1.3 · Dividends P13 · Module 1 · Chapter VIII, s.123–127 + IEPF

SM pp. 44–50 (7 pages). 14 marks in 7 papers. Long in Jun'23 (a case) and **Jun'26 (declaration and payment, 7 marks)**; the rest MCQs. ICMAI's PTP repeated the Jun'26 question.

Paper	What was asked	Marks
Jun'23	MCQ: dividend distribution policy is decided by the **Board** · Q3(c) **failure to pay**: a bank mandate failed and the shareholder was not told; a court order stopped payment	2 + 3
Dec'23	MCQ: dividend deposited in a separate account within **5 days** (s.123(4))	2
Jun'26	Q2(a) **statutory provisions on declaration and payment of dividend**	7

DEC'26 PREDICTION

Tier **B**, **2–7 marks**. Dividend was the long question in Jun'26, so expect an **MCQ**. If a long question comes, the fresh part is the **unpaid dividend account and the IEPF** (s.124/125, never asked).

1 Meaning, sources of dividend, and dividend out of reserves (s.2(35), s.123)

WHAT IT IS **Dividend** (s.2(35)) **includes interim dividend**: the part of profit **not retained** but distributed to shareholders in proportion to the amount paid up on their shares. A **final dividend** is declared at the **AGM on the Board's recommendation**; an **interim dividend** is declared by the **Board** between AGMs. **Section 8** companies cannot pay dividend. [SM 44]

DECLARED ONLY OUT OF (s.123(1))

a. the **current year's profit**, after **depreciation**
b. **undistributed profits of previous years**, after depreciation
c. both

- Profits **exclude unrealised or notional gains, revaluation** and fair-value changes. [SM 45]
- **Not out of reserves other than free reserves.** Carried-forward losses and depreciation are set off first. [SM 45]
- A company that has **failed to repay public deposits** or interest (s.73, 74) **cannot declare dividend**. [SM 45]
- It may first transfer any percentage of profits to reserves. [SM 45]

OUT OF FREE RESERVES, IN A LOSS OR LOW-PROFIT YEAR (Rule 3)

1. rate not above the **average rate of the 3 preceding years** (not applicable if no dividend was declared in each of those 3 years) (MCQ bank 254)
2. amount drawn not above **one-tenth** of (paid-up capital + free reserves) per the latest audited FS
3. the amount drawn is **first used to set off the year's losses**, before any equity dividend
4. reserves left must be at least **15%** of paid-up capital

[SM 45]

2 Interim dividend, depositing, payment, and failure to pay (s.123(3)–(5), s.127)

INTERIM DIVIDEND s.123(3)

- Declared by the **Board** (SM MCQ 88; PTP and postal MCQs) during the year, or between the year-end and the AGM, out of the P&L surplus or the year's profits (up to the quarter before declaration). [SM 46]
- If there is a **loss** up to the end of the preceding quarter: rate not above the **average of the 3 preceding years**. [SM 46]
- **Ratified at the AGM** with the final dividend. [SM 46]

Deposit (s.123(4)): the dividend, interim included, goes into a **separate account in a scheduled bank within 5 days** of declaration (Dec'23 MCQ; SM MCQ 26). Not for 100% Government companies. [SM 45–46]

PAYMENT s.123(5)

- A dividend **once declared at the AGM cannot be revoked** (SM MCQ 24). [SM 46]
- Payable **in cash**: by cheque, warrant or electronic mode, only to the **registered shareholder**, his order or his banker. [SM 46]
- **Bonus shares** (capitalisation of profits) are not dividend. [SM 46]

s.127: FAILURE TO DISTRIBUTE

- Every director **knowingly party** to the default: up to **2 years** in jail, and a fine of at least **₹1,000 a day** while it continues. [SM 46]
- The company pays **simple interest at 18% a year** for the period of default. [SM 46]

No offence where: (1) a **law** prevented payment; (2) the **shareholder's directions** could not be complied with **and this was communicated to him**; (3) there is a **dispute** about the right to receive it; (4) it was **lawfully adjusted** against a sum the shareholder owed; (5) the failure was **not due to any default** of the company. [SM 46–47]

⚠ TIME LIMITS THE SM DOES NOT STATE

s.127: a declared dividend must be **paid within 30 days** of declaration; the offence is not paying within that time.
s.124(1): any amount still unpaid is moved to an **Unpaid Dividend Account** within 7 days after those 30 days end.
s.124(6): shares on which dividend has gone unpaid for **7 consecutive years** are also transferred to the IEPF. Use these in a full answer.

3 Unpaid dividend and the IEPF (s.124, s.125): never asked yet

TRANSFER TO THE IEPF

1. Money in the **unpaid dividend account** unclaimed for **7 years** from its transfer goes, with interest, to the **Investor Education and Protection Fund** (SM MCQ 25; MCQ bank 256). [SM 48]
2. Remitted within **90 days** of becoming due; a statement in **Form DIV-5** goes to the IEPF Authority. [SM 48]
3. The company keeps records (names, addresses, amounts, folio and certificate numbers) of those whose money was transferred, for **8 years**. [SM 48]
4. A claimant applies to the **IEPF Authority** for a refund. [SM 48]

WHAT GOES INTO THE FUND · WHAT IT IS USED FOR

Credited: CG grants; donations from Governments and companies; unpaid dividend accounts; old s.205A/205C balances; income on investments; s.38(4) penalties; application money due for refund; **matured deposits** and **debentures** with interest; sale proceeds of **fractional shares** and **unpaid preference redemption** amounts after **7 years**. [SM 47–48]

Used for: refunds of unclaimed amounts · investor education, awareness and protection · distributing **disgorged amounts** to victims · **legal expenses of class actions** (s.37, s.245) sanctioned by the Tribunal. The **Authority**: a chairperson, up to **7** members and a CEO. [SM 48–49]

Dividend distribution policy (LODR Reg 43A): the **top 1,000 listed entities** by market capitalisation (as on 31 March) must have one, disclosed in the annual report and website. It covers: when shareholders may or may not expect dividend; financial parameters; internal and external factors; use of retained earnings; parameters for each class of shares. The **Board** decides it (Jun'23 MCQ). Types: interim, final, special. [SM 49–50]

4 Model answers

MODEL ANSWER 1 · FAILURE TO DISTRIBUTE (JUN'23 Q3(c)) · 3 MARKS

Facts: VS Computers paid all its dividend on time except (i) Mrs AB's: her bank returned it because of a surname mismatch, and the company **did not inform her**; (ii) ₹50,000 due to the successor of the late Mr PR, which a **court order restrained** because of a family succession dispute.

Law: under s.127, failure to pay a declared dividend makes every director knowingly party to it liable to up to **2 years** in jail and a fine of at least **₹1,000 a day**, and the company pays **18%** interest. No offence where the shareholder's directions **could not be complied with and this was communicated to him**, or where a **law** or a **dispute over entitlement** prevents payment. [SM 46–47]

(i) Mrs AB: her mandate could not be complied with, but the company **did not communicate this** to her, so the exception is **not available**. The company is **in default**; the directors responsible are liable and interest at 18% is payable. **(ii) Mr PR's successor:** payment was stopped by a **court order** in a **dispute regarding the right to receive** the dividend. Both exceptions apply, so **no offence**.

ANSWER FRAME · DECLARATION AND PAYMENT OF DIVIDEND (JUN'26 Q2(a), ICMAI PTP Q2(a)) · 7 MARKS

1. **Meaning** (s.2(35)); final dividend at the AGM on the Board's recommendation; interim dividend by the Board.
2. **Sources** (s.123(1)): current or past profits after depreciation; no unrealised gains; free reserves only; carried-forward losses set off; **no dividend while public deposits are in default**.
3. **Out of free reserves**: the four Rule 3 conditions (3-year average, one-tenth, losses first, 15% left).
4. **Interim dividend**: the loss-quarter limit (3-year average); ratified at the AGM.
5. **Deposit** in a scheduled bank within **5 days**; **payment** in cash or electronically to the registered holder; cannot be revoked.
6. **Failure (s.127)**: penalties, 18% interest, exceptions; unpaid amounts → Unpaid Dividend Account → IEPF after 7 years.

[SM 44–48]

SM exercise / MCQ bank on 1.3

24 once declared at the AGM, a dividend	**cannot be revoked**	85 dividend distribution policy decided by ★	**Board of Directors**
25 IEPF	**Investor Education and Protection Fund**	88 interim dividend decided by	**Board of Directors**
26 / bank 255: separate account within ★	**5 days**	bank 254: rate cap = average of last	**3 years**
bank 256: unclaimed 7 years goes to	**IEPF**	bank 260: not a type of dividend	**"mid-term dividend"**

Numbers

deposit within **5 days** · rate cap: average of **3** years · draw at most **1/10** of (PUC + FR) · reserves left **≥ 15%** · s.127: **2 years**, **₹1,000/day**, **18%** · IEPF after **7 years**, remit in **90 days**, DIV-5, records kept **8 years** · Authority: up to **7** members · Reg 43A: top **1,000** listed entities.