Chapter II

Review of Legal Aspects of Dividend Policy in India
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REVIEW OF LEGAL ASPECTS OF DIVIDEND POLICY IN INDIA

2.1 INTRODUCTION

Over the years legal provisions have become quite explicit in dealing with corporate dividend policy. The legal provisions act as boundaries within which a corporation can operate in terms of paying dividends. In India, the amount of dividend that can be legally distributed by the joint stock companies is governed by the relevant provisions of company law, judicial pronouncements in leading cases and the provisions of the taxation law. A study of these aspects will provide the legal boundaries within which a company must stay and pay dividend to the shareholders. This chapter seeks to examine the legal aspects of dividend policy.

2.2 DIVIDEND AND THE COMPANIES ACT 1956

In the eyes of company law ‘dividend’ means the portion of profits of the company, which is allocated to the holders of shares. Section 93 and 205 to 207 make special provisions for the payment of dividends. Section 93 empowers a company to pay, if authorized by its articles, dividends in proportion to the amount paid up on each share. Section 205 imposes an obligation on managements to provide for depreciation before declaring dividends and to pay dividend in cash. The main part of sub-section (1) of the section provides that no dividend shall be declared or paid for any financial year except out of the profits after making provisions for depreciation in accordance with the provisions of sub-section (2) or out of the profits for any previous financial year or years similarly arrived at and remaining undistributed or out of both or out of money provided by the central or state government in pursuance of a guarantee given by such government. It will be noticed that, in the absence of any such government guarantee, a company can never pay dividends except out of its own profits. The three provisions to sub-section (1) further provide the following conditions.
(a) If the company has not provided for depreciation for any previous financial year or years which falls or fall after the commencement of companies (Amendment) Act, 1960, it shall before declaring or paying dividend for any financial year provide for such depreciation out of the profits of that financial year or out of the profits of any other previous financial year or years;

(b) If the company has incurred any loss in any previous financial year or years, which falls or fall after the commencement of the Companies (Amendment) Act, 1960, then the amount of the loss or an amount which is equal to the amount provided for depreciation for that year or those years whichever is less, shall be set off against the profit of the company for the year for which dividend is proposed to be declared or paid or against the profit of the company for any previous financial year or years, arrived at in both cases after providing for depreciation in accordance with the provisions of sub-section (2) or against both.

(c) The Central Government may, if it thinks necessary to do so in the public interest, allow any company to declare or pay dividends for any financial year out of the profits of the company for that year or any previous financial year or years without providing for depreciation.

Provided further that it shall not be necessary for a company to provide for depreciation as aforesaid where dividend for any financial year or years which falls or fall before the commencement of the Companies (Amendment) Act, 1960.

According to Section 205(2), a company shall provide depreciation before declaring dividend in any financial year, as detailed below:

(i) To the extent specified in section 350 or

(ii) In respect of each item of depreciable asset, for such an amount as is derived at by dividing ninety five percent of the original cost to the company by the specified period in respect of such asset or
(iii) On any other basis approved by the Central Government which has the effect of writing off by way of depreciation ninety-five percent of the original cost to the company of each such depreciable asset on the expiry of the specified period.

(iv) As regards any other depreciable asset for which no rate of depreciation has been laid down by this Act, on such basis as may be approved by the Central Government by any general order published in the official Gazette or by any special order in any particular case.

Clause 26 of the Companies (Amendment) Act 1987, seeks to amend section 205 to provide that in future, depreciation shall be calculated in accordance with the rates specified in Schedule XIV to the Act, thus delinking depreciation under the Companies Act from that under the Income Tax Act

2.3 COMPANIES (AMENDMENT) ACT 1974 AFFECTING CREATION AND UTILISATION OF RESERVES

2.3.1 Transfer of Profits to Reserves

The amending Act of 1974 has inserted a new sub-section 2A in section 205 which provides that "no dividend shall be declared or paid by a company for any financial year out of the profits of the company for that year arrived at after providing for depreciation in accordance with the provisions of the Act, except after the transfer to the reserves of the company of such percentage of its profits for that year, not exceeding 10 percent, as may be prescribed". The new sub-section also provides that a higher percentage of its profits may be transferred to the reserves in accordance with such rules as may be made by the Central Government in this behalf.

In exercise of the powers conferred under Section 205(2A), the Central Government enacted the companies (Transfer of profits to Reserves) Rules, 1975. According to these rules, no dividend can be declared or paid by a Company except after the transfer to the reserves of the company of a percentage of its profits for that year as specified below:
(i) Not less than $2\frac{1}{2}$ percent of the current profits, where the dividend proposed exceeds 10 percent, but not above $12\frac{1}{2}$ percent of the paid-up capital.

(ii) Not less than 5 percent of the current profits, where the dividend proposed exceeds $12\frac{1}{2}$ percent but not above 15 percent of the paid-up capital.

(iii) Not less than $7\frac{1}{2}$ percent of the current profit, where the dividend proposed exceeds 15 percent but not above 20 percent of the paid-up capital, and

(iv) Not less than 10 percent of the current profits, where the dividend proposed exceeds 20 percent of the paid-up capital.

In case, however, a company wants to make additional voluntary transfer of a higher percentage to the reserves, it may do so as per Rule 3 of the companies (Transfer of profits to Reserves) Rules 1975 as follows:

(i) Where a dividend is declared, a minimum distribution sufficient for the maintenance of dividends to shareholders at a rate equal to the average of rates at which dividends declared by it over the three years immediately preceding the financial year is ensured, except that in a case where the net profits after tax are lower by 20% or more than the average net profits after tax of the two financial years immediately preceding, it shall not be necessary to ensure such a minimum distribution.

(ii) Where, no dividend is declared, the amount proposed to be transferred to its reserves from the current profits shall be lower than the average amount of the dividends to the shareholders declared by it over the three years immediately preceding the financial year."

In the case of newly incorporated companies where no dividend could be declared over the three years immediately preceding the financial year in question, the Rule (3) will not apply. Such a case will be governed by the provisions of Rule (2) that is, the company is prohibited from transferring more than 10 percent of its profits to reserves.
On July 30, 1976, the Central Government amended the Companies (Transfer of Profits to Reserves) Rule 1975. According to the revised provisions, the stipulation regarding the maintenance of the rate of dividend at the average of the preceding three years has been waived. Instead of maintaining the rate of dividend at the average of the preceding three years, the maintenance of the quantum of dividend equivalent to the preceding three years' average is required.

However, the Companies (Amendment) Act, 1987, has inserted a new Sub-section (28) in Section 205, which provides that "a company which fails to comply with the provisions of Section 80 A shall not, so long as such failure continues, declare any dividend on its equity shares."

The above section seeks to prohibit a company from declaring any dividend on equity shares or to transfer its profits to reserves, if it fails to redeem the irredeemable preference shares pursuant to the amendment proposed in clause 14 of the bill.

2.3.2 Payment of Dividend Out of Reserves

Profits transferred to reserves do not cease to be profits. Before the Companies (Amendment) Act, 1974 came into force, profits transferred to reserves could, at any time, be distributed to the shareholders as a dividend. Transferring profits to reserves merely indicates that the companies do not intend to deal with them by way of dividend for the time being. A common reason for establishing revenue reserves is to provide a cushion so that dividends can be maintained in lean years out of the undistributed profits of past years.

Sub-section (3) of section 205-A as inserted by the Companies (Amendment) Act, 1974 provides that henceforth declaration of dividends out of the accumulated profits earned by the company in previous years and transferred by it to the reserves cannot be made in case of inadequacy or absence of profits in any year, except in accordance with such rules as may be made by the Central Government in this behalf and where any such declaration is not in accordance with such rules, such declaration cannot be made except with the previous approval of the Central Government. Failure
to comply with these requirements will make the company and every officer of the 
company who is in default, liable to be punished with fine which may extend to 
five hundred rupees for every day during which the failure continues

In exercise of the powers conferred under Section 205-A (3) the Central 
Government enacted the Companies (Declaration of Dividend out of Reserves) Rules 
1975. The rules provide that in the event of inadequacy or absence of profits in any 
year, dividend may be declared by a company for that year out of the accumulated 
profits earned by it in previous years and transferred by it to the reserves, subject to 
the conditions that:

(i) The rate of dividend declared shall not exceed the average of the rates at which 
dividend was declared by it in the five years immediately preceding that year or 
ten percent of its paid up capital, which ever is less.

(ii) The total amount to be drawn out of the accumulated profits earned in previous 
years and transferred to the reserves shall not exceed an amount equal to 1/ 10th 
of the sum of its paid up capital and free reserves and the amount so drawn shall 
first be utilized to set off the losses incurred in the financial year before any 
dividend in respect of preference or equity share is declared.

(iii) The balance of reserves after such drawal shall not fall below 15 percent of its 
paid up share capital.

2.3.3 Dividend Paid Out of the Capital Profits

Further that dividend is payable out of revenue profits only, however in certain 
cases dividend can be paid out of capital profit also, subject to fulfillment of the 
following conditions:

(a) Such capital profits are realized in cash

(b) The Articles of Association of the Company permit such payment (c) such 
capital profits exist after revaluation of other assets

The payment of dividend out of capital profits is not very common in India.

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2.3.4 Interim Dividend

All dividends must be paid in cash (with the exception of scrip dividends *i.e.*, bonus shares which is capitalization of profits). The cash dividend may be paid as:

(I) Interim dividend; and

(II) Final dividend.

Interim dividend which is payable after passing a resolution by the Board of Directors and even before the finalization of accounts for that year. So the interim dividend is declared in between the two annual general meetings. The Board may pay such dividend only if it expects a sufficient profit for the period. The Companies Act 1956 does not provide for payment of interim dividend and therefore a company can pay interim dividend only if authorised by the Articles of Association of the company. The Article 86 of the Table A also allow for the payment of the interim dividend.

The articles authorise that the directors may pay interim dividend. But a mere resolution of the Board to pay interim dividend does not create a debt as between the company and the share holders and the directors are entitled to rescind the resolution subsequently but before payment. In the case of an interim dividend which the Board of Directors have resolved to pay, it is open to the Board at any time before payment to review its decision and resolve not to pay the dividend. The director can before or after the time of such resolution decide that the dividend shall be paid on some stipulated future date. If the time for payment is so specified a shareholder has no enforceable right to demand payment prior to the stipulated date. A general body meeting cannot pass a resolution for payment of interim dividend. But the general body meeting may override the decision of the Board to pay interim dividend. The general body can rescind the declaration of dividend before payment has been made.

The dividend which has been paid by Directors as interim can be considered as declared only after the members have transacted the business under section 173(1) (a) and confirmed the directors action of payment of interim dividend having satisfied themselves that the position of the company justified such payment.
As per the regulation 86 of Table A to schedule I of the Companies Act 1956 envisage that directors have the power to declare interim dividend which depends much more on the assumptions and opinions that the financial information contained in formal Balance sheet.

After the coming into force of Sub-section (2A) introduced by the companies (Amendment) Act 1974, it would appear not possible to pay any interim dividend until the profit of any year of the company are arrived at after providing depreciation and also after transferring to the reserves.

Final dividend is payable only after recommended by the Board of Directors and approved by the share holders at the Annual General Meeting of the company. There are certain procedural constraints and formalities in respect of payment of final dividend given in the byelaws of the stock exchange where the shares are listed.

Financial institutions advance term loan to the borrowers in terms of a loan agreement signed by both the borrower and the institution. One of the conditions contained in loan agreement relates to the declaration and payment of dividends by the borrower joint Stock Company. This condition states that unless the lenders otherwise agree the borrower shall not declare and pay dividend to any of its shareholders whether equity or preference, during any financial year unless the borrower has paid to the lenders the installment of principal, interest, commitment charge and other monies payable under this agreement and has made provisions satisfactory to the lenders for making such payment.

2.3.5 Bonus Shares (Scrip or Stock Dividend)

Dividend payment involves payment of cash and hence affects the liquidity position of the firm. There is another way of utilisation of profits to reward the shareholders without however affecting the current liquidity position of the firm. This is known as issue of Scrip dividend or Bonus share by a company free of cost by capitalisation of its profits and reserves if it is so authorised by its Articles of Association. Owing to economic and other circumstances it has become increasingly
common in recent years for companies to capitalise profits. However, while issuing
bonus shares companies were used to comply with the guidelines issued by the
Controller of Capital Issues, in this regard prior to 1992. But with the abolition of
Controller of Capital Issues, SEBI (Securities and Exchange Board of India) is now
empowered to provide guidelines for bonus issue of firms. The new guidelines on
bonus shares have been issued by the Primary Market Department of SEBI vide press
release dated 13.4.94 modifying the earlier guidelines issued by SEBI on 11.6.1992.
The text of the modified guidelines are:

(i) Issue of bonus shares after any public/rights issue is subject to the condition that
no bonus issue shall be made which will dilute the value or rights of the holders
of debentures convertible fully or partly.

(ii) The bonus issue is permitted to be made out of free reserves built out of the
genuine profits or share premium collected in cash only.

(iii) Reserves created by revaluation of fixed assets are not permitted to be
capitalised.

(iv) The declaration of bonus issue in lieu of dividend is not allowed.

(v) Bonus issues are not permitted unless the partly paid shares, if any, existing is
made fully paid up.

(vi) The company has not defaulted in payment of interest or principal in respect of
fixed deposits and interest on existing debentures or principal on redemption
thereof and has sufficient reason to believe that it has not defaulted in respect of
the payment of statutory dues of the employees such as contribution to
provident fund, gratuity, bonus etc.

(vii) A company, which announces its bonus issue after the approval of the Board of
Directors, must implement the proposal within a period of six months from the
date of such approval and shall not have the option of changing the decision.
(viii) There should be a provision in the Articles of Association of the company for capitalisation of reserves etc., and if not the company shall pass a resolution at its general body meeting making provisions in the Articles of Association for capitalisation.

(ix) Consequent to the issue of bonus shares if the subscribed and paid-up capital exceeds the authorised share capital, a resolution shall be passed by the company at its general body meeting for increasing the authorised capital.

The above guidelines for issue of bonus shares are applicable only in respect of issues made by existing listed companies. Existing private closely held and unlisted companies are therefore not required to comply with the guidelines. However, the Department of Company Affairs vide its circular No. 9/94 dated 6.9.1994 has prohibited the existing private/ closely held and unlisted companies from issuing bonus share out of reserves created by revaluation of fixed assets. While issuing bonus shares however the companies have to comply with the guidelines issued by the controller of capital issues in this regard Section 3 of Capital Issues is needed by a company for issue of bonus shares. The latest guidelines for issue of Bonus Shares issued by the Ministry of Finance are given below.

1. There should be a provision in the Article of Association of the Company for capitalisation of reserves etc. If not the company should produce a resolution passed at the general body meeting making provision in the Articles of Association for Capitalisation.

2. Consequent to the issue of bonus shares if the subscribed and paid up capital exceeds the authorised capital, a resolution passed at the general body meeting in respect of increase in the authorised capital is necessary.

3. The company should furnish a resolution passed at general body meeting for bonus issue before an application is made to the controller of Capital Issues. In the general body resolution the management’s intention regarding the rate of dividend to be declared in the year immediately after the bonus issue should be indicated.
4. The bonus issue is permitted to be made out of free reserves built out of genuine profits or share premium collected in cash only.

5. Reserves created out of revaluation of fixed assets are not permitted to be capitalised.

6. Development rebate reserve/investment allowance reserve is considered free reserve for the purpose of calculation of residual reserve test.

7. The residual reserves after the proposed capitalisation should be at least 40 percent of the increased paid up capital.

8. All contingent liabilities disclosed in the audited accounts, which have a bearing on the net profits, shall be taken into account in the calculation of minimum residual reserves.

9. Thirty percent of the average profits before tax of a company for the three previous years should yield a rate of dividend on the expanded capital base of the company at ten percent.

10. Declaration of bonus issue in lieu of dividend is not allowed.

11. The company may make a further application for issue of bonus shares only after 36 months from the date of sanction by the government of an earlier bonus issue if any.

12. Bonus issues are not permitted unless the partly paid up shares if any existing are made fully paid.

13. No bonus issue will be permitted if there is sufficient reason to believe that the company has defaulted in respect of the payment of statutory dues of the employees such as contribution of provident fund, gratuity, bonus etc.

14. Capital reserves appearing in the balance sheets of the companies as a result of revaluation of assets or without accrual of cash resources will neither be allowed to be capitalised nor taken into account in the compilation of residual reserves of 40 percent for the purpose of bonus issue.
15. At any time, the total amount to be capitalised for issue of bonus shares out of free reserves shall not exceed the total amount of paid up equity capital of the company.

16. Application for issue of bonus shares should be made within one month of the bonus announcement by the Board of Directors of the Company.

17. In cases where there is any default in the payment of any term loans outstanding to any public financial institutions, a "no objection letter" from that institution in respect of bonus shares should be furnished by the companies concerned with the bonus issue application.

An application for bonus issues should be signed by a person not below the rank of a Director/Secretary together with the prescribed certificates. Besides, the following certificates should also be enclosed with the application for bonus issue.

a) A certificate from the auditor of the company that adequate provisions for depreciation has been made in the accounts of the company as allowable under the Income Tax Act.

b) If there is a change in the method of depreciation the companies should further ensure that adequate provision for different taxation liability is made and the auditor's certificate to the effect should also be furnished along with the application for bonus issue.

2.4 MECHANICS OF DIVIDEND DECLARATION AND PAYMENT

2.4.1. Declaration of Dividend

It is obligatory of a company to reward its investor through the declaration of dividend. It is not derived from the companies Act or Memorandum. But the Management of the company can declare dividends only in accordance with the procedure laid down in Regulation 85 of Table 'A' to Schedule I of the Act. As a procedure the dividend can be declared when the balance sheet and profit and loss account are presented to the shareholders at the annual general meeting and the shareholders after a consideration of the amount recommended by the directors approve the
same or such lesser amount as may appear to them to be reasonable and proper. It implies that the general meeting of shareholders is empowered to declare dividend but it has no power to increase the amount of dividend recommend by the Board of Directors.

An extraordinary general meeting has no authority even though all the members agree to declare a dividend. But where a company once declared a dividend at a general meeting neither the company nor its directors can declare a further dividend for the same year. Normally there can be no declaration of dividend for past years in respect of which the accounts have already been closed at previous annual general meeting. However the profits earned in past years and remaining accumulated may be paid as dividend in respect of the financial year for which the annual general meeting has been convened. But these decisions apply in respect of voluntary payments. Where the Income tax officer directs the company Under section 105 of the Income Tax Act 1961 to make a further distribution of its profits so that the total distribution made is not less than the statutory percentage of the distributable income, the company may make a further declaration of dividend in an extraordinary general meeting.

2.4.2. Right to Dividend

A shareholder has no right to claim that the company should distribute its profits as dividends. Right to claim dividend will arise after a dividend is declared by the company in general meeting. So long it is not declared no shareholders has any claim against the company in respect of it. The usual practice is for the Board of Directors to recommend and the annual general meeting to declare the dividend unless the Articles contain a provision like Regulation 85 of Table A of First Schedule. The annual general meeting will have the power subject to the provisions of the Act to determine the amount of dividend to be distributed.

2.4.3. Dividend as a Debt

When a dividend is declared by the company it becomes a debt. The company is ordinarily liable to share holders to pay that and it is enforceable against the
company and the cause of action arises for recovery of the same after expiry of the period prescribed by section 207. It is an ordinary unsecured debt of the company to its shareholders. Once the dividend is declared a company does not however become a trustee for the shareholders.

2.4.4. Revocation of Declaration of Dividend

Ordinarily, a dividend once declared cannot be revoked except with the consent of the shareholders for a declaration of dividend creates a debt to the shareholders in whose favour it is declared. But where a dividend has been illegally declared or where due to events intervening after the declaration such as fire destroying the company's property or the outbreak of a war or the imposition of a new killing tax burden or other causes diminishing the assets of the company makes it advisable to conserve the remaining assets, the Board of Directors will be justified in revoking the declaration of dividend. In the case of an interim dividend, the Board of Directors may on further consideration and at any time before payment of the same, rescind the resolution for payment if it is discovered that the circumstances do not justify such payment.

2.4.5 Payment of Dividend

Dividend in respect of a share should be paid to the registered holder of such share or to his order or to his bankers. Where share warrant has been issued in respect of the share, the dividend should be paid to the bearer of the warrant or to his bankers.

2.4.6 Mode of Dividend payment

According to section 205(3) a company shall pay dividend in cash only. Any dividend payable in cash may be paid by cheque or warrant sent through the post directed to the address of the share holders or to such person and to such address as the share holders may in writing direct. Payment of dividend by crediting in the accounts of the shareholders is not an approved mode of disbursement of dividend. In case of joint holders of shares it may be send to the Joint holders whose name appears first in the register of members. The company is to pay dividend to the
members whose names appear on the register of member at the time of declaration of dividend. If a member has transferred his shares after declaration of dividend the transferee is not entitled to claim from the company the dividend already declared. If the transferee has any right it is against the transferor of the shares.

The dividends once declared at the annual general meeting of the company must be paid within 42 days of the declaration. If not, then within 7 days from the date of expiry of the said period of 42 days, the company must deposit the unpaid dividends to a separate Bank Account to be opened by the company in a Scheduled Bank to be called Unpaid Dividend Account of…..Ltd. If it is not paid within that period every director who is knowingly a party to the default is liable to simple imprisonment for a term, which may extend to 7 days and also a fine. However, failure to pay dividend within 42 days will not be punishable in the following cases

(a) Where the dividend could not be paid by reason of the operation of any law; or

(b) Where a share holder has given direction to the company regarding the payment of dividend and those directions can not be complied with; or

(c) Where there is a dispute regarding the right to receive any dividend; or

(d) Where the dividend has been lawfully adjusted by the company against any sum due to it from the shareholders; or

(e) Where for any other reason the failure to pay the dividend or to post the warrant within the period aforesaid was not due to any default on the part of the company.

2.4.7 Transfer of Unpaid Dividend to a Special Dividend Account

Companies (Amendment) Act 1987, clause 27 amended Section 205A, which was introduced by companies (Amendment) Act 1974 seek to provide that all dividends remaining unpaid/unclaimed whether dividend warrants have been posted or not must be deposited in the Unpaid Dividend Account. The manner in which unpaid dividends are transferred to a special dividend account according to the amendment of sec. 205A is as follows:
After the commencement of the companies (Amendment) Act 1987 a dividend has been declared by a company but has not been paid or claimed within 42 days from the date of the declaration, the company must deposit the unpaid dividends to a separate bank account opened in a scheduled bank, within seven days from the date of expiry of the said period of forty two days. The above bank account is called ‘Unpaid Dividend Account of company Limited or company (private) Limited’.

In this sub-section (205A), the expression dividend, which remains unpaid, means any dividend warrant in respect thereof, which has not been encashed or which has otherwise not been paid or claimed.

The company shall also transfer the amount of unpaid dividend to a special dividend account even where dividend warrants have been posted within 42 days but

(i) The dividend warrants are received back by the company without the same being delivered to the share holders concerned (or)

(ii) The dividend warrants are not encashed by the share holders (or)

(iii) The dividend warrants are lost in transit (or)

(iv) Validity period of dividend warrants is over and therefore they become uncashable.

Dividends, which have remained unpaid upto, the commencement or the Act, shall also have to be transferred to the unpaid dividend account within six months. The company shall have to pay interest at the rate of 12 percent for the benefit of the shareholders concerned on any amount of unpaid dividend, which is not transferred to the account.

The company can ensure compliance with requirements of section 205A (1) if it keeps full amount of dividend declared in a separate dividend account with a scheduled bank and issues instructions to its bank to change the nomenclature of the dividend account to the unpaid dividend account of company limited with effect from the 49th day of declaration of dividend.
2.4.8 Transfer of Unpaid Dividend to the General Revenue Account of the Central Government

If the money remains unpaid/unclaimed in the special unpaid dividend account in a scheduled bank as per the provisions of section 205A for a period of three years from the date of transfer then such money shall be transferred from the unpaid/unclaimed amount of dividend to the General Revenue Account of the Central Government.

Any money required to be transferred to the general revenue account of the Central Government under sub-section (5) of section 205A of the Act shall be transferred to any of the branches of the Punjab National Bank specified in Companies Unpaid Dividend (Transfer to General Revenue Account of the Central Government) Rules 1978 within a period of fourteen days from the date on which such money is required to be so transferred.

A company shall, when making a transfer as per the above rule, furnish to the Registrar of companies concerned a statement in Form I of the Act in duplicate. Every company shall furnish a certificate along with the annual return to be filed immediately there after under section 159 to the Registrar concerned to the effect that the whole of the amount of dividend remaining unpaid or unclaimed for a period of three years from the date of transfer to the special account has been transferred to the General Revenue Account of the Central Government as required under the sub-section (5) of section 205A.

While making any transfer under sub-section (5) of section 205A, by a company to the general revenue account of the Central Government, of any unpaid or unclaimed dividend, the company shall furnish to such officer appointed on behalf of the Central Government a statement in the prescribed form setting forth in respect of all sums included in such transfer the nature of the sums, names and address of the persons entitled to receive the sum, the nature of claim and other particulars as may be prescribed.
The company also be entitled to receive a receipt from the Reserve Bank of India for any money transferred by it to the general revenue account of the Central Government and such receipt shall be an effectual discharge of the company. If the company fails to comply with any requirement of this section, the officer who is liable for any default shall be punishable with a fine which may extend to five hundred rupees for every day during the failure continues.

The Registrar of companies has to maintain in his office separate accounts in respect of each company whose unpaid dividend and interest thereon, if any are transferred to the General Revenue Account of the Central Government.

2.4.9 Claim for Payment of Unpaid Dividend

(a) Any person applying to the Central Government under section 205B of the Act shall make such application in Form II in duplicate to the Registrar of Companies concerned under his own signature or through a person holding power of attorney.

(b) On receipt of the application referred to in sub-rule (1) the Registrar of Companies concerned shall verify from his records and certify whether the claimant is entitled to the money claimed by him.

(c) Where the claimant's title to the aforesaid money has been established to the satisfaction of the Registrar of Companies, the Registrar of Companies may direct the claimant to execute an indemnity bond with or without surety in form III or as near thereto as may be, on a non-judicial stamp paper of the value payable in the state of execution.

(d) On receipt of the indemnity bond, if any duly executed by the claimant, the Registrar of Companies shall issue a payment order in Part B of Form II sanctioning the payment of the amount due to the claimant giving directions to the Pay and Accounts Officer of the Department of Company Affairs to issue a cheque in favour of the claimant and the Accounts Officer shall draw the cheque accordingly and send it to the Registrar of Companies.
(e) Notwithstanding any thing contained in sub-rules (3) and (4) the Registrar of Companies may, where the amount claimed is not more than five hundred rupees and the claimant establishes his title to the money claimed to his satisfaction, issue an order sanctioning the payment of amount due to the claimant without production of the indemnity bond referred to in sub-rule (4).

(f) The claimant on receipt of an order under sub-rule (4) or sub-rule (5) shall obtain the cheque in payment of the amount from the Registrar of Companies concerned after delivering to him a stamped receipt bearing the signature of two witnesses.

2.5. Chapter Summary

From the above discussion it is evident that in India payment of dividend by joint stock companies is governed by the relevant provisions of Company Law, the provisions of Income Tax Act, Contractual factors, and prescribed rules framed by the Central Government from time to time. Such legal rules act as boundaries within which a Company can operate in terms of paying dividends. Acting within these boundaries a company will have to consider many financial variables and constraints in deciding the amount of earning to be distributed as dividends.