

Chapter - 8 "Declaration and Payment of Dividend"

↓	↓	↓
Part - I	Part - II	Part - III
↓	↓	↓
✓ (i) Meaning and Types of dividend	(iii) Unpaid dividend A/c (Sec. 124)	(v) Sec. 126 (vi) Sec. 127
✓ (ii) Declaration and Payment of dividend (Sec. 123 and Rule 3)	(iv) Investor Education and Protection Fund (IEPF) (Sec. 125)	

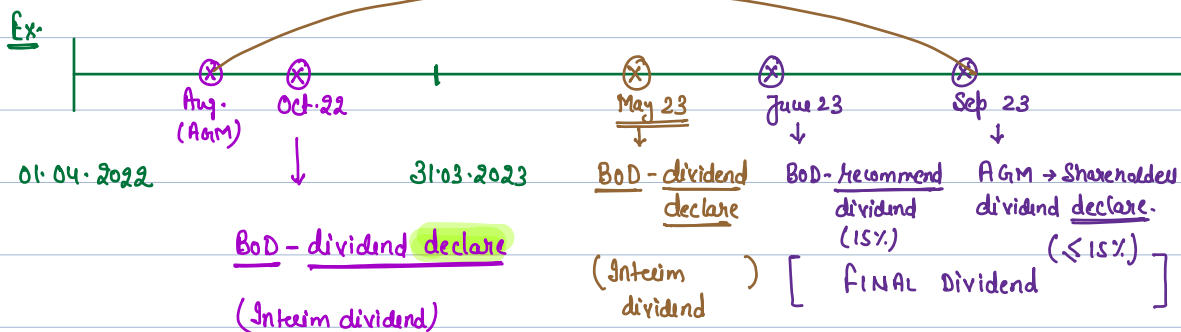
(i) Meaning and Types of dividend:

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

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

Provisions related with interim dividend are covered u/s 123(3) and 123(4) of Companies Act, 2013.

(b) 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 (a) and (b) above;
 - (d) money provided by C.G. or any S.G. in pursuance of any guarantee.
- Ex: PBDT = 10 Cr. ✓
dep: Depⁿ = 12 Cr.
PBT = (2 Cr.)
dep: Tax = Nil.

[P&L A/c Dr
To Proposed dividend]
Proposed Dividend A/c Dr
To Bank A/c

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

(2) Transfer to Reserves: Before declaration of any dividend in any FY, a company may transfer such percentage 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 the profit 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 the Companies (Declaration and Payment of Dividend) Rules 2014.

Rule 3 of Companies (Declaration and Payment of Dividend) Rules, 2014:

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

Condition-1: Rate of dividend \leq Avg. rate of dividend of 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 Paid-up share capital and free reserves.

✓ Condition-3: Amount withdrawn from reserves is to be first utilised to set-off the losses incurred in current FY in which dividend is to be declared.

Condition-4: Balance of reserves after withdrawal \geq 15% of paid-up share capital.

Example 1: PUC = 50 lakh
Free reserves = 50 lakh
Avg. dividend rate of last 3 years = 10%
Current year loss = 4 lakh

Determine the Max. dividend payable out of free reserves.

<u>Sol</u> :	Amt. to be withdrawn from FR	Dividend
Condition - 1 & 3	<u>₹ 9 lakh</u>	<u>5 lakh</u>
	(₹ 5 lakh + ₹ 4 lakh)	(<u>10%</u> of ₹ 50 lakh)
Condition - 2 & 3	₹ 10 lakh	6 lakh
	(10% of 50 lakh + 50 lakh)	(₹ 10 lakh - ₹ 4 lakh)
Condition - 4 & 3	₹ 42.50 lakh	₹ 38.50
	(₹ 50 lakh - 15% of PUC)	(₹ 42.50 lakh - ₹ 4 lakh)

Example 2:

PUSC = 80 lakh

Free reserves = 20 lakh

Avg. rate of dividend of 3 years = 20%

Current year loss = 4 lakh

Determine the maximum dividend payable out of free reserves.

Sol:

	Amt. to be withdrawn from FR	Dividend
Condition 1 and 3	20,00,000	16,00,000
	(16,00,000 + 4,00,000)	(20% of 80 lakh)
Condition 2 and 3	10,00,000	6,00,000
	(10% of 80 lakh + 20 lakh)	(10,00,000 - 4,00,000)
Condition 4 and 3	8,00,000	4,00,000
	(20,00,000 - 15% of 80,00,000)	(8,00,000 - 4,00,000)

Example 3:

PUSC = 50 lakh

Free Reserves = 20 lakh

Avg. rate of dividend of 3 years = 20%

CY loss = 3 lakh

Determine the maximum dividend payable out of free reserves.

Sol:

	Amt. to be withdrawn from FR	Dividend
Condition 1 and 3	13 lakh	10 lakh
	(10 lakh + 3 lakh)	20% of 50 lakh.
Condition 2 and 3	7 lakh	4 lakh
	(10% of 50 lakh + 20 lakh)	(7 lakh - 3 lakh)
Condition 4 and 3	12.50 lakh.	9.50 lakh
	(20 lakh - 15% of 50 lakh)	(12.50 lakh - 3 lakh)

(4) Other Provisions:

(i) Dividend cannot be declared unless carried over previous losses and [depreciation not provided in previous years] are set-off against the profits of the company for current financial year.

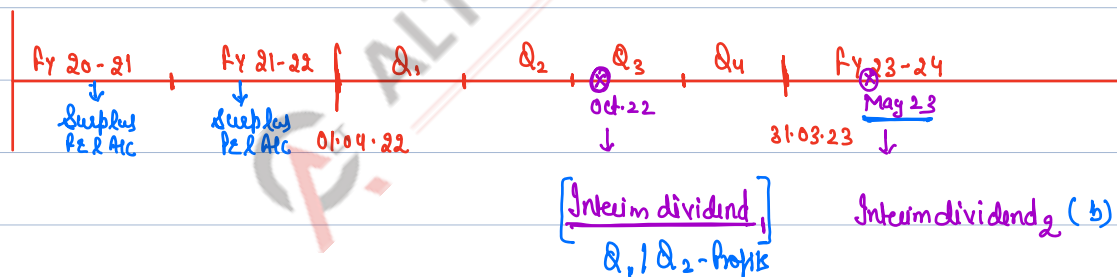
(ii) Depreciation shall be provided in accordance with Schedule II.

(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;

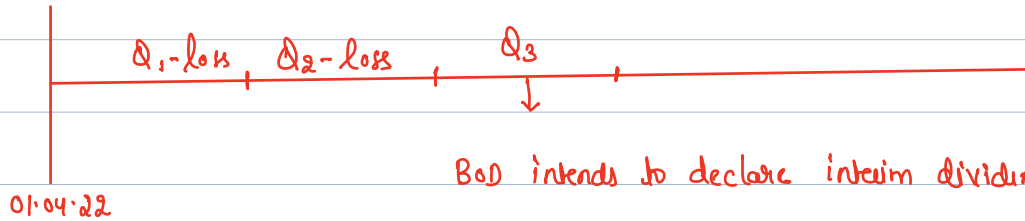
(c) Profits generated in financial year till the quarter preceding the date of declaration of interim dividend.



(iv) In case, Company has incurred loss during the current financial year, upto the 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 financial years.



BOD intends to declare interim dividend out of surplus of FY 20-21 or FY 21-22.

Sol.: BOD can declare interim dividend but rate of such dividend \leq Avg. rate of preceding 3 financial years.

(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 to the 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. 73 and 74, shall not, as long as such failure continues, declare any dividend on its equity shares.

(viii) A company having licence Us 8 of Companies Act, 2013, is prohibited from paying any dividend to its members.

(ix) Dividend once declared becomes a debt against the company and cannot be revoked in general.