

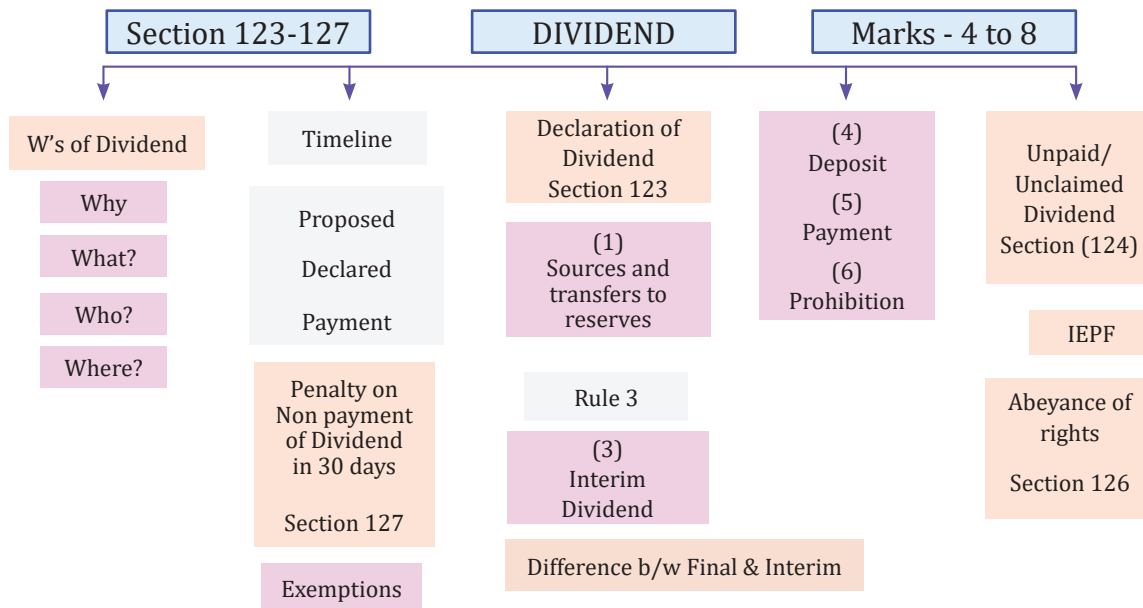
8

CHAPTER

Declaration and Payment of Dividend

S. No.	Table of Contents for the Chapter
01.	Overview of the Chapter
02.	Section 2(35): Meaning of Dividend
03.	Dividend on Basis of Classification of Shares
04.	Types of Dividends
05.	Section 123(3): Interim Dividend
06.	Timeline of the Dividend
07.	Section 123(1): Sources of Dividend and Rule 3 – Declaration Out of Accumulated Profits
08.	Section 123(4) and 123(5): Depositing of Amount of Dividend and Payment of Dividend
09.	Section 123(6): Prohibition on Declaration of Dividend
10.	Section 124: Unpaid Dividend Account (UDA)
11.	Section 125: Investor Education And Protection Fund (IEPF)
12.	Section 126: Right of Dividend Rights Shares And Bonus Shares To Be Held In Abeyance Pending Registration of Transfer of Shares
13.	Section 127: Punishment for Failure to Distribute Dividends within 30 Days

OVERVIEW OF THE CHAPTER



Sections	Provision
123	Declaration of dividend
124	Unpaid Dividend Account
125	Investor Education and Protection Fund
126	Various Rights (Dividend, rights and bonus shares) to be held in abeyance
127	Punishment for failure to distribute dividends

SECTION 2(35) : MEANING OF DIVIDEND

Meaning	<ul style="list-style-type: none"> <input type="checkbox"/> Includes final and interim dividend. <input type="checkbox"/> Distribution to members out of profits or free reserves (where permitted).
Nature	<ul style="list-style-type: none"> <input type="checkbox"/> Shareholders' return on their investment. <input type="checkbox"/> Part of distributable profits.
Declaration	<ul style="list-style-type: none"> <input type="checkbox"/> Recommended by Board of Directors. <input type="checkbox"/> Declared by Shareholders at AGM. <input type="checkbox"/> Declared as a % of Face Value.
Limit on Declaration	<ul style="list-style-type: none"> <input type="checkbox"/> Cannot exceed amount recommended by Board. <input type="checkbox"/> Can be declared at a lower rate by shareholders.
Liability Status	<ul style="list-style-type: none"> <input type="checkbox"/> Becomes a liability only after declaration by shareholders via Ordinary Resolution in a valid AGM.
Table F Provision	<ul style="list-style-type: none"> <input type="checkbox"/> Clause 80 of Table F: No dividend shall exceed amount recommended by Board.

DIVIDEND IS DECLARED AS A PROPORTION OF NOMINAL OR FACE VALUE OF A SHARE

Example-1: AB Ltd. has issued equity shares having face value of Rs. 10 per share. The shares are currently quoting on the NSE at Rs. 250/- per share. The company at its AGM held on 27.7.24 has declared a dividend of 20%. Mr. Shekar owns 1000 shares which he purchased at Rs. 300/- per share. What is the amount of dividend he will receive?

The dividend is to be calculated on Face Value i.e. Rs. 10/-. So dividend per share is 20% of Rs. 10/- = Rs. 2/- per share. So, Mr. Shekar will receive Rs. 2 * 1000 shares = Rs. 2000/-.

Example-2: The shareholders at an annual general meeting unanimously passed a resolution for payment of dividend at a rate higher than that recommended by the directors. Discuss the validity of the resolution.

Articles of Association companies usually contain provisions with regard to declaration of dividend on the pattern of regulations 80 to 85 of Table F to Schedule I of the Companies Act, 2013. Under regulation 80, although the power to declare a dividend vests with the shareholders however under no circumstances they can declare dividend exceeding the amount recommended by the Board of Directors.

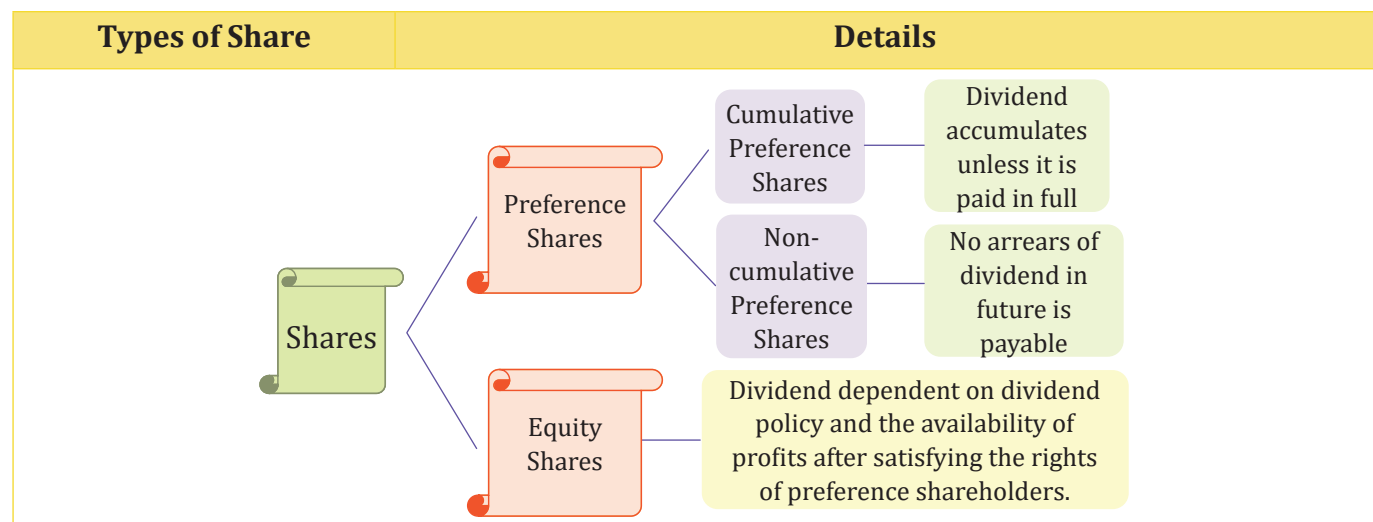
Note: As per section 102 (2) declaration of any dividend at the AGM is an ordinary business requiring ordinary resolution. At any other general meeting it will be special business.

MULTIPLE CHOICE QUESTIONS (MCQ)

- Amount to be transferred to reserves out of profits before any declaration of dividend is
 - 5%
 - 7.5%
 - 10%
 - at the discretion of the company
- The amount which a company is mandatorily required to transfer to its reserves before declaration of dividend is: **(April 22)**
 - 5%
 - 7%
 - 10%
 - None of the above

■ DIVIDEND ON BASIS OF CLASSIFICATION OF SHARES

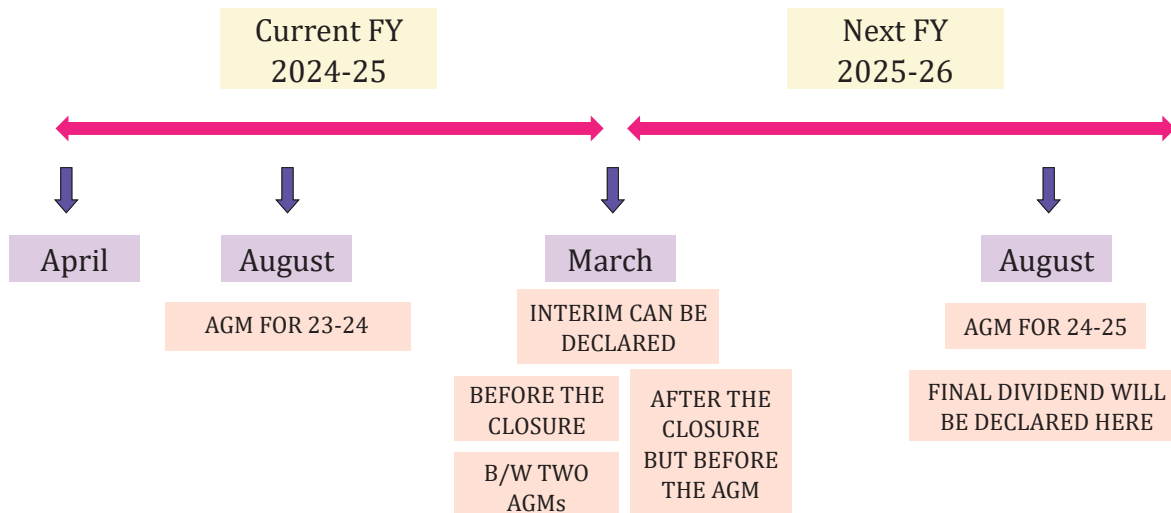
Shares can be classified into two categories i.e. preference shares and equity shares. The manner of payment of dividend is dependent upon the nature of shares.



Preference Shares	<input type="checkbox"/> Holders are assured of preferential dividend at a fixed rate during the life of the company
(A) Cumulative	<input type="checkbox"/> Dividend accumulates if not paid in any year <input type="checkbox"/> Arrears paid from profits of later years <input type="checkbox"/> No equity dividend till arrears paid
(B) Non-Cumulative	<input type="checkbox"/> Dividend only if profits in that year <input type="checkbox"/> No accumulation <input type="checkbox"/> Right lapses if dividend not declared
Equity Shares	<input type="checkbox"/> No preferential rights <input type="checkbox"/> Dividend = Variable (depends on profits & Board's recommendation)
<div style="border: 1px solid green; border-radius: 10px; padding: 5px; background-color: #e0f0e0;"> <p>Until and unless cumulative dividend and its arrears are paid on cumulative preferences in full, no dividend is payable to equity shareholders.</p> </div>	

■ TYPES OF DIVIDENDS

INTERIM AND FINAL DIVIDEND TIMELINE



Particulars	Interim Dividend	Final Dividend
Provision	Section 123(3) & 123(4)	Section 123(1)

Definition	Dividend includes Interim dividend also as per section 2(35). It can be declared during any financial year or at any time during the period from closure of financial year till holding of the AGM	Final dividend is the dividend recommended by the board of directors, and approved by shareholders at the company's Annual General Meeting, after the close of financial year.
Declaration By	Board of Directors	Shareholders at AGM, based on Board's recommendation
Time of Declaration	Between two AGMs (after closure of financial year till AGM). It is done out of profits before the final adoption of the accounts by the shareholders	At the AGM after finalization of accounts
Revocation	It can be revoked with the consent of all shareholders.	It cannot be revoked.
Some Other Important Pointers		
Sources	<input type="checkbox"/> Surplus in P&L <input type="checkbox"/> Current year profits <input type="checkbox"/> Profits generated till the quarter preceding the date of declaration of interim dividend.	Current year's profits or past reserves (as per law)
Restriction (If Loss)	If loss till preceding quarter - then → Rate ≤ average of last 3 FYs' dividends	No such specific restriction
Separate Account	To be deposited in separate bank account within 5 days of declaration	
Applicable Provisions	All provisions related to declaration and payment apply	
Rate Change by Members	Not applicable as declared by Board	Cannot exceed Board's recommendation
Example: If a company declared dividend at the rate of 16% during the immediately preceding three financial years, then in case the company incurs loss in the current financial year, it is permitted to declare interim dividend at a rate which is not higher than 16%.		

MULTIPLE CHOICE QUESTIONS (MCQ)

3. When the dividend is declared at the Annual General Meeting of the company, it is known as-
- (a) Final Dividend
 - (b) Interim Dividend
 - (c) Dividend on preference shares
 - (d) Scrip Dividend
4. The interim dividend in a public company is declared by the -
- (a) Board of Directors
 - (b) Shareholders in the AGM
 - (c) Company Secretary
 - (d) Chief Financial Officer

SECTION 123(3) : INTERIM DIVIDEND

Summary of Interim Dividend - 123(3)

- Dividend includes Interim dividend also as per section 2(35).
- Once declared can be revoked **ONLY if consent of all shareholders**
- During any FY** or at **anytime** during the period from **closure of FY and holding of the AGM [Means any dividend declared between two AGMs]**
- Interim dividend can be declared
 - Out of **surplus in P&L account** (Accumulated profits) and
 - Out of **current FY profits** (year for which dividend is sought to be declared)
 - Out of **Profit till the latest quarter** ended in which dividend is sought to be declared.

- Deposit of such amount in a **separate bank account** in **Scheduled bank** in **5 days**.

However, - **In case of LOSS [otherwise in case of profit no limit for interim]**

- If company incurred loss during the Current FY up to the end of quarter immediately preceding the date of declaration of interim dividend then -

RATE OF DIVIDEND CANNOT BE MORE THE AVERAGE OF 3 IMMEDIATELY PRECEDING FY

MULTIPLE CHOICE QUESTIONS (MCQ)

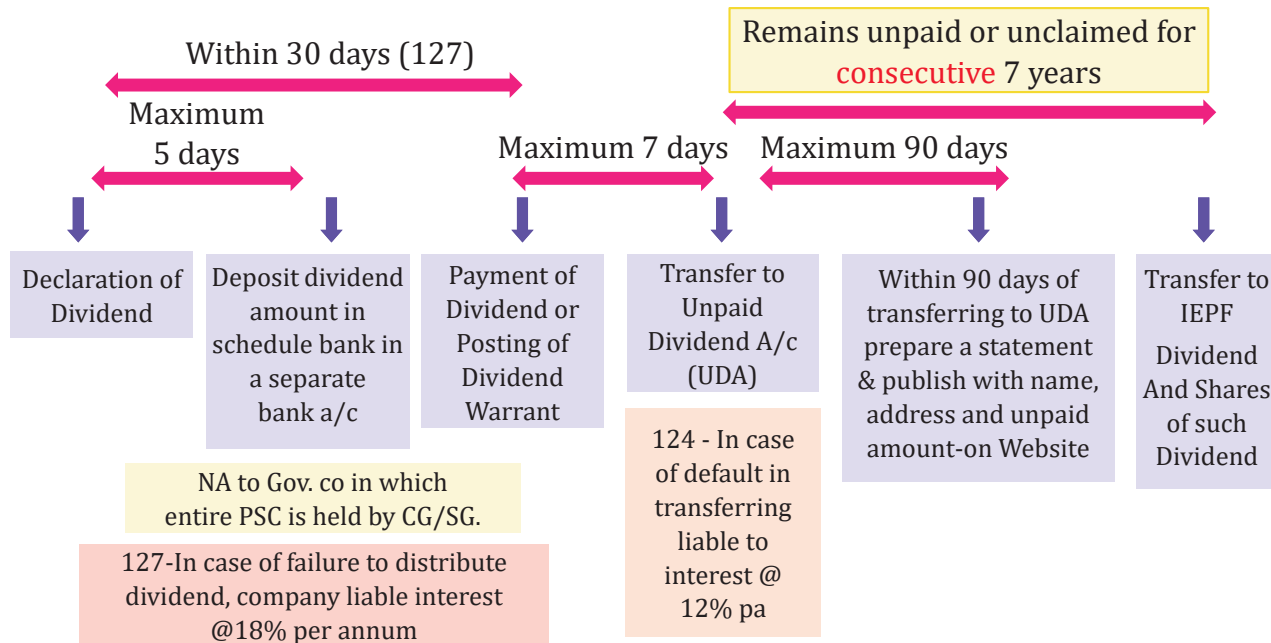
5. The Board of Directors of a company may declare interim dividend out of:
- (a) The surplus in the profit and loss account
 - (b) Profits of the financial year for which such interim dividend is sought to be declared
 - (c) Profits generated in the financial year till the quarter preceding the date of declaration
 - (d) **Either or All of the above**
6. In how many days from the declaration, interim dividend shall be deposited in separate bank account? - 123(4)
- (a) 5
 - (b) 7
 - (c) 15
 - (d) 21
7. The Board of Directors of Mitali Ltd. declared interim dividend on 10th April 2019. The Directors have to deposit the amount of interim dividend in a scheduled bank in a separate bank account on or before
- (a) 25th April 2019
 - (b) **15th April 2019**
 - (c) 10th May 2019
 - (d) 18th April 2019
8. The Board of Directors of Jio Rise Pharmaceuticals Limited are contemplating to declare interim dividend in the last week of July, 2018 but the company has incurred

loss during the current financial year up to the end of June, 2018. However, it is noted that during the previous five financial years i.e., 2013-14, 2014-15, 2015-16, 2016-17 and 2017-18, the company had declared dividend at the rate of 8%,9%,12%,11% and 10% respectively. Advise the Board as to the maximum rate at which they can

declare interim dividend despite incurring loss during the current financial year.

- (a) Maximum at the rate of 10%.
- (b) Maximum at the rate of 11%.
- (c) Maximum at the rate of 10.5%.
- (d) Maximum at the rate of 11.5%.

TIMELINE OF THE DIVIDEND



MULTIPLE CHOICE QUESTIONS (MCQ)

9. The authorised and paid-up share capital of Ananya Ayurvedic Products Limited is ₹50.00 lacs divided into 5,00,000 equity shares of ₹10 each. At its Annual General Meeting (AGM) held on 24th September, 2019, the company declared a dividend of ₹2 per share by passing an ordinary resolution. Mention the latest date by which the amount of dividend must be deposited in a separate account maintained with a scheduled bank
 - (a) Latest by 29th September, 2019
 - (b) Latest by 4th October, 2019
 - (c) Latest by 9th October, 2019
 - (d) Latest by 24th October, 2019
10. After declaration, dividend shall be paid within
 - (a) 14 days
 - (b) 21 days
 - (c) 30 days
 - (d) 45 days
11. Where dividend is not paid within 30 days, it shall be transferred to Unpaid dividend account within.
 - (a) 5 days
 - (b) 7 days
 - (c) 21 days
 - (d) 30 days
12. XYZ Ltd declared 12% dividend to its Equity Shareholders. However, Company missed to transfer unpaid dividend to bank account even after 40 days from declaration of Dividend, In such case how much interest will be payable?
 - (a) 8% p.a.
 - (b) 16% p.a.
 - (c) 10% p.a.
 - (d) 12% p.a.

13. In how many years the amount of unpaid dividend account should be transferred to IEPF?
 (a) 3 years (b) 5 years
 (c) **7 years** (d) 10 years
14. A company declared dividend at its Annual General Meeting held on 30th September, 2019. The company can make payment of dividend out of:
 (a) **A separate account to be maintained with a scheduled bank**
 (b) A separate account to be maintained with Investor Education and Protection Fund
 (c) Normal current account of the company maintained with a scheduled bank
 (d) A separate account maintained of its director's
15. A company declared dividend at its Annual General Meeting held on 31st May, 2020. It should be paid within:
 (a) 14 Days (b) 21 Days
 (c) **30 Days** (d) 45 Days
16. A company declared dividend at its Annual General Meeting held on 13th August, 2020. The amount of dividend payable needs to deposited in a separate bank account by:
 (a) **18th August, 2020**
 (b) 19th August, 2020 (considering National Holiday on 15th August)
 (c) 31st August, 2020
 (d) 12th September, 2020
17. If the dividend has not been paid within 30 days from the date of declaration, the company shall be liable to pay simple interest for the period for which such default continues at the rate of:
 (a) 6% p.a. (b) 12% p.a.
 (c) **18% p.a.** (d) 24% p.a.
18. ABC Ltd. declared a dividend of 5% on its equity shares in the Annual General Meeting held on 13th August, 2020. The company posted a dividend warrant to one of its shareholders on 10th September, 2020 at the address recorded in its register of members. However, the dividend warrants never reached the shareholder and was lost in post. The shareholder contends that company has committed a default in payment of dividend and it should pay interest thereon. What is the correct provision as per Companies Act?
 (a) The company is liable to pay interest @18% p.a. for the delay.
 (b) The directors of company are required to pay fine of 1,00,000.
 (c) The company is liable to pay fine of 1,000 per day for period of default.
 (d) **The company posted the dividend warrant within prescribed time limit and it is not responsible for loss of the same in postage.**

■ **SECTION 123(1) : SOURCES OF DIVIDEND AND RULE 3 - DECLARATION OUT OF ACUMULATED PROFITS**

Sources for Declaration of Dividend - Section 123(1)	
The dividend for any financial year shall be declared or paid from the following sources -	
A Current Year's Profit	Profits of the current year after providing for depreciation as per Schedule II of Companies Act.
B Profits of Previous Year(s)	Profits of earlier years' undistributed profits (also after providing for depreciation) 1. Credit balance of P&L - No conditions 2. Free reserves - Follow Rule 3 conditions Only free reserves can be used, not any other reserves.

C Combination of (A) and (B)	Both current and previous years' profits can be used together for declaring dividend.
D Government Money	Money given by the Central or State Government under a guarantee to help the company pay dividend.

Important Notes about Declaration of Dividend -

1. Meaning of Free Reserves (Sec 2(43)): Free reserves are those reserves shown in the latest audited balance sheet available for distribution as dividend. These are NOT treated as free reserves:
 - Any unrealised or notional gains, or revaluation of assets (even if shown as reserve).
 - Any changes in asset/liability values due to fair value adjustments recognized in equity (including surplus in P&L).
2. Before declaring dividend, past losses and unprovided depreciation of previous years must be adjusted against current profits.
3. While calculating profits, exclude:
 - Unrealised or notional gains
 - Revaluation profits
 - Changes in asset/liability values due to fair value adjustments
4. Capital profits ≠ Distributable profits
Reason: Capital profits are not earned in the normal course of business, so they are normally not available for dividends
5. Need for providing for depreciation out of profits before declaring dividend
 - Dividend is an apportionment from revenue profits. Therefore, dividend should never be declared out of capital. This is also the reason for prohibition on issue of shares at a discount which you studied in the topic Share Capital and Debentures.
 - "Depreciation" is a notional estimate of the reduction in the value of an asset due to wear and tear, efflux of time, improvements in technology etc.
 - If depreciation is not provided for there will be two consequences-
 - ✦ The value of the asset will be overstated in Balance Sheet
 - ✦ The profits of the current year will be overstated.

Let us take a hypothetical case where a company declares all the profits earned during any year as dividend

At the time of winding up of the company the value of assets appearing in the Balance-sheet would appear to be sufficient to repay the capital of the shareholders but the actual realizable value thereof will be a paltry sum which may not be sufficient even to meet the expenses of winding up.

This is because the company has failed to retain the amount of wear and tear in the value of the asset by way of provision for depreciation.

In a way the company would have declared dividend out of capital, which is prohibited.

Hence the law mandates provision for depreciation out of profits before declaration of dividend.

Example - Shreyas Mechanics Limited owns a plot of land which was purchased long before. As the property rates are going up, it is decided to revalue the plot at fair value which is moderately ten times the original price, thus resulting in a revaluation profit of Rs. 20,00,000. The Board of Directors is keen to utilize this Rs. 20,00,000 along with free reserves of Rs. 24,00,000 for declaration of dividend at the forthcoming Annual General Meeting (AGM) to be held on 28th September, 2023. But according to Proviso to Section 123(1)(a), the amount of Rs. 20,00,000 cannot be considered as it does not form part of Free Reserves as the same cannot be utilized towards declaration of dividend.

Transfer to Reserves

It is based on company's discretion

- Transfer of profits to reserves for any financial year has been left to the discretion of the company.
- Therefore, a company is free to transfer any portion of its profit to reserves as it may deem fit.
- It may also decide not to transfer any amount to reserves.

Example-1: For the current year, Alma Watches Limited proposes to transfer more than 10% of its profits to the reserves before declaration of dividend at the rate of 12%. Can the company do so?

Answer: The amount to be transferred to reserves out of profits for any financial year before the declaration of dividend has been left to the discretion of the company. Therefore, Alma Watches Limited is free to transfer any part of its profits to reserves as it may deem fit.

Example-2: Brix Shipyards Limited has earned a profit of Rs. 1,000 crore for the financial year 2023-24. It has proposed a dividend @ 8.75%. However, it does not intend to transfer any amount to the reserves out of the profits earned. Can the company do so?

Answer: The amount to be transferred to reserves out of profits for any financial year has been left to the discretion of the company. The company is free to transfer any part of its profits to reserves as it may deem fit or it may even not transfer any profits to reserve if it is deemed appropriate before the declaration of dividend. Thus, Brix Shipyards Limited is justified in its action if it does not transfer any amount of profits to the reserves.

Declaration of Dividend when there is inadequacy or Absence of Profits (Second Proviso to Sec. 123)

When is it Applicable? -

When the current year's profits are insufficient and company wants to declare dividend from accumulated profits transferred to Free Reserves.

What is a Free Reserve?

- Profits available for dividend distribution (As per latest audited Balance Sheet) but Excludes -
- Unrealised/Notional Gains
- Revaluation Reserves
- Fair value adjustments recognised in equity

**ONLY Free reserves or General reserve
are allowed to be utilised.**

- Unrealised gain
- Notional gain
- Revaluation reserve whether shown as a reserve or otherwise etc. - **Are not allowed.**

Procedure for Declaration

- Declaration of dividend from accumulated profits (Free Reserves) → Must follow 4 Conditions

***** All the three conditions have to be satisfied *****

CONDITION I

“Follow the Past Pattern”

- The rate of dividend declared shall not exceed
- the average of the rates at which dividend was declared by the company
- in the immediately preceding three years.
- However, this condition shall not apply if the company has not declared any dividend in each of the three preceding financial year.

$$\text{Rate of Dividend} \leq (RD1 + RD2 + RD3)/3$$

Where, RD1, RD2, RD3 are rates at which dividend was declared by the company in the immediately preceding three years.

CONDITION II

“Don’t take too much”

- The total amount to be drawn from such accumulated profits
- shall not exceed 10% of its paid-up share capital and free reserves
- as appearing in the latest audited financial statement. In other words:

Total amount that can be drawn from accumulated profits ≤ 10% of (paid up share capital + free reserves)

CONDITION III

“Losses First Rule”

- The amount so drawn shall first be utilised to set off the losses incurred in the financial year in which dividend is declared and
- only thereafter, any dividend in respect of equity shares shall be declared.

CONDITION IV

“Don’t empty the tank”

- The balance of reserves after such withdrawal shall not fall below 15% of its paid-up share capital as appearing in the latest audited financial statement.

Free Reserves after the amount of withdrawal ≥ 15 % of paid up share capital

Note: The conditions prescribed by Rule 3 are not applicable to a Government company in which the entire paid-up share capital is held by the Central Government, or by any State Government or Governments or by the Central Government and one or more State Governments (vide Notification No. 463 (E), dated 05-06-2015).

Example: Capricorn Industries Limited has a paid-up capital of Rs. 200 lakh and accumulated Reserves of Rs. 240 lakh. Loss for the year ending 31st March 2024 is Rs. 30 lakh. Dividend was declared at the following rates during the three years immediately preceding.

Year 1	9%
Year 2	10%
Year 3	12%

What is the maximum rate at which the company can declare dividend for the current year?

Answer: In the given case, Capricorn Industries Limited has not made adequate profits during the current year ending on 31st March, 2024, but it still wants to declare dividend. Let us apply the conditions:

Condition I:

$$\text{Average rate} = \frac{9 + 10 + 12}{3} = 10.33\%$$

Therefore, the rate of dividend shall not exceed 10.33%. i.e. 10.3% of the Paid up Capital i.e. Rs. 200 lakh = Rs. 20.6 lakh

Condition II:

Paid up capital + Free Reserves	=	(200 + 240) lakh
(Assuming all reserves are free)	=	440 lakh
10% thereof	=	44 lakh
Less: loss of the year (Condition III)	=	30 lakh
Amount available	=	14 lakh

Hence the quantum of dividend is further restricted to Rs. 14 lakh

Condition IV:

Amount of reserves available after adjustment of current year loss	=	210 lakh
Proposed withdrawal declaration of dividend	=	14 lakh
Balance of Reserves	=	196 lakh

This is more than 15% of paid-up capital (i.e 15% of 200 lakh) i.e. Rs. 30 lakh.

Thus, the company can declare a dividend of Rs. 14 lakh i.e. at a rate of 7% on its paid- up capital of Rs. 200 lakh.

Example: Shipra Sugar Mills Limited has been regularly declaring dividend at the rate of 20% on its equity shares for the past 3 years. However, the company has not made adequate profits during the current year ending on 31st March, 2024, but it has got adequate free reserves which can be utilized for maintaining the rate of dividend at 20%.

Advise the company as to how it should proceed in the matter if it wants to declare dividend at the rate of 20% for the year 2023-24, as per the provisions of the Companies Act, 2013.

Answer: The company can declare a dividend out of its Accumulated Free Reserves subject to satisfaction of the following conditions:

- ❑ The rate of dividend declared shall not exceed the average of the rates at which dividend was declared by the company in the immediately preceding three years.
- ❑ However, this condition shall not apply if the company has not declared any dividend in each of the three preceding financial year.
- ❑ The total amount to be drawn from free reserves shall not exceed 10% of its paid-up share capital and free reserves as per the latest audited financial statement.
- ❑ The amount so drawn shall first be utilised to set off the losses incurred in the current financial year and only thereafter, dividend at 20% shall be declared.
- ❑ After such withdrawal from free reserves, the residual reserves shall not fall below 15% of its paid-up share capital as per the latest audited financial statement.

The company is advised to get the desired dividend recommended by the Board of Directors and propose the same for the approval of the members at the ensuing Annual General Meeting as the authority to declare dividend lies with the members of the company.

MULTIPLE CHOICE QUESTIONS (MCQ)

- 19.** Dividend can be declared or paid for a financial year by a company out of:
- (i) Profits of that year after depreciation.
 - (ii) Profits of previous financial years after depreciation and remaining undistributed.
 - (iii) Money provided by Central or State Government in pursuance of a guarantee given by that government.
 - (iv) Capital contributed by Central or State Government in pursuance of an agreement.
- (a) (i) or (ii)
(b) (i) or (ii) or (iii)
(c) (i) or (ii) or (iv)
(d) (i) or (iv)
- 20.** A company can declare dividend for a financial year out of profits of that year after providing depreciation in accordance with the provisions of:
- (a) Income Tax Act
(b) Schedule II of Companies Act
(c) Either (a) or (b)
(d) None of the above
- 21.** A company cannot declare dividend for a financial year out of:
- (a) Profits of that year after depreciation and free reserve
 - (b) Profits of previous financial years after depreciation and remaining undistributed
 - (c) Free reserve
 - (d) Revaluation reserve**
- 22.** Guri Mechanics Limited owns a plot of land which was purchased long before. As the property rates are going up, it is decided to revalue the plot at fair value which is moderately ten times the original price, thus resulting in a revaluation profit of ₹20,00,000. The Board of Directors is keen to utilize ₹20,00,000 along with free reserves of ₹24,00,000 for declaration of dividend at the forthcoming Annual General Meeting (AGM) to be held on 28th September, 2019. Advise the company.
- (a) ₹20,00,000 are to be excluded from the distributable profits as the same cannot be utilized towards declaration of dividend.**

(b) Only 25% of ₹20,00,000 can be utilized as distributable profits towards declaration of dividend.

(c) Up to 50% of ₹20,00,000 can be utilized as distributable profits towards

declaration of dividend.

(d) Up to 60% of ₹20,00,000 can be utilized as distributable profits towards declaration of dividend.

■ SECTION 123(4) AND 123 (5): DEPOSITING OF AMOUNT OF DIVIDEND AND PAYMENT OF DIVIDEND

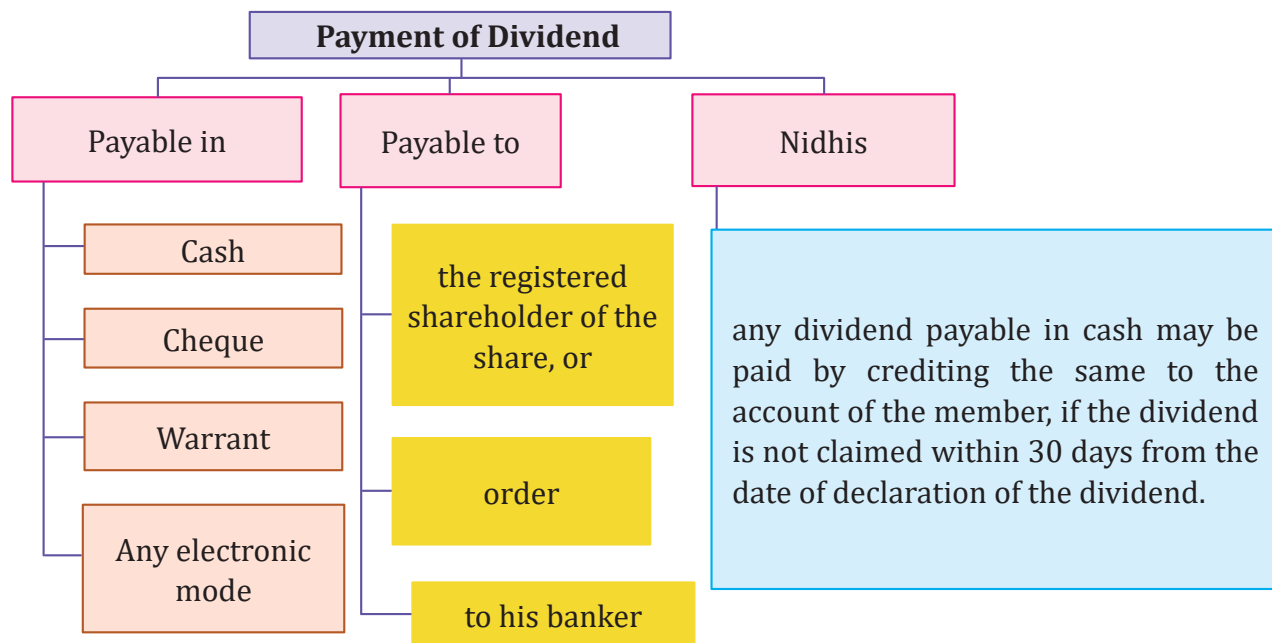
Section 123(4)	<ul style="list-style-type: none"> <input type="checkbox"/> The amount of the dividend (including interim dividend) <input type="checkbox"/> shall be deposited in a separate account maintained with a scheduled bank. <input type="checkbox"/> This is to be done within 5 days from the date of declaration of dividend.
<p>Note: In terms of Notification No. 463 (E), dated 05-06-2015, this requirement shall not apply to a Government Company in which the entire paid up share capital is held by the Central Government, or by any State Government or Governments or by the Central Government and one or more State Governments or by one or more Government Company.</p>	
<p>Example: The authorised and paid-up share capital of Avantika Ayurvedic Products Limited is Rs. 50 lakh divided into 5,00,000 equity shares of Rs. 10 each. At its Annual General Meeting (AGM) held on 24th September, 2024, the company declared a dividend of Rs. 2 per share by passing an ordinary resolution. The amount of dividend must be deposited in a scheduled bank in a separate account latest by 29th September, 2024.</p>	
To Whom Payable Section 123(5)	<ul style="list-style-type: none"> <input type="checkbox"/> Registered shareholder <input type="checkbox"/> His order <input type="checkbox"/> His banker (if shareholder directs so)
Proportionate Dividend Section 51	<ul style="list-style-type: none"> <input type="checkbox"/> Company may pay dividend proportionate to the amount paid-up on each share <input type="checkbox"/> Only if authorized by Articles <input type="checkbox"/> Example - Some of the shareholders have paid Rs. 5 (face value Rs. 10). In case of declaration of dividend at the rate of 5 per share, company may pay 2.50 per share on these partly paid-up shares if authorised by the articles.
Mode of Payment	<ul style="list-style-type: none"> <input type="checkbox"/> "Cash only" means - Not in kind/other assets <input type="checkbox"/> Can be paid by cash, cheque, dividend warrant, or electronic mode like NEFT etc.
Time Limit for Payment Section 127	<ul style="list-style-type: none"> <input type="checkbox"/> Within 30 days from the date of declaration
Posting of Dividend Warrants	<ul style="list-style-type: none"> <input type="checkbox"/> Posted at registered addresses within the same 30-day period.

Note: Dividends shall be paid only in cash. The exception to this is the capitalization of profits or reserves of a company for the purpose of issuing fully paid-up bonus shares or paying up any amount for the time being unpaid on any shares held by the members of the company.

But you may note that while Declaration of dividend does not affect the company's power to issue fully paid up bonus shares, such shares cannot be issued in lieu of dividend.

Applicability to Nidhi companies

- Mutual benefit company who transacts only with its members
- If the dividend is not claimed within 30 days from the date of declaration of the dividend then transfer it to the credit of the member's account (& not UDA)



SECTION 123(6) : PROHIBITION ON DECLARATION OF DIVIDEND

1. A company who fails to comply with the conditions of

- Section 73:** Acceptance of deposits from public
- Section 74:** Repayment of deposits

Shall not, so long as failure continues, declare any dividend on its equity shares

2. Section 8 companies

- Prohibited from paying dividend to its members as their profits are intended to be applied only in promoting the objects of the company.

MULTIPLE CHOICE QUESTIONS (MCQ)

23. The Board of Directors of Star Chemicals Limited is contemplating to. Declare interim

dividend in the last week of July, 2022 but the company has incurred loss during the

current financial year up to the end of June, 2022. However, it is noted that during the previous five financial years i.e., 2017-18, 2018-19, 2019-20, 2020-21, and 2021-22, the company had declared dividends at the rate of 8%, 10%, 9%, 11% and 10% respectively. Advise the Board as to the maximum rate at which they can declare interim dividend despite incurring losses during the current financial year. **(Nov 23)**

(a) Maximum at the rate of 10%.

(b) Maximum at the rate of 11%.

(c) Maximum at the rate of 10.5%.

(d) Maximum at the rate of 11.5%.

24. Where, owing to inadequacy or absence of profits in any financial year, any company proposes to declare dividend out of the accumulated profits earned by it in previous years and transferred by the company to:

(a) Free reserves

(b) Capital reserves

(c) Both (a) and (b)

(d) None of the above

25. In case of inadequacy or absence of profits in any year, a company may declare dividend out of free reserves provided rate of dividend declared does not exceed:

(a) Average of dividend amount in 3 immediately preceding years

(b) Average of dividend amount in 5 immediately preceding years

(c) Average of dividend rates in 3 immediately preceding years

(d) Either (a) or (c)

26. In case of inadequacy or absence of profits in any year, a company may declare dividend out of free reserves provided total amount to be drawn from accumulated profits does not exceed:

(a) 5% of paid-up share capital and free reserves

(b) 10% of paid-up share capital and free reserves

(c) 15% of paid-up share capital and free reserves

(d) 20% of paid-up share capital and free reserves

27. In case of inadequacy or absence of profits in any year, a company may declare dividend out of free reserves provided the balance of reserves after such withdrawal shall not fall below:

(a) 15% of paid-up share capital

(b) 15% of paid-up share capital and free reserves

(c) 5% of paid-up share capital and free reserves

(d) 10% of paid-up share capital and free reserves

28. 'Free reserves' has been defined in Section 2(43) the Companies Act to mean such reserves which are available for distribution as dividend. The reserves for this purpose are taken as per:

(a) Average of balance in audited balance sheet of company for 3 preceding years.

(b) Average of balance in audited balance sheet of company for 5 preceding years.

(c) Latest audited balance sheet of company.

(d) Latest audited balance sheet of company including profit till the quarter preceding the date of declaration.

29. The profits of X Ltd. for financial year 2019-20 are inadequate but the directors still want to recommend dividend. X Ltd. have paid dividend in earlier years as follows:

FY 2016-2017 @ 10%

FY 2017-18 — NIL

FY 2018-19 @ 5%

Subject to compliance of other conditions, the maximum rate of dividend that can be paid by X Ltd. is:

(a) 7.5%

(b) 5%

(c) 2.5%

(d) At any rate recommended by Directors

30. The profits of X Ltd. for financial year 2019-20 are inadequate but the directors still want to recommend dividend. X Ltd. have paid dividend in earlier years as follows:

FY 2016-2017 — NIL
 FY 2017-2018 — NIL
 FY 2018-2019 @ 12%

Subject to compliance of other conditions, the maximum rate of dividend that can be paid by X Ltd. Is:

- (a) NIL **(b) 4%**
 (c) 10% (d) 12%

31. The profits of X Ltd. for financial year 2019-2020 are inadequate but the directors still want to recommend dividend. X Ltd. have not declared dividend in any earlier years. Subject to compliance of other conditions, the maximum rate of dividend that can be paid by X Ltd. Is:

- (a) 7.5%
 (b) 5%
 (c) 2.5%

(d) At any rate recommended by Directors

32. The board of directors of ABC Ltd. declared an interim dividend of 7% on its equity shares in its meeting held on 13th April, 2020. The amount of dividend payable should be deposited in a separate bank within by:

- (a) 12th May, 2020
 (b) 31st April, 2020
(c) 18th April, 2020
 (d) 15th April, 2020

33. The company can make payment of dividend to:

- (a) Registered shareholder only
(b) Registered shareholder or to anyone as per mandate given by shareholder
 (c) Registered shareholder or anyone who has purchased shares from him
 (d) Registered shareholder in electronic mode only

34. In absence of any direction given to the company in case of joint shareholding, the dividend warrant should be sent to:

- (a) First holder named in the register of members.**
 (b) Last holder named in the register of members.
 (c) Legal representative of joint-shareholders.
 (d) Any of the joint holders with intimation to other shareholders.

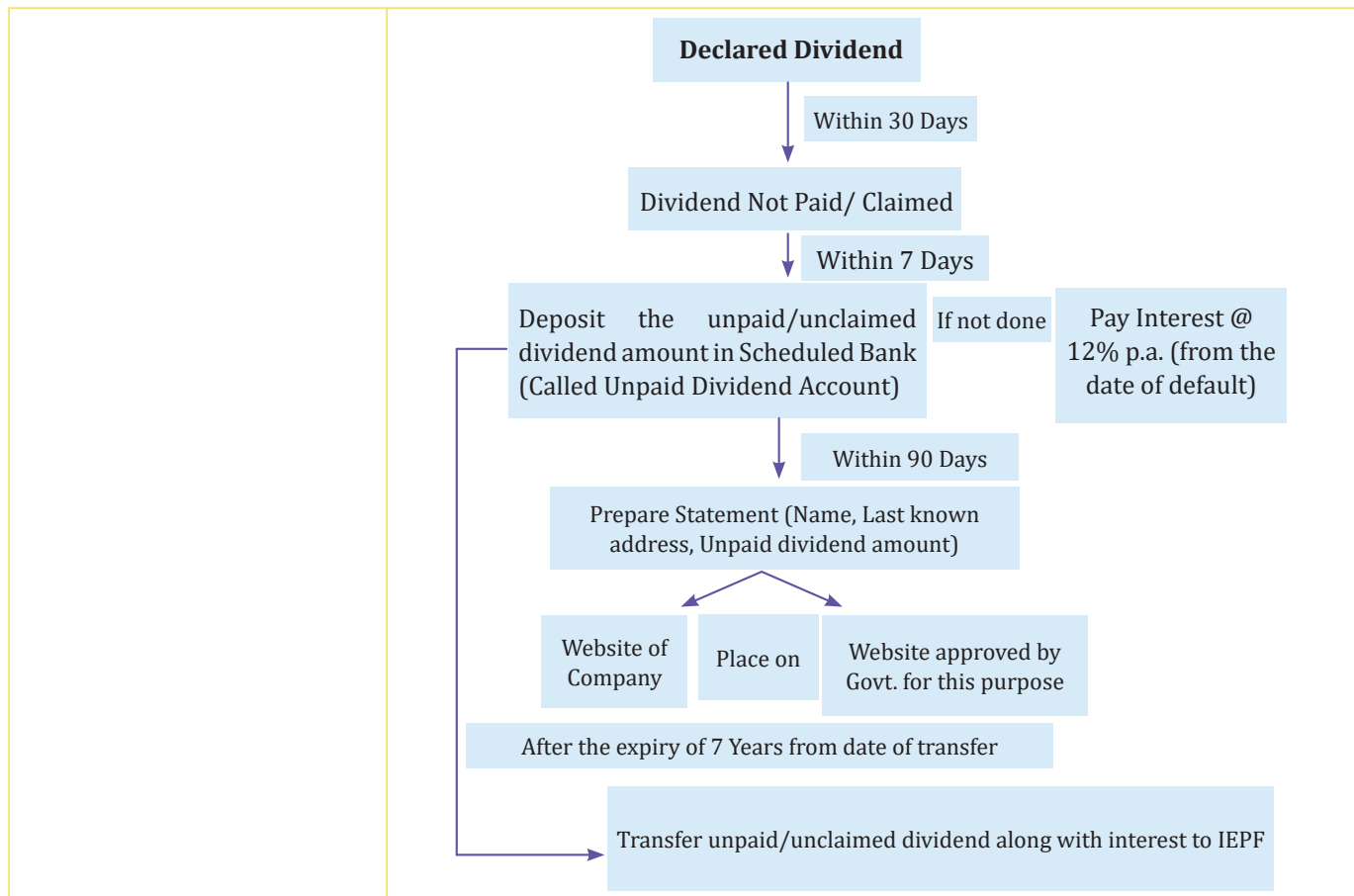
35. A company can make payment of dividend to its shareholders by:

- (a) Cheque or electronic transfer**
 (b) Giving products manufactured by company of equal value
 (c) Issuing shares for equal amount
 (d) All of the above

■ SECTION 124: UNPAID DIVIDEND ACCOUNT (UDA)

Time Limit Transfer to UDA	<input type="checkbox"/> If a declared dividend is not paid or claimed within 30 days from its declaration, <input type="checkbox"/> the company must transfer the amount to a separate Unpaid Dividend Account (UDA) within 7 days after the 30 days expire. <input type="checkbox"/> The UDA must be opened in a scheduled bank.
Statement of Unpaid Dividend	<input type="checkbox"/> Within 90 days of transferring the amount to UDA, the company must prepare a statement with names, last known addresses, and unpaid amounts for each person. <input type="checkbox"/> This statement must be placed on the company's website (if any) and also on any other website approved by the Central Government.

Interest on Delay in Transfer	<ul style="list-style-type: none"> <input type="checkbox"/> If the company fails to transfer the unpaid amount to UDA within the prescribed time, <input type="checkbox"/> interest at 12% p.a. will be payable from the date of default <input type="checkbox"/> for the benefit of the shareholders in proportion to the unpaid amounts.
Claim by Shareholder	<ul style="list-style-type: none"> <input type="checkbox"/> Any person entitled to the unpaid dividend may apply to the company <input type="checkbox"/> for payment of the amount claimed.
Transfer to IEPF (after 7 years)	<ul style="list-style-type: none"> <input type="checkbox"/> Any money remaining unpaid or unclaimed for 7 years from the date of transfer to UDA <input type="checkbox"/> must be transferred to the Investor Education and Protection Fund (IEPF) along with <input type="checkbox"/> any accrued interest.
Intimation to IEPF Authority	<ul style="list-style-type: none"> <input type="checkbox"/> The company must send a prescribed statement <input type="checkbox"/> containing details of the transfer to the IEPF Authority, <input type="checkbox"/> which will issue a receipt as proof of the transfer.
Transfer of Shares to IEPF	<ul style="list-style-type: none"> <input type="checkbox"/> All shares related to unpaid dividends for 7 consecutive years or more <input type="checkbox"/> will also be transferred to the IEPF along with a statement of details.
Exception for Transfer of Shares	<ul style="list-style-type: none"> <input type="checkbox"/> If any dividend is claimed or paid on those shares during any 1 of the 7 years, <input type="checkbox"/> then those shares will not be transferred to the IEPF.
Right to Reclaim Shares	<ul style="list-style-type: none"> <input type="checkbox"/> The shareholder (or legal heir) can apply to IEPF to get back the shares transferred to IEPF <input type="checkbox"/> following the prescribed procedure and submitting necessary documents.
Penalty for Company	<ul style="list-style-type: none"> <input type="checkbox"/> If a company fails to comply with these provisions, <input type="checkbox"/> it is liable to a penalty of ₹1 lakh, plus <input type="checkbox"/> ₹500 per day for continuing default (maximum penalty ₹10 lakh).
Penalty for Officer in Default	<ul style="list-style-type: none"> <input type="checkbox"/> The responsible officer is liable to a <input type="checkbox"/> penalty of ₹25,000, plus <input type="checkbox"/> ₹100 per day for continuing default (maximum penalty ₹2 lakh).



MULTIPLE CHOICE QUESTIONS (MCQ)

- 36.** A company declared dividend at its Annual General Meeting held on 13th August, 2020. The company deposited the dividend payable amount to a separate bank account. However, there is some balance still lying unclaimed. The company should transfer this balance to Unpaid Dividend Account by:
- (a) 12th September, 2020
(b) 19th September, 2020
 (c) 24th September, 2020
 (d) 30th September, 2020
- 37.** The amount of dividend which is not paid or claimed out of Unpaid Dividend Accounts should be transferred to IEPF after the expiry of:
- (a) 7 Years
 (b) 9 Years
 (c) 5 Years
 (d) 3 Years
- 38.** On 18th September 2019 XYZ Ltd. transferred unpaid/unclaimed Dividend amounting to 10 Lakh to the 'Unpaid Dividend Account'. After settlement of various dividend claims till 17th September 2026, 2 Lakh remains unpaid/unclaimed in the said account. The amount of 2 Lakh should be transferred to the Investor Education and Protection Fund (IEPF) by:
- (a) 17th September, 2026
 (b) 22nd September, 2026
 (c) 30th September, 2026
(d) 17th October, 2026

■ SECTION 125 : INVESTOR EDUCATION AND PROTECTION FUND (IEPF)

- This fund being established by the Central Government,
- shall be credited with specified amounts and
- utilized for -
 - Refund of unclaimed and unpaid amounts,
 - promotion of investors' awareness and
 - protection of the interests of investors, etc.

The relevant provisions are discussed below:

Credit of Specified Amounts to the Fund		
S. No.	Source of Amount	Explanation
1.	Grants from Central Government	Amounts given by the Central Government through grants after approval by Parliament.
2.	Donations	Donations given by Central Govt., State Govts., companies, or any other institution for the benefit of investors.
3.	Amount from Unpaid Dividend Account (UDA)	Unpaid/Unclaimed dividends transferred from the Unpaid Dividend Account (UDA) of companies under Section 124(5).
4.	Amount in Central Govt. Revenue Account	Old unclaimed dividends under Section 205A(5) of the Companies Act, 1956 still lying with the Govt. before 2013 Companies Act.
5.	Existing IEPF Balance (under old law)	Amount lying in the old IEPF under Section 205C of Companies Act, 1956.
6.	Income from Investments	Interest or income earned on investments made from the IEPF.
7.	Amount from Disgorgement/ Securities Disposal	Money collected by selling seized securities or disgorged amounts under Section 38(4) (for fraudulent share acquisition).
8.	Application Money due for Refund	Application money for securities not refunded for 7 years or more.
9.	Matured Deposits	Matured deposits (other than those with banks) unclaimed for 7+ years.
10.	Matured Debentures	Matured debentures (of companies) unclaimed for 7+ years.
11.	Interest on Above Amounts	Interest accrued on items H, I, and J above.
12.	Sale of Fractional Shares	Money from sale of fractional shares (from bonus shares, mergers, etc.) remaining unclaimed for 7+ years.

13.	Redemption Amount of Preference Shares	Unpaid redemption amount of preference shares unclaimed for 7+ years.
14.	Other Amounts as Prescribed in Rules	Includes: <ul style="list-style-type: none"> <input type="checkbox"/> All amounts under Sec. 125(2) (as above) <input type="checkbox"/> All shares transferred under Sec. 124(6) if dividend unpaid 7 years <input type="checkbox"/> Resultant benefits (bonus, split, etc.) on such shares <input type="checkbox"/> Grants, fees, and charges collected by the IEPF Authority <input type="checkbox"/> Any other amounts decided by the Central Government <input type="checkbox"/> Shares held by IEPF Authority under Sec. 90(9) (relating to beneficial owners not disclosed) <input type="checkbox"/> Old amounts related to banking laws (like SBI Act, Banking Companies Act) <input type="checkbox"/> All other sums collected by the Authority.
	Rule 3 (3)	For term deposits & debentures, their unpaid interest must also be transferred along with the principal when due.

Note: Disgorgement is the legally enforced repayment of ill-gotten gains imposed on wrongdoers by the courts. Funds that were received through illegal or unethical business transactions are disgorged, or paid back, often with interest and/or penalties to those affected by the action

Utilization of the Fund	
Sec. 125(3)	The IEPF can be used for: <ol style="list-style-type: none"> 1. Refund of unclaimed amounts like dividends, matured deposits & debentures, application money for shares, and interest on them 2. Investor education & awareness. 3. Distribution or Compensation of any disgorged amount to eligible and identifiable applicants (investors) when ordered by a court, for shares or debentures, shareholders, debenture-holders or depositors, if they lost money because of wrongful actions. 4. Reimbursement of legal expenses for investors filing class action suits under Sec. 37 & 245. 5. Other related purposes as per IEPF Rules, 2016.
Refund of Amount Clauses (a) to (d) of sub-section (2) of section 205C	<ul style="list-style-type: none"> <input type="checkbox"/> If someone's unclaimed amounts (like old dividends, deposits) were transferred to IEPF as per old laws (Companies Act, 1956), <input type="checkbox"/> they can apply for refund under the rules of this section.
How to Claim Refund	<input type="checkbox"/> Anyone entitled to these amounts can apply to the IEPF Authority for getting their money back.

7.3 Other Provisions governing the IEPF	
Authority for IEPF	<input type="checkbox"/> The IEPF Authority manages the Fund. <input type="checkbox"/> Constituted by MCA notification on 13.01.2016. <input type="checkbox"/> Secretary of MCA is the ex-officio Chairperson of this Authority. <input type="checkbox"/> Maximum of 7 members including a CEO who acts as convenor.
Resources for the Authority	<input type="checkbox"/> The Central Government provides offices, officers, staff, and resources to help the IEPF Authority in its work.
Consultation with CAG	<input type="checkbox"/> The IEPF Authority must maintain accounts of the Fund in consultation with CAG (Comptroller & Auditor General of India) .
Spending of Money	<input type="checkbox"/> IEPF Authority is responsible for spending the Fund money for the purposes mentioned in Section 125(3).
Audit of the Fund	<input type="checkbox"/> CAG audits the accounts of the Fund at intervals decided by him. <input type="checkbox"/> These audit reports are submitted to the Central Government .
Annual Report of Authority	<input type="checkbox"/> IEPF Authority prepares an Annual Report every year on its activities. <input type="checkbox"/> This report + CAG audit report is submitted to the Central Government , which then lays it before Parliament .

MULTIPLE CHOICE QUESTIONS (MCQ)

39. Sunita Healthcare and Hospitality Limited had issued 9% non-convertible debentures which matured four years back. However, 1000 such debentures of ₹100 each are still remaining unclaimed and unpaid even after the maturity. State the period after which the company needs to transfer them to Investor Education and Protection Fund (IEPF) if they remain unclaimed and unpaid.

- After the expiry of five years from the maturity date.
- After the expiry of six years from the maturity date.
- After the expiry of seven years from the maturity date.**
- After the expiry of eight years from the maturity date.

40. The amount accumulated in the IEPF shall not be used for

- refunds in respect of unclaimed dividends, matured deposits, mature

debentures, application money due for refund and interest thereon,

- reimbursement of legal expenses incurred in pursuing class action suits under Section 37 and 245.
- grants or donation to the Central Government for the purpose of investor's education and training.**
- distribution of any disgorged amount among eligible and identifiable applicants who have suffered losses

41. Which of the following amount is/are not required to be credited to IEPF?

- Balance of Unpaid Dividend Account
- Amount of matured deposits
- Profit on sale of assets**
- Amount of matured debentures

42. The Investor Education and Protection Fund (IEPF) shall be managed by authority

consisting of a chairperson and such other members, not exceeding:

- (a) Seven and a Chief Executive Officer
- (b) Seven including a Chief Executive Officer
- (c) Eight and a Chief Executive Officer
- (d) As the Central Government may fix as per approval of Parliament

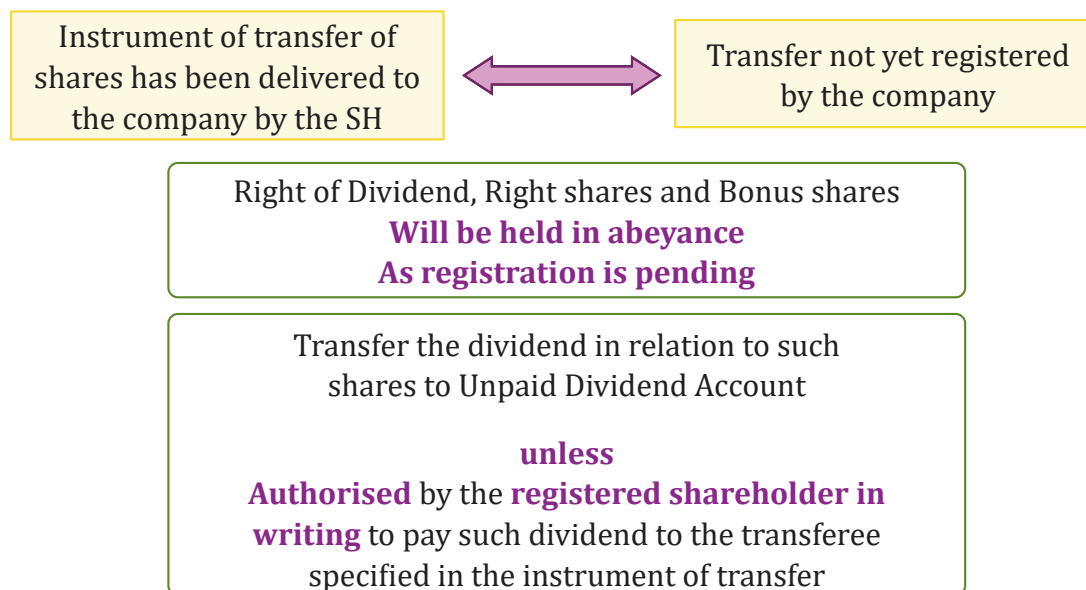
43. The amount accumulated in the Investor Education and Protection Fund shall not be used for:

- (a) refunds in respect of unclaimed dividends, matured deposits, matured

debentures, application money due for refund and interest thereon.

- (b) reimbursement of legal expenses incurred in pursuing class action suits under section 37 and 245.
- (c) grants or donation to the Central Government for the purpose of investor's education and training.
- (d) distribution of any disgorged amount among eligible and identifiable applicants who have suffered losses.

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



Example: The Directors of East West Limited proposed dividend at 15% on equity shares for the financial year 2023-2024. The company announced 7th September 2024 as the record date for payment of dividend. The dividend was approved in the Annual General Meeting held on 3rd September 2024.

Mr. Binoy was the holder of 2000 equity of shares since 31st March, 2018, but he transferred the shares to Mr. Mohan in 2024, whose name has been entered in the register of members on 18th June, 2024. Who will be entitled to the above dividend?

Answer: According to section 123, dividend shall be paid by a company only to the registered shareholder of such share.

Record date is the date announced by the company for determining entitlement to dividend. All those persons whose name is included in the register of members on that date shall be entitled to dividend. In the instant case, on the date announced by the company as the record date, Mr. Mohan's name is present in the register of members (i.e. Mr. Binoy's name is NOT present therein). Therefore, the dividend should be paid to Mr. Mohan who is the registered shareholder on the record date.

MULTIPLE CHOICE QUESTIONS (MCQ)

44. The Directors of Silver tongue Solutions Limited proposed dividend at 18% on equity shares for the financial year 2018- 2019. The same was approved in the Annual general body meeting held on 30th September 2019. The Directors declared the approved dividends. Mr. Jagan was the holder of 2000 equity of shares on 31st March, 2019, but he transferred the shares to Mr. Rajiv on 8th August 2019. Mr. Rajiv has sent the shares together with the instrument of transfer to the company for registration of the shares in his favour only on 25th September 2019. The registration of the transfer of shares is pending on 30th.

September 2019. With respect to the dividend declared the correct action to be taken by the company is:

- (a) Pay the dividend to Mr. Jagan
- (b) Pay the dividend to Mr. Rajiv
- (c) Transfer the dividend in relation to such shares to the Unpaid Dividend Account**
- (d) Transfer the dividend in relation to such shares to the Investor Education and Protection Fund.

■ SECTION 127: PUNISHMENT FOR FAILURE TO DISTRIBUTE DIVIDENDS WITHIN 30 DAYS

Time limit for distribution of dividends and punishment for failure to distribute dividend on time with certain exemptions from punishments:

Time Limit	<input type="checkbox"/> Within 30 days from the date of declaration.
Posting of Warrants	<input type="checkbox"/> Posting within 30 days absolves the company, even if not received by the shareholder.
Offence Committed When	<input type="checkbox"/> Failure to post dividend warrants within 30 days <input type="checkbox"/> Offence under Sec 127.
Non-Receipt	<input type="checkbox"/> No punishment if posted properly but not received by shareholder within 30 days.
Punishment for Default	1. Director (knowingly party to default): <ul style="list-style-type: none"> ➤ Imprisonment up to 2 years ➤ Fine: ₹1,000 per day of default (Payable to the Government) 2. Company → Interest @ 18% p.a. for default period. (Payable to the members)
Exemption from Punishment	

**Under the following cases -
Where the company has failed to pay declared dividend within
30 days of declaration, no offence shall be deemed to have been
committed and therefore, no punishment is attracted -**

When could not pay declared dividend within 30 days of declaration but No punishment is attracted and hence no penalty fin such scenarios -

- O: By **operation** of law.
- D: Shareholder gave **direction** but those cannot be complied and the same has been **communicated** to him.
- D: **Dispute** regarding right to receive.
- A: Lawfully **adjusted** against any other sum due from shareholder.
- D: Not due to **default** of company

- (a) where the dividend could not be paid by reason of the operation of any law;
- (b) where a shareholder has given directions to the company regarding the payment of the dividend and those directions cannot be complied with and the same has been communicated to him;
- (c) where there is a dispute regarding the right to receive the dividend;
- (d) where the dividend has been lawfully adjusted by the company against any sum due to it from the shareholder;
- (e) where, for any other reason, the failure to pay the dividend or to post the warrant within the prescribed period of 30 days was not due to any default on the part of the company.

Example: Mr. Alok, holding equity shares of face value of Rs. 10 lakh, has not paid Rs. 80,000 towards call money due on shares. Can the dividend amount payable to him be adjusted against such dues? Give reasons for your answer.

Answer: Yes. As per clause (d) of Proviso to Section 127, where the dividend is declared by a company and there remains calls in arrears or any other sum due from a member, then the dividend can be lawfully adjusted by the company against any such dues.

Thus, the action of the company adjusting dividend payable to Mr. Alok towards call money due on shares amounting to Rs. 80,000 is justified and therefore, no punishment is attracted.

Note: Applicability of Section 127 to Nidhis

In terms of Notification No. GSR 465 (E), dated 05-06-2015, Section 127 dealing with punishment shall apply to the Nidhis, subject to the following modification:

In case the dividend payable to a member is Rs. 100 or less, it shall be sufficient compliance of the provisions of the section 127, if the declaration of the dividend is announced in the local language in one local newspaper of wide circulation and announcement of the said declaration is also displayed on the notice board of the Nidhis for at least 3 months.

MULTIPLE CHOICE QUESTIONS (MCQ)

45. In case a company fails to pay declared dividends or fails to post dividend warrants within 30 days of declaration, company shall be liable to pay simple interest at the rate ofduring the period for which such default continues.
- (a) 6% p.a. **(b) 12% p.a.**
(c) 15% p.a.
46. Mr. Anand, holding equity shares of face value of 10 Lakh, has not paid 50,000 towards call money due on these shares. The company has declared a dividend @12% on the equity shares. The amount payable to Mr. Anand shall be:
- (a) 1,20,000
(b) 70,000
(c) 1,00,000
(d) NIL until the shareholder pays his calls in arrears.

