

Oklahoma Company Has 15,000 Shares Of 4%, \$100 Par Value, Cumulative Preferred Stock And 60,000 Shares

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Understanding the financial structure of a company is crucial for investors, analysts, and stakeholders. In this comprehensive guide, we'll explore the specific scenario where Oklahoma Company holds 15,000 shares of 4%, \$100 par value, cumulative preferred stock, along with 60,000 common shares. We will delve into the nature of preferred stock, its implications for dividends, and how this impacts overall corporate finance and investor decisions.

Overview of Oklahoma Company's Equity Structure

The Preferred Stock Components

Oklahoma Company's preferred stock holdings consist of 15,000 shares with specific features:

- Number of Shares: 15,000
- Dividend Rate: 4% annually
- Par Value: \$100 per share
- Type: Cumulative preferred stock

This setup means that each preferred share entitles the holder to receive a fixed dividend, which accumulates if not paid in any given year.

The Common Stock Components

In addition to preferred stock, Oklahoma Company has issued 60,000 common shares. These shares generally have voting rights and their dividends depend on the company's profitability and dividend policy.

Understanding Preferred Stock in Detail

What Is Preferred Stock?

Preferred stock is a class of ownership in a corporation that has a higher claim on assets and earnings than common stock. It combines features of both equity and debt, often offering fixed dividends.

Features of Cumulative Preferred Stock

Cumulative preferred stock has the following key features:

- **Dividend Accumulation:** If dividends are not paid in a particular year, they accumulate and must be paid out before dividends can be distributed to common shareholders.
- **Priority in Dividends:** Preferred shareholders receive dividends before any dividends are paid to common shareholders.
- **Preference in Liquidation:** Preferred shareholders have a higher claim on assets if the company dissolves.

Calculating the Preferred Share Dividends

The annual dividend per preferred share is computed as:

$$\text{Dividend per share} = \text{Par value} \times \text{Dividend rate}$$

which in Oklahoma Company's case:

$$100 \times 4\% = \$4 \text{ per share}$$

Total annual preferred dividends for all preferred shares:

$$15,000 \text{ shares} \times \$4 = \$60,000$$

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This amount indicates the annual obligation to preferred shareholders.

Implications for Company Earnings and Dividends

Dividend Payment Priority

In years where the company earns sufficient profits, dividends are paid in the following order:

1. Preferred shareholders receive their cumulative dividends, accumulated if necessary.
2. Remaining profits are distributed to common shareholders.

Impact of Cumulative Feature

If Oklahoma Company fails to pay the preferred dividends in a given year, the dividends:

- Are accumulated and carried forward.
- Must be paid in future years before any dividends are paid to common shareholders.

This feature provides added security to preferred shareholders and influences the company's dividend policy.

Analyzing the Financial Position and Strategic Considerations

Revenue and Profitability Analysis

To determine whether Oklahoma Company can meet its dividend obligations:

- Review income statements for net income.
- Assess cash flow to ensure liquidity to pay dividends.
- Consider the company's profit margins and operational efficiency.

Impact on Earnings Per Share (EPS)

Preferred dividends are deducted from net income to calculate earnings available to common shareholders:

$$\text{Earnings available to common} = \text{Net Income} - \text{Preferred Dividends}$$

Given the fixed preferred dividends, a company's profitability directly influences the dividends payable to common shareholders.

Financial Ratios and Metrics

Investors should consider key ratios:

- **Dividend Coverage Ratio:** Measures how comfortably earnings cover preferred dividends.
- **Preferred Dividend Rate:** 4%, indicating the fixed return for preferred shareholders.
- **Par Value Impact:** The \$100 par value establishes the base for dividend calculations and liquidation preferences.

Legal and Contractual Aspects of Preferred Stock

Terms and Conditions

The company's articles of incorporation or preferred stock agreement specify:

- Dividend rate
- Cumulative feature
- Redemption rights (if any)
- Voting rights (if any)
- Conversion features (if applicable)

Potential for Redemption or Conversion

Some preferred stocks are redeemable or convertible:

- Redemption: The company may buy back preferred stock at specified times and prices.
- Conversion: Preferred shares can sometimes be converted into common shares based on predetermined ratios.

Oklahoma Company's preferred stock terms should be reviewed to understand such options and their implications.

Investor Perspective and Market Considerations

Attractiveness to Investors

Cumulative preferred stock with fixed dividends is attractive to:

- Income-focused investors seeking stable returns.
- Risk-averse investors valuing priority in dividend payments and liquidation.

Market Price of Preferred Stock

The market value of preferred shares often fluctuates based on:

- Changes in interest rates
- Company performance
- Dividend stability
- Overall market conditions

The fixed dividend rate (4%) can compare favorably or unfavorably to prevailing interest rates, affecting the stock's market price.

Risks Associated with Preferred Stock Investment

Investors should consider:

- Dividend Suspension Risks: If the company faces financial difficulties, dividends may be deferred or omitted, especially if not explicitly guaranteed.
- Interest Rate Risks: Rising interest rates can make fixed-dividend preferred stock less attractive, lowering its market value.
- Company-Specific Risks: Financial health, industry trends, and management effectiveness influence the safety of preferred dividends.

Conclusion: Strategic Significance of Oklahoma Company's Preferred Stock

The issuance and holding of 15,000 shares of 4%, \$100 par value, cumulative preferred stock by Oklahoma Company play a significant role in its financial strategy. This preferred stock provides a steady income stream for investors, while offering the company flexibility in dividend payments, especially with the cumulative feature ensuring that missed dividends are accumulated and prioritized.

For investors, understanding the specifics of preferred stock—such as dividend rates, cumulative features, and liquidation preferences—is essential for making informed investment decisions. For the company's management, balancing dividend obligations with profitability and growth objectives is crucial to maintaining financial stability and shareholder confidence.

By carefully analyzing these elements, stakeholders can better appreciate the financial structure of Oklahoma Company and its implications on overall corporate health and investment potential.

Frequently Asked Questions

What are the characteristics of the preferred stock issued by the Oklahoma company?

The preferred stock is 4% cumulative, with a \$100 par value, and there are 15,000 shares outstanding.

How is the dividend for the preferred stock calculated?

The dividend is 4% of the \$100 par value per share, so each preferred share receives \$4 annually, totaling \$60,000 for 15,000 shares.

What does it mean that the preferred stock is 'cumulative'?

It means that if the Oklahoma company skips a dividend payment, the unpaid dividends accumulate and must be paid before any dividends are issued to common shareholders.

What additional information is needed to understand the company's total equity structure?

We need details about the common stock issued, including the number of shares outstanding and their dividend rights, to fully assess the company's equity structure.

How do preferred dividends impact the company's financial statements?

Preferred dividends are deducted from net income to determine earnings available to common shareholders and are reported as a dividend expense or a preferred dividend payable in the financial statements.

What are the implications of having a large number of preferred shares for investors?

A significant preferred stock issuance provides a steady income stream with priority over common stock, but it may also limit the company's flexibility in paying dividends to common shareholders.

Additional Resources

Oklahoma Company Has 15,000 Shares Of 4%, \$100 Par Value, Cumulative Preferred Stock And 60,000 Shares — this scenario offers a comprehensive view into the intricacies of preferred stock issuance, dividend priority, and the impact on overall corporate finance. Whether you're an investor, a student of finance, or a corporate professional, understanding the nuances of preferred stock like this is vital for making informed decisions.

Introduction to Preferred Stock and Its Significance

Preferred stock is a class of ownership in a corporation that has a higher claim on assets and earnings than common stock. It is often issued for raising capital while providing certain privileges to shareholders, such as fixed dividends and priority in dividend payments.

In the case of the Oklahoma company, the preferred stock details—15,000 shares of 4%, \$100 par value, cumulative preferred stock—illustrate a standard preferred stock issuance with specific features. Alongside, the company has issued 60,000 shares of common stock, which are subordinate in terms of dividend priority.

Understanding the Key Components of the Preferred Stock

1. Par Value

- Definition: The face value of a share as stated in the corporate charter.
- In this scenario: \$100 per share.
- Implication: The dividend rate applies to this par value, determining the fixed dividend amount.

2. Dividend Rate

- 4% dividend rate: Indicates the annual dividend as a percentage of the par value.
- Dividend per share: 4% of \$100 = \$4 annually.
- Total annual preferred dividends: 15,000 shares $\times$ \$4 = \$60,000.

3. Cumulative Feature

- Meaning: If dividends are not paid in a given year, they accumulate and must be paid out before any dividends are distributed to common shareholders.
- Importance: Provides added security to preferred shareholders, ensuring they receive dividends once the company can pay dividends again.

4. Number of Shares

- Preferred Shares: 15,000.
- Common Shares: 60,000.
- Implication: The preferred stock is a smaller class relative to common stock but carries dividend priority.

The Mechanics of Dividends and Payments

Dividend Priority

Preferred stockholders have the right to receive dividends before any are paid to common shareholders. In this case, the preferred stock is cumulative, meaning unpaid dividends accumulate.

Calculating Dividends

- Annual preferred dividend obligation: \$60,000.
- If dividends are missed: The unpaid amount carries over to future years.
- Dividends to common shareholders: Only paid after preferred dividends are fully satisfied.

Example Scenarios

Scenario A: Profitable Year with Full Dividends

- The company earns enough to pay the full preferred dividend of \$60,000.
- Remaining profit can be distributed to common shareholders.

Scenario B: Profitable Year, but Company Decides to Withhold Dividends

- Preferred dividends of \$60,000 are unpaid.
- These accumulate as dividends in arrears.
- Future dividends must cover arrears before common dividends are paid.

Scenario C: Loss Year

- The company does not earn enough to pay preferred dividends.
- Dividends in arrears accumulate.
- Preferred shareholders still have priority, and arrears increase.

Analyzing the Impact of Preferred Stock on Company Financials

1. Balance Sheet Impact

- Liability or Equity? Preferred stock is classified as equity on the balance sheet but with features similar to debt due to fixed dividends.
- Par value and paid-in capital: The issuance increases paid-in capital.

2. Income Statement Impact

- Dividend payments are not expenses; they are distributions of retained earnings.
- In case of cumulative preferred stock, the unpaid dividends are reported as dividends payable and can influence retained earnings over time.

3. Cash Flow Considerations

- Dividends paid reduce cash reserves.
- The company must ensure sufficient cash flow to meet fixed preferred dividends, especially if dividends are cumulative.

Rights and Privileges of Preferred Stockholders

1. Dividend Preference

Preferred shareholders have the right to receive dividends before common shareholders.

2. Cumulative Feature

- Ensures that missed dividends are paid in subsequent periods before any dividends are distributed to

common shareholders.

3. Claims on Assets

- In liquidation, preferred stockholders are paid after debt holders but before common shareholders.

4. Voting Rights

- Typically, preferred stockholders do not have voting rights unless dividends are in arrears or as specified in the corporate charter.

The Significance of the 4% Dividend Rate and Par Value

1. Fixed Income Nature

- The 4% rate provides a predictable income stream to preferred shareholders.
- This fixed rate can be attractive for income-focused investors.

2. Par Value as a Benchmark

- The \$100 par value serves as the basis for dividend calculations and other rights.
- It also influences the stock's book value and potential redemption price if callable.

3. Market Implications

- Preferred stocks with fixed dividends are often valued based on prevailing interest rates.
- Changes in market interest rates can affect the stock's market price relative to its fixed dividend.

Potential Scenarios Affecting the Preferred Stock

1. Company Profitability and Dividend Payments

- The company's profitability directly impacts its ability to pay dividends.
- During downturns, dividends may be deferred, leading to arrears.

2. Dividend Arrears and Accumulation

- If preferred dividends are skipped, they accumulate.
- Shareholders may have the right to take legal action to enforce dividend payments.

3. Redemption or Call Provisions

- Some preferred stocks are callable at a certain premium.
- Redemption features affect the company's capital management and investor returns.

4. Conversion Rights

- If specified, preferred stock might be convertible into common stock, offering potential upside.

Strategic Considerations for Investors and Management

For Investors

- Risk Assessment: Cumulative preferred stock offers security in dividend payments but is subordinate in liquidation.
- Income Reliability: Fixed dividends provide stable income, but arrears pose risks if the company faces financial difficulties.
- Market Price: Influenced by interest rates and company prospects.

For Management

- Dividend Policy: Must balance dividend commitments with reinvestment needs.
- Capital Structure: Preferred stock provides flexibility without diluting voting control.
- Financial Health: Maintaining the ability to meet fixed dividend obligations is critical.

Concluding Remarks

The case of the Oklahoma company having 15,000 shares of 4%, \$100 par value, cumulative preferred stock and 60,000 shares of common stock exemplifies key principles in corporate finance. Preferred stocks with cumulative features serve as a vital tool for companies seeking to raise capital while offering investors a secure and predictable income stream. Understanding how fixed dividends, arrears, and priority claims operate helps stakeholders assess the company's financial health and investment prospects.

As with all securities, the nuances of preferred stock—such as dividend rates, cumulative features, redemption rights, and market conditions—must be carefully analyzed to make sound financial decisions. Whether as an investor seeking steady income or a company aiming to optimize its capital structure, grasping these details is essential for success in the dynamic world of corporate finance.

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