

5. Declaration & Payment of Dividend (2-6 Marks):

* Def'n of dividend:

Sec 2(35) - dividend includes interim dividend

Basic meaning → distribution of any sums to member

out of profit out of free reserves (wherever permitted)

- Portion of profit earned & allotted or payable to shareholder whenever declared.

- i) Dividend is recommended by Board of Directors in Board's Report.
- ii) It is approved by shareholder at AGM.
- iii) Not a liability unless declared @ AGM by passing ordinary resolution at rates recommended by Board of Directors or lower rates.
- iv) Higher rate than recommended by BOD → X
- v) Dividend → % of Nominal / Face value

* Interim Dividend

Q8:

Interim dividend is declared & paid during an accounting year ie before finalisation of account for the year.

Announce. By BOD

time of "B4 preparation of FS"

Rev. Can be revoked with consent of majority of members.

P-of AOA: Articles specifically permit. Not require of any specific

Final Dividend

Final dividend is dividend recommended by BOD & approved by shareholders @ AGM after closing of last FY.

Recommend → BOD
Approval → Shareholder

After preparation of FS

Can't be revoked.

* Shares

BOD

Particulars ↓ P + A + E + S + D + C + T ↓

Preference shares (unless it is paid full)
(Divarculates)

Cumulative

Preference shares

Non-Cumulative

Preference shares

Depends on

availability of

Funds → profits *

Axiears will be payable from future profits

Dividend is at discretion of company.

expires if not declared

within

L&W

Sec 123: Provisions regarding payment of dividend.

Dividend shall be paid out of following sources

Profits of current FY (after rounding depre. as per sch. II)*	Undistributed profits of any previous FYS*	Bath	money provided by CG/SG for payment of dividend in pursuance of guarantees by Govt.
	(after rounding depre. as per sch. II)		

* Profits to exclude → unrealised / National /
C shall not be treated as Free Reserves) revaluation gain or change in carrying amt of asset / liability recognised in equity.

* Capital Reserves cannot be used for payment of dividend. Only free reserves can be used.

** If previous year losses / depre. not provided for → first set off against current year profits.

* Capital profits → cannot be used.

* MCQ → pov

Dividend shall be paid to the person whose name appear in the RDM members on Record Date. i.e. it is not relevant who was the owner at the time of declaration of dividend.

(If it is deemed appropriate before declaration of Dividend.)

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2) Transfer of profits for any financial year → (to reserves)

which has been left to discretion of company.

→ i.e. co. is free to transfer any portion of its profits to reserves as it may deem fit.

It may also decide not to transfer any amount to reserves.

3) In case of $\begin{cases} \text{Absence of profits} \\ \text{inadequacy of previous } \\ \text{profits} \end{cases}$

If co. proposes to declare dividend

→ from where → accumulated profit?

out of → Accumulated profits of previous FY transfer to free reserves.

Consequently ↓

Dividend shall be declared as per RULE 03 of CR, 2014

*

RULE 03 (Rate of dividend $\leq \frac{RD_1 + RD_2 + RD_3}{3}$)

Condition 1.

① Rate of dividend shall not exceed average rate of preceding 3 fys. (condition 1 not apply) In case where div is not declared in all 3 pre. FY.

Condition 2

② Amount drawn $\leq 10\% \text{ (PUSC + FR)}$

(Amount drawn → shall be first set off with net losses) → Only current year loss.

whichever is lower

Condition 3

③ Balance in reserves → min 15% of PUSC.

L&W

* Paid up share capital = 100 crores

Free reserves = 50 crores

Current year loss = 1 crore

Rate of Div in last 3 years = $10\% + 15\% + 20\% = 45\%$

Proposed Dividend = 12%

Can co. do so.

$$\rightarrow \text{Condition 1} = \frac{10\% + 15\% + 20\%}{3} = 15\% \text{ of } 100 \text{ crores} \\ = 15 \text{ crores}$$

$$\text{Condition 2} = 10\% \times (\text{PUSC} + \text{FR}) = 10\% (100 \text{ cr} + 50 \text{ cr}) \\ = 15 \text{ crores}$$

$$(-) \text{ loss } (1 \text{ cr}) \\ 1 + \text{cr.} \quad [(\text{withdrawal})]$$

$$\text{Condition 3} = \text{Balance in Reserves} = 15\% \text{ of } 100$$

$$\text{Actual FR} \rightarrow 50 \text{ cr.}$$

(-) 12 cr. \rightarrow (Dividend to be distributed)

38 cr. Balance in free reserves.

Minimum Balance = 15% of PUSC

required = 15% of 100 crores = 15 crores.

\therefore Condition satisfy

since p company is proposing to declare 12%.

i.e 12 crores, company can declare the

same has it has satisfy all conditions

of Rule 3. (Additional information is given in the initial part)

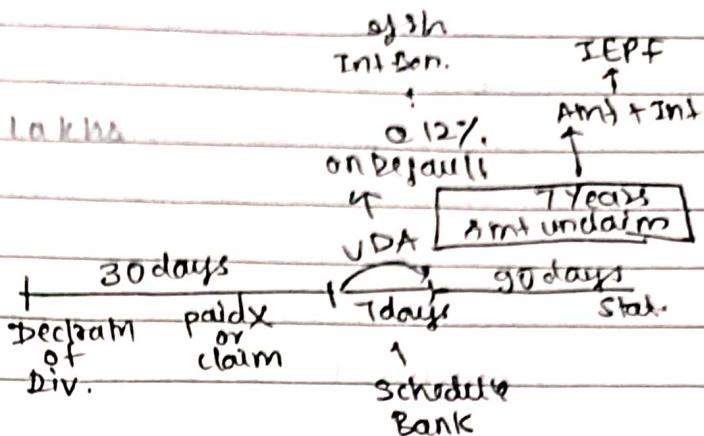
- 4) mode of payment of dividend → cash i.e.
 - in cash (not in kind) or / or any
 cheque dividend election
 warrant made.
- 5) payment of div. to whom?
 ✓ Register SH out of order Banker of
 of company or of registered SH.
 registered
- 6) No dividend shall be declared → If co. has not
 comply with sec 73 + 74. (Prov. regarding acc't of deposit)
 Prohibition shall continue so long as the failure
 continues.
- 7) The amount of div shall be deposited in scheduled bank
 in a separate bank a/c
 within 5 days of decⁿ of dividend.
 This amount shall not be used for any purpose
 other than payment of div.
- 8) Bonus share in lieu of dividend + Not
- 9) In case of Nidhi company if dividend is not
 claimed within 30 days then it may be
 paid by crediting the same to the A/c of
 member.

* PVSC = 200 Lakhs $9\% + 10\% + 12\% = 30\%$
 Reserves = 240 Lakhs
 Loss = 30 Lakhs

CI = $10.33\% \text{ of } 200 \text{ Lakhs}$
 $= 2000000$

$$(D = 10\% \times 2000000)$$

$$= 200000$$



∴ 141, whichever is lower.

124 : Unpaid Dividend Account

1) Dividend shall be paid within 30 days from declarⁿ of dividend

2) If dividend declare is not paid or declare/claim

↓
Company shall transfer to unpaid DIV. AC (UDA)
within 7 days

3) UDA shall opened by the co. in any scheduled
Bank

4) Co. shall prepare a statement containing (within 90d of transfer to UDA)

Name

Address

unpaid amt

and place it on its website for other website
approved by CG.

On default in transfer to UDA



Co. shall pay at @ 12% p.a from date of default.



Such interest shall accrue to Benefit of shareholders to whom dividend is unpaid.

5) Claimants shall apply to company for payment of such unpaid dividend

6) If amount is unpaid / unclaimed for 7 years from date of transfer to UDA then



Co. shall transfer such amt + Interest to



Investor Education
Protection Fund (IEPF)

7) All the shares in respect of which dividend is

unpaid

unclaimed

for 7 consecutive years or more

Transfer such shares to
(IEPF)

8) Any claimants of shares transferred to IEPF entitled to reclaim the transferred shares from IEPF

Record date is date announced by the company for determining entitlement to dividend. → ROM → Dividend

Date		
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7) Punishment for contravention

[AND]

Company

For 100,000

In case of continuing,
100,000 + 500 per day

10,00,000

Officer in default

25000

In case of continuing
default, 25k + 100 per
day

2 L

Summary Chart

Dividend Declared

↓ within 30 days

Dividend not paid

↓ within 7 days

Deposit the unpaid

dividend in scheduled

Bank (UDA)

↓ within 90 days

IF not done → Pay int. @ 12%.

from date of
default

Name

Address

Unpaid

↓ place

website of co. + web app CG

If not claimed

in 7y

→ Transfer to **EPF** along with
Interest.

Once posted, it is immaterial whether same are received within 30 days by shareholder or not.

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Sec 127 :- Punishment for failure to distribute dividends within 30 days.

① Where a dividend has been declared

such dividend has not been paid
But OR } within 30 days
Warrant has not been posted

Then
Punishment

Every director who is knowingly a party to the default shall be liable to imprisonment upto 2 years and to a fine of min 1000/- per day for each day of default and to a sum of 18% of p.a simple interest.

Fine of min 1000/- per day for each day of default

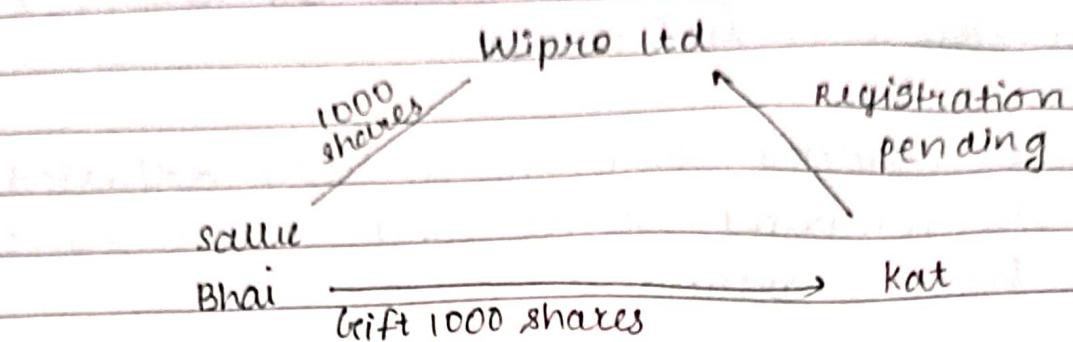
→ Exception where punishment is not attracted
CLADDO

- ① where div. could not be paid by reason of operation of any law
- ② where dividend has been lawfully adjusted by the company against any sum due to it from shareholders
- ③ where there is a dispute shareholder has given directions to co. regarding payment of dividend
 - + ~~directions~~ cannot be complied with
 - + same has been communicated to sh.
- ④ where there is dispute regarding the right to receive the dividend.
to pay dividend or, the failure [postwarent] § 30 wa
- ⑤ where for any other reason, not due to default of company

* Self Note:-

If question states any matter of death due to which dispute is pending in court of law please write "operation of law" as a reason + not dispute.

Sec 126 Right of dividend, rights shares & bonus shares
Pending registration of transfer



① Where shares have been transferred through instrument of transfer +

And such instrument is delivered by shareholder for registration +

And the transfer of shares has been registered by the company. Then company shall

~~not transfer the dividend of such shares to unpaid dividend~~

Keep in Abeyance any right or bonus regarding the shares

it is authorised by Registered holder in writing to pay such dividend to transferee.