

Attempt All MCQs (1 marks each X 10 MCQs = 10 Marks)

- Q1:** Shreyas Mechanics Limited owns a plot of land which was purchased long before. As the property rates are going up, it is decided to revalue the plot at fair value which is moderately ten times the original price, thus resulting in a revaluation profit of ₹ 20,00,000. The Board of Directors is keen to utilize ₹ 20,00,000 along with free reserves of ₹ 24,00,000 for declaration of dividend at the forthcoming Annual General Meeting (AGM) to be held on 28th September, 2019. Advise the company.
- (a) ₹ 20,00,000 are to be excluded from the distributable profits as the same cannot be utilized towards declaration of dividend.
(b) Only 25% of ₹ 20,00,000 can be utilized as distributable profits towards declaration of dividend.
(c) Up to 50% of ₹ 20,00,000 can be utilized as distributable profits towards declaration of dividend.
(d) Up to 60% of ₹ 20,00,000 can be utilized as distributable profits towards declaration of dividend.
- Q2:** The authorised and paid-up share capital of Avantika Ayurvedic Products Limited is ₹ 50.00 lacs divided into 5,00,000 equity shares of ₹ 10 each. At its Annual General Meeting (AGM) held on 24th September, 2019, the company declared a dividend of ₹ 2 per share by passing an ordinary resolution. Mention the latest date by which the amount of dividend must be deposited in a separate account maintained with a scheduled bank
- (a) Latest by 29th September 2019
(b) Latest by 4th October 2019
(c) Latest by 9th October 2019
(d) Latest by 24th October 2019
- Q3:** Dividend once declared, should be paid within _____ days from the date of declaration
- (a) 5 days
(b) 14 days
(c) 30 days
(d) 45 days
- Q4:** Amount to be transferred to reserves out of profits before any declaration of dividend is _____
- (a) 5%
(b) 7.5%
(c) 10%
(d) At the discretion of the company
- Q5:** The Directors of Silver tongue Solutions Limited proposed dividend at 18% on equity shares for the financial year 2018-2019. The same was approved in the Annual general body meeting held on 30th September 2019. The Directors declared the approved dividends. Mr. Jagan was the holder of 2000 equity of shares on 31st March, 2019, but he transferred the shares to Mr. Rajiv on 8th August 2019. Mr. Rajiv has sent the shares together with the instrument of transfer to the company for registration of the shares in his favour only on 25th September 2019. The registration of the transfer of shares is pending on 30th September 2019. With respect to the dividend declared the correct action to be taken by the company is
- (a) Pay the dividend to Mr. Jagan
(b) Pay the dividend to Mr. Rajiv
(c) Transfer the dividend to the Unpaid Dividend Account
(d) Transfer the dividend to the Investor Education and Protection Fund
- Q6:** The Board of Directors of Jip Rise Pharmaceuticals Limited are contemplating to declare interim dividend in the last week of July, 2018 but the company has incurred loss during the current financial year up to the end of June, 2018. However, it is noted that during the previous five financial years i.e., 2013-14, 2014-15, 2015-16, 2016-17 and 2017-18, the company had declared dividend at the rate of 8%, 9%, 12%, 11% and 10% respectively. Advise the Board as to the maximum rate at which they can declare interim dividend despite incurring loss during the current financial year.
- (a) Maximum at the rate of 9.66%
(b) Maximum at the rate of 10%
(c) Maximum at the rate of 11%
(d) Maximum at the rate of 16.66%

Case Study Based MCQ

Perfect Tyres and Rubbers Ltd. is a listed entity engaged in the business of manufacturing of tyres and tubes for Light and Heavy Commercial Vehicles. During the financial year 2019-20, the company has declared interim dividend of 5% on the equity shares in its Board meeting held on 17th October, 2019, out of the profits earned during the first quarter of FY 2019-20. Further, the Board of Directors of the company after reviewing results of the fourth quarter of FY 2019-20 again recommended for second Interim Dividend @ 5% on 25th April, 2020.

The Board of Directors of the company approved the financial result for the FY 2019-20 in its meeting held on 5th August, 2020, and recommended a final dividend of 15% (including the interim dividends paid earlier) in this board meeting. The general meeting of the shareholders was convened on 31st August, 2020. The shareholders of the company demanded that since interim dividend @10% (5% + 5%) was declared by the company, so the final dividend should not be less than 20% (including the interim dividends). When the Company Secretary emphasised that final dividend cannot exceed, what the Board of Directors have recommended in their board meeting, some of the shareholders boycotted the meeting and moved out of the meeting hall, in protest of the company's decision. However, the agenda for declaration of the dividend was passed unanimously by rest of the shareholders present in the meeting hall, fulfilling the criteria of requirement of quorum, as per the provisions of the Companies Act, 2013.

After approval of the shareholders, the dividend amount was paid to the shareholders, however dividend to some of the shareholders could not be paid within the prescribed period for variety of reasons. The company transferred the unpaid dividend amount to a separate bank account on 15th October, 2020.

The details of the unpaid dividend amount for the previous year's lying in the unpaid dividend account is as under:

S.No.	Dividend pertaining to FY	Date of declaration of dividend	Date when the amount was transferred to Unpaid dividend Account	Amount lying in the Unpaid Dividend Account (₹ in lakhs)
1	2019-20	31.08.2020	15.10.2020	92.50
2	2018-19	25.08.2019	28.09.2019	85.14
3	2017-18	20.08.2018	22.09.2018	80.00
4	2016-17	05.09.2017	07.10.2017	75.25
5	2015-16	01.09.2016	04.10.2016	45.15
6	2014-15	07.09.2015	09.10.2015	35.26
7	2013-14	05.05.2014	08.06.2014	15.10
8	2012-13	06.06.2013	08.07.2013	07.25

Sustram, one of the investors who is holding 1000 shares in physical form, by visiting website of the company, came to know that company had declared the dividends in some previous years, but have not been paid to him. This happened due to the fact the company was not having his current address and bank account details. Sustram approached the company, along with all the supporting evidence to his claim and demanded the dividend amount.

The company after being satisfied, paid all the dividend amount pertaining to the FY 2013-14 to FY 2019-20. However, for FY 2012-13, the company informed that since the amount of dividend has been transferred to Investor Education and Protection Fund, it cannot be taken back now. Aggrieved from this, Sustram threatened the company officials to take appropriate legal action.

Q7: When the shareholders demanded for increase in the rate of dividend, but since the shareholders cannot increase the rate of dividend what the Board of Directors have recommended, some of them walked out of the meeting hall. What shall be the consequences of it:

- (a) If, even after boycott, quorum is present, all the time during the course of general meeting and they have approved with majority, the rate recommended by the Board shall be treated as approved.
- (b) Members present at the beginning of the meeting shall remain present all the time during the general meeting, to approve any agenda, else it will be treated as nullified.
- (c) The approval of the dividend is an ordinary business resolution of the company, so if some of the members have boycotted the meeting, it will have no effect, even if the quorum is not present.
- (d) The recommendation of the Board of Directors of the company relating to the rate of dividend shall stand withdrawn.

Q8: At which date, the unpaid dividend not claimed by the shareholders, shall be transferred to a separate bank account, in the above case:

- (a) On 5th August, 2020 (the date of Meeting of Board)

- (b) On 31st August, 2020 (the date of Meeting of Shareholders)
- (c) On 30th September, 2020 (the date, after 30 days from the meeting of shareholders)
- (d) Latest by 7th October, 2020 (within seven days from the date of expiry of 30 days)

Q9: The company transferred the amount of unpaid dividend to a separate bank account on 15th October, 2020. What is the interest liability on the part of the company?

- (a) No liability.
- (b) Interest @ 10% p.a. on so much of the amount as has not been transferred to the Unpaid Dividend Account.
- (c) Interest @ 12% p.a. on so much of the amount as has not been transferred to the Unpaid Dividend Account.
- (d) Interest @ 15% p.a. on so much of the amount as has not been transferred to the Unpaid Dividend Account.

Q10: In the given case, when and how much amount, the company shall transfer the funds to the Investor Education and Protection Fund:

- (a) Four years after 01.09.2016; Rs 45.15 lakh
- (b) Five years after 07.09.2015; Rs 35.26 lakh
- (c) Six years after 05.05.2014; Rs 15.10 lakh
- (d) Seven years after 08.07.2013: Rs 07.25 lakh

Questions 1 is compulsory

Attempt any 3 out of remaining 4

1. A company has accumulated Free Reserves of ₹ 75 lakhs during last 5 years. It has not declared any dividend during these years. Now, the company proposes to appropriate a part of this amount for making payment of dividend for current year in which it has earned a profit of ₹ 12 lakhs. The Board proposes a payment of dividend of ₹ 30 lakhs i.e. 30% of the paid-up capital. Examine, as per the provisions of the Companies Act, 2013, whether the proposal of the company is valid?

2. ESPN Heavy Engineering Ltd. is a listed entity engaged in the business of providing engineering solutions to clients across the country. The company followed consistent growth over the years. Rate of Declaration of dividend in immediately preceding three financial years were 15%, 20%, and 25%.

Unfortunately, due to obsolescence of a special part of machinery, company incurred losses in current financial year.

Even though, during the financial year 2021-22, the company declared interim dividend of 10% on the equity shares.

The Board of Directors of the company approved the financial result for the financial year 2021-22 in its meeting held on 5th August, 2022, and recommended a final dividend of @15% in this board meeting.

The general meeting of the shareholders was convened on 31st August, 2022. The shareholders of the company demanded that since interim dividend @10% was declared by the company, so the final dividend should not be less than 20%. It was also submitted that Rate of Declaration of dividend in immediately preceding three years were 15%, 20% and 25%, but the Company Secretary emphasised that final dividend cannot be increased.

- (i) Whether company can declare interim dividend, if company incurred losses during the current financial year? What should be correct rate interim dividend?
- (ii) Do you think decision of Company Secretary is correct? What should be correct rate of final dividend?

Justify your answer with reference to provisions of the Companies Act, 2013.

3. Star Ltd. declared and paid dividend in time to all its equity holders for the financial year 2015-16, except in the following two cases:
- Mrs. Sheela, holding 250 shares had mandated the company to directly deposit the dividend amount in her bank account. The company, accordingly remitted the dividend but the bank returned the payment on the ground that there was difference in surname of the payee in the bank records. The company, however, did not inform Mrs. Sheela about this discrepancy.
 - Dividend amount of INR 50,000 was not paid to Mr. Mohan, deceased, in view of court order restraining the payment due to family dispute about succession. You are required to analyse these cases with reference to provisions of the Companies Act, 2013 regarding failure to distribute dividends.
4. State any 6 amounts that can be credited to the Investor Education and Protection Fund. Give your answer as per the provisions of the Companies Act, 2013.
5. The dividend amounts received or receivable on equity shares held by Mr. Vaibhav for the financial year 2021-22 was as follows:

Name of the company	Dividend declared on	Dividend amount (₹)	Remarks
Suvaas Limited	25.08.2022	800	Dividend was paid on 23.10.2022
Bhandol Nidhi Limited	04.09.2022	100	Dividend was not paid within stipulated time

Also, Mr. Vaibhav holds 100 cumulative preference shares of face value ₹ 1,00,000, in aggregate, of Jipanti Limited on which dividend payable is at the rate of 8% p.a. However, during financial year 2021-22, Jipanti Limited did not earn any profits.

In the context of aforesaid case-scenario, please answer to the following question(s): -

- What could be the punishment to the company(ies) aforesaid in the table, with respect to delayed payment of dividend amount(s)?
- Whether Jipanti Ltd. is required to pay dividend on cumulative preference shares for financial year 2021-22?

(5 marks each)

Part A - MCQ

Q1.	a
Q2.	a
Q3.	c
Q4.	d
Q5.	c
Q6.	c
Q7.	a
Q8.	d
Q9.	c
Q10.	d

Part B – Subjective

1. In the given question, the company is intending to declare dividend out of current year profits and past year's profits. As per provisions of Section 123 of the Companies Act, 2013, where in any year, there are no adequate profits for declaring dividend, the company may declare dividend out of the profits of any previous year transferred by it to the free reserves only in accordance with the procedure laid down in Rule 3 of the Companies (Declaration and Payment of Dividend) Rules, 2014.

Conditions of Rule 3 -

Condition 1 - The rate of dividend declared shall not exceed the average of the rates at which dividend was declared by the company in the immediately preceding three years.

Condition 2 - The total amount to be drawn from such accumulated profits shall not exceed 10% of its paid-up share capital and free reserves as appearing in the latest audited financial statement.

Condition 3 – Current year loss, if any, should be first adjusted from the amount so withdrawn

Condition 4 - The balance of reserves after such withdrawal shall not fall below 15% of its paid up share capital as appearing in the latest audited financial statement.

Calculations For Each Condition

Condition 1 - This condition shall not apply if the company has not declared any dividend in each of the three preceding financial year.

Thus, condition 1 shall not be applicable on the company in question as it has not declared dividend in last 5 years.

Condition 2 - As per the facts, the Board proposes a payment of dividend of ₹ 30 lakhs i.e., 30% on the paid-up capital.

So, the Paid-up Share Capital of the company = ₹ 100 Lakh

Paid-up Capital + Free Reserves = 100+ 75 = ₹ 175 Lakh

10% thereof = ₹ 17.5 Lakh

Hence the dividend to be declared is to be restricted to ₹ 17.5 Lakh.

Condition 3 – It is not applicable here.

Condition 4 -

Here, Free Reserves = ₹ 75 Lakh

Proposed withdrawal for declaration of dividend ₹ 17.5 Lakh

Balance of Reserves = ₹ 75 Lakh- 17.5 Lakh = ₹ 57.5 Lakh

This (balance of reserve) is more than 15% of paid-up capital (i.e 15% of ₹ 100 Lakh) i.e. ₹ 15 Lakh.

Thus, the company can declare a dividend of ₹ 17.5 lakh out of reserves and company has current year profits of ₹ 12 lakh. Thus, aggregate dividend that the company can declare is ₹ 29.5 lakh

Hence, the proposal of company for payment of dividend of ₹ 30 lakh i.e. 30% on the paid up capital in the current year in which it has earned a profit of ₹ 12 lakh, is invalid.

2. **Interim dividend** - As per section 123(3) of the Companies Act, 2013, the Board of Directors of a company may declare interim dividend during any financial year out of the surplus in the profit and loss account and out of profits of the financial year in which such interim dividend is sought to be declared.

Provided that in case the company has incurred loss during the current financial year up to the end of the quarter immediately preceding the date of declaration of interim dividend, such interim dividend shall not be declared at a rate higher than the average dividends declared by the company during the immediately preceding three financial years.

Final dividend - The company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the Board. [Clause 80 of Table F in Schedule I]

Accordingly, following shall be the answers -

- (i) **Interim dividend** - According to the given facts, ESPN Heavy Engineering Ltd. incurred losses in current financial year 2021-2022. In the immediately preceding three financial years, the company declared dividend at the rate of 15%, 20% and 25% respectively. Accordingly, the rate of dividend declared shall not exceed 20%, the average of the rates $(15+20+25=60/3)$ at which dividend was declared by it during the immediately preceding three financial years.

Yes, as per law company can declare interim dividend, even if company incurred losses during current financial year. Dividend to be declared shall be given at the rate not exceeding 20%.

- (ii) **Final dividend** - Board of Directors of the Company recommended a final dividend @15% for financial year 2021-2022 in the meeting held on 5th August 2022. It was approved in the general meeting. However, shareholders demanded that since Interim dividend was at the rate of 10%, so final dividend should not be less than 20%. The general meeting cannot declare the dividend at a rate higher than the rate of dividend recommended by the Board.

Yes, the decision of Company Secretary that final dividend cannot be increased beyond the rate of 15% as recommended in the Board Meeting, is correct.

3.

- (i) Section 127 of the Companies Act, 2013 provides for punishment for failure to distribute dividend on time. One of such situations is where a shareholder has given directions to the company regarding the payment of the dividend and those directions cannot be complied with and the same has not been communicated to her.

In the given situation, the company has failed to communicate to the shareholder Mrs. Sheela about non-compliance of her direction regarding payment of dividend. Hence the penal provisions of section 127 will be applicable.

- (ii) Section 127, inter-alia, provides that no offence shall be deemed to have been committed where the dividend could not be paid by reason of operation of law.

In the present circumstance, the dividend could not be paid because it was not allowed to be paid by the court until the matter was resolved about succession. Hence, there will not be any liability on the company and its Directors etc.

4. The following amounts can be credited to IEPF –

- (a) the amount given by the CG by way of grants after due appropriation made by Parliament by law in this behalf for being utilised for the purposes of the Fund;
- (b) donations given to the Fund by the CG, State Governments, companies or any other institution for the purposes of the Fund
- (c) the amount in the Unpaid Dividend Account of companies transferred to the Fund under section 124(5);
- (d) the amount in the general revenue account of the CG which had been transferred to that account under section 205A(5) of the Companies Act, 1956 and remaining unpaid or unclaimed;
- (e) the amount lying in the IEPF under section 205C of the Companies Act, 1956;
- (f) the interest or other income received out of investments made from the Fund

Note – You can also mention any other amount mention in section 125(2)

5.

(a)

According to **Section 127** of the Companies Act, 2013

In case a company fails to pay declared dividends or fails to post dividend warrants within 30 days of declaration, then the company shall be liable to pay simple interest at the rate of 18% p.a. during the period for which such default continues.

Further, in terms of Notification No. GSR 465 (E), dated 05-06-2015, section 127 dealing with punishment shall apply to the **Nidhis**, subject to the following modification:

In case the dividend payable to a member is ₹ 100 or less, it shall be sufficient compliance of the provisions of section 127, if the declaration of the dividend is announced in the local language in one local newspaper of wide circulation and announcement of the said declaration is also displayed on the notice board of the Nidhi company for at least 3 months.

(i) In case of **Suvaas Limited**

Dividend was declared on 25.08.2022 but was paid on 23.10.2022 to Mr. Vaibhav, its share-holder.

The dividend declared should have been paid or dividend warrants should have been posted, to each of its share-holder, within 30 days of dividend declaration i.e. by 24.09.2022.

Accordingly, the interest payable by Suvaas Limited would be calculated as follows:

Dividend amount	Dividend declaration date	Interest @18% to be calculated from 25.09.2022 to 23.10.2022	Interest
800	25.08.2022	$800 \times 18\% \times 29/365$	11

(ii) In case of **Bhandol Nidhi Limited**

Here, Bhandol Nidhi Limited is a Nidhi company and the dividend payable to Mr. Vaibhav was ₹ 100.

So, in such a case, it would have been sufficient compliance of the provisions of section 127, if the dividend declared was announced by the company in local language in one local newspaper of wide circulation and announcement of the said declaration was also displayed on the notice board of the company for at least 3 months i.e. till 04.12.2022 (3 months from 04.09.2022).

Accordingly, if the aforesaid compliances have been made by Bhandol Nidhi Limited then no punishment could be imposed upon it, otherwise, it would be liable for punishment.

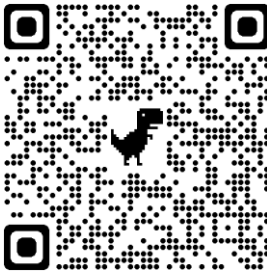

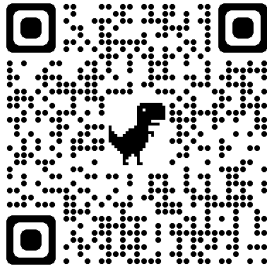

(b)

A cumulative preference share is one in respect of which dividend gets accumulated and any arrears of such dividend arising due to insufficiency of profits during the current year is payable from the profits earned in the later years.

Until and unless dividend on cumulative preference shares is paid in full, including arrears, if any, no dividend is payable on equity shares.

Here, it is given that during financial year 2021-22, Jipanti Limited did not earn any profits and accordingly, in such case the company may accumulate such dividend for financial year 2021-22 to be carried forward to following financial year(s) and such arrears of dividend would be payable from the following financial year(s) profits.

CA NOTES COMMUNITY NETWORK

Click on Icon	QR CODE	LINK
 Join what's App group		CLICK HERE
 Join Telegram Channel		CLICK HERE
 Subscribe On Youtube		CLICK HERE
 Follow us On Instagram		CLICK HERE

BE A PART OF CNC FAMILY

CNC – CA NOTES COMMUNITY

Mail at (for complaints/feedback) – canotescommunity@gmail.com

THANK YOU

TEAM CNC