

10. Dividend and Interest

Q.1 A) Select the correct answer from the options given below and rewrite the statements.

1. Dividend is paid to

- a) **Shareholder**
- b) Debenture holder
- c) Depositor

2. is profit shared by company with a shareholder.

- a) Interest
- b) Rent
- c) **Dividend**

3. Dividend is recommended by

- a) Managing Director
- b) Secretary
- c) **Board of Directors**

4. Interim Dividend is declared by

- a) **Board of Directors**
- b) Debentureholders
- c) Depositors

5. Final Dividend is declared by

- a) Board of Directors
- b) **Shareholders**
- c) Depositors

6. Dividend cannot be declared out of

- a) **Capital**
- b) Profit
- c) Reserves

7. Dividend amount should be transferred in a separate Bank Account within

days of its declaration.

- a) **5**
- b) 15
- c) 50



8. Dividend should be paid within days of its declaration.
a) 3
b) 13
c) 30
9. holders get dividend from residual profits.
a) Equity share
b) Preference share
c) Debenture
10. Dividend is paid first to shareholders.
a) Equity
b) Preference
c) Deferred
11. warrant is a cheque containing dividend amount sent by company to the shareholders.
a) Dividend
b) Share
c) Interest
12. IEPF is created by where unpaid dividend is transferred by company.
a) Central Govt.
b) Company
c) Shareholders
13. Payment of Dividend must be authorised by the Articles of Association.
a) Interim
b) Final
c) Bonus
14. is a return paid to creditors by the company.
a) Dividend
b) Interest
c) Rent
15. is not linked to profits of the company.
a) Dividend
b) Interest
c) Bonus



B) Match the pairs.

I]

Group 'A'	Group 'B'
a) Dividend	1) Equity Shareholders
b) Interest	2) Appropriation of profit.
c) Interest Dividend	3) Recommendation of Secretary.
d) Final Dividend	4) Registrar of company.
e) Fluctuating Rate of Dividend	5) Obligatory to pay.
	6) Decided and Declared by the Board of Directors.
	7) Decided by Board; declared by Members.
	8) Decided by President of India.
	9) Company not allowed to pay.
	10) Declared by Govt. of India

Ans:

Group 'A'	Ans:
a) Dividend	2) Appropriation of profit.
b) Interest	5) Obligatory to pay.
c) Interest Dividend	6) Decided and Declared by the Board of Directors.
d) Final Dividend	7) Decided by Board; declared by Members.
e) Fluctuating Rate of Dividend	1) Equity Shareholders

II]

Group 'A'	Group 'B'
a) Dividend	1) Must inform stock exchange about Dividend declaration
b) Interest	2) Creditors
c) IEPF	3) Registered Shareholders.
d) Unpaid Dividend Account	4) Balance of unpaid Dividend Transferred here.
e) Listed Company	5) Unregistered company.



	6) Non-listed company.
	7) Unpaid/Unclaimed Dividend.
	8) Balance of unpaid Bonus transferred here.
	9) Must inform Government about Dividend declaration
	10) General Public.

Ans:

Group 'A'	Group 'B'
a) Dividend	3) Registered Shareholders.
b) Interest	2) Creditors
c) IEPF	4) Balance of unpaid Dividend Transferred here.
d) Unpaid Dividend Account	7) Unpaid/Unclaimed Dividend.
e) Listed Company	1) Must inform stock exchange about Dividend declaration

C) Write a word or a term or a phrase which can substitute each of the following statements.

1. The return on investment paid to the shareholders of the company.

Ans: Dividend

2. The meeting where final dividend is declared.

Ans: AGM

3. The company which has to intimate stock exchange about declaration of dividend.

Ans: Listed Company

4. The shareholders who get dividend at a fixed rate.

Ans: Preference Shareholders

5. The shareholders who get dividend at a fluctuating rate.

Ans: Equity shareholders

6. Request by shareholder in prescribed form for payment of dividend into shareholders bank amount.

Ans: Dividend Mandate

7. Number of days within which payment of dividend be completed by company, after its declaration.

Ans: 30 Days

8. Dividend declared between two AGMs.

Ans: Interim Dividend

9. Dividend decided and declared by the Board.

Ans: Interim Dividend

10. The return paid to the creditors by the company.

Ans: Interest

D) State whether the following statements are true or false.

1. Dividend is paid to registered shareholders of the company.

Ans: True

2. Dividend is decided by the Board.

Ans: True

3. Dividend is decided by the shareholders.

Ans: False

4. Dividend once declared cannot be revoked.

Ans: True

5. Dividend cannot be paid out of capital.

Ans: True

6. Shareholders decide about the rate and amount of profit to be given as dividend.

Ans: False

7. All categories of shareholders get a fixed rate dividend.

Ans: False

8. IEPF is the fund created by company.

Ans: False

9. Interest is a liability for company.

Ans: True



10. Interest is paid to shareholders of company.

Ans: False

E) Find the odd one.

1. Final Dividend, Interim Dividend, Interest.

Ans: Interest

2. Out of Capital, Out of free reserve, Out of money given by government.

Ans: Out of Capital

3. Dividend Account, Dividend Mandate, unpaid/unclaimed dividend Account.

Ans: Dividend mandate

4. Dividend warrant, Dividend Mandate, Cheque.

Ans: Dividend Mandate

F) Complete the sentences.

1. Word dividend is derived from Latin term

Ans: Dividendum

2. Dividend is paid to.....

Ans: Registered shareholders

3. Dividend can be declared only on recommendation of

Ans: BOD

4. Dividend must be paid in.....

Ans: Cash

5. The meeting at which final dividend is approved is

Ans: AGM

6. Dividend cannot be paid out of

Ans: Capital

7. Interim dividend is decided and declared by

Ans: BOD

8. Predecided and a fixed rate of dividend is paid to

Ans: Preference shareholders

9. Payment of dividend must be completed within

Ans: 30 Days.

10. Payment of Interim Dividend needs to be authorized by

Ans: Articles of Association

11. The obligatory payment made by company to its creditors is called as

Ans: Interest

G) Select the correct option from the bracket

Group 'A'	Group 'B'
a) Dividendum	
b) Interest	
	3) Final Dividend
	4) Interim Dividend
e) Govt. Fund	

Ans:

Group 'A'	Group 'B'
a) Dividendum	1) <u>Latin term</u>
b) Interest	2) <u>Creditors</u>
c) <u>At AGM</u>	3) Final Dividend
d) <u>At Board Meeting</u>	4) Interim Dividend
e) Govt. Fund	5) <u>IEPE</u>

(Creditors, IEPF, Latin term, At Board Meeting, At AGM)

II]

Group 'A'	Group 'B'
a) Preference Shares	
b) Equity Shares	
c) Deposit holders	
d)	4) Payment of Dividend

e)	5) Dividend Declared but not paid/claimed
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Ans:

Group 'A'	Group 'B'
a) Preference Shares	1) <u>Fixed rate Dividend</u>
b) Equity Shares	2) <u>Dividend at a Fluctuating Rate</u>
c) Deposit holders	3) <u>Interest</u>
d) <u>Within 30 days</u>	4) Payment of Dividend
e) <u>Unpaid / Unclaimed Dividend</u>	5) Dividend Declared but not paid/claimed

(Unclaimed/Unpaid Dividend, Fixed rate Dividend, Dividend at a Fluctuating Rate, Interest, Within 30 days)

H) Answer in one sentence.

1. What is Dividend ?

Ans. Dividend is that part of the profit of the company which is distributed amongst its shareholders by the company.

(2) Who has right to recommend Dividend?

Ans. Board of Directors has right to recommend dividend.

(3) What is Final Dividend ?

Ans. Final Dividend is paid on actual profits arrived at after closure of books of accounts at the end of the financial year.

(4) What is Interim Dividend ?

Ans. Interim Dividend is a part of final dividend and is paid during the year i.e. before the finalisation of annual accounts for the year.

(5) Who declares Interim Dividend ?

Ans. Interim Dividend is declared by Board of Directors in Board Meeting.

(6) Which shares get dividend at a fixed rate ?

Ans. Preference shares get dividend at a fixed rate.

(7) Which shares get dividend at a fluctuating rate ?

Ans. Equity shares get dividend at a fluctuating rate.

(8) At which meeting Interim Dividend is decided and declared?

Ans. Interim Dividend is decided and declared in a Board Meeting by passing a resolution.

(9) What is Interest ?

Ans. Interest is an obligation paid by company when it raises borrowing in the form of debentures, deposits, loans etc.

(10) State the time within which Unpaid Dividend be transferred to Unpaid Dividend Account ?

Ans. Unpaid Dividend is transferred to 'Unpaid Dividend Account' within 37 days from the declaration of dividend.

I) correct the underlined words and rewrite the following sentences.

(1) Dividend is paid to creditors.

Ans. Dividend is paid to registered shareholders.

(2) Interest is paid to shareholders.

Ans. Interest is paid to creditors.

(3) Final Dividend is paid between two AGMs.

Ans. Interim Dividend is paid between two AGMs.



(4) Special Resolution must be passed to declare Final Dividend.

Ans. Ordinary Resolution must be passed to declare Final Dividend.

(5) Dividend must be paid within 60 days of its declaration.

Ans. Dividend must be paid within 30 days of its declaration

(6) The Dividend to be paid should be transferred to Dividend A/c within 30 days of its declaration.

Ans. The Dividend to be paid should be transferred to Dividend A/c within 5 days of its declaration.

(7) Dividend is an obligation to be paid by a company every year.

Ans. Interest is an obligation to be paid by a company every year.

(8) Preference shareholders are given the last priority in payment of dividend.

Ans. Equity shareholders are given the last priority in payment of dividend.

(9) Preference shareholders get dividend from residual profits.

Ans. Equity shareholders get dividend from residual profits.

(10) Dividend is payable every year irrespective of profits made by company.

Ans. Interest is payable every year irrespective of profits made by company.

J) Arrange in Proper Order :

1. a) Recommendation of Dividend.

b) Checking sufficiency of profits

c) Board Meeting

Ans: (b) Checking sufficiency of profits,

(c) Board Meeting,

(a) Recommendation of Dividend

2. a) Transfer to Dividend Account

b) Transfer to IEPF

c) Transfer to Unpaid Dividend Account

Ans: (a) Transfer to Dividend Account,

(c) Transfer to Unpaid Dividend Account,

(b) Transfer to IEPF.

3. a) Closure of Register of Members.

b) Intimate Stock Exchange of Board Meeting.

c) Intimate Stock Exchange of declaration of dividend.

Ans: (b) Intimate Stock Exchange of Board Meeting,

(c) Intimate Stock Exchange of declaration of dividend,

(a) Closure of Register of Members.

4. a) Decision on Rate of Dividend

b) Transfer to IEPF

c) Payment of Dividend.

Ans: (a) Decision on Rate of Dividend,

(c) Payment of Dividend,

(b) Transfer to IEPF.

5. a) Payment of Interim Dividend

b) Board meeting deciding and declaring Interim Dividend.

c) Authorization of Articles of Association.

Ans: (c) Authorisation of Articles of Association,
(b) Board meeting deciding and declaring Interim Dividend,
(a) Payment of Interim Dividend.

Q.2 Explain the following terms/concepts.

(1) Profit.

Ans. (a) Profit is the revenue remaining after all costs are paid. In other words, profit is the difference between revenues and the expenses for a given period.

(b) Profit is the reward to business owners for investing. In small companies, it's paid directly as income. In corporations, it's often paid in the form of dividends to shareholders.

(2) Dividend.

Ans. (a) The term dividend is derived from Latin word 'Dividendum' which means 'to be divided'. Dividend refers to that portion of profit, which is distributed amongst the shareholders of the company.

(b) The Institute of Chartered Accountants of India has defined Dividend as, "a distribution to shareholders out of profits or reserves available for this purpose."

(3) Interest.

Ans. (a) In simple meaning interest is a payment made by a borrower to the lender for the money borrowed and is expressed as a rate percent per year.

(b) Company has to pay interest if it has borrowed money from creditors like Debentures holders, Depositors, Bond holders, etc.

(4) Final Dividend.

Ans. (a) Final dividend is the dividend which is declared at completion of financial year in Annual General Meeting of the company.

(b) Final dividend is recommended by the Board of Directors and declared by the shareholders by passing ordinary resolution (decision) at Annual General Meeting.



(5) Interim Dividend.

Ans. (a) Interim dividend is the dividend which is declared between two annual general meetings of a company.

(b) Interim dividend is declared when the company makes good profit in the first half of the financial year, i.e. declared before the end of the financial year.

(6) Unpaid Dividend.

Ans. (a) The dividend which has not been paid to the shareholders within 30 days of its declaration is called Unpaid Dividend'.

(b) The amount of final dividend as well as interim dividend may remain unpaid / unclaimed.

(7) Unpaid Dividend Account.

Ans. (a) When dividend is not paid to or claimed by shareholders within a period of 30 days from the date of its declaration, the company shall, transfer the unpaid / unclaimed dividend to a separate account called "Unpaid Dividend Account of Company Limited or Company (Private) Limited."

(b) The company has to transfer such unpaid / unclaimed dividend within 7 days after the expiry of 30 days from the date of its declaration.

(8) Dividend Mandate.

Ans. (a) Dividend mandate is an authorisation by a shareholder to the company, to pay his or her dividends directly into a bank account.

(b) For this, shareholder has to fill 'Dividend Mandate Form' (DMF) and is required to send it to the company. After that, company pay dividend directly to shareholder's bankers.

(9) IEPF.

Ans. (a) If the amount of unpaid dividend remains in the account for 7 years from the date of transfer to this account, a company is required to transfer the amount into "Investors' Education and Protection Fund" (IEPF).

(b) IEPF has been set up by the Central Government, since 2001. Examples of some



amounts to be transferred to IEPF are matured deposits with companies, matured debentures with companies, etc.

(10) Rate of Dividend.

Ans. (a) Final dividend is the dividend which is declared at completion of financial year in Annual General Meeting of the company. Interim dividend is the dividend which is declared between two annual general meetings of a company.

(b) The rate of interim dividend is less than final dividend. Whereas, the rate of final dividend is generally more than interim dividend.

Q.3. Study the following case / situation and express your opinion.

(1) LMN Co Limited decides to declare dividend for the financial year 2018-19 in which it has earned profits less than their expectations.

Questions:

(a) Is Board right in recommending a dividend of Rs. 5/- per share out of free reserves?

Ans. Yes. Board can pay dividend out of free reserves. Thus, Board is right in recommending a dividend of Rs. 5/- per share out of free reserves.

(b) Can Board declare the dividend though it is not approved by AGM?

Ans. No, board cannot declare the dividend, if it is not approved by AGM. For declaration of dividend, it is mandatory to approve in AGM.

(c) Can the Board give dividend in the form of gifts?

Ans. No. Board cannot give dividend in the form of gifts. It can only be given in the form of cash.

(2) ABC Co. Ltd. decides to pay Interim Dividend.

Questions:

(a) Can it be paid out of free reserves?

Ans. No. Interim dividend cannot be paid out of free reserves.

(b) Is the Board right in declaring the same at the Board Meeting?



Ans. Yes. Board can declare it in Board Meeting. Thus, Board is right in declaring the interim dividend at the Board Meeting.

(c) Can the company distribute the same within 30 days of its declaration?

Ans. Yes, the company can distribute the same within 30 days of its declaration.

(3) RAJ Company limited decides to pay Interim Dividend.

Questions:

(a) Is the Board justified to decide Interim Dividend of 5/- per share even though profits till date are insufficient?

Ans. No. Interim Dividend cannot be declared if the company is not having sufficient profit. Thus, Board is not justified to decide Interim Dividend of 5/- per share even though profits are insufficient.

(b) Can the Board declare it out of Free Reserves?

Ans. No. Interim dividend cannot be declared out of free reserves.

(c) Can the Board declare it out of Capital?

Ans. No. Interim dividend cannot be declared out of capital. It is declared when the company makes good profit in the first half of the financial year.

(4) DIAMOND Co. Ltd. is considering to declare Interim Dividend.

Questions:

(a) In how many days of declaration it should transfer the funds to Dividend Account?

Ans. Within 5 days of declaration, it should transfer the funds to Dividend Account.

(b) In how many days it must pay it to shareholders?

Ans. It must be paid to shareholders within 30 days of its declaration.

(c) In how many days of declaration it must transfer the funds to the Unpaid Dividend A/c?

Ans. The company has to transfer such unpaid unclaimed dividend within 7 days after the expiry of 30 days (i.e. 37 days) from the date of its declaration.



(5) The Board of Directors of STAR Co. Ltd. which is a listed company recommends a dividend of 15/- per share to be paid in cash.

Questions:

(a) Is it justified to pay the dividend firstly to its Preference Shareholders and then after to Equity Shareholders?

Ans. Yes. Always dividend is firstly paid to preference shareholders and then to Equity Shareholders. Thus, it is justified to pay the dividend firstly to its Preference Shareholders and then after to Equity Shareholders.

(b) Is the AGM required to approve the same?

Ans. Yes. Dividend must be approved in AGM by passing a special resolution. Thus, AGM is required to approve the same.

(c) Can the company pay dividend in cash?

Ans. Yes. The company can pay dividend in the form of cash and not its kind.

(6) GOLD Co. Ltd. declares a dividend of 10/- per share for F.Y. 2018-19.

Questions:

(a) Is company under default, if dividend was not paid within 30 days of its declaration?

Ans. Yes. The company will be under default, if dividend is not paid within 30 days of its declaration.

(b) Is company right in transferring the unpaid dividend to its Debenture Reserve Account?

Ans. No, the company is not right in transferring the unpaid dividend to its Debenture Reserve Account. The unpaid dividend has to be transferred to 'Unpaid Dividend Account'.

(c) Does the company have to transfer the amount of unpaid dividend to IEPF after 30 days?

Ans. No. The company has to transfer the amount of unpaid dividend to IEPF after a period of 7 years.



Q. 4 Distinguish between the following.

1. Interim Dividend and Final Dividend

Interim Dividend	Final Dividend
1. It is declared and paid between two AGMs of an accounting year	It is declared and paid after the close of the financial year.
2. Who Declares: 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.
3. Authorization: It can be declared only if Articles of Association permits its declaration.	It's declaration does not need authorization by Articles of Association.
4. When Declare: It is declared between two Annual General Meetings of the company	It is declared at the Annual General Meeting of the company
5. Rate of Dividend: Rate of Interim dividend is lower than final dividend.	Rate of final dividend is always higher than Interim Dividend.
6. Source : 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.
7. Accounting Aspect : 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.

(2) Dividend and Interest

Ans:

Dividend	Interest
1. Meaning: 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.
2. Given to whom: It is paid to the member i.e. the owners of the company.	It is paid to the creditor of the company.
3. Obligation: 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.



4. When Payable: 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
5. Rate: 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.
6. Resolution: 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
7. Accounting Treatment / Aspect: Dividend is an appropriation of profit.	Interest is a charge on profit.

Q.5 Answer in brief:

(1) State any four points to be kept in mind by a Listed Company with respect to Dividend.

Ans. Dividend refers to that portion of profit, which is distributed amongst the shareholders of the company. The points to be kept in mind by a Listed Company with respect to Dividend are as follows:

- (1) It has to express the dividend on per share basis only. It must use electronic mode for payment of dividend such as Electronic Clearing Services (ECS) or National Electronic Fund Transfer (NEFT); as approved by the Reserve Bank of India (RBI).
- (2) It has to notify stock exchange where company's securities are listed at least 2 (two) days in advance of the date of meeting of the Board at which recommendation of final dividend is to be considered.
- (3) It should intimate Stock Exchange immediately about declaration of dividend after the Board Meeting.
- (4) It should give notice of Book closure to the stock exchange at least 7 (seven) working days before the closure.
- (5) It should close the Register of members and the Transfer Register.



(2) Discuss any four features of dividend.

Ans. Dividend refers to that portion of profit, which is distributed amongst the shareholders of the company. The Institute of Chartered Accountants of India has defined Dividend as, "a distribution to shareholders out of profits or reserves available for this purpose."

Features of dividend are as follows:

- (1) It is the portion of profits of the company paid to its shareholders.
- (2) Dividend cannot be declared out of capital. It is payable out of the profits of the company.
- (3) Dividend can be declared only on recommendation of the Board of Directors.
- (4) Dividend as recommended by Board of Directors is approved and declared by a resolution passed at the Annual General Meeting by the shareholders.
- (5) Dividend must be paid in cash and not in kind. Dividend is to be paid on paid-up value of shares and cannot be paid on calls paid in advance.
- (6) Dividend once approved and declared by shareholders creates a debt. It cannot be revoked.

(3) Explain the features of Interest.

Ans. In simple meaning interest is a payment made by a borrower to the lender for the money borrowed and is expressed as a rate percent per year. It can be defined as "interest is the payment made by borrower for the use of a loan."

Features of interest are as follows:

- (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) It is payable at a fixed and generally pre determined rate.

(6) Interest is a charge against the profit of the company. Even if company makes no profit, interest should be paid.

Q.6. Justify the following statements :

(1) Dividend is paid out of profits of the company.

Ans. Justification:

(1) Dividend refers to that portion of profit, which is distributed amongst the shareholders of the company.

(2) Dividend cannot be declared out of capital. It is payable out of the profits of the company. It is paid to the members i.e. the owners of the company.

(3) It is to be paid only when company has made profits. There is no obligation or compulsion to pay dividend.

(4) Thus, it is rightly justified that, dividend is paid out of profits of the company.

(2) Interim dividend cannot be paid out of free reserves.

Ans. Justification:

(1) Interim dividend is the dividend which is declared between two annual general meetings of a company.

(2) Interim dividend is declared when the company makes good profit in the first half of the financial year, i.e. declared before the end of the financial year.

(3) Interim dividend is declared by the Board by passing a resolution if they are authorised by articles.

(4) Thus, it is rightly justified that, interim dividend cannot be paid out of any reserves. It can be paid out of company's profit only.

(3) AGM is crucial for Final Dividend.

Ans. Justification:

(1) Final dividend is the dividend which is declared at the Annual General Meeting (AGM) of the company.

(2) Final dividend is declared at the completion of financial year in Annual General Meeting of the company.

(3) Final dividend is recommended by the Board of Directors and declared by the shareholders by passing ordinary resolution (decision) at Annual General Meeting.

(4) Thus, it is rightly justified that, Annual General Meeting (AGM) is crucial for Final Dividend.

(4) Listed Company has to follow additional guide lines on dividend matters.

Ans. Justification:

(1) Listed company has to express the dividend on per share basis only. It must use electronic mode for payment of dividend such as Electronic Clearing Services (ECS) or National Electronic Fund Transfer (NEFT); as approved by the Reserve Bank of India (RBI).

(2) It has to notify stock exchange where company's securities are listed at least 2 (two) days in advance of the date of meeting of the Board at which recommendation of final dividend is to be considered.

(3) It should intimate Stock Exchange immediately about declaration of dividend after the Board Meeting.

(4) It should give notice of Book closure to the stock exchange at least 7 (seven) working days before the closure. It should close the Register of members and the Transfer Register. Thus, it is rightly justified that, Listed Company has to follow additional guide lines on dividend matters.

(5) Equity shares get last priority in dividend.

Ans. Justification:

(1) Dividend refers to that portion of profit, which is distributed amongst the shareholders of the company. It is payable only to the registered shareholders of the company.

(2) 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.

(3) Equity shareholders will get dividend only after paying it to preference shareholders.

(4) Thus, it is rightly justified that, equity shares get last priority in dividend.

(6) Unpaid dividend cannot be used by the company.

Ans. Justification:

(1) The dividend which has not been paid to the shareholders within 30 days of its declaration is called 'Unpaid Dividend'.

(2) Unpaid 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.

(3) Any amount remaining unpaid in the "Unpaid Dividend A/c" for 7 (seven) years should be transferred to IEPF.

(4) Thus, it is rightly justified that, unpaid dividend cannot be used by the company.

(7) Interest is a liability/obligation of the company.

Ans. Justification:

(1) In simple meaning interest is a payment made by a borrower to the lender for the money borrowed and is expressed as a rate percent per year.

(2) Payment of interest is an obligation and is to be paid by the company compulsorily.

(3) Interest is a charge against the profit of the company. Even if company makes no profit, interest should be paid.

(4) Thus, it is rightly justified that, interest is a liability/obligation of the company.

(8) Approval of members is not needed for Interim Dividend.

Ans. Justification:



(1) Interim dividend is the dividend which is declared between two annual general meetings of a company.

(2) Interim dividend is declared by the Board by passing a resolution.

(3) Articles of Association of the company must give approval to the Board of Directors to declare Interim Dividend.

(4) Thus, it is rightly justified that, approval of members (i.e, shareholders) is not needed for Interim Dividend.

Q. 7 Answer the following questions.

(1) Define Dividend and explain its features.

Ans. Meaning and Definitions of Dividend:

(1) The term dividend is derived from Latin word 'Dividendum' which means 'to be divided'.

(b) Dividend refers to that portion of profit, which is distributed amongst the shareholders of the company.

(2) The Institute of Chartered Accountants of India has defined Dividend as, "a distribution to shareholders out of profits or reserves available for this purpose."

(3) 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 are as follows:

(1) It is the portion of profits of the company paid to its shareholders.

(2) Dividend cannot be declared out of capital. It is payable out of the profits of the company.

(3) Dividend can be declared only on recommendation of the Board of Directors.

(4) Dividend recommended by Board of Directors is approved and declared by a resolution passed at the Annual General Meeting by the shareholders.

(5) Dividend must be paid in cash and not in kind. Dividend is to be paid on paid-up value of shares and cannot be paid on calls paid in advance.

(6) Dividend once approved and declared by shareholders creates a debt. It cannot be revoked (cancelled).

(7) Dividend is an unconditional payment made by the company.

(8) Company can pay dividend only to equity and preference shareholders.

(9) 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.

(10) Dividend for any previous year cannot be declared once that year's Annual Account has been approved in the AGM.

(2) What is Interest? Explain its features.

Ans. Meaning and Definition of Interest:

(1) In simple meaning interest is a payment made by a borrower to the lender for the money borrowed and is expressed as a rate percent per year.

(2) It is usually expressed as an annual rate in terms of money and is calculated on the principal of the loan.

(3) Company has to pay interest if it has borrowed money from creditors like Debentures holders, Depositors, Bond holders, etc.

(4) It can be defined as, "interest is the payment made by borrower for the use of a loan."

Features of interest are as follows:

(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) It is payable at a fixed and generally predetermined rate.

(6) Interest is a charge against the profit of the company. Even if company makes no profit, interest should be paid.

(7) The amount of interest paid depends on the terms of the loan, worked out between the lender and the borrower.

(8) Interest can be calculated as simple interest and compound interest:

- Simple interest is calculated only on the principal amount of the loan.
- Compound interest is calculated on the principal and on interest earned.

(3) Discuss legal provisions for declaration of dividend.

Ans. Dividend refers to that portion of profit, which is distributed amongst the shareholders of the company. Legal Provisions for declaration of Dividend are as follows:

(1) Board Meeting:

- Dividend can be declared only on recommendation of Board of Directors at the Annual General Meeting (AGM).

- Board Meeting should be called to pass resolution about:

- Approving the annual accounts (balance sheet and profit and loss account of the company for the year ended),
- Recommending the final amount of dividend,
- Determining the date of book closure
- Fixing the Day, Date, Time and Venue of AGM,
- Approving the notice of AGM,
- Authorizing the Company Secretary/Director to issue the notice of AGM.

(2) Shareholders' Approval:



- Dividend is approved by shareholders by passing an Ordinary Resolution at the Annual General Meeting.
- Shareholders can declare dividend at lower rate than what is recommended by the Board but not higher than that.
- Once the dividend is declared at the General meeting it cannot be revoked.
- The company cannot declare further dividend after declaration of dividend at Annual General Meeting. In other words, company cannot declare it second time in that year.

(3) Separate Bank Account:

- The Company must deposit the dividend amount within five (5) days of its declaration in a separate bank account opened in a scheduled bank called as "Dividend Account".
- In case of listed company, it has to express the dividend on per share basis only. It must use electronic mode for payment of dividend such as Electronic Clearing Services (ECS) or National Electronic Fund Transfer (NEFT); as approved by the Reserve Bank of India (RBI).

(4) Prohibition to Pay Dividend:

- A company cannot declare any dividend on its equity shares, if it has failed to repay deposit or any interest on deposit.
- A company cannot declared dividend if company has defaulted on:
 - Redemption of Debentures or payment of interest,
 - Redemption of Preference shares,
 - Payment of interest to financial institution, etc.

(4) Explain Interim Dividend.

Ans. Meaning of Interim Dividend:

- (1) Interim dividend is the dividend which is declared between two annual general meetings of a company.

(2) Interim dividend is declared when the company makes good profit in the first half of the financial year, i.e. declared before the end of the financial year.

(3) Opinion of the company's Auditors should be taken before declaring Interim Dividend.

Features of Interim Dividend are as follows:

(1) Interim dividend is declared by the Board by passing a resolution.

(2) Articles of Association of the company must authorize the Board of Directors to declare Interim Dividend.

(3) Interim Dividend is only a payment on account of the whole dividend for the year.

(4) Company should provide depreciation for the entire year and not proportionately for a part of the year before declaring Interim Dividend.

(5) Interim dividend cannot be paid out of any reserves. It can be paid out of company's profit.

(6) 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.

(7) Interim Dividend should be paid within 30 days of its declaration.

(8) 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 its declaration.

(9) Any amount remaining unpaid/unclaimed in the 'Unpaid Dividend A/c' for 7 (seven) years should be transferred to IEPF.