

Chapter - 8 " Declaration and Payment of Dividend "



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|--|---|------------------------------|
| (i) Meaning and Types
of dividend | (iii) Unpaid Dividend Alc
(Sec. 124) | (v) Sec. 126 and
Sec. 127 |
| (ii) Declaration and Payment
of Dividend
(Sec. 123 and Rule 3) | (iv) IEPF
(Sec. 125) | |

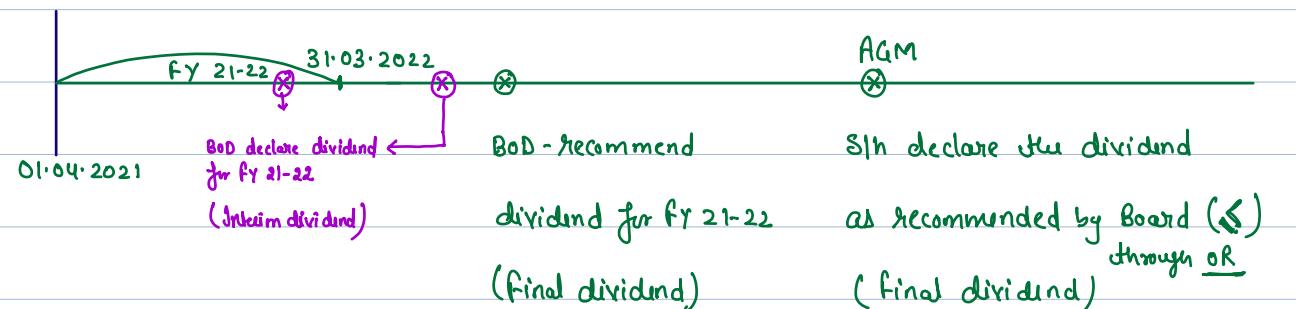
(i) Meaning and Types of dividend:

- As per Sec. 2(35) of Companies Act, 2013, dividend includes interim dividend.

- Interim dividend: - Dividend declared by Board of Directors in between two AGMs is known as Interim dividend.

- Provisions relating to interim dividend are covered under sections 123(3) and 123(4) of Companies Act, 2013.

- Final dividend: - Dividend declared by shareholders at AGM of the company.
- Dividend declared should not be more than the dividend recommended by the Board.



(ii) Declaration of dividend (Sec. 123):

(1) Sources of dividend: Dividend can be declared or paid for any FY, out of:

- (a) Profits of that FY arrived at after providing depⁿ;
- (b) Profits of previous FYS arrived at after providing depⁿ and remaining undistributed;
- (c) both current year profits or profits of previous FYS;
- (d) money provided by CG or any SG in pursuance of any guarantee.

Note: While computing profits, any unrealised gain or revaluation profit should be excluded.

(2) Transfer to Reserve: Before declaration of any dividend in any FY,

a Company may transfer such %age of profits for that FY as it may consider appropriate, to the reserves of the Company.

Note: It is at the discretion of the company whether to transfer a part of profits to reserves or not.

(3) Dividend out of Reserves: In case of any inadequacy or absence of

profits in any FY, a Company may declare dividend out of free reserves, in accordance with Rule 3 of Companies (Declaration and Payment of Dividend) Rules, 2014.

Rule 3: Dividend out of free reserves can be declared subject to following conditions:

Condition 1: Rate of dividend \leq Average rate of dividend of immediate preceding 3 years.

Note: This condition shall not apply if company has not declared any dividend in each of the three preceding fys.

Condition 2: Amount to be withdrawn from reserves $\leq 10\%$ of aggregate of PUSC and free reserves.

✓ Condition 3: Amount withdrawn is to be utilised to set-off the losses incurred in current fy in which dividend is declared.

Condition 4: Balance of Reserves after withdrawal $\geq 15\%$ of PUSC.

Example 1: PUSC = 50 lakh

FR = 50 lakh

Avg. dividend rate of 3 years = 10%

Current year loss = 4 lakh

Determine the maximum dividend payable out of FR.

Sol.

Condition - 1

Amt. withdrawn from FR

Dividend

9 lakh

5 lakh

(5 lakh + 4 lakh)

(10% of 50 lakh)

Condition - 2

10 lakh

6 lakh

(10% of 50 lakh + 50 lakh)

(10 lakh - 4 lakh)

Condition - 3

42.5 lakh

38.5 lakh

(50 lakh - 15% of 50 lakh)

(42.5 lakh - 4 lakh)

Example 2: Pusc = 50 lakhs

FR = 20 lakhs

Avg. rate of dividend of 3 years = 20%

CY loss = 3 lakhs.

Determine the maximum dividend payable out of FR.

Sol.:

Condition - 1

Amt. to be withdrawn

13 lakh

Dividend

10 lakh

(10 lakhs + 3 lakh)

(20% of 50 lakhs)

Condition - 2

7 lakh

4 lakh

(10% of 50 lakhs + 20 lakhs)

(7 lakhs - 3 lakhs)

Condition - 3

12.50 lakh

9.50 lakh

(20 lakhs - 15% of 50 lakhs)

(12.50 lakhs - 3 lakh)

Example 3: Pusc = 80 lakhs

FR = 20 lakhs

Avg. rate of dividend of 3 years = 20%.

CY loss = 4 lakhs

Determine the max. dividend payable out of FR.

Sol.:

Condition - 1

Amt. to be withdrawn

20 lakhs

Dividend

16 lakh

(16 lakhs + 4 lakhs)

(20% of 80 lakhs)

Condition - 2

10 lakhs

6 lakhs

(10% of 80 lakhs + 20 lakhs)

(10 lakhs - 4 lakhs)

Condition - 3

8 lakhs

4 lakh

(20 lakhs - 15% of 80 lakhs)

(8 lakhs - 4 lakhs)

(4) Other Provisions:

(i) Dividend cannot be declared unless carried over previous losses and depⁿ not provided in previous years are set off against the profit of the Company for current fy.

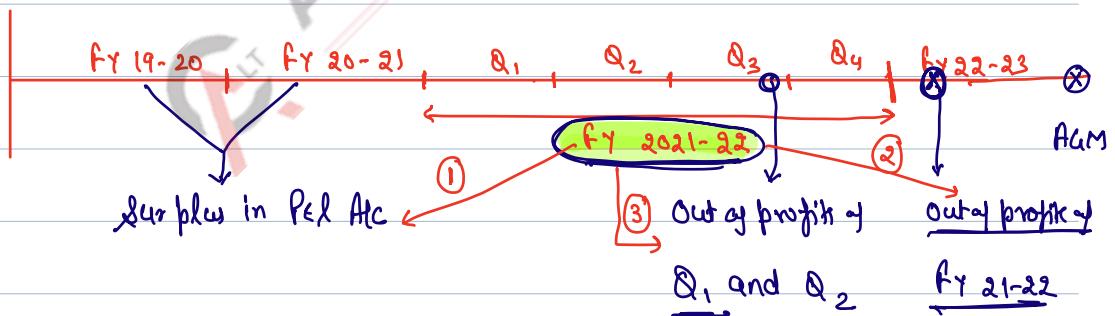
(ii) Depⁿ shall be provided in accordance with Schedule II.

(iii) Interim dividend may be declared by Board out of:

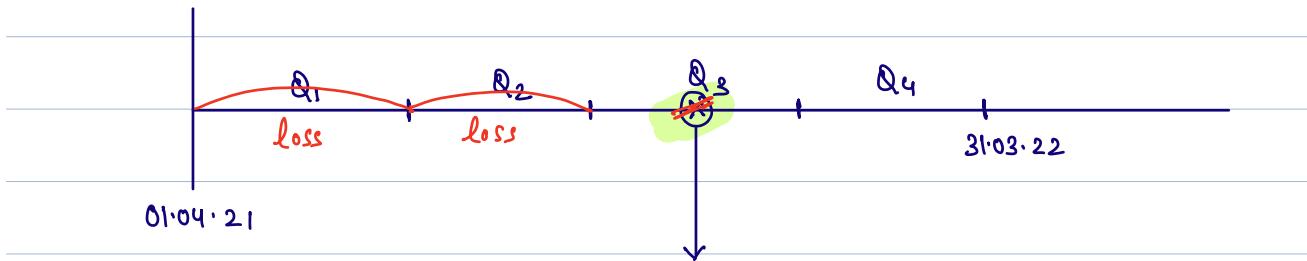
(a) Surplus in P&L A/c;

(b) profits of FY in which interim dividend is sought to be declared.

(c) profits generated in FY till the quarter preceding the date of declaration of interim dividend.



(iv) In case, Company has incurred loss during the current fy upto end of the quarter immediately preceding the date of declaration of interim dividend, such interim dividend shall not be more than the average rate of immediate preceding 3 fys.



- BOD intends to declare dividend out of surplus in P&L A/c of FY 20-21
- Rate of Interim dividend ≤ Avg. rate of preceding 3 F.Y.s.

- (v) Amount of dividend, including interim dividend, shall be deposited in a scheduled bank in a separate account within 5 days of declaration of dividend.
- (vi) Dividend shall be payable only in cash and only to registered shareholder or to his order or to his banker
- ↓
- by cheque, or warrant or other electronic mode.
- (vii) A company which fails to comply with the provisions of Sec. T3 and T4, shall not, so long as such failure continues, declare any dividend on its equity shares.
- (viii) A company having licence u/s 8 is prohibited from paying any dividend to its members.
- (ix) Dividend once declared, becomes a debt against the company and cannot be revoked, subject to exception.

H.W. → Reading (Revision) of Sec. 123 from Book and written practical
 ← → 2 Questions.

(iii) Unpaid dividend A/c (Sec. 124):

BOD recommend the dividend for a fy



Shareholders at AGM **declare** the dividend for the fy



5 days

Amount of dividend to be deposited within 5 days in a scheduled

Bank in a separate A/c

↓ Remaining balance.

Dividend to be paid

to Regd. Sh or his 7 days unpaid or unclaimed dividend to be transferred to a
order or his banker special account called as "Unpaid dividend A/c".

[if not transferred, company is liable
to pay interest @ 12% p.a. from the
date of default]



Within 90 days



Prepare a statement containing
name, address and unpaid
dividend to be paid to each person



Place the statement on the website

of the company, if any and
other website as approved by C.G.
for this purpose.

Members are entitled to claim the
dividend from unpaid dividend A/c.



Any amount remaining unpaid/unclaimed
for a period of 7 years shall be
transferred to IEPF.



All related shares shall also be
transferred to IEPF *

* Any claimant of shares transferred to IEPF shall be entitled to claim transfer of shares from IEPF in prescribed manner.

Penalty for non-compliance of Sec. 124:

(a) Company: ₹ 1 lakh + ₹ 500 per day of default after the first subject to a maximum of ₹ 10 lakh.

(b) Officer in default: ₹ 25,000 + ₹ 100 per day of default after the first subject to a maximum of ₹ 2 lakh.

(iv) Investor Education and Protection Fund (Sec. 125):

— To be covered from the book —

H.W: Write down:

(a) Amounts to be transferred to IEPF (Any Eight Points)

(b) Purposes for which amount lying in IEPF can be utilised.



(v) Right of dividend, right shares and bonus shares to be held in abeyance

Pending registration of transfer of shares (Sec. 126):

where any instrument of transfer of shares has been delivered to the company for registration and transfer has not been regd by the company, the company shall

transfer the dividend in
unpaid dividend account

Unless registered shareholder
authorises, in writing, the company
to pay such dividend to transferee.

also keep in abeyance

any offer of right shares and issue
of fully paid bonus shares, in respect
of such shares, which have not
been registered.

(vii) Punishment for failure to distribute dividend (Sec. 127):

(a) Penalty:

If the dividend is not paid within 30 days of
declaration of dividend

Every director of the company
(if knowingly a party to the default)

be punishable with
- imprisonment upto 2 years

Company shall be
liable to pay simple
interest @ 18% p.a.
for the period of
default.

and

- fine of ≥ 1000 per day of default.

(b) Exceptions:

No offence under this section shall be deemed to have been committed, if:

- (i) dividend could not have been paid by reason of operation of law;
- (ii) shareholder has given certain directions to the company regarding payment and those directions cannot be complied with and the same has been communicated to the shareholder;
- (iii) there is a dispute regarding payment of dividend;
- (iv) dividend has been lawfully adjusted against any sum due from shareholder.
- (v) failure to pay dividend was not due to any default on the part of the company.

