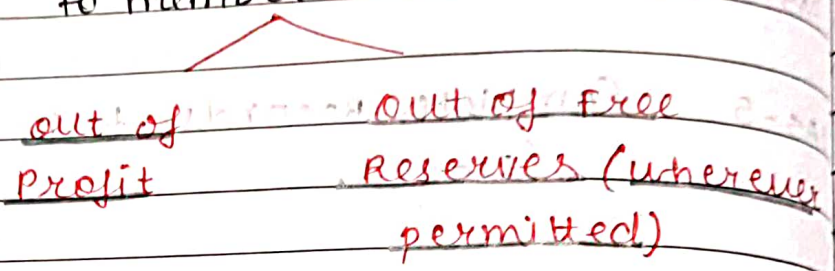


5. Declaration & Payment of Dividend (2-6 marks):

* Defⁿ of dividend: Sec 2(35) - Dividend includes interim dividend

Basic meaning → i) Distribution of any sums to member

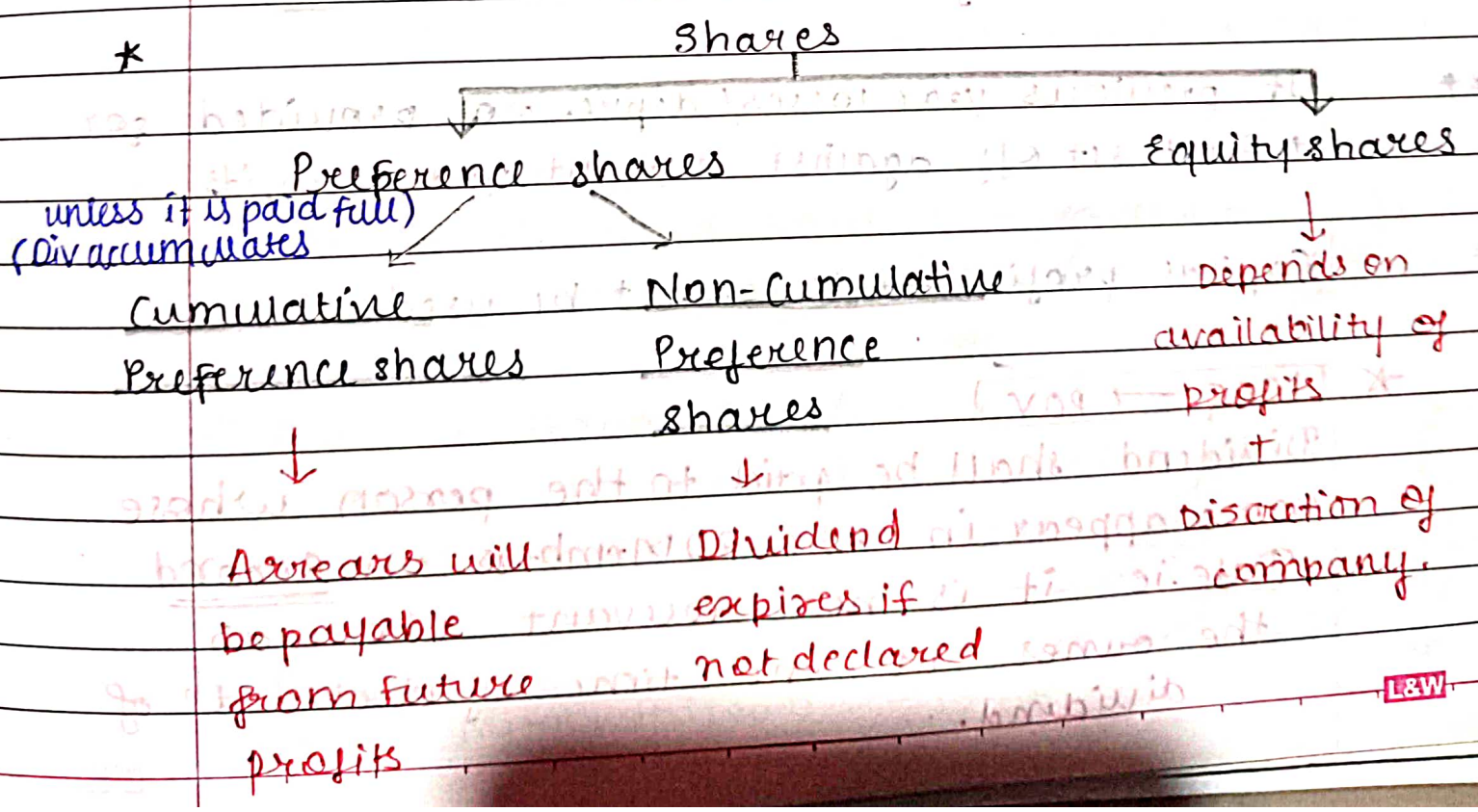


• Portion of profit earned & allotted or payable to shareholder wherever declared.

- i) Dividend is recommended by Board of Directors in Board's Report.
- 2) It is approved by shareholder at AGM.
- 3) Not a liability unless declared @ GM by passing ordinary resolution at rates recommended by Board of Directors or lower rates.
- 4) Higher rate than recommended by BOD → X
- 5) Dividend → % of nominal / face value

* Interim Dividend Final Dividend

Def:	Interim dividend is declared & paid during an accounting year i.e. before finalisation of account for the year	Final dividend is dividend recommended by BOD & approved by shareholders @ AGM after close of a financial year.
Annouce.	By BOD	Recommend → BOD Approval → shareholders
Time of decl ⁿ	By preparat ⁿ of FS	After preparat ⁿ of FS
Rev.	Can be revoked with consent of all the members	Cannot be revoked.
P-of AOA	Articles specifically permit	Not require of any specific



Sec 123 Provisions regarding declaration & payment of dividend

Dividend shall be paid out of following sources

Profits of current

FY (after moulding

depre. as per

Sch. II) *

Undistributed

profits of any

previous FYs[†]

(after moulding

depre. as per

Sch. II)

Both

money provided

by CG/SG

for payment

of dividend in

pursuance of

Guarantee by

Govt.

*

Profits to exclude → unrealised / Notional /
(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 ROMembers 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.)

2) Transfer of profits for any financial year
 ↓ 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 $\left. \begin{array}{l} \text{Absence} \\ \text{or} \\ \text{adequacy} \end{array} \right\}$ of profits

If co. proposes to declare dividend
 ↓
 out of → Accumulated profits of previous
 FY transfer to free reserves

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 prec. FY.

Condition 2. ② Amount drawn $\leq 10\%$. (PUSC + FR)
 (Amount drawn → shall be first set off with losses) → Only current year loss.

Condition 3. ③ Balance in reserves → min 15% of PUSC. (after withdrawal)

whichever is lower.
 L&W

* Paid up share capital = 100 crores
 Free reserves = 50 crores
 Current year loss = 1 crore
 Rate of Div. in last 3 years = $10 + 15\% + 20\%$ = 15%
 Proposed Dividend = 12%
 Can co. do so.

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

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

(-) loss (1 cr)
 $\frac{1 cr}{1 + cr.}$ (Withdrawal)

Condition 3 = Balance in Reserve = 15% of 100 = 15 cr.

Actual FR → 50 cr

(-) 12 cr → (Dividend to be distributed)

38 cr Balance in free Reserves.

Minimum Balance required = 15% of PUSC = 15% of 100 crores = 15 crores.

∴ Condition satisfy

Since company is proposing to declare 12% ie 12 crore, company can declare the same as it has satisfy all conditions of Rule 3.

4) mode of payment of dividend → Cash i.e.
 - in cash (not in kind) / or / is any
 cheque Dividend election
 warrant, mode

5) Payment of div. to whom?
 Registered SH of company or ~~out of order~~ or of registered SH Banker of registered SH.

6) No dividend shall be declared → If co. has not comply with sec 73 + 74. (Prov. regarding acc. 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.

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/unclaim 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

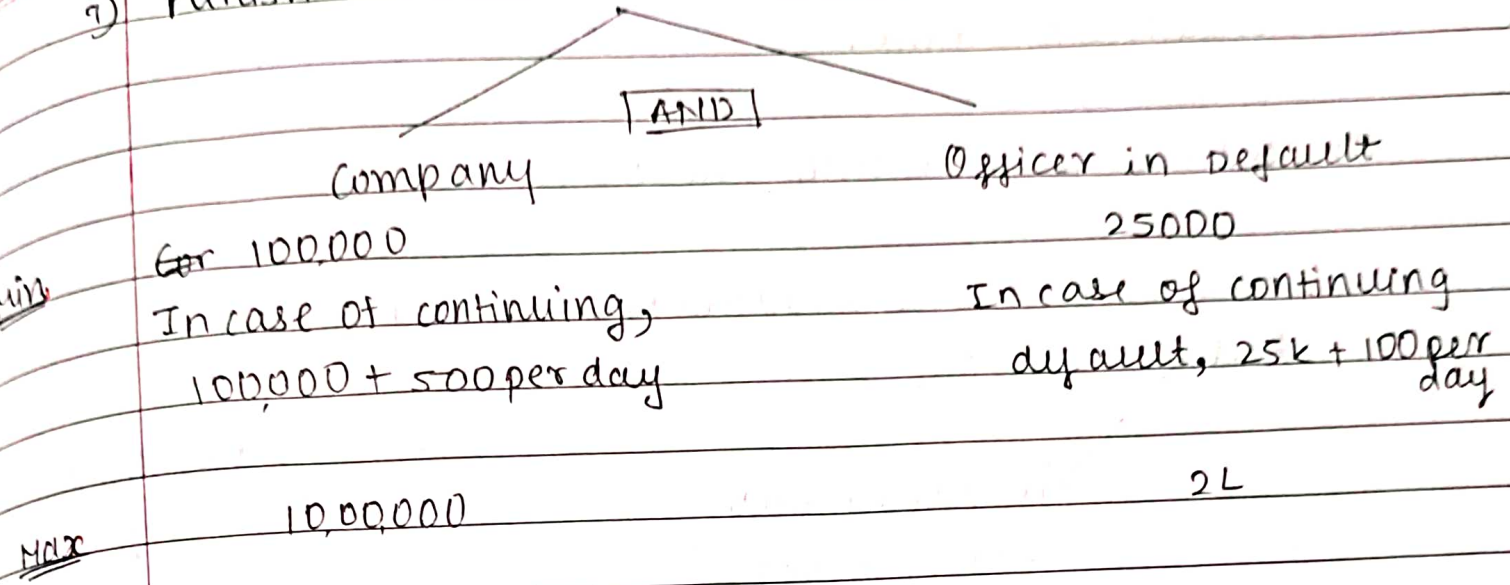
↓

Transfer such shares to
(IEPF)

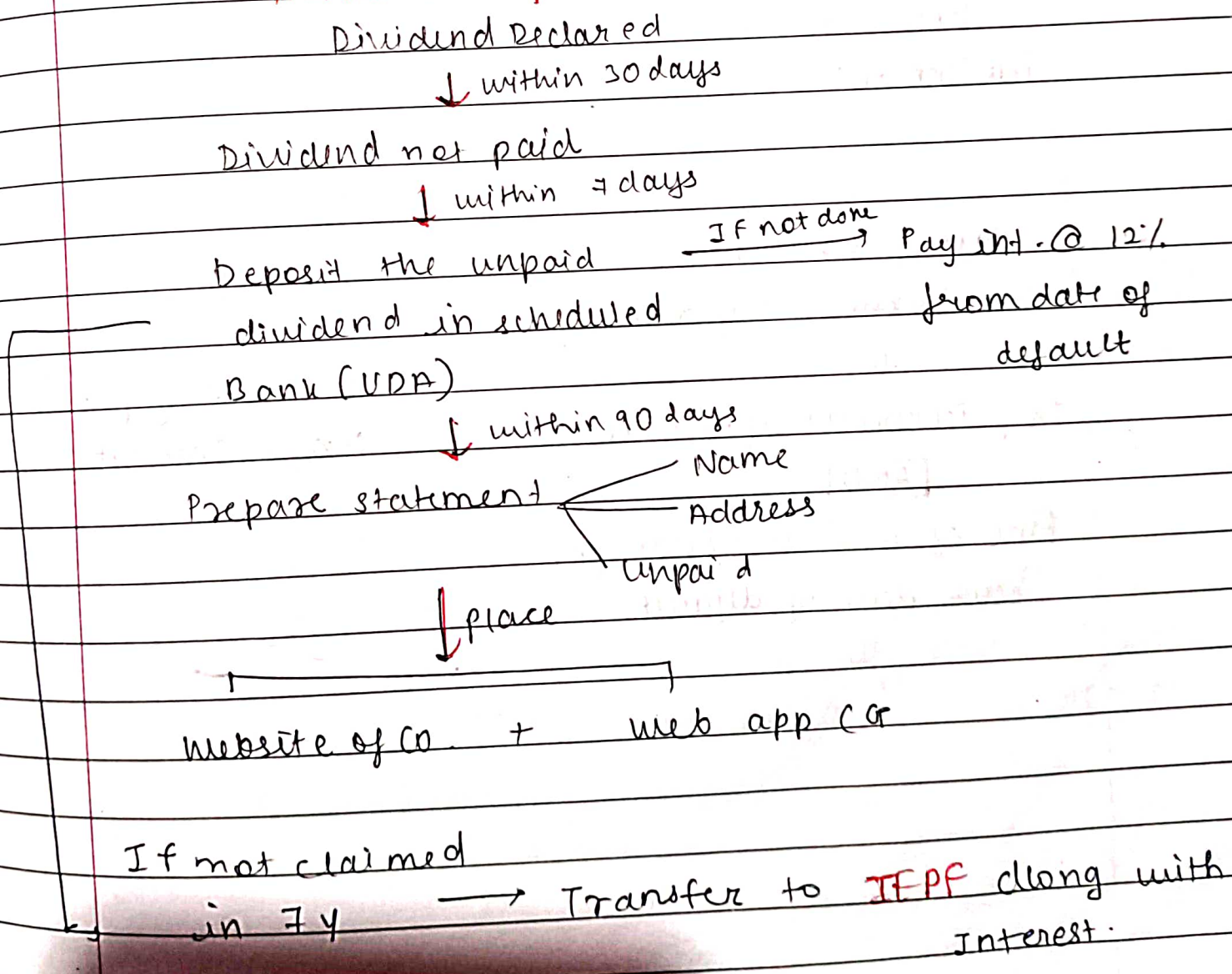
8) Any claimants of shares transferred to IEPF entitled to reclaimed the transferred shares from IEPF

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

7) Punishment for contravention



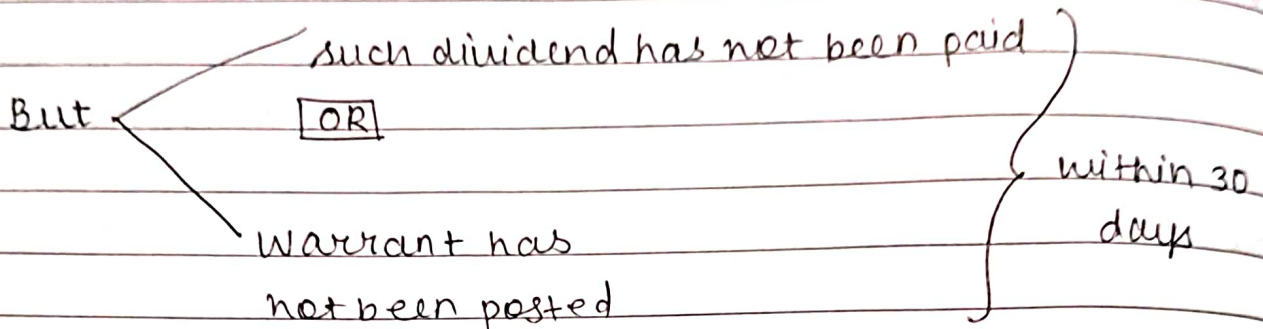
Summary Chart



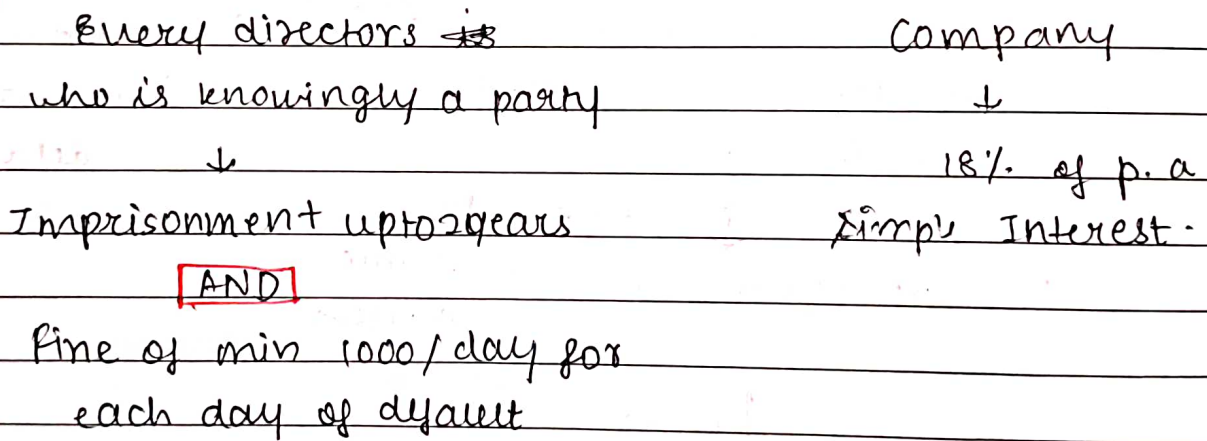
Once posted, it is immaterial whether some are received within 30 days by shareholder or not.

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

① Where a dividend has been declared



Then
Punishment



Exception where punishment is not attracted (LADO)

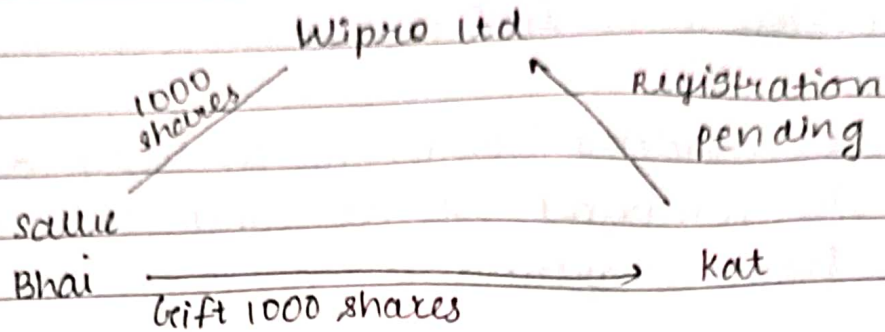
- ① Where div. could not be paid by reason of operation of Any Law
- ② Where dividend has been lawfully adjusted by the company against any sum due to it from shareholders
- ③ Where ~~there is a~~ dispute shareholder has given directions to co. regarding payment of dividend + ~~directions~~ ^{directions} cannot be complied with + same has been communicated to sh.
- ④ Where there is dispute regarding the right to receive the dividend.
- ⑤ Where for any other reason, not due to default of company

to pay dividend or
the failure [postwarrent] } 30

* 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 ^{not} been registered by the company. then company shall

Transfer the dividend of such shares to unpaid dividend

Keep in Abeyance any right or bonus regarding the shares.

Alc.

↓
 Unless

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