

Dividend

- * Definition : section 2(35)
- * Includes interim dividend.
- * Distribution of any sums to members out of profits
- * SH's return on their investment / capital
- * permitted out of Free Reserves*
- * Recommended by : **BOARD** (in Boards Report*)
 - |
 - Approved by : **SHAREHOLDERS** (pass Ordinary Resolution*)
 - |
 - Meeting : **ANNUAL GENERAL MEETING**
 - |
- Rate @ which Dividend declared : • Rates recommended by Board
or
• such lower rates as they may decide

Note:

No Dividend shall exceed the amount recommended by Board. **clause 80 of Table F in schedule I**

- * Declared as a proportion of NV / FV of a share.

Types of Dividend

classification based

I. on time

-
1. Interim Dividend
 2. Final Dividend

II. on Nature of shares
(does not require any specific provisions in articles)

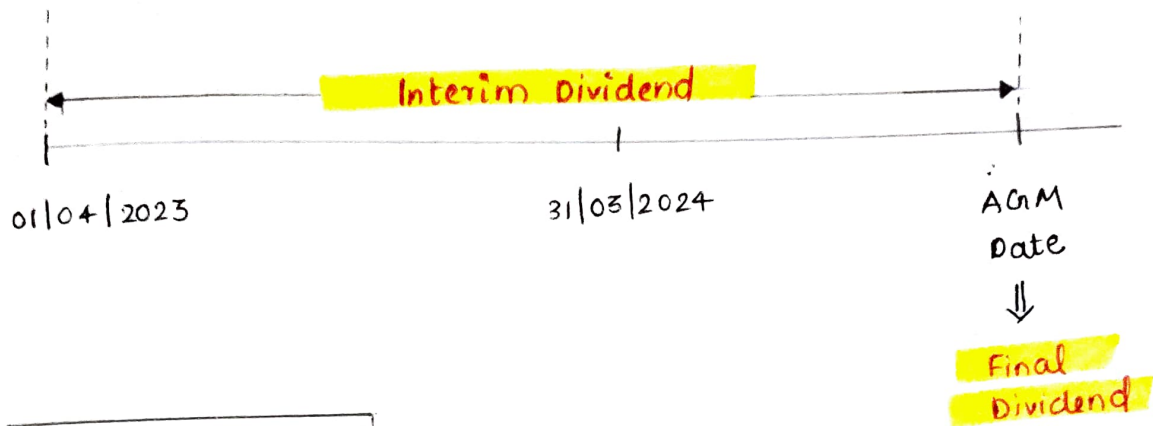
Dividend on

Equity shares

Preference shares

- ↓
1. Cumulative Preference shares
 2. Non-cumulative Preference shares

I. (1) Interim Dividend



Interim Dividend :

- * Declared by : BOARD
- * Time : During any financial year
or
@ any time during the period from closure of FY till holding of AGM
- * Sources for declaring interim dividend :
 - ① surplus in P&L a/c /
 - ② Profits of FY in which such dividend is sought to be declared /
 - ③ Profits generated in FY till Qtr preceding date of declaration of Interim dividend.
- * Declared & Paid : Declared & paid during accounting year i.e. before final adoption of accounts for the year by SHs. (ie, Between 2 AGMs)
- * Revocation : (consent of SHs)

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I (2) Final Dividend

Declared @ : ANNUAL GM after close of FY

Recommended by : BOARD

Approved by : SHs

Revocation : X

Rate of dividend cannot be increased by members

II (1) Dividend on Equity shares.

- ES are those shares, which are not PS
- X preferential rights in matter of payment of dividend / repayment of capital

• Rate of dividend on ES

↳ recommended by : BOARD

↳ vary from year to year

↳ depends upon * dividend policy &

* availability of profits after rights of PSHs.

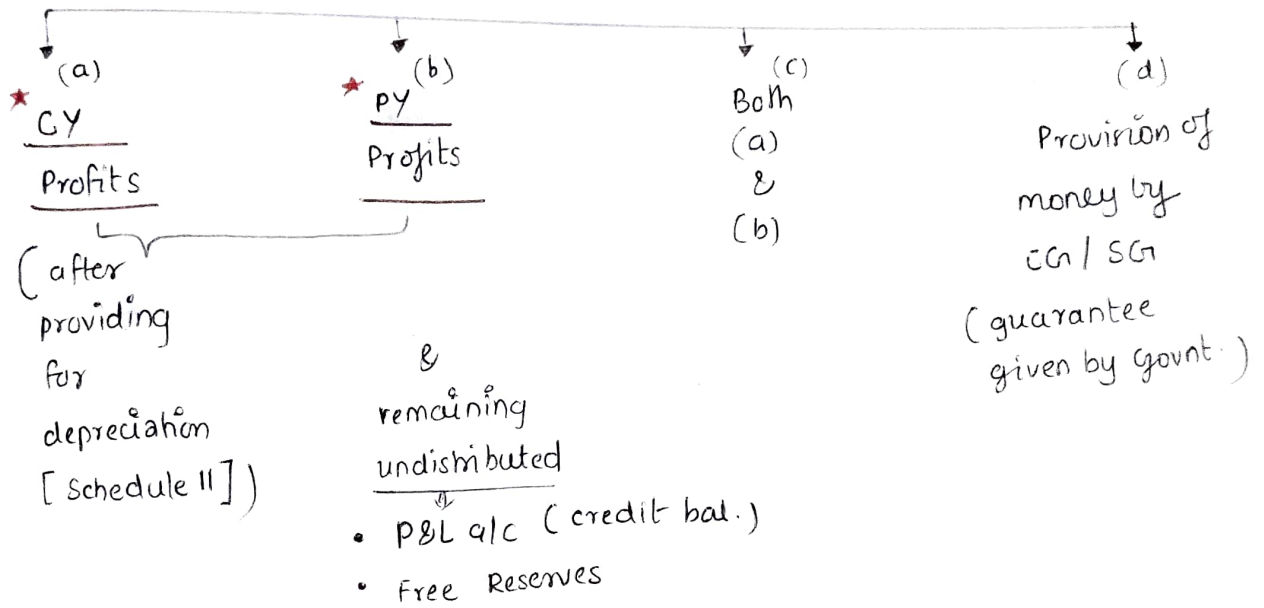
↳ satisfying ↗

II (2) Dividend on Preference Shares :

- ★ PSHs are assured of preferential dividend @ a fixed rate during life of Co.
- ★ (PS) → unless otherwise agreed as cumulative
✗ need of payment every yr. i.e.,
(✗ declaration if deficiency of profit)
- ★ Cumulative PS
 - ✓ Dividend gets accumulated
 - ✓ any arrears (due to deficiency of profits in CY) need to be paid from profits earned in later years
 - ✓ until and unless, cumulative PSH's are paid in full
✗ dividend payable to ES
- ★ Non cumulative PS
 - ✓ ✗ accumulation of profit
 - ✓ dividend payable only in year of profit ✓
 - ✓ No dividend declared in a year } right to receive such dividend lapses (+)
✗ entitled to be paid arrears from future year profits.

Provisions regarding declaration & payment of Dividend

Sources of declaration of dividend



Notes:

★ Before declaration of dividend } carried over PY losses & depn not provided in PY ⇒ req. to be set off against CY profits.

★ While computing profits }
 • Unrealised gains
 • Notional gains
 • Revaluation of assets
 • change in c. A of asset / liability @ FY

Excluded

★ Capital profits ⇒ X utilized for declaration / payment of dividend

[becoz they are not earned in normal course of business
 ∴ NOT available for distribution of dividend]

Need for providing for depreciation out of profits before declaring dividend

* Depreciation → notional estimate of reduction in value of asset due to:

- wear & tear
- efflux of time
- improvements in technology etc...

* If not provided

↓
2 consequences:

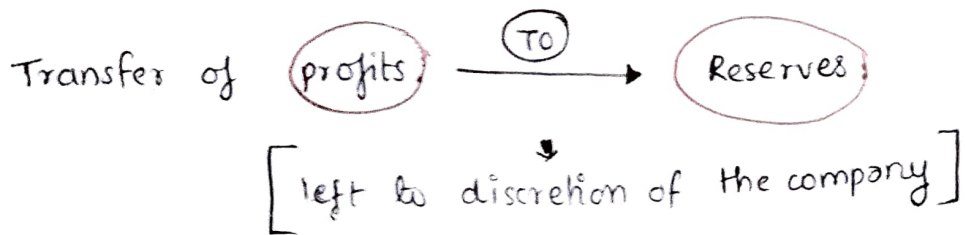
- ① Value of Asset : overstated in BS
- ② Profits of CY : overstated.

* For an instance, assume a Co. declares all profits earned as dividend during any year.
(Co. x providing for depn)

↓
It seems during winding up value of asset in BS appear to be sufficient for repaying SHs. but actual RV will not be sufficient even to meet expn of winding up. In a way Co. declared dividend out of capital, which is prohibited

∴ law mandates provision for depreciation out of profits before declaration of dividend.

Transfer to Reserves



- Co. is free to transfer any portion of profits to Reserves as it may deem fit
- may decide not to transfer any amount to reserves also

Declaration of Dividend when there is inadequacy or Absence of profits

No adequate profits for declaring dividend

In this case: Co. may declare dividend.

out of acc. profits earned by it in PY & transferred by it to FR.

(in accordance with Rule 3)

Companies (Declaration and Payment of Dividend) Rules, 2014

Rule 3 : Conditions to be satisfied :

Condition 1

Rate of Dividend \neq Avg. of rates @ which dividend declared by Co. in 1P 3 years.

Note : Condtn ① — ~~⊗~~ apply if Co. not declared any dividend in each of 3IPYs.

Condition 2

Total amount that can be drawn from accumulated profits \neq 10% of PUSC + FR

Condition 3

Amount drawn shall first utilized to set off losses incurred in FY in which dividend is declared

Condition 4

After withdrawal

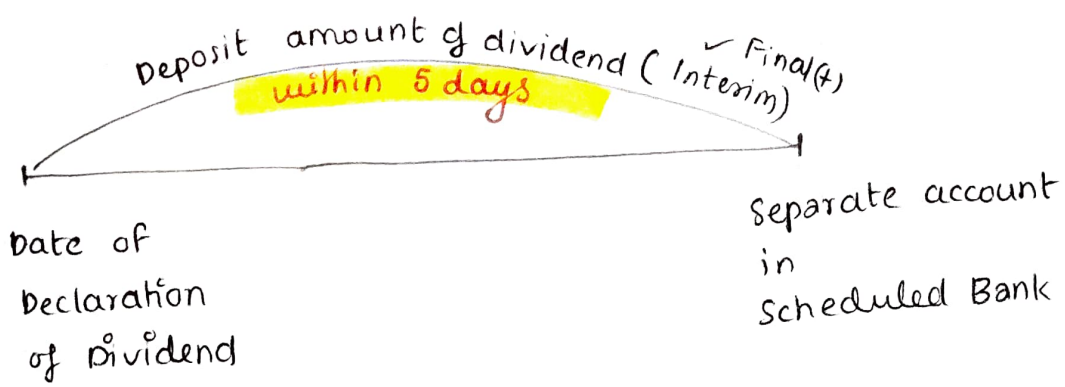
Balance in FR \geq 15% of PUSC

Note :

* Rule ③ not applicable to 100% Govnt. Co.

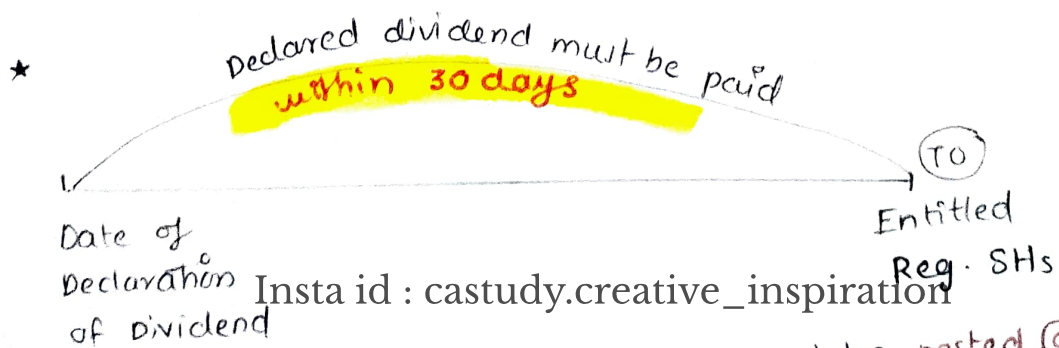
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Depositing of amount of dividend 123(4)



Payment of Dividend

- Dividend shall be paid by Co. **only to** ***Registered SHs/**
 - * to his order /
 - * to his bankers
- All those persons whose name included in RGM on report date shall be entitled to dividend
 - ↳ date announced by Co. for determining entitlement to dividend.
- Dividends are payable in cash & **NOT** in kind
 - may also pay by:
 - ① cheque
 - ② dividend warrant
 - ③ electronic mode.



In case of payment by }
Dividend warrants

warrant must be posted @ reg.
address within prescribed time

Nidhis →

any dividend payable in cash may be paid by crediting the same to a/c of member ↓

if dividend is not claimed within 30 days from DOD of Dividend.

Prohibition on Declaration of Dividend

↓

① Co. fails to comply with provisions of
★ sec 73 - Prohibition on acceptance of deposits from public

★ sec 74 - Repayment of deposits etc accepted before commencement of this act.

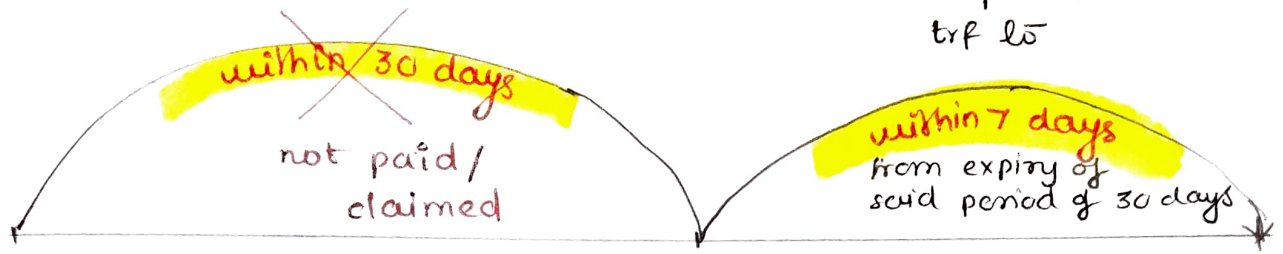
(as long as failure continues)

② Co. having licence u/s 8
Formation of companies with charitable objects etc.

Unpaid Dividend Account

Then =>

Entire amount unpaid / unclaimed trf to



DOD of Dividend

Dividend paid

UDA unpaid Dividend Account



opened in scheduled Bank ✓

* Within 90 days of trf any amount to UDA



Co. shall prepare a statement and

- containing:
 - ✓ names
 - ✓ last known addresses
 - ✓ amount of unpaid dividend to be paid to each person

place it on

co's website (+)

other website approved by CG for this purpose

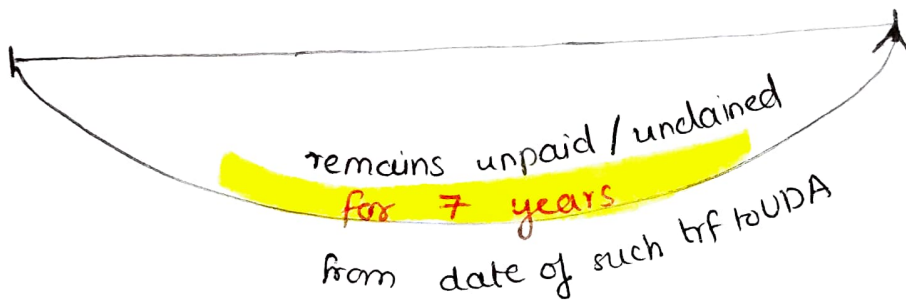
* Default in trifing amount to UDA

12% p.a of total unpaid dividend amount
or
any part thereof
(which is not trf to UDA)
from date of such default

*

Money
in
UDA

IEPF
Investor Education
and Protection
Fund.



(+)

Interest accrued thereon

✓ All shares in respect of which dividend has not been claimed for 7 consecutive yrs

trf to
name of

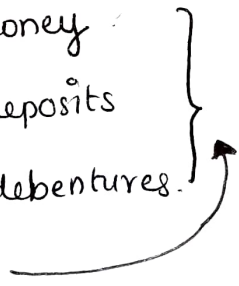
IEPF

Any owner of the 'transferred shares' can reclaim from IEPF in accordance with prescribed procedure and
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on submission of prescribed docs.

Investor Education and Protection Fund

- established by CG

Specified amounts that are credited to Fund:

- 1] Grants & Donations by CG / SG / Co. / any other institutions by CG
- 2] Amount of dividend unpaid / unclaimed in UDA.
- 3] Amount in General Revenue Account of CG.
- 4] Interest / other income received out of investment made from the fund
- 5] IEPF amount
- 6] Amount received from disgorgement / disposal of securities
- 7] Unpaid Application money
- 8] Unclaimed Matured deposits
- 9] Unclaimed Matured debentures.
- 10] Interest accrued on 
- 11] Sale proceeds of fractional shares arising out of issuance of bonus shares, mergers & amalgamation
- 12] unpaid redemption amount of PS.
- 13] other amounts as may be prescribed in Rule 3 of IEPF Authority Rules, 2016.

Utilization of fund in IEPF :

- * Refund of unclaimed
 - dividends
 - matured deposits and debentures
 - application money due for refund
 - and interest thereon.
- * Promotion of investors' education, awareness & protection
- * Distribution of any disgorged amount among eligible and identifiable applicants for shares or debentures, SHs, DHs or depositors who have suffered losses due to wrong actions by any person.
- * Reimbursement of legal expenses incurred in pursuing class action suits u/s 37 & 245 by members, DHs or depositors as maybe sanctioned by Tribunal
- * and any other purpose incidental thereto in accordance with rules framed under IEPF Authority Rules, 2016.

IEPF — shall be audited by CAG of India
Audited accounts + Audit report
↓ forwarded annually by CAG to
CGI

Punishment for Contravention

Offence committed /
Contravention

Punishment

① Co. fails to comply with provisions of

sec 125 : UDA

Penalty :

Company

1 lakh/-

continue ↓

500/- per
each day
after 1st
during which
failure continues

↓

Max. ₹ 10 lakh

Every Officer

in default

25,000/-

continue ↓

₹ 1000/- per
each day after
1st during
which failure
continues

↓

Max. ₹ 2 lakh

② Co. Fails to pay
declared dividends /
fails to post dividend
warrants within
30 days of declaration

Imprisonment :

Every director of Co.

Upto 2 yrs

↓

IF knowingly a
party to default

(+)

Min. fine : ₹ 1000

for every
day during
such default

sec 127

Co. → simple interest

@ rate of 18% p.a

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during period such default
continues

Exemptions from punishment:

Dividend not paid

- ① by reason of operation of any law
- ② SH has given direction and those directions cannot be complied & the same has been communicated to him
- ③ dispute regarding right to receive dividend
- ④ dividend has been lawfully adjusted against any sum due from SH to Co.
- ⑤ Any other reason where default is not due to fault of Co.