OXFORD ECONOMIC RESEARCH GROUP

Questions for Discussion

1. When the profits of a business increase what is its usual practice as regards increasing dividends? Is it usually careful not to raise dividends beyond the level at which it feels fairly sure it will be able to maintain them in subsequent years; or is the practice more rough and ready, e.g. half the additional profits to reserve and half to dividends?

2. In so far as an increase in profits is not distributed in dividends, but placed to reserve, what are the kinds of assets by which the undistributed profits are usually represented? Assuming that in the first instance bank overdrafts may be paid off or other short-term indebtedness diminished, will the management usually be content that this should happen beyond a certain extent and for more than a limited time? Is it common for undistributed profits to be used to purchase securities? Or are undistributed profits usually invested sooner or later in extensions or improvement of plant or the acquisition of interests in other concerns? Does it ever happen that the existence of large undistributed profits induces businesses to embark on capital extensions which they would probably not have undertaken but for the need of finding some outlet for their surplus funds?

3. Conversely, how does a business finance the payment of dividends out of reserve in times of bad trade? Does it increase its short-term indebtedness or sell securities? Does the desire to maintain dividends sometimes act as an influence leading to the postponement of plant renewals or desirable plant extensions?

4. In ascertaining the profits for the year, does a business usually follow a regular and standardized procedure in the valuation of its assets? Is it common to adopt different methods of valuation in periods of good and bad trade or would the methods adopted be changed only in exceptional circumstances? Is it customary for businesses to have hidden reserves, and are these hidden reserves usually represented by an under-valuation of such

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assets as (a) buildings, (b) machinery, (c) stocks of raw material or goods in process, (d) securities, (e) doubtful debts? When such assets have been written down is it common and consistent with the practice of auditors for any of these items (other than e) ever to be written up again? If not how can hidden reserves ever be brought into use?

Is the allowance which it is necessary to make for the obsolescence of machinery materially larger now than it used to be? If so how far is this due to more rapid changes in consumers' tastes and how far to more rapid changes in technical methods? Are the allowances made for obsolescence or depreciation represented by any assets specifically set aside for the purpose?

What are the influences which determine decisions to issue bonus shares? What part is usually played by a desire (a) to diminish the possibility of a subsequent reduction in the rate of dividend, (b) to avoid the public criticisms that might be excited by a high rate of dividend, (c) to conserve cash resources?

Is the rate at which it can borrow from the bank an important consideration to the average business concern? Has an alteration of Bank Rate ever a materially direct influence in inducing a business to expand or contract its activities? Would the average business ever increase its stocks of raw materials except in response to an increase in orders? Is the long-term rate of interest an important factor in regard to policies of capital extension?