**Dividends**

A dividend is a *distribution of the profits* of a company to the shareholders.

Often preference shareholders have the right to payment before ordinary shareholders.

Declaring and paying a dividend

* When the directors of a company agree that a dividend should be paid, the dividend is said to be “declared”.
* A company can only pay a dividend *out of profits* or profits accumulated in past years.
* A company making a loss or poor profits may not pay dividends.
* Often, only part of any profit will be distributed to the shareholders as a dividend.
* A substantial part of any profit is usually retained by the company to finance future business operations. Cash not paid as dividends can be used to purchase non-current assets.

**Types of Dividends**

**Final Dividend**

A final dividend is usually proposed by the directors and is then approved by the shareholders at the annual general meeting before it is paid out.

At the annual general meeting the shareholders can either *accept the proposed dividend* or *vote to receive a lower dividend* or *to receive no dividend at all*. The shareholders cannot vote to receive a higher dividend than that recommended by the directors.

*Example*

The directors of Kalgoorlie Limited recommended (proposed) a final dividend for the shareholders in for the year ended 30 June 2009.

This dividend was approved by the shareholders at the annual general meeting in September 2009 and paid to the shareholders in October 2009.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| *Year ended*  *30 June 2009* | | | *September 2009* | | *October 2009* | | |
|  |  |  |  |  |  |  |  |
| Final dividend proposed by directors | |  | Annual General Meeting | |  | Final dividend paid to shareholders | |
| Final dividend approved by shareholders | |

**Interim Dividend**

An interim dividend is a dividend that is declared and paid between two annual general meetings of a company.

The authority to declare and pay an interim dividend must be given to the directors in the constitution.

The directors of a company can approve and pay an interim dividend at any time during the year, without shareholder approval, if profit made so far justifies it.

In this way the shareholders receive an earlier than usual share of the company's profits.

*Example*

Assume that Kalgoorlie Limited holds its annual general meeting in September of each year.

The directors of the company declared and paid an interim dividend to the shareholders in March.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| September 2008 | | | March 2009 | | September 2009 | | |
|  |  |  |  |  |  |  |  |
| Annual General Meeting | |  | Interim dividend declared by the directors and paid to the shareholders | |  | Annual General Meeting | |