DIVIDEND

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- A dividend is a payment made by a company to its shareholders, usually as a distribution of profits
- Dividend includes interim divided 2(35)
- The power to pay dividend is inherent in a company and is not derived from the Companies Act, 2013 or the Memorandum or Articles of Association although the Act and the Articles regulate the manner in which dividends are to be declared.
- Right to claim dividend by shareholder arises only after declaration

TYPES OF DIVIDEND

INTERIM	FINAL
Board of directors declared dividend between two annual general meeting	Dividend declared at AGM (Ordinary business and Ordinary Resolution

NATURE OF SHARES ON BASIS OF DIVIDED

EQUITY	PREFERENCE
Dividend payable on dividend policy and availability of profit Paid after preference share holders	If Cumulative preference shares –Dividend accumulated unless it is paid in full If Non cumulative- No arrears of dividend in future

SECTION 123: DECLARATION OF DIVIDEND

SOURCES

- Out of current year profit after providing depreciation (schedule 2)
- Out of Previous year profit after providing depreciation (schedule 2) or out of both
- Money provided by CG/SG in pursuance of guarantee given by that government

TRANSFER TO RESERVES

- Before declaration of dividend in current FY, company may transfer such percentage of profit to reserve as it may consider necessary (Discretion of company to fix percentage too)

DEPOSIT OF AMOUNT

- The amount of the dividend, including interim dividend, shall be deposited in a scheduled bank in a separate account within 5 days from the date of declaration of such dividend(Exception to government company)

DECLARATION OF DIVIDEND FROM ACCUMULATED PROFIT

By complying with rules company can declare from accumulated profit owing to inadequacy or absence of profit (Not applicable if entire capital held by governments)

- Only free reserves can be used

    a) Rate of dividend shall not exceed average rate of dividend declared in last preceding 3 years(if not declared in previous years, this rules shall not apply)

    b) Amount drawn shall not exceed 1/10 th of paid-up capital and free reserves (last FS)

    c) Drawn amount shall first be utilised for setoff losses in current year

    d) After withdrawal the balance of reserves shall not fall below than 15% of paid up capital

INTERIM DIVIDEND

- The Board of Directors of a company may declare interim dividend during any financial year or at any time during closure of FY upto AGM

- Sources were : Out of the surplus in the P/L a/c and out of profits of the FY in which such interim dividend is sought to be declared or profit generated in last quarter preceding declaration

- Company has incurred loss during the current FY up to the end of the quarter immediately preceding the date of declaration of, such dividend shall not be declared at a rate higher than the average dividends declared by the company during the immediately preceding three financial years

- Interim dividend shall be deposited in a scheduled bank in a separate bank account within 5 days from the date of declaration of such dividend.(Exception to government company)

OTHER POINTS

- Dividend can be paid in cash, cheque, warrant , electronic mode and payable to registered share holder, to his order or his banker

- In case of Nidhi Co dividend not claimed within 30 days then such amount shall be credited to his account

- In Section 8 company or any default under section 73 and 74 then dividend declaration is prohibited

SECTION 124 : UNPAID DIVIDEND ACCOUNT

- If declared dividend not paid or claimed within 30 days, within 7 days after expiry of 30 days transferred to unpaid/unclaimed divided account(if not done pay 12% interest p.a)

- Within 90 days from the date of transfer prepare statement(Name, last known address, amount etc) and put on company website or any approved by govt

- If not paid or claimed for 7 consecutive years or more transfer to IEPF (Not shares)

- Penalty for company 5-25 lakhs and officers 1-5 lakhs

Notes :-

- *a) Shares will not be transferred, if beneficial owner has encashed any dividend warrant during the last 7 years.*

- *Board Resolution for authorising Company Secretary or any person for giving effect to necessary acts required to be done for such purpose and Concerned Shareholder to be informed of such transfer to IEPF at 3 months before the due date of transfer of shares and Newspaper advertisement to be given*

SECTION 125 : IEPF (INVESTOR EDUCATION PROTECTION FUND)

CG establishes the fund

SOURCES

- Amounts and donation given by CG, Amount of unpaid dividend account, Amount in IEPF

- Amount in general revenue account of CG, Income from Investment, Disgorgement or disposal of securities

- Application money, matured deposits and matured debentures (only after 7 years from date if become due for payment)

- Interest, amount received from sale proceeds, redemption amount, other

UTILIZATION

- Refund of unclaimed, unpaid, matured deposits and debentures, application money

- Investor education awareness, reimbursement of legal expense of class action suit

- Other purpose, compensation to injured persons by wrong actions (by court order of disgorgement)

OTHER POINTS

- Constitution for administration consisting of chairperson and not exceeding seven members

- Resources provided by CG fro administration and CAG shall conduct audit

- Authority will work in consultation with CAG and preparation of annual report by authority, forward to CG, laid before parliament

SECTION 126 : RIGHT SHARES, BONUS SHARES, RIGHT OF DIVIDEND TO BE HELD IN ABEYANCE PENDING REGISTRATION OF TRANSFER OF SHARES

- Transfer the dividend in relation to such shares to the Unpaid Dividend Account referred to in section 124 unless the company is authorised by the registered holder of such share in writing to pay such dividend to the transferee specified in such instrument of transfer

- Kept in abeyance in relation to such shares any offer of rights shares and any issue of fully paid up bonus shares

SECTION 127 : PUNISHMENT FOR FAILURE TO DISTRIBUTE DIVIDED

- Every defaulting directors fine shall not less than 1000 rupees for every day which default continues and imprisonment which may extend to two years and company shall pay simple interest @ 18% p.a

- Exceptions from liability if
  - If not paid under operation of law,
  - shareholder given direction cannot be complied and same has communicated
  - Dispute regarding right to receive
  - Lawfully adjusted with any dues from share holder
  - any other sufficient reasons

GENERAL POINTS

- Secretarial Standard issued by ICSI(SS-3) deals with dividend

- SS-3 clarifies that distribution of discount coupons to all the Shareholders shall not be treated as deemed Dividend

- Dividend only to registered shareholder

- Register of Members or other security holders are closed for the purpose of dividend distribution (See section 91 of the Companies Act, 2013)

SPACE FOR NOTES