

DECLARATION & 85

PAYMENT OF DIVIDEND

section
123 to
127

covered every
examples of ICAI
Module

6 to 8
marks

* section list :-

sec : 123 → Declaration of dividend

sec : 124 → Unpaid dividend Account (UDA)

sec : 125 → Investor Education & protection
Fund (IEPF)

sec : 126 → Right share, Bonus & dividend to be held
in Abeyance due to pending of shares
in Agree

sec : 127 → Punishment for failure to distribute
dividend

concept 1 : Meaning of dividend

Dividend

Normal meaning

statutory definition

(sec : 2)

shareholders invest money in the money as owner. So, owner always gets profit as its return on investment.

Inclusive definition

So, the portion of profit which is payable to shareholders

dividend includes any interim dividend

This portion is known as dividend

→ Dividend has 2 types which has been bifurcated on the basis of timing

Final dividend

Interim dividend

This has been paid after the end of F.Y. (After finalisation of Accounts)

Before the end of fy. (Before finalisation of Accounts)

So, it is declared on the AGM.

Declared between 2 AGM (at any time)

BOD Recommends the Rate of dividend & then

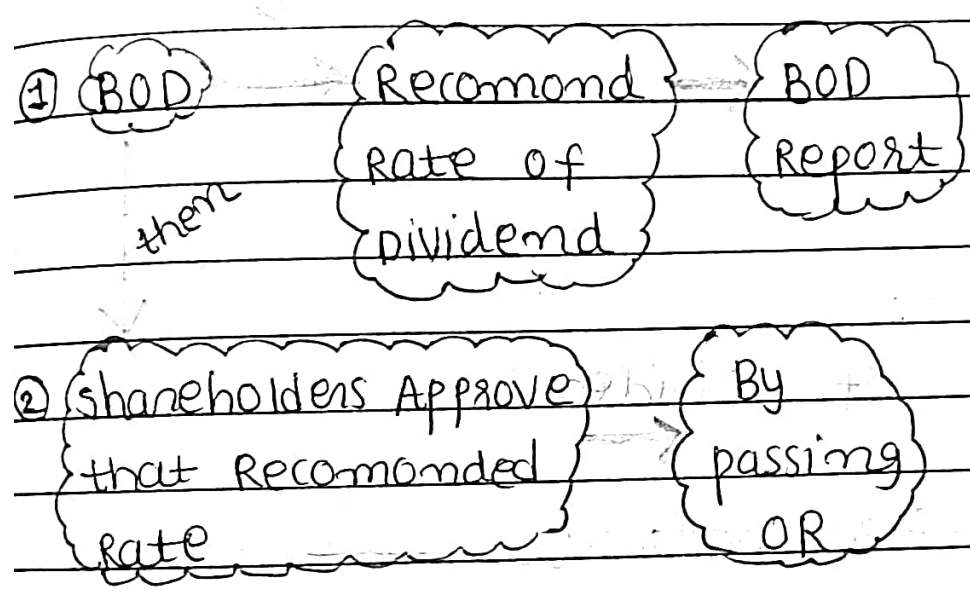
BOD declared the Rate of dividend.

shareholders gives
Approval on that
dividend
(Declared By
shareholders).

yes, After that it is to
be Regularised by the
members at AGM

so, lets understand

IMP. point



- Dividend is to be paid as % of face value (Nominal value) of shares

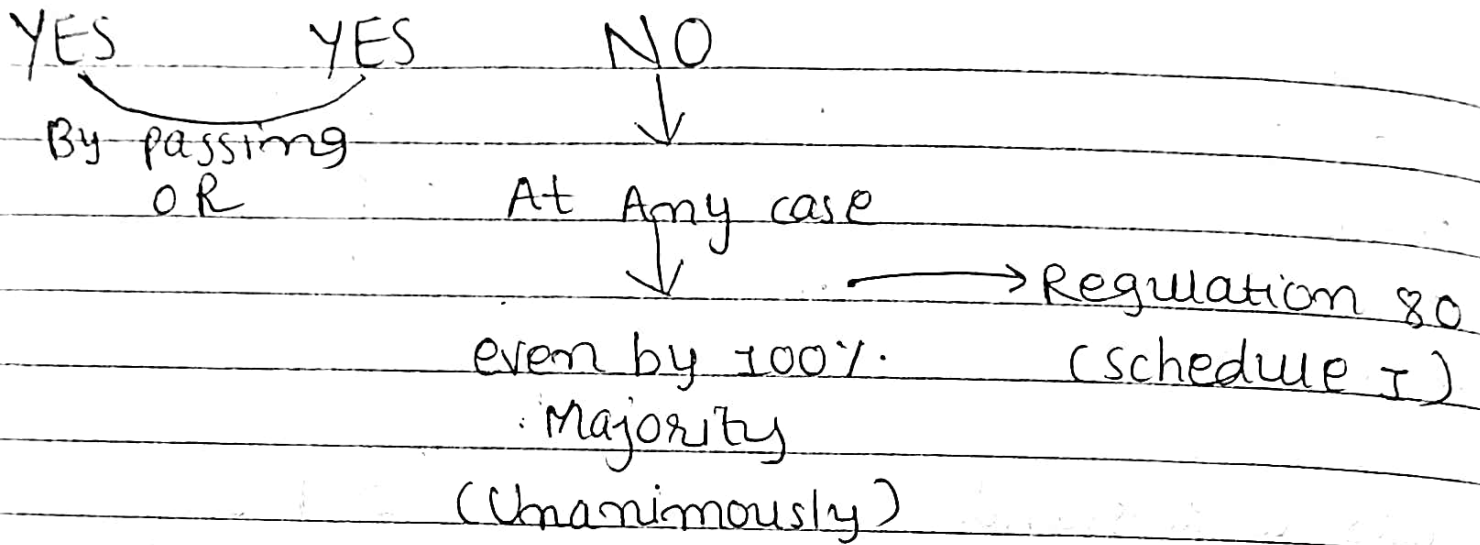
- Not on issue, Market price

"Here" Question Arises in my mind

- BOD/company can transfer any amount of profit to Reserve before declaring dividend (even 100% of profit)

They have to Approve same Rate, or they can increase or decrease

Same Rate	lower than Recommended Rate	increase than Recommended Rate
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some important points

(Final & Interim dividend)

(1) Revocation of dividend

Final dividend After declaration Interim dividend

Generally, it cannot be revoked

It can be revoked with the approval of shareholders

Once declared, it creates debt on the company

CAN BE REVOKED Before any time upto the Date of payment

Revoked with Approval of shareholders

outbreak of war Massive fire illegal dividend payment
 └──────────────────┘
 Exceptional conditions

(2) Permission from AOA (Articles of Association)

Final dividend	Interim dividend
No Need of permission from AOA for declaration of dividend	Need of permission for declaration of dividend from AOA

Payment of dividend depends on nature of shares :-

Preference shares

Equity shares

fixed Rate of dividend

Variable Rate of dividend

They are paid before equity shares

vary year to year

They are paid after satisfying preference shareholders

cumulative preference shares

Non cumulative preference shares

If question is silent,
Assume CPS

Dividend accumulation
is not allowed here.

Dividend is paid on
fixed Rate

If Dividend Not paid
in this year Right to
Receive dividend for
this year got expired.

So, suppose current year
profit is insufficient to
pay pref. dividend,
then that dividend will
be accumulated in the
future year's profit

Then future year dividend
(+) previous year dividend
(arrear)

future year profit → so, if preference
dividend including
arrear is not
paid, equity
dividend cannot
be paid.

section 123 : Declaration of dividend

Source of payment of Dividend

Final

Interim

1. out of CY profit
2. out of PY profit
(Remaining Undistributed)
3. Both 1 & 2
4. guarantee for payment
of dividend

CG

SG

1. surplus in P/L AC
2. Profit of that year
in which dividend
to be declared
3. profit of that fy
in which dividend
declare upto that
Quarter

(So, from money provided
by Govt.)

* Special Note :-

* don't include → Unrealised gains
in profits → Notional gains
→ BOOK gains

* And Also → Revaluation gain
provide depreciation → change in ~~FY~~ of
from profit Assets & Liability

After charging unabsorbed
depⁿ

* As per schedule II of
Co. Act, 2013

(* If co. → incur
loss during
FY → upto the
end of
quarter

Immediately preceding
the date of declaration
of dividend.

Max. Rate of
dividend

Average Rate of Dividend
of Immediately preceding
3 FY

⇒ If co. wants to use the previous year profit (out of Reserve), then use only free Reserve.

→ NO other Reserve can not be used for dividend declaration

→ Now, co. can use free Reserve to pay dividend But conditions are attached within → practical 'Q'

To, make it easy, please follow the below steps :-

Step: 1 Amount withdrawn from Reserve $\rightarrow \frac{1}{10} (PUSC + FR)$
 $\downarrow$
 Equity + Preference

Step: 2. Balance left in $\rightarrow$ FR - 15% of PUSC Reserve.

step: 3 step 1 OR step 2 $\rightarrow$ whichever is lower

step: 4 step 3 - losses (if any)
Even carry forward losses

ep:5 Average of last 3 year dividend &
Multiply Rate with PUSC

ep:6 step 4 or step 5 (whichever lower)

→ Both dividend (FD / ID) → After declaration

→ company will deposit in a sperate
Schedule Bank A/C within 5 days
from date of declaration of dividend

↓
GOVT CO. ⇒ NO Need of deposit dividend

→ Any dividend (FD / ID) :-

How to pay dividend

cash cheque dividend Through
warrant electronic
Give you mode
Right of
dividend)

Bonus share in
lieu of dividend
is not
considered as
payment of
dividend
(sec: 63)

→ To whom dividend is to be paid

- Registered shareholder
- to his order
- to his Banker

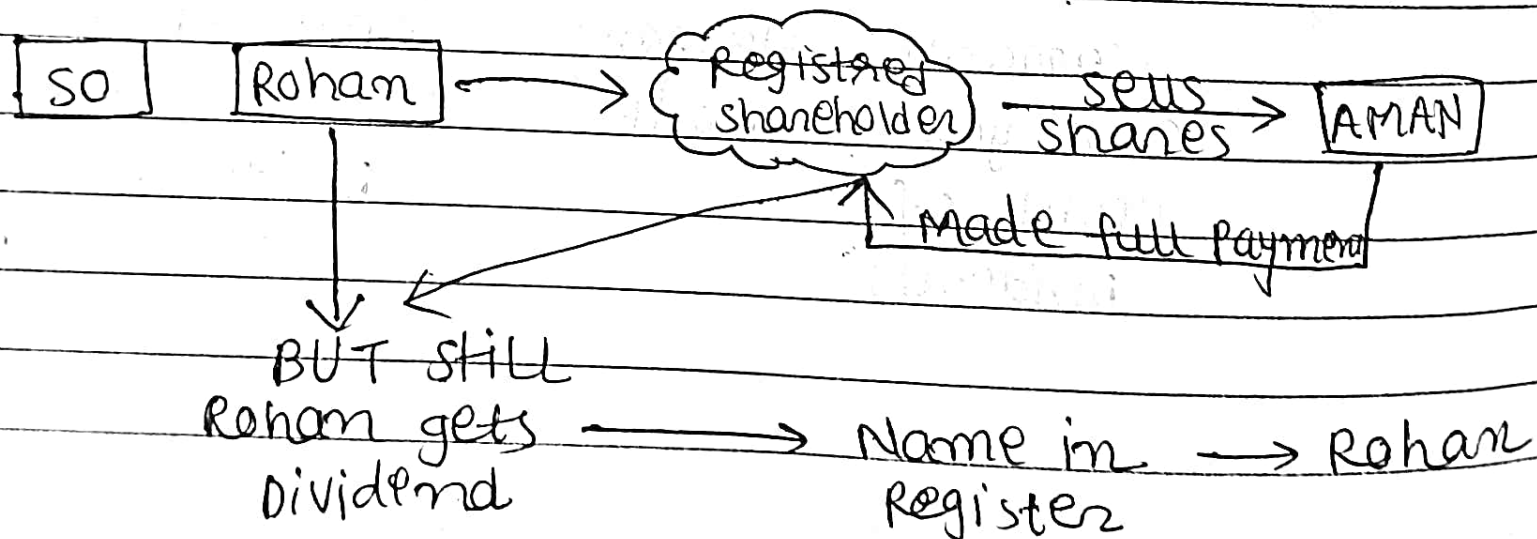
whose name is given in Register of member Us 88

suppose shareholder give instruction to Bank to collect dividend on his Behalf.

→ Record date of dividend

The date on which name of shareholder who will find in Register of member & will be entitled for dividend.

→ Example :-



→ By whom Dividend will not be paid

those companies who fails
to comply sec: 73 & 74
(deposits ch: 5)

NPO companies
sec: 8

"They are ineligible to
pay dividend"

→ They can utilise their surplus only for
the promotion of their objectives, they
are ineligible to pay dividend

→ Dividend can be paid according to proportion
of PUSC (sec: 51) if AOA Allows,



So, $FV = 10$, $IP = 10$,

one shareholder paid only ₹8.

co. after declare dividend ₹5 per share

$$(5 \times 0.80) = 4$$



company can pay ₹4 per share
to him, if AOA Authorise.

section 124: UNPAID Dividend Account (UDA)

company
declared
Dividend

From declaration

①

Within 5 days deposit
to separate Bank A/C

From declaration

②

to be paid or claimed
by shareholder within 30 D

NO

yes

After
30 days

NEXT 7 days

OKAY

Transfer the whole unpaid/
unclaimed Amount to
separate Bank A/C Name as
"UDA" (Escrow Account)

In Next
90 days

Now

YES

NO

prepare statement

Interest @ 12% p.a.
on the whole Amt.
from date of default
& Accrue to the member
as per their
amount unpaid

Name last known Amt of
Address UD

Put this statement
on

Website of co.

OR

Any website approved
by Govt

→ Now, if any person wants to claim this
dividend Afterwards (बाद में दावा करने)

Apply to company for payment
to claim dividend

→ Now, After transferring Amount to UDA :-

If, Remains
Unpaid

OR

Remains
Unclaimed

FOR 7 years from
transfer

Now, transfer this Amt. from UDA

→ IEPF (Sec: 125)



(Amount + interest on UDA)

→ IEPF :- Investor Education & protection fund (Sec : 125)

company will send a statement to IEPF Authority & Authority will give them Receipt of transfer

* shares on which dividend NOT paid / claimed

↓
इसका Amt तो UPA में रखा है।

→ After 7 years → IEPF

“पर question ये है” ⇒ “shares की क्या होना”

→ shares on which dividend Not paid / claimed

↓
For (consecutive) 7 years

* Then those shares will also transfer to “IEPF” + statement

↓
But if dividend paid / claimed during any year among these consecutive 7 years

↓
Then these shares shall not be transferred to IEPF

* Penalty for sec: 124
for contravention

company

officer

min	Max	min	Max
1 lakh	500 per Day (10 lakh)	25000	100 per Day (2 lakh)

Section 125 : Investor Education & Protection Fund (IEPF)

→ Who establish

central Govt.

IEPF, 2016 Rules

→ Now, some Reciept to this Account (IEPF) & some expenditure from this Account.

Credit to (IEPF) Debit from

1/ Amt. given by CG as Grants

1/ Refund (Amt + Interest)

unclaimed dividend
unclaimed deposit
matured debentures
Application money

2/ Donation by CG / SG & any company

3/ Amt in VDA After 7 years

2/ For permation of investor

education
awareness
Protection

4/ Amt in General Revenue Ak under CO. Act 1956 of CG

TIF to IEPF, 2013

3/ Amt received u/s 38 from disgorgement (ill doing)

Refund to eligible share holder, debenture holder

5/ IEPF → 205 (C) (CO. Act 1956)

Int on gov. from fund (IEPF)	who suffered loss due to wrong actions
security seized u/s 38 of CO. Act, 2013 → due to ill poings or wrongdoers	47 Reimbursement of legal expenses for class action suits
TIF → IEPF to false claimant of security	57 Any other purpose
Application money	
Matured deposits	pending for Refund (for 7 years)
Matured debentures	NOT claim OR PAIP
pref. shares redemption	
Any other Amt received	other sources Any Income Any other fees

→ Now any person wants to claim his amount

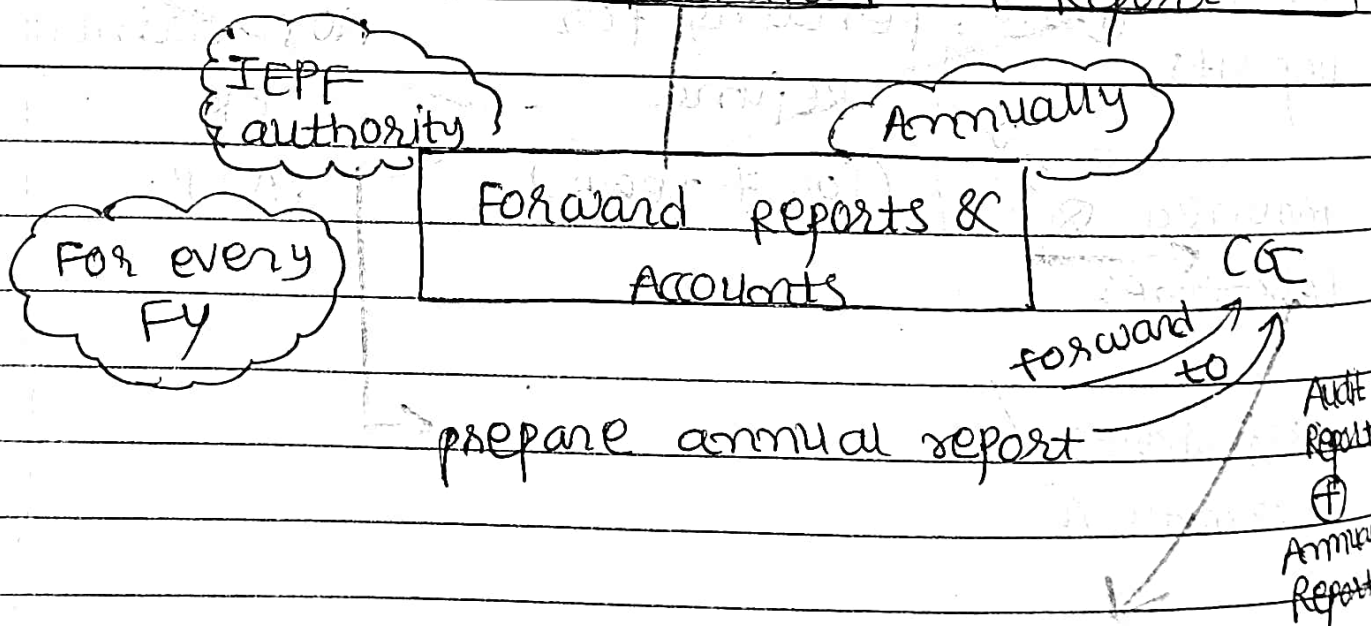
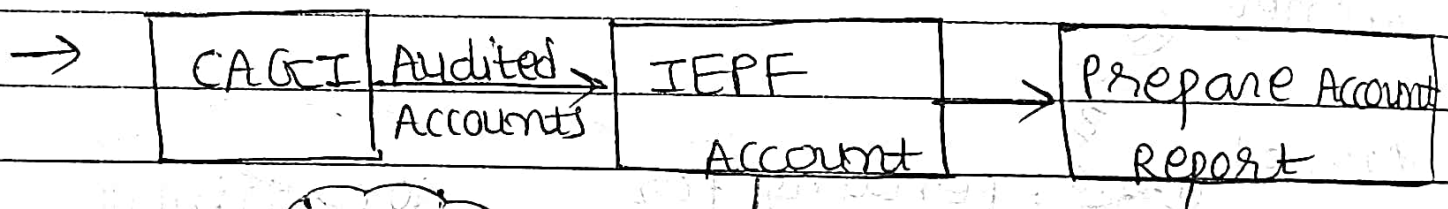


Apply to IEPF u/s 125

→ IEPF Activity → Who manages the fund (IEPF)

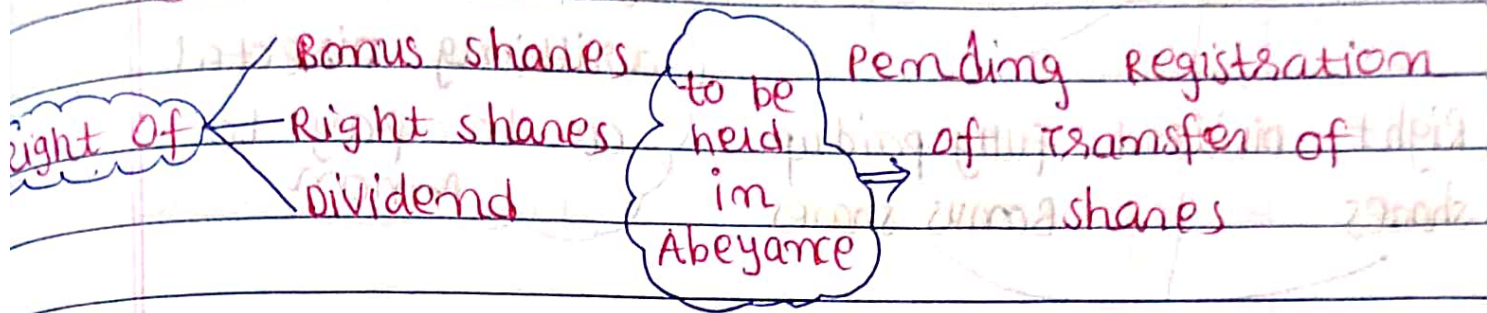
one chairman Max 7 member CEO

secretary of
MCA

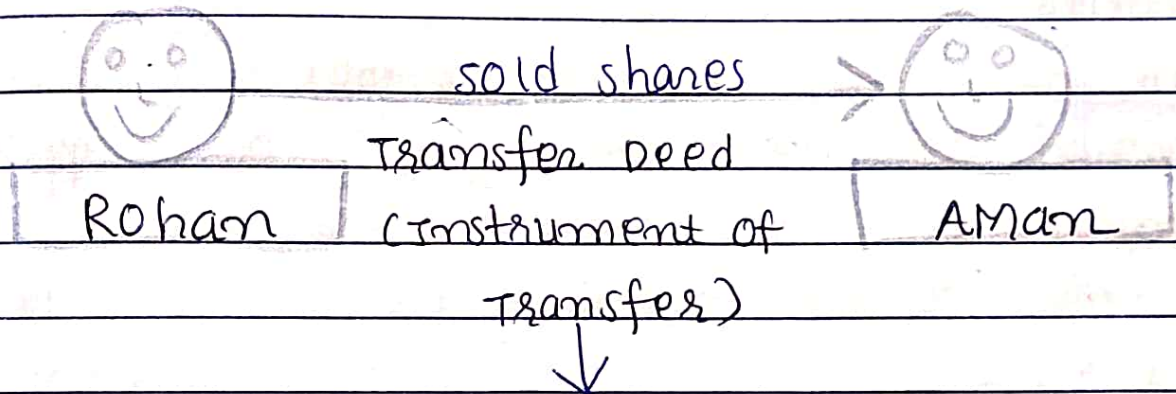


Now present this in parliament (LS & RS)

Section 126 :-



⇒ Example :-



1) deliver to → company

2) But company has not registered this transfer

3) so, Now in Before company declare dividend

4) so, Rohan Name is in the register of members

5) Now, a arises to whom dividend to be paid
 ↓
 transfer it to UDA (Sec: 124)



Right dividend fully paid up
shares Bonus shares

Unless Rohan in
writing directed
co. to pay to
Amam

Keep in Abeyance

section : 127

punishment $\xrightarrow[\text{failure}]{\text{for}}$ distribute dividend

→ As Already company discussed $\xrightarrow[\text{dividend}]{\text{declare}}$ Paid ^{OR} Post dividend warrant $\xrightarrow{\text{within 30 days from declaration}}$

→ Suppose, co. $\xrightarrow[\text{warrant}]{\text{post dividend}}$ within 30 days from declaration But shareholder didn't receive it on time, then co. is not liable

↓
If Not paid within prescribed time

penalty

Co. $\Rightarrow$ 18% P.a. (simple Interest) upto default

Directors

→ Imprisonment upto 2 years

⊕

→ Min: 1000 per day upto default

during the period for which such default continues.

No penalty (exception)

1) Not paid dividend due to operation of law
e.g. death/insolvency

2) shareholder give direction to

for payment of dividend

co. could not completed those directions



communicated to shareholders as well about non compliance



All 4 points to be checked

3/ Dispute regarding Right to Redeem Dividend

4/ Dividend adjusted by co. lawfully against any sum due by co. from shareholders like calls

5/ Any other person, where co. is not on any Default

* Interest / confusion *

Not tlf to UDA with in
7 days after expiry of
30 days of Declaration
(section: 124)



12% P.a.

Not paid dividend or
post dividend warrant
with in 30 days from
Declaration

(section: 127)



18% P.a

special provision for NIDHI CO.:-

sec: 123



dividend, if not paid/
claimed from

declaration of dividend.



can be credited in
A/C after 30 days

sec: 127



Dividend Amt ≤ 100

NO Need to pay directly



publish Declaration

in vernacular

language

Newspaper

Display on

Notice Board

of co upto

3 month