

Maharashtra State Board Class 12 Secretarial Practice Solutions

Chapter 10 Dividend and Interest

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

Question 1.

Dividend is paid to _____

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

Answer:

- (a) Shareholder

Question 2.

_____ is profit shared by company with a shareholder.

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

Answer:

- (c) Dividend

Question 3.

Dividend is recommended by _____

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

Answer:

- (c) Board of Directors

Question 4.

Interim Dividend is declared by _____

- (a) Board of Directors
- (b) Debenture holders
- (c) Depositors

Answer:

- (a) Board of Directors

Question 5.

Final Dividend is declared by _____

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

Answer:

- (b) Shareholders

Question 6.

Dividend cannot be declared out of _____

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

Answer:

- (a) Capital

Question 7.

Dividend amount should be transferred in a separate Bank Account within _____ days of its declaration.

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

Answer:

- (a) 5

Question 8.

Dividend should be paid within _____ days of its declaration.

- (a) 3
- (b) 13

(c) 30

Answer:

(c) 30

Question 9.

_____ holders get dividend from residual profits.

- (a) Equity share
- (b) Preference share
- (c) Debenture

Answer:

(a) Equity Share

Question 10.

Dividend is paid first to _____ shareholders.

- (a) Equity
- (b) Preference
- (c) Deferred

Answer:

(b) Preference

Question 11.

_____ warrant is a cheque containing dividend amount sent by company to the shareholders.

- (a) Dividend
- (b) Share
- (c) Interest

Answer:

(a) Dividend

Question 12.

IEPF is created by _____ where unpaid dividend is transferred by company.

- (a) Central Government
- (b) Company
- (c) Shareholders

Answer:

(a) Central Government

Question 13.

Payment of _____ Dividend must be authorised by the Articles of Association.

- (a) Interim
- (b) Final
- (c) Bonus

Answer:

(a) Interim

Question 14.

_____ is a return paid to creditors by the company.

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

Answer:

(b) Interest

Question 15.

_____ is not linked to profits of the company.

- (a) Dividend
- (b) Interest
- (c) Bonus

Answer:

(b) Interest

1B. Match the pairs.

Question (I).

Group 'A'	Group 'B'
(a) Dividend	(1) Equity Shareholders

(b) Interest	(2) Appropriation of Profit
(c) Interim 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 and Declared by Members
	(8) Decided by President of India
	(9) Company not allowed to pay
	(10) Declared by Government of India

Answer:

Group 'A'	Group 'B'
(a) Dividend	(2) Appropriation of Profit
(b) Interest	(5) Obligatory to pay
(c) Interim Dividend	(6) Decided and Declared by the Board of Directors
(d) Final Dividend	(7) Decided by Board and Declared by Members
(e) Fluctuating Rate of Dividend	(1) Equity Shareholders

Question (II).

Group 'A'	Group 'B'
(a) Dividend	(1) 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
(e) Listed Company	(5) Unregistered Company
	(6) Non-listed company
	(7) Unpaid/Unclaimed Dividend
	(8) Balance of unpaid bonus transferred here
	(9) Must inform the government about dividend declaration
	(10) General Public

Answer:

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

1C. Write a word or term or a phrase that can substitute each of the following statements.

Question 1.

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

Answer:

Dividend

Question 2.

The meeting where the final dividend is declared.

Answer:

AGM (Annual General Meeting)

Question 3.

The company has to intimate the stock exchange about the declaration of dividends.

Answer:

Listed company

Question 4.

The shareholders get dividends at a fixed rate.

Answer:

Preference

Question 5.

The shareholders get dividends at a fluctuating rate.

Answer:

Equity

Question 6.

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

Answer:

Dividend Mandate

Question 7.

The number of days within which payment of dividend be completed by the company after its declaration.

Answer:

30 days

Question 8.

Dividend declared between two AGMs.

Answer:

Interim Dividend

Question 9.

Dividend decided and declared by the Board.

Answer:

Interim Dividend

Question 10.

The return is paid to the creditors by the company.

Answer:

Interest

1D. State whether the following statements are True or False.

Question 1.

The dividend is paid to registered shareholders of the company.

Answer:

True

Question 2.

The dividend is decided by the Board.

Answer:

True

Question 3.

The dividend is decided by the shareholders.

Answer:

False

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Question 4.

Dividend once declared cannot be revoked.

Answer:

True

Question 5.

Dividend cannot be paid out of capital.

Answer:

True

Question 6.

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

Answer:

False

Question 7.

All categories of shareholders get a fixed-rate dividend.

Answer:

False

Question 8.

IEPF is the fund created by the company.

Answer:

False

Question 9.

Interest is a liability for the company.

Answer:

True

Question 10.

Interest is paid to shareholders of the company.

Answer:

False

[1E. Find the odd one.](#)

Question 1.

Final Dividend, Interim Dividend, Interest

Answer:

Interest

Question 2.

Out of Capital, Out of free reserve, Out of money given by the government

Answer:

Out of Capital

Question 3.

Dividend Account, Dividend Mandate, Unpaid/ Unclaimed Dividend Account

Answer:

Dividend Mandate

Question 4.

Dividend warrant, Dividend Mandate, Cheque

Answer:

Dividend Mandate

[1F. Complete the sentences.](#)

Question 1.

Word dividend is derived from Latin term _____

Answer:

Dividendum

Question 2.

Dividend is paid to _____

Answer:

registered shareholders

Question 3.

Dividend can be declared only on recommendation of _____

Answer:

Board of Directors

Question 4.

Dividend must be paid in _____

Answer:

cash

Question 5.

The meeting at which final dividend is approved is _____

Answer:

Annual General Meeting

Question 6.

Dividend cannot be paid out of _____

Answer:

capital

Question 7.

Interim dividend is decided and declared by _____

Answer:

Board of Directors

Question 8.

Predecided and a fixed rate of dividend is paid to _____

Answer:

preference shareholder

Question 9.

Payment of dividend must be completed within _____

Answer:

30 days

Question 10.

Payment of Interim Dividend needs to be authorized by _____

Answer:

Articles of Association

Question 11.

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

Answer:

Interest

1G. Select the correct option from the bracket.

Question 1.

Group 'A'	Group 'B'
(a) Dividendum	(1)
(b) Interest	(2)
(c)	(3) Final Dividend
(d)	(4) Interim Dividend
(e) Government Fund	(5)

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

Answer:

Group 'A'	Group 'B'
(a) Dividendum	(1) At Board Meeting

(b) Interest	(2) Latin term
(c) IEPF	(3) Final Dividend
(d) At AGM	(4) Interim Dividend
(e) Government Fund	(5) Creditors

Question 2.

Group 'A'	Group 'B'
(a) Preference Shares	(1)
(b) Equity Shares	(2)
(c) Deposit holders	(3)
(d)	(4) Payment of Dividend
(e)	(5) Dividend Declared but not paid/claimed

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

Answer:

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

1H. Answer in one sentence.

Question 1.

What is Dividend?

Answer:

The dividend is a share in distributable profits of the company to which the shareholder is entitled when formally declared by the company.

Question 2.

Who has the right to recommend dividends?

Answer:

The Board of directors has the right to recommend.

Question 3.

What is a Final Dividend?

Answer:

The final dividend is that dividend that is declared and paid after the close of the financial year.

Question 4.

What is an Interim Dividend?

Answer:

The interim dividend is that dividend that is declared and paid between two AGMs of an accounting year.

Question 5.

Who declares Interim Dividend?

Answer:

The Board of directors declares Interim dividends.

Question 6.

Which shares get dividends at a fixed rate?

Answer:

Preference shares get dividends at a fixed rate.

Question 7.

Which shares get dividends at a fluctuating rate?

Answer:

Equity shares get dividends at a fluctuating rate.

Question 8.

At which meeting Interim Dividend is decided and declared?

Answer:

Interim Dividend is decided and declared in Board Meeting.

Question 9.

What is Interest?

Answer:

Interest is the price paid for the productive services rendered by capital

Question 10.

State the time within which unpaid dividends be transferred to the unpaid dividend account.

Answer:

The unpaid dividend should be transferred within 7 days of the end of 30 days within which payment has to be made.

11. Correct the underlined word and rewrite the following sentences.

Question 1.

The dividend is paid to creditors.

Answer:

The dividend is paid to shareholders.

Question 2.

Interest is paid to shareholders.

Answer:

Interest is paid to creditors.

Question 3.

The final Dividend is paid between two AGM.

Answer:

Interim Dividend is paid between two AGM.

Question 4.

Special Resolution must be passed to declare the Final Dividend.

Answer:

An ordinary resolution must be passed to declare the Final Dividend.

Question 5.

The dividend must be paid within 60 days of its declaration.

Answer:

The dividend must be paid within 30 days of its declaration.

Question 6.

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

Answer:

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

Question 7.

The dividend is an obligation to be paid by a company every year.

Answer:

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

Question 8.

Preference shareholders are given the last priority in the payment of dividends.

Answer:

Equity shareholders are given the last priority in the payment of dividends.

Question 9.

Preference shareholders get dividends from residual profits.

Answer:

Equity shareholders get dividends from residual profits.

Question 10.

Dividend is payable every year irrespective of profits made by the company.

Answer:

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

1J. Arrange in proper order.

Question 1.

- (a) Recommendation of Dividend.
- (b) Checking sufficiency of profits
- (c) Board Meeting

Answer:

- (a) Checking sufficiency of profits
- (b) Board Meeting
- (c) Recommendation of Dividend

Question 2.

- (a) Transfer to Dividend Account
- (b) Transfer to IEPF
- (c) Transfer to Unpaid Dividend Account

Answer:

- (a) Transfer to Dividend Account
- (b) Transfer to Unpaid Dividend Account
- (c) Transfer to IEPF

Question 3.

- (a) Closure of Register of Members.
- (b) Intimate Stock Exchange of Board Meeting.
- (c) Intimate Stock Exchange of declaration of dividend.

Answer:

- (a) Intimate Stock Exchange of Board Meeting
- (b) Intimate Stock Exchange of declaration of dividend
- (c) Closure of Register of Members

Question 4.

- (a) Decision on Rate of Dividend
- (b) Transfer of IEPF
- (c) Payment of Dividend

Answer:

- (a) Decision on Rate of Dividend
- (b) Payment of Dividend
- (c) Transfer to IEPF

Question 5.

- (a) Payment of Interim Dividend
- (b) Board meeting deciding and declaring Interim Dividend
- (c) Authorization of Articles of Association

Answer:

- (a) Authorization of Articles of Association
- (b) Board meeting deciding and declaring Interim Dividend
- (c) Payment of Interim Dividend

2. Explain the following terms/concepts.

Question 1.

Profit

Answer:

Profit is the financial gain from business activity minus expenses. Profit is the income remaining after deducting total costs from total revenue. It is also called financial gain. Profit is the difference between revenues and expenses for a given period. It is the tool for measuring the success of the business. Without profit, the company cannot survive in the market.

Question 2.

Dividend

Answer:

The term dividend is derived from the Latin word 'Dividendum' which means that which is to be divided. A dividend is the portion of the

company's earnings distributed to the shareholders decided and managed by the company's board of directors. The dividend is a share in distributable profits of the company. Shareholder is entitled to receive the dividend when it is formally declared by the company.

Question 3.

Interest

Answer:

Interest is the cost of borrowing money typically expressed as an annual percentage of a loan. The money people earn on their savings is called Interest. Interest is paid to the lender by the borrower, in case of a loan or from the financial institution to the depositor, in the case of a savings account. In financial terms, it is a payment made for using the money of another i.e. borrower takes money from the lender. Interest is the cost of renting the money for the borrower and it is the income from lending money for the lender.

Question 4.

Final Dividend

Answer:

The final dividend is declared and paid after the financial year is closed. The final dividend is decided and recommended by the Board of Directors. The final dividend is approved by the shareholder in the AGM. The declaration of the final dividend does not require authorization of Articles of Association. The rate of the final dividend is always higher than the Interim dividend. It is declared from sources like the current year's profits, money provided by Government for dividends, etc.

Question 5.

Interim Dividend

Answer:

The interim dividend is the dividend that is declared and paid in the middle of an accounting year i.e. before the finalization of accounts for the year. Dividend declared by the Board of Directors between two Annual General Meetings is called Interim Dividend. The interim dividend is paid in the middle of the accounting year.

Question 6.

Unpaid Dividend

Answer:

Dividend declared by the company but neither paid to nor claimed by a shareholder within 30 days of its declaration is termed as Unpaid and Unclaimed Dividend.

Question 7.

Unpaid Dividend Account

Answer:

A dividend declared by the company but neither paid to nor claimed by a shareholder is called an Unpaid/Unclaimed Dividend. This unpaid/unclaimed dividend should be transferred to the Unpaid/Unclaimed Account within 30 days of its declaration. This 'Unpaid Dividend Account' is opened in a scheduled Bank by the company.

Question 8.

Dividend Mandate

Answer:

The dividend is paid by different modes of payment like cash, cheque, or warrant or by electronic mode. It can also be paid by using the Dividend Mandate. If the shareholder wishes to get dividend credited directly in the Bank Account he is required to send a request in a prescribed form which is called 'Dividend Mandate'. The dividend Mandate authorizes the company to pay dividends directly to shareholders' bankers.

Question 9.

IEPF

Answer:

IEPF means Investors Education and Protection Fund. Any amount in the Unpaid Dividend Account of a company that is unpaid/unclaimed for a period of 7 (seven years) from the date of such a transfer shall be transferred to 'Investors Education and Protection Fund'. The claimant can claim his dividend by filling the prescribed form and submitting the necessary documents. The claimant needs to follow the procedure.

Question 10.

Rate of Dividend

Answer:

The return that a shareholder receives on his investment from the company is called a dividend. The dividend is always declared by the company on the face value of a share irrespective of its market value. The rate of dividend is expressed as a percentage of the face value of a share per annum.

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

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

Question (a).

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

Answer:

Yes, Board is right in recommending a dividend of Rs. 5/- per share out of free reserves, as dividends can be paid out of free reserves.

Question (b).

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

Answer:

No Board cannot declare the dividend if it is not approved by AGM as dividends should be approved by shareholders by passing an ordinary resolution in AGM.

Question (c).

Can the Board give dividends in the form of gifts?

Answer:

No Board cannot give dividends in the form of gifts. It must be paid in cash, not in kind.

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

Question (a).

Can it be paid out of free reserves?

Answer:

No. the Interim Dividend cannot be paid out of free reserves.

Question (b).

Is the Board right in declaring the same at the Board Meeting?

Answer:

Yes. Board is right in declaring the same at the Board meeting as it has the power to declare an Interim Dividend.

Question (c).

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

Answer:

Yes, after the declaration, the Interim dividend should be paid within 30 days of its declaration.

3. RAJ Company limited decides to pay Interim Dividend.

Question (a).

Is the Board justified to decide Interim Dividend of Rs. 5/per share even though profits to date are insufficient?

Answer:

The interim dividend is paid out of profits between two annual general meetings. It cannot be paid out of any reserves. So it is not justified.

Question (b).

Can the Board declare it out of Free Reserves?

Answer:

No Board cannot declare an Interim dividend out of free reserves.

Question (c).

Can the Board declare it out of Capital?

Answer:

No Board cannot declare out of capital.

4. DIAMOND Co. Ltd. is considering declaring an Interim Dividend.

Question (a).

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

Answer:

The interim dividend must be transferred to the Dividend Account within 5 days of its declaration.

Question (b).

In how many days it must pay it to shareholders?

Answer:

The interim dividend should be paid within 30 days of its declaration to shareholders.

Question (c).

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

Answer:

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 of its declaration.

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

Question (a).

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

Answer:

Yes, because preference shares are entitled to the dividend before it is paid to the equity shareholder. Equity shareholders get dividends from residual profits i.e. after paying to preference shareholders.

Question (b).

Is the AGM required to approve the same?

Answer:

Yes for declaration of final dividend Approval of AGM is a must.

Question (c).

Can the company pay dividends in cash?

Answer:

Yes, the company pay a dividend in cash and not in kind.

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

Question (a).

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

Answer:

Yes, the company is to default as the time limit within which the company must pay dividends after the declaration is 30 days.

Question (b).

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

Answer:

No, the company has to transfer the total amount of dividend which remains unpaid/unclaimed to the 'Unpaid Dividend Account.

Question (c).

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

Answer:

No, any amount in the unpaid dividend account of a company that remains unpaid/unclaimed for a period of 7 years from the date of such a transfer, should be transferred to (IEPF), 'Investors Education and Protection Fund'.

4. Distinguish between the following:

Question 1.

Final Dividend and Interim Dividend

Answer:

Points	Interim Dividend	Final Dividend
1. Meaning	Interim Dividend is the dividend that is declared between two Annual General Meetings of a company.	The final Dividend is the dividend that is declared at the Annual General Meeting of a company.
2. When declared?	It is declared between two Annual General Meetings.	It is declared after the completion of the financial year of the company.
3. Who declares?	The interim dividend is declared by the Board of Directors by passing a resolution.	The final dividend is decided and recommended by the Board of Directors. It is declared by the shareholders.
4. Authorization	Authorization of Articles is necessary for the declaration of interim dividends.	Authorization of Articles is not necessary for the declaration of the final dividend.
5. Rate of Dividend	The rate of the Interim dividend is lower than the final dividend.	The rate of the final dividend is always higher than the Interim dividend.

6. Source	It is declared out of profits of the current accounting year.	It is declared from different sources like the current year's profits, free reserves, capital profits, money provided by Government for dividends, etc.
7. Accounting Aspect	It is declared before the preparation of the final accounts of the company.	It is declared only after the accounts of the year are prepared and finalized.

Question 2.

Dividend and Interest

Answer:

Points	Dividend	Interest
1. Meaning	The 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. For e.g. Debenture holder, Deposit holders.
2. Intervals	Dividends need not be paid on regular basis and they can vary according to the company's profits.	Interest has to be paid at regular intervals at a fixed rate.
3. 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.
4. Expense	Dividends are not the expense as they are based on the profit made. If no profit, they are not paid for that period.	Interest is the expense to the company.
5. Rate of Dividend	The rate of the Interim dividend is lower than the final dividend.	The rate of the final dividend is always higher than the Interim dividend.
6. Obligation	It has to be paid only when the company made profits.	It is not linked to the Profits of the company. It is an obligation for the company.
7. When payable	It is payable when a company earns sufficient profit.	It is payable every year irrespective of the profits of the company.
8. Rate	It is paid at a fluctuating rate to the equity shareholders.	The rate of Interest is Fixed and pre-determined at the time of issue of the security.

5. Answer in brief.

Question 1.

State any four points to be kept in mind by a listed company with respect to dividends.

Answer:

When a company lists its shares on Stock Exchange, additional listing agreements are to be followed which are as follows:

- Stock exchange should be informed if the securities are listed 2 days prior to the Board meeting in which recommendation of final dividend is to be considered.
- Stock Exchange should be informed immediately regarding the declaration of dividend as soon as the Board meeting gets over.
- Notice of closing book should be informed at least 7 (seven) working days before the closure to the stock exchange.
- Transfer Register and Register of Members should be closed.

Question 2.

Discuss any four features of dividend.

Answer:

- It is the portion of profits of the company paid to its shareholders.
- It is payable out of profits of the company.
- It is an unconditional payment made by the company.

- If the company has issued equity shares with differential rights as to dividend, the terms of issue of such shares will govern the rights of shareholders about receiving the dividend.

Question 3.

Explain the features of interest.

Answer:

Interest is the cost of borrowing money typically expressed as an annual percentage of a loan. The money people earn on their savings is called Interest. Interest is paid to the lender by the borrower in case of a loan or from the financial institution to the depositor in the case of a savings account. In financial terms, it is a payment made for using the money of another i.e. borrower takes money from the lender. Interest is the cost of renting the money for the borrower and it is the income from lending money for the lender.

Features:

- Interest is the price paid for the productive services rendered by capital.
- Interest has a direct relation with risk. The higher the risk, the higher is the interest.
- The rate of interest is expressed as the annual percentage of the principal.
- The rate of interest is determined by various factors like money supply, fiscal policy, the volume of borrowings, rate of inflation, etc.
- Interest is a charge against the profit of the Company. Even if, the company makes no profit, interest should be paid.
- The rate of interest is fixed and pre-determined.

6. Justify the following statements.

Question 1.

The dividend is paid out of the profits of the company.

Answer:

- The dividend is the portion of profits of the company paid to its shareholders.
- It is payable out of profits of the company.
- Dividend can be paid out of capital profits on fulfilling these conditions.
- Capital Profits are realized in cash.
- Articles of Association of the company permit such a distribution.
- It remains as profits after revaluation of all assets and liabilities.
- Thus, it is rightly justified that dividend is paid out of profits of the company.

Question 2.

Interim dividends cannot be paid out of free reserves.

Answer:

- Dividend declared by the Board of Directors between two Annual General Meetings is called Interim Dividend.
- The interim dividend shall not be declared out of free reserves.
- In the event of a loss or inadequacy of profits during a financial year, no interim dividend shall be declared.
- The declaration of an interim dividend does not create a debt against a company.
- The board of directors can cancel an interim dividend after declaring it.
- Thus, it is rightly justified that Interim dividends cannot be paid out of reserves.

Question 3.

Annual General Meeting (AGM) is crucial for Final Dividend.

OR

The final Dividend is declared only after the accounts are prepared and finalized.

Answer:

- The final dividend is that dividend that is declared and paid after the closing of the financial year.
- It is decided and recommended by the Board of Directors.
- The rate of final dividend is declared by the shareholders in the AGM.
- It is declared only after the account of the year is prepared and finalized.
- Thus, it is rightly said that AGM is crucial for the Final Dividend. OR Final Dividend is declared only after the accounts are prepared and finalized.
- The final dividend is declared from different sources, and its declaration does not need the authorization of articles.
- Thus, it is rightly said that AGM is crucial for the Final Dividend. OR Final Dividend is declared only after the accounts are prepared and finalized.

Question 4.

Listed Company has to follow additional guidelines on dividend matters.

Answer:

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

Question 5.

Equity shareholders get the last priority in receiving dividends.

Answer:

- The dividend is the portion of profits of the company paid to its shareholders.
- The dividend is payable only to the registered shareholders of the company.
- Preference shareholders are entitled to the dividend before it is paid to the equity shareholders.
- The equity shares do not enjoy a preference for dividends.
- They do not have priority for the payment of capital at the time of liquidation.
- Equity shareholders will get dividends from residual profit i.e. after paying to preference shareholders and arrears of dividend on cumulative preference shares.
- The equity shares get the last priority in dividends and thus are the residual claimants.
- Thus, it is rightly said that the equity shareholders get the last priority in receiving dividends.

Question 6.

Unpaid dividends cannot be used by the company.

Answer:

- The dividend declared by the company but has not been paid to or claimed by a shareholder within 30 days of its declaration is termed as an unpaid dividend.
- The total amount of dividend which remains unpaid should be transferred to 'Unpaid Dividend Account'.
- Any amount in the Unpaid Dividend Account of a Company that remains unpaid/unclaimed for a period of 7 years will be transferred to 'Investors Education and Protection Fund'.
- The company cannot use unpaid dividends. The only claimant of money can claim for it by following certain procedures.
- Thus, it is rightly said that unpaid dividends cannot be used by the company.

Question 7.

Interest is a liability/obligation of the company.

OR

Interest is paid to the creditor of the company.

Answer:

- Interest is a payment made for using another money So it is the cost of renting the money for the borrower and it is the income from lending money for the lender.
- The company has to pay interest, if it has borrowed money from creditors like Debenture holders, Depositors, Bondholders, etc.
- Interest is the liability of the company as it is a payment made for using money from the lender.
- Interest is a charge against the profit of the company.
- Even if, the company makes no profit, it has to pay interest to borrowers.
- Thus, it is rightly said that interest is a liability/ obligation for the company.

Question 8.

Approval of members is not needed for Interim Dividends.

Answer:

- Dividend declared by the Board of Directors between two Annual General Meetings is called Interim Dividend.
- It is paid in the middle of the accounting year.
- It is declared out of profits of the current account year.
- It is declared before the preparation of final accounts of the company.
- The Board of Directors has the power to declare Interim Dividend.
- Articles of Association' of the Company must authorize the Board of Directors to declare an interim dividend.
- The Board Meeting has to pass a resolution for declaring the Interim dividend.
- Thus, it is rightly said that approval of members is not needed for Interim dividends.

[7. Answer the following questions.](#)

Question 1.

Define Dividend and explain its features.

Answer:

The term dividend is derived from the Latin word 'Dividendum' which means that which is to be divided. A dividend is the portion of the company's earnings distributed to the shareholders decided and managed by the company's board of directors.

The dividend is a share of distributable profits of the company. A shareholder is entitled to receive the dividend when it is formally declared by the company.

Definitions:

- The Institute of Chartered Accountants of India has defined Dividend "as a distribution to shareholders out of profits or reserves available for this purpose".
- The Supreme Court has defined it as "In case of going – concern, it means the portion of profits of a company, which is allotted to the holders of shares in a company".

Features of Dividend:

- It is the portion of profits of the company paid to its shareholders.
- It is payable out of profits of the company.

- It is an unconditional payment made by the company.
- The company pays dividends to the equity shareholders and preference shareholders only.
- If the company has issued equity shares with differential rights as to dividend, the terms of issue of such shares will govern the rights of shareholders about receiving the dividend.
- A dividend cannot be declared out of capital.
- Recommendation of the Board of Directors is necessary for the declaration of dividends.
- The dividend is recommended and approved by the Board of Directors by passing a resolution at the Annual General Meeting.
- The previous year's dividend cannot be declared if that particular year's Annual Account has been approved in the AGM.
- Dividend once approved and declared by shareholders, creates a debt. It cannot be revoked.
- The dividend includes the interim dividend.
- The dividend must be paid in cash, cheque or transferred through ECS or NEFT and not in kind.
- The dividend is to be paid on the paid-up value of shares.
- Dividend cannot be paid on calls paid in advance.

Question 2.

What is Interest? Explain its features.

Answer:

Interest is the cost of borrowing money typically expressed as an annual percentage of a loan. The money people earn on their savings is called Interest. Interest is paid to the lender by the borrower in case of a loan or from the financial institution to the depositor in the case of a savings account. In financial terms, it is a payment made for using the money of another i.e. borrower takes money from the lender. Interest is the cost of renting the money for the borrower and it is the income from lending money for the lender.

Features:

- Interest is the price paid for the productive services rendered by capital.
- Interest has a direct relation with risk. The higher the risk, the higher is the interest.
- The rate of interest is expressed as an annual percentage of the principal.
- The rate of Interest is determined by various factors like money supply, fiscal policy, the volume of borrowings, rate of inflation, etc.
- Interest is a charge against the profit of the Company. Even if the company makes no profit, interest should be paid.
- The rate of interest is fixed and pre-determined.

Question 3.

Discuss legal provisions for declaration of dividend.

Answer:

The term dividend is derived from the Latin word 'Dividendum' which means that which is to be divided.

A dividend means the profit of a company that is not retained in Legal Provisions for declaration of Dividend.

(i) Board Meeting:

- The Board of Directors has the power and authority to declare the dividend.
- The board meeting is called to pass a resolution to discuss the following points.
- Rate of Dividend and amount of Dividend to be paid.
- Book closure date for dividend.
- Date of Annual General Meeting.
- Bank with which a separate account should be opened to remit the dividend amount.

(ii) Shareholders' Approval:

- The dividend is approved by shareholders by passing an Ordinary Resolution at the Annual General Meeting.
- Shareholders can declare a lower rate of dividend than what is recommended by the Board but not higher than that.
- Once the dividend is declared at the General Meeting, it cannot be canceled. Hence, the company cannot declare dividends for the second time in that year.

(iii) Separate Bank Account:

The company must deposit the dividend amount in a separate bank account i.e. "Dividend Account" opened in a scheduled bank. The dividend must be transferred to this account within 5 days of its declaration.

(iv) Prohibition to pay Dividend:

- A company cannot declare any dividend on equity shares if the company has failed to repay the deposit or any interest on the deposit.
- If the company is found guilty at the time of Payment of Interest to debenture holders, Redemption of Debentures and Preference Shares, Payment of Interest to a financial institution, etc. in that case no dividend can be declared.

Question 4.

Explain Interim Dividend.

Answer:

- The interim dividend is the dividend that is declared and paid in the middle of an accounting year i.e. before the finalization of accounts for the year. Dividend declared by the Board of Directors between two Annual General Meetings is called Interim Dividend.
- The interim dividend is paid in the middle of the accounting year.

- The interim dividend is declared by the Board of directors during any financial year out of surplus in the profit and loss account and out of profits of the financial year.

Features of Interim Dividend:

- The Board of Directors has the power to declare an interim dividend.
- Interim Dividend is only payment on account of the whole dividend for the year.
- The company should provide depreciation for the entire year and not for a part of the year before declaring an interim dividend.
- Interim dividends cannot be paid out of any reserves.
- The Board of directors can declare interim dividend only when it is mentioned in the Articles of Association of the Company.
- A resolution has to be passed in the Board Meeting for declaring the Interim Dividend.
- A separate Bank account should be maintained in a scheduled bank to credit the interim dividend within 5 (five) days of its declaration.
- Interim Dividend should be paid within 30 days of its declaration.
- Unpaid/Unclaimed 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.
- Any amount remaining Unpaid/Unclaimed in the 'Unpaid Dividend Account' for 7 (seven) years should be transferred to IEPF.