Divisible Profits & Dividend

1. Concept of Dividend, its declaration, & its related procedure –

- Dividend means divide the profit of the company, at the end of year, among shareholder of the company.

- **Types of dividend**
- There may be two types of dividend:—
- (*a*) Interim dividend, and (*b*) Final dividend.
- Dividend is said to be an **interim dividend**, if it is declared by the Board of directors between two annual general meetings of the company, whereas dividend is **final dividend** if it is *declared at the annual general meeting* of the company.
- Dividend include interim dividend.
- After completion of the year, BOD will propose a rate of dividend, beyond which no dividend can be declared by shareholder of co' in A.G.M.
- Such dividend will become liability of the company only when it is declared by the shareholder of the company in the A.G.M.
- Once dividend id declared by the company, it become liability for the company& such dividend must be **paid** within 30 Days of its declaration
- If any dividend remains unclaimed after 30 days then such amt will be transferred to unclaimed dividend a/c in a scheduled bank within 7 days, will stay in such a/c for 7 years and even upto 7 years it remains unclaimed, it will be transferred to Investor Education & Protection Fund maintained by CG u/s 205(c).
- Dividend once declared, becomes a debt and should not be **revoked** (but interim dividend may be revoked)

- **Source out of which dividend can be declared –**
  1) Current year's revenue profit
  2) Past year's accumulated profit
  3) Government Subsidy or assistance
  4) Any capital profit (if actually realised and permitted by AOA)

2. Declaration of Dividend – Source

A. Declaration of Dividend Out of Profits (CY Profit + PY accumulated profit)

Calculation of Divisible Profits

Calculation of Divisible Profits	
Profits	**xx**
a) (Less): Current year depreciation (if not provided)	**(xx)**
b) (Less): Loss of PY OR Depreciation of PY – whichever is less	**(xx)**
c) (Less): Amount to be transferred to reserves	**(xx)**
Divisible profits (Such amt can be declared as dividend)	**xx**

Distributable Profit – transfer of profit to reserves

% of Dividend of paid-up capital	**% of C.Y. profit to be transferred to reserves**
Upto 10 %	Nil
More than 10% & upto 12.5%	Minimum 2.5 %
More than 12.5% & upto 15%	Minimum 5 %
More than 15% & upto 20%	Minimum 7.5 %
Above 20%	Maximum 10 %

Note – If company wants to transfer more than 10% of its net profit to reserves, then the co' must satisfy following two Conditions (See table below)

Condition 1st – Dividend is Declared in Current Year
Satisfy following two conditions – 1. $Current\ year\ Dividend\ Rae\ \geq Avg\ Dividend\ rate\ of\ last\ 3\ F.Years$ 2. If Bonus share is declared in any of last 3 years, then • $Dividend\ amt\ in\ current\ F.Y\ \geq\ avg\ dividend\ amount\ of\ last\ 3\ F.Y$ **Provided (i.e. No need to fulfill above 2 condition, if)** Net profit of current year of company falls below 20% or more that of Average net profit of last 2 years.
Condition 2nd – Dividend is Not Declared in C.Y. & co' wants to transfer its profit to reserve
• $Amount\ transfered\ to\ reserve < Avg\ Dividend\ amount\ of\ last\ 3\ years$

B. Declaration of Dividend out of Reserves

- Interim dividend should not be declared out of reserves
- In a year in which the profits of the company is inadequate or there is no profit, the company may declare and pay dividend out of free reserves

Conditions to be satisfied, if co' pay dividend out of reserves –

1. Regarding rate of dividend
   Dividend rate must be lower of –
   a) Average dividend rate of last 5 years; or
   b) 10%
2. Amount drawn from reserves shall not exceed 10% of sum of paid up capital + reserves.
3. The amount so withdrawn (in step 2) should be first utilised to setoff current year losses.
4. Balance of reserves after such withdrawal should not fall below 15% of paid-up capital.

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