

Northboro machine tool corporation case study example

[Business](#), [Company](#)



Dividends are payments made by a corporation to its shareholder members. Northboro Machine Tools Corporation has a good dividends growth. The dividends have become inconsistent over the years due to poor management of the firm. Both earnings and dividends have grown at a steady pace except for a certain period of time when recession and restructuring took toll. Despite this a dividends policy was recommended in order to solve the irregularity in dividends payment. The chief financial officer of Northboro Machine Tools Corporation was put to task in ensuring the dividends steadied up. The officer recommended to the board a dividend policy for implementation. Northboro Machine Tools Corporation should pay its shareholder member's dividends based on its total profit made.

A small segment on the finance staff argued that dividends should only be paid after funding all projects offering positive net present values. This was according to the residual dividend payout policy. However, this would make the dividends payment unpredictable. In addition, a 40 percent dividends payout would mean that the corporation had conquered all its problems and the managers were confident in its future operations (Bruner & Opitz, 1997). This is because that would be a large amount of dividends. In my opinion, Northboro Machine Tools Corporation should first analyze the amount it spends funding the firm's projects and other expenses such as earnings. From this, it can then decide quantitatively on the percent value of its dividends. By this, dividends are easily predictable and consistent.

Also in order for the dividend pay out policy to be successful, there is the assumption that the firm's growth rate should increase. A projected source

and use of cash are to test the feasibility of the firm and hence the amount of dividends to be paid to share holders. The calculation to be made is based on the shares each shareholder member. Based on this the dividends can be steady and predictable.

References

Bruner, R. F. & Opitz, C. S. (1997). Northboro Machine Tools Corporation.

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