

## 14. DECLARATION AND PAYMENT OF DIVIDENDS

### ANALYSIS OF PAST EXAM PAPERS OF IPCC AND CA INTER

Q NO.	N-14	M-15	N-15	M-16	N-16	M-17	N-17	M-18 (O)	M-18 (N)	N-18 (O)	N-18 (N)	M-19 (O)	M-19 (N)	N-19 (O)	N-19 (N)	N-20 (O)	N-20 (N)
3.	-	-	-	-	-	-	-	-	4	-	-	-	-	-	5	-	-
4.	-	-	-	-	-	-	-	-	-	-	2	-	-	-	-	-	4
7.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4	-
8.	-	-	-	-	-	-	-	-	-	-	-	-	3	-	-	-	-

### ANALYSIS OF PAST EXAM PAPERS OF IPCC AND CA INTER FOR PRACTICAL QUESTIONS

Q NO.	N-14	M-15	N-15	M-16	N-16	M-17	N-17	M-18 (O)	M-18 (N)	N-18 (O)	N-18 (N)	M-19 (O)	M-19 (N)	N-19 (O)	N-19 (N)	N-20 (O)	N-20 (N)
1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5	-	-
2	-	-	-	-	-	-	-	-	-	-	3	-	-	-	-	-	-
3	-	-	-	-	-	-	-	-	-	-	3	-	-	-	3	-	-
6	-	-	-	-	-	-	-	-	-	-	-	4	-	-	-	-	-
8	-	-	-	-	-	-	-	-	4	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-	-	3	-	-	-	-	-	-

### CHAPTER OVERVIEW

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### SECTION 1: THEORY FOR CLASSROOM DISCUSSION

Dividend is the shareholders return on their investment / capital in the company. Dividend is part of the distributable profits which has been paid out to them. In simple words, it is a distribution of profits i.e. a portion of profits earned and allocated as payable to the shareholders whenever declared.

**Q.No.1. What is meant by Dividend?**

**(C) (NEWSM)**

**1) MEANING OF DIVIDEND:**

- The word 'dividend' is derived from Latin 'dividendum'. It means a thing to be divided<sup>1</sup>.
- Capitalization of profits in the form of bonus shares is also dividend (*First Proviso to Section 123 (5)*).
- Dividend means the share of the company's profits distributed among the members of the company.
- Shareholders receive dividend in proportion to their shareholding.

**2) DEFINITION OF DIVIDEND – SEC 2(35):**

- Section 2(35) of the Companies Act, 2013, simply states that "dividend" includes any interim dividend.
- Definition of dividend is inclusive and it does not clarify what is dividend.

**3) MEANING OF DIVISIBLE PROFIT:**

- All profits available to Company cannot be distributed to shareholders as dividend.
- The portion of profit, which can legally be distributed to the shareholders of the Company by way of dividend, is called the 'divisible profit'.

**(IMMEDIATELY REFER PRACTICAL QUESTION NO: 6)**

**Q.No.2. How the dividend is classified based on timing of payment?**

**(C) (NEWSM)**

- INTERIM DIVIDEND:** When the Board of Directors declare dividend between two annual general meetings of the Company, such dividend is known as interim dividend.
- FINAL DIVIDEND:** When the dividend is declared at the annual general meeting of the Company, it is known as Final dividend.

All the provisions applicable to dividend are also applicable to interim dividend.

**SIMILAR QUESTION:**

- Who has the authority to declare final dividend.
  - Shareholders at General Meeting.

**Q.No.3 .Company Sonu Ltd. intends to declare dividend for the Financial Year 2020-21. Board of Directors of the company is not sure about the rate of dividend and authority to declare dividend? Advise the directors of the Company.**

**(A) (NEW SM)**

**AUTHORITY TO DECLARE DIVIDEND:** The Company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the Board.

**RATE OF DIVIDEND:**

- Dividend is recommended by Board of Directors in the Board's Report and approved by Shareholders at the Annual General Meeting.
- Dividend is not a liability unless it is declared by the shareholders at a validly constituted general meeting by passing an ordinary resolution at the rates recommended by the Board or such lower rates as they may decide.
- Declaration of dividend by the company at a rate higher than the rate recommended by the Board is not permitted.
- Dividend is declared as a proportion of Nominal or Face Value of a share.

1) 'Ordinary meaning of dividend is a share of profits, whether at a fixed rate or otherwise, allocated to holders of shares in a Company. - Chelsea Waterworks vs. Metropolitan Water Board.

Dividend is a return on investment made in the risk capital of a Company, as distinct from interest on deposits, 'loans and debentures.

**SIMILAR QUESTION:**

1. AB Ltd. has issued equity shares having face value of ₹ 10 per share. The shares are currently quoting on the NSE at ₹ 250/- per share. The Company at its AGM held on 27.7.20 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?
  - A. The dividend is to be calculated on Face Value i.e. ₹ 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/-.
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.
  - A. 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, the power to declare a dividend vests with the general meeting, But not even all the shareholders have the power to declare a dividend exceeding the amount recommended by the Board of Directors.

**Q.No.4. Bilal Ltd intends to declare dividend. The CEO of the company has no idea about the sources for declaration and payment of dividend. You have been approached by CEO for an advice regarding the sources from which dividend can be declared and paid. (A) (NEW SM)**

**DIVIDEND SHALL BE DECLARED OR PAID BY A COMPANY FOR ANY FINANCIAL YEAR:**

- 1) **SOURCES:** The Companies act allows dividend to be paid out of the following sources -
  - a) Profits of the company for the year, after providing for depreciation as per Schedule-II; (Current Profit and Loss A/c) or
  - b) Undistributed profits of the company for any previous financial year or years arrived at after providing for depreciation (Opening balance of Profit and Loss A/c);
  - c) both (a) and (b) above
  - d) Money provided by the CG or a State Government for the payment of dividend in pursuance of a guarantee given by concerned Government.
- 2) **IT MAY BE NOTED THAT IN COMPUTING PROFITS, THE FOLLOWING ARE EXCLUDED**
  - a) Any amount representing unrealized gains, notional gains or revaluation of assets and
  - b) Any change in carrying amount of an asset or of a liability on measurement of the asset or liability at fair value shall be excluded.
  - c) Capital profits are not same as distributable profits because they are not earned in the normal course of business; and therefore, normally not available for distribution as dividend
- 3) The Company shall not declare the dividend unless it set off past year losses or depreciation against the profit of Current Year.
- 4) **TRANSFER TO RESERVES:**
  - a) Company may transfer any percentage of its profits (as it may consider appropriate) to reserves (free reserves) before declaring dividend.
  - b) Such transfer is not mandatory and the Company will decide the percentage to be transferred to reserves.
- 5) **PROHIBITION ON DIVIDENDS:**
  - a) A Company which fails to pay deposits accepted from public, shall not declare any dividend on its equity shares.
  - b) Companies having license u/s 8 are prohibited from paying any dividend to its members. Their profits are intended to be applied only in promoting their objects.

**SIMILAR QUESTIONS:**

1. 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 ₹ 20,00,000. The Board of Directors is keen to utilize this ₹ 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.

- A. According to Proviso to Section 123 (1) (a), the amount of ₹ 20,00,000 cannot be considered as it does not form part of Free Reserves and the same cannot be utilized towards declaration of dividend
2. 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?
  - A. 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
3. Alpha Ltd., A Section 8 Company is planning to declare dividend in the Annual General Meeting for the Financial Year ended 31-03-2019. Mr. Chopra is holding 800 equity shares as on date. State whether the act of the Company is according to the provisions of the Companies Act, 2013, (NEW SM) (M18 - 2M)(N)
- A. Refer Point 4 (b) in the above Answer.

(IMMEDIATELY REFER PRACTICAL QUESTION NO: 1)

**Q.No.5. Canon Ltd incurred huge losses in current year. The Board of Directors of the company plans to declare dividend out of Reserves for the current financial year. You have been approached by CEO for an advice regarding the payment of Dividend out of Reserves (A) (NEW SM)**

- 1) **DECLARATION OF DIVIDEND OUT OF ACCUMULATED PROFITS:**
  - a) If company has inadequate profits or has no profit at all to declare dividend then it can declare dividend out of accumulated profits earned by it (reserves)
  - b) If company wants to declare dividend out of reserves then it shall comply with Rule 3 of Companies (Declaration of Dividend) Rules, 2014
- 2) **DECLARATION OF DIVIDEND FROM FREE RESERVES:** Dividend shall be declared or paid by a Company only from its free reserves. No other reserve can be utilized for the purposes of declaration of such dividend.
- 3) **DECLARATION OF DIVIDEND BY SET OFF OF PREVIOUS LOSSES AND DEPRECIATION AGAINST THE PROFIT OF THE COMPANY FOR THE CURRENT YEAR:** A Company shall not declare dividend unless carried over previous losses and depreciation not provided in previous year or years are set off against profit of the Company for the current year.
- 4) **CONDITIONS:** following conditions are to be satisfied for declaration of dividend out of free reserves:
  - a) **Rate of Dividend:** The rate of dividend declared shall not exceed the average of the rates at which dividend was declared by it in the 3 years immediately preceding that year;
 

**NOTE:** This rule will not apply if a Company has not declared any dividend in each of the 3 preceding financial years.
  - b) **Total amount to be drawn:**
    - i) Total amount drawn from such accumulated profits shall not exceed an amount equal to 1/10<sup>th</sup> of the sum of its paid-up share capital and free reserves (*as appearing in the latest audited financial statement*).
    - ii) The amount so drawn shall be first utilized to set off the losses incurred in the current financial year and then, surplus (if any) can be utilized towards declaration of dividend.
  - c) **Balance of Reserves:** 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*).

**Exemption:** The above proviso shall not apply to a Government Company in which the entire paid up share capital is held by the CG, or by any State Government or Governments or by the CG and one or more State Governments.

#### **SIMILAR QUESTIONS:**

1. The agenda for the meeting of the Board of directors of M/s Brilliant Enterprises Ltd. held on 20-5-2014 for adopting the financial statement for the year ended 31-3-2014 included an item relating to payment - of dividend. At the meeting it became apparent that the profits made during the year ended 31-3-2014 were inadequate to declare dividend.
  - A. Refer above Answer.

2. A Public Company has been declaring dividend at the rate of 20% on equity shares during the last 3 years. The Company has not made adequate profits during the year ended 31st March, 2015, but it has got adequate reserves which can be utilized for maintaining the rate of dividend at 20%. Advise the Company as to how it should go about if it wants to declare dividend at the rate of 20% for the year 2014-15 as per the provisions of the Companies Act, 2013. (NEW SM)
- A. Refer above Answer.

**Q.No.6. Write a short note on Interim Dividend (Sec.123 (3)).**

**(A) (NEW SM)**

1) **MEANING:**

- a. Sec 2(35): Dividend includes interim dividend.  
 b. It is the dividend declared by the Board of Directors between 2 AGMs.

2) **SOURCES:**

Board of Directors of a company may declare interim dividend

- a) during any financial year or  
 b) at any time during the period from closure of financial year till the holding of AGM out of -  
 i) The surplus in the profit and loss account or  
 ii) Profits of the financial year in which such interim dividend is sought to be declared or  
 iii) Profits generated in the Financial Year till the quarter preceding the date of declaration of dividend.

3) **EFFECT OF CURRENT PERIOD LOSS:**

- a) If the company has incurred any loss during the current financial year up to the end of the quarter immediately preceding the date of declaration of interim dividend,  
 b) Then such interim dividend shall not be declared at a rate higher than the average dividends declared by the Company during the immediately preceding 3 financial years.

4. **WHO CAN DECLARE:** As per Regulation 8, Table F - Board shall declare interim dividend.

5. Declaration of interim dividend shall be ratified at the ensuing AGM by the members.

**SIMILAR QUESTION:**

1. State the conditions which are required to be fulfilled before declaration of "Interim Dividend".

A. Refer above answer.

**(IMMEDIATELY REFER PRACTICAL QUESTION NO: 3, 4,5,8)**

**Q.No.7. When and where to deposit the amount of dividend**

**(A) (NEW SM)**

As soon as dividend is declared, the amount of dividend (including interim dividend) shall be deposited in a scheduled bank in a separate account within 5 days from the date of declaration of such dividend.

This sub-section shall not apply to a Government Company in which the entire paid up share capital is held by the:

- 1) Central Government, or
- 2) By any State Government or Governments or
- 3) By the Central Government and one or more State Governments or
- 4) One or more Government companies.

**SIMILAR QUESTIONS:**

1. The authorised and paid-up share capital of Avantika 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. When the amount of dividend must be deposited in a scheduled bank in a separate account?

A. The amount of dividend must be deposited in a scheduled bank in a separate account latest by 29th September, 2019

2. Which companies are not required to deposit the dividend amount within 5 days.

A. Government companies.

**Q.No.8. Write about mode of payment of dividend**

**(A) (NEWSM)**

- 1) **TIME FOR PAYMENT:** Dividends once declared must be paid within 30 days from the date of declaration.
- 2) **MODE OF PAYMENT:**
  - a) Dividends are payable in cash. Dividends that are payable in cash may be paid by Cheque or Dividend warrant or in any Electronic mode.
  - b) Dividend cannot be paid in 'kind' e.g. in form of gifts, goods or bonus shares.
  - c) In the case of Nidhi Company, any dividend payable in cash may be paid by crediting the same to the account of the member, if the dividend is not claimed within 30 days from the date of declaration of the dividend.
- 3) **PAYABLE TO WHOM?**
  - a) Dividend shall be payable only to the registered shareholder of the share or to his order or to his banker.
  - b) In case of joint shareholders, dividend can be paid to person whose name is registered first in register of members

**NOTES:**

- a) *Dividend is paid to another person, if directed by shareholder or joint shareholders in writing.*
- b) *Dividend can be paid to transferee, if the registered holder of shares authorizes Company in writing to pay the dividend to transferee.*
- c) *In case of share warrant, dividend can be paid to bearer of the share warrant or his bankers.*
- d) *If the shares are held in demat, dividend is paid to the beneficiary whose names are provided by CDSL or NSDL to the Company.*
- e) *A Company can capitalize 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.*
- f) *Notice of dividend declared shall be given to the person entitled to share in it, in manner specified in Act. Regulation 87 of table F.*
- g) **Round off:** Dividend to be rounded off to nearest rupees

**SIMILAR QUESTION:**

1. Explain the mode of payment of dividend by Nidhi Company.

A. Refer Note Point in the above answer.

**(IMMEDIATELY REFER PRACTICAL QUESTION NO: 5)**

**Q.No.9. Explain the provisions of Companies Act, 2013 when the dividend declared is not paid [SECTION 124] (A) (NEW SM)**

**PROVISIONS RELATING TO UNPAID OR UNCLAIMED DIVIDEND:**

- 1) **DECLARED DIVIDEND NOT PAID OR CLAIMED TO BE TRANSFERRED TO SPECIAL ACCOUNT:**
  - a) If dividend has been declared by a Company but has not been paid or claimed within 30 days from the date of the declaration then the company shall transfer unpaid or unclaimed dividend to a special account.
  - b) Transfer to special account shall be made within 7 days from the date of expiry of the said 30 days.
  - c) The special account shall be opened by the company in any scheduled bank. The special account to be called the Unpaid Dividend Account.

**2) DEFAULT IN TRANSFERRING OF AMOUNT:**

- a) If any default is made in transferring the amount to the Unpaid Dividend Account then the Company shall pay interest at 12% p.a. on the amount not so transferred.
- b) Interest shall be computed from the date of such default,
- c) The interest accruing on such amount shall ensure to the benefit of the members of the Company in proportion to the amount remaining unpaid to them.

**3) PREPARING OF STATEMENT OF PARTICULARS OF THE UNPAID DIVIDEND:** Within 90 days of making transfer of an amount to the Unpaid Dividend Account, the Company shall –

- a) Prepare a statement containing (i) the names, (ii) their last known addresses, and (iii) the unpaid dividend to be paid to each person and
- b) Place it on –
  - i) The web-site of the Company, if any, and
  - ii) Any other web-site approved by the Central Government.

**4) APPLY FOR PAYMENT OF CLAIMED AMOUNT:** Any person claiming to be entitled to any money lying in this account may apply to the Company within 7 years.

**5) TRANSFER OF UNCLAIMED AMOUNT TO INVESTOR EDUCATION AND PROTECTION FUND(IEPF):**

- a) Money transferred to the unpaid dividend account of a company which remains unpaid or unclaimed for a period of 7 years from the date of such transfer.
- b) The Company shall transfer such amount along with interest accrued (if any) to the IEPF within 30 days after 7 years.
- c) The Company shall send a statement in form no. IEPF-7 along with the details amount credited to IEPF.
- d) IEPF authority shall issue a receipt to the Company as evidence of such transfer.

**6) TRANSFER OF SHARES TO IEPF:** Company shall transfer the shares to IEPF authority (fund) for which dividend has been remained unpaid or unclaimed for consecutive 7 years.

**NOTE:** *In case of dividend is paid or claimed for any year during the said period of 7 consecutive years, the shares shall not be transferred to IEPF.*

**7) RIGHT OF OWNER OF SHARES:** Any claimant of shares transferred above is entitled to claim the transfer of shares from IEPF in accordance with such procedure and on submission of such documents as may be prescribed.

**8) PENALTY FOR CONTRAVENTION:**

If a Company fails to comply with any of the requirements of **this** section;

Who is Punishable	Punishment
Company	<b>Fine:</b> Minimum Rs. 5,00,000 Maximum: Rs. 25,00,000
Every officer of the Company who is in default	<b>Fine:</b> Minimum Rs. 1,00,000 Maximum: Rs. 5,00,000

**SIMILAR QUESTION:**

- 1. In what way does Companies Act, 2013 regulate the unpaid dividend account.
- A. Refer above answer.

**(IMMEDIATELY REFER PRACTICAL QUESTION NO: 9)**

**Q.No.10. Write a short note on Investor Education and Protection Fund [Section 125] (B) (NEW SM)**

**ESTABLISHMENT OF FUND:** The Central Government shall establish a Fund to be known as Investor Education and Protection Fund (herein referred to as the Fund).

**CREDIT OF AMOUNT TO THE FUND:** Following amounts shall be credited to the Fund

- 1) **Grants and Donations:** Given to the IEPF by the C.G., S.G.(s), Companies, any other institutions for the purposes of IEPF.
- 2) Amounts in Unpaid Dividend Accounts of companies (including shares – both equity and preference)
- 3) **Income from investments:** The interest or other income received out of investments made from the Fund;
- 4) **Amount received through disgorgement or disposal of securities:** The amount received under section 38(4) i.e. amount received through disgorgement or disposal of securities under section 38(3).
- 5) **Application money:** Unpaid application money received by companies for allotment of any securities and due for refund
- 6) **Matured deposits:** Unpaid Matured deposits with companies other than banking companies ;
- 7) **Matured debentures:** Unpaid Matured debentures with companies;
- 8) **Interest:** Interest accrued on the above deposits, application money, debentures;
- 9) **Amount received from sale proceeds:** Sale proceeds of fractional shares arising out of issuance of bonus shares, merger and amalgamation for 7 or more years;
- 10) **Redemption amount:** Redemption amount of preference shares remaining unpaid or unclaimed for 7 or more years; and
- 11) Amount lying in the IEPF u/s 205C, 205A(5) of Companies act, 1956
- 12) **Other amount:** Such other amount as may be prescribed.

**NOTE:** Application money, matured deposits and matured debentures shall not form part of the Fund unless such amount has remained unclaimed and unpaid for a period of 7 years from the date it became due for payment.

**UTILIZATION OF THE FUND:** The Fund shall be utilized for

- a) Refund of unclaimed dividends, matured deposits, matured debentures, the application money due for refund and interest thereon;
- b) Promotion of investors education, awareness and protection;
- c) Distribution of any disgorged amount
  - i) among eligible and identifiable applicants for shares or debentures, shareholders, debenture-holders or depositors
  - ii) who have suffered losses due to wrong actions by any person,
  - iii) in accordance with the orders made by the Court which had ordered disgorgement;
- d) Reimbursement of legal expenses incurred in pursuing class action suits under sections 37 and 245 by members, debenture-holders or depositors as may be sanctioned by the Tribunal; and
- e) Any other purpose incidental thereto.

**Q.No.11. What are the Provisions of Companies Act, 2013 relating to Administration of IEPF (C)**

- 1) **CONSTITUTION OF AUTHORITY FOR ADMINISTRATION OF FUND:**
  - a) CG shall constitute an authority for administration of fund.
  - b) Authority shall consist of a (i) Chairman. (ii) Other members not exceeding 7. (iii) CEO as the central government may appoint.
- 2) **HANDLING OF THE FUND:**
  - a) The manner of (i) administration of the Fund, (ii) appointment of chairperson, members and chief executive officer, (iii) holding of meetings of the authority shall be in accordance with rules
  - b) The Central Government may provide to the authority such offices, officers, employees and other resources in accordance with rules

- 3) **AUTHORITY TO WORK IN CONSULTATION WITH CAG OF INDIA:** The authority shall administer the Fund and maintain separate accounts and other relevant records in relation to the Fund in such form as may be prescribed after consultation with the CAG of India.
- 4) **RIGHT OF THE AUTHORITY TO SPEND THE MONEY:** IEPFA is empowered to spend money out of the fund for carrying out the objects specified in Sec. 125(3) (Refer usage of IEPF)
- 5) **AUDIT OF THE FUND:** The accounts of the IEPF shall be audited by the CAG of India at specified intervals. Such audited accounts together with the audit report thereon shall be forwarded annually by the authority (IEPFA) to the Central Government.
- 6) **PREPARATION OF THE ANNUAL REPORT BY AUTHORITY:**
  - a) For each financial year, IEPFA shall prepare its annual report giving a full account of its activities during the financial year and forward a copy thereof to CG.
  - b) CG shall cause the annual report and the audit report given by the CAG of India to be laid before each House of Parliament.

**Q.No.12.How to deal with the dividends, Rights shares, and Bonus shares when transfer of shares is pending (Section 126) (B) (NEW SM)**

**SITUATION:** Instrument of transfer of shares delivered to the Company for registration and the transfer of such shares not yet registered by the Company

**EFFECT IN RELATION TO THOSE SHARES:**

- 1) Issue of fully paid bonus shares and offer of Rights shall be kept in abeyance.
- 2) Transfer dividends in relation to such shares to unpaid dividend A/c, unless the registered holder of such shares has given written authorization to the company to pay such dividend to the transferee.

**Q.No.13. What is the punishment for failure to distribute dividends [Section 127] (A) (NEW SM)**

**PUNISHMENT FOR FAILURE TO DISTRIBUTE DIVIDENDS [SECTION 127]:**

- 1) **Default:**
  - i) Declared dividend not paid within 30 days; or
  - ii) Dividend warrant not posted within 30 days
- 2) **Punishment:**

Who is Punishable	Punishment
Every Director of the company who is knowingly a party to the default	<b>Imprisonment:</b> Up to 2 Years <u>and</u> <b>Fine:</b> Minimum Rs. 1,000 per day of default
Company	Interest at 18% p.a. for the period of default.

**EXCEPTION FROM PUNISHMENT:** However, in the following cases, it is not deemed to be an offence.

- a) **Operation of Law:** Dividend could not be paid by reason of the operation of any law;
- b) **Directions from Shareholder:**
  - i) Shareholder has given directions to the Company regarding the payment of the dividend **and**
  - ii) those directions cannot be complied with **and**
  - iii) the same has been communicated to him;
- c) **Dispute:** Dispute exist regarding the right to receive the dividend;
- d) **Lawfully adjusted:** Dividend amount was lawfully adjusted by the Company against any sum due to it from the shareholder;
- e) **Other reason:** For any other reason which was not due to any default on the part of the Company.

**Nidhi Company:** Where the dividend payable to a member is Rs.100 or less, it shall be sufficient compliance of the provisions of the section,

- 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.

**SIMILAR QUESTION:**

1. State the circumstances when a Company will not be deemed to have committed any offence even if it does not pay the dividend within 30 days.

A. Refer Exception in the above Answer.

(IMMEDIATELY REFER PRACTICAL QUESTION NO. 10, 11, 12, 13)

**SECTION 2: ACADEMIC INTEREST QUESTIONS FOR STUDENTS SELF STUDY**

Q.No.1. Comparison between Interim Dividend & Final Dividend

(B) (NEW SM)

BASIS FOR COMPARISON	INTERIM DIVIDEND	FINAL DIVIDEND
<b>Definition</b>	Interim dividend is declared and paid during an accounting year, i.e. before the finalization of accounts for the year.	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.
<b>Announcement</b>	Announced by Board of Directors	Recommended by Board of Directors and approved by shareholders.
<b>Time of Declaration</b>	Before preparation of financial statements.	After preparation of financial statements.
<b>Revocation</b>	It can be revoked with the consent of all shareholders.	It cannot be revoked.
<b>Provision in Articles of Association</b>	It is declared only when the articles specifically permits the declaration.	It does not require any specific provision in the articles.

Q.No.2. Explain the Provisions of the Companies Act, 2013 which provides for payment of Dividend on Pro rata basis - Sec 51 (B)

- 1) Dividend can be paid on pro rata basis.
- 2) It means, dividend is payable only on paid up portion of shares.
- 3) In case of new shares issued during the year, offer document may provide that dividend is payable on pro rata basis from the date of allotment.
- 4) Thus, old shares will be entitled for dividend for full year, while new shares will be entitled to dividend only from date of allotment on pro rata basis.
- 5) Dividend is not payable on call money paid in advance. - Regulation 83 of Table F.
- 6) If shares with differential rights have been issued, dividend will be declared and paid on the basis of terms of issue. - Regulation 83 of Table F.

**Example:** some of the shareholders have paid only ₹ 5 (face value ₹ 10) on each share held by them. In case of declaration of dividend at the rate of ₹ 5 per share, the company, if authorised by its articles, shall be justified in paying dividend of ₹ 2.50 per share in respect of such partly paid shares.

**SIMILAR QUESTION:**

1. State whether dividend shall be paid on Face value or paid-up value.
- A. Paid-up value excluding calls-in-advance.

**Q.No.3. How dividends are classified based on the nature of shares.**

**(C) (NEW SM)**

**1) CUMULATIVE PREFERENCE SHARES:**

- a) A cumulative preference share is one that carries the right to a fixed amount of dividend or dividend at a fixed rate.
- b) Such a dividend is payable even out of future profit if current year's profits are insufficient for the purpose.
- c) This means that dividend on these shares accumulates unless it is paid in full and, therefore; the shares are called Cumulative Preference Shares.

**2) NON-CUMULATIVE PREFERENCE SHARES:**

- a) A non-cumulative preference share carries with it the right to a fixed amount of dividend.
- b) In case no dividend is declared in a year due to any reason, the right to receive such dividend for that year expires.
- c) It implies that holder of such a share is not entitled to arrears of dividend in future.

**3) EQUITY SHARES:**

- a) Equity shares are those shares, which are not preference shares.
- b) It means that they do not enjoy any preferential rights in the matter of payment of dividend or repayment of capital.
- c) The rate of dividend on equity shares is recommended by the Board of Directors and may vary from year to year.
- d) Rate of dividend depends upon the dividend policy and the availability of profits after satisfying the rights of preference shareholder.

**SIMILAR QUESTION:**

1. Explain the position of law relating to declaration of dividends on equity shares.
- A. Refer 3<sup>rd</sup> Point in the above Answer.

**SECTION 3: PRACTICAL QUESTIONS FOR CLASSROOM DISCUSSION**

**Q.No.1.** Referring to the provisions of the Companies Act, 2013 examine the validity of the following: The Board of Directors of ABC Limited proposes to declare dividend at the rate of 20% to the equity shareholders, despite the fact that the Company has defaulted in repayment of public deposits accepted before the commencement of this Act. **(NEW SM)**

**PROVISION:** Prohibition on declaration of dividend: Section 123(6) of the Companies Act, 2013, specifically provides that a Company which fails to comply with the provisions of:

- a) Section 73 (Prohibition of acceptance of deposits from public) and
- b) Section 74 (Repayment of deposits, etc., accepted before the commencement of this Act) shall not, so long as such failure continues, declare any dividend on its equity shares.

**ANALYSIS:** In the given instance, the Board of Directors of ABC Limited proposes to declare dividend at the rate of 20% to the equity shareholders, in spite of the fact that the Company has defaulted in repayment of public deposits accepted before the commencement of the Companies Act, 2013.

**CONCLUSION:** So according to the above provision, declaration of dividend by the ABC Limited is not valid.

**Q.No.2.** Brix Limited has earned a profit of Rs.1,000 crores for the financial year 2016-17. It has proposed a dividend @ 8.75%. However, it does not intend to transfer any amount to the reserves of the Company out of the profits earned. Can Brix Limited do so? **(NEW SM)**

**PROVISION:** The amount to be transferred to reserves out of profits for a financial year has been left at the discretion of the Company acting vides it Board of directors. The Company is free to transfer any part of its profits to reserves as it deems fit.

**ANALYSIS:** In the given case the company has proposed to declare dividend @ 8.75% and it does not intend to transfer any amount to the reserves of the company out of the profits earned by it.

**CONCLUSION:** There is no restriction to transfer any specific amount (i.e. even no amount can be transferred) to the reserves before declaration of dividend.

**Q.No.3.** WL Limited is facing loss in business during the current financial year 2017-18. In the immediate preceding three financial years, the Company had declared dividend at the rate of 8%, 10% and 12% respectively. To maintain the goodwill of the Company, the Board of Directors has decided to declare 12% interim dividend for the current financial year. Examine the applicable provisions of the Companies Act, 2013 and state whether the Board of Directors can do so?

**(OR)**

TAT Ltd. incurred loss in business upto current quarter of financial year 2017-18. The company has declared dividend at the rate of 12%, 15% and 18% respectively in the immediate preceding three years. Inspite of the loss, the Board of Directors of the company have decided to declare interim dividend @ 15% for the current financial year. Examine the decision of TAT Ltd. stating the provisions of declaration of interim dividend under the Companies Act, 2013. **(M18 - 4M)(N (MTP - N18 (N))**

**PROVISION:** Section 123(3) of the Companies Act 2013,

Board of Directors of a Company may declare interim dividend during any financial year out of the surplus in the profit and loss account and out of profits of the financial year in which such interim dividend is sought to be declared.

However, in case the Company has incurred loss during the current financial year up to the end of quarter immediately preceding the date of declaration of interim dividend, such interim dividend shall not be declared at a rate higher than the average dividends declared by the Company during the immediately preceding three financial years.

**ANALYSIS:** In the given case the Company is facing loss during the current financial year 2015-16. In the immediate preceding three financial years, the Company declared dividend at the rate of 8%, 10% and 12%.

As per the above mentioned provision, such interim dividend shall not be declared at a rate higher than the average dividends declared by the Company during the immediately preceding three financial years [i.e.  $8+10+12=30/3=10\%$ ].

**CONCLUSION:** Therefore, decision of Board of Directors to declare 12% of the interim dividend for the current financial year is not tenable.

**Q.No.4.** X & Co. Ltd. made a loss of Rs. 20 lakhs after providing for depreciation for the year ended 31st March, 2014 and as a result the Company was not in a position to declare any dividend for the said year out of profits. However, the Board of directors of the Company announced the declaration of dividend of 15% on the equity shares payable out of free reserves. The paid up share capital of the Company and its free reserves as on 31st March 2014 are Rs. 2 crores and Rs.10 crores respectively. The average dividend declared by the Company in the last three years is 25%. Examine the validity of declaration of dividend. **(CA M10)**

**PROVISIONS:** As per section 123, if in a particular year, profits are not adequate to declare a dividend, dividend can be declared out of reserves, as per rule 3 of Companies (Declaration and Payment of Dividend) Rules, 2014. The conditions prescribed are as follows:

- Rate of dividend cannot be more than average of rates at which dividend were announced in previous 3 years. However, this rule is not applicable to Company, which has not declared any dividend in each of the 3 preceding years.



**CONDITION I:**

$(9+10+12)/3 = \text{Average rate} = 10.3\%$

i.e. 10.3% of Paid up Capital i.e. ₹ 200 lakhs = ₹20.6 lakhs

**CONDITION II:**

Paid-up capital + Free reserves = ₹ (200+240) Lakhs

(Assuming all reserves are free)= ₹ 440 Lakhs

10% thereof = ₹ 44 Lakhs

Less: loss for the year = ₹30 Lakhs

Amount available = ₹ 14 Lakhs

Hence the quantum of dividend is further restricted to ₹ 14 lakhs.

**CONDITION III:**

Accumulated Reserves ₹ 240 Lakhs

Proposed withdrawal declaration of dividend ₹ 14 Lakhs

Balance of Reserves ` 226 Lakhs

This is more than 15% of paid-up capital (i.e 15% of ₹ 200 Lakhs) i.e. ₹ 30 lakhs.

Thus, the company can declare a dividend of ₹ 14 lakhs i.e. at a rate of 7% on its paid-up capital of ₹ 200 lakhs Therefore, the rate of dividend shall not exceed 10.3%.

**Q.No.8.** During the financial year 2016-17, Perfect Limited declared an interim dividend for the second time. After declaration, the Board of Directors decided to revoke the second interim dividend as its financial position was poor, to accommodate the said interim dividend. Examine the validity of the Board's decision under the provisions of the Companies Act, 2013. **(MTP – M18)(N)**

**(OR)**  
Board of directors of M/s. RPP Ltd. in its meeting held on 29th May, 2014 declared an interim dividend payable on paid up Equity Share Capital of the Company. In the Board Meeting scheduled for 10th June, 2014, the Board wants to revoke the said dividend. You are required to state with reference to the provisions of the Companies Act, 2013 whether the Board of directors can do so. **(CA J09, M12)**

**PROVISION:** According to section 123(3) of the Companies Act, 2013, the Board of Directors of a Company may declare interim dividend during any financial year out of the surplus in the profit and loss account and out of profits of the financial year in which such interim dividend is sought to be declared. Further a dividend when declared becomes a debt and a shareholder is entitled to recovery of the same after expiry of 30 days as prescribed under Section 127 of the Companies Act, 2013. Section 2(14A) of the Act defines dividend to include interim dividend.

**ANALYSIS:** In the given case Perfect Limited declared an interim dividend for the second time. And decided to revoke the second interim dividend as its financial position was poor, to accommodate the said interim dividend

As per above provisions dividend once declared becomes a debt and payable within 30 days of declaration. In the present case, Perfect Limited declared an interim dividend for the second time. After declaration, the Board of Directors decided to revoke the second interim dividend as its financial position was poor.

**CONCLUSION:** In view of the above, the Board of directors cannot revoke the second interim dividend. Therefore, decision of the Board to revoke the declared 2nd Interim dividend is invalid.

**Q.No.9.** The Board of Directors of XYZ Company Limited at its meeting declared a dividend on its paid-up equity share capital which was later on approved by the Company's Annual General Meeting. In the meantime, the directors at another meeting of the Board decided by passing a resolution to divert the total dividend to be paid to shareholders for purchase of investments for the Company. As a result, dividend was paid to shareholders after 45 days. Examining the provisions of the Companies Act, 2013, state:

- (a) Whether the act of directors is in violation of the provisions of the Act and also the consequences that shall follow for the above act of directors?
- (b) What would be your answer in case the amount of dividend to a shareholder is adjusted by the Company against certain dues to the Company from the shareholder? **(NEW SM)**

a) **PROVISIONS:**

- i) According to section 124 of the Companies Act, 2013, where a dividend has been declared by a Company but has not been paid or claimed within 30 days from the date of the declaration to any shareholder entitled to the payment of the dividend, the Company shall, within 7 days from the date of expiry of the said period of 30 days, transfer the total amount of dividend which remains unpaid or unclaimed to a special account to be opened by the Company in that behalf in any scheduled bank to be called the Unpaid Dividend Account.
- ii) Further, according to section 127 of the Companies Act, 2013, where a dividend has been declared by a Company but has not been paid or the warrant in respect thereof has not been posted within 30 days from the date of declaration to any shareholder entitled to the payment of the dividend, every director of the Company shall, if he is knowingly a party to the default, is liable for the punishment under the said section.

b) **ANALYSIS:**

- i) In the present case, the Board of Directors of XYZ Company Limited at its meeting declared a dividend on its paid-up equity share capital which was later on approved by the company's Annual General Meeting.
- ii) In the meantime the directors at another meeting of the Board decided by passing a resolution to divert the total dividend to be paid to shareholders for purchase of investment for the company. As a result dividend was paid to shareholders after 45 days.

c) **CONSEQUENCES:**

Since, declared dividend has not been paid within 30 days from the date of the declaration, the Company shall, within 7 days from the date of expiry of the said period of 30 days, transfer the total amount of dividend which remains unpaid or unclaimed to a special account to be opened by the Company in that behalf in any scheduled bank to be called the Unpaid Dividend Account.

- i) Every director of the Company shall, if he is knowingly a party to the default, be punishable with imprisonment which may extend to five years and shall also be liable for a fine which shall not be less than one thousand rupees for every day during which such default continues.
- ii) The Company shall also be liable to pay simple interest at the rate of 18% p.a. during the period for which such default continues
- d) If the amount of dividend to a shareholder is adjusted by the Company against certain dues to the Company from the shareholder, then failure to pay dividend within 30 days shall not be deemed to be an offence under Proviso to section 127 of the Companies Act, 2013.

**Q.No.10.** Star Ltd. declared and paid dividend in time to all its equity holders for the financial year 2015-16, except in the following two cases:

- i) Mrs. Sheela, holding 250 shares had mandated the Company to directly deposit the dividend amount in her bank account. The Company, accordingly remitted the dividend but the bank returned the payment on the ground that there was difference in surname of the payee in the bank records. The Company, however, did not inform Mrs. Sheela about this discrepancy.
- ii) Dividend amount of Rs 50,000 was not paid to Mr. Mohan, deceased, in view of court order restraining the payment due to family dispute about succession.

You are required to analyze these cases with reference to provisions of the Companies Act, 2013 regarding failure to distribute dividends. **(MTP – M18)(N)(NEW SM)**

- a) **PROVISION:** Section 127 of the Companies Act, 2013 provides for punishment for failure to distribute dividend on time. One of such situations is 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 not been communicated to her.

**ANALYSIS:** In the given situation, the Company has failed to communicate to the shareholder Mrs. Sheela about non-compliance of her direction regarding payment of dividend.

**CONCLUSION:** Hence, the penal provisions under section 127 will be applicable.

- b) **PROVISIONS:** Section 127, inter-alia, provides that no offence shall be deemed to have been committed where the dividend could not be paid by reason of operation of law. In the present circumstance, the dividend could not be paid because it was not allowed to be paid by the court until the matter was resolved about succession.

**ANALYSIS:** In the given situation, the Company has not paid the dividend in view of court order restraining the payment due to family dispute about succession.

**CONCLUSION:** Hence, there will not be any liability on the Company and its Directors etc.

**Q.No.11.** Karan, holder of 5000 equity shares of ₹ 100 each of M/s. Rachit Leather Shoes Limited did not pay final call of ₹ 10 per share. M/s. Rachit Leather Shoes Limited declared dividend of 10%. Examine with reference to relevant provisions of the Companies Act, 2013, the amount of dividend Karan should receive. **(NEW SM)**

**PROVISION:** As per the proviso to section 127 of the Companies Act, 2013, no offence will be deemed to have been committed by a director for adjusting the calls in arrears remaining unpaid or any other sum due from a member against the dividend declared by the company.

**ANALYSIS& CONCLUSION:** Thus, as per the given facts, M/s. Rachit Leather Shoes Limited can adjust the unpaid call money of ₹50,000 against the declared dividend of 10%, i.e.  $5,00,000 \times 10/100 = 50,000$ . Hence, call money of ₹ 50,000 not paid by Karan can be adjusted fully from the entitled dividend amount of ₹ 50,000 payable to him.

**Q.No.12.** PQ Ltd. declared and paid 10% dividend to all its shareholders except Mr. Kumar, holding 500 equity shares, who instructed the company to deposit the dividend amount directly in his bank account. The company accordingly remitted the dividend but the bank returned the payment on the ground that the account number as given by Mr. Kumar doesn't tally with the records of the bank. The company, however, did not inform Mr. Kumar about this discrepancy. Comment on this issue with reference to the provisions of the Companies Act, 2013 regarding failure to distribute dividend. **(NEW SM)**

**PROVISION& ANALYSIS:** Section 127 of the Companies Act, 2013 provides for punishment for failure to distribute dividend on time. One of such situations is 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 not been communicated to the shareholder.

**CONCLUSION:** In the instant case, PQ Ltd. has failed to communicate to the shareholder Mr. Kumar about non-compliance of his direction regarding payment of dividend. Hence, the penal provisions under section 127 will be attracted.

**Q.No.13.** The AGM of ABC Limited declared a dividend at the rate of 30 percent payable on paid up equity share capital of the Company as recommended by Board of Directors on 30th April, 2017. But the Company was unable to post the dividend warrant to Mr. Ranjan, an equity shareholder of the Company, up to 30<sup>th</sup> June, 2017. Mr. Ranjan filed a suit against the Company for the payment of dividend along with interest at the rate of 20 percent per annum for default period. Decide in state the director's liability in this regard under the Act **(NEW SM)**

**PROVISION:** Section 127 of the Companies Act, 2013 lays down the penalty for non – payment of dividend within the prescribed time period. Under section 127 where a dividend has been declared by a Company but has not been paid or the warrant in respect thereof has not been posted within 30 days from the date of declaration to any shareholder entitled to the payment of the dividend:

- a) Every director of the Company shall, if he is knowingly a party to the default, be punishable with imprisonment which may extend to 2 years and with fine which shall not be less than Rs. 1,000 for every day during which such default continues; and

b) The Company shall be liable to pay simple interest at the rate of 18% p.a. during the period for which such default continues.

**ANALYSIS:** In this case Mr. Ranjan, an equity shareholder of the ABC Limited company filed a suit against the company for default in delay in payment of dividend along with an interest rate of 20% per annum for the default period

**CONCLUSION:** Therefore, in the given case Mr. Rajan will not succeed in his claim for 20% interest as the limit under section 127 is 18% per annum.

## SECTION 4: PRACTICAL QUESTIONS FOR STUDENTS SELF PRACTICE

**Q.No.1.** Amla limited proposes to transfer more than 10% of the profits of the Company to the reserves for the current year, before the declaration of dividend @ 12%. Is Alma Limited allowed to do so? **(NEW SM)**

The amount to be transferred to reserves out of profits for a financial year has been left at the discretion of the Company acting vide its Board of Directors. Therefore, the Company is free to transfer any part of its profits to reserves as it deems fit.

**Q.No.2.** Mr. Alok, holding equity shares of face value of Rs10 lakhs has not paid an amount of Rs.1 lakh towards call money on shares. Can the same be adjusted against the dividend amount payable to him? **(NEW SM)**

Yes, as per law, where the dividend is declared by a Company and there remain calls in arrears and any other sum due from a member, in such case the dividend can be lawfully adjusted by the Company against any sum due to it from the shareholder. Thus, Company can adjust sum of Rs.1 lakh due towards call money on shares against the dividend amount payable to Mr. Alok.

**Q.No.3.** The directors of Som Limited proposed dividend at 12% on equity shares for the financial year 2015-16. The same was approved in the AGM of the Company held on 20<sup>th</sup> September, 2016. The directors declared the approved dividends. They seek your opinion on the following matters:  
Ms. Nini was the holder of 1,000 equity shares on 31<sup>st</sup> March 2016, but she has transferred the shares to Mr. Raj, whose name has been registered on 20<sup>th</sup> May, 2016. Who will be entitled to the above dividend?  
**(CA N16) (RTP – M18) (N)**

**PROVISIONS:** As per section 123, dividend is paid to the registered shareholder. Listed Company close the transfer registers for purpose. Usual practice is to declare that members who are shareholders on date of closure of transfer register will be entitled to dividend. In case of unlisted Company and private Company, it is not necessary to close register and usually there are very few transfers. GM can decide the cut-off date. It could be date of GM.

**ANALYSIS:** In the given case Ms. Nini who was the holder of 1,000 equity shares transferred the shares to Mr. Raj, whose name has been registered on 20<sup>th</sup> may 2016 and the approval of the dividends held on 20<sup>th</sup> September, 2016

**CONCLUSION:** Accordingly, Mr. Raj, who is registered holder of shares, is entitled to get dividend declared on 20<sup>th</sup> September 2016.

**Q.No.4.** Supreme Ltd. declared dividend @ 10% on its 10 lakh equity shares of 10 each on 30<sup>th</sup> September, 2016. The dividends warrants were dispatched to all the shareholders, except three shareholders, holding in total 50000 shares, due to dispute regarding title over the shares pending in Court. On ascertaining the position on 30th October 2016, it was observed that the dividend warrants for RS.1.50 lakhs were not encashed by the remaining shareholders. Explain with reference to provisions of Companies Act, 2013, the actions to be taken by Company to deal with the unpaid amount of dividend. Also state the consequences if default is done in this matter. **(CA M17 – 8M)**

**PROVISION:** Refer Theory Q. No 8 for provisions

**ANALYSIS AND CONCLUSION:** Accordingly, Supreme Ltd. has to transfer the unpaid dividend amount of Rs.50,000 on disputed shares plus Rs.1.50 lakh on account of unclaimed dividend to a specially opened unpaid Dividend Account within 7 days after 30th October, 2016.

If any default is made in complying with the above provision, the company as well as every officer of the company, who is in default, shall be punishable as mentioned above.

**Q.No.5.**The directors of Som Limited proposed dividend at 12% on equity shares for the financial year 2015-16. The same was approved in the AGM of the Company held on 20<sup>th</sup> September, 2016. The directors declared the approved dividends. They seek your opinion on the following matters:

Mr. Ashok, holding equity shares of face value of Rs. 10 lakhs has not paid an amount of Rs. 1 lakh towards call money on shares. Can the same be adjusted the dividend amount payable to him?

**PROVISION:** As per Regulation 84 of Table F of the Companies Act, 2013, Board may deduct from any dividend payable to any member all sums of money, if any, presently payable by him to the Company on account of calls or otherwise in relation to the shares of Company. Accordingly, deduction or adjustment from dividend is permissible if there are calls in arrears or some other amount is payable in relation to the shares of the Company.

**ANALYSIS:** In the given case Mr. Ashok, holding equity shares of face value of Rs. 10 lakhs, has not paid an amount of Rs. 1 lakh towards call money on shares.

**CONCLUSION:** Therefore, Company can adjust dividend amount payable to Mr. Ashok against calls due but not paid.

## SECTION 5: SECTION NUMBERS

S. No	CONCEPT	Sec. No.
1.	Declaration of Dividend	123
2.	Unpaid Dividend Account	124
3.	Investor Education and Protection Fund.	125
4.	Right to Dividend, Rights Shares and Bonus Shares to be Held in Abeyance Pending Registration of Transfer of Shares	126
5.	Punishment for Failure to Distribute Dividends.	127

## PENALTIES AND PUNISHMENT

Section	Particulars	PENALTIES AND PUNISHMENTS
Section 124- Unpaid Dividend Account	Company fails to comply with requirement of Sec 124	Company, Officer in Default Company : Rs 5 Lac to 25 Lac Officer in Default Company: Rs 1 Lac to 5 Lac
Section 125	If a company fails to comply with any of the requirements of Sec 125	a) Company shall be punishable with <ul style="list-style-type: none"> <li>• Fine which shall not be less than Rs 5 lakhs</li> <li>• But which may extend to Rs 25 Lakhs</li> </ul> b) Every officer of the company who is in default shall be punishable with <ul style="list-style-type: none"> <li>• Fine which shall not be less than Rs 1 lakh.</li> <li>• But which may extend to Rs 5 lakh.</li> </ul>
Section 127-	Punishment for failure to distribute dividends	a) The Company shall also be liable to pay <ul style="list-style-type: none"> <li>• <u>Simple interest</u> at the rate of <u>18% p.a.</u> during the period for which such default continues.</li> <li>• He shall also be liable for <u>a fine</u> which shall not be less than <u>Rs.1,000</u> for every day during which such default continues</li> </ul> b) Every <u>director</u> of the Company shall, if he is knowingly a party to the default, be punishable with <u>Imprisonment</u> which may extend to two years

**THE END**

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