UMESCHANDRA COLLEGE

13, SURYA SEN STREET, KOLKATA 700012

SUBJECT: FINANCIAL MANAGEMENT

PROF KAHKASHAN ANWAR

CHAPTER 9: DIVIDEND DECISIONS

CONCEPT:

A portion of the net earnings of a firm is paid out to its shareholders. It is called dividend.

MEANING OF DIVIDEND:

The term dividend refers to that portion of the profits of a business enterprise which is distributed among the shareholders of the enterprise. According to the Institute of Chartered Accountants of India, dividend is referred to as 'a distribution to shareholder out of profits or reserves available for this purpose'. Hence, a dividend is a share of profit of the company dividend among its shareholders.

NATURE OF DIVIDEND:

The nature of dividend payment will depend upon the dividend policy followed by the firm

a. **Constant dividend per share:** A firm may follow a stable dividend policy. In this case, dividend equals a certain fixed amount per share regardless of fluctuations in the levels of earnings per share. Thus, fixed amount of dividend per share (DPS) is paid to the shareholders even when the firm incurs a loss.
b. **Constant pay-out ratio:** Sometimes a firm may pay a constant percentage of net earnings as dividend to its shareholders. So, in this case, dividends would fluctuate in proportion to the earnings of the firm. In this situation, the D/P ratio would remain constant.
c. **A stable cash dividend plus extra dividend:** Some of the business enterprises follow a policy of paying regular cash dividend plus ab extra dividend in the years of high net profits. This extra dividend is paid over and above the regular dividend payments. However, the payments of such extra dividend are stopped whenever the firm stops earning excessive profits.

TYPES OF DIVIDEND

Different types of dividends paid by any firm to its shareholders can be classified on the basis of:

a. **The sources** from which the dividends are paid :
   i. **Dividend paid out of the current profits**: Generally a firm pays dividend out of its current profits .For instance, Section 123 of the Companies Act, 2013 indicates that dividend shall be declared or paid by a company out of the profits of the company for that year arrived at after providing for depreciation in accordance with the provision of schedule II.
   ii. **Dividend paid out of the retained earnings:** A business firm can also pay dividend out of its past profits or retained earnings. In this case, the undistributed profits available after providing depreciation might be eligible for such dividend payments.
b. **The regularity with which such dividends are paid:**

i. Interim dividend: An interim dividend is one which a company pays to its shareholders before the declaration of the final dividend.

ii. Final dividend: the final dividend of a company is announced at its annual general meeting. The accounts of the company are prepared to ascertain the amount of profits earned by the company at the end of each financial year.

c. The **form** in which they are paid:

i. **Cash dividend:** Most of the companies pay dividends in cash. Such cash dividend results in an outflow of funds and reduces the net worth of the company. Hence, the company should have enough cash in its bank account to pay such cash dividends.

ii. **Bond dividends:** If a company does not have adequate funds to pay dividends in cash, it may issue bonds to the shareholders for the amounts due to them. The objective of the scrip dividend is to postpone the immediate outflow of cash .However, the bond dividend is not popular in India.

iii. **Share dividend:** Again, if the company does not have a adequate liquid resources to pay cash dividend, it can pay dividend by issuing bonus shares to its shareholders. It is called share dividend or stock dividend.

iv. **Property dividend:** When any company pays dividend in the form of assets other than cash, it is called property dividend. It is paid in the form of such assets which are not required by the company. However, this method of dividend payment is also not popular in India.

v. **Scrip dividend:** The scrip dividend refers to the dividend payment in the form of form of scrips or promissory notes. In this case, the company promises to pay the dividend at a future date.

Date : 6.04.2020.