

A SEARCH FOR A PROPER ACCOUNTING
FOR THE ISSUANCE OF
STOCK DIVIDENDS

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Leonard E. Plachta
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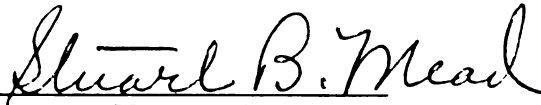
THE ISSUANCE OF STOCK DIVIDENDS

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ABSTRACT

A SEARCH FOR A PROPER ACCOUNTING FOR THE ISSUANCE OF STOCK DIVIDENDS

by Leonard E. Plachta

This study was prompted by the increasing use of stock dividends and a lack of a fully acceptable method for the accounting for their issuance. Modern accounting textbooks present a variety of accounting methods. The recommendations of the American Institute of Certified Public Accountants (AICPA) concerning stock dividends have been seriously questioned by many accountants through the years. Accounting treatment for stock dividends varies among companies and industries.

Research for this thesis was conducted for the purpose of determining the following: (1) the extent of the accounting problems involved; (2) the adequacy of existing procedures and theory of accounting; (3) the existence of inconsistencies and special problems; and (4) the basis for developing a satisfactory method for accounting for the issuance of stock dividends.

Although stock dividends may take many forms, this thesis is concerned only with the stock dividend of common stock issued to holders of common stock.

Research was conducted in the following manner:

1. A review was made of the literature regarding

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the historical, legal, tax, accounting, and financial aspects of stock dividends.

2. A list of all companies issuing stock dividends in 1961 was developed from the statistical data of Moody's and Standard and Poor's Corporation. This list excludes foreign corporations, companies paying stock dividends in stock in other than the issuing corporations, and companies declaring stock dividends in 1961 but issuing them in 1962. An analysis was made of these companies regarding the type of industry, the size of dividend issued, methods of accounting used by these companies, and other pertinent standards.

3. An analysis was made of the stock dividend data as presented in the annual issues of the American Institute of Certified Public Accountants' Accounting Trends and Techniques In Published Annual Reports.

Major findings of the study include:

1. Not all companies account for the distribution of stock dividends in the same manner.

2. A majority (70.6%) of the companies issuing stock dividends are companies whose stock is traded over-the-counter, that is, unlisted. With the exception of unlisted commercial banks, these companies' methods of accounting for stock dividends varied considerably.

3. One industry, commercial banking, is a large

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user of the stock dividend device. Furthermore, its method of accounting for stock dividends is consistent within the industry but contrary to most of the other companies and to the recommendations of the AICPA.

4. There is considerable confusion regarding the accounting for a stock dividend and a stock split. The accounting for stock splits often is similar to the accounting for stock dividends.

5. Uniformity exists only among companies listed on the New York Stock Exchange and among commercial banks. Even then these groups differ from each other.

Based upon the study findings, detailed recommendations regarding the accounting for the issuance of stock dividends are presented.

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1965

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By

Leonard E. Plachta

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CHAPTER I

INTRODUCTION

The problem of adequately accounting for the issuance of stock dividends is a serious one, more significant today than ever before. Not only is the use of stock dividends increasing steadily, but the number of Americans owning stock in publicly-held corporations is growing each year, too. Thus, the growth of these two conditions means that more and more stockholders are affected each year by the issuance of stock dividends.

It is proposed in this dissertation to study and evaluate the accounting treatment of stock dividends in terms of present practice, recommended procedure, existing inadequacies and other related aspects.

The first stock dividend on record, a 100 per cent distribution, was declared by the East India Company in 1682.¹ It was not until the United States Supreme Court made its historic Eisner v. Macomber (252 U.S. 189) decision in 1920 that this financial device became popular and widely used. This court decision found that stock

¹Ira U. Cobleigh, "Stocks with Split Personalities," The Commercial and Financial Chronicle, July 26, 1951, p. 327.

dividends are not taxable as income to stockholders.¹

The increased use of stock dividends after the decision is reflected in a report of the Federal Trade Commission, on stock dividends, made in 1926 to the United States Senate. The report was based on statistics gathered from over 10,000 corporations in the United States and indicated that the volume of stock dividends was about nine times greater in a seven-year period after the Eisner v. Macomber decision than in the seven-year period preceding the decision.²

In recent years the use of stock dividends has been increasing. Standard and Poor's Corporation reported that the number of stock dividends issued in 1962 set a record.³ One of the leading reasons for their increased use is their popularity with stockholders, both as a substitute for, and as an accompaniment to, cash dividends. (Other reasons will be considered in greater detail in Chapter IV.)

Examples of stockholder pressure for stock dividends can be seen in the following quotations taken from newspaper reports of recent annual stockholders' meetings:

¹William C. Waring, Jr., "Fractional Shares Under Stock Dividend Declarations," Harvard Law Review, XXXIV (January, 1931), 404.

²A. C. Whitaker, "The Stock Dividend Question," American Economic Review, XIX (March, 1929), 20.

³"1962 Stock Dividends Set New Record," The Outlook, January 14, 1963, p. 983.

Questioned by one of the approximately 400 shareholders attending the meeting about the possibility of "raising the dividend a little" or perhaps paying a stock dividend, Mr. Barr replied: "The matter is in the directors' hands."¹

Stockholder Morton Adler advocated a dividend policy of part cash and part stock. He said, "I would like you to consider the advantages of paying part in cash and part in stock, particularly in light of the huge expansion program that Consolidated Edison has embarked upon and the enormous amount of funds that must be raised in the future."²

One shareholder advocated stock dividends instead of increases in the cash dividend.³

A Fruehauf Trailer Co. stockholder was told he would have to wait a while for the kind of progress he wants--a stock dividend. . . .

"How about a little bit of a stock dividend?" he asked the annual meeting.⁴

Another shareholder suggested that City Investing "make up" for the recent "cut" in the stock dividend during the coming year. In September 1961, City Investing paid a 5% stock dividend; it is slated to pay only 1% in stock later this month.⁵

A stockholder brought applause when he said, "It's been quite a few years since we've received a stock dividend. How about a nice one?"⁶

¹The Wall Street Journal (Eastern ed.), May 11, 1962, p. 12.

²The Wall Street Journal (Midwest ed.), May 23, 1962, p. 15.

³The Wall Street Journal (Midwest ed.), May 21, 1963, p. 11.

⁴The Wall Street Journal (Eastern ed.), May 4, 1962, p. 16.

⁵The Wall Street Journal (Midwest ed.), September 13, 1962, p. 5.

⁶The Wall Street Journal (Midwest ed.), May 1, 1963, p. 22.

A shareholder asked if he might expect a stock dividend in the near future. "My dear sir," Mr. Cummings replied, "we just got through declaring an increased cash dividend."¹

Such stockholder enthusiasm has encouraged corporations to expand their use of the device. This corporate tendency has been explained as follows:

. . . a large corporation interested in maintaining good stockholder relations may almost be forced into the practice.

When stockholders pressure management for a stock dividend, it is not easy to convince them that such a dividend does not represent income, particularly when other companies are paying them. A great many corporations paying stock dividends today may be doing so only for competitive reasons. They feel it necessary to do so in order that their stock may continue to find favor among investors.²

In spite of record use of stock dividends, there is widespread misunderstanding and confusion as to just what a stock dividend is and what it gives to the stockholder. There are several reasons for this misunderstanding.

A stock dividend is often confused with a stock split-up.³ This confusing state of affairs is summed up by Mr. C. Austin Barker, economist and student of stock dividends:

¹The Wall Street Journal (Midwest ed.), October 12, 1962, p. 4.

²John H. Myers and Loyd C. Heath, "The Periodic Stock Dividend--Boon or Sop!" The Commercial and Financial Chronicle, February 13, 1958, p. 756.

³The terms "stock split-up" and "stock split" are generally considered synonymous and are often used interchangeably, as they are in this dissertation.

It is apparent . . . that there is no clear-cut distinction between split-ups and stock dividends. They overlap in both the legal and accounting areas. In the economic sense, they differ only in the matter of degree of dilution; stock split-ups generally are deemed to represent a greater percentage distribution. Yet there are, of course, a number of seeming exceptions involving large stock dividends and split-ups of less than a 2-for-1 ratio.¹

The use of the word "dividend" adds to the confusion. It is a misnomer in this case and should be avoided. The confusion is compounded by the use of the word "paid" when a stock dividend has been distributed. Further misunderstanding arises when the stockholder sees a declared stock dividend listed among the cash dividend declarations in his favorite financial periodical. An example of this is the listing of stock dividends in the "Dividend News" column of The Wall Street Journal, where stock dividends appear along with cash dividends.

Inaccurate newspaper stories, such as the following, add to the confusion.

Standard Oil Co. (Indiana) yesterday declared a special stock dividend in addition to a regular quarterly cash dividend of 45 cents a share.

The company will pay one share of Standard Oil Co. (New Jersey) stock for each 115 shares of Indiana Standard owned.²

Midwest Oil Corp. raised its quarterly dividend to 45 cents a common share, payable March 11 to

¹C. Austin Barker, "Are Accounting Requirements for Stock Dividends Obsolete?" The Analysts Journal, XIV (November, 1958), 69.

²The Detroit News, October 17, 1962, p. 16-C.

stock of record Feb. 25. The company paid 40 cents in previous quarters. In December Midwest Oil also paid a stock dividend of one share of Gulf Oil Corp. for each 80 Midwest shares held.¹

Both news stories erroneously report a distribution of stock of another company, held as an investment by the distributing company, as a stock dividend. The term "stock dividend" is generally reserved for distributions of a company's own stock to its stockholders. There is a considerable difference between a distribution of a company's own stock and of another company's stock held as an investment.

Another example of misleading news stories is the following item taken from a widely-read financial periodical: "Cash yields from these equities aren't generous, but returns are augmented by fairly regular additional payments in stock which have definite appeal to investors in high tax brackets."²

Appearing in an earlier issue of the same periodical is a similar misleading reference to yield on the issue of stock dividends:

The issues listed . . . comprise eight diversified better-grade commons on which stock dividends are regularly paid. Yields would be considerably higher than those indicated were the value of the

¹The Wall Street Journal (Midwest ed.), February 13, 1963, p. 18.

²"Twelve Issues with Stock Dividend Habits," Financial World, CX (August 20, 1958), 4.

shares dispersed added to the regular rate of cash payment.¹

The two quotations cited above recommend the inclusion of the market value of a stock dividend in the computation of the yield of a particular common stock. It is generally recognized that the receipt of stock dividends provides no income. The inclusion of a stock dividend in the computation of yield along with the cash dividend is not only misleading, but wrong.

An example of the popularity of stock dividends among stockholders is illustrated by the results of a survey made in 1955 by a company which wanted to establish a dividend policy that would be popular with its stockholders. Mr. Rosenthal, president of Citizens Utilities Company, polled all shareholders on the kind of dividend policy they favored. He received replies from 70 per cent of the stockholders. Only seven per cent of the shares represented in the replies favored an all-cash dividend; 55 per cent favored an all-stock dividend policy and 38 per cent a half-cash-half-stock plan.²

Although stock dividends are neither new nor little-used, there is no clear-cut, fully acceptable method for accounting for their issuance. Modern

¹"Stock Dividends Paid by These Eight Issues," Financial World, CIX (February 19, 1958), 7.

²"Stock to Suit the Holder," Business Week, January 14, 1956, p. 107.

accounting texts show a variety of treatments. The recommendations of Accounting Research Bulletin No. 43¹ concerning stock dividends have been seriously questioned by many accountants through the years. The Bulletin is open for criticism in its definition of stock dividends and in the recommended use of fair value as a method for determining the amount to be transferred to permanent capital. Fair value has many interpretations. Accounting treatment for stock dividends varies among companies and industries.

C. Austin Barker states that "accounting requirements for stock dividends are one of the most perplexing problems to managements planning such a distribution."²

As the distinguishing characteristic of a stock dividend is a transfer to the capital stock account, the accountant is faced with the problem of accounting for the transfer. Questions to be answered are:

1. How much per share or in total is to be transferred to permanent capital, including the capital stock account? Various values, such as par value, market value, and average paid-in value, have been suggested,

¹Committee on Accounting Procedure, Restatement and Revision of Accounting Research Bulletins: Accounting Research Bulletin No. 43 (New York: American Institute of Certified Public Accountants, 1953), Chapter 7, Section B, pp. 49-54.

²Barker, loc. cit.

used, and encouraged through the years.

2. From which accounts should the amount be transferred? Should transfers from Paid-In Surplus¹ be allowed, or should transfers for stock dividends be made only from the Retained Earnings² account?

3. How should the costs of issuing the stock be handled? Are they a cost of the period and therefore a deductible expense, or are they in the nature of organization costs and therefore subject to capitalization on the balance sheet?

4. Is it proper to issue a stock dividend in excess of current earnings? Is a stock dividend a distribution of current earnings only, or is it a distribution of current and past earnings of the corporation?

5. What is the difference between a stock dividend and a stock split? William Werntz has described the problem as a "real dilemma."³

¹The Paid-In Surplus account is used to record the excess of par value or stated value received from the issuance of capital stock. While the term Paid-In Surplus is used in this dissertation, other acceptable synonyms such as Paid-In Capital and Capital Surplus may appear in direct quotations and in other accounting literature.

²The Retained Earnings account is used to record earnings or net income retained in the business. While the term Retained Earnings is used in this dissertation, other acceptable synonyms such as Retained Income, Earned Surplus, and Accumulated Earnings may appear in direct quotations and in other accounting literature.

³William W. Werntz, "Dilemmas in Today's Reporting," The Journal of Accountancy, C (November, 1955), 46-47.

An example of confusion regarding stock splits and stock dividends is found in the recent newspaper story headline, "Masco Sets Peak, to Split Stock 100%."¹ It is difficult to visualize a 100 per cent stock split, that is, stock of a corporation that is completely split! Apparently what was meant was a 100 per cent stock dividend or (in effect the same) a 2-for-1 split.

The most recent survey of stock ownership in the United States, conducted by the New York Stock Exchange, indicates that the number of shareholders had risen to 17 million in early 1962. Another two million own shares in privately-held companies. There is also some evidence that up to 35 million non-shareholders are on the verge of investing.²

Reasons for This Work

The combination of a growing stockholder population, an increasing use of stock dividends by American corporations, and a lack of a fully acceptable method for accounting for stock dividends, provided the impetus for this study. Further encouragement for making this study was found in the quotation of Professor Raymond J. Chambers in an article on accounting research:

¹The Detroit News, May 8, 1963, p. 8-D.

²"Stock Ownership," The Michigan Economic Record: A Monthly Report of Business Conditions in Michigan, IV (November, 1962), 1.

. . . it is common wisdom to re-examine the foundations of one's practices; practices may become so overlaid with habitual and conventional trappings that their avowed purposes are no longer well served.¹

Among the purposes of this dissertation are the following:

1. To define adequately a stock dividend in light of past and present definitions and the need to distinguish it from other similar transactions, considering both accounting and financial aspects.

2. To determine whether there exists a really satisfactory way to account for the issuance of stock dividends. This includes recording the declaration, accounting for issuance costs, and balance sheet presentation.

3. To study current conditions under which stock dividends are being declared and the adequacy or the inadequacy of the accounting treatment for them. It will be shown that variations exist among companies, industries, and regulatory bodies.

4. To evaluate the extent to which existing accounting treatment helps or hinders the understanding of stock dividends by stockholders and the general public.

5. To consider the adequacy of present accounting reporting standards pertaining to stock dividends.

¹Raymond J. Chambers, "Why Bother with Postulates?" Journal of Accounting Research, I (Spring, 1963), 15.

Is full disclosure being practiced? Are the users of the financial statements as fully informed as possible regarding the issuance of stock dividends?

6. To review the historical development of accounting concepts regarding stock dividends.

7. To determine the role, both historical and present, of regulatory agencies such as stock exchanges, federal and state agencies, and state corporation laws, and their effect on stock dividend use and their accounting.

8. To study the development and the present status of federal income taxation of stock dividends and the effects of tax treatment on the accounting for stock dividends.

Scope of Study

Although stock dividends may take many forms, this study is concerned exclusively with the stock dividend of common stock issued to holders of common stock. Consequently, other types of stock dividends, such as preferred on common, common on preferred, one class of common on another class of common, etc. are ignored. These types present additional problems that are beyond the scope of this study.

With the exception of a section in the chapter on financial aspects of stock dividends and the chapter on

federal income tax, the viewpoint in this dissertation is that of the issuer and not that of the recipient.

Chapter II traces the development of accounting theory regarding the issuance of stock dividends. Past and current theory is reviewed. Emphasis is placed upon Accounting Research Bulletin No. 43, Chapter 7, Section B, which embodies the latest statement regarding stock dividends promulgated by the American Institute of Certified Public Accountants. Events leading up to Bulletin 43 are reviewed, including the original bulletin, Accounting Research Bulletin No. 11, published in 1941. Chapter II also includes a review of accounting literature and a survey of current accounting textbooks. The survey was made to determine the amount of agreement with Bulletin 43 on the part of leading textbook writers, the methods being taught, and the degree of consistency among the authors.

Because stock dividends involve the issuance of securities, it is important that attention be given to the regulatory aspects of stock dividends. Chapter III discusses the various state corporation laws and the roles of the Securities and Exchange Commission and the New York Stock Exchange. In addition, other lesser agencies that impose regulation in this area are considered. Because the accountant has to operate within the framework of law it is important that these legal and

quasi-legal aspects be considered.

In developing a rationale for the accounting for stock dividends the financial aspects of stock dividends cannot be ignored. Primary emphasis in all cases is given to the accounting for stock dividends. It must be admitted, however, that the stock dividend is a financial device as well as an accounting device. For this reason, Chapter IV is devoted to a discussion of some financial aspects of stock dividends. In this chapter consideration is given to terminology, types of stock dividends, purposes of stock dividends, issuance costs and other related items. Also considered is the important question, "Are stock dividends income to the recipient?"

As indicated earlier, federal income tax considerations have affected the use and appeal of stock dividends. Chapter V discusses the federal income tax and stock dividends, tracing the historical development of such taxation to the present time.

The bulk of the research findings is reported in Chapter VI.

Summary and conclusions are presented in the final chapter, Chapter VII.

Methodology

The following methods of study were used.

1. A review was made of the literature regarding

the historical, legal, tax, accounting, and financial aspects of stock dividends.

2. A list of all companies issuing stock dividends in 1961 was developed from the statistical data of Moody's and Standard and Poor's Corporation. This list excludes foreign corporations, companies paying stock dividends in stock in other than the issuing corporations, and companies declaring stock dividends in 1961 but issuing them in 1962. An analysis was made of these companies regarding the type of industry, the size of dividend issued, methods of accounting used by these companies, and other pertinent standards.

3. An analysis was made of the stock dividend data as presented in the annual issues of the American Institute of Certified Public Accountants' Accounting Trends and Techniques in Published Annual Reports. These annual volumes are studies, made by the American Institute of Certified Public Accountants (AICPA), of reporting practices of 600 companies.

CHAPTER II
PAST AND CURRENT THEORY OF RECORDING
STOCK DIVIDENDS

Review of Current AICPA Position

Current generally accepted accounting theory regarding stock dividends is embodied in Chapter 7, Section B, of Accounting Research Bulletin No. 43. Entitled "Stock Dividends and Stock Split-Ups," it was published in 1953 as a revision of Accounting Research Bulletin No. 11, its predecessor, which was published in 1941. (See Appendix A for complete text of Accounting Research Bulletin No. 43, Chapter 7, Section B.)

Bulletin 43 consists of sections, all separately adopted by at least two-thirds affirmative vote of the 20 members of the Committee on Accounting Procedure. While not in the nature of a "rule" or "law" the pronouncements contained in the various sections carry substantial weight. In the words of the committee, "the authority of opinions reached by the committee rests upon their general acceptability."¹

p. 9. ¹Accounting Research Bulletin No. 43, op. cit.,

The Committee on Accounting Procedure explains its objective as follows:

The principal objective of the committee has been to narrow areas of difference and inconsistency in accounting practices, and to further the development and recognition of generally accepted accounting principles, through the issuance of opinions and recommendations that would serve as criteria for determining the suitability of accounting practices reflected in financial statements and representations of commercial and industrial companies. In this endeavor, the committee has considered the interpretation and application of such principles as appeared to it to be pertinent to particular accounting problems.¹

Chapter 7, Section B, contains a discussion of stock dividends and stock splits as pertains to the recipient and to the issuer. This dissertation chapter is concerned primarily with the issuer, those elements pertaining to the recipient being largely ignored. The following are the main features of the pronouncement:

1. It defines stock dividend and stock split-up, and distinguishes between the two according to the desire of management:

a) The issuance of a stock dividend "is prompted mainly by a desire to give the recipient shareholder some ostensibly separate evidence of a part of their respective interests in accumulated corporate earnings without distribution of cash or other property which the board of directors deems necessary or desirable to retain in the business."²

¹Ibid., p. 8.

²Ibid., p. 49.

b) The issuance of a stock split-up "is prompted mainly by a desire to increase the number of outstanding shares for the purpose of effecting a reduction in their unit market price and, thereby, of obtaining wider distribution and improved marketability of the shares."¹

It views the size of the distribution as a reflection of management's intention and establishes a dividing line of 20-25 per cent to distinguish between a stock dividend and a stock split-up.

2. Bulletin 43 establishes the manner of accounting for such issuances:

a) In the case of a small distribution (less than 20-25 per cent), considered a stock dividend, "the corporation should in the public interest account for the transaction by transferring from earned surplus to the category of permanent capitalization (represented by the capital stock and capital surplus accounts) an amount equal to the fair value of the additional shares issued."²

b) In the case of a larger distribution (more than 20-25 per cent), considered a stock split-up, "no transfer from earned surplus to capital surplus or capital stock account is called for, other than to the extent occasioned by legal requirements."³

¹Ibid.

²Ibid., p. 51.

³Ibid., p. 53.

c) In the case of large distributions (more than 20-25 per cent) where, because of legal requirements, the word "dividend" cannot be avoided, the transaction should be described as a "split-up effected in the form of a dividend."¹

d) In cases of closely-held companies, there is no need to capitalize earned surplus other than to meet legal requirements.

3. All the above provisions are based upon the following:

a) ". . . many recipients of stock dividends look upon them as distributions of corporate earnings and usually in an amount equivalent to the fair value of the additional shares received."²

b) Such views of the stockholders are strengthened by small stock dividends that do not materially change the existing market price.

c) Shareholders of closely-held companies would have intimate knowledge of their corporations' affairs and would not have such misunderstanding.

Discussion of AICPA's Current Position

Stock Dividend and Stock Split-up Defined

The definition of stock dividend and stock split-up

¹Ibid., p. 52.

²Ibid., p. 51.

as indicated in Bulletin 43, Chapter 7, Section B, presents a problem to the accountant and to others because it deviates from the traditional definitions. Traditionally, a stock dividend has been defined basically as a distribution of a company's own stock to stockholders on a pro rata basis with an accompanying journal entry that transfers amounts from a surplus account to a capital stock account. A stock split-up has been similarly defined, except without a journal entry indicating any transfer to the capital stock account. Instead, a stock split-up was characterized by a reduction in the par or stated value of the stock.¹

Contrary to the traditional viewpoint, the AICPA stresses the size of the stock distribution in defining a stock dividend or stock split. Thus, one cannot have a stock dividend larger than 25 per cent. A distribution of this size would be called a stock split or possibly a split-up effected in the form of a dividend.

The Bulletin 43 definition sometimes results in split-ups without a change in par value, accompanied by transfers to permanent capital. The following excerpts from two newspaper stories are examples:

¹See R. H. Montgomery (ed.), Financial Handbook (2d ed.; New York: The Ronald Press Company, 1937), pp. 531, 537; and J. I. Bogen (ed.), Financial Handbook (3rd ed.; New York: The Ronald Press Company, 1950), p. 791.

Cincinnati Gas & Electric Co. stockholders approved a 2-for-1 stock split and an increase in authorized shares to 20 million from 10 million. . . . After the split, par value of the shares will continue to be \$8.50.¹

The \$3 par value of common shares will remain unchanged after the split. The increased capitalization will be provided through a transfer of \$5,399,928 from the earned surplus account.²

These stock distributions would ordinarily have been called stock dividends but because of their size, they were termed splits. Size, not conditions, determined the terminology.

Where once an accounting entry, indicating capitalization of surplus, distinguished a stock dividend from a stock split, now size of distribution does so. This results in the confusing situations of having stock splits accompanied by journal entries and other stock splits without journal entries.

Mr. Walter L. Schaffer, a member of the 1952-1953 Committee on Accounting Procedure of the AICPA, the committee that wrote Chapter 7, Section B of Bulletin 43, later explained the committee's action in changing Bulletin 11 to include the above-discussed definitions:

When the committee on accounting procedure undertook the revision of ARB 11, the principal fault that it found and sought to correct was the

¹The Wall Street Journal (Midwest ed.), April 25, 1963, p. 15.

²The Wall Street Journal (Midwest ed.), August 22, 1962, p. 12.

bulletin's failure to recognize the similarity in general nature and effect of a "common stock dividend" and a "common stock split-up" producing the same relative increase in number of previously outstanding common shares and the desirability of having the same accounting requirements apply, within certain areas of relative increase, to both.

.
 . . . the one [change] it considered to be of the greatest importance had to do with the differentiation between those transactions which should be accounted for as stock dividends and those which, for accounting purposes, should be regarded as stock split-ups. In general effect, the 1941 bulletin regarded any issuance of additional shares without consideration to be a stock dividend, so long as it entailed some capitalization of earned surplus, and to be a stock split-up if it were accomplished in a manner resulting in no increase in legal capital. This produced the situation where literal compliance with the original bulletin would require a charge against earned surplus equal in amount to the fair value of the additional shares involved in the case of every issuance consummated as a stock dividend, regardless of how relatively great in number such additional shares happened to be, and no charge whatsoever if the transaction were consummated as a split-up, regardless of how relatively few additional shares would thereafter be outstanding.¹

The reason given does not appear to be sufficient cause for changing the definitions of stock dividend and stock split. In the original bulletin a stock dividend required capitalization of earned surplus and a stock split-up did not. This definition was logical and required no change. There was no need for becoming concerned about the size of the stock dividend or the stock

¹Walter L. Schaffer, "Accounting for Stock Dividends and Stock Split-ups," Accounting, Auditing, Taxes--1953, Complete Text of Papers Presented at the 66th Annual Meeting of the American Institute of Accountants (New York: American Institute of Accountants, 1954), pp. 144-46.

split. The change consummated in the revised bulletin was not an improvement.

In this regard, Schaffer claims that "it is somewhat incongruous to hold that the accounting treatment of transactions that are largely identical in force and effect should differ merely because of the form they may take or how they may be characterized."¹ Certainly there is nothing "incongruous" in having more than one method of recording a transaction that is "largely identical in force and effect."

Although the effect of both types of distribution is the same, it seems proper to require different accounting treatment based upon the intention of management rather than on the size of the distribution. If a change in par value is intended, the distribution should be termed a split-up with no attendant journal entry. If a capitalization of earnings is intended, then the distribution should be termed a stock dividend and recorded by a journal entry. Management intention, not size, should be the governing factor.

The question, whether the stockholder receives anything when he receives a stock dividend, is discussed at length in Chapter IV. The answer is important to help determine the correct accounting treatment for stock dividends.

¹Ibid., p. 146.

Determining Transfer Value to
Permanent Capital Account

The AICPA's pronouncement that fair value of the stock being distributed is to be used as a transfer value from retained earnings to the permanent capital account has raised the problem of definition and has evoked criticism.

Problems of defining fair value

The determination of "fair value" of the additional shares issued, as recommended in Bulletin 43 presents a problem. The Bulletin does not elaborate. Generally, "fair value" is construed to mean "market value." Inasmuch as market prices do fluctuate, there exists the problem of deciding the moment at which market value is to be determined for the purpose of determining the aggregate amount to be transferred. Carman G. Blough gave the following answer in response to a question of this nature asked of him:

It would seem to follow that if the shareholder does think of the stock dividend as in about the same general category as a cash dividend, he would attach to the shares of stock their current market value. Therefore, the use of an average of quotations for a period as long as a year does not seem suitable. At the same time, isolated "bid" quotations for an inactively traded stock may not be appropriate. Perhaps an average for a relatively short period, such as a month, might be the best answer. We understand that the New York Stock Exchange usually considers an average unacceptable

and that the majority of companies use market price at the close of the day preceding the declaration.¹

A survey of 24 current accounting textbooks revealed that the following interpretations of "fair value" are being taught: (1) date of record, (2) "current" with no further explanation, (3) date of declaration, and (4) "prior to dividend date" with no further explanation. (See Table 1.)

Criticism of fair value

Considerable criticism has been directed at the AICPA's recommendation of using fair value or market value as a transfer value. An often-heard criticism is expressed by Robert V. Hunter as follows:

To capitalize market value per share is to recognize in the accounts, although indirectly, outside influences not readily apparent, often irrational, speculative, and of short duration. . . . The capital section of the balance-sheet should be maintained as immune as possible from the erratic and unpredictable forces at play in the securities market.²

C. Austin Barker is very critical of the use of market value for the transfer to the capital stock account:

. . . the requirement of market value as a measure

¹Carman G. Blough (ed.), "Accounting and Auditing Problems," The Journal of Accountancy, CVIII (August, 1959), 76.

²Robert V. Hunter, "Charge Stock Dividends at Par, Not Market: A Dissent from ARB No. 11," The Journal of Accountancy, CXV (May, 1953), 544.

TABLE 1

COVERAGE OF STOCK DIVIDENDS IN SELECTED ACCOUNTING TEXTBOOKS^a

	Classification of Textbooks				
	Elemen- tary	Inter- mediate	Ad- vanced	Mana- gerial	Total
Method Described:					
Fair market value only	7	1			8
Fair market and paid-in values		1 ^b		1	2
Fair market and par values	1	1	1		3
Fair market, par, stated, and paid-in values	1	1			2
Paid-in value only	1				1
Total of texts describing methods	10	4	1	1	16
No methods described			3	5	8
Total number of texts surveyed	10	4	4	6	24
Interpretation of Fair Market Value:					
As of record date	1				1
"Current"				1	1
Prior to dividend date		1			1
On declaration date	2	1			3
Totals	3	2	0	1	6

^aSee Appendix B for a list of textbooks reviewed.^bMust meet minimum state requirements.

of the amount of surplus to be capitalized confronts management with an unpredictable and fluctuating yardstick when an attempt is being made to plan a consistent stock-dividend policy. During a rapidly rising general market, when dilution is most needed to maintain a popular price level, the market-price formula restricts the size of stock dividends most severely. Yet after a sharp downturn, such as the 100-point drop in the Dow Jones industrials in late 1957, the market-price formula permits a greater stock-dividend dilution on the same amount of surplus, at a time when corporations least need it. This is the paradox.¹

Mr. Barker goes on to say that the market-price formula does not lend itself to the consistent continuing policy of issuing stock dividends in small amounts on a regular basis, because of wide fluctuations in the market price.

Carman Blough, Director of Research of the AICPA at the time of the publication of Bulletin 43, explained the committee's position regarding the use of fair value:

. . . the reason for specifying the assignment of a fair value to the shares was not an accounting one, but was more in the realm of psychology. In spite of the fact that there is little basis for treating a stock dividend by the recipient as income or as a distribution of corporate earnings, it is acknowledged that many if not most shareholders do so interpret it. It was therefore felt wise by the committee to recommend that an accounting procedure be followed which would tend to prevent a misinterpretation of the results.²

The AICPA, in an attempt to prevent a misinterpretation by the stockholder, contributes to the misinterpretation by suggesting the use of fair value. The

¹Barker, op. cit., p. 71.

²Blough, loc. cit.

AICPA readily admits that the stockholder receives no income, but because he thinks he is receiving income, the accounting profession wants the issuing corporation to record the event to agree with the stockholder's misunderstanding. The individual shareholder's uninformed viewpoint has controlled the accounting treatment. Mr. Robert Hunter agrees that the erroneous interpretation of the shareholders as to the true nature of the stock dividend transaction should not govern its accounting treatment.¹

Mr. Edward B. Wilcox, past president of the AICPA, and a member of the 1952-1953 Committee on Accounting Procedure of the AICPA that wrote Chapter 7, Section B, of Bulletin 43 dissented from the entire pronouncement. In an article in The Journal of Accountancy, Mr. Wilcox describes at length his reasons for dissenting. In criticizing the committee's recommendation of the use of market value, he said:

It is presumed that the recipients will believe that they have received the fair value of any stock dividends which are relatively small or are frequently recurring, except in the case of closely held companies whose shareholders are supposed to know better. We seem here to be imposing restrictions on an issuing company to protect stockholders from misleading inferences if they believe what we tell them they must not believe. Many people recognize this inconsistency, and a few even think that something ought to be done about it.

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¹Hunter, op. cit., pp. 543-44.

If stock dividends are not income to the recipient, then any restrictions on the issuing company designed to prevent a misleading inference by a shareholder who thinks they are, are obviously inconsistent. They are worse than inconsistent because they encourage him in his fallacious belief, thus creating more confusion than they avoid. The shareholder who, in spite of official pronouncements that stock dividends are not income, nevertheless thinks they are, but will be saved from the consequences of his error by a difference in the amount charged to earned surplus by the issuer, is indeed in a remarkable state of simultaneous ignorance and sophistication.¹

The recognition of market value in the accounts of the corporation is contrary to the traditional approach of the accountant. The accounting profession has been very reluctant, through the years, to permit the use of market value in the accounts, even where arguments have been very strong in its behalf. This does not mean to say that market value positively has no place in the accounting system, but it is to suggest that there are probably better places for it to be used than in the area of stock dividend recording.

Mr. Walter L. Schaffer defended the position taken by the committee in regards to the inconsistency in the recording of stock dividends by the issuer and the recommended viewpoint of the recipient. Mr. Schaffer said:

The committee was aware in 1952, . . . that solely as a matter of theory the positions taken with respect to the recipient and to the issuer are inconsistent and that the accounting procedure

¹Edward B. Wilcox, "Accounting for Stock Dividends: A Dissent from Current Recommended Practice," The Journal of Accountancy, CXVI (August, 1953), 176, 179-80.

required of the issuer is in the nature of a protective device. It was the consensus of the committee, however, that this procedure had long since amply demonstrated its soundness and usefulness and, indeed, had achieved such general acceptance as to preclude any change with respect thereto on the part of the committee.¹

For the committee to admit that an inconsistency exists and to continue it under the argument that it "had achieved such general acceptance as to preclude any change" is an evasion of responsibility. The passage of time does not correct an error. There is always room for change if it is for the better. Because in 1952 the doubtful procedure had existed for 11 years, was hardly a reason for its continued existence. Today, in 1963, it has been in existence for an additional 11 years, or a total of 22 years, which one could presume to be an even sounder reason for continuing without a change or correction.

Two dissenting members of the Committee on Accounting Procedure which issued the revised bulletin, Frank S. Calkins and Perry Mason, disapproved the part of the bulletin dealing with the issuer. Their dissent was based upon the inconsistency that they saw in this section:

. . . part two [referring to the issuer] is inconsistent therewith in that the former [part one, dealing with the recipient] concludes that a stock dividend is not income to the recipient

¹Schaffer, op. cit., p. 145.

while the latter [part two, dealing with the issuer] suggests accounting procedures by the issuer based on the assumption that the shareholder may think otherwise. They believe it is inappropriate for the corporate entity to base its accounting on considerations of possible shareholder reactions.¹

William A. Paton and Robert L. Dixon, in their textbook Essentials of Accounting, do not find the use of market value "particularly objectionable;" neither do they think that it has any logical basis.

Underlying the capitalization process is the concept of a stockholders' equity consisting of two main sections, (1) capital and (2) accumulated earnings. And the act of capitalization consists of making a transfer from the second section to the first. Accordingly there is no rhyme or reason in using a market price per share, representing the current value of the total equity per share, including both capital and invested earnings, in effecting a transfer from one section to the other.²

A review was made of 24 current accounting textbooks. Of the 16 textbooks that discussed particular methods, 15 described the use of fair market value. However, seven of these 15 also included discussion of other transfer value methods. (See Table 1.)

Other proposed transfer values

Par or stated value

Probably the oldest and best established transfer

¹Accounting Research Bulletin No. 43, op. cit., p. 54.

²William A. Paton and Robert L. Dixon, Essentials of Accounting (New York: The Macmillan Company, 1958), p. 665.

value is par value, or stated value in the case of no par stock. Professor Paton went on record for this method in 1929.¹ Many state statutes require its use today. (See Chapter III.)

Although the AICPA does not endorse this method, it does get considerable attention in accounting textbooks. Of the 16 reviewed textbooks which discussed particular methods, five described the use of par or stated value. (See Table 1.)

Mr. C. Austin Barker, writing in The Analysts Journal, is strongly critical of the use of fair market value and in its place suggests the use of par or stated value of the shares issued.²

Average paid-in value

The use of a transfer value that would take into consideration and maintain the average paid-in value³ has received considerable support through the years. Bulletin 11, the predecessor to the current pronouncement of the AICPA, mentions this method as a minimum.

¹William A. Paton, "The Dividend Code," The Accounting Review, IV (December, 1929), 220.

²Barker, op. cit., p. 70.

³Average paid-in value is computed by dividing the number of common shares outstanding into the total of the capital stock account and the paid-in surplus account; the resulting per share value reflects the average consideration received for the outstanding shares when originally issued.

As is noted later in this chapter, it too calls for the use of fair market value, if the latter is substantially larger than the paid-in value.

Mr. Hunter, in a letter to The Journal of Accountancy, critical of the AICPA position regarding market value, said:

It is my belief that the dividend shares should be capitalized at an amount equal per share to the capital stock and capital surplus per share before the dividend. Action by the board should not be permitted to alter permanent capital assignable to shares outstanding.¹

On April 30, 1930, the New York Stock Exchange issued a public announcement recommending the use of average paid-in value as a minimum transfer value. Shortly after this announcement, Mr. J. M. B. Hoxey, an executive of the New York Stock Exchange, addressed the annual meeting of the American Institute of [Certified Public] Accountants in Colorado Springs, Colorado, indicating the reasoning of the Exchange. He stated:

. . . the minimum measure of this proper charge against earnings or earned surplus appears clearly to be the sum of the theretofore capital and capital surplus per share, for each share issued as a dividend. This sum purports to represent the consideration actually received for or represented by the stock, exclusive of its equity in true undivided earnings and, unless at least this minimum is charged, the true capital per share is diluted by the stock dividend, whether or not the increment in earned surplus is sufficient to offset such dilution. If less than this amount is charged the amount remaining in earned surplus will be fictitiously large and may thereafter be used for duplicate payments of

¹Hunter, op. cit., p. 544.

dividends, from the same earnings, either in stock or in cash.

• • • • •
This criterion of the proper charge to be made applies with as much force in the case of par value stocks as in the case of no-par value stocks.¹

Professor William A. Paton, in his textbook Advanced Accounting, published in 1941, recommends the use of par value in the case of par value stock, but in the case of no-par stock recommends the use of average paid-in value. He argues that stated value is often a nominal figure much less than total paid-in value and that the latter is the true measure of capital.²

In a later textbook, published in 1958, Paton and co-author Dixon discuss these two methods, along with the market value method. As indicated earlier, they see no advantage in the latter method.³

The paid-in value method was found in five of the sixteen textbooks that contained discussion of transfer values. Of these five, only one textbook described this method exclusively; the other four included it along with descriptions of the fair market value method. (See Table 1.)

¹J. M. B. Hoxey, "Accounting for Investors," The Journal of Accountancy, L (October, 1930), 267-68.

²William A. Paton, Advanced Accounting (New York: The Macmillan Company, 1941), pp. 578-79.

³Paton and Dixon, op. cit., pp. 664-65.

Other Criticisms of AICPA Position

Inconsistency in allowing different treatment for closely-held corporations

The exemption of closely-held corporations from the capitalization provisions for the issuance of stock dividends, has been criticized. George O. May considered the validity of the exemption questionable.¹

Mr. Walter L. Schaffer explains this apparent inconsistency as follows:

. . . it is to be presumed that the intimate knowledge of such corporations' affairs possessed by their shareholders would preclude the implications and possible constructions considered likely in other instances.²

Mr. Wilcox, a member of the committee that issued Chapter 7, Section B, of Bulletin 43, and dissenter to its entire contents, was highly critical of the provision exempting closely-held companies:

Their shareholders are presumed to have such intimate knowledge of the affairs of their corporations that they will reach no erroneous conclusion. The criterion for exemption from the prescribed capitalization of surplus in excess of legal requirements seems to be shareholder knowledge of corporate affairs. It follows that there is nothing basically wrong with distributions, the fair value of which may exceed in aggregate the available earned surplus of the issuing company. This is only wrong

¹George O. May, "Stock Dividends and Concepts of Income," The Journal of Accountancy, CXVI (October, 1953), 429.

²Schaffer, op. cit., p. 148.

when the shareholders lack intimate knowledge of the corporation's affairs. Just what this intimate knowledge is, that cannot be obtained from published financial statements, has not been explained, but the shareholders who lack it are being protected from something by an impairment of the earned surplus of their companies otherwise available for dividends. This discrimination against them, for their own good of course, is somewhat analogous to being taken into protective custody.

Whatever this intimate knowledge may be, it is imputed to shareholders in closely held companies. I suppose that subsidiaries come within this classification. I imagine that corporate shareholders with competent accountants in their organizations, and particularly holding companies and investment trusts, would have adequate and perhaps even intimate knowledge. But unless a corporation is owned one hundred per cent by its parent, or management, or something like an investment trust, it will have some shareholders who are possessed of this elusive thing called intimate knowledge and some who are not. Yet each corporation must treat all of its shareholders alike. It is difficult to imagine what a minority shareholder in a subsidiary, who is also a shareholder of its parent, would think if the parent's stock dividend was recorded at fair value while the subsidiary's was not. Attempts at partial guessing about shareholders' thoughts confuse not only the shareholders but also the perpetrators of the guessing.¹

Erroneous assumption regarding market price reaction

The recommended fair value method of Bulletin 43 is based upon the assumption that the stock market price does not adjust itself downward to allow for the additional shares distributed. Several studies have been made regarding market reaction to stock dividends.

¹Wilcox, op. cit., pp. 180-81.

While results are not entirely conclusive, the evidence strongly indicates that the stock market does react by adjusting price in direct relationship to the increased shares on the market. This subject is pursued at length in Chapter IV. It appears that the AICPA, while attempting to adjust to actual conditions, has placed much faith in an assumption that has little validity.

Predecessors to Bulletin 43, Chapter 7, Section B

Accounting Research Bulletin No. 11

The first pronouncement of the AICPA concerning stock dividends was Accounting Research Bulletin No. 11¹ issued in September, 1941, by the Committee on Accounting Procedure. It was the result of extensive study during a period that had seen reduced stock dividend use and abuse, both of which had been more widespread prior to the depression.² Its provisions were somewhat different from Bulletin 43. Highlights of Bulletin 11 and comparison with Bulletin 43 are presented below:

1. Bulletin 11 indicated that the stockholder has

¹"Corporate Accounting for Ordinary Stock Dividends: Accounting Research Bulletin No. 11," The Journal of Accountancy, LXXII (September, 1941), 252-57.

²George O. May, "Long Term Liabilities and Capital Stock," Contemporary Accounting: A Refresher Course for Public Accountants, ed. Thomas W. Leland (New York: American Institute of Accountants, 1945), p. 8.

no income when he receives a stock dividend but suggested that perhaps this interpretation may require modification in some cases. Bulletin 43 allows no exception.

2. Bulletin 11 defined stock dividends and stock split-ups in the traditional manner, not as in Bulletin 43 where the distinction is by size rather than accounting entry.

3. Bulletin 11 contained requirements for disclosure of information to the stockholder concerning stock distributions. These requirements were eliminated in Bulletin 43.

4. Bulletin 11 contained a stipulation which does not appear in Bulletin 43. Bulletin 11 stated that "proper corporate policy requires that in the case of regularly recurring stock dividends, the amount of earned surplus capitalized should not exceed the amount of current income," after deducting any prior cash dividends. Bulletin 11 did allow "the capitalization of a relatively large amount of earned surplus," accumulated over a long period of time with disclosure to the recipient.

5. Bulletin 11 called for the use of average paid-in value as a basis for capitalization with the added stipulation that the directors "should take into consideration a fair market value per share." It further stipulated that "when such fair market value per share is substantially in excess" of the paid-in value "they should fix the number of dividend shares so that the

amount charged to earned surplus per share will have reasonable relationship to such fair market value." Bulletin 43 does not mention average paid-in value. It concentrates on "fair value."

6. Bulletin 11 suggested elimination of the term "dividend": "Perhaps the atmosphere would be clarified if some term other than 'dividend' were used in connection with the issuance of additional shares to represent the capitalization of earned surplus." Bulletin 43 makes no such suggestion.

George O. May, commenting on the work of the Committee on Accounting Procedure that issued Bulletin 11, said:

The committee was concerned with setting a standard of good financial morality and practice, and in this it succeeded. If in doing so, it went beyond the narrow limits of accounting procedure, this departure has been more than justified by results.

The committee worked closely with the Committee on Cooperation with Stock Exchanges, the New York Stock Exchange, and the SEC. These bodies have now established procedures based on the bulletin, which are an effective safeguard against the abuses that grew out of the declaration of periodical stock dividends in the late 1920's.¹

The requirement that the market value of a stock dividend should not exceed current earnings of a corporation probably dates back to a report, issued in 1929, by the chairman of the Industrial Securities Committee of the Investment Bankers Association of America.

¹May, The Journal of Accountancy, CXVI, 428-29.

Issued at a time when interest in stock dividends was rising, the report dealt at length with the subject of stock dividends, and, concerning earnings, specifically said:

Current, periodic stock dividends certainly should not be declared by a corporation unless the earnings fully justify such dividends. As long as the investing public regards such dividends as adding to the value of common stockholdings, no such dividend should be declared unless there is a real basis for believing that there is this increase in value.¹

Regarding the elimination in the revised bulletin, of the requirement that a stock dividend be less than the current income,² Walter Schaffer, a participant in the revision, explains as follows:

. . . the committee felt that it should not presume to lay down, under the guise of accounting procedures, directives to management as to whether or not, and when, the latter might declare a stock dividend, and that having stated the need for a charge to earned surplus and the manner of determining the amount thereof in the event of such a dividend, the committee had fulfilled all responsibilities that it might rightly assume.³

Mr. Schaffer also explained the omission regarding disclosure information to shareholders for much the same reason. He said:

¹"Report of Industrial Securities Committee--Discussion of Common Stocks and Stock Dividends," [The Commercial and] Financial Chronicle, November 2, 1929, p. 2755.

²This problem of the relationship between current earnings and the size of a stock dividend is further discussed in Chapter III.

³Schaffer, op. cit., p. 149.

This omission is not to be taken as implying that reconsideration had led to any disagreement as to the desirability of the shareholders' receiving such information. Rather, it was prompted by the thought that the committee's pronouncement should be confined to matters of account keeping and financial-statement presentation.¹

Regarding the omission of disclosure of information called for in the original bulletin, Mr. Wilcox, a participant in the revision, had this to say:

With all its faults, the bulletin on stock dividends issued by the committee in September, 1941, now superseded, called for this information. It said that the issuing company should inform its shareholders of the amount capitalized per share, the aggregate amount thereof, the accounts charged or credited, and the percentage by which the interest, which the shareholder had in the corporation before the issuance of the stock dividend, will be reduced if he should decide to dispose of his dividend shares. The amount capitalized per share, and the accounts charged, tell more than could possibly be reliably inferred from capitalization of amounts in excess of legal requirements which nobody ever contributed to capital. Even more useful is the knowledge of the effect of a sale of dividend shares on the percentage reduction in the stockholder's interest in the company. A shareholder may, and many do, wish to sell dividend shares to realize income and maintain investment. . . . Any inferences drawn from the fact that a stock dividend is recorded at value are apt to be more misleading than helpful. Yet the latest committee pronouncement omits any requirement for the disclosure of this information.²

Professor John T. Burke also criticized the omission, from Bulletin 43, of the requirements for information and disclosure previously contained in Bulletin 11:

¹Ibid.

²Wilcox, op. cit., p. 180.

Stockholders should be provided with the information specified in Accounting Research Bulletin No. 11, namely, the amount capitalized, the accounts affected, and the extent to which the recipients' proportionate interest will be diluted if the new shares are sold and, therefore, it should continue to be required of the declaring corporation to furnish the information.¹

Accounting Research Bulletin No. 11 (Revised)

Accounting Research Bulletin No. 11 was revised in January, 1953. It was published, without change, as Chapter 7, Section B, of Bulletin 43 in June, 1953.

Distribution of Shares Held as An Investment

Occasionally corporations distribute to their shareholders certificates of stock previously held as an investment, that is, stock of a company other than the distributing company. This type of distribution presents a definitional problem. Accountingwise there is no problem. The debit, usually at market value, is to Retained Earnings and the credit is to the investment account. There is not much argument about the nature of the dividend and, in fact, it is considered very similar to a cash dividend, in the sense that a distribution of an asset has been made.

Not everyone agrees as to the term to be applied

¹John T. Burke, "Stock Dividends--Suggestions for Clarification," The Accounting Review, XXXVII (April, 1962), 286.

to this type of distribution. Often it is considered a stock dividend, because distribution is being made in stock. Moody's and Standard and Poor's Corporation both list this type of distribution in their stock dividend lists. Newspapers and financial periodicals often refer to this type of distribution as a stock dividend.

Bulletin 11 excluded "distribution of shares in another corporation theretofore held as an investment" from the term "stock dividend." Bulletin 43 excluded this type of distribution from its bulletin but did not exclude it specifically from the term "stock dividend." Thus the AICPA appears to have changed its mind concerning the inclusion of this type of distribution as a stock dividend.

Accounting text writers generally do not consider this type of distribution as a stock dividend. It is usually referred to as a "property dividend."¹ Professor Robert N. Anthony refers to this type of distribution as a "spin off,"² while Professor Sidney I. Simon

¹Robert E. Seiler, Elementary Accounting: Theory, Technique, and Applications (Columbus, Ohio: Charles E. Merrill Books, Inc., 1963), p. 298; Robert R. Milroy and Robert E. Walden, Accounting Theory and Practice: Intermediate (Cambridge, Mass.: Houghton Mifflin Company, 1960), p. 534; Wilbert E. Karrenbrock and Harry Simons, Intermediate Accounting (3rd ed.; Cincinnati: South-Western Publishing Company, 1958), p. 699.

²Robert N. Anthony, Management Accounting: Text and Cases (Homewood, Ill.: Richard D. Irwin, Inc., 1960), p. 187.

classifies it as a "dividend in kind" and reserves the term "spin off" for a similar distribution that results in the tax-free distribution of all shares of a subsidiary corporation, under Section 355 of the Internal Revenue Code of 1954.¹

Although, on the surface, they appear to be quite similar and it is understandable why the public would be confused, there is a great difference between a stock dividend and a distribution of stock held as an investment. The latter certainly is a dividend in the true sense of the word, similar to that of a cash dividend, and under no condition should be considered to be a stock dividend.

Summary

In spite of considerable study and official pronouncements that date back to 1941, problems for the accounting for the issuance of stock dividends are far from solved. Discussion in this chapter has pointed out some of the weaknesses and areas of controversy in the AICPA's Bulletin 43, regarding stock dividends.

A major problem area is the recommended use of fair value in determining the amount of transfer from

¹Sidney I. Simons, "Spin-Offs vs. Dividends in Kind," The Accounting Review, XXXV (January, 1960), 81, 83.

Retained Earnings to permanent capital. The discussion above shows that the Bulletin's pronouncements are based on faulty assumptions, are inconsistent, and tend to reinforce stockholders' misunderstanding rather than clearing up the issue.

It is apparent that there is no standard thinking on the subject, that there has been a shifting of ideas through the years, and that substantial progress is yet to be made in this area.

CHAPTER III

REGULATORY ASPECTS OF STOCK DIVIDENDS

The distribution of stock dividends is regulated by various state and federal laws, and securities exchanges. This chapter discusses some of the more important regulatory aspects of stock dividends.

State Corporation Laws

Every state has corporation statutes that affect corporate activity. Stock dividends are usually mentioned in the statutes with considerable variation existing among the various state provisions. Table 2 provides a summary view of the highlights of the statutes concerning stock dividends of all the states and the District of Columbia. Because of the variety and complexity of the state statutes, the table is not complete in all respects. Appendix C contains a detailed description of the state statutes insofar as they affect stock dividends.

Nine states have no provision for stock dividends while eight others specify that stock distributions are allowed but indicate no other provisions.

TABLE 2

SUMMARY OF STATE CORPORATION STATUTES REGARDING STOCK DIVIDENDS¹

Statute Provision	No. of States	Identification
None	9	Ariz., Maine, Mass., Mont., N. H., N. Mex., R. I., ² S. C., Vt.
Permits Distribution Without Any Other Stipulation	8	Ark., Fla., Ga., ³ Iowa, Ky., Neb., Nev., Okla.
Type of Stock Distribution Specifically Permitted:		
Treasury	12	Ala., Alaska, Colo., Miss., N. Dak., Ohio, Ore., Penn., Tex., Utah, Va., Wis.
Authorized, unissued	14	Ala., Alaska, Colo., Conn., Miss., N. C., N. Dak., Ohio, Ore., Penn., Tex., Utah, Va., Wis.
Par or no par value	23	Ala., Conn., Del., D. C., Hawaii, Idaho, Ill., Ind., Kan., La., Md., Mich., Minn., Miss., Mo., N. J., N. Y., N. C., Ohio, Penn., Utah, Wash., Wyo.

¹Compiled from "Domestic Corporation Laws: Features," Corporation Law Guide, Vol. I (New York: Commerce Clearing House, Inc.).

²Except that capital shall include such amount as shall have been transferred from surplus to capital on the declaration of a dividend payable in shares without par value.

³Need not be made out of surplus or earnings.

TABLE 2---Continued

Statute Provision	No. of States	Identification
Transfer Values:		
Par shares at par	19	Ala., Conn., ⁴ Del., D. C., Idaho, ⁴ Ill., ⁴ Kan., La., ⁴ Minn., Miss., ⁴ Mo., N. Y., ⁴ N. C., Ohio, ⁴ Penn., ⁴ Tenn., Utah, Wash., ⁴ Wyo. ⁴
No par set by directors	21	Ala., Conn., Del., D. C., Hawaii, Idaho, Ill., Ind., ⁵ Kan., La., Md., Minn., Miss., Mo., N. Y., ⁶ N. C., Ohio, ⁷ Penn., Utah, Wash., Wyo.
No par at average paid-in amount	1	Mich.
Directors may transfer additional amounts	1	Md.

⁴Minimum.

⁵Board of directors also to fix value on par value shares: (1) where the articles of incorporation do not provide that par value shares may be sold at less than par value, par value is minimum to be fixed; (2) where the articles of incorporation provide that such shares may be sold at less than par value, any value is allowed to be fixed by the board of directors.

⁶Unless that right is reserved to the shareholders.

⁷Directors need not transfer any amount.

TABLE 2--Continued

Statute Provision	No. of States	Identification
Source of Transfer:		
Unreserved or unrestricted surplus	6	Colo., Miss., N. Dak., Tex., Utah, Va.
Accumulated earnings	5	Cal., Hawaii, Minn., Tenn., ⁸ W. Va.
Any surplus	5	Alaska, Idaho, N. C., Ore., Wash.
Surplus	4	Ala., S. Dak., Tenn., ⁸ W. Va.
Paid-in surplus	3	Cal., Hawaii, Minn.
Asset revaluation	2	Ill., Iowa
Net capital surplus	1	Wis.
Surplus arising from reduction of stated capital	1	Cal.
Other surplus	1	Hawaii
Disclosure of Amount and/or Source of Transfer Required	11	Cal., Conn., D. C., Ill., Minn., Miss., Mo., N. C., Okla., Utah, Wyo.

⁸Must be equal in value, at a fair valuation to stock issued as a dividend.

Required transfer value methods vary among the states, with some states failing to mention any. The method mentioned most often is the capitalization of par value shares at par value. Nine of the 19 states stipulating this method require it as a minimum and permit additional transfers.

Sources of the amount to be transferred that are permitted specifically in state statutes vary considerably. Some states limit the source to accumulated earnings while other states allow such sources as asset revaluation surplus and paid-in surplus.

It is evident that pure compliance with state law regarding the issuance of stock dividends does not necessarily result in good accounting treatment. Not only is there considerable variation among state requirements, but many of the state requirements violate generally accepted accounting principles.

Model Business Corporation Act

The joint efforts of the American Bar Association and the American Bar Foundation have produced the Model Business Corporation Act. As the name implies, it is a model for individual states to follow in the enactment of state corporate statutes. The first draft of this act was reported in 1946. Since that time several

revisions have been published, the latest being in 1960.¹

The Model Business Corporation Act contains a section devoted to stock dividends. (See Appendix D for the text of this section.) The following are important provisions of this recommended statute:

1. Stock dividends may be issued out of reacquired treasury shares and authorized but unissued shares.

2. In the case of par value shares, the minimum transfer value is par value.

3. In the case of no par value, the board of directors is to fix the stated value to be used as a transfer value. This value is to be disclosed to the shareholders at the time of payment.

4. A distribution of shares without an increase in the stated capital of the corporation is not to be construed as a stock dividend, but merely a stock split.²

Only a few states have adopted the provisions of this Model Act. Some of the states have adopted it in part, deleting or adding their own provisions.³

It is noteworthy that the provisions of the Model Business Corporation Act regarding stock dividends do not comply with the pronouncements of the American Institute

¹Committee on Corporate Laws (ed.), Model Business Corporation Act Annotated, A Research Project of the American Bar Foundation, Vol. I (3 vols.; St. Paul, Minn.: West Publishing Company, 1960), p. v.

²Ibid., III, 28-29.

³Ibid., I, 697.

of Certified Public Accountants. Market value as a transfer value is not mentioned in the Act, and distributions without transfers to permanent capital are not recognized as stock dividends.

Securities and Exchange Commission

Regulation S-X is the principal accounting regulation of the Securities and Exchange Commission (SEC) in its administration of the various securities acts under its jurisdiction. This regulation consists of a number of articles and rules. Article 11, entitled "Content of Statements of Surplus," refers to dividends. Although Article 11 does not specifically prescribe the accounting for the issuance of stock dividends, the SEC is in agreement with the pronouncements of the American Institute of Certified Public Accountants, according to Mr. Louis H. Rappaport, partner of Lybrand, Ross Brothers and Montgomery, and specialist in SEC matters. As in Bulletin 43, fair value is required in the capitalization of retained earnings.¹

New York Stock Exchange

There are approximately 1,500 stocks listed on the

¹Louis H. Rappaport, SEC Accounting Practice and Procedure (revised printing; New York: The Ronald Press Company, 1959), pp. 235, 237, 310, 312.

New York Stock Exchange (NYSE). The NYSE dominates the exchange business. In 1960 it handled nearly 84 per cent of the dollar volume on all U. S. stock exchanges. These facts point up the importance of the NYSE in the American securities market today. Because of its size, the NYSE influences other securities exchanges to a great extent.

The New York Stock Exchange has adopted policies and rules in accordance with the pronouncements of the AICPA concerning stock dividends. Current rules of the Exchange as embodied in the Company Manual, parallel the requirements as contained in Accounting Research Bulletin No. 43, Chapter 7, Section B.

The Exchange requires the capitalization at fair value for all stock distributions of less than 25 per cent. This capitalization policy does not apply to distributions representing 100 per cent or more.

As to distributions of 25% or more, but less than 100%, the Exchange will require capitalization at fair value only when, in the opinion of the Exchange, such distributions assume the character of stock dividends through repetition under circumstances not consistent with the true intent and purpose of stock split-ups.¹

Unlike Bulletin 43, the NYSE policy calls for specific disclosure information to the stockholder.

A notice should be sent to stockholders with the

¹New York Stock Exchange Company Manual (New York: The New York Stock Exchange), p. A-235.

distribution advising them of the amount capitalized per share, the aggregate amount thereof, the relation of such aggregate amount to current undistributed earnings, the account or accounts to which such aggregate has been charged and credited, the reason for paying a stock dividend and that sale of the dividend shares would reduce their proportionate equity in the company.¹

The influence of the AICPA's Bulletin 43, Chapter 7, Section B, can be seen in the above requirements, and in the specific reference that is made in the Exchange policy to pronouncements of the AICPA regarding stock dividends.

Relationship to Current Earnings

The New York Stock Exchange no longer requires that the aggregate fair market value of the stock distribution be equal to or less than current undistributed earnings. In 1955 this requirement was lifted. Prior to this, the policy of the Exchange, made public February 11, 1953, indicated that the Exchange "will consider the relationship between the aggregate fair value of the shares so to be distributed and the amount of the company's earnings."

The policy statement of that date continued as follows:

In considering the relation of the aggregate fair value of the additional shares to be distributed to the company's earnings . . . the Exchange will expect that the undistributed earnings of the

¹Ibid., A-235, A-236.

period between successive distributions be sufficient to cover such aggregate fair value. Exception to this phase of the policy may be made in the case where two or more such distributions occur during the same fiscal period and the undistributed earnings of such fiscal period are sufficient to cover the aggregate value of all such distributions occurring during such fiscal period although the undistributed earnings of the period between two successive distributions may not be sufficient to cover one distribution or the other. Otherwise, while an occasion may arise when the aggregate fair value of shares issued in successive distributions may exceed the undistributed earnings between such successive distributions, the Exchange is not prepared to make exceptions to the above-stated policy except under the most unusual circumstances and on a non-recurring basis.¹

Barron's discussed the change in Exchange policy as follows:

N. Y. S. E. officials have come around to the view that the relationship between stock dividends and current earnings should be left up to the discretion of management. Hence it will no longer object when stock dividends, plus cash dividends, exceed profits. The changed attitude of the Exchange reflects a revision in the official views of the American Institute of Accountants on this subject. On matters such as these, Exchange policy is often based on bulletins issued by the Institute.²

This rule change was accompanied by a disclosure requirement similar to the one quoted previously and now in force.

Exchange officials hope that by mailing this type of information to stockholders, some of the

¹"New York Stock Exchange Issues New Policy on Accounting for Stock Dividends," The Journal of Accountancy, CXV (May, 1953), 604.

²Walter Mintz, "Rules on Stock Dividends Liberalized by Exchange," Barron's, November 14, 1955, p. 39.

prevailing misapprehensions about the nature of stock dividends will be dispelled. It is felt that a great many investors tend to equate stock dividends with cash dividends without realizing that any stock distribution reduces the proportion of the total equity which each share represents. Indeed, it was partly because of the fear of such confusion on the part of shareholders, that the Stock Exchange formerly refused to permit payment of stock dividends which were excessively large in relation to earnings.¹

In 1953, the International Business Machines Corporation, because of the New York Stock Exchange policy then in force, was compelled to reduce its annual stock dividend to 2-1/2 per cent. The company had in the previous four years issued a five per cent stock dividend and had announced the same distribution for 1953. New York Stock Exchange officials objected to payment of the five per cent stock dividend because, when valued at current market price, it would have a value of about \$12.50 per share. Added to the \$4 cash dividend, making a total of \$16.50 per share, the total payout exceeded the company's 1953 earnings of \$10.67 per share. I. B. M. was forced to reduce the dividend to 2-1/2 per cent.

Although the I. B. M. case received the most publicity, it was not the only company involved in this old rule of the Exchange that kept market value of stock dividends in line with current earnings.

The New York Stock Exchange requirements regarding the use of market value and the limitation of current

¹Ibid.

earnings date back to a revised policy pronouncement of October 14, 1943, issued to comply with the original Accounting Research Bulletin No. 11. This revised policy modified previous policy announcements of 1929 and 1930.

The NYSE policy announcements of 1930 called for the capitalization of a stock dividend at average paid-in value.

In the accounting for Stock Dividends upon the books of the issuing Company, whether for stock with par value or without par value, Capital and Capital Surplus should be regarded together as the consideration, other than earnings, represented by the stock. The sum per share of these two accounts is the minimum amount, per share to be issued as a Stock Dividend, which should be charged against Earnings or Earned Surplus in order that such dividend may be termed a true earned Stock Dividend properly accounted for and in order that Earned Surplus may not include a fictitious amount available for further dividends without further earnings.

In cases where there exist substantial uncapitalized assets, tangible or intangible, the amount of the charge against Earnings or Earned Surplus should be larger than this minimum amount.

.
The Exchange will not decline to list, for the present at least, ordinary periodical Stock Dividends insufficiently charged against Earnings or Earned Surplus, providing proper disclosure is made of the nature of such dividends. . . .¹

Other Stock Exchanges

The American Exchange, the only other national exchange, is the second largest in the United States. Of

¹"New Rulings of New York Stock Exchange on Stock Dividends--Issuance of Latter with Insufficient Charge Regarded as Misleading," [The Commercial and] Financial Chronicle, May 3, 1930, p. 3097.

the 14 regional exchanges in the U. S., the Midwest Exchange is the largest. These 15 exchanges exert very little influence on stock dividends.

In 1960 the American Exchange accounted for 9.2 per cent, and the Midwest Exchange for 2.7 per cent of the dollar volume on all U. S. Exchanges. All other exchanges accounted for 4.1 per cent of the total volume.¹

The American and the Midwest Stock Exchanges have not been active in establishing regulations concerning the issuance of stock dividends. They have made no significant alterations or additions to the provisions of the SEC.²

Any attempt at stock dividend regulation by any of the exchanges, other than the New York Stock Exchange and the American Exchange, would be superfluous because of the concept of dual listing which involves the simultaneous listing of stocks on two or more exchanges. Dual-listed stocks of the New York Stock Exchange are already covered by existing NYSE rules.

At present, stocks traded solely on regional exchanges are relatively few in number and many are relatively inactive. Because of the decrease in the

¹The Wall Street Journal (Eastern ed.), November 20, 1961, p. 18.

²M. Richard Sussman, The Stock Dividend ("Michigan Business Studies," Vol. XV, No. 5; Ann Arbor, Mich.: The University of Michigan, 1962), p. 44.

number of solely regionally traded stocks in recent years, the regional exchanges have expanded their trading of stocks also traded on other exchanges, usually the New York Stock Exchange. Dual listing business has become the most important business of the major regional exchanges. Ninety-three per cent of the dollar volume of trading on the seven major regional exchanges in 1961 was in securities also traded on a national exchange, usually the New York Stock Exchange.¹

Because of the large amount of New York Stock Exchange-listed business, the standards of the NYSE tend to prevail on the regional exchanges.

Other Regulatory Agencies

Other government agencies, both federal and state, have the authority to influence the issuance of stock dividends. Some of the federal agencies include the Interstate Commerce Commission, the Comptroller of the Currency, and the Federal Trade Commission. Similar authority, on the state level, is exercised by agencies that regulate such industries as transportation, utilities, and banking.

¹A Report to the U. S. Congress in 1963, Prepared by the Special Study of Securities Markets of the Securities and Exchange Commission, Securities Regulation Service, Vol. II (2 vols.; Englewood Cliffs, N. J.: Prentice-Hall, Inc.), pp. 34108-109.

Generally this influence lies in the requirement that agency approval be given for the issuance of stock dividends. With the exception of the Comptroller of the Currency, all the other federal and state agencies have very little effect. This is due to the fact that a relatively small number of companies come under the authority of such agencies, and very few of these companies are inclined to use the stock dividend device.

CHAPTER IV

SOME FINANCIAL ASPECTS OF STOCK DIVIDENDS

Criticism of Terminology

It is widespread practice to describe the distribution of a stock dividend as "paying" a stock dividend. The use of the words "paying" and "dividend" is incorrect and is the source of considerable confusion.

A Stock Dividend Is Not A Dividend

Professor William Paton in a recent article summed up the problem well when he said that stock dividends are "of course nothing but a split to which the term 'dividend' is erroneously attached."¹ Paton and Dixon have described the term "stock dividend" as "one of the most indefensible of financial usages" and "undoubtedly largely responsible for the prevailing misunderstanding of this phenomenon."²

In spite of considerable well-founded criticism

¹William A. Paton, "The Cash-Flow Illusion," The Accounting Review, XXXVIII (April, 1963), 247.

²Paton and Dixon, op. cit., p. 651.

over a period of many years the term has survived and has continued to confuse the issues surrounding stock dividends. Mr. Walter J. Matherly writing in 1923 in The Journal of Accountancy said:

To begin with, stock dividends are not real dividends at all. Indeed they are just the opposite of dividends, as the supreme court pointed out in the case of Eisner vs. Macomber. They merely represent permanent retention of the profits in the business. They in no way involve a distribution to the stockholders. The shareholders' equity is absolutely unchanged.¹

Another critic of the term "dividend" had this to say:

This is merely one of a number of instances in which the terms used in the accountancy profession are ambiguous or misused.

.
"Stock dividend" in its current meaning is a misnomer. . . .

It is in no sense of the word a dividend. . . .

The adoption of the term "stock dividend" was doubtless a device intended to deceive. The managers of a corporation with an accumulation of earnings which had perhaps already been reinvested in assets of the business, being reluctant to convert these into cash and distribute to the stockholders, hit upon the scheme of withholding the earnings, and at the same time giving to the stockholders, other pieces of paper representing their individual share of the profits, as distinguished from their original investment, and thus to silence their clamor. So they gave them paper, additional receipts for what was already theirs, and called the paper "dividends." . . .²

¹Walter J. Matherly, "Proposed Taxation of Stock Dividends," The Journal of Accountancy, XXXVI (August, 1923), 98.

²Ernest S. Rastall, Letter to the Editor: "Misnomer Begets Misunderstanding," The Journal of Accountancy, XLIX (May, 1930), 379.

The late George O. May, a respected contributor to accounting thought, in reviewing AICPA pronouncements on stock dividends, "questioned whether the word 'dividend,' with all its accumulated implications, should be used to describe any such distribution."¹

Dr. Neil Carothers, Dean Emeritus, School of Business Administration, Lehigh University, and consultant to a former president of the New York Stock Exchange, has strongly criticized the use of stock dividends and specifically the term "dividend" used in this type of distribution.

There is nothing mysterious or magical about stock dividends, except the name, which is incorrect. Stock "dividends" are not dividends at all. . . .
 . . . A stock dividend is merely a split, no more, no less. . . .²

Not only is a stock dividend not a "dividend," but, according to Professors Paton and Dixon, its distribution has the opposite effect of a dividend:

Through this action the board of directors serves notice on the investors that a portion of the accumulated earnings has been permanently removed from the area legally subject to dividend appropriation. It is somewhat ironic, in view of this fact, to describe the issue of the additional shares as a "distribution" of earnings; the decision to retain earnings is just the opposite of a decision to distribute income funds.³

¹May, The Journal of Accountancy, CXVI, 429.

²Neil Carothers, "The Stock Dividend Mumpsimus," The Commercial and Financial Chronicle, December 10, 1953, p. 2255.

³Paton and Dixon, op. cit., p. 666.

Professor John T. Burke criticizes the term "dividend" used in a stock distribution and suggests an improvement:

The term "dividend" is used to describe too many fundamentally different types of events and the definition of a dividend as a pro rata distribution is so broad that it limits its usefulness in accounting. Its continued use with little or no criticism being directed towards its meaning, connotations, and limitations detracts from the precise classification of items that accountants strive for in published reports. . . .

.
It is obvious that a better understanding of the term "dividends" is necessary. Two separate courses of action appear to be available. The accounting profession can continue to use the broad definition and attempt to educate the public to the various meanings and interpretations of the term or the profession can adopt the narrower definition for the term "dividend" and introduce new terminology for the other corporate actions which do not fall within the narrower definitions. . . . improved terminology that will add preciseness to accounting should be adopted. Therefore, it is proposed that the term "dividend" be limited to describe only pro rata asset distributions to stockholders of declarations from current or retained earnings and to introduce new terminology for the term "dividend" in other areas of current usage.¹

Stock Dividends Are Not "Paid"

A natural consequence of the erroneous use of the word "dividend" was to describe the distribution as being "paid." The practice is well established. One need only look in any financial periodical where reports of dividends are found and he will find stock dividends being discussed as "paid" along with cash dividends. The use

¹Burke, op. cit., pp. 283-85.

of the words "dividend" and "paid" must be convincing evidence to the uninformed investor that he is getting something akin to a cash dividend.

The following comment, made by a financial executive, illustrates the erroneous thinking that can result when stock dividends are improperly described as being "paid."

Now let's talk about stock dividends. Anything paid to a stockholder whether it be in cash, in stocks, in apricots, or orange juice is a dividend.¹

A more correct, appropriate, and honest word would be "distribute" in place of "pay," for that is what is occurring; additional certificates are being distributed to existing stockholders, nothing is being "paid."²

Are Stock Dividends Income to the Recipient?

From the discussion in Chapter II regarding the accounting for the issuance of stock dividends it is evident that the stockholder gets nothing that he did not have before, except more pieces of paper to evidence the

¹Paul E. Conrads, Letter to the Editor: "Midwestern Dealer Defends Stock Split-up and Stock Dividends," The Financial and Commercial Chronicle, January 14, 1954, p. 165.

²In order to avoid confusion, the well-established term "stock dividend" is used throughout this dissertation. No attempt is made to substitute a more correct term. However, "distribute" is used in the place of "pay."

same ownership. Nevertheless, there is the possibility that he may have profited by the stock distribution. This profit or income would exist if the aggregate value of his stockholdings after the stock distribution was greater than before the stock distribution. If this is the case, there exists the peculiar situation of a corporation providing income to the stockholder without parting with any of its own assets. Certainly under these circumstances a stock dividend is worthwhile.

Because of the existence in this country of federal taxation of income, this problem has interested the Internal Revenue Service and the courts of law. Tax and legal developments in this area are considered in the following chapter.

The use of stock dividends appears to be justified when the stockholder benefits by increased value of his holdings. A report issued to its members by the Investment Bankers Association of America in 1929 stated:

It would seem possible to lay this down as a fundamental with regard to stock dividends: the total stock outstanding at the end of a dividend period should be at least as valuable per share as that outstanding at the beginning. . . . If this is not the case, the common stock dividends have created an impression of growth and increase in value, whereas, as a matter of fact, the dividends have merely been a dilution of the stockholdings.¹

¹"Report of Industrial Securities Committee--Discussion of Common Stocks and Stock Dividends," loc. cit.

Market Reaction to Stock Dividends

Benjamin Graham, an investment expert and financial writer, is a proponent of the periodical stock dividend distributed from current income. His arguments in favor of such a distribution are based on the idea that, after a stock distribution, total market value of a given shareholder's holding must be greater than prior to the distribution. In other words, the stock market does not discount the additional equity dilution. In this respect, Mr. Graham says:

Actually, of course, a periodic stock dividend is valued in the market somewhere between nothing at all and the full equivalent in cash. The overall effect of a stock-dividend policy--like that of a cash-dividend or a no-dividend policy--depends largely on what investors think of it.¹

Thus Mr. Graham thinks that not always, but at least sometimes, the stock market as a whole does not discount the additional shares in the market. Consequently, the additional shares do have value to the investor who receives them.

Results of market studies

Because of the importance of the question of market reaction to a stock distribution, several studies

¹Benjamin Graham, "The Stock Dividend Defended," The Commercial and Financial Chronicle, December 24, 1953, p. 2532.

have been made through the years regarding this problem.

Professor Shaw Livermore conducted probably the earliest study of this type in 1930. It was his conclusion that there is no effect of stock dividends upon market price and that "as an influence on price of itself, the stock dividend has no standing."¹

A study was made in 1932 to evaluate the market performance of the stock of the North American Company. The company had been distributing a regular stock dividend of ten per cent annually from 1923 to the date of the study.

A comparison of the monthly price movement of the North American Company, the American Telephone and Telegraph Company, and an average of utility holding companies shows that during the rapidly changing market conditions of the past bull market there was no material variance in market returns between stock-dividend-paying and important nonstock-dividend-paying stocks. The percentage variations . . . are so minor as to warrant the conclusion that the payment of stock dividends cannot be considered a factor during major price movements.²

Professor O. K. Burrell studied all 1947 stock split-ups of 2-for-1 or greater and all stock dividends of 100 per cent or more. He concluded:

. . . stock dividends and split-ups are neither positive nor negative influences on stock price movements after the announcement date. It does

¹Shaw Livermore, "Value of Stock Dividends," The American Economic Review, XX (December, 1930), 691.

²Seymour N. Siegel, "Stock Dividends," Harvard Business Review, XI (October, 1932), 81, 85.

appear that there is a general tendency for stocks to rise in the period immediately preceding the announcement of a major stock dividend or split-up.¹

Joseph C. Bothwell, Jr., conducted a study of the effect which periodic stock dividends had on the market prices of seven stocks listed on the New York Stock Exchange. The study covered a period from December, 1946, to April, 1948. Bothwell reported:

Examining seven companies which after the war had paid dividends in stock of less than 10%, without cash, we found that the market price of the shares was in fact affected. In good times almost any action is likely to drive stock price up, while in bad times it takes very little to drive it down. Stock dividends appear to cause such movements. With rising earnings and a bullish market, management may expect prices to rise higher than otherwise; in a period of declining earnings and a bearish market, or even declining earnings and a favorable market, prices will probably drop excessively.²

John H. Myers and Loyd Heath set out to determine the effect of a stock dividend on market price. They studied the price behavior of the stocks of 21 New York Stock Exchange-listed companies that distributed stock dividends at least five of the six years from 1951-1956. The study covered a period running from six weeks before the dividend meeting to one week after the ex-dividend date. Only stock dividends of ten per cent or less were

¹O. K. Burrell, "Price Effects of Stock Dividends and Split-ups," The Commercial and Financial Chronicle, December 2, 1948, p. 70.

²Joseph C. Bothwell, Jr., "Periodic Stock Dividends," Harvard Business Review, XXVIII (January, 1950), 100.

considered. The price of each stock was studied to see if, after adjustment for dilution, it differed from the general movement of the price of other stocks in the same industry. Their conclusion was as follows:

By and large there seems to be a slight price rise accompanying payment of such dividends, but this may be due to the other favorable actions about the companies which do choose to pay these stock dividends.¹

C. A. Barker found in his detailed study on stock dividend issuing companies of the New York Stock Exchange that stock dividends have no positive influence on market prices. He reports:

. . . there appears to be no special price benefit arising from a stock dividend even in those cases marked by complete regularity or continuity of dividend distribution. Indeed, all of the price comparisons indicate that the so-called periodic (or regular or continuing) stock dividends have no more effect on real market price gain or loss than other types of stock dividends; and that the competitive earnings and cash-dividend-paying ability is what determines the market price performance of stocks with similar risks.

.
In no aspect of this stock dividend study have I been able to find a single measurement approach that will show any proof that stock dividends, in and of themselves, enhance the market price of the stock.²

Professor M. Richard Sussman studied the influence on market price of stock dividends issued in 1958 by 87 companies listed on the New York Stock Exchange. He found:

¹Myers and Heath, op. cit., pp. 756-57.

²C. Austin Barker, "Evaluation of Stock Dividends," Harvard Business Review, XXXVI (July-August, 1958), 110-11.

The resulting figures produced no typical result. Stock dividends appeared to have positive influences in some cases and negative influences in others. The degree of influence, as well as the direction, varied widely. If any generalization can be made from these results, it is that the over-all tendency of stock dividends is to enhance slightly the aggregate market value of their respective companies, particularly when the stock dividend issued is relatively small.¹

A survey of officials of large corporations issuing stock dividends revealed that the effect of a stock dividend on the stock market is an important consideration to them. Replies received from the executives disclosed that their experiences seemed to indicate to them that the aggregate value does increase after a stock distribution.²

Inclusion of Stock Dividend in Computation of Yield

As indicated in Chapter I there is a tendency on the part of some writers to include the market value of the distributed stock dividend along with the cash dividend in the computation of the yield.³ Fortunately, this practice is kept to a minimum. Benjamin Graham is one distinguished financial writer who feels that stock dividends should be included in the computation of yield:

¹Sussman, op. cit., p. 100.

²Robert E. Zang and George C. Thompson, "Why Stock Dividends Are Declared," Taxes--The Tax Magazine, XXVII (October, 1949), 885.

³Financial World does this regularly in their articles discussing stock dividends.

An important additional area for education and change of practice lies in the legal, accounting, and "journalistic" treatment of systematic stock dividends. The financial community as a whole must be persuaded to treat stock dividends as the equivalent of a specified amount of cash, to the extent that they are so denominated by the declaring corporation. Thus, . . . if the . . . dividend were specified as being at the annual rate of \$4.30, payable \$2 in cash and \$2.30 in stock, then the newspapers and the financial services should designate the dividend in the same fashion. The basic difference would be that instead of calling the rate \$2, with a footnote addition "plus stock"--as they now do--they would call the rate \$4.30 with a footnote addition, "partly in stock." The dividend yield should be calculated on the basis of \$4.30, instead of \$2, as at present.¹

Clearly the position of Mr. Graham is based upon the recognition of the receipt of a stock dividend as income. His position has little validity when the stock dividend device is analyzed from the accounting and financial viewpoints. Accountingwise the stockholder receives nothing he did not have before and the corporation parts with nothing. Both are in the same position as they were before the distribution. Financially, the stockholder appears no better off because of the compensating market reaction to the stock dividend.

Dr. Sussman, having studied market reaction to stock dividends, recommends in his report that "corporations cease the practice of describing stock dividends

¹Benjamin Graham, "Stock Dividends: An Analysis of Some of the Major Obstacles," Barron's, August 10, 1953, p. 6.

as a 'return' on investment. Stock dividends and the term 'yield' should not be associated together."¹

Motives Underlying Use of Stock Dividends

Generally considered the most important motive or reason for the use of the stock dividend device is that of conserving cash, by using the stock dividend as a substitute for, or an accompaniment to, a cash dividend. This motive is often openly expressed by corporation executives when stock dividends are announced by their companies.²

A survey of corporations regarding dividend policy indicated that two-thirds of the companies that issue stock dividends consider them a substitute for cash payments and one-third as a supplement to cash payments.³

Mr. C. Austin Barker studied all New York Stock Exchange-listed stock dividend issues of five per cent or more distributed in common stock during the years 1951 through 1954. The total of such dividends amounted to 224. He found only 34 cases, or 15 per cent of the total cases studied, where a stock dividend was used to

¹Sussman, op. cit., p. 101.

²See Longines-Wittnauer announcement, The Wall Street Journal (Midwest ed.), June 11, 1962, p. 18, and National Bellas Hess, Inc. announcement, The Wall Street Journal (Midwest ed.), March 12, 1963, p. 20.

³Louis D. Marshall and G. Clark Thompson, "What is a Sound Dividend Policy?" Business Record, XV (February, 1958), 56.

supplement a partial reduction in cash dividends or used entirely in place of a cash dividend. He concluded that this percentage was "scarcely large enough to indicate that cash saving is a major objective of stock dividends."¹

Furthermore, Barker found that 190 of the 224 cases resulted in cash dividend increases. In 72 per cent of the 190 cases the actual cash dividend rate per share remained unchanged during a subsequent period. In the remaining 28 per cent, the cash dividend rate per share did change but resulted in increased dividend payout. Barker concluded:

It is easy to see, therefore, that in the great majority (85%) of all cases studied, the saving of corporate cash by means of a stock dividend was not an objective in the financial planning of management.²

Dr. Carothers, a non-believer in stock dividends, has written a strong criticism of the often-expressed purpose of a stock dividend, that of being a substitute for a cash dividend. He used as a specific illustration the case of the Caterpillar Tractor Company. In 1953, the company had reduced the annual cash dividend from \$3 to \$2 and had added a four per cent stock dividend.

It is not the purpose here to discuss the action of the directors in reducing the dividend. It may have been a praiseworthy action. It may not. What is criticized here are the issuance of a stock dividend and the suggestion that the stock dividend was

¹Barker, Harvard Business Review, XXXVI, 100, 108.

²Ibid., p. 109.

an offset to the reduction in the dividend and a source of income for the stockholder.

The directors wrote the stockholders that they intend to follow the practice, indefinitely, of a \$2 cash dividend with a 4% stock dividend. This policy, they said, would give the stockholder a larger "annual income" than he had been receiving. This is an appalling statement. The owner of 100 shares has his annual income cut from \$300 to \$208 [\$200], but he would receive more "income." How? By selling off his property in the company.

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Here is what the directors should have written:

"Your directors have decided that it is in the best interest of the Company to reduce the dividend from \$3 to \$2 and to invest the saving in permanent capital. This will reduce the market value of your stock, but we believe that our action will eventually benefit the stockholders. A stock dividend is merely a dilution of a company's total stock, which gives each stockholder a larger number of shares worth exactly the value of his former holdings. If, because of the reduction in your dividends you need additional cash, you can sell some of your stock. Merely as a matter of convenience if you wish to sell a small amount, we are issuing a stock dividend of 4%. You should understand that if you sell this stock dividend, you are selling a part of your property in the Company. Since we believe that our action will benefit the stockholders we do not advise you to sell the stock dividend."

The directors of this company did not even realize that when they suggest to the stockholders that they sell their stock dividends they are telling the stockholders that their company is a poor company to own stock in and they had better get out.¹

Inasmuch as all corporations can conserve cash by paying dividends smaller than current earnings it is obvious that a stock dividend is unnecessary to accomplish this stated objective.² Failure to declare a

¹Carothers, op. cit., p. 2277.

²Myers and Heath, op. cit., p. 756.

dividend, cash or stock, will conserve cash. Perhaps this leading motive can be rephrased, "to conserve cash and pacify the stockholder." In this manner the corporation is able to conserve its cash by not issuing a cash dividend and at the same time keeping the stockholder happy by giving him something that he accepts as a reasonable substitute.

Another reason often given is to broaden the base of ownership. This motive, also underlying most stock splits, can be accomplished only when the stock distribution is relatively large. This objective may be accomplished less expensively by the use of an occasional large stock split.¹

The desire to broaden the base of ownership is prompted by a variety of reasons. Among these are to provide sufficient distribution to permit applying for a listing on an exchange,² to increase the number of shares available for trading,³ and to increase good will among prospective customers.

Another reason often suspected but never admitted

¹Ibid.

²For example, see dividend announcements of Russ Togs, Inc., The Wall Street Journal (Midwest ed.), August 27, 1962, p. 12, and Indian Head Mills, Inc., The Wall Street Journal (Midwest ed.), June 26, 1963, p. 15.

³For example, see dividend announcement of Sterling Electronics, Inc., The Wall Street Journal (Midwest ed.), January 10, 1963, p. 14.

is to obscure growth, and hide exorbitant profits.¹ In this way, earnings per share and dividends per share are kept at a low level and, presumably, subject to less criticism by such parties as labor unions and customers. Professor William A. Paton labels this a "questionable reason."²

One of the purposes of stock dividends is said to "give the stockholder some tangible evidence" of the growth and capitalization of earnings in his corporation,³ or "evidence of corporate prosperity."⁴ The following quotation by a security analyst is typical of this kind of explanation:

The payment of stock dividends is used when a corporation decides that earnings have to be retained for expansion purposes, but that the stockholder should get some tangible evidence that the directors are cognizant of his needs.⁵

Such thinking, that the stockholder requires or is better off with some "tangible evidence," is not

¹Bothwell, op. cit., pp. 90-91.

²Paton, Advanced Accounting, p. 587.

³See announcements of stock dividend distributions by Standard Oil Co. (Ohio), The Wall Street Journal (Midwest ed.), April 12, 1963, p. 12, and Warner Electric Brake and Clutch Co., The Wall Street Journal (Midwest ed.), May 9, 1963, p. 18.

⁴Ira U. Cobleigh, "Split Personality of the Bull Market," The Commercial and Financial Chronicle, December 25, 1958, p. 2700.

⁵Walter Schloss, "In Defense of Stock Dividends," The Commercial and Financial Chronicle, December 31, 1953, p. 2641.

very realistic. Because a stock dividend gives nothing to the individual shareholder that he did not already possess and the corporation parts with nothing, it is hardly giving anything in the way of tangible evidence to the stockholder. Furthermore, the only evidence the stockholder really wants or needs in conjunction with the growth and profitability of his corporation is that of increased cash dividends, increased market value, and reports of increased earnings per share. The "tangible evidence" of a stock dividend is purely illusory. This kind of thinking, on the part of the board of directors, is contrary to the needs of the stockholder.

Professor M. Richard Sussman, in a questionnaire survey sent to 120 companies, attempted to determine corporate management motives in using stock dividends.

Dr. Sussman reported:

The replies stated many objectives as the purposes for which the stock dividends were issued. However, upon further analysis, it was considered that only a few of these stated objectives were rational in view of the expense and inconvenience associated with the issuance of new shares.

In the opinion of this author, the primary underlying reason for issuing stock dividends was to win the good will of the stockholder. This reason was expressed in some replies, implied in others, and ignored in the remainder. In but a few instances other methods could have accomplished most of the results desired from stock dividends. However, the new shares were favored by the recipients, and this added an important good will factor.¹

¹Sussman, op. cit., p. 100.

Other Alleged Advantages of Stock Dividends

It has been argued by some proponents of stock dividends that "by converting earnings into permanent capital you are making the management earn money on this reconverted capital."¹ In other words, now that the corporation has capitalized a portion of its retained earnings a greater return to be earned by the corporation can be expected. This implies that the amounts appearing in the capital and capital surplus (paid-in surplus) accounts are really amounts that the corporation is obliged to put to work while the dollar figure appearing in the retained earnings account is not in the same category. The distinction between the capital surplus and capital accounts, and the retained earnings account is purely a theoretical one from the legal and accounting point of view. Clearly, the amounts appearing in the uncapitalized retained earnings account appear also in some form of assets of the corporation and are certainly the equal responsibility of management and the board of directors. This is evident when one inspects the stockholders' equity section of the balance sheet of many large, well-established corporations and sees the large amount of retained earnings in relation to the capital stock account. Certainly no

¹Schloss, loc. cit.

observer, financial analyst, or investor thinks of these stockholders' equity accounts as separate items. The corporation is looked upon as the custodian and the user of all the funds represented in the stockholders' equity section of the balance sheet.

It has been suggested that "stock dividends tend to reduce income taxes by translating regular income to capital gains,"¹ and enable "large stockholders to avoid taxation."²

This argument makes little sense if it is recognized that the stockholder receives neither income nor anything else of value when he receives a stock dividend. Dr. Neil Carothers answers this argument:

Stock dividends are not income and cannot be converted into income. But, it is alleged, there is an income tax saving through through [sic] stock dividends. This absurd statement must be examined, if only briefly. The stockholder with 100 shares who receives a stock dividend of 10 shares can sell the 10 shares if he chooses, exactly as he could have sold nine shares before the stock dividend. He sells 1/11 of his entire ownership in the company. That is all there is to it. As in the sale of any other property, he pays a capital gains tax if any is due. If he sold at a loss on his original investment he pays no tax. If the profit was large, the tax may be large. The sale of property has nothing to do with his dividends or with his income tax on his dividends.³

Benjamin Graham believes that the federal taxation of cash dividends and the nontaxability of stock

¹Schloss, ibid. ²Bothwell, op. cit., p. 91.

³Carothers, op. cit., pp. 2255, 2277.

dividends are factors that now make cash dividends less desirable than they used to be and systematic stock dividends more desirable. He explains his position this way:

Corporations which need large sums for capital development, as most do today, are caught on the horns of a dilemma with respect to dividends. If they conserve cash, and make small dividend payments, the investor obviously suffers as regards return. If, on the other hand, they pay generous cash dividends, and then come back into the market for capital the shareholder may be scarcely better off. He will pay a high income tax on the dividend received, and if he then subscribes to the new capital issue he will be just where he was before, minus the tax. In the case of many utilities, and in the dramatic case of A. T. & T. in particular, . . . this needless shuffling of funds back and forth between company and shareholder has been enormously expensive over the years.

There is, therefore, a prima facie case for the use of the stock dividends which avoid giving this unnecessary hostage to the Federal Treasury. . . .¹

Mr. Graham erroneously compares the corporate alternative of declaring large cash dividends and the selling of additional stock to raise capital, with the other alternative of paying stock dividends. He reasons that the latter alternative is better because the corporation obtains its money and the federal treasury does not get its share. This argument presumes that the stockholders who receive cash dividends will be the same persons who would subscribe to additional stock.

¹Graham, Barron's, August 10, 1953, p. 5.

A better comparison of alternatives would be to compare the retention of all earnings by not paying any cash dividends with the alternative of paying stock dividends. Both of these alternatives provide the same effect, that is, the corporation retains those assets that it already had and the stockholder gets nothing in either case.

Robert E. Zang and George C. Thompson, in a survey of stock-dividend-issuing corporations, made in 1949, sought to discover whether tax considerations constituted any part of the motivation of the corporation in issuing stock dividends. They found that no such consideration determined the choice of the stock dividend policy, and that the policy factors which determined dividend policy were basically economic.¹

Company Practices and Attitudes

An analysis of recent newspaper stories containing corporation stock dividend announcements reveals a variety of company practices and attitudes regarding stock dividends.

As indicated earlier, the most important motive underlying the use of stock dividends is to conserve cash. American Sterilizer Company recently declared a two per cent stock dividend along with an increased

¹Zang and Thompson, op. cit., p. 886.

cash dividend. The president attributed the stock dividend to a "better cash position" than the previous year.¹

Some companies announce a regular dividend policy that includes a stock dividend. An example is the Clark Cable Corporation, whose directors recently set a regular dividend policy providing a five-cents-a-share cash dividend and a three per cent stock dividend semi-annually.²

Often the declaration of a stock dividend is announced as an extra or supplementary dividend. Aeroquip Corporation, International Silver Company, and Avnet Electronics Corporation have made such announcements in recent times.³

The president of Buckner Industries, Incorporated, announced that "the company would consider a cash payment of about five cents or a stock distribution of 3% to 5%."⁴ This type of announcement equates a stock dividend with a cash dividend and gives the public the impression that both are probably equal in all respects.

¹The Wall Street Journal (Midwest ed.), November 16, 1962, p. 14.

²The Wall Street Journal (Midwest ed.), March 14, 1963, p. 17.

³The Wall Street Journal (Midwest ed.), August 22, 1962, p. 12; November 29, 1962, p. 17; (Eastern ed.), July 10, 1962, p. 16.

⁴The Wall Street Journal (Midwest ed.), September 12, 1962, p. 27.

General Public Utilities Corporation declared a special four per cent stock dividend "approximately equal to the increase in book value of the corporation's common stock arising out of the sale in 1962 of its investments in Manila Electric Co."¹ Here is a case of a company issuing a stock dividend equal to capital gains that have been realized and retained in the company.

At least one company, Nautec Corporation, has a regular stock dividend policy to comply with a long-term financing agreement.²

While it appears that many corporate managements strive to mislead their stockholders in the area of stock dividends, it is encouraging to note that there are some exceptions. The following newspaper quotations are examples of a more honest approach.

In a [sic] answer to a stockholder's question, Mr. Frawley said directors are considering a stock dividend. "I never liked a stock dividend," he added. "It is just another piece of paper."³

Directors omitted the year-end 2% stock dividend declared in recent years. "Having increased our cash dividends during the last several years,

¹The Wall Street Journal (Midwest ed.), October 5, 1962, p. 21.

²The Wall Street Journal (Midwest ed.), November 8, 1962, p. 20.

³The Wall Street Journal (Midwest ed.), May 23, 1962, p. 18.

the company has at this time decided to change its policy on stock dividends," Charles A. Specht, president, said. "We no longer believe it is in the best interests of the company to pay regular stock dividends."¹

Not only do some companies have a regular policy of distributing stock dividends, but at least one, Simplicity Manufacturing Company, has announced a plan "to pay a 5% stock dividend in each of the next three years."²

While some companies try to maintain a constant percentage distribution of stock dividends, others vary the percentage, depending on the market price of the stock at the time of distribution. The Meadow Brook National Bank announced this policy at the time of a reduced stock dividend declaration.³

An unusual twist to stock dividend policies is indicated in the announcement on future dividend policy of the Seagrave Corporation. This company plans to distribute a regular stock dividend and at irregular times, extra dividends in the form of cash. This is opposite to the plan of many companies that pay regular

¹The Wall Street Journal (Midwest ed.), November 30, 1962, p. 14.

²The Wall Street Journal (Midwest ed.), December 13, 1962, p. 4.

³The Wall Street Journal (Midwest ed.), June 15, 1962, p. 3.

cash dividends with an occasional extra in stock.¹

The Bon Ami Company recently declared a five per cent stock dividend plus a two per cent extra stock dividend, both payable at the same time for the same date of record. This type of announcement, fortunately, is unusual. The only result of such a policy can be increased confusion and misunderstanding of the stock dividend device.²

The management of Raytheon Company, a regular issuer of stock dividends for years, was severely criticized by several stockholders in attendance at the recent corporate annual meeting. They criticized management for not paying cash dividends. This report is encouraging, in that it shows that not all stockholders are deceived by the stock dividend device.³

The attitude of one company executive, revealed in a survey of dividend policy, is perhaps representative of many companies using the device today: "We regard a stock dividend as a very poor substitute for cash dividends, but it does please the stockholders; . . ."⁴

¹The Wall Street Journal (Midwest ed.), April 11, 1963, p. 16.

²The Wall Street Journal (Midwest ed.), January 21, 1963, p. 10.

³The Wall Street Journal (Midwest ed.), May 23, 1963, p. 8.

⁴Marshall and Thompson, loc. cit.

Issuance Costs

The cost of issuing stock dividends has received relatively little attention in the literature. In evaluating the financial role and effect of stock dividends, this element must be considered.

There are those who maintain that the cost of issuing a stock dividend is relatively small:

And the new plan isn't costing much either; total out-of-pocket expenses connected with it were only \$180,000, which is roughly the cost of raising \$4.5-million in the open market.¹

. . . the stock dividend yields major savings in the cost of obtaining new equity capital. Even a company with the best financial record cannot attract money in the open market without some sacrifice. Underwriters require compensation. Legal fees and other expenses are heavy. In fact, the actual discount from the market price, which must be accepted on a new issue, often runs to 10%. This is quite forbidding, compared to the virtual lack of cost involved in raising funds by taking retained earnings into stated capital by means of a stock dividend.²

There are others who admit to the high cost of issuing stock dividends. An article in Fortune says:

A lesser factor, but one that influences middling-size and smaller companies, is the cost of declaring a stock dividend. Handling charges may eat a disproportionate amount of a stock dividend's value. The Bankers Trust, one of the

¹"Stock Dividends Win a New Fan," Business Week, March 21, 1959, p. 52.

²Oscar Lasdon, "Stock Dividends: They Are Growing More Popular with Investors," Barron's, February 6, 1956, p. 5.

largest corporate transfer agents, charges on average between \$1.50 and \$1.75 per account for processing a stock dividend, compared to 16 cents per account for a cash dividend.¹

A study made by an underwriting and brokerage firm, and reported by C. A. Barker, estimates that the cost of distributing a one per cent stock dividend is \$1 per shareholder, and the cost of a 100 per cent stock dividend in the 25,000-to-35,000 shareholder class would be about \$100,000, or about \$3 per shareholder.²

Mr. Lytton, of Lytton Financial Corporation, recently admitted the high cost of issuing stock dividends when he announced plans to discontinue the company's regular annual stock dividend. He indicated the switch to cash dividends was being made to cut expenses in distributing stock dividends.³

Further evidence of the high cost of issuing stock dividends is indicated in the newspaper story concerning an unidentified St. Louis financial company that incurred about \$40,000 in expenses in the issuance of a four per cent stock dividend in 1957.⁴

The tax problem concerning the deductibility of

¹"Reputations and Dividends," Fortune, LVIII (August, 1958), 81.

²Barker, Harvard Business Review, XXXVI, 112-13.

³The Wall Street Journal (Midwest ed.), January 2, 1963, p. 19.

⁴"Tax Report," The Wall Street Journal (Midwest ed.), December 12, 1962, p. 1.

issuance costs is considered in the following chapter.

The foregoing indicate that issuance costs for stock dividends are substantial. If one subscribes to the theory that little benefit is derived from the use of stock dividends, it follows that such sums of money are being wasted. The amounts could have been distributed to the stockholders in the form of cash dividends at relatively little cost to the corporation. To argue that the amounts involved are reasonable in comparison to costs of issuing new securities is not sound reasoning. A stock dividend does not bring in additional capital but results only in maintaining what the corporation has and in placating the stockholder with additional pieces of paper, issued at considerable expense under the guise of a benefit to the unknowing investor.

R. E. Zang and G. C. Thompson, in their survey of the New York Stock Exchange companies issuing stock dividends during the period 1945-1948 inclusive, found that the cost of issuing a stock dividend was "too insignificant a factor to act as a deterrent of material consequence."¹ This attitude is borne out by the almost steadily increasing use of the stock dividend device.

Other Disadvantages of Stock Dividends

As indicated earlier, the expense involved in

¹Zang and Thompson, loc. cit.

distribution of a stock dividend can be considerable. As part owner of the corporation the stockholder suffers by such expense. The stock dividend device is also costly to companies, such as brokers and trust companies, who hold stock in other companies.

Where the stockholder maintains a safekeeping account with a bank for example, the bank must receive in the shares resulting from the stock dividend, set up the necessary record, write to the customer-stockholder requesting instructions whether to sell the fractional share or "round out," write off the fractional share, then receive in either the cash representing the proceeds of sale or the whole share resulting from the purchase of the additional fraction to "round out." The record keeping involved in the fraction alone is far more extensive and hence expensive than the straight purchase or sale through a broker of many thousands of shares in one transaction. Since these costs must eventually be passed on to the stockholder, he suffers not only because the dividend involves expense to the company in which he holds stock, but also because indirectly it cost him money to receive the stock dividend.¹

The stock dividend may also be an annoyance to the small stockholder:

He will receive fractional shares and must either buy to round out to a full share or must sell. This can usually be done at no cost to the stockholder through an agent which the corporation appoints for the purpose. If he buys the necessary fractions to round out to a full share, he must invest additional cash. If he sells his fraction, he will have a capital gain or loss for income tax purposes. The basis of his old shares must be distributed over the total full and fractional shares he owns. The basis of the fractional share is subtracted from the sale price to obtain the capital gain or loss. This is usually quite a nuisance for the tax involved and

¹Myers and Heath, op. cit., p. 756.

probably is beyond the understanding of the many small holders. It is entirely possible that they pay tax on the full sale price of the fractional share.¹

Louis D. Marshall and G. Clark Thompson quote an executive of a stock-dividend-using corporation who voices a similar criticism:

"We believe that, to the small or even the average stockholder, frequent stock dividends are an irritation. Fractional shares have to be dealt with, and the cost of sale per share of a small number of shares (if the holder wishes to convert the dividend into cash) is high. Hence our practice has been to transfer retained earnings to our capital account only occasionally and then in fairly large amounts."²

Summary

Some of the more important financial aspects of stock dividends have been considered in this chapter as the foundation for a proper accounting for their issuance.

Among other things, it has been shown that stock dividends are misnamed and that they produce no lasting value for the stockholder. Furthermore, they are costly to issue and a nuisance to many stockholders. The motives for their issuance are many and sometimes contradictory. Any benefits that may be derived from their issuance can be more economically accomplished in other ways, such as withholding cash dividends or using stock splits.

¹Ibid.

²Marshall and Thompson, loc. cit.

CHAPTER V

FEDERAL INCOME TAX AND STOCK DIVIDENDS

This chapter considers the tax status of stock dividends from the points of view of the issuing corporation and the recipient. The issuing corporation is primarily concerned with the deductibility of issuance costs in determining taxable income. The recipient is concerned with the taxability of a stock dividend received.

While the emphasis in this dissertation is upon the issuing corporation the tax status of the recipient of a stock dividend should not be ignored. As was pointed out in Chapter I, the use of the stock dividend device is guided by the attitudes of the recipient and of the taxing authorities.

Tax laws are passed and administered within a constitutional framework that may or may not take cognizance of accounting theory. The question of the income status of stock dividends has already been considered in Chapters II and IV. No attempt is made in this chapter to consider the appropriateness or inappropriateness of the tax laws and their administration in light of

accounting theory. Further discussion of taxes and accounting theory is included in Chapter VII.

Receipt of Stock Dividend

Present Tax Status

The general rule now in effect under the 1954 Internal Revenue Code is that no tax is imposed upon the receipt of a stock dividend by a stockholder. This rule applies to stock dividends distributed on or after June 22, 1954. Stock dividends distributed before this date are governed by the rules in effect under the previous 1939 Code.

The above rule does not apply if the stock dividend is distributed in lieu of a cash dividend. If the distribution of stock is made in discharge of preferred dividends of the current or preceding year, or the stockholder is given a choice of a cash or a stock dividend, such distribution is taxable under the 1954 Code.

This law applies equally, without distinction, to distributions of treasury stock or authorized but unissued stock.

Although the receipt of an ordinary stock dividend is not taxable, the subsequent sale of the stock dividend results in a reportable gain or loss. This gain or loss is found by comparing the amount realized from the sale with the "tax basis" of the stock. If the shares

received as a stock dividend are nontaxable and are of the same class as the stock owned, the basis of the new stock is determined by dividing the basis of the old stock by the total number of shares, both old and new. If the nontaxable stock dividend is of a different class or preference than the stock in respect to which the distribution is made, the basis of the new stock is determined by apportioning the basis of the old stock between the old and new stock according to the relative market values of each class of stock at the time of distribution. In all cases, the date basis for determining the holding period for capital gain or loss purposes is the date basis of the old shares.

Under a new rule included in the 1954 Code, Section 306, the proceeds from the sale of certain types of nontaxable stock dividends are taxed at ordinary income rates. This provision was included to close a loophole in a prior law known as "preferred stock bailout." In general, this provision pertains to any stock received as a nontaxable stock dividend, other than common stock issued with respect to common stock. The most common example of "Sec. 306 stock" is a nontaxable preferred stock dividend paid on common stock. Prentice-Hall in its Federal Taxes explains the use of this device, previously legal under the old tax code:

This is a device the object of which is to withdraw earnings from a corporation in such a manner

as to be taxed at the lower capital gain rate rather than at higher rates applicable to ordinary income.

Through the device of the "preferred stock bail-out" the stockholders of a corporation (usually a closely-held corporation) arrange to have the corporation declare and distribute a nontaxable stock dividend in preferred stock on their holdings of common stock. This dividend stock is then sold to an outsider who turns it back to the corporation for redemption. The stockholders reported the profit as long-term capital gain. Except for the advantage from the lower capital gain tax rate, the stockholders are in the same position as if a cash dividend had been received directly from the corporation.¹

Change in Proportional Interest

Prior to the enactment of the 1954 Code, the rule developed by a line of court decisions considered a stock dividend as not taxable unless the proportional interest of the stockholder after the distribution was essentially different from his former interest. The 1954 Code eliminated this rule and generally provides that an ordinary stock dividend is not taxable. One of the exceptions to the present general rule, as described earlier in this chapter, provides that a stock distribution is taxable when a stockholder is given a choice of a cash or a stock dividend.

In 1955 the Citizens Utility Corporation devised a plan based on two classes of common stock. Class A stock was entitled to stock dividends only while Class B

¹Federal Taxes (Englewood Cliffs, N. J.: Prentice-Hall, Inc., 1962), par. 9410, p. 9364.

stock was entitled to cash dividends only. Class B would not be convertible to Class A but the reverse would be allowed.

The corporation submitted its plan to the Internal Revenue Service for advance determination, and in two rulings in 1955 the Internal Revenue Service approved the contemplated recapitalization and held that the stock dividends issued under this plan would not be taxable. The plan was put into operation and existing common shareholders were permitted to choose the class of stock they preferred.

Shortly thereafter, in July 1956, the Internal Revenue Service proposed an amendment that would preclude any such two-class arrangement and subject the stock dividends to a tax. In 1959 a Congressional Committee considered the proposed amendment to Section 305 of the 1954 Code to provide for the taxation of such stock dividends. As of this date (1963) no change has been made by the Internal Revenue Service or by Congress. No other corporation is known to be using the two-class capitalization plan devised by Citizens Utility Corporation.¹

¹Charles D. Leist, "Efforts to Tax Stock Dividends Under Section 305 Opposed; Experts Differ," The Journal of Taxation, XI (August, 1959), 70-71.

History

The 1913 Congressional Act, the first federal income tax law, made no mention of stock dividends. In 1918 the Supreme Court of the United States decided in Towne v. Eisner (245 U.S. 418, 38 Sup. Ct. 158) that the taxation of stock dividends under the 1913 Act was invalid. The case involved the distribution of a stock dividend of common stock on common stock, the only stock outstanding, recorded by a transfer of earnings accumulated prior to March 1, 1913, the effective date of the revenue act.

The 1916 Act provided expressly for the taxation of stock dividends. In 1920 the United States Supreme Court, in Eisner v. Macomber (252 U.S. 189, 40 Sup. Ct. 189), held that a dividend in a corporation's common stock paid to the then common stockholders was not income within the meaning of the word "income" as used in the Sixteenth Amendment to the United States Constitution. This case also concerned the distribution of a common stock dividend on common stock where only common stock was outstanding. The Commissioner, feeling that the Towne case had been decided on the basis that the earnings transferred to the capital account had been accumulated prior to March 1, 1913, had assessed a tax on the stock dividend shares representing earnings accumulated after February 28, 1913. In a five-to-four

decision the Supreme Court found the stock dividend not taxable income.

The court pointed out that true stock dividends:

1. Do not change the proportionate interest of the shareholders.
2. To be taxable, must be income, and since there was no realization in a true stock dividend, there was no income.
3. Do not give the recipient the means to pay a tax without selling his new shares, and in selling his new shares, the shareholder parts with a portion of his capital interest.
4. Do not accurately measure the extent to which an individual shareholder has been enriched by the operations of the company.¹

After the Macomber case the Internal Revenue Service interpreted the case to hold that all stock dividends were constitutionally exempt from federal taxation. This interpretation was incorporated in the Congressional Acts of 1921, 1924, 1926, 1928, 1932, and 1934.

In 1936, the Supreme Court in Koshland v. Helvering (298 U.S. 441, 56 Sup. Ct. 767) pointed out that both the Internal Revenue Service and the Congress had interpreted the Macomber decision too broadly. The Court held that a stockholder receives income when the stock dividend gives him an interest different from that which he formerly held. In the Koshland case common stock was issued as a stock dividend upon cumulative non-voting preferred stock.

¹Elmer A. Oesterlin, "Tax Status of Stock Dividends," L. R. B. & M. [Lybrand, Ross Bros. & Montgomery, Certified Public Accountants] Journal, XXXV (February, 1954), 2.

The Koshland decision led to the so-called "different interest rule" which was incorporated about a month later into the 1936 Revenue Act.¹ The amended tax law exempted only those stock dividends that were constitutionally immune, rather than exempting all stock dividends. The Internal Revenue Service later contended that no stock dividend was constitutionally immune but the Supreme Court, in a 1943 decision, Helvering v. Griffiths (318 U.S. 371, 63 Sup. Ct. 636), refused to go along with the Internal Revenue Service. The Court ruled that Congress intended to leave intact the rules previously laid down by the courts.

. . . the Supreme Court was given the opportunity to overrule its decision in Eisner v. Macomber, but refused to do so. This also was a case of a stock dividend in common stock on common stock where only common stock was outstanding. The court reaffirmed the reasoning of the majority in Eisner v. Macomber, and found the dividend nontaxable because it caused no alteration of the proportionate interests of the shareholders.²

Issuance Costs

As indicated in Chapter IV, issuance costs of stock dividends can be considerable. They include such costs as printing of letters and securities, state and federal tax transfer stamps, postage, stock exchange

¹David Green, Jr., "Taxable Stock Dividends," The Journal of Business, XXVI (October, 1953), 224.

²Oesterlin, loc. cit.

listing fees, and service charges.

Section 162 of the 1954 Internal Revenue Code, currently in force, allows as a deduction for a business "all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business"

Section 263 stipulates that no deduction shall be allowed for "capital expenditures."

The deductibility of stock dividend issuance costs rests upon the relationship of such costs to the above-mentioned sections of the Internal Revenue Code. If they are "ordinary and necessary expenses" they are deductible. On the other hand, if they are "capital expenditures" they are not deductible.

In 1960, the Internal Revenue Service issued a ruling (Rev. Rul. 60-254, I.R.B. 1960-31, 8) affecting the tax status of stock dividend costs:

Cost incurred by a corporation in connection with the issuance of its capital stock and payment of a stock dividend is not deductible as an ordinary and necessary business expense under section 162 of the Internal Revenue Code of 1954, since such cost is a capital expenditure.

This ruling reversed the previous practice of allowing the deduction of stock dividend issuance costs and brought strong criticism from tax practitioners. One of these, Gerald J. Kahn, writing in The Journal of Taxation, criticized the ruling as follows:

. . . the Commissioner recently struck down a view widely held by tax practitioners that expense

connected with the issuance of capital stock in payment of a stock dividend is deductible as ordinary and necessary business expense. . . .

While at first blush the Commissioner's position may appear to be sound, based on the general rule that expenses incurred in the issuance of its capital stock by a corporation are not deductible, it is in fact specious in that it overlooks the true character of the expenses. Moreover, it is blind to the fundamental proposition that what "might be classified as a capital expenditure under certain circumstances, may, under different facts and circumstances, be considered expense." To adhere rigidly to the rule that all expenditures connected with the issuance of capital stock must be capitalized irrespective of the surrounding circumstances is unrealistic and ignores the rule that each case must be decided on the basis of its own facts. . . .

Both of the cases cited in Rev. Rul. 60-254 involve the issuance of stock in order to increase capitalization. The courts held that the expenses attendant thereto are part of the cost of acquiring capital and are to be considered a reduction in the proceeds from the sale of stock. This is distinguishable from the issuance of capital stock by a corporation in payment of a stock dividend. In the latter situation there is no return of capital to the corporation in exchange for its stock and, accordingly, no proceeds against which the cost of issuance can be offset.

A distinction must be recognized between expenses of stock issues for the purpose of raising capital and stock issues intended and used for the payment of a stock dividend. However, there is no similar distinction between expenses connected with a cash dividend and those connected with a stock dividend where the stock issuance is in pursuance of the dividend policy of the corporation.

Doubtless the Commissioner would be on firmer grounds in disallowing expenditures made for the issuance of a stock dividend where its purpose is to produce a reshuffling of the capital structure of the issuing corporation. On the other hand, where the stock dividend is declared as part of the regular dividend policy of the corporation, the expenditures connected therewith should be treated as being in the nature of recurring expenditures and, as such, currently deductible. This would be analogized to the case where the

annual fees paid for maintaining a listing on the stock exchange are held to be currently deductible, whereas the initial cost of listing the stock on the exchange is considered to be a capital expenditure.

Practitioners are viewing this ruling with great consternation. Here again is an extension of the long arm of administrative fiat to upset a practice of long standing--a practice in which the Service had to our knowledge heretofore acquiesced.

But even more deplorable is the fact that the ruling apparently reflects a change in the Service's position shortly before the announcement. This is evident by the fact that on May 2, 1960, the issue embodied in the ruling was presented for the first time to the Tax Court. It now remains for the court to determine the validity of the Commissioner's position. The frequency with which taxpayers are confronted with this issue would seem to insure that a vigorous effort will be made to invalidate the ruling. It is to be hoped the courts will view the problem more realistically than the Commissioner has and recognize that the expenses connected with the issuance of a stock dividend are not distinguishable from those connected with a cash dividend.¹

The first case presented to the Tax Court as a result of the above ruling was that of the United Industrial Corporation (T.C. Memo 1962-280). In that case the company was denied a deduction of approximately \$32,000 for stock dividend expenses for the years 1956 and 1957. The company had declared two per cent stock dividends in June, September and December of 1956. The Court ruled against the company:

. . . we hold here that the issuance and

¹Gerald J. Kahn, "IRS Wrong in Ruling That Expenses of Stock Dividend Issue Are Not Deductible," The Journal of Taxation, XIII (October, 1960), 246-47. In this article Mr. Kahn also makes reference to Libby & Blown Ltd., 4 BTA 910 and Philip Shore, TCM 1959-166.

distribution of a stock dividend results in a change in the capital structure of the issuer, rendering expenses incident thereto nondeductible as ordinary business expense. The result is the same regardless of the fact that petitioner's purpose in paying a stock dividend rather than its traditional cash dividend was for the conservation of its cash for expansion and additional plant. Accounting procedures and business custom disclosed by the record herein, have no bearing upon the nature of the expenses here sought to be deducted.¹

The above memorandum decision was issued on November 28, 1962. The Tax Court judge, in his decision, referred to a similar case decided a few days earlier in the same court. He found the United Industrial Corporation case "indistinguishable" from the earlier case, that of General Bancshares Corporation (39 T.C. No. 40).²

At issue in the General Bancshares Corporation case was the deductibility of approximately \$40,000 incurred by the company when it paid a four per cent stock dividend in 1957. The company had issued regular stock dividends since 1950. Expenses for previous stock dividends were allowed to be deductible by the Internal Revenue Service.

¹"T.C. Memo 1962-280," Tax Court Memo Decisions: 1962 (Englewood Cliffs, N. J.: Prentice-Hall, Inc.) par. 62-280.

²"Tax Court memorandum decisions (T.C. Memo)" are to be distinguished from "Tax Court decisions (T.C.)." The memorandum opinions are not printed, are not available to the public, and are supposed to be limited to those opinions having no value as a precedent. Memorandum opinions are issued in mimeographed form principally for the use of the court, and are available in limited numbers. See Federal Taxes: Tax Court Reported and Memorandum Decisions (Englewood Cliffs, N. J.: Prentice-Hall, Inc.), pp. ii, iii.

The company argued that the stock dividend issuance expenses were related to "carrying on a trade or business" in that the issuance of a stock dividend allowed the retention of funds, thus improving its credit standing.

The Court ruled against General Bancshares Corporation, deciding that the expenditures were capital expenditures. The Court decision further stated:

The capitalizing of earned surplus by petitioner may have improved its credit position, but even if this were the purpose of petitioner's change in its capital structure, the expenses of such change are not deductible as ordinary and necessary business expenses.¹

The two tax court decisions reported above upheld the 1960 revenue ruling and permitted the retroactive application of the ruling. Both cases involved stock dividends issued in 1956 and 1957. Some tax experts complained that the Internal Revenue Service acted unfairly in applying retroactively a ruling reflecting a belated change in position.²

In the General Bancshares Corporation case the company argued that the 1960 revenue ruling should not be applied retroactively to a period of time when the ruling was not in effect. The Court in its decision

¹"39 T.C. No. 40) Federal Taxes: Tax Court (Englewood Cliffs, N. J.: Prentice-Hall, Inc.) par. 39-40.

²"Tax Report," The Wall Street Journal (Midwest ed.), December 12, 1962, p. 1.

supported the Internal Revenue Service:

Certainly, petitioner may have believed that the costs of issuing its stock dividends in 1957 were deductible if similar deductions in prior years had not been disallowed by respondent, but respondent is correct in his position that this fact does not prohibit his being sustained in his present position if that position is legally correct.¹

The most recent court decision concerning this subject is that of the Arkansas Louisiana Gas Company (T.C. Memo 1963-77). The Tax Court rendered a decision on March 15, 1963. In this case the company claimed as a business expense deduction the costs incurred in connection with the issuance of stock dividends in the years 1955 and 1956. The cost of issuance totalled approximately \$69,000 for the two years. The Tax Court judge decided that this case was identical to the General Bancshares Corporation case and ruled against the tax-paying corporation. The deduction was not allowed.

¹"39 T.C. No. 40," loc. cit.

CHAPTER VI

STUDY FINDINGS

This chapter, consisting of two main parts, presents the results of study of this dissertation. The first part is based on an analysis of all American companies distributing stock dividends in 1961. The second part is based on an analysis of reporting practices concerning stock dividends as compiled by the American Institute of Certified Public Accountants in the annual volumes of Accounting Trends and Techniques In Published Corporate Annual Reports.

Statistical data together with individual observations are presented. The intention underlying the presentation of data in this chapter has been to thoroughly report actual practices of American corporations regarding stock dividend distributions in recent years. These practices include the size of stock dividends utilized and the manner of handling and reporting them.

The main purpose of the studies reported in this chapter is to determine the following: (1) the extent of the accounting problem involved; (2) the adequacy of existing procedures and theory of accounting; (3) the

existence of inconsistencies and special problems; and
(4) the basis for developing a theory of accounting for
the issuance of stock dividends.

Study of Companies Issuing
Stock Dividends in 1961

Scope and Method

A list of American companies distributing stock dividends in 1961 was obtained through the use of Moody's Dividend Record¹ and Standard and Poor's Dividend Record.² Both of these volumes contain lists of stock dividend paying companies. Moody's list contains stock dividends only, while Standard and Poor's list contains stock dividends and stock splits for the year.

These two lists were analyzed and corrected so that the resulting product was a list of American companies distributing stock dividends in 1961. Excluded from the prepared list were such items as duplications, foreign corporations, companies distributing liquidating dividends, stock dividends on different classes of stock, dividends in stock of other companies and stock splits, and companies declaring stock dividends in 1961 but issuing them in 1962.

¹Moody's Dividend Record: Annual Cumulative for 1961 (New York: Moody's Investors Service, 1962).

²Standard and Poor's Dividend Record: 1961 Annual Dividend Record (New York: Standard and Poor's Corporation, 1962).

From data contained in the above-mentioned books, Moody's Manuals and other financial data records, the following data were developed for each company that appeared in the final list: name of company, exchange traded, type of business, size of stock dividend, and date or dates of distribution.

Appendix E lists these companies, the exchange on which their common stock is traded, and the size of stock dividends distributed.

Results of Study

Table 3 contains a summary of the companies included in this study tabulated according to type of industry and the exchange on which their common stock is traded. Industry classifications used in this table follow the classification system used by Moody's in their annual volume reports: industrial, financial, transportation, and utility. Financial companies include: banking, finance companies, real estate, mutual funds, insurance, and holding companies. Companies not fitting into the financial, transportation or utility classifications are included in the industrial group. Industrial companies are the predominant users of the stock dividend device. Financial companies rank second. Within the financial classification, banking organizations predominate. Transportation and utility companies account for very few stock dividends.

TABLE 3

COMPANIES DISTRIBUTING STOCK DIVIDENDS IN 1961
CLASSIFIED BY INDUSTRY AND EXCHANGE

Industry Classifi- cation	Un- listed	New York Stock Exchange	American Exchange	Other Ex- changes	Total
Industrial	282	123	100	15	520
Financial	355	14	11	8	388
Transporta- tion	5	3	1	--	9
Utility	32	7	--	--	39
Unclassified ^a	5	--	--	--	5
Total No. of Companies	679	147	112	23	961
Percentage of Total	70.6	15.3	11.7	2.4	100.0

^aIndustry classification was not available because companies are small and obscure.

Table 3 also indicates that unlisted companies, that is, those not listed on an organized stock exchange (traded over-the-counter) accounted for 70.6 per cent of all stock dividend-distributing companies in 1961.

New York Stock Exchange-listed companies ranked second with 15.3 per cent. Companies listed solely on regional exchanges issued few stock dividends in 1961.

A comparison of the above figures with the results of a study made by Oscar Lasdon, of companies distributing

stock dividends in 1955, discloses that unlisted companies in 1961 accounted for a larger percentage of all stock dividend distributing companies than in 1955. Mr. Lasdon found that 55.7 per cent of the companies distributing stock dividends in 1955 were unlisted.¹

The commercial banking industry was the largest user of stock dividends with 226 companies or 23-1/2 per cent of all companies issuing stock dividends.² (See Table 4.) Almost all of the commercial banks, 221 of 226, are unlisted. Insurance companies ranked second in the financial classification with 72 companies declaring stock dividends in 1961.

Size of stock dividend

Although not directly related to the objectives of this study, the sizes (expressed as percentages) of stock dividends distributed in 1961 were analyzed. These data were readily obtainable as a by-product from the detailed analysis required for the other compilations. In itself it is interesting and it is worthwhile to compare with some other similar studies made in the past.

Table 5 is an analysis of the size and number of

¹Oscar Lasdon, loc. cit.

²While the "industrial" classification is the largest in Table 3, it represents a larger number of industries, including manufacturing, assembling, retailing, etc. For this reason, the banking industry is the largest user of stock dividends.

stock dividends distributed in 1961. Of the 961 companies studied, 865 companies each distributed a single stock dividend in 1961. The remaining 96 companies distributed 236 multiple (two or more) stock dividends during 1961. A total of 1,101 stock dividends were distributed by the 961 companies. Of all stock dividends distributed, 83.4 per cent were ten per cent or less in size.

TABLE 4

FINANCIAL COMPANIES DISTRIBUTING STOCK DIVIDENDS IN 1961
CLASSIFIED BY NATURE OF BUSINESS AND EXCHANGE

Nature of Business	Un- listed	New York Stock Exchange	American Exchange	Other Ex- changes	Total
Banking	221	--	--	5	226
Finance Companies	19	4	3	--	26
Real Estate	18	4	4	1	27
Investment Companies	8	--	1	--	9
Insurance	69	--	1	2	72
Holding Companies	20	6	2	--	28
Total No. of Companies	355	14	11	8	388

C. Austin Barker found in his study of all NYSE-listed stock dividends distributed in the years 1951 to

1954 that 83 per cent of all stock dividends issued in this four-period were ten per cent or less in size. He also found that 22 per cent of the cases involving single dividends in one year were below five per cent in size.¹ For 1961, 69.7 per cent of such cases were under five per cent.

TABLE 5

PERCENTAGE OF STOCK DIVIDENDS DISTRIBUTED IN 1961
ACCORDING TO SIZE

Size of Stock Dividend	Percentage of single stock dividends distributed by 865 companies				Percentage of all stock dividends (1,101) distributed by 961 companies			
	Total	Unl.	NYSE	Other	Total	Unl.	NYSE	Other
2% or less	22.4	17.8	43.2	23.4	30.5	22.8	48.9	44.9
4.99% or less	43.5	36.5	69.7	51.4	52.0	43.4	74.4	66.5
5% or less	67.3	59.2	90.2	85.6	72.5	64.5	89.8	89.2
10% or less	80.2	74.9	97.7	89.2	83.4	78.2	95.5	93.2

Table 6 is a tabulation of the number of stock dividends distributed in 1961 by the 96 companies that distributed more than one stock dividend. The majority of these companies favored two stock dividends.

¹Barker, Harvard Business Review, XXXVI, p. 109.

TABLE 6

NUMBER OF COMPANIES DISTRIBUTING MORE THAN
ONE STOCK DIVIDEND IN 1961

Number of Stock Dividends Distributed	Number of Companies			
	Un- listed	New York Stock Exchange	Other Ex- changes	Total
2	48	8	13	69
3	5	1	5	11
4	4	5	6	15
5	--	1	--	1
Totals	57	15	24	96

Table 7 indicates the most frequently distributed sizes of stock dividends among the 865 companies distributing single stock dividends and among all of the 961 companies distributing single and multiple stock dividends. Among all companies, the most popular size dividend was two per cent, with 228 distributions; however, there were 225 distributions of five per cent. Among the 865 companies distributing single stock dividends, five per cent was the most popular size with 206 distributions; two per cent was second with 167 distributions. Among the NYSE-listed companies, two per cent was the most popular distribution.

TABLE 7

SIZES OF STOCK DIVIDENDS MOST FREQUENTLY
DISTRIBUTED IN 1961

Exchange	Among 865 companies distributing single stock dividends	Among all 961 com- panies distributing single and multiple stock dividends
Unlisted	5%	5%
NYSE	2%	2%
Other	5%	2%
All	5%	2%

Method of Accounting Used

A sample analysis was made of the companies distributing stock dividends in 1961 to determine the method of accounting used to record the stock dividends. It was desired to determine to what extent variation existed among the companies, whether there was compliance with Bulletin 43, and to discover any additional information that possibly would be helpful in developing a theory for accounting for stock dividends.

To the extent information was available in financial services and corporate annual reports, the method of accounting for stock dividends was determined for a number of companies within various groups, such as NYSE-listed companies, unlisted companies, and financial institutions. Several patterns developed from this analysis.

NYSE-listed companies

An analysis of the accounting for stock dividends distributed by companies listed on the New York Stock Exchange indicated that, as could be expected, the accounting was in compliance with the standards of the New York Stock Exchange and that of the AICPA. Market value was used as a transfer value. Retained earnings was debited for the entire amount and capital surplus was credited for the amount in excess of par or stated value.

Unlisted stocks

The greatest deviation from Bulletin 43 was found in the companies traded on the over-the-counter market. This category also represented the greatest number of companies distributing stock dividends. Because many of these companies are small and little known, information regarding the accounting for the issuance of stock dividends by these companies was very limited. No attempt was made to tabulate the results of the sample study. Nevertheless, useful generalizations can be made.

Several companies used par value as a transfer value in capitalizing retained earnings. Other companies capitalized paid-in surplus rather than retained earnings.

Commercial banks.--With few exceptions, common

stock of commercial banks is traded over-the-counter.

As indicated earlier in this chapter, the commercial banking industry was the largest user of stock dividends in 1961. The reason for this is probably due to the fact that commercial banks' lending ability, according to federal regulation, is based on the amount of stockholders' capital.

All banks surveyed in this study accounted for the issuance of stock dividends in the same manner. Par value, rather than market value, was used to determine the amount transferred to the capital account. This is in line with federal regulation. All bank stock dividends have to be approved by the Comptroller of the Currency. The application for approval must show the amount and form of the dividend and the entry which will be made to record it.¹

The stockholders' equity section of a bank's balance sheet has a peculiar arrangement, somewhat different from other corporations. Net income for the year is closed to "undivided profits" and is then transferred to the "surplus" account when a stock dividend is distributed. The undivided profits account is equivalent to the retained earnings account of a non-bank corporation and the surplus account is equivalent to the paid-in surplus account of a non-bank corporation. Stock

¹Interview with Leonard L. Rynski, a Manager and bank specialist of Arthur Andersen & Co., Detroit office.

dividends, therefore, are recorded by a transfer of retained earnings to the paid-in surplus account.

Insufficient Earnings

Several companies in the unlisted industrial category issued stock dividends in spite of a loss or insufficient earnings for the year. As noted earlier in this dissertation the requirement of sufficient earnings to cover a stock dividend is no longer required by the New York Stock Exchange and the AICPA.

Analysis of Reporting Practices

A second major source of information was the annual volumes of Accounting Trends and Techniques In Published Annual Reports published by the American Institute of Certified Public Accountants. These annual volumes are surveys of reporting practices of 600 companies. The same 600 companies, with a few exceptions, are included in each year's survey. The purpose of the publication is to "show the current trends in corporate reports in such diverse accounting matters as the various types of financial statements presented, their form and terminology, and the accounting treatment accorded the transactions and items reflected in the statements."¹

¹American Institute of Certified Public Accountants, Accounting Trends and Techniques In Published Corporate Annual Reports (15th ed., New York: American Institute of Certified Public Accountants, 1961), p. iii.

The AICPA provides no editorial comment or endorsement of any of the practices reported, but simply reports current practices for practicing accountants' information and guidance.

Volumes 7 through 16 of Accounting Trends and Techniques In Published Annual Reports covering the ten-year period 1952 to 1961, were analyzed. Specifically, the reporting practices regarding stock dividends and stock splits were reviewed and tabulated. Stock splits were included because of their close similarity and relationship to stock dividends.

The classification of stock distributions as between stock dividends and stock splits, used in the AICPA survey, is based entirely on the terminology employed in the individual company reports. The AICPA did not question or change the classifications reported by the corporations.

Table 8 contains a tabulation of stock distributions by type of distribution and year for the 600 companies surveyed by the AICPA for the ten-year period 1952 to 1961. The stock distributions include stock dividends, stock splits, and shares of stock in other than the distributing company. The number of companies distributing stock dividends, out of the 600 companies surveyed annually, ranges from a low of 65 in 1952 to 111 in 1960. The number of companies distributing stock splits ranges from a low of seven in 1953 to a high

TABLE 8

NUMBER OF COMPANIES REPORTING STOCK DISTRIBUTIONS AMONG THE 600 COMPANIES
SURVEYED ANNUALLY BY THE AICPA FOR THE PERIOD 1952-1961^a

Type of Distribution	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
Stock dividends only	65	69	74	70	92	109	81	98	102	87
Stock splits only	15	7	25	32	30	23	13	50	30	36
Both stock dividends and stock splits	--	--	--	6	10	3	1	9	9	4
Stock of another company	2	6	2	2	4	4	4	4	3	2
Totals	82	82	101	110	136	139	99	161	144	129
No. of companies distributing stock dividends ^b	65	69	74	76	102	112	82	107	111	91
No. of companies distributing stock splits ^b	15	7	25	38	40	26	14	59	39	40

^aCompiled from: Accounting Trends and Techniques In Published Corporate Annual Reports, Vols. VII-XVI (New York: American Institute of Certified Public Accountants, 1952-1961).

^bIncludes companies distributing both stock dividends and stock splits.

of 59 in 1959. These figures include companies distributing both stock dividends and stock splits in the same year.

Table 9 contains a summary of the methods of recording stock dividends reported in Table 8.

The method debiting retained earnings and crediting capital surplus is the most widely used by the companies surveyed. This method implies that the transfer from retained earnings is at a value above par or stated value. The AICPA survey did not consider the various methods of transfer to the capital stock account.

The method debiting retained earnings indicates the transfer to the capital account was made at par or stated value. This method ranked second in frequency of use. All other methods used by the companies in the survey had limited use.

The method debiting retained earnings and capital surplus indicates that the transfer to the capital stock account was made from retained earnings and capital surplus, rather than retained earnings alone.

The method debiting capital surplus was rarely used by the companies surveyed. This method involves a capitalization of capital surplus rather than retained earnings. As a result, stated capital, made up of capital stock and capital surplus, is not changed.

The method crediting capital surplus was rarely used. This method involves a debit to the capital stock

TABLE 9

METHODS OF RECORDING STOCK DIVIDENDS USED BY THE 600 COMPANIES
SURVEYED ANNUALLY BY THE AICPA FOR THE PERIOD 1952-1961^a

Method Of Recording	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
Debit to Retained Earnings and Credit to Capital Surplus	37	52	53	56	68	87	66	87	87	75
Debit to Retained Earnings	25	17	18	18	32	22	14	18	20	15
Debits to Retained Earnings and to Capital Surplus	--	--	2	1	1	3	1	2	2	1
Debit to Capital Surplus	2	--	1	1	1	--	--	--	1	--
Credit to Capital Surplus	1	--	--	--	--	--	1	--	1	--
Totals	65	69	74	76	102	112	82	107	111	91

^aCompiled from: Accounting Trends and Techniques In Published Corporate Annual Reports, Vols. VII-XVI (New York: American Institute of Certified Public Accountants, 1952-1961).

account and a credit to capital surplus, resulting from the reduction of par or stated value and an increase in the number of shares outstanding.

Table 10 summarizes the methods of reporting and recording stock splits distributed by the companies studied by the AICPA for the period 1952 to 1961. The table consists of two parts. The first part reports the stock splits that were not recorded by a journal entry. Methods of reporting these stock splits to the stockholders included letters to the stockholders, notes within the financial statements, and notes to the financial statements. Approximately half of all stock splits distributed during this ten-year period were reported in this manner.

The second part of Table 10 tabulates the number of stock splits recorded by journal entries according to five different methods of recording. As in the case of stock dividends previously discussed, transfer value methods were not included in this survey.

The methods of recording stock splits when a journal entry is used are the same as those reported in Table 9 for the recording of stock dividends. More than half of the journal entries recording a stock split involved a method debiting capital surplus. This method utilizes a transfer from the capital surplus account to the capital stock account. This method does not affect the total stated capital of the corporation.

TABLE 10

METHODS OF REPORTING AND RECORDING STOCK SPLITS USED BY THE 600 COMPANIES
SURVEYED ANNUALLY BY THE AICPA FOR THE PERIOD 1952-1961^a

Method Used	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
No journal entry; reported in:										
Letter to stockholder	3	2	4	4	7	8	3	11	5	5
Financial statements	2	1	3	--	--	--	--	9	12	7
Notes to finan. state.	2	--	3	5	7	4	6	18	11	11
Totals	7	3	10	9	14	12	9	38	28	23
Recorded by journal entry:										
Debit to Ret'd Earn., Credit to Cap. Surp.	--	--	--	--	--	--	2	--	--	--
Debit to Ret'd Earn.	2	1	2	4	7	4	1	6	2	4
Debits to Ret'd Earn. and to Cap. Surp.	1	--	5	8	9	2	1	4	3	3
Debit to Cap. Surp.	5	3	8	15	10	8	1	11	6	9
Credit to Cap. Surp.	--	--	--	2	--	--	--	--	--	1
Totals	8	4	15	29	26	14	5	21	11	17
Total Stock Splits	15	7	25	38	40	26	14	59	39	40

^aCompiled from: Accounting Trends and Techniques in Published Corporate Annual Reports, Vols. VII-XVI (New York: American Institute of Certified Public Accountants, 1952-1961).

CHAPTER VII

SUMMARY AND CONCLUSIONS

At the outset of this dissertation, it was shown that each year more stockholders are affected by the issuance of stock dividends, and that the problem of adequately accounting for the issuance of stock dividends is a serious one. It was the purpose of this dissertation to study and evaluate the accounting treatment of stock dividends in terms of present practice, recommended procedure, and existing inadequacies. This chapter contains, in part, recommendations of the author based upon research for this dissertation.

In order to arrive at a proper accounting technique for the issuance of stock dividends it was considered necessary to review the development of accounting theory regarding the issuance of stock dividends and the regulatory and tax aspects of stock dividends. Because correct accounting of any matter depends upon a solid understanding of the problems involved, it was also deemed necessary to review some of the major financial aspects of stock dividends. Included in this latter review were such topics as terminology, types of stock

dividends, purposes of stock dividends, and their issuance costs.

The review of the development of accounting theory for the issuance of stock dividends showed that the accounting profession has been slow in developing an equitable method of accounting for the issuance of stock dividends. Not only has the development of accounting theory been inadequate but it probably has contributed to the misunderstanding of stock dividends by the general public. The accounting profession has not provided the leadership in this vital area of financial management.

Research for this dissertation was conducted for the purpose of determining the following: (1) the extent of the accounting problems involved; (2) the adequacy of existing procedures and theory of accounting; (3) the existence of inconsistencies and special problems; and (4) the basis for developing a satisfactory method for accounting for the issuance of stock dividends.

Accounting Problems

In Chapter I of this dissertation, the following accounting questions or problems were posed regarding the issuance of stock dividends:

1. How much per share or in total is to be transferred to permanent capital, including the capital stock account?

2. From which accounts should the amount be transferred?

3. How should the cost of issuing the stock be handled?

4. Is it proper to issue a stock dividend in excess of current earnings?

5. What is the difference between a stock dividend and a stock split?

As a result of analysis and study reported in this dissertation, answers to these questions regarding accounting for the issuance of stock dividends have been formulated. It is proposed that the following conclusions and recommendations be considered.

Review of Study Findings

Several conclusions can be arrived at on the basis of findings of research reported in Chapter VI. They are as follows:

1. Not all companies account for the distribution of stock dividends in the same manner.

2. A majority (70.6%) of the companies issuing stock dividends are companies whose stock is traded over-the-counter, that is, unlisted. With the exception of unlisted commercial banks, these companies' methods of accounting for stock dividends varied considerably.

3. One industry, commercial banking, is a large

user of the stock dividend device. Furthermore, its method of accounting for stock dividends is consistent within the industry but contrary to most of the other companies and to the recommendations of the AICPA.

4. There is considerable confusion regarding the accounting for a stock dividend and a stock split. The accounting for stock splits often is similar to the accounting for stock dividends.

5. Uniformity exists only among NYSE-listed companies and among commercial banks. Even then these groups differ from each other.

Recommendations

What is a stock dividend?

It is suggested that the concept of a stock dividend should not exist. It is no more than a combination of two steps: a stock split and a transfer to the capital stock account. It is possible and permissible for a corporation to perform one or the other step independently or to perform both of them together.

Viewed in this manner, it is suggested that the term "stock dividend" be abandoned, with no new term taking its place. If this were done, the term "stock split" could be used to describe all stock distributions in a company's own shares. The elimination of a term so widely associated and confused with the term stock split

would prove most beneficial. Because the outward effect and result of the traditional stock dividend is the same as that of a stock split the latter term could be soundly and theoretically used for both types of distribution.

If a transfer to the capital stock account were desired by management, this could take place in conjunction with the stock distribution known as a stock split. Whether such transfer takes place or not, the effect on the public, the stock market, and the investor is nil.

A transfer to the capital stock account without a distribution of additional stock is allowed under most existing state laws.

Full disclosure

It is suggested that greater disclosure of facts be made to the public and to the stockholder regarding stock distributions and the transfer of amounts to the capital stock account. Both the corporation and the CPA can do much to further full disclosure in this area. Currently, many corporations are lacking in honesty in dealing with stock distributions. The CPA is in a good position to require more disclosure and to influence corporations in this direction.

Corporations should be expected to explain carefully to the stockholder and to the general public, the nature of a stock distribution, the reasons behind its

use and the expected benefits to be derived from it. The stockholder should be told definitely what it is not, that is, that it is not income to the recipient and should not be construed as such. The stockholder should be further told that when he sells any stock received in such a distribution he is disposing of a part of his original holdings in the corporation.

In the case of a transfer to the capital stock account, whether or not accompanied by a stock distribution, stockholders should be informed as to the significance and desirability of such action. They should be told that the stated capital of the corporation is increasing, the benefits or reasons behind this, and any other implications.

Under existing practice it is rare for a corporation to label the amounts transferred to the capital stock account in previous accounting periods. It is common practice to include previously capitalized amounts in the capital stock account as an aggregate amount, with no notation that a portion of the account resulted from a transfer. The reader or analyst is not able to determine, without considerable research, the amounts of capital stock that resulted from an original contribution and the amounts that resulted from the transfer from some other stockholders' equity account.

It is proposed that the capital stock account be

subdivided into two sections to show continually in subsequent balance sheets the amounts contributed and the amounts capitalized.

The same holds true for the situations in which the paid-in surplus account has been increased by a transfer from retained earnings. When this is the case, the paid-in surplus account on subsequent balance sheets should be divided into two sections.

Frequency and size of stock distributions

Corporations should be discouraged from issuing small stock distributions at frequent intervals. Such distributions are expensive and go only a short way in accomplishing the legitimate purposes of a stock split, that is, lower market price and wider ownership. Larger distributions, infrequently made, better utilize the stockholders' money and provide less opportunity for misunderstanding by the general public.

What amount to transfer?

Wide latitude should be given corporation directors in determining the amount to transfer to capital stock accounts or the method to be used. Such a transfer should be accomplished within a framework of certain basic accounting rules or concepts. In the case of par or stated value common stock, the aggregate amount in the

capital stock account should equal the number of shares issued multiplied by the unit par or stated value.

Therefore, in the case of par or stated value stock the minimum to be transferred to the capital stock account is par or stated value.

In the case of no-par value stock without a stated value, no limitations would apply. Any amount designated by the board of directors would be appropriate.

What accounts, other than capital stock, should be involved in the transfer?

It is proposed that a transfer should be permitted to be made from any stockholders' equity account, other than capital stock, that is, from retained earnings or capital surplus. It is felt that the whole purpose behind such a transfer to the capital stock account is to increase the latter account. This is accomplished successfully when the transfer is made from any other stockholders' equity account.

It is further proposed that crediting the capital surplus account accomplishes nothing and should be avoided. All transfers should be made to the capital stock account.

What transfer value to use?

Actually any method will be acceptable as long as,

in the case of par or stated value stock, the aggregate par or stated value residing in the capital stock account equals the unit par or stated value multiplied by number of shares outstanding. In the case of no-par stock without a stated value no restrictions would be imposed. It must be noted that there are two variables used in determining the aggregate amount of par or stated value of capital stock: the number of shares outstanding and the unit par or stated value. Therefore, a transfer to the capital stock account may be made without distributing additional shares. Instead, the transfer can be effected by an increase in the par or stated value for each share outstanding.

The current earnings test

No consideration need be given to the amount of current earnings to support a stock distribution or a transfer to the capital stock account. In the case of a transfer to the capital stock account, all that is necessary is a sufficient amount in some other stockholders' equity account. In the case of a stock split, without a transfer to the capital stock account, additional shares may be distributed without any regard to current earnings or existing retained earnings.

Accounting for issuance costs

It was shown in an earlier chapter that the costs of issuing a stock dividend, such as legal, accounting, postage, and clerical costs, can be significant. Considerable controversy exists as to whether such costs should be expensed or capitalized.

This problem has been discussed extensively in conjunction with the Federal Income Tax. For a long time these costs had been considered by the Internal Revenue Service as deductible expenses, but more recently they have been held by the Internal Revenue Service and the courts to be non-deductible capital expenditures.

It is the opinion of this writer that such costs should be considered an expense for the accounting period rather than a capital expenditure. The expected or actual benefits to be derived from a distribution of a stock dividend are primarily short-run rather than long-run or continuous. Stockholders are appeased temporarily and the market price of the common stock is lowered for a while until a growth in earnings carries the price to a higher level. No new capital is raised and the corporation has not changed materially. More pieces of paper represent an unchanged ownership of an unchanged corporation.

Costs of issuing a stock dividend are not in the

same category as organization costs of a new or expanding corporation.

Relation to Law

All of the above recommendations would have to be applied within the framework of law. Existing state laws regarding stock dividends vary and are not always in line with satisfactory accounting theory. The adoption of some of the suggestions discussed in this chapter would require changes in some state laws. Such changes, however, are within the ability and influence of the accounting profession.

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APPENDIX A

ACCOUNTING RESEARCH BULLETIN NO. 43,

CHAPTER 7, SECTION B¹

STOCK DIVIDENDS AND STOCK SPLIT-UPS

1. The term stock dividend as used in this chapter refers to an issuance by a corporation of its own common shares to its common shareholders without consideration and under conditions indicating that such action is prompted mainly by a desire to give the recipient shareholders some ostensibly separate evidence of a part of their respective interests in accumulated corporate earnings without distribution of cash or other property which the board of directors deems necessary or desirable to retain in the business.

2. The term stock split-up as used in this chapter refers to an issuance by a corporation of its own common shares to its common shareholders without consideration and under conditions indicating that such action is prompted mainly by a desire to increase the number of outstanding shares for the purpose of effecting a reduction in their unit market price and, thereby, of obtaining wider distribution and improved marketability of the shares.

3. This chapter is not concerned with the accounting for a distribution or issuance to shareholders of (a) shares of another corporation theretofore held as an investment, or (b) shares of a different class, or (c) rights to subscribe for additional shares or (d) shares of the same class in cases where each shareholder is given an election to receive cash or shares.

¹Committee on Accounting Procedure, Restatement and Revision of Accounting Research Bulletins: Accounting Research Bulletin No. 43 (New York: American Institute of Certified Public Accountants, 1953), pp. 49-54.

4. The discussion of accounting for stock dividends and split-ups that follows is divided into two parts. The first deals with the problems of the recipient. The second deals with the problems of the issuer.

As to the Recipient

5. One of the basic problems of accounting is that of income determination. Complete discussion of this problem is obviously beyond the scope of this chapter. Basically, income is a realized gain and in accounting is recognized, recorded, and stated in accordance with certain principles as to time and amount.

6. In applying the principles of income determination to the accounts of a shareholder of a corporation, it is generally agreed that the problem of determining his income is distinct from the problem of income determination by the corporation itself. The income of the corporation is determined as that of a separate entity without regard to the equity of the respective shareholders in such income. Under conventional accounting concepts, the shareholder has no income solely as a result of the fact that the corporation has income; the increase in his equity through undistributed earnings is no more than potential income to him. It is true that income earned by the corporation may result in an enhancement in the market value of the shares, but until there is a distribution, division, or severance of corporate assets, the shareholder has no income. If there is an increase in the market value of his holdings, such unrealized appreciation is not income. In the case of a stock dividend or split-up, there is no distribution, division, or severance of corporate assets. Moreover, there is nothing resulting therefrom that the shareholder can realize without parting with some of his proportionate interest in the corporation.

7. The foregoing are important points to be considered in any discussion of the accounting procedures to be followed by the recipient of a stock dividend or split-up since many arguments put forward by those who favor recognizing stock dividends as income are in substance arguments for the recognition of corporate income as income to the shareholder as it accrues to the corporation, and prior to its distribution to the shareholder; the acceptance of such arguments would require the abandonment of the separate entity concept of corporation accounting.

8. The question as to whether or not stock dividends

are income has been extensively debated; the arguments pro and con are well known.¹ The situation cannot be better summarized, however, than in the words approved by Mr. Justice Pitney in Eisner v. Macomber, 252 U.S. 189, wherein it was held that stock dividends are not income under the Sixteenth Amendment, as follows:

"A stock dividend really takes nothing from the property of the corporation and adds nothing to the interests of the stockholders. Its property is not diminished and their interests are not increased . . . the proportional interest of each shareholder remains the same. The only change is in the evidence which represents that interest, the new shares and the original shares together representing the same proportional interests that the original shares represented before the issue of the new ones."

9. Since a shareholder's interest in the corporation remains unchanged by a stock dividend or split-up except as to the number of share units constituting such interest, the cost of the shares previously held should be allocated equitably to the total shares held after receipt of the stock dividend or split-up. When any shares are later disposed of, a gain or loss should be determined on the basis of the adjusted cost per share.

As to the Issuer

Stock Dividends

10. As has been previously stated, a stock dividend does not, in fact, give rise to any change whatsoever in either the corporation's assets or its respective shareholders' proportionate interests therein. However, it cannot fail to be recognized that, merely as a consequence of the expressed purpose of the transaction and its characterization as a dividend in related notices to shareholders and the public at large, many recipients of stock dividends look upon them as distributions of corporate earnings and usually in an amount equivalent to the fair

¹See, for instance, Freeman, "Stock Dividends and the New York Stock Exchange," American Economic Review, December, 1931 (pro), and Whitaker, "Stock Dividends, Investment Trusts, and the Exchange," American Economic Review, June, 1931 (con).

value of the additional shares received. Furthermore, it is to be presumed that such views of recipients are materially strengthened in those instances, which are by far the most numerous, where the issuances are so small in comparison with the shares previously outstanding that they do not have any apparent effect upon the share market price and, consequently, the market value of the shares previously held remains substantially unchanged. The committee therefore believes that where these circumstances exist the corporation should in the public interest account for the transaction by transferring from earned surplus to the category of permanent capitalization (represented by the capital stock and capital surplus accounts) an amount equal to the fair value of the additional shares issued. Unless this is done, the amount of earnings which the shareholder may believe to have been distributed to him will be left, except to the extent otherwise dictated by legal requirements, in earned surplus subject to possible further similar stock issuances or cash distributions.

11. Where the number of additional shares issued as a stock dividend is so great that it has, or may reasonably be expected to have, the effect of materially reducing the share market value, the committee believes that the implications and possible constructions discussed in the preceding paragraph are not likely to exist and that the transaction clearly partakes of the nature of a stock split-up as defined in paragraph 2. Consequently, the committee considers that under such circumstances there is no need to capitalize earned surplus, other than to the extent occasioned by legal requirements. It recommends, however, that in such instances every effort be made to avoid the use of the word dividend in related corporate resolutions, notices, and announcements and that, in those cases where because of legal requirements this cannot be done, the transaction be described, for example, as a split-up effected in the form of a dividend.

12. In cases of closely-held companies, it is to be presumed that the intimate knowledge of the corporations' affairs possessed by their shareholders would preclude any such implications and possible constructions as are referred to in paragraph 10. In such cases, the committee believes that considerations of public policy do not arise and that there is no need to capitalize earned surplus other than to meet legal requirements.

13. Obviously, the point at which the relative size of the additional shares issued becomes large enough to materially influence the unit market price of the stock will vary with individual companies and under differing

market conditions and, hence, no single percentage can be laid down as a standard for determining when capitalization of earned surplus in excess of legal requirements is called for and when it is not. However, on the basis of a review of market action in the case of shares of a number of companies having relatively recent stock distributions, it would appear that there would be few instances involving the issuance of additional shares of less than, say, 20% or 25% of the number previously outstanding where the effect would not be such as to call for the procedure referred to in paragraph 10.

14. The corporate accounting recommended in paragraph 10 will in many cases, probably the majority, result in the capitalization of earned surplus in an amount in excess of that called for by the laws of the state of incorporation; such laws generally require the capitalization only of the par value of the shares issued, or, in the case of shares without par value, an amount usually within the discretion of the board of directors. However, these legal requirements are, in effect, minimum requirements and do not prevent the capitalization of a larger amount per share.

Stock Split-ups

15. Earlier in this chapter a stock split-up was defined as being confined to transactions involving the issuance of shares, without consideration moving to the corporation, for the purpose of effecting a reduction in the unit market price of shares of the class issued and, thus, of obtaining wider distribution and improved marketability of the shares. Where this is clearly the intent, no transfer from earned surplus to capital surplus or capital stock account is called for, other than to the extent occasioned by legal requirements. It is believed, however, that few cases will arise where the aforementioned purpose can be accomplished through an issuance of shares which is less than, say, 20% or 25% of the previously outstanding shares.

16. The committee believes that the corporation's representations to its shareholders as to the nature of the issuance is one of the principal considerations in determining whether it should be recorded as a stock dividend or a split-up. Nevertheless, it believes that the issuance of new shares in ratios of less than, say, 20% or 25% of the previously outstanding shares, or the frequent recurrence of issuances of shares, would destroy the presumption that transactions represented to be split-ups should be recorded as split-ups.

Three members of the committee, Messrs. Knight, Calkins, and Mason, assented with qualification, and one member, Mr. Wilcox, dissented to adoption of section (b) of chapter 7.

Mr. Knight assents with the qualification that he believes the section should recognize the propriety of treating as income stock dividends received by a parent from a subsidiary. He believes the section should have retained from the original Bulletin No. 11 the statement, "It is recognized that this rule, under which the stockholder has no income until there is a distribution, division, or severance, may require modification in some cases, or that there may be exceptions to it, as, for instance, in the case of a parent company with respect to its subsidiaries. . . ."

Messrs. Calkins and Mason approve part one, but believe part two is inconsistent therewith in that the former concludes that a stock dividend is not income to the recipient while the latter suggests accounting procedures by the issuer based on the assumption that the shareholder may think otherwise. They believe it is inappropriate for the corporate entity to base its accounting on considerations of possible shareholder reactions. They also believe that part two deals with matters of corporate policy rather than accounting principles and that the purpose sought to be served could be more effectively accomplished by appropriate notices to shareholders at the time of the issuance of additional shares.

Mr. Wilcox dissents from the recommendations made both as to the recipient and as to the issuer. He believes that, with proper safeguards, stock dividends should be regarded as marking the point at which corporate income is to be recognized by shareholders, and denies that the arguments favoring this view are in substance arguments for the recognition of corporate income as income to the shareholder as it accrues to the corporation. He believes that the arguments regarding severance and maintenance of proportionate interest are unsound, and cannot logically be invoked as they are in this section, since they are widely ignored with respect to distributions of securities other than common stock dividends. Mr. Wilcox believes the recommendations as to the issuer are inconsistent with the rest of the section, involve arbitrary distinctions, hamper or discourage desirable corporate actions, result in meaningless segregation in the proprietorship section of balance sheets, and serve no informative purpose which cannot be better served by explanatory disclosures. He therefore also dissents from

the omission of requirements for information and disclosures which were contained in the original Bulletin No. 11 issued in September, 1941.

APPENDIX B

List of Accounting Textbooks Included in Survey Reported in Table 1, Chapter II

Elementary

- Bierman, Harold. Financial and Managerial Accounting: An Introduction. New York: The Macmillan Company, 1963.
- Black, Homer A., and Champion, John E. Accounting in Business Decisions: Theory, Method and Use. Englewood Cliffs, N. J.: Prentice-Hall, Inc., 1961.
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Advanced

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APPENDIX C

STATE CORPORATION STATUTES REGARDING ISSUANCE OF STOCK DIVIDENDS¹

Alabama

No dividend payable in shares of any class shall be paid to the holders of shares of any other class unless the certificate of incorporation so provides or unless the holders of a majority of the shares in which the dividend is to be made approve of the dividend (Sec. 55(e)).

Dividends may be paid in treasury shares reacquired out of surplus (Sec. 55(c)).

Dividends may be declared and paid in authorized but unissued shares out of surplus. If the dividend is payable in shares having a par value, an amount of surplus equal to the aggregate par value of the shares shall be transferred to stated capital. If the shares are without par value, they shall be issued at a value fixed by the board of directors, and an amount equal to the aggregate value so fixed shall be transferred to stated capital (Sec. 55(d)).

Alaska

Dividends may be declared and paid in a corporation's own shares out of any treasury shares. Dividends may be declared and paid in a corporation's own authorized but unissued shares out of any surplus of the corporation subject to certain limitations (Sec. 10.05.204).

¹Corporation Law Guide, "Domestic Corporation Laws: Features," (New York: Commerce Clearing House, Inc.), Vol. I.

Arizona

There is no statutory provision for stock dividends.

Arkansas

When the directors shall so determine, dividends may be paid in stock (Sec. 64.605).

California

Stock dividends may be declared only out of earned surplus, paid-in surplus, or surplus arising from the reduction of stated capital, in which case notice shall be given to stockholders receiving such dividends of the source thereof (Sec. 1504).

Colorado

Dividends may be declared and paid in the corporation's own shares out of any treasury shares which have been reacquired out of the corporation's surplus (Sec. 31-31-10).

Dividends may be declared and paid in the corporation's own authorized but unissued shares out of any unreserved and unrestricted surplus of the corporation subject to conditions stated in the statute (Sec. 31-31-10).

No dividend payable in shares of any class shall be paid to the holders of shares of any other class unless the articles of incorporation so provide or such payment is authorized by the affirmative vote or the written consent of the holders of at least a majority of the outstanding shares of the class in which the payment is to be made (Sec. 31-31-10).

Connecticut

Dividends may be paid in the corporation's own authorized but unissued shares. If a dividend is payable in shares having par value, such shares shall be issued at not less than the par value thereof and there shall be transferred to stated capital at the time such dividend

is paid an amount of surplus at least equal to the aggregate par value of the shares to be issued as a dividend (Sec. 74(e)(1)).

If a dividend is payable in its own shares without par value, such shares shall be issued at such stated value as shall be fixed by the board of directors by resolution adopted at the time such dividend is declared. There shall be transferred to stated capital at the time such dividend is paid, an amount of surplus equal to the aggregate stated value so fixed in respect to such shares. The amount per share so transferred to stated capital shall be disclosed to the shareholders receiving such dividend concurrently with the payment thereof (Sec. 74(e)(2)).

No dividend payable in shares of any class shall be paid to the holders of shares of any other class unless the certificate of incorporation so provides or such payment is authorized by the affirmative vote or the written consent of the holders of at least a majority of the voting power of the outstanding shares of the class in which the payment is to be made (Sec. 74(f)).

A split-up or division of the issued shares of any class into a greater number of shares of the same class without increasing the stated capital of the corporation shall not be construed to be a share dividend (Sec. 74(g)).

Delaware

Dividends may be paid in cash, in property or in shares of capital stock, in case of shares with par value at par, and in case of shares without par value, at such price as may be fixed by the directors (Sec. 173).

District of Columbia

Dividends may be paid in shares of the corporation. If payable in shares having a par value, such shares shall be issued at the par value thereof, and there shall be transferred to stated capital an amount of surplus equal to the aggregate par value of the shares to be issued as a dividend (Sec. 40).

If payable in shares without par value, such shares shall be issued at such value as shall be fixed by the board of directors by resolution, and there shall be transferred to stated capital an amount of surplus equal to the aggregate value so fixed in respect of such shares, and the amount per share transferred to stated capital shall be disclosed to the stockholders receiving such dividends concurrently with payment thereof (Sec. 40).

A split-up or division of issued shares into a greater number of shares of the same class shall not be construed to be a share dividend within the meaning of the foregoing provisions (Sec. 40).

Florida

When the directors so determine dividends may be paid in stock (Sec. 608.52).

Georgia

Dividends may be paid in its own shares of any class on resolution of the board of directors. Any dividend paid in stock of a special class shall be approved by vote or written consent of two-thirds of the stockholders of the class to be issued as a dividend (Sec. 17).

If a stock dividend shall affect adversely any right or preference of the holders of any class, the consent of two-thirds of such adversely affected stockholders shall be obtained by vote or in writing. A stock dividend need not be made out of surplus or earnings, but a deficit may not be created or increased thereby (Sec. 17).

Hawaii

Dividends may be paid in shares of the corporation only from earned surplus or paid-in or contributed surplus or other surplus of the corporation (Sec. 172-110).

In connection with the declaration of a dividend in shares without par value, the board of directors shall determine the amount and type of surplus which shall be capitalized by the issuance of such stock dividend (Sec. 172-46(d)).

Idaho

Stock dividends may be paid only from the surplus of the aggregate of its assets over the aggregate of its liabilities including in the latter the amount of its capital stock. If the dividend is to be paid in par value shares, the aggregate par value shall not exceed the amount of that portion of the surplus transferred to capital as payment for such shares (Sec. 30-130).

If the dividend is paid in shares having no par value, the number of such shares may be fixed by the board. No dividend payable in shares of any class shall be paid to stockholders of any other class unless the articles so provide or such payment is authorized by the vote of the holders of a majority of the shares of the class in which the payment is to be made (Sec. 30-130).

Illinois

Dividends may be paid in shares of the corporation. If payable in shares having a par value, such shares shall be issued at the par value thereof, and there shall be transferred to stated capital an amount of surplus equal to the aggregate par value of the shares to be issued as a dividend (Sec. 41).

If payable in shares without par value, such shares shall be issued at such value as shall be fixed by the board of directors by resolution, and there shall be transferred to stated capital an amount of surplus equal to the aggregate value so fixed in respect of such shares, and the amount per share transferred to stated capital shall be disclosed to the stockholders receiving such dividends concurrently with payment thereof (Sec. 41).

The surplus transferred to capital upon payment of a share dividend may be surplus arising from unrealized appreciation in value, or revaluation, of assets. A split-up or division of issued shares into a greater number of shares of the same class is not to be construed to be a share dividend within the meaning of the foregoing provisions (Sec. 41).

Indiana

Dividends payable in shares of capital stock having a par value shall (Sec. 12, as amended by Ch. 10, Laws 1959, effective July 20, 1959):

(1) Where the articles of incorporation do not provide that such shares may be sold at less than their par value, be paid at such value not less than par as shall be fixed by the board of directors at the time such dividend is declared.

(2) Where the articles of incorporation provide that such shares may be sold at less than their par value, be paid at such value as shall be fixed by the board of directors at the time such dividend is declared.

Dividends payable in shares of capital stock having no par value shall be paid at such value as shall be fixed by the board of directors at the time such dividend is declared (Sec. 12, as amended by Ch. 10, Laws 1959, effective July 20, 1959).

No dividend shall be paid if the corporation is, or is thereby rendered, insolvent or if its capital is or thereby becomes impaired (Sec. 12, as amended by Ch. 10, Laws 1959, effective July 20, 1959).

No dividend payable in shares of any class shall be paid to the holders of any other class unless provision therefor is made in the articles or unless authorized by the affirmative vote or written consent of the holders of a majority of the shares of the class in which payment is to be made (Sec. 12).

In the absence of actual fraud in the transaction, the value placed by the board of directors upon the corporate assets in the event of a share dividend shall be conclusive (Sec. 6(e)).

Iowa

The board of directors may declare and the corporation may pay dividends on its outstanding shares in cash, property or in its own shares. No dividend, except a dividend payable in its own shares, shall be declared or paid out of surplus arising from unrealized appreciation in value, or revaluation, of assets (Sec. 41).

Kansas

Dividends may be paid in cash, in property, or in shares of the capital stock, in case of shares with par value at par, and in case of shares without par value at such price as may be fixed by the directors (Sec. 17-3506).

Kentucky

Dividends may be paid in shares of the corporation (Sec. 271.185).

Louisiana

Dividends may be paid in shares of the corporation's

stock. If paid in par value shares, the aggregate of the par value thereof may not exceed the amount of that portion of the corporation's surplus which is transferred to capital as payment for such shares; if paid in shares without par value, the number of such shares shall be fixed by the board of directors (Sec. 12:26(D)).

No dividend paid in shares of any class shall be paid to stockholders of any other class, unless the articles so provide, or such payment is authorized by vote of holders of a majority of the shares of the class in which the payment is to be made (Sec. 12:26(F)).

Maine

There is no statutory provision as to stock dividends.

Maryland

A corporation may pay dividends with its own shares of stock (Sec. 37).

The consideration for stock issued as a stock dividend shall be deemed to be the capitalized surplus of the corporation. The actual value of such consideration shall be deemed to be an amount equal to the surplus thereby capitalized (Sec. 20(h)).

When a stock dividend is payable in no par shares, the board of directors shall fix the amount to be attributed to the stated capital with respect to such shares. The amount fixed by the board shall be transferred from surplus to stated capital at the time the dividend is paid. There may be transferred from earned surplus to capital surplus such additional amount as the board of directors may determine. The amount per share transferred to stated capital and to capital surplus must be disclosed to the stockholders receiving such dividend prior to or concurrently with its payment (Sec. 37).

Dividends payable in shares of one class of its own shares may be declared or paid to the holders of shares of another class if the payment thereof has been authorized by the board of directors pursuant to the charter or has been approved at a meeting of the stockholders by the affirmative vote of a majority of all the votes of each class entitled to vote (Sec. 37).

Massachusetts

There is no statutory provision as to stock dividends.

Michigan

Dividends may be paid in obligations of the corporation or in shares. No stock dividend from shares without par value shall be declared unless there be transferred to capital at least the equivalent in value per share of such dividends as equals the average original consideration per share of the shares without par value outstanding at the time of such declaration which is carried as capital (Sec. 450.22).

Minnesota

A corporation may declare stock dividends out of earned surplus or out of paid-in surplus and notice of such fact must be given to shareholders receiving such dividends (Sec. 301.22(3)).

An amount of surplus shall be capitalized equal to aggregate par value of par shares so declared, or equal to the amount to which preferred shares without par value so declared are entitled to preference on involuntary liquidation, or equal to the fair value, as determined by the directors on allotment, of common no-par shares so declared (Sec. 301.22(3)).

No dividend payable in shares of any class shall be paid to shareholders of any other class, unless the articles so provide or such payment is authorized by vote or written consent of the holders of two-thirds of the shares of the class in which the payment is to be made (Sec. 301.22(3)).

Mississippi

Dividends may be declared and paid in its own shares out of any treasury shares that have been reacquired out of surplus of the corporation (Sec. 42).

Dividends may be declared and paid in its own authorized but unissued shares out of any unreserved and unrestricted surplus of the corporation upon the following conditions:

(1) If a dividend is payable in its own shares having a par value, such shares shall be issued at not less than the par value thereof. There shall be transferred to stated capital at the time such dividend is paid an amount of surplus at least equal to the aggregate par value of the shares to be issued as a dividend.

(2) If a dividend is payable in its own shares without par value, such shares shall be issued at such stated value as shall be fixed by the board of directors by resolution adopted at the time such dividend is declared. There shall be transferred to stated capital at the time such dividend is paid an amount of surplus equal to the aggregate stated value so fixed in respect of such shares. The amount per share so transferred to stated capital shall be disclosed to the shareholders receiving such dividend concurrently with the payment thereof (Sec. 42).

No dividend payable in shares of any class shall be paid to the holders of shares of any other class unless the articles of incorporation so provide or such payment is authorized by the affirmative vote or the written consent of the holders of at least a majority of the outstanding shares of the class in which the payment is to be made (Sec. 42).

Missouri

Dividends may be paid in the shares of the corporation. If payable in shares having a par value, such shares shall be issued at the par value thereof and there shall be transferred to stated capital an amount of surplus equal to the aggregate par value of the shares to be issued as a dividend (Sec. 351.220).

If payable in shares without par value having a preferential right in the assets in case of involuntary liquidation, such shares shall be issued at the liquidation value thereof, and there shall be transferred to stated capital an amount of surplus equal to the aggregate liquidation value of such shares. If payable in shares without par value not having a preferential right in the assets in case of involuntary liquidation, such shares shall be issued at such value as shall be fixed by the board of directors by resolution and there shall be transferred to stated capital an amount of surplus equal to the aggregate value so fixed in respect of such shares and the amount per share transferred to stated capital shall be disclosed to the shareholders receiving such dividends concurrently with payment thereof (Sec. 351.220).

Montana

There is no statutory provision relating to the issuance of stock dividends.

Nebraska

Dividends may be paid in cash, in property, or in shares of the capital stock (Sec. 21-179).

Nevada

When the directors shall so determine, dividends may be paid in stock (Sec. 78.290).

New Hampshire

There is no statutory provision relating to stock dividends.

New Jersey

Dividends may be declared and paid in capital stock with or without par value (Sec. 14:8-20).

New Mexico

There is no statutory provision relating to stock dividends.

New York

A corporation may make pro rata distributions of its authorized but unissued shares to holders of any class or series of its outstanding shares, subject to certain conditions (Sec. 511(a)).

If a distribution of shares having a par value is made, such shares shall be issued at not less than the par value thereof (Sec. 511(a)(1)).

If a distribution without par value is made, the amount of stated capital to be represented by each such share shall be fixed by the board, unless that right is reserved to the shareholders (Sec. 511(a)(2)).

A distribution of shares of any class or series may be made only to holders of the same class or series of shares unless the certificate of incorporation permits distribution subject to the preemptive rights of holders of any outstanding shares to holders of another class or series or unless such distribution is authorized, when there are no outstanding preemptive rights, by the affirmative vote or the written consent of the holders of a majority of the outstanding shares of the class or series to be distributed (Sec. 511(a)(3)).

North Carolina

Subject to certain limitations, the board of directors of the corporation may declare and pay dividends in its own authorized but unissued shares out of any surplus of the corporation. If paid in shares with par value, there shall be transferred to stated capital an amount of surplus equal to the aggregate par value of shares to be issued as a dividend. If paid in shares without par value, there shall be transferred an amount equal to the aggregate value as determined by the board of directors, and the amount per share so transferred shall be disclosed to the stockholders (Sec. 55-51).

North Dakota

Dividends may be declared and paid in a corporation's own shares out of any treasury shares. Dividends may be declared and paid in a corporation's own authorized but unissued shares out of unreserved and unrestricted surplus of the corporation subject to certain limitations (Sec. 10-1944).

Ohio

Dividends may be paid in treasury shares or in authorized but unissued shares of the corporation. If paid in shares with par value, there shall be transferred from surplus to stated capital, any amount necessary in order that the stated capital represented by the outstanding shares with par value, after giving effect to such dividend, will be equal to the aggregate par

value of such shares, or if the directors so determine a greater amount shall be transferred. If the dividend is paid in shares without par value, there shall be transferred from surplus to stated capital only such amount, if any, as the directors determine (Sec. 1701.33).

Oklahoma

Dividends may be paid in the shares of the corporation only upon a resolution of the board of directors. If shares of one class are used to pay a share dividend on shares of another class, then such dividend shall also be approved by a vote or written consent of the holders of a majority of the shares entitled to vote, and the majority of the shares, if any, of the class to be allotted as a dividend, irrespective of whether the shareholders of such class are entitled to vote. Such approval may be in the form of a bylaw sanctioned by such vote, or consent. Any such bylaw shall only be effective for one year. Upon such declaration of a share dividend, notice shall be given to the shareholders of the amount per share transferred from surplus to stated capital, and of the particular surplus from which such amount was transferred (Sec. 1.134).

Oregon

Dividends may be declared and paid in its own shares out of any treasury shares. Dividends may be declared and paid in its own authorized but unissued shares out of any surplus of the corporation subject to certain limitations (Sec. 57.216).

Pennsylvania

Dividends may be declared and paid in a corporation's own shares out of any treasury shares and also out of its own authorized but unissued shares (Sec. 702.1).

If distribution is made in its own authorized but unissued shares having a par value, there shall be transferred to stated capital an amount of surplus at least equal to the aggregate par value of the shares so issued (Sec. 702.1).

If a distribution is made in its own authorized

but unissued shares without par value, the directors may fix a stated value for the shares so issued and there shall be transferred to stated capital at the time of such distribution an amount of surplus equal to the aggregate stated value so fixed (Sec. 702.1).

Rhode Island

There is no statutory provision relating to stock dividends, except that capital shall include such amount as shall have been transferred from surplus to capital on the declaration of a dividend payable in shares without par value (Sec. 7-3-21).

South Carolina

There is no statutory provision as to stock dividends.

South Dakota

The capital stock may be distributed as stock dividends when the surplus is sufficient (Sec. 11.0706).

Tennessee

A corporation may issue either common or preferred stock as a dividend, provided it has a surplus or undivided profits equal in value, at a fair valuation, to such stock issued as a dividend, and provided that the surplus or undivided profits is reduced in an amount equal to the par value of the stock issued as a stock dividend (Sec. 48-708).

Texas

Dividends may be declared and paid in a corporation's own shares out of any treasury shares that have been reacquired out of surplus of the corporation. Dividends may be declared and paid in a corporation's own authorized but unissued shares out of unrestricted surplus of the corporation subject to certain limitations (Art. 2.38).

Utah

Dividends may be declared and paid in its own shares out of any treasury shares that have been reacquired out of surplus of the corporation (Sec. 41(c)).

Dividends may be declared and paid in its own authorized but unissued shares out of any unreserved and unrestricted surplus of the corporation upon the following conditions:

(1) If a dividend is payable in its own shares having a par value, such shares shall be issued at not less than the par value thereof and there shall be transferred to stated capital at the time such dividend is paid an amount of surplus at least equal to the aggregate par value of the shares to be issued as a dividend.

(2) If a dividend is payable in its own shares without par value, such shares shall be issued at such stated value as shall be fixed by the board of directors by resolution adopted at the time such dividend is declared. There shall be transferred to stated capital at the time such dividend is paid an amount of surplus equal to the aggregate stated value so fixed in respect of such shares. The amount per share so transferred to stated capital shall be disclosed to the shareholders receiving such dividend concurrently with the payment thereof (Sec. 41(d)).

No dividend payable in shares of any class shall be paid to the holders of shares of any other class unless the articles of incorporation so provide or such payment is authorized by the affirmative vote or the written consent of the holders of at least a majority of the outstanding shares of the class in which the payment is to be made (Sec. 41(e)).

Vermont

There is no statutory provision relating to stock dividends.

Virginia

Dividends may be declared and paid in a corporation's own shares out of any treasury shares reacquired out of surplus, or in its own authorized but unissued shares out of any unreserved or unrestricted surplus subject to limitations (Sec. 13.1-43).

Washington

Share dividends may be paid only from the surplus of the aggregate of its assets over the aggregate of its liabilities including in the latter the amount of its capital stock (Sec. 23.01.250).

If the dividend is to be paid in par value shares, the aggregate par value shall not exceed the amount of that portion of the surplus transferred to capital as payment for such shares. If the dividend is paid in shares having no par value, the number of such shares may be fixed by the board. No dividend payable in shares of any class shall be paid to shareholders of any other class unless the articles so provide or such payment is authorized by the vote of the holders of a majority of the shares of the class in which the payment is to be made (Sec. 23.01.250).

West Virginia

Shares may be issued and distributed as a dividend against the accumulated earnings or surplus and the consideration for shares so issued shall be taken to be the capitalization thereby of the surplus or net profits and the actual value of such consideration shall be an amount equal to the surplus or net profits thereby capitalized (Sec. 20).

Wisconsin

Dividends may be declared and paid in the corporation's treasury stock, or authorized, unissued stock, out of any unreserved earned surplus or net capital surplus of the corporation, subject to certain restrictions (Sec. 180.38).

Wyoming

If a dividend is payable in its own shares having a par value, such shares shall be issued at not less than the par value thereof. There shall be transferred to stated capital at the time such dividend is paid an amount of surplus at least equal to the aggregate par value of the shares to be issued as a dividend (Sec. 39).

If a dividend is payable in its own shares

without par value, such shares shall be issued at such stated value as shall be fixed by the board of directors. There shall be transferred to stated capital an amount of surplus equal to the aggregate stated value so fixed in respect of such shares. The amount per share so transferred to stated capital shall be disclosed to the shareholders receiving such dividend concurrently with the payment thereof (Sec. 39).

No dividend payable in shares of any class shall be paid to the holders of shares of any other class unless the articles so provide or such payment is authorized by the affirmative vote or the written consent of the holders of at least a majority of the outstanding shares of the class in which the payment is to be made (Sec. 39).

APPENDIX D

Text of Model Business Corporation Act Pertaining to Stock Dividends¹

Section 40. Dividends

The board of directors of a corporation may, from time to time, declare and the corporation may pay dividends on its outstanding shares in cash, property, or its own shares, except when the corporation is insolvent or when the payment thereof would render the corporation insolvent or when the declaration or payment thereof would be contrary to any restrictions contained in the articles of incorporation, subject to the following provisions:

• • • • •

(c) Dividends may be declared and paid in its own shares out of any treasury shares that have been reacquired out of surplus of the corporation.

(d) Dividends may be declared and paid in its own authorized but unissued shares out of any unreserved and unrestricted surplus of the corporation upon the following conditions:

(1) If a dividend is payable in its own shares having a par value, such shares shall be issued at not less than the par value thereof and there shall be transferred to stated capital at the time such dividend is paid an amount of surplus at least equal to the aggregate par value of the shares to be issued as a dividend.

(2) If a dividend is payable in its own shares without par value, such shares shall be issued at such stated value as shall be fixed by the board of directors by resolution adopted at the time such dividend is declared, and there shall be transferred to stated

¹Committee on Corporate Laws (ed.), Model Business Corporation Act Annotated, A Research Project of the American Bar Foundation, Vol. III (St. Paul, Minn.: West Publishing Company, 1960), pp. 28-29.

capital at the time such dividend is paid an amount of surplus equal to the aggregate stated value so fixed in respect of such shares; and the amount per share so transferred to stated capital shall be disclosed to the shareholders receiving such dividend concurrently with the payment thereof.

(e) No dividend payable in shares of any class shall be paid to the holders of shares of any other class unless the articles of incorporation so provide or such payment is authorized by the affirmative vote or the written consent of the holders of at least a majority of the outstanding shares of the class in which the payment is to be made.

A split-up or division of the issued shares of any class into a greater number of shares of the same class without increasing the stated capital of the corporation shall not be construed to be a share dividend within the meaning of this section.

APPENDIX E

COMPANIES ISSUING STOCK DIVIDENDS IN 1961¹

Industrial

<u>Name of Company</u>	<u>Exchange</u>	<u>Size of Dividend (%)</u>
A. B. C. Vending	NYSE	2
Acme Industries, Inc.	Unl	5
Addressograph-Multigraph Corp.	NYSE	2
Addison-Wesley Publish. Co., Inc.	Unl	5
Advance Ross Electron. Corp.	MSE	1, 3
Aeroquip Corp.	NYSE	2
Air Metal Industries, Inc.	Unl	5
Air Products, Inc.	NYSE	3
Airwork Corp.	Unl	3
Alarm Device Mfg. Co., Inc.	Unl	25
Alden's Inc.	NYSE	5
Allied Petro-Products, Inc.	Unl	2
Allied Radio Corp.	Unl	2
Alsco, Inc.	ASE	2, 2
Amerace Corp.	NYSE	4, 1, 1, 1
American Art Metals Co.	Unl	5
American Biltrite Rubber Co., Inc.	Unl	4
American Broadcasting-Paramount Theaters, Inc.	NYSE	2
American Consumer Ind.	NYSE	2
American Cryogenics, Inc.	Unl	100
American Dryer Corp.	Unl	2

¹This list is limited to companies in the United States declaring and issuing stock dividends in 1961. It does not include stock dividends paid on different classes of stock, dividends in stock of other companies, or stock splits.

Source: Moody's Dividend Record: Annual Cumulative for 1961 (New York: Moody's Investors Service, 1962), and Standard & Poor's Dividend Record: 1961 Annual Dividend Record (New York: Standard & Poor's Corporation, 1962).

<u>Name of Company</u>	<u>Exchange</u>	<u>Size of Dividend (%)</u>
American Duralite Corp.	Unl	4
American Electronic Labs, Inc.	Unl	10
American Laboratories, Inc.	Unl	2
American Maize Products Co.	Unl	5
American Motors Corp.	NYSE	2
American Seal-Kap Corp.	ASE	3, 2
American Ship Building Co.	NYSE	5
American Stores Co.	NYSE	5
American Vitrified Products Co.	Unl	4
American Zinc, Lead & Smelt.	NYSE	3
Anglo Amer. Explora. Ltd. (Canada)	ASE	3
Applied Physics Corp.	Unl	100
Arkansas Valley Industries	Unl	2
Arnold Constable Corp.	NYSE	4
Arrowhead & Puritas Water, Inc.	Unl	100
Asgrow Seed Co.	Unl	20
Aunt Jane's Food, Inc.	Unl	4
Aurora Plastics Corp.	ASE	5
Austin Nichols & Co.	NYSE	5
Automatic Canteen Co. of America	NYSE	1
Automatic Radio Mfg.	ASE	4
Automotive Parts Co.	Unl	5
Avondale Mills	Unl	10
Ayers (L. S.) & Co.	Unl	2
Ayrshire Collieries Corp.	ASE	2
Aztec Oil & Gas Co.	Unl	8
 B-S-F Co.	 ASE	 1½, 1½, 1½, 1½
Baker Oil Tools, Inc.	NYSE	4
Barber Oil Corp.	NYSE	2, 2
Barden Corp.	Unl	3
Bargain City U.S.A., Inc.	Unl	3
Barton's Candy	ASE	1, 1
Beam (J. B.) Distilling Co.	Unl	1, 1, 2
Beech Aircraft Corp.	NYSE	2
Bell and Howell Co.	NYSE	2½
Beryllium Corp.	Unl	3
Bessemer Limestone & Cement Co.	Unl	2
Bestwall Gypsum	NYSE	3
Big Bear Stores Co.	Unl	3½
Bird & Son, Inc.	Unl	1
Bishop & Babcock Mfg.	Unl	5
Blackman Merchandising Corp.	Unl	100
Blaw-Knox	NYSE	2½
Blossman Hydratane Gas, Inc.	Unl	10
Booth Fisheries Corp.	MSE	5
Boston Herald-Traveler Corp.	Unl	5
Bourns, Inc.	Unl	50

<u>Name of Company</u>	<u>Exchange</u>	<u>Size of Dividend (%)</u>
Bowling Corp. of America	ASE	1
Bowmar Instrument Corp.	Unl	100
Bradley (Milton) Company, Mass.	Unl	4
Brewer (C.) & Co., Ltd. (Hawaii)	HON	2, 2
Brockway Glass Co.	Unl	2
Broughton's Farm Dairy, Inc.	Unl	3, 3
Brown-Forman Distillers Corp.	ASE	3
Bruce (E. L.) Co. Incorporated	ASE	1½
Bruning (Charles) Co., Inc.	Unl	10
Burgmaster Corp.	Unl	2½
Butler's Shoe Corp.	ASE	2
California Consumers Corp.	Unl	4
Calif. Corp. for Biochemical Research	Unl	5
California Liquid Gas Corp.	Unl	50
Carnation Co.	ASE	3
Carpenter (L. E.) & Co.	Unl	25
Carwin Co.	Unl	1
Centennial Turf Club	Unl	6
Central Soya	NYSE	2
Century Industries Co., Inc.	NYSE	10
Cerro Corp.	NYSE	6
Certain-Teed Products Corp.	NYSE	25
Chamberlin Co. of America	ASE	1½, 2, 1, 1½
Chemical Products Corp.	Unl	5
Chesapeake Corp. of Va.	NYSE	2
Chromalloy Corp.	ASE	4
City Products Corp.	NYSE	2
Clark Oil & Refinery Corp.	Unl	3, 3
Clarostat Mfg. Co., Inc.	ASE	3, 3
Click Chemical Corp.	Unl	5
Clifton Precision Prod. Co., Inc.	Unl	5
Colonial Corp. of America	ASE	5
Colonial Sand & Stone Co., Inc.	ASE	5
Columbia Broadcasting System, Inc.	NYSE	3
Columbia Pictures Corp.	NYSE	2½, 2½
Commercial Solvents Corp.	NYSE	1
Components Corp. of America	Unl	10
Computer Equipment Corp.	Unl	1½
Construction Products, Inc.	ASE	2, 2
Continental Copper & Steel Industries, Inc.	NYSE	1, 1, 1, 1
Continental Vending Mach. Corp.	ASE	15
Cook Coffee Company	Unl	3, 3
Corson (G. & W. H.), Inc.	Unl	4
Crescent Petroleum Corp.	NYSE	5
Crestmont Consolidated Corp.	ASE	2
Crowell-Collier Publish. Co.	NYSE	4
Cummins Engine Co., Inc.	Unl	10

<u>Name of Company</u>	<u>Exchange</u>	<u>Size of Dividend (%)</u>
Curlee Clothing Co.	Unl	5
Curtis Industries, Inc.	Unl	5
D. W. G. Cigar Corporation	NYSE	2
Deltown Foods, Inc.	Unl	2
Diebold, Inc.	Unl	5
Dillon J. S. & Sons Stores Co.	Unl	5
Dixon-Powdermaker Furniture Co.	Unl	2, 2, 1
Donnelley (R. R.) & Sons Co.	Unl	2
Dorsett Electronics, Inc.	Unl	200
Doughboy Industries, Inc.	Unl	3
Dover Corp.	NYSE	2
Dunhill International, Inc.	NYSE	2, 2, 2
Dunlap & Associates, Inc.	Unl	1
Duro-Test Corp.	ASE	3
Dynalectron Corp.	ASE	5
Eastern Bowling Corp.	Unl	2
Economy Auto Stores Inc.	Unl	2
Edgecomb Steel Co.	Unl	5
Edison Bros. Stores, Inc.	NYSE	5
Edo Corp.	ASE	8
Elastic Stop-Nut Corp.	NYSE	3
Electro Networks, Inc.	Unl	10
Electronic Assistance Corp.	ASE	100
Electronic Associates, Inc.	Unl	5
Electronic Engineering Co. of California	Unl	10
Elox Corp. of Michigan	Unl	10
Emerson Electric Mfg. Co.	NYSE	3
Emhart Mfg. Co.	Unl	5
Empire National Corp.	ASE	1½, 1½, 1½
Emporium Capwell Co.	PCSE	5
Epps Industries, Inc. (Calif.)	Unl	4
Erie Resistor Corp.	Unl	4
Esquire, Inc.	ASE	4
Ets-Hokin & Galvan, Inc.	Unl	4
Evans Rule Co.	Unl	2
Fabien Corp.	Unl	5
Factor, Max & Co.	NYSE	4, 50
Farrell-Birmingham Co., Inc.	Unl	10
Fedders Corp.	NYSE	5
Federal Sign & Signal Corp.	Unl	3
Federal Steel Corp.	Unl	3, 3
Fed-Mart Corp.	Unl	2
Firestone Tire & Rubber Co.	NYSE	2
First Flight Co.	Unl	5

<u>Name of Company</u>	<u>Exchange</u>	<u>Size of Dividend (%)</u>
First National Credit Bureau, Inc.	Unl	2, 2, 2
Fischbach & Moore, Inc.	Unl	6
Fischer & Porter Co.	ASE	2
Flexible Tubing Co.	Unl	2, 3
Florida Steel Corp.	Unl	5
Fluor Corp., Ltd. (Calif.)	NYSE	5
Food Giant Markets, Inc. (N. J.)	NYSE	2, 2
Forest Laboratories, Inc.	Unl	4
Fort Worth Steel & Machinery Co.	Unl	3
Foster-Forbes Glass Co.	Unl	3
Foster Grant Co., Inc.	Unl	4
Foster Wheeler Corp. (N. Y.)	NYSE	5
Fownes Bros. & Co., Inc.	Unl	5
Franklin Electric Co.	Unl	3, 3
Friden, Inc.	NYSE	2
Frontier Refining Co.	Unl	10
Gabriel Co.	NYSE	5
Garrett Corp.	NYSE	2
General Abrasive Co., Inc.	Unl	5
Gen. Amer. Oil of Texas	NYSE	3
General Bronze Corp.	NYSE	2
General Foam Corp.	Unl	5
General Merchandise Co. (of Milwaukee, Wisc.)	Unl	4, 1
Georgia Marble Co.	Unl	2½
Georgia Pacific Corp.	NYSE	1, 1, 1, 1
Gertsch Products, Inc.	Unl	5
Gilchrist Co.	ASE	5
Gilmore Industries, Inc.	Unl	3, 25
Globe Security Systems, Inc.	ASE	25
Godfrey Co.	Unl	5
Goodyear Tire & Rubber Co. (Ohio)	NYSE	2
Grace (W. R.) & Co.	NYSE	2
The Grand Union Co.	NYSE	3
Grayson-Robinson Stores	NYSE	5
Great Atlantic & Pacific Tea Co.	NYSE	3
Grinnell Corp.	Unl	5
Gulf Oil Corp.	NYSE	2
Gulf & Western Industries, Inc.	ASE	5
Haag Drug Co., Inc.	Unl	3
Hagan Chemicals & Controls, Inc.	Unl	2
Hallicrafters Co.	Unl	100
Hammermill Paper Co.	NYSE	2
Handmacher-Vogel, Inc.	Unl	50, 1
Harper (H. M.) Co.	Unl	2
Harrington & Richardson, Inc.	Unl	100
Hartfield Stores Inc.	ASE	1½, 1½, 1½, 1½

<u>Name of Company</u>	<u>Exchange</u>	<u>Size of Dividend (%)</u>
Hat Corp. of America	NYSE	8
Hauserman (E. F.) Co.	Unl	1, 1
Hawaiian-Philippine Co.	HON	33 $\frac{1}{4}$
Hawley Products Co.	Unl	2
Hein-Werner Corp.	MSE	5
Henry's Drive-In, Inc.	Unl	5
Heublein, Inc.	Unl	3
Hickok Electrical Instrument Co.	Unl	3
Hidden Splendor Mining Co.	Unl	5
High Voltage Engineering	Unl	3
Hill's Supermarket, Inc.	ASE	5
Hirsch (P. N.) & Co.	Unl	2
Hollingshead (R. M.) Corp.	Unl	100
Honeggers' & Co., Inc.	Unl	1 $\frac{1}{2}$, 1 $\frac{1}{2}$
Honolulu Iron Works Co. (Hon.)	Unl	5
Houdaille Industries, Inc.	NYSE	2
Howard Industries, Inc.	MSE	2
Howe Sound Co.	NYSE	3, 3
Howell Elec. Motors Co. (Mich.)	ASE	5
Hudson Vitamin Products, Inc.	ASE	25
Hunt Foods & Ind., Inc.	NYSE	5
Hupp Corp.	NYSE	3
Huston (Tom) Peanut Co. (Ga.)	Unl	5
Hutchinson (W. H.) & Sons, Inc. (Ill.)	Unl	2 $\frac{1}{2}$
Hygrade Food Products Corp.	ASE	2
Illinois Lock Co. (Ill.)	Unl	2
Industrial Electronic Hdwe. Corp.	ASE	3
Industrial Plywood Co.	ASE	2
International Paper Co.	NYSE	2
International Silver	NYSE	2 $\frac{1}{2}$
Interstate Dept. Stores, Inc.	NYSE	5
Interstate Engineering Corp.	Unl	25
Interstate Hosts, Inc.	Unl	5, 33 $\frac{1}{4}$
Iron Fireman Mfg. Co. (Oregon)	ASE	3
Irvington Steel & Iron Works	Unl	3
J. C. S. Electric Co.	Unl	5
Jantzen, Inc.	Unl	4
Jeannette Glass Co.	ASE	3
Jessop Steel Co.	Unl	5
Junction Bit & Tool Co.	Unl	5, 5
Katz Drug Co.	ASE	2
Kawecki Chemical Co.	ASE	2
Kayser-Roth Co.	NYSE	2
Kent-Moore Organization, Inc.	Unl	5
Keyes Fibre Co.	Unl	2
Kidde (Walter) & Co., Inc.	ASE	5

<u>Name of Company</u>	<u>Exchange</u>	<u>Size of Dividend (%)</u>
Kimberly-Clark Corp.	NYSE	2
King Bros. Productions, Inc.	Unl	7
Kings Dept. Stores, Inc.	Unl	2
Kingsport Press, Inc.	Unl	3
Kingwood Oil Co.	Unl	4
Klein (S.) Dept. Stores, Inc.	ASE	5
Kulka Smith Electronics Corp.	ASE	1, 1, 2
Lamb Industries, Inc.	ASE	4
Lancer Industries, Inc.	Unl	4
Lanolin Plus, Inc.	Unl	2
Lanston Industries, Inc.	ASE	2
Layne & Bowler Pump Co. (Calif.)	Unl	200
Leetronics, Inc.	Unl	2
Lemke (B. L.) & Co., Inc. (N. J.)	Unl	5
Leonard Refineries, Inc.	NYSE	3
Lester Engineering Co.	Unl	5
Le Tourneau (R. G.) Inc.	ASE	1, 1, 1, 1
Levine's, Inc.	Unl	4
Lewers & Cooke Ltd.	HON	5
Lewis Business Forms, Inc.	Unl	5
Liberty Fabrics of N. Y., Inc.	ASE	5, 5
Lipe-Rollway Corp.	Unl	2
Liquidometer Corp.	Unl	2
Litton Industries, Inc.	NYSE	2½
Livingston Oil Co.	Unl	10
Lodding Engineering Corp.	Unl	3
Long Mile Rubber Corp.	Unl	2
Longines-Wittnauer Watch Co., Inc.	ASE	2
Los Angeles Drug Co.	Unl	2
Lucky Stores, Inc.	Unl	3
Lynch Corp.	ASE	3
MacFadden Publications, Inc.	ASE	2
Magma Copper Co.	NYSE	5
Majestic Specialties, Inc.	ASE	3
Mallory (P. R.) & Co., Inc.	NYSE	2
Manhattan Shirt Co.	NYSE	2
Market Basket	Unl	3
Marquette Corp.	Unl	6
Marsh Supermarkets, Inc.	Unl	2
Maryland Cup Corp.	ASE	3
Masco Corp.	DSE	100
Masonite Corp.	NYSE	2
Matheson Co., Inc.	Unl	3
Matthiessen & Hegeler Zinc Co.	Unl	4
Maul Bros., Inc.	Unl	2
McCall Corp.	NYSE	3
McDermott (J. Ray) & Co.	NYSE	2
McKay Machine Co.	MSE	10

<u>Name of Company</u>	<u>Exchange</u>	<u>Size of Dividend (%)</u>
McNeil Machine & Engineering Co.	Unl	5
McQuay, Inc.	Unl	5
Mergenthaler Linotype Co.	NYSE	1
Metal Goods Corp.	Unl	2
Microdot, Inc.	Unl	2
Millers Falls Co.	Unl	5
Minerals & Chemicals Philipp Corp.	NYSE	2
Minerals Engineering Co.	UNL	5
Modern Materials Corp.	Unl	3
Modine Mfg. Co.	MSE	25
Molybdenum Corp. of America	ASE	1
Monroe Auto Equipment Co.	Unl	1½, 1, 1, 1
Monsanto Chemical Co.	NYSE	2
Moore (Wm. S.), Inc.	Unl	5
Morrell (John) & Co.	NYSE	2
Morse Electro Products Corp.	ASE	2
Muter Co.	ASE	5
Nalley's, Inc.	Unl	2
National Can Corp.	NYSE	6
National Company, Inc.	ASE	2
National Gypsum Co.	NYSE	2
National Propane Corp.	Unl	5
National Rubber Machinery	ASE	2
National Shoes, Inc.	Unl	6
National Starch & Chemical Corp.	NYSE	2
Nebraska Consolidated Mills Co.	Unl	3
Networks Electronic Corp.	Unl	5
New Hampshire Ball Bearings, Inc.	Unl	3
New York & Honduras Rosario Mining Co.	ASE	4
Northwestern States Portland Cement Co.	Unl	5
Nuclear Chicago Corp.	Unl	50
O. K. Rubber Welders, Inc.	Unl	2
Oglebay Norton Co.	Unl	2
Ohio Oil Co.	NYSE	2
Ohmart Corp.	Unl	200
One-Hour Valet, Inc.	Unl	1
Opelika Mfg. Corp.	ASE	4
Oregon Portland Cement Co.	Unl	2
Oxford Electric Corp.	ASE	5
Pacific Gamble Robinson Co.	Unl	2
Pacific Industries, Inc.	ASE	4
Package Products Co., Inc.	Unl	5
Paddington Corp.	ASE	2
Papercraft Corp.	Unl	100
Parkersburg-Aetna Corp.	ASE	4

<u>Name of Company</u>	<u>Exchange</u>	<u>Size of Dividend (%)</u>
Peninsular Metal Products Corp.	ASE	3
Penobscot Chemical Fibre	Unl	2
Pepsi-Cola Bottling Co. of Long Island, Inc.	ASE	3
Pepsi-Cola Bottling Co. of Washington, D. C.	Unl	5
Pepsi-Cola Gen'l Bottlers, Inc.	Unl	3
Perfect-Line Mfg. Corp.	Unl	5
Philadelphia & Reading Corp.	NYSE	2
Phillips Screw Co.	ASE	1, 1, 1, 1
Phillips-Van Heusen Corp.	NYSE	3, 3, 3, 3
Piedmont Label Co., Inc.	Unl	10
Pittston Co.	NYSE	5
Planetronics Inc. (N. Y.)	Unl	2
Plume & Atwood Mfg. Co.	ASE	5
Polymer Corp.	ASE	3
Popell (L. F.) Co., Inc.	Unl	1
Port Huron Sulphite & Paper Co.	Unl	5
Portable Electric Tools, Inc.	Unl	10
Potash Co. of America	Unl	5
Preway, Inc.	Unl	2, 2, 2
Prince Gardner Co.	Unl	4
Producers Cotton Oil Co.	Unl	3
Professional Golf Co., Inc.	Unl	10
Progress Mfg. Co., Inc.	ASE	2
Prophet Co.	ASE	2, 2
Publicker Industries, Inc.	NYSE	5
Purex Corp. Ltd.	Unl	25
R. C. Can Company	Unl	3
R. T. & E. Corp.	Unl	2, 100
Rabin Winters Corp.	Unl	5
Radiation, Inc.	Unl	3
Radio Corp. of America	NYSE	2
Rapid Film Technique	Unl	25
Rayette, Inc.	ASE	1
Raymond Corp.	Unl	5
Rayonier Incorporated (Del.)	NYSE	3
Raytheon Co.	NYSE	3
Reichhold Chemicals, Inc.	NYSE	2, 2
Republic Foil, Inc.	ASE	2
Reserve Oil & Gas Co. (Calif.)	PCSE	2
Rexall Drug & Chemical Co.	NYSE	3
Rieke Metal Products Corp.	Unl	16
Roberts Co.	Unl	2
Robertshaw-Fulton Controls	NYSE	2
Robertson (H. H.) Co.	Unl	4
Rockwell Mfg. Co.	Unl	2
Rogers Corp.	ASE	3

<u>Name of Company</u>	<u>Exchange</u>	<u>Size of Dividend (%)</u>
Rohm & Haas Co.	NYSE	2
Rollins Broadcasting, Inc.	ASE	3
Ronson Corp.	NYSE	2
Roper Industries, Inc.	Unl	200
Rubbermaid, Inc.	NYSE	5
Ryan Aeronautical Co.	NYSE	5
Ryan Cons. Petroleum Corp.	ASE	5
Sabine Royalty Corp.	Unl	5
Sabre-Pinon Corp.	Unl	5
St. Clair Specialty Mfg. Co., Inc.	Unl	5
St. Regis Paper Co.	NYSE	2
Salant & Salant, Inc.	Unl	3
San Juan Racing Assn. (P. R.)	Unl	10
Sanders Associates, Inc.	Unl	50
Santa Fe Drilling Co.	Unl	105
Savage Industries, Inc.	Unl	2½, 2½
Sawhill Tubular Products, Inc.	Unl	2
Schlage Lock Co.	Unl	5
School Pictures, Inc.	Unl	10
Scientific-Atlanta, Inc.	Unl	5
Scientific Industries, Inc.	Unl	5, 5
Scott Aviation Corp.	Unl	5
Seaboard Plywood & Lumber Corp.	ASE	1
Seagrave Corp.	NYSE	2, 2
Sealed Power Corp.	Unl	10
Seeman Brothers, Inc.	ASE	2, 2, 2
Seismograph Service Corp.	Unl	4
Shattuck (Frank G.) Co.	NYSE	1
Shulton, Inc.	Unl	2
Siegler Corp.	NYSE	3
Sierracin Corp.	Unl	25
Signode Steel Strapping	NYSE	2
Smucker (J. M.) Co.	Unl	3
Solon Industries, Inc.	Unl	10
Solventol Chemical Products	Unl	10
Sorg Paper Co.	Unl	3
Soss Mfg. Co.	ASE	5
South Shore Oil & Development Co.	Unl	5
Southland Royalty Co.	ASE	2
Spalding (A. G.) & Bros., Inc.	NYSE	3
Spencer Shoe Corp.	ASE	25
Sperry Rand Corp.	NYSE	2, 2
Spiegel, Inc.	NYSE	5
Sprague Electric Co.	Unl	2
Staley (A. E.) Mfg. Co.	Unl	2
Standard Beryllium Corp.	Unl	5
Standard Brass & Mfg. Corp.	Unl	¾
Standard Kollsman Industries, Inc.	NYSE	3
Standard Pressed Steel Co.	NYSE	2

<u>Name of Company</u>	<u>Exchange</u>	<u>Size of Dividend (%)</u>
Star Market Co.	Unl	2
State Exploration Co.	Unl	5
Stauffer Chemical Co.	NYSE	2
Steak 'n Shake, Inc. (Del.)	Unl	2
Stecher-Traung Lithograph Corp.	Unl	50
Stepan Chemical Co.	ASE	5
Sterling Alum. Prod., Inc.	ASE	3
Stokely-Van Camp, Inc.	NYSE	10
Stop & Shop, Inc.	ASE	3
Stouffer Foods Corp.	Unl	4
Struthers-Wells Corp.	ASE	5
Sun Drug Co. (Pa.)	Unl	5
Sun Oil Co. (N. J.)	NYSE	6
Sunbury Milk Products Co.	Unl	2
Sunset International Petroleum Corp.	ASE	2½, 2½
Superior Electric Co.	Unl	3
Supronics Corp.	Unl	5
Susquehanna Corp.	Unl	5
Taft Broadcasting Co.	Unl	2½
Taylor Publishing Co.	Unl	7, 10
Tejon Ranch Co.	Unl	2
Tennessee Corp.	NYSE	2
Textiles-Incorporated	Unl	5
Thiokol Chemical Corp.	NYSE	2
Thompson (H. I.) Fibre Glass Co.	Unl	2
Thorofare Markets, Inc.	ASE	4
Thrift Drug Co. of Pa.	Unl	2
Times-Mirror Co.	Unl	4
Tobin Packing Co., Inc.	Unl	2
Tool Research & Eng. Corp.	Unl	5
Torrington Mfg. Co.	Unl	5
Towle Mfg. Co.	Unl	3
Trade Winds Co.	Unl	3
Trane Co.	NYSE	25
Trans-Lux Corp.	ASE	5
Trav-ler Radio Corp.	ASE	5
Triangle Conduit & Cable Co., Inc.	ASE	5
Triangle Lumber Corp.	Unl	2, 2
Twentieth Century-Fox Corp.	NYSE	2
Union Oil Co. of California	NYSE	2
Union Texas Natural Gas Corp.	Unl	3
United Automotive Industries, Inc. (Calif.)	Unl	2, 3
United Carbon	NYSE	3
United States Mineral Wool Co.	Unl	5
Universal Cyclops Steel	NYSE	3
Universal Match Corp.	NYSE	2
Utah Construction & Mining Co.	Unl	2

<u>Name of Company</u>	<u>Exchange</u>	<u>Size of Dividend (%)</u>
Van Camp Sea Food Co., Inc.	Unl	100
Van Waters & Rogers, Inc.	Unl	3
Vanderbilt Tire & Rubber	ASE	2
Vernitron Corp.	Unl	50
Victoreen Instrument Co.	ASE	4
Virginia Iron, Coal & Coke Co.	ASE	5
Voi-Shan Industries, Inc.	Unl	100
Von Hamm-Young Co., Ltd. (Hawaii)	HON	2, 2
Walgreen Co.	NYSE	3
Walker (B. B.) Shoe Co.	Unl	2
Wallace (William) Co.	Unl	10
Wallace Press, Inc.	Unl	2
Warner Co.	NYSE	10
Wayne Manufacturing Co.	Unl	5
Weatherford (R. V.) Co.	Unl	3
Webcor, Inc.	MSE	5
Webster Electric Co.	Unl	3
Weiman Co., Inc.	ASE	5
Weingarten Markets Realty Co.	Unl	5
Wells Industries Corp.	Unl	5
Welsbach Corp.	Unl	10
Western Publishing Co., Inc.	Unl	5
Western Tablet & Stationery Corp.	ASE	5
Weyenberg Shoe Mfg. Co.	ASE	300
Whitehall Cement Mfg. Co.	Unl	2
Whitin Machine Works	Unl	1
Wilcox Oil Co.	NYSE	2½
Williams Bros. Co.	ASE	5
Williams-McWilliams Industries, Inc.	ASE	1, 1, 1, 1
Wolverine Shoe & Tanning Corp.	Unl	10
World Color Press, Inc.	Unl	4
World Publishing Co.	MSE	1, 1, 2
Yonkers Raceway, Inc.	ASE	10, 10, 10
Zenith Radio Corp.	NYSE	200

Financial

<u>Name of Company</u>	<u>Exchange</u>	<u>Size of Dividend (%)</u>
Aetna Finance Co.	Unl	2½
Airport Parking Co. of America	Unl	25
All American Life & Casualty Co.	Unl	6
All State Credit Corp.	Unl	2
Allied Small Business Investment Corp.	Unl	3
American Bank & Tr. Co., Lansing	Unl	10
American Bank & Trust Co. (New Haven)	Unl	20
American Bankers Life Assurance (Fla.)	Unl	5
American Independent Reinsurance	Unl	5
American Land Co.	Unl	6
American Motorists Ins. Co.	Unl	5, 5
American Nat. Bank (Austin, Tex.)	Unl	33½
American Nat. Bank & Trust (Chattanooga)	Unl	16-2/3
American Nat. Bank & Tr. (Cgo.)	Unl	33½
American Re-Insurance Co.	Unl	10
American Universal Ins.	Unl	4.17
Amicable Life Ins. Co.	Unl	5
Arizona Bancorporation	Unl	3
Atlas Credit Corp.	Unl	2, 2
B. M. C. Durfee Trust Co.	Unl	25
Baldwin Securities Corp.	ASE	4
Banco de Ponce (Ponce, P. R.)	Unl	4
BancOhio Corp.	Unl	5
Bank of America N. T. & S. A.	Unl	5
Bank of Babylon	Unl	10
Bank of the Commonwealth (Detroit)	Unl	12½
Bank of Dade County	Unl	5
Bank of Dearborn	Unl	4
Bank of Delaware	Unl	60
Bank of Hawaii (Honolulu)	HON	8
Bank of Huntington (N. Y.)	Unl	5
Bank of Southwest N. A. (Houston)	Unl	15
Bank of Texas (Houston)	Unl	10
Bankers Nat. Life Insurance	Unl	7½
Barnett Nat. Bank (Jacksonville)	Unl	25
Beneficial Finance Co.	NYSE	10
Beneficial Standard Life Ins.	Unl	4
Bensonhurst National Bank	Unl	25
Berman Leasing Co.	Unl	3
Beverly (Mass.) Nat. Bank	Unl	33½
Birmingham Trust Nat. Bank	Unl	25
Bishop Trust Co. Ltd. (Honolulu)	HON	2, 2
Boardwalk National Bank (N. J.)	Unl	25

<u>Name of Company</u>	<u>Exchange</u>	<u>Size of Dividend (%)</u>
Broad Street Trust Co. (Phila.)	Unl	5
Buck's County Bank & Trust	Unl	10
Budget Finance Plan	ASE	3
Bush Terminal	NYSE	2, 2, 2, 2, 2
Business Men's Assur. Co. of Amer.	Unl	25
C. F. C. Funding, Inc.	Unl	5
Calif. Financial Corp.	Unl	5
Calif. West. States Life Ins.	Unl	10
Camden (N. J.) Trust Co.	Unl	1.0459, 1.4925
Canal Nat. Bank (Portland, Me.)	Unl	4.76, 2.73
Carolina Casualty Insur.	Unl	17.04
Central Bank & Tr. Co. (Denver)	Unl	5
Central Charge Service	Unl	5
Central Home Tr. (Elizabeth, New Jersey)	Unl	4
Cent. Nat. Bank (Richmond)	RSE	14-2/7
Central Standard Life Insur. Co.	Unl	10
Century Acceptance Corp.	Unl	2
Century Properties	Unl	5
Certified Credit Corp.	Unl	1½, 1½, 1½, 1½
Chase Capital Corp.	Unl	20, 5
Chase Manhattan Bank (N. Y.)	Unl	4
Cheltenham Nat. Bk. (Pa.)	Unl	6
Chittenden Trust Co. (Vermont)	Unl	3
Citizens Bank of Maryland	Unl	5
Citizens Coml. & Sav. Bank (Flint)	Unl	5
Citizens Nat. Bank (Evansville)	Unl	20
Citizens Nat. Bank (Laurel, Md.)	Unl	50
Citizens & South. Nat. Bank of S. C.	Unl	10
Citizens Tr. Co. (Schenectady)	Unl	11-1/9
City Bank & Tr. Co. (Jackson, Michigan)	Unl	2.78
City Investing Co.	NYSE	5
City National Bank (Baton Rouge)	Unl	11-1/9
City National Bank (Beverly Hills)	Unl	5
City National Bank (Clearwater)	Unl	2
City Trust Company (Bridgeport)	Unl	2
Civil Service Employees Ins. Co.	Unl	10
Cleveland Trust Co.	Unl	11-1/9
College Life Ins. Co. of America	Unl	6
Colorado Insurance Service	Unl	5, 5
Combined Ins. Co. of America	Unl	50
Commercial Bank of No. America	Unl	2½, 2½
Commercial Nat. Bank (Little Rock)	Unl	25

<u>Name of Company</u>	<u>Exchange</u>	<u>Size of Dividend (%)</u>
Connecticut Gen. Life Ins. Co.	Unl	100
Consol-Development Corp.	Unl	5
Consumers Invest. Fund, Inc.	Unl	50
Continental Amer. Life Ins. Co.	Unl	50
Continental Assurance Co.	Unl	50
Continental Casualty Co.	Unl	25
County Trust Co. (White Plains)	Unl	5
Crocker-Anglo Nat. Bank	PCSE	16-2/3
Delaware Valley Financial Corp.	Unl	2
Denver U. S. National Bank	Unl	12½
Deposit Gty. Bank & Tr. (Jackson)	Unl	5
Diner's Club, Inc.	NYSE	5
Disc, Inc.	Unl	5
Donbar Development Corp.	Unl	2
Drovers & Mech. Nat. Bank (York, Pa.)	Unl	20
Drovers Nat. Bank (Chicago)	Unl	12½
Drovers Tr. & Sav. Bank (Cgo.)	Unl	12½
Eastern Life Ins. Co. of New York	Unl	10, 10
Eastern Nat. Bank of L. I.	Unl	1
Eichler Homes, Inc.	Unl	2
El Paso (Tex.) National Bank	Unl	11-1/9
Empire Financial Corp.	Unl	5
Empire Trust Co. (N. Y.)	Unl	4
Equitable Trust Co. (Baltimore)	Unl	5
Equity Corp.	ASE	5
Exchange Nat. Bank (Chicago)	Unl	25
F. & F. Finance	Unl	2
Family Fund Life Ins. Co.	Unl	5
Far West Financial Corp.	Unl	5
Farmers & Merchants Trust Co. (Chambersburg, Pa.)	Unl	33½
Farmers New World Life Ins. Co.	Unl	5
Farmers Sav. & Trust Co.	Unl	10
Fayette Nat. Bank & Tr. Co. (Pa.)	Unl	4.55
Federation Bank & Tr. Co. (N. Y.)	Unl	2½
Fidelity Deposit Co. of Md.	Unl	11-1/9
Fidelity Union Tr. Co. (Newark)	Unl	8.70
Fifth Third Union Trust (Cinn.)	Unl	20
Financial Federation, Inc.	NYSE	5
Financial General Corp.	ASE	5
First Amer. Nat. Bank (Nashville)	Unl	12½
First Camden Nat. Bank & Tr. Co.	Unl	5
First Charter Financial Corp.	NYSE	5
First & Citizens Nat. Bank (Alex., Va.)	Unl	10

<u>Name of Company</u>	<u>Exchange</u>	<u>Size of Dividend (%)</u>
First Continental Nat. Bank & Trust	Unl	6-2/3
First Financial Corp. of the West	Unl	7
First Ins. Co. of Hawaii, Ltd. (Honolulu)	HON	20
First National Bank of Akron	Unl	4
First National Bank Amarillo	Unl	25
First National Bank Baltimore	Unl	50
First National Bank of Birmingham (Ala.)	Unl	18.18
First Nat. Bank of Boston (Mass.)	Unl	14-2/7
First Nat. Bank of Chicago	Unl	20
First National Bank (Cinn., O.)	Unl	25
First Nat. Bank of Forth Worth (Texas)	Unl	5
First Nat. Bank (Glen Head, N. Y.)	Unl	1.47, 1.45
First Nat. Bank of Glens Falls, New York	Unl	12
First Nat. Bank (Jackson, Miss.)	Unl	10
First Nat. Bank (Leesburg, Fla.)	Unl	2½
First Nat. Bank (Lubbock, Tex.)	Unl	15
First Nat. Bank (Marshall, Tex.)	Unl	25
First Nat. Bank (Neenah, Wisc.)	Unl	25
First Nat. Bank of Nevada (Reno)	Unl	50
First Nat. Bank of Oregon (Portland)	Unl	12½
First Nat. Bank of Passaic County	Unl	10
First Nat. Bank in St. Petersburg (Florida)	Unl	3½
First Nat. Bank (Springfield, Illinois)	Unl	20
First Nat. Bank of Toms River (New Jersey)	Unl	2.56 66-2/3
First Nat. Bank (Waukesha, Wisc.)	Unl	7.14
First Nat. Bank (Wilkes Barre)	Unl	25
First Nat. Bank in Yonkers, N. Y.	Unl	10
First Nat. Bank (York, Pa.)	Unl	25
First Nat. Bank & Tr. Co. (Evanston)	Unl	11-1/9
First Nat. Bank & Tr. Co. (Greenfield, Mass.)	Unl	5
First Nat. Bank & Tr. (Racine)	Unl	10
First Nat. Bank & Tr. Co. of Tulsa (Okla.)	Unl	5
First Nat. City Bank (N. Y.)	Unl	2
First Nat. Exchange Bank (Roanoke, Va.)	Unl	5

<u>Name of Company</u>	<u>Exchange</u>	<u>Size of Dividend (%)</u>
First Nat. Realty & Construc- tion Corp.	ASE	5
First Security Corp.	Unl	2
First Tr. & Deposit Co. (Syracuse)	Unl	2
First Westchester Nat. Bank, New Rochelle, N. Y.	Unl	2
Frankford Trust Co. (Phila.)	Unl	100
Franklin County Tr. Co. (Greenfield, Mass.)	Unl	5
Franklin Life Ins. Co.	Unl	25
Franklin Nat. Bank of L. I. (Mineola, N. Y.)	Unl	3.578
Fund of America, Inc.	Unl	104.239
Gallatin National Bank	Unl	5
General Acceptance Corp.	NYSE	2
General Contract Finance Corp.	NYSE	1
Genessee Merchants Bank & Tr. Co. (Flint)	Unl	10
Gibraltar Fin. Corp. of Calif.	Unl	5
Government Employees Corp.	Unl	4
Government Employees Ins. Co.	Unl	2½
Government Employees Life Ins. Co. (Washington, D. C.)	Unl	50
Grace National Bank of New York	Unl	50
Great Western Financial Corp.	NYSE	5
Guarantee Bank & Tr. Co. (Atlantic City, N. J.)	Unl	10
Guaranty Nat. Ins. (Colo.)	Unl	6
Gulf Insurance Co.	Unl	6-2/3
Hamilton Nat. Bank (Chattanooga)	Unl	14.28
Hamilton Nat. Bank (Knoxville)	Unl	20
Hanover Bank (New York)	Unl	11-1/9
Harter Bank & Tr. Co. (Canton, O.)	Unl	50
Hawaiian Pacific Industries, Inc. (Hawaii)	Unl	5
Hawthorne Financial Corp.	Unl	5
Hempstead Bank (L. I.) Hempstead, New York	Unl	20
Home Insurance Co. of New York	Unl	10
Home Nat. Bank & Tr. Co. (Meriden, Conn.)	Unl	2.94
Horizon Land Co.	Unl	5, 5
Hot Shoppes, Inc.	Unl	4
Houston Nat. Bank (Texas)	Unl	2, 1.96
Hudson Trust Co. (Union City, N. J.)	Unl	10

<u>Name of Company</u>	<u>Exchange</u>	<u>Size of Dividend (%)</u>
Hunterdon County Nat. Bank	Unl	3.23
Huntington Nat. Bank of Columbus, Ohio	Unl	11-1/9
Ill. Nat. Bank of Springfield	Unl	10
Indiana Bank & Tr. Co.		
(Fort Wayne, Indiana)	Unl	25
Industrial Trust Co. (Phila.)	Unl	1.20
Industrial Valley Bank & Tr. Co.	Unl	.79
Inland Credit Corp.	ASE	2½, 2
Inland Homes Corp.	ASE	5
Insurance Corp. of America	Unl	1½, 1½
		1½, 1½
Inter-County Title Guaranty & Mortgage Co. (N. Y.)	Unl	3
Interstate Fire & Casualty Co.	Unl	2
Interstate Life & Accident Insurance Co.	Unl	33½
Irving Trust Co. (N. Y.)	Unl	2
Knott Hotels Corp.	ASE	3
LaSalle Nat. Bank (Chicago)	Unl	11-1/9
Lake Cty. Nat. Bank (Painesville, Ohio)	Unl	10.7692
Liberty Life Ins. Co. (Greenville, S. C.)	Unl	20
Liberty Nat. Life Ins. Co.	Unl	33½
Life Ins. Co. of Richmond Va.	RSE	4
Lincoln Income Life Ins. Co.	Unl	5
Lincoln Nat. Bank & Tr. Co. of Central New York	Unl	2
Lincoln Nat. Bank & Tr. Co. of Fort Wayne (Ind.)	Unl	33½
Lincoln Rochester Tr. Co.	Unl	2
Linden (N. J.) Trust Co.	Unl	40
Lockhart Corp.	Unl	2
Long Is. Nat. Bank (Hicksville)	Unl	3, 3
Lynchburg (Va.) Nat. Bank & Tr.	Unl	25
Lytton Financial Corp.	Unl	5, 2½
Manhattan Life Insurance Co.	Unl	18.1
Manufacturers Nat. Bank (Detroit)	Unl	10
Manufacturers and Traders Tr. Co. (Buffalo)	Unl	2
Marine Bank & Tr. Co. (Tampa)	Unl	25
Marine Midland Corp.	NYSE	2½
Maryland Life Insurance	Unl	20
Maryland Nat. Ins. Co.	Unl	5
Meadow Brook Nat. Bank	Unl	2, 2
Mellon Nat. Bank & Tr. Co. (Pitts.)	Unl	2

<u>Name of Company</u>	<u>Exchange</u>	<u>Size of Dividend (%)</u>
Merchandise Nat. Bank, Chicago	Unl	11-1/9
Merchants Bank of New York	Unl	2
Merchants Nat. Bank & Tr. Co. (Indianapolis)	Unl	10
Metropolitan Bank (Miami)	Unl	5
Mid-City Nat. Bank of Chicago	Unl	33½
Midwest Life Ins. Co.	Unl	100
Midwestern Fin. Corp. (Colo.)	Unl	3, 3
Midwestern United Life Ins. Co.	Unl	20
Mission Equities Corp. of Calif.	Unl	5
Monmouth Cty. Nat. Bank (Red Bank)	Unl	2.5237, 2
Montclair Nat. Bank & Tr. Co.	Unl	12
Monumental Life Ins. Co.	Unl	25
Mountain Trust Bank (Roanoke)	Unl	20
Municipal Ins. of America	Unl	5
Nat. Bank of Commerce (Dallas)	Unl	33½
Nat. Bank of Commerce (Houston)	Unl	4
Nat. Bank of Detroit	Unl	12½
Nat. Bank of Jackson (Mich.)	Unl	10
Nat. Bank of New Jersey	Unl	10
Nat. Bank of Tulsa (Okla.)	Unl	4.35
Nat. Bank of Westchester	Unl	4
Nat. Bank of York County	Unl	2
Nat. Bank & Tr. of Fairfield Cty.	Unl	1.92, 1.89
Nat. Blvd. Bank of Chicago	Unl	16-2/3
National Homes Corp.	Unl	2
National Security Ins. (Ala.)	Unl	10
Nat. State Bank (Newark, N. J.)	Unl	7-1/7
Nationwide Corp.	Unl	2½, 2½
Naumkeag Trust Co.	Unl	20
New Britain Trust Co. (New Britain, Conn.)	Unl	10
New Hampshire Ins. Co.	Unl	5
Newton-Waltham Bank & Tr. Co.	Unl	51½
Norfolk County Tr. (Brookline)	Unl	13.64
North Amer. Life Ins. Co. (Cgo.)	Unl	10
North Shore Nat. Bank (Cgo.)	Unl	10
Northern Nat. Bank of Presque Isle (Me.)	Unl	11-1/9
Northwest Nat. Bank (Cgo.)	Unl	100
Oak Park (Ill.) Tr. & Sav. Bank	Unl	20
Ohio Citizens Tr. Co. (Toledo)	Unl	6
Old Kent Bank & Tr. Co.	Unl	5
Old Nat. Bank of Spokane	Unl	10
Omaha Nat. Bank (Omaha, Neb.)	Unl	14-2/7
Pacific Nat. Bank of Seattle	Unl	9.09
Pacific State Bank (Hawthorne, Calif.)	Unl	5

<u>Name of Company</u>	<u>Exchange</u>	<u>Size of Dividend (%)</u>
Palisades Tr. Co. (Englewood, New Jersey)	Unl	2
Palomar Mortgage Co.	Unl	4
Peoples Life Ins. (Washington, D. C.)	Unl	14-2/7
Peoples Nat. Bank & Tr. Co. (Bay City, Mich.)	Unl	20
Peoples Nat. Bank & Tr. Co. (Norristown, Pa.)	Unl	2, 2
Peoples Nat. Bank of Wash. (Seattle)	Unl	20
Peoples Nat. Bank & Trust Co. (Lynchburg)	Unl	2.44
Peoples State Bank (St. Joseph, Mich.)	Unl	50
Philadelphia Life Ins. Co.	Unl	10
Phoenix Sav. & Loan Assn. (Md.)	Unl	5
Plainfield (N. J.) Trust State Nat. Bank	Unl	2
Preferred Ins. Co. (Grand Rapids)	Unl	1, 1, 1, 1
Protective Life Ins. Co. (Birmingham)	Unl	25
Provident Life Ins. Co. (N. D.)	Unl	10
Puget Sound Nat. Bank of Tacoma	Unl	25
Pullman Tr. & Sav. Bank (Cgo.)	Unl	3
Putnam Growth Fund	Unl	100
Putnam Tr. Co. (Greenwich, Conn.)	Unl	42-6/7
Pyramid Life Ins. Co. (N. C.)	Unl	10
Quaker City Life Insurance Co.	Unl	5, 5
Realty Equities Corp. of N. Y.	ASE	5
Reliance Ins. Co.	ASE	5
Republic Ins. Co. (Dallas)	Unl	6.66-2/3
Republic Nat. Bank of Dallas	Unl	2
Revere Fund, Inc.	Unl	50
Rockland Nat. Bank (Suffern, N. Y.)	Unl	3
Royal Bank & Tr. Co. (Louisville)	Unl	5
Royal State Bank (N. Y.)	Unl	6
Salisbury Nat. Bank (Maryland)	Unl	20
San Diego Imperial Corp.	NYSE	5
Schuylkill Haven Tr. Co. (Pa.)	Unl	33½
Seaboard Finance (Del.)	NYSE	2
Seaboard Land Co.	Unl	5
Seattle Tr. & Sav. Bank	Unl	10
Second Nat. Bank of Saginaw	Unl	12½
Second Nat. Bank of Warren (Ohio)	Unl	25
Securities Acceptance Corp.	Unl	3
Security Bank (Lincoln Pk., Mich.)	Unl	5

<u>Name of Company</u>	<u>Exchange</u>	<u>Size of Dividend (%)</u>
Security Bank (Washington, D. C.)	Unl	10
Security First Nat. Bank (L. A.)	Unl	10
Security Ins. Co. (Conn.)	Unl	3, 3
Security Life & Accident Co. (Colo.)	Unl	25
Security Life & Tr. Co. (N. C.)	Unl	25
Security Nat. Bank of L. I.	Unl	2
Security Tr. Co. of Lynn, Mass.	Unl	10
Security Tr. Co. of Rochester	Unl	10
Shapiro (M.) & Sons	Unl	2
Sheraton Corp. of America	NYSE	2
South East Nat. Bank (Chicago)	Unl	40
Southern Bank & Tr. Co. (Rich- mond, Va.)	Unl	3
Southwest Bank (St. Louis, Mo.)	Unl	5
Sovereign-Western Corp. of Nevada	Unl	5
Springfield Ins. Co. (Mass.)	Unl	5
Springfield (Mass.) Safe Deposit & Trust	Unl	25
State Bank & Tr. Co. (Ann Arbor)	Unl	20
State Bank & Tr. Co. (Evanston)	Unl	10
State Bank of Albany, N. Y.	Unl	5
State Capital Life Ins. Co. (N. C.)	Unl	4
State Nat. Bank of Decatur (Ala.)	Unl	10
Stephenson Fin. Co., Inc. (S. C.)	Unl	7
Sterling Nat. Bank & Tr. Co. of New York	Unl	2
Stone (E. B.) Finance Co., Inc.	Unl	10
Studio Apartment Co., Inc.	Unl	3
Suburban Trust (Hyattsville)	PSE	5
Summit (N. J.) Trust Co.	Unl	3
Texas Bank & Tr. Co. (Dallas)	Unl	5
Third Nat. Bank & Tr. Co. (Dayton)	Unl	10
Thorp Finance Corp.	Unl	1, 1, 1
Time Finance Co. (Baltimore)	Unl	5
Tishman Realty & Construction	NYSE	5
Title Guarantee Co. (N. Y.)	Unl	4
Title Ins. & Trust Co. (L. A.)	Unl	10
Trade Bank & Tr. Co. (N. Y.)	Unl	8
Tradesmen's Nat. Bank of New Haven, Conn.	Unl	10
Trans-Coast Investment Co.	Unl	5
Transnation Realty Corp.	Unl	5, 5
Trans-World Financial Co.	Unl	5
Trust Co. of Georgia (Atlanta)	Unl	22.2
Trust Co. of New Jersey	Unl	2.0354

<u>Name of Company</u>	<u>Exchange</u>	<u>Size of Dividend (%)</u>
Union & New Haven Tr. Co. (New Haven, Conn.)	Unl	2½
Union Bank (Los Angeles)	Unl	5
Union Center Nat. Bank (N. J.)	Unl	5
Union Financial Corp.	Unl	4, 4
Union Investment Co. (Mich.)	ASE	5
Union Nat. Bank (Clarksburg, W. Va.)	Unl	100
Union Nat. Bank (Kans. City)	Unl	33½
Union Planters Nat. Bank (Memphis)	Unl	2.22, 8.70
Union Sav. & Tr. Co. (Warren, O.)	Unl	20
Union Tr. Co. of Maryland	Unl	3
United Amer. Life Ins. Co (Denver)	Unl	10
United Financial Corp. of Calif.	Unl	7
United Funds, Inc.--United Sci- ence Fund	Unl	100
United Service Life Insurance	Unl	33½
United States Life Ins. Co. (New York)	Unl	20
United States Nat. Bank of San Diego	Unl	2½
United States Tr. Co. of New York	Unl	5
Upper Avenue Nat. Bank of Chicago	Unl	50
Uris Building Corp.	Unl	3
Valley Nat. Bank of L. I.	Unl	6
Valley Nat. Bank (Phoenix)	Unl	3
Venture Securities Fund, Inc., Del.	Unl	200
Volunteer State Life Ins. Co. (Chattanooga)	Unl	20
Washington Nat. Ins. Co.	Unl	25
Wells Fargo Bank, Amer. Tr. Co.	PCSE	10
Wesco Financial Corp.	Unl	5
Western Penna. Nat. Bank (McKeesport)	Unl	2
Western States Life Ins. Co.	Unl	33½
Winfield Growth Indus. Fund, Inc.	Unl	100
Wise Homes, Inc. (N. C.)	Unl	5
Yosemite Park & Curry Co.	Unl	10

Transportation

<u>Name of Company</u>	<u>Exchange</u>	<u>Size of Dividend (%)</u>
Alaska Airlines Inc.	ASE	5
American Export Lines, Inc.	NYSE	2½
Kaneb Pipe Line Co.	Unl	3
Niagara Frontier Transit System, Inc.	Unl	2
Peterson, Howell & Heather, Inc.	Unl	3
Piedmont Aviation, Inc.	Unl	10
Roadway Express, Inc.	Unl	4
United Air Lines, Inc.	NYSE	6
United States Lines Co. (N. J.)	NYSE	3

Utilities

<u>Name of Company</u>	<u>Exchange</u>	<u>Size of Dividend (%)</u>
American Elec. Power Co., Inc.	NYSE	2½
Arkansas-Missouri Power Co.	Unl	3
Arkansas Western Gas Co.	Unl	2
The Brooklyn Union Gas Co.	NYSE	10
California Western Gas Co. (Del.)	Unl	5
Central Telephone Co. (Del.)	Unl	1
Citizens Utilities Co.	Unl	1.4, 1
City Gas Co. of Florida	Unl	4
Commonwealth Edison Co.	NYSE	2
Commonwealth Natural Gas Corp. (Va.)	Unl	10
Consumers Water Co.	Unl	5
Florida Public Utilities, Inc	Unl	2
General Waterworks Corp.	Unl	3, 3
Greeley Gas Company (Colo.)	Unl	6
Indiana Gas & Water Co., Inc.	Unl	2
Inter-County Tel. & Tel. Co. (Fla.)	Unl	1
Kansas-Nebraska Natural Gas Co., Inc. (Kansas)	Unl	10
LaCrosse Tel. Corp. (Wisc.)	Unl	1
Michigan Gas & Elec. Co.	Unl	3
Middle States Tel. Co. of Ill.	Unl	1
Missouri Natural Gas Co.	Unl	2
Missouri Public Service Co.	NYSE	½, ½, ½, ½
New Jersey Natural Gas Co.	Unl	2
Northern Ohio Tele. Co.	Unl	25
Ohio Water Service Co.	Unl	2
Peoples Gas System, Inc. (Fla.)	Unl	5
Petersburg & Hopewell Gas Co.	Unl	2½
Philadelphia Suburban Water Co.	Unl	3
Portland (Me.) Gas Light Co.	Unl	3
Public Service Co. of Colo.	NYSE	5
Rochester Gas & Electric Corp.	NYSE	3

<u>Name of Company</u>	<u>Exchange</u>	<u>Size of Dividend (%)</u>
Southeastern Tel. Co. (Fla.)	Unl	1
Southern Calif. Edison Co.	NYSE	4
Southern Gas & Water Co. (W. Va.)	Unl	2
Utilities & Industries Corp. (N. Y.)	Unl	2
Volunteer Natural Gas Co.	Unl	5
West Ohio Gas Co.	Unl	2, 50
Wisconsin Southern Gas Co., Inc.	Unl	1
York Water Co.	Unl	2

Unclassified¹

<u>Name of Company</u>	<u>Exchange</u>	<u>Size of Dividend (%)</u>
Casa International Corp.	Unl	5
Cisco Group	Unl	5
Professional Men's Assn. (Colo.)	Unl	3, 3
Renewal Guaranty Corp.	Unl	5
Wilson (H. H.) Inc.	Unl	5

¹Industry classification was not available because companies are small and obscure.

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