

DECLARATION AND PAYMENT OF DIVIDEND.

Definition / Meaning of dividend.

Sec 2(35) of the Companies Act 2013, dividend includes any Interim dividend

A Dividend is a payment made by a Co to its Shareholders. It is a distribution of Profit i.e. portion of Profit earned & allocated as a payable to the SH's

Types of dividend

=> Dividend payable on the basis of Time

-> **Interim dividend**: When the BOD declare dividend between two Annual General Meetings of the Co

-> **Final dividend**: When the dividend is declared at the Annual General Meeting of the Co

=> Dividend payable on the basis of Nature of Shares.

-> **Equity Shares** - dividend dependent on dividend policy, & the availability of profits after satisfying the rights of Pref. Shareholders

-> **Preference Shares**

- > **Cumulative Pref. Shares** -> dividend accumulates unless it is paid in full
- > **Non-cumulative Pref. Shares** -> No arrears of dividend in future

Basis	Interim Dividend	Final Dividend
Announcement	Announced by Board of directors [BOD]	Recommended by BOD and approved by Shareholders
Time of declaration	Before preparation of financial statements	After preparation of financial statement
Revocation	It can be revoked with the consent of all Shareholders	It cannot be revoked
Provision in AOA	It is declared by only when the articles specifically permit the declaration	It does not required any specific provision in the articles

Interim Dividend.

1. Dividend is declared by the Board of Directors.
2. It can be declared during any financial year.
3. Further, it can be declared at the time during the period the period from closure of FY till holding of A&M.
4. The declaration of interim dividend is done out of profits before the final passing of accounts, it is said to be declared & paid b/w two A&M's.
5. The sources for declaring interim dividend
 - > Surplus in P/L a/c
 - > Profits of the FY in which such dividend is declared
 - > Profits generated in FY till the quarter preceding the date of declared the dividend
6. Declaration of interim dividend is regularized at the ensuing A&M by the members.
7. Dividend shall be deposited in a separate a/c maintained with a scheduled bank within 5 days from date of declaration.
8. All provisions which are applicable to the payment of dividend shall also apply in case of interim dividend.
9. If so incurred loss during cy the quarter immediately preceding the date of declaration of interim dividend. Such dividend shall not be declared at a rate higher than the average dividend declared by Co during the immediately preceding 3 FY.

Final Dividend

1. When the dividend is declared at the A&M of the Co it is known as final dividend.
2. The rate of dividend recommended by Board cannot be increased by the members.
3. The rate at which dividend needs to be declared & paid shall be recommended by BOD in director's report. However, a lower rate (if) is required to be approved by the members of A&M by passing ordinary resolution by members of A&M ordinary biz.

Preference Shares

According to Sec 43 of Co Act 2013,

Shareholders holding pref. shares are entitled of a preferential dividend at a fixed rate during the life of the Co.

- Pref. dividend unless otherwise agreed as cumulative in nature need not be paid every year i.e. a Co may decide not to declare any dividend when there is deficiency of profits.

Classifications of Pref. Shares

Cumulative Preference Shares

- * dividend gets accumulated & any arrears of such dividend arising due to insufficiency of profits during the CY is payable from the profits earned in the later years.
- * until & unless dividend on cumulative pref. shares is paid in full, including arrears, if any no dividend is payable on equity shares.

Non-Cumulative Preference Shares

- * dividend is payable only in a year of profit.
- * There is no accumulation of profits as in the case of cumulative pref. shares.
- * In case no dividend is declared in a year due to any reason, the rights to receive such dividend for the year such shares is not entitled to pay arrears of dividend out of further year profits.

Equity Shares

- * Equity shares are those shares, which are not pref. shares.
- * They do not enjoy any preferential rights in the matter of payment of dividend.
- * The rate of dividend on equity shares is recommended by BOD & may vary from year to year.
- * Rate of dividend depends upon the dividend policy & the availability of profits after satisfying the rights of pref. shareholders.

Declaration of Dividend [Sec-123]

According to Sec-123(i) the dividend for any FY shall be declared from the following sources

Sources of declaration of dividend

- Profits of the current financial year** - profits arrived at after providing for depreciation in accordance with Schedule
- Profits of any previous financial year** - Profits of any PY arrived at after providing for depreciation in accordance with Schedule II & remaining undistributed i.e. credit bal in P/L a/c & free reserves.
 - It is to be noted that only free reserves & no other reserves are to be used for declaration of dividends
- Both (a) & (b)
- Provision of money by the govt** - Money provided by CA/SEI for the payment of dividend by the Co in pursuance of a guarantee given by govt.

Transfer to Reserves.

- Transfer of profits to reserves for any financial year has been left to the discretion of the Co
- A Co is free to transfer any portion of its profits to reserves as it may deem fit
- It may also decide not to t/s any amt to reserves.

Declaration of dividend when there is inadequacy (a) Absence of Profits

A Co may declare dividend out of the accumulated profits earned by it in PY & transferred by it to the free reserves

However, such declaration shall be subject to following conditions

Condition I Rate of dividend declared shall not exceed the average of rates at which dividend was declared by the Co in the immediately preceding 3 years.

$$\text{Rate of dividend} \leq (RD_1 + RD_2 + RD_3) / 3$$

Where, RD_1, RD_2, RD_3 are rates at which dividend was declared by the Co in the immediately preceding 3 years.

Condition II

Total amt that can be drawn from accumulated profits \leq 10% of (Paid up share capital + free reserves)

Condition III

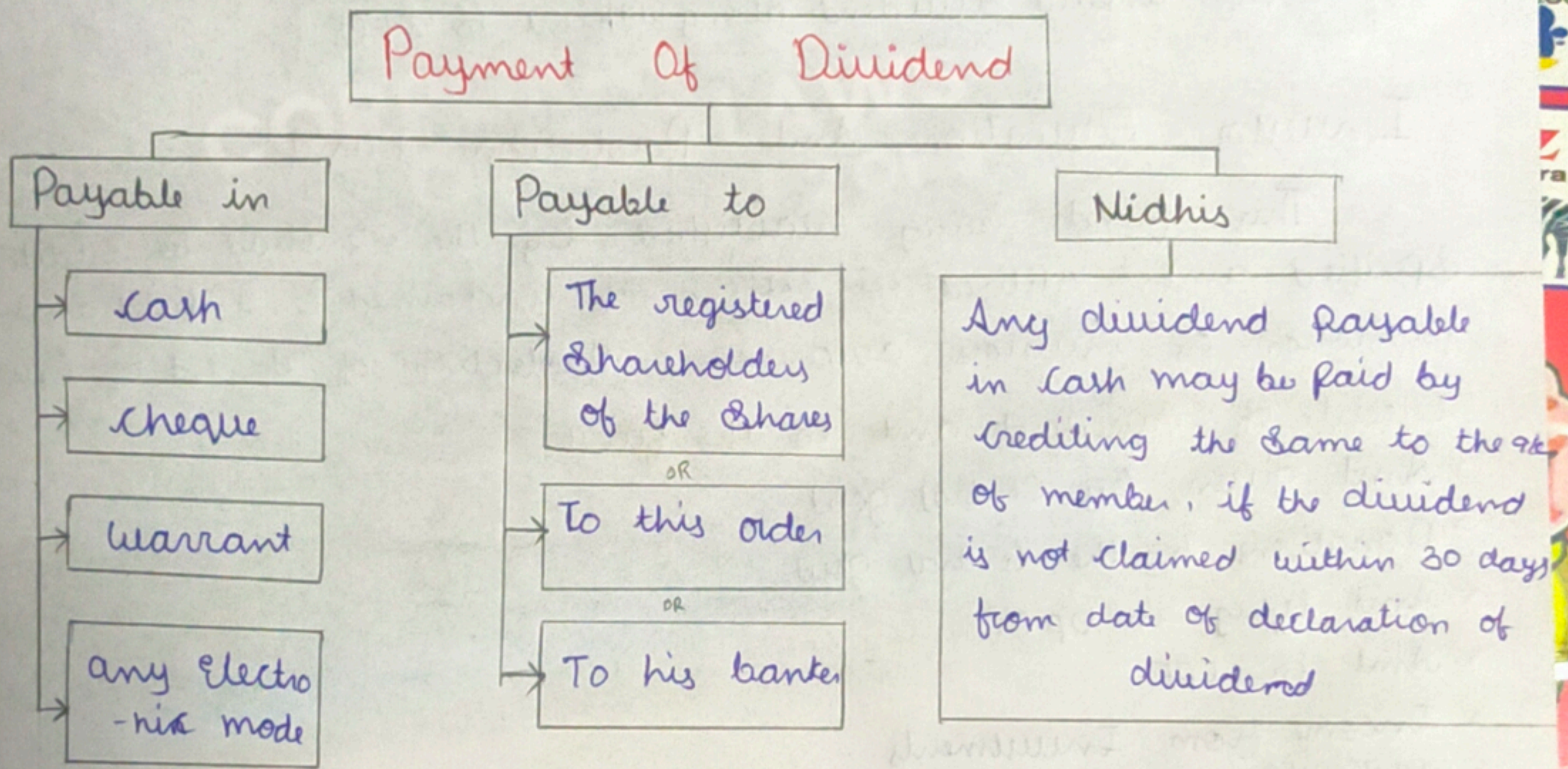
The amt so drawn shall first be utilised to set off the losses incurred in the FY in which dividend is declared & only thereafter any dividend in respect of equity shares shall be declared.

Condition IV.

Free Reserves - Amt drawn for \geq 15% of paid up share capital.
payment of dividend

Depositing of Amount of Dividend

The amt of the dividend shall be deposited in a separate a/c maintained with a schedule bank. This is to be done within 5 days from the date of declaration of dividend.



Prohibition on declaration of dividend

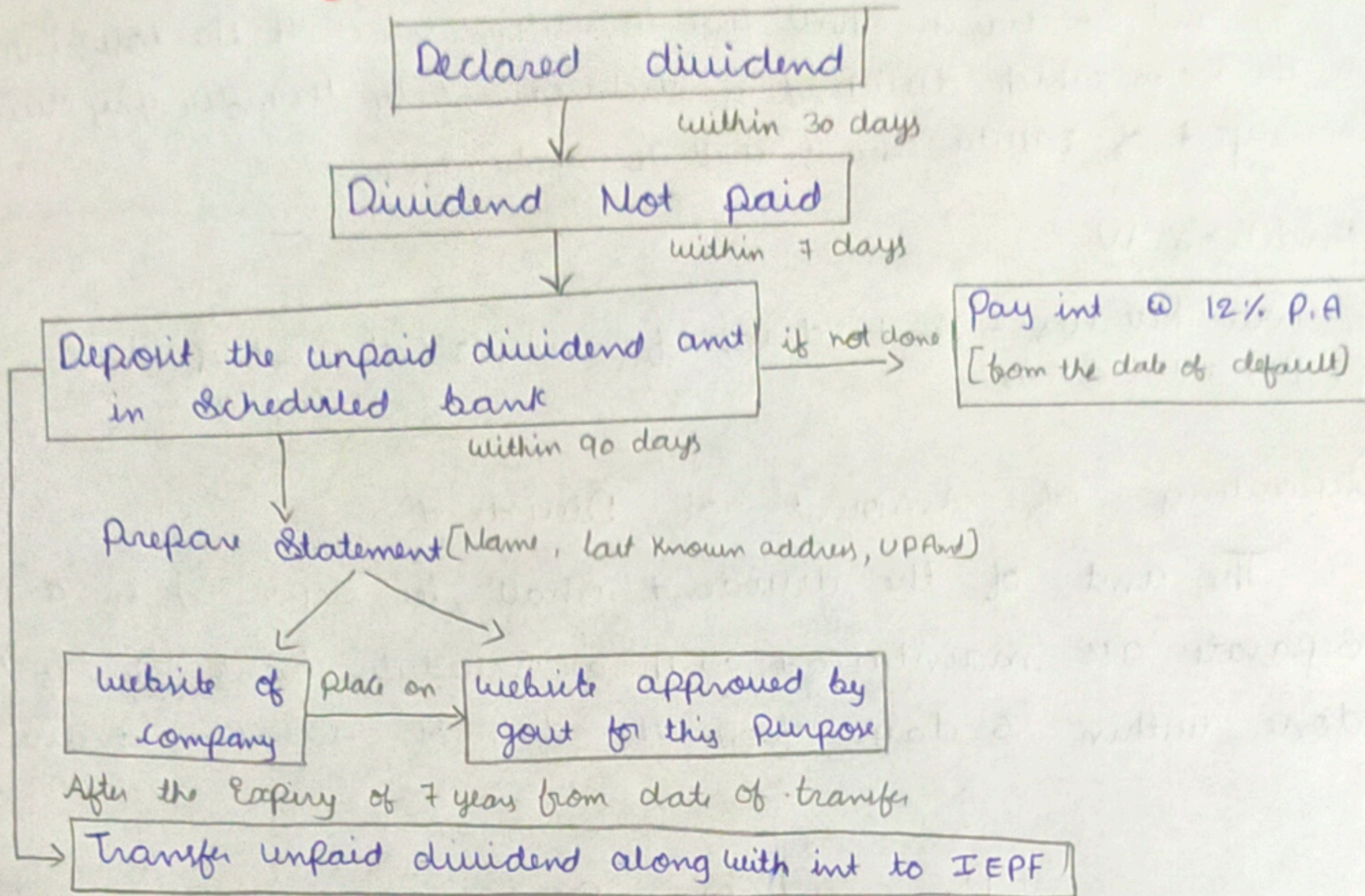
A Co which fails to comply with the provision of Sec 73, Sec 74 shall not, so long as such failure continues, declare any dividend on its equity shares.

Prohibition in case of Sec-8 companies

A Co having license under Sec-8 is prohibited from paying any dividend to its members.

its profits are intended to be applied only in promoting the objects for which it is formed

UNPAID DIVIDEND ACCOUNT



Investor Education And Protection Fund

This fund being established by the CG shall be credited with specified amt & utilized for refund of unclaimed & unpaid amt promotion of investors awareness & protection of the int of investors etc.

Credit of Specified amt to the fund

- > Amt given by Central govt
- > Donations by the Central govt
- > Amt lying in UPAC
- > Amt in IEPF
- > Income from Investments
- > Application money
- > Matured deposits
- > Interest
- > Matured debentures
- > Redemption amt
- > amt received from Cal proceeds
- > Amt in General Revenue ac of the CG
- > Amt received through disgorgement of securities
- > other amt.

Punishment for failure to distribute dividends within 30 days

- Time limit for distribution of dividend
- punishment for failure
- Exemption from punishment