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Research Article

How to Account for Cash Dividends, Share Dividends and Share Splits?

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Abstract

The purpose of this study is to explain how to calculate cash dividends, share dividends, and share splits. The data processing method used is a descriptive approach. From the results of the data that has been collected that cash dividends are dividends paid in cash by the company to all shareholders based on the number of shares owned, the cash distributed is stored in the shareholders' bank accounts according to ownership, while share dividends are shares paid to shareholders. shareholders by issuing new shares in the company. The biggest benefit of stock dividends is that shareholders generally don't have to pay taxes on their value. Based on the results of data processing, the share dividend is often used by companies compared to cash dividends. One of the reasons for companies to provide share dividends to shareholders rather than cash dividends is because the company and its shareholders have a better future relationship with investors which will affect investors to provide additional shares.

***Keywords*:** Accounts, Cash Dividends, Share Dividends, Share splits

1. INTRODUCTION

For companies, there are several things that can be considered for sharing their earnings with shareholders in the form of dividends. Many shareholders see dividend payments as a sign of the company's financial health that allows them to buy back their shares. In addition, companies use dividends as a marketing tool to inform shareholders that their shares are profit-generating. Stock investors are usually driven by two factors, namely the desire to earn income in the form of dividends or the desire to benefit from the growth in the value of their investment. In principle, dividends are company profits that are distributed to investors. Where cash dividends are generally preferred by investors, because investors can evaluate the performance and liquidity of the company by assessing the amount of cash dividends distributed. The CEO of a company has the power to officially choose to declare dividends. At the time of announcement the board sets the record date and payment date. From this date it can be determined who is entitled to receive dividends. Cash dividends are a formal obligation to distribute economic resources (assets) to shareholders. Based on observations on the official website of the Indonesia Stock Exchange (2009) for three years 2006 to 2008, it turns out that not all companies included in the LQ45 index do not or have not distributed cash dividends. But there are also companies that have distributed cash dividends to shareholders. The underlying reason why the company has not distributed cash dividends will be interesting to observe. Therefore, the distribution of dividend policy is an important matter for companies that go public because it involves decisions that must be made by financial managers in terms of making spending, investment and dividend decisions.

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There are some companies that do not want to issue cash dividends but still want to provide some benefits to shareholders, this can be done with share dividends.

2. LITERATURE REVIEW

Dividends are profits earned by the company which will be distributed to shareholders as dividends or will be retained in the form of retained earnings to finance investment in the future. According to Rudianto (2012) the types of dividends that can be distributed by the company to its shareholders are as follows:

1. Cash Dividend, which is part of operating profit distributed to shareholders in the form of cash. Before dividends are distributed, companies must consider the availability of funds to pay dividends.
2. Asset Dividend, which is part of the company's operating profit which is distributed in the form of assets other than cash.
3. Skip Dividend or Debt Dividend, which is part of the company's operating profit which is distributed to shareholders in the form of a written promise to pay a certain amount of money in the future.
4. Stock Dividend, which is part of the operating profit to be distributed to shareholders in the form of stone shares of the company itself.
5. Liquidation Dividends, namely dividends that the company wants to pay to shareholders in various forms, but not based on the amount of operating profit or the company's retained earnings balance.

2.1. Measurement / Determination of Dividends

According to Athari (2021) the size of the dividend policy is as follows:

1. Dividend Yield, which relates the amount of dividends to the company's stock price. Mathematically, the dividend yield formula is as follows:

$$Dividen\ Yield = \frac{Annual\ Dividen\ Per\ Share}{Price\ Per\ Share}$$

2. Dividend Payout, dividend payout ratio is measured by dividing the amount of dividend per share by net income per share, which can be mathematically expressed by the following formula:

$$Dividen\ Payout = \frac{Cash\ Dividend\ Per\ Share}{Earnings\ Per\ Share}$$

Cash dividends are company income that the company gives to shareholders. To pay this cash dividend, the company must meet two criteria, namely there must be sufficient cash to meet the dividend payment, and the company must have sufficient profit to be held, i.e. have sufficient remaining assets to cover the dividend in such a way. Jiang et al (2021) examines the effect of cash dividend announcements when viewed from the increase and decrease in dividends on the variability of profit levels and stock liquidity on the JSE. Retno's research concludes that the market reaction when the cash dividend distribution will be announced makes the market react especially to the announcement of an increase in cash dividends.

Share dividend is an increase in the number of company shares with new shares given to shareholders. One of the benefits of share dividends is that shareholders can usemoney that is not paid in the form of cash dividends for getrate of return that more either , or shareholders can also sell some of the new shares to generate their own cash. The biggest benefit of stock dividends is

that shareholders generally don't have to pay taxes on their value. Taxes do need to be paid, however, if the stock dividend has a cash dividend option, even if the stock is held instead of cash.

Share splits are a common corporate event among listed firms. Fama et al, (2021) defined a stock split as an exchange of shares in which at least five shares were distributed for every four previously outstanding. A share split is a major corporate event and is therefore no exception. According to Zhang (2021) a stock split is merely an accounting change in the share composition Share splits lead to increased stock liquidity. Retno et al (2016) provided empirical evidence that share splits leads to increased stock liquidity. Dividend payments can be made in 2 ways, namely:

1. Payment of dividends (cash dividends) received by shareholders according to the number of shares owned.
2. Payment of dividends in the form of shares (share dividends) received as dividends can be in the form of the same shares owned or other types of shares.

3. METHODS

The descriptive approach adopted in this study through a collection of previous literature on accounts for cash dividends, share dividends and share splits by providing examples of the form of accounts for cash dividends, share dividends and share splits. The purpose of this paper is to assist users in implementing a framework for the creation of cash dividend, share dividend and share splits accounts. A number of published articles has also been examined to get a view of the researchers in this area

4. RESULTS AND DISCUSSION

4.1. Result

Dividends are calculated using the dividend payout ratio, where the annual dividend per share is divided by earnings per share. The ratio can be expressed as:

$$\boldsymbol{Dividend\ Payout\ Ratio} = \frac{\boldsymbol{Dividend\ Pait\ Net}}{\boldsymbol{Profits\ Reported}}$$

When cash dividends are declared by the board of commissioners, the earnings account is debited on hold and the dividend payable account is credited, thereby reducing equity and increasing liabilities. When dividends are subsequently paid to shareholders, debit the Dividend Payable account and credit the Cash account, thereby reducing cash and offsetting liabilities. The net effect of two transaction this is to reduce cash and equity, which means that the full impact of cash dividends is contained in the balance sheet; no impact on income statement , although the payment will appear as a use of cash in the financing activities section of cash flow statement .

Example of an account for cash dividends

On March 15, 2011, PT. JAK announced that the company will distribute a cash dividend of Rp 1/share to its shareholders. There were 2,000,000 shares issued to date. Dividends are planned to be distributed on June 1, 2011. For this reason, the company's

management invited shareholders on April 15, 2011 to check the value of the dividends they will receive. Ex-Dividend (discontinued dividend sale) is March 16, 2011.

Table 1. Record Journal

Date	Account	debit	Credit
16	Retained earning	2,000,000	
	Dividend payable		2,000,000

Then on June 1, 2011 there will be recording:

Table 2. Record Journal

Date		debit	Credit
1	Dividend payable	2,000,000	
	Cash		2,000,000

How to calculate the share dividend

Usually, the calculation is done at the General Meeting of Shareholders. How to calculate it is quite simple, namely with the formula:

Total amount of dividend to be divided = Net profit x Percentage of Dividend Payout Ratio (%). Through the above formula, the amount of dividends per share can be determined by:

$$Share\ Total\ Dividen\ Per\ Share = \frac{Total\ Nominal\ Dividend}{Number\ of\ Outstanding}$$

A business typically issues Share Dividends when it does not have enough cash to pay normal dividends, and thus makes use of additional “paper” share distributions to shareholders. Share Dividend or also known as Stock Dividend is never treated as a liability of the issuer, because the issuance does not reduce assets. As a result, this type of dividend cannot realistically be considered a distribution of shareholder assets.

When there is a share dividend, the related accounting is to transfer from retained earnings to the share capital account and additional paid-in capital an amount equal to the fair value of the additional shares issued. This fair value is based on its market value after the dividend is declared.

Example of Stock Dividend Question

On July 6, PT. Blimbing announced that it would distribute a share dividend of 25% of the outstanding shares. The stock dividend will be issued on August 15 to shareholders. The market value of the company's shares on July 6 was IDR 2000 per share. PT Blimbing has 60,000 shares outstanding. The nominal value of PT Blimbing's shares is IDR 1500 per share

1. Share Dividend Recording at par value

    - Journal of dividend announcement

Retained earning	22,500,000	
Common Stock Dividend Payable		22,500,000

Retained Earnings = %Dividend Distribution x Nominal Shares x Shares Outstanding

= 25% x 1500 x 60,000 =**IDR 22,500,000**

Dividend Payable = %Dividend distribution x Share nominal x Shares Outstanding

= 25% x 1500 x 60,000 =**IDR 22,500,000**

2. Recording of stock dividends at market price

- Journal of dividend announcement

Retained earning	22,500,000	
Common Stock Dividend Payable		22,500,000
Common Stock Agio		7,500,000

Premium for Common Stock = %Share Distribution x Outstanding Shares x (Market Price-Nominal Price)

= 25% x 60,000 x (2,000-1500) = **IDR 7,500,000**

- Journal when dividends are issued

Common Stock Dividend Payable	22,500,000	
Ordinary Share Capital		22,500,000

Share splits are events that increase the number of shares outstanding and reduce the par value or stated value per share. For example, a 2-for-1 stock split would double the number of shares outstanding and halve the par value per share. Existing shareholders will see their shareholdings double in quantity, but there will be no change in the proportionate ownership represented by the shares (i.e., a shareholder who owns 1,000 shares out of 100,000 will then own 2,000 shares out of 200,000). the same company is now represented by more shares, one would expect the market value per share to decline accordingly. shareholders will not be disappointed by this drop in share price as each will receive proportionately more shares;

Honda declared a stock dividend to its shareholders of 1,000,000 shares, which was double the number of shares previously outstanding. Davidson's stock has a value of $1, sothe record is :

Table 3. Record Journal

	Debit	Credit
Additional paid-in capital	1,000,000	
Common stock, par value $1		1,000,000

4.2. Discussion

There are 4 important dates that need to be considered in the dividend accounting treatment, namely:

1. Announcement date, where the board of directors announces that it will distribute dividends in cash. On this date, the company recognizes dividend payable by debiting retained earnings.

2. Ex-Dividend Date, where there is a temporary cessation of the sale of shares on the stock exchange. The temporary suspension is done maybe 1 or 2 days so the company can update the general ledger.
3. Recording date, where shareholders can see the value of dividends they will receive through the recording memorandum.
4. Payment date, at which time the company records cash disbursements for payments as well as eliminating dividends payable that have been recognized.

When a company formulates that it will distribute dividends, several things to do before determining the dates are as follows:

1. Deciding on the distribution of dividends to be given to shareholders through KSEI or the broker where investors invest their shares.
2. Decide when funds will be sent to shareholders. This is done according to the list previously formulated.
3. Calculates the tax to be levied on dividends. In the previous arrangement the amount of tax to be paid is 10%

A business typically issues stock dividends when it does not have enough cash to pay normal dividends, and thus uses an additional "paper" distribution of shares to shareholders. Stock dividends are never treated as a liability of the issuer, as a result this type of dividend cannot realistically be considered an asset distribution to shareholders. When there is a stock dividend, the related accounting is to transfer from retained earnings to the capital account and additional paid-in capital an amount equal to the fair value of the additional shares issued. This fair value is based on its market value after the dividend is declared.

5. CONCLUTION

Cash dividends provide income for investors, but come with tax consequences, and they also cause the company's stock price to decline. Cash dividends received are subject to individual tax so that this tax to be paid will reduce the real value received by shareholders.

Share dividends are often considered preferable to cash dividends, but that is not always true, given the sometimes volatile nature of the stock market. One of the best reasons to provide share dividends rather than cash dividends may be because in giving share dividends, the company and its shareholders forge a stronger psychological relationship, with investors owning more companies with additional shares.

Share dividends are considered superior to cash dividends as long asnot accompanied by a cash option. But this doesn't mean that cash dividends are bad, they just lack options. However, shareholders can still reinvest the proceeds from cash dividends back into the company through dividend reinvestment plan.

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