

**RIZVI COLLEGE OF ARTS SCIENCE & COMMERCE**

**SECRETARIAL PRACTICE**

**SYJC**

**10. DIVIDEND & INTEREST**

**D I V I D E N D**

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# DIVIDEND – MEANING & DEFINITION

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 :

- The Institute of Chartered Accountants of India has defined Dividend as, “a distribution to shareholders out of profits or reserves available for this purpose.”
- 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.”



# FEATURES OF DIVIDEND

- It is the portion of profits of the company paid to its shareholders.
- It is payable **out of the profits** of the company.
- Dividend is an unconditional payment made by the company.
- Company can pay dividend only to the shareholders viz. (1) Equity (2) Preference.
- 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.
- Dividend cannot be declared **out of capital**.
- Dividend can be declared only on **recommendation** of the Board of Directors.
- Dividend as recommended by Board of Directors is **approved** and declared by a resolution passed at the Annual General Meeting by the shareholders.
- Dividend for any previous year cannot be declared once that year's Annual Account has been approved in the AGM.
- Dividend once approved and declared by shareholders creates a debt it cannot be **revoked**.
- Dividend includes Interim Dividend.
- Dividend must be paid in **cash and not in kind**.
- Dividend is to be paid on **paid-up value** of shares.
- Dividend cannot be paid on calls paid in advance.

# LEGAL PROVISIONS ON DIVIDEND

## 1.LEGAL PROVISIONS ON SOURCES OF DIVIDEND

**Company may declare & pay dividend for any financial year out of the following**

- 1.current year's profit after providing for depreciation & transfer to reserve.
- 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

**Dividend can be paid out of capital profits**

1. Capital profits are realised in cash.
- 2.Articles of Association of the company permits such a distribution
3. It remains as profits after revaluation of all Assets and Liabilities

**Dividend cannot be paid out of Capital.**

Dividend cannot be paid out of Capital of the company

**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.*

# LEGAL PROVISIONS FOR DECLARATION OF DIVIDEND



**BOARD MEETING**



**SHAREHOLDERS  
APPROVAL**



**SEPARATE BANK  
ACCOUNT**



**PROHIBITION TO PAY  
DIVIDEND**

## 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.

# UNPAID AND UNCLAIMED DIVIDEND

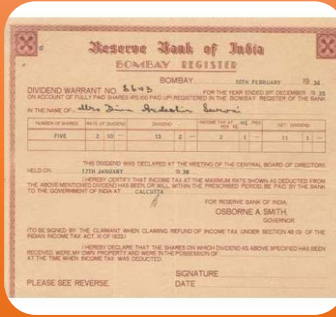
The dividend declared by company but has not been paid by it or claimed by a shareholder within 30 days of its declaration is termed as Unpaid and Unclaimed Dividend. Following rules govern the Unpaid/Unclaimed Dividend

## **Unpaid Dividend Account (Unpaid / Unclaimed Dividend)**

1. Total amount of dividend which remains unpaid/ unclaimed should be transferred to **Unpaid Dividend Account**.
2. 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.
3. 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.
4. Any claimant to the Unpaid Dividend Account may apply to the company for the payment of money claimed.
5. 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)**.

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.

# MODES OF PAYMENT OF DIVIDEND



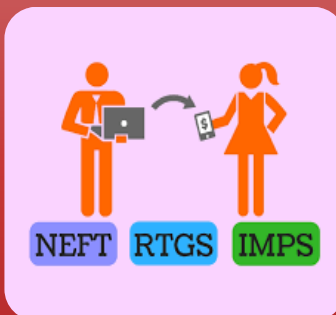
## Dividend Warrant

- It is a cheque sent by a company to a shareholder for payment of dividend to the registered address of the shareholder.

## E-Dividend Mandate Management System

## 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.



## Electronic Mode

A listed company has to mandatorily use RBI approved electronic mode of payment such as ECS. (Electronic Clearing Services), NEFT (National Electronic Fund Transfer).

Make arrangements with bank and in collaboration with other banks, if required, to pay the Dividend Warrants at par.

# 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.



AGM  
conducted on  
31<sup>st</sup> march 2020

Till 30<sup>th</sup> sept2020

AGM will conduct on  
31<sup>st</sup> march 2021

# FEATURES OF INTERIM DIVIDEND

- The Board of **Directors** has the power to declare Interim Dividend.
- Interim Dividend is only a payment on account of the whole dividend for the year.
- Company should provide depreciation for the entire year and not proportionately for a part of the year before declaring Interim Dividend.
- Interim dividend **cannot be paid out of any reserves**.
- **Articles of Association** of the company **must authorize** the Board of Directors to declare Interim Dividend.
- The Board Meeting has to pass a resolution for declaring the Interim Dividend.
- 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.
- Interim Dividend should be paid **within 30 days** of its declaration.
- 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**.'
- Any amount remaining unpaid/unclaimed in the '**Unpaid Dividend A/c' for 7 (seven) years** should be transferred to IEPF.

# INTEREST

## 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.

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.

# INTERIM DIVIDEND AND FINAL DIVIDEND

Points	Interim Dividend	Final Dividend
<b>1. Meaning</b>	It is declared and paid between two AGMs of an accounting year.	It is declared and paid after the close of the financial year.
<b>2. Who Declares</b>	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.
<b>3. Authorization</b>	It can be declared only if Articles of Association permits its declaration.	It's declaration does not need authorization by Articles of Association.
<b>4. When Declared</b>	It is declared between two Annual General Meetings of the company.	It is declared at the Annual General Meeting of the company
<b>5. Rate of Dividend</b>	Rate of Interim dividend is lower than final dividend.	Rate of final dividend is always higher than Interim Dividend.
<b>6. Source</b>	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.
<b>7. Accounting Aspect</b>	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.
<b>8. Legal aspect</b>	If company suffers a loss at the end of the year, the directors will be personally liable to make good amount of disbursed interim dividend.	Declaration of final dividend is always legal, as it is declared only after ascertaining the correct profit on basis of audited accounts.
<b>9. Revocation</b>	Interim dividend can be revoked can be revoked after it's declaration	Final dividend once declared by board of directors can not be revoked

# DIVIDEND AND INTEREST

Points	Dividend	Interest
<b>1. Meaning</b>	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.
<b>2. Given to whom</b>	It is paid to the member i.e. the owners of the company.	It is paid to the creditor of the company.
<b>3. Obligation</b>	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.
<b>4. When Payable</b>	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.
<b>5. Rate</b>	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.
<b>6. Resolution</b>	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.
<b>7. Accounting Treatment / Aspect</b>	Dividend is an appropriation of profit.	Interest is a charge on profit.