. Cash dividends indeed provide shareholders with regular income on their investment along with exposure to capital appreciation.

Stock Dividends:
These are a non-cash form of dividends where a company distributes additional shares of its common equity to shareholders in proportion to their shareholding, instead of cash. Shareholders can either keep the shares in anticipation that the company will be able to use the money not paid out in a cash dividend to earn a better rate of return, or alternatively, sell some of the new shares to create their own cash dividend. When the company pays stock dividend, there is no change in the company’s assets or liabilities or in total market value of the company’s shares.

Scrip Dividend:
A company may not have sufficient funds to issue dividends in the near future, so instead, it issues a scrip dividend, which is essentially a promissory note to pay shareholders at a later specific date.

Liquidating Dividend:
This maybe a precursor to shutting down the business and the board of directors may wish to return the capital originally contributed by shareholders as a dividend. Liquidating dividends are paid after satisfying all corporate debts.

Upcoming AGMs
- CFI, Royal Harare Golf Club, 10 June, 1100hrs
- RTG, Jacaranda Rooms, 2 and 3, Rainbow Towers, 11 June, 1200hrs

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