

Dividends

A dividend is a portion of a company's divisible profits that is allocated to its shareholders. The declaration and payment of dividends are governed by specific provisions within a company's Articles of Association and relevant laws. Here are the key points regarding dividends:

**Key Points about Dividends**

**1. Declaration of Dividends:**

**Profit Source:** Dividends can be declared from the company's divisible profits or from government-provided funds (subsidy) for dividend payments guaranteed by the government.

**Approval Process:** The company's directors recommend the rate of dividend, which is then approved by the shareholders at the annual general meeting (AGM). The declared rate cannot exceed the directors' recommendation. A dividend is officially declared only when approved at the AGM.

**2. Payment of Dividends:**

**Cash Payments:** Dividends are typically paid in cash unless they are used for issuing bonus shares or offsetting any amounts due from shareholders (e.g., calls on shares).

**Recipients:** Dividends are paid only to the registered holders of shares, their order, or their bankers.

**3. Regulatory Compliance:**

**Memorandum and Articles of Association:** Compliance with provisions in these documents is necessary for dividend payment.

**Prohibition on Capital Use:** Dividends cannot be paid out of the company's capital.

**4. Directors' Role:**

**Recommendation:** Directors have the authority to recommend the rate of dividend.

**Final Dividend:** After the shareholders approve the recommended dividend at the AGM, it becomes the final dividend.

**5. Dividend Handling:**



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Separate Bank Account: The amount of the dividend, including any interim dividend, must be deposited in a separate bank account within five days of its declaration.

Transfer to Reserves: Directors may allocate a portion of the profits to reserves before deciding the dividend rate, to mitigate risks and strengthen the company's financial position.

6. Rate Application:



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Paid-Up Value: The rate of dividend typically applies to the paid-up value of the shares. However, dividends can be declared on the nominal value of the shares, even if the paid-up amount is less. Additionally, dividends can be paid on calls in advance.



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Provisions in Detail

1. Section 123 (Profit Source):

Dividends must be declared from divisible profits or government subsidies specifically provided for dividend payments. This ensures that dividends are paid out of earned income or designated funds, not out of the company's capital or reserves.



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2. Cash Payment Requirement:

Dividends are generally paid in cash. Exceptions include:

Bonus Shares: Issuing additional shares to shareholders instead of cash.

Offsetting Amounts Due: Using dividends to offset any outstanding amounts shareholders owe to the company.



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3. Payment Recipients:

Only registered shareholders, their designees, or their bankers can receive dividends, ensuring payments are directed correctly.



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4. Memorandum and Articles of Association:

These documents outline the company's specific rules for declaring and paying dividends, which must be adhered to.



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5. Bank Account Requirement:

Dividends must be deposited in a separate bank account within five days, ensuring proper handling and availability for distribution.



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6. Reserve Allocation:

Directors can allocate a portion of profits to reserves for future uncertainties and financial stability.

7. Rate of Dividend:

The dividend rate typically applies to the paid-up value of shares but can apply to the nominal value. Dividends may also be paid on calls in advance.

In summary, dividends represent a share of a company's profits distributed to shareholders. The process of declaring and paying dividends involves specific regulatory requirements and internal governance procedures to ensure proper financial management and compliance.

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