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10.7.1 Meaning

10.7.2 Features

10.8 Distinction**INTRODUCTION :**

Profit making and its maximization is the prime aim of all business organisations including a Joint Stock Company. The shareholders invest with an aim of earning returns out of the profits of the company.

Profit is the difference between revenues and the expenses for a given period.

10.1 DIVIDEND - MEANING

The term dividend is derived from Latin word 'Dividendum' which means 'that which is to be divided'.

It is that part of the profits of the company which is distributed amongst its shareholders. Dividend is 'a share in distributable profits of the company to which the shareholder is entitled when it is formally declared by the company.'

Definition :

1. The Institute of Chartered Accountants of India has defined Dividend as, "a distribution to shareholders out of profits or reserves available for this purpose."
2. The Supreme Court has defined it as, "In case of going-concern, it means portion of profits of a company, which is allotted to the holders of shares in a company."

a) *Going concern means a business that is operating and making a profits.*

b) *'Profits available for Distribution and profits available for Dividend' are different terms.*

The former means maximum profits which law allows a company to distribute to the shareholders by way of Dividend.

The latter means profits which the Directors consider should be distributed after making provision for transfer to reserve, past losses etc.

10.2 FEATURES OF DIVIDEND

1. It is the portion of profits of the company paid to its shareholders.
2. It is payable out of the profits of the company.
3. Dividend is an unconditional payment made by the company.
4. Company can pay dividend only to the shareholders viz. (1) Equity (2) Preference.
5. If the company has issued equity shares with differential rights as to dividend, the terms of issue of such shares will govern rights of shareholders about receiving the dividend.
6. Dividend cannot be declared out of capital.
7. Dividend can be declared only on recommendation of the Board of Directors.
8. Dividend as recommended by Board of Directors is approved and declared by a resolution passed at the Annual General Meeting by the shareholders.
9. Dividend for any previous year cannot be declared once that year's Annual Account has been approved in the AGM.
10. Dividend once approved and declared by shareholders creates a debt. It cannot be revoked.
11. Dividend includes Interim Dividend.
12. Dividend must be paid in cash and not in kind.
13. Dividend is to be paid on paid-up value of shares.
14. Dividend cannot be paid on calls paid in advance.

Note : Usually the term Dividend refers to Annual/final Dividend unless it is specifically mentioned as Interim Dividend.

10.3 LEGAL PROVISIONS ON DIVIDEND

10.3.1 Legal provisions on sources of Dividend

- a) Company may declare and pay dividend for any financial year out of the following:
 - 1) Current Profits i.e. profits of the company of that year arrived at, after providing for depreciation and transfer to Reserves.
 - 2) Out of profits of the company of any previous financial year, after providing for depreciation.
 - 3) Money provided by the Central or State Government to pay dividend.
- b) **Dividend can be paid out of Capital Profits :**
On fulfilling these condition :
 - (i) Capital profits are realised in cash
 - (ii) Articles of Association of the company permits such a distribution
 - (iii) It remains as profits after revaluation of all Assets and Liabilities.

Capital Profits arise when a company sells part of its fixed assets at price higher than original cost of such assets or premium earned on the issue of shares.

- c) Dividend cannot be paid out of Capital.
- d) Dividend can be paid out of free reserves of company.

Free Reserves are the reserves available for distribution of profits as per latest audited Balance Sheet of the Company.

10.3.2 Legal Provisions for declaration of Dividend :

1) Board Meeting : Dividend can be declared only on recommendation of Board of Directors. Board Meeting should be called to pass resolution about :

- a) Rate of Dividend and amount of Dividend to be paid
- b) Book closure date for dividend
- c) Date of Annual General Meeting.
- d) Bank with which a separate account should be opened to remit the dividend amount.

2) Shareholders Approval :

- a) Dividend is approved by shareholders by passing an Ordinary Resolution at the Annual General Meeting.
- b) Shareholders can declare a lower rate of dividend than what is recommended by the Board but not higher than that.
- c) Once the dividend is declared at the General meeting it cannot be revoked. Company is not permitted to declare it second time in that year.

3) Separate Bank Account : The company must deposit the dividend amount in a separate bank account opened in a scheduled bank called as Dividend Account within 5 (Five) days of its declaration.

- **Listed company :** Where a company's shares are listed on the Stock Exchanges, additional requirements with respect to Listings agreements must be followed like.
 - a) Notify stock exchange where company's securities are listed at least 2(two) days in advance of the date of meeting of the Board at which recommendation of final dividend is to be considered.
 - b) Intimate Stock Exchange immediately about declaration of dividend after the Board Meeting.
 - c) Give notice of Book closure to the stock exchange at least 7(seven) working days before the closure.
 - d) Close the Register of members and the Transfer Register.
 - e) It must use electronic mode of payment such as Electronic Clearing Services (ECS) or National Electronic Fund Transfer (NEFT); as approved by the Reserve Bank of India (RBI)

1) Book closure : *It means the time period when company does not handle any adjustments to the Register or requests to transfer Shares.*

2) Record Date : *It is the cut-off date for determining the number of registered members who are eligible for corporate benefits like Dividends and Bonus shares.*

- f) Listed company has to express the dividend on per share basis only.

4) Prohibition to Pay Dividend :

- a) A company which has failed to repay deposit or any interest on deposit cannot declare any dividend **on its equity shares**.
- b) No dividend can be declared if company has defaulted on :
 - 1) Redemption of Debentures or payment of interest, Redemption of Preference shares, payment of interest to financial institution, etc.

10.3.3 Legal Provisions for payment of Dividend :

- 1) Dividend must be paid in cash and not in kind.
- 2) Dividend may be paid by cheque or warrant or by any electronic mode to the shareholder.
- 3) Joint holding of shares : Dividend warrant should be sent to the registered address of the first named joint shareholder as per the Register of Members or to such a person at his address as the shareholder or joint shareholders have given to the company in writing.
- 4) Time limit within which Dividend is to be paid. Company must pay dividend within 30 (Thirty) days from the date of its declaration.

- 5) Dividend is payable only to the registered shareholders of the company.

Preference shareholders are entitled to the dividend before it is paid to the equity shareholders as per the terms of issue of the preference shares. Equity shareholders will get dividend from residual profits. i.e. after paying to preference shareholders and arrears of dividend on cumulative preference shares.

- 6) If shares are held in electronic form, dividend will be paid to the beneficial owner as per the statements furnished by the Depository. If shares are held in Physical form, dividend is paid to the shareholders whose names appear in Company's Register of Members.
- 7) Default : Default in paying dividend in the given time results in -
 - (a) Punishment to every Director of the company.
 - (b) Company will be liable to pay simple interest at the rate of 12% p.a. during the period when the default continues.
 - If company fails to comply with any of the requirement of this section, the company and directors shall be liable to pay fine.

10.4 UNPAID AND UNCLAIMED DIVIDEND

The dividend declared by company but has not been paid by it or claimed by a shareholder within 30 days of its declaration is termed as Unpaid and Unclaimed Dividend.

Following rules govern the Unpaid/Unclaimed Dividend :

- **Unpaid Dividend Account (Unpaid / Unclaimed Dividend)**
 - a) Total amount of dividend which remains unpaid/unclaimed should be transferred to 'Unpaid Dividend Account' opened in a scheduled Bank by the company.

- b) This transfer should be within 7 (seven) days of the end of 30 days within which payment was to be made. In other words this transfer should happen within 37 (Thirty seven) days from the declaration of dividend.
- c) Within 90 (Ninety) days of transfer of amount in the 'Unpaid Dividend Account', the company is required to put on its website or any other website as approved by the Central Government, a statement which shows names, last known addresses and unpaid amount payable to each shareholder.
- d) Any claimant to the Unpaid Dividend Account may apply to the company for the payment of money claimed.
- e) Any amount in the unpaid Dividend Account of a company which remains unpaid/unclaimed for a period of 7 (seven) years from the date of such a transfer shall be, transferred by the company to 'Investors Education and Protection Fund' (IEPF).
- f) The claimant of money will have to follow the procedures and submit necessary documents to get claim from IEPF along with a statement in the prescribed form which gives details of such transfers.

IEPF has been set up by the Central Government, since 2001. Examples of some amounts to be transferred to IEPF are - matured deposits with companies, matured debentures with companies, etc.

10.5 MODES OF PAYMENT OF DIVIDEND

Dividend payable in cash may be paid by cheque or warrant or by electronic mode to the entitled shareholder.

Let's discuss the different ways in which dividend can be paid by company :

- 1) **Dividend Warrant** : It is a cheque sent by a company to a shareholder for payment of dividend to the registered address of the shareholder.
- 2) **Dividend Mandate** : A shareholder may wish to get dividend credited directly in the bank account. Shareholder is required to send a request to the company in the prescribed form called. 'Dividend Mandate'. Dividend mandate authorizes the company to pay dividend directly to shareholder's bankers.

Additional Information :

Benefit of 'Dividend Mandate' :

- 1) Saves efforts, time and cost : It saves time of the company in preparing and sending the cheques to the shareholders and simultaneously efforts and time of the shareholders to deposit the same and await its credit into the account.
- 2) Reduces the chances of loss of physical cheque in transit.

- 3) **Electronic Mode** : Company can use electronic mode to pay dividends to its shareholders.
 - (a) A listed company has to mandatorily use RBI approved electronic mode of payment such as ECS. (Electronic Clearing Services), NEFT (National Electronic Fund Transfer).
 - (b) Make arrangements with bank and in collaboration with other banks, if required, to pay the Dividend Warrants at par.

ECS and NEFT both are electronic transfer fund modes. ECS is mainly used for debits and credits for low-value transaction which are frequent and repetitive; while NEFT is used for high-value transactions.

Dividend warrants at par means cheque of dividend where payee gets exact amount stated in the cheque without any charge payable even if it is issued out of the state.

10.6 INTERIM DIVIDEND - MEANING :

Dividend declared by the Board of Directors between two Annual General Meetings is called Interim Dividend. Interim dividend is paid in the middle of the accounting year i.e. before the finalisation of annual accounts for the year. Opinion of the company's Auditors should be taken before declaring Interim Dividend.

Features of Interim Dividend :

1. The Board of Directors has the power to declare Interim Dividend.
2. Interim Dividend is only a payment on account of the whole dividend for the year.
3. Company should provide depreciation for the entire year and not proportionately for a part of the year before declaring Interim Dividend.
4. Interim dividend cannot be paid out of any reserves.
5. Articles of Association of the company must authorize the Board of Directors to declare Interim Dividend.
6. The Board Meeting has to pass a resolution for declaring the Interim Dividend.
7. The amount to be given as Interim Dividend must be credited in a separate Bank account in a scheduled bank within 5 (five) days of its declaration.
8. Interim Dividend should be paid within 30 days of its declaration.
9. Unpaid / Unclaimed Interim Dividend should be transferred to 'Unpaid Dividend Account' within 7 days of the expiry of 30 days of declaration i.e. 37 days of its declaration.
10. Any amount remaining unpaid/unclaimed in the 'Unpaid Dividend A/c' for 7 (seven) years should be transferred to IEPF.

10.7 INTEREST

10.7.1 Meaning

In financial terms, it is a payment made for using money of another. i.e. Borrower takes money from the lender.

So interest is the cost of renting money, for the borrower and it is the income from lending money for the lender.

10.7.2 Features

- 1) Interest is the price paid for the productive services rendered by capital.
- 2) It is directly related to risk. Higher the risk, higher is the interest.
- 3) Rate of Interest is expressed as annual percentage of Principal.
- 4) Rate of interest is determined by various factors like money supply, fiscal policy, volume of borrowings, rate of inflation etc.

- 5) Interest is a charge against the profit of the company. Even if company makes no profit, interest should be paid.
- 6) It is payable at a fixed and generally pre-determined rate.
- Company has to pay interest if it has borrowed money from creditors like Debentures holders, Depositors, Bond holders, etc.

10.8 DISTINCTIONS

(1) Interim Dividend and Final Dividend

Points	Interim Dividend	Final Dividend
1. Meaning	It is declared and paid between two AGMs of an accounting year.	It is declared and paid after the close of the financial year.
2. Who Declares	It is decided and declared by the Board of Directors in the Board Meeting.	It is decided and recommended by the Board of Directors. It is declared by the shareholders in the AGM.
3. Authorization	It can be declared only if Articles of Association permits its declaration.	It's declaration does not need authorization by Articles of Association.
4. When Declared	It is declared between two Annual General Meetings of the company.	It is declared at the Annual General Meeting of the company
5. Rate of Dividend	Rate of Interim dividend is lower than final dividend.	Rate of final dividend is always higher than Interim Dividend.
6. Source	It is declared out of profits of the current accounting year.	It is declared from different sources like; current year's profits, free reserves, capital profits, Money provided by Govt. for dividend, etc.
7. Accounting Aspect	It is declared before preparation of the final accounts of the company	It is declared only after the accounts of the year are prepared and finalized.

(2) Dividend and Interest

Points	Dividend	Interest
1. Meaning	Dividend is the return payable to the shareholders of the company for their investment in the share capital.	It is the return payable to the creditors of the company viz. Debenture holder / Deposit holders for the loan given by them to the company.
2. Given to whom	It is paid to the member i.e. the owners of the company.	It is paid to the creditor of the company.

Points	Dividend	Interest
3. Obligation	It is to be paid only when company has made profits. Therefore no obligation / compulsion to pay dividend.	It is not linked to the profits of the company. Payment of interest is an obligation and is to be paid by the company compulsorily.
4. When Payable	It is payable when a company earns sufficient profit in a year after fulfilling all obligations.	It is payable every year irrespective of the profits of the company.
5. Rate	It is paid at a fluctuating rate to the equity shareholders since it is linked to the profits of company.	Rate of interest is fixed and pre-determined at the time of issue of the security.
6. Resolution	Payment of Final Dividend requires a Board resolution and an ordinary resolution at the AGM while Interim Dividend can be paid by passing only a Board Resolution.	Payment of interest does not require passing of a resolution at any meeting.
7. Accounting Treatment / Aspect	Dividend is an appropriation of profit.	Interest is a charge on profit.

SUMMARY

- The owners of company viz. the shareholders expect return on their investment in the form of profits of the company.
- Dividend is the share of profit paid to (a) Preference (b) Equity shareholders by the company.
- Dividend can be (a) Interim and (b) Final.
- Company has to follow legal provisions with respect to (a) Sources of Dividend (b) Declaration of Dividend (c) Payment of Dividend.
- Interim Dividend is a part of Final Dividend and it is paid before the end of the financial year from the profits earned during the year.
- Final Dividend is paid on actual profits arrived at after closure of books of accounts at the end of the financial year.
- The Board of Directors decide the quantum of dividend.
- Unpaid / unclaimed Dividend arises due to either company is unable to pay it or shareholder is unable to claim it within 30 days of declaration.
- Interest is an obligation paid by company when it raises borrowings in the form of (a) Debentures (b) Deposits (c) Loans.

EXERCISE

Q.1 A) Select the correct answer from the options given below and rewrite the statements.

1. Dividend is paid to
a) Shareholder b) Debentureholder c) Depositor
2. is profit shared by company with a shareholder.
a) Interest b) Rent c) Dividend
3. Dividend is recommended by
a) Managing Director b) Secretary c) Board of Directors
4. Interim Dividend is declared by
a) Board of Directors b) Debentureholders c) Depositors
5. Final Dividend is declared by
a) Board of Directors b) Shareholders c) Depositors
6. Dividend cannot be declared out of
a) Capital b) Profit c) Reserves
7. Dividend amount should be transferred in a separate Bank Account within days of its declaration.
a) 5 b) 15 c) 50
8. Dividend should be paid within days of its declaration.
a) 3 b) 13 c) 30
9. holders get dividend from residual profits.
a) Equity share b) Preference share c) Debenture
10. Dividend is paid first to shareholders.
a) Equity b) Preference c) Deferred
11. warrant is a cheque containing dividend amount sent by company to the shareholders.
a) Dividend b) Share c) Interest
12. IEPF is created by where unpaid dividend is transferred by company.
a) Central Govt. b) Company c) Shareholders
13. Payment of Dividend must be authorised by the Articles of Association.
a) Interim b) Final c) Bonus
14. is a return paid to creditors by the company.
a) Dividend b) Interest c) Rent
15. is not linked to profits of the company.
a) Dividend b) Interest c) Bonus

B) Match the pairs.

(I)

Group 'A'		Group 'B'	
a)	Dividend	1)	Equity Shareholders
b)	Interest	2)	Appropriation of profit.
c)	Interim Dividend	3)	Recommendation of Secretary.
d)	Final Dividend	4)	Registrar of company.
e)	Fluctuating Rate of Dividend	5)	Obligatory to pay.
		6)	Decided and Declared by the Board of Directors.
		7)	Decided by Board; declared by Members.
		8)	Decided by President of India.
		9)	Company not allowed to pay.
		10)	Declared by Govt. of India

(II)

Group 'A'		Group 'B'	
a)	Dividend	1)	Must inform stock exchange about Dividend declaration
b)	Interest	2)	Creditors
c)	IEPF	3)	Registered Shareholders.
d)	Unpaid Dividend Account	4)	Balance of unpaid Dividend Transferred here.
e)	Listed Company	5)	Unregistered company.
		6)	Non-listed company.
		7)	Unpaid/Unclaimed Dividend.
		8)	Balance of unpaid Bonus transferred here.
		9)	Must inform Government about Dividend declaration.
		10)	General Public.

C) Write a word or a term or a phrase which can substitute each of the following statements.

1. The return on investment paid to the shareholders of the company.
2. The meeting where final dividend is declared.
3. The company which has to intimate stock exchange about declaration of dividend.
4. The shareholders who get dividend at a fixed rate.
5. The shareholders who get dividend at a fluctuating rate.

6. Request by shareholder in prescribed form for payment of dividend into shareholders bank amount.
7. Number of days within which payment of dividend be completed by company, after its declaration.
8. Dividend declared between two AGMs.
9. Dividend decided and declared by the Board.
10. The return paid to the creditors by the company.

D) State whether the following statements are true or false.

1. Dividend is paid to registered shareholders of the company.
2. Dividend is decided by the Board.
3. Dividend is decided by the shareholders.
4. Dividend once declared cannot be revoked.
5. Dividend cannot be paid out of capital.
6. Shareholders decide about the rate and amount of profit to be given as dividend.
7. All categories of shareholders get a fixed rate dividend.
8. IEPF is the fund created by company.
9. Interest is a liability for company.
10. Interest is paid to shareholders of company.

E) Find the odd one.

1. Final Dividend, Interim Dividend, Interest.
2. Out of Capital, Out of free reserve, Out of money given by government.
3. Dividend Account, Dividend Mandate, unpaid/unclaimed dividend Account.
4. Dividend warrant, Dividend Mandate, Cheque.

F) Complete the sentences.

1. Word dividend is derived from Latin term
2. Dividend is paid to.....
3. Dividend can be declared only on recommendation of
4. Dividend must be paid in.....
5. The meeting at which final dividend is approved is
6. Dividend cannot be paid out of
7. Interim dividend is decided and declared by
8. Predecided and a fixed rate of dividend is paid to
9. Payment of dividend must be completed within
10. Payment of Interim Dividend needs to be authorized by
11. The obligatory payment made by company to its creditors is called as

G) Select the correct option from the bracket.

(I)

Group 'A'		Group 'B'	
a)	Dividendum	1)	.....
b)	Interest	2)	.....
c)	.....	3)	Final Dividend
d)	.....	4)	Interim Dividend
e)	Govt. Fund	5)	.....

(Creditors, IEPF, Latin term, At Board Meeting, At AGM)

(II)

Group 'A'		Group 'B'	
a)	Preference Shares	1)	.....
b)	Equity Shares	2)	.....
c)	Deposit holders	3)	.....
d)	.....	4)	Payment of Dividend
e)	.....	5)	Dividend Declared but not paid/claimed

(Unclaimed/Unpaid Dividend, Fixed rate Dividend, Dividend at a Fluctuating Rate, Interest, Within 30 days)

H) Answer in one sentence.

1. What is Dividend ?
2. Who has right to recommend Dividend ?
3. What is final Dividend ?
4. What is Interim Dividend ?
5. Who declares Interim Dividend ?
6. Which shares get dividend at a fixed rate ?
7. Which shares get dividend at a fluctuating rate ?
8. At which Meeting Interim Dividend is decided and declared ?
9. What is Interest ?
10. State the time within which Unpaid Dividend be transferred to unpaid dividend Account ?

I) Correct the underlined word/s and rewrite the following sentences.

1. Dividend is paid to creditors.
2. Interest is paid to shareholders.
3. Final Dividend is paid between two AGMs.
4. Special Resolution must be passed to declare Final Dividend.

5. Dividend must be paid within 60 days of its declaration.
6. The Dividend to be paid should be transferred to Dividend A/c within 30 days of its declaration.
7. Dividend is an obligation to be paid by a company every year.
8. Preference shareholders are given the last priority in payment of dividend.
9. Preference shareholders get dividend from residual profits.
10. Dividend is payable every year irrespective of profits made by company.

J) Arrange in Proper Order :

1. a) Recommendation of Dividend.
b) Checking sufficiency of profits
c) Board Meeting
2. a) Transfer to Dividend Account
b) Transfer to IEPF
c) Transfer to Unpaid Dividend Account
3. a) Closure of Register of Members.
b) Intimate Stock Exchange of Board Meeting.
c) Intimate Stock Exchange of declaration of dividend.
4. a) Decision on Rate of Dividend
b) Transfer to IEPF
c) Payment of Dividend.
5. a) Payment of Interim Dividend
b) Board meeting deciding and declaring Interim Dividend.
c) Authorization of Articles of Association.

Q.2 Explain the following terms/concepts.

- | | |
|----------------------------|-----------------------|
| 1. Profit | 2. Dividend |
| 3. Interest | 4. Final Dividend |
| 5. Interim Dividend | 6. Unpaid Dividend |
| 7. Unpaid Dividend Account | 8. Dividend Mandate |
| 9. IEPF | 10. Rate of Dividend. |

Q.3 Study the following case/situation and express your opinion :

1. LMN Co Limited decides to declare dividend for the financial year 2018-19 in which it has earned profits less than their expectations.
 - a) Is Board right in recommending a dividend of Rs. 5/- per share out of free reserves?
 - b) Can Board declare the dividend though it is not approved by AGM ?
 - c) Can the Board give dividend in the form of gifts ?

2. ABC Co. Ltd. decides to pay Interim Dividend
 - a) Can it be paid out of free reserves ?
 - b) Is the Board right in declaring the same at the Board Meeting ?
 - c) Can the company distribute the same within 30 days of its declaration ?
3. RAJ Company limited decides to pay Interim Dividend
 - a) Is the Board justified to decide Interim Dividend of ₹ 5/per share even though profits till date are insufficient ?
 - b) Can the Board declare it out of Free Reserves ?
 - c) Can the Board declare it out of Capital ?
4. DIAMOND Co. Ltd. is considering to declare Interim Dividend.
 - a) In how many days of declaration it should transfer the funds to Dividend Account ?
 - b) In how many days it must pay it to shareholders?
 - c) In how many days of declaration it must transfer the funds to the Unpaid Dividend A/c?
5. The Board of Directors of STAR Co. Ltd. which is a listed company recommends a dividend of ₹ 15/- per share to be paid in cash.
 - a) Is it justified to pay the dividend firstly to its Preference Shareholders and then after to Equity Shareholders?
 - b) Is the AGM required to approve the same?
 - c) Can the company pay dividend in cash?
6. GOLD Co. Ltd. declares a dividend of ₹ 10/- per share for F.Y. 2018-19.
 - a) Is company under default, if dividend was not paid within 30 days of its declaration ?
 - b) Is company right in transferring the unpaid dividend to its Debenture Reserve Account ?
 - c) Does the company have to transfer the amount of unpaid dividend to IEPF after 30 days ?

Q.4 Distinguish between the Following.

1. Final Dividend and Interim Dividend
2. Dividend and Interest

Q.5 Answer in brief.

1. State any four points to be kept in mind by a Listed Company with respect to Dividend.
2. Discuss any four features of dividend.
3. Explain the features of Interest.

Q.6 Justify the following statements.

1. Dividend is paid out of profits of the company.
2. Interim dividend cannot be paid out of free reserves.
3. AGM is crucial for Final Dividend.
4. Listed Company has to follow additional guide lines on dividend matters.
5. Equity shares get last priority in dividend.
6. Unpaid dividend cannot be used by the company.
7. Interest is a liability/obligation of the company.
8. Approval of members is not needed for Interim Dividend.

Q.7 Answer the following questions.

1. Define Dividend and explain its features..
2. What is Interest? Explain its features.
3. Discuss legal provisions for declaration of dividend.
4. Explain Interim Dividend.

