In this chapter we would discuss the legal and other aspects of dividend distribution in the Indian context.

Under Section 217(1)(C) of the Companies Act, directors have considerable discretionary power in the matter of paying dividend out of the earnings of the company. When the accounts have been prepared and directors know the financial position of the company, they recommend what should be paid to the shareholders. Unless the Board recommends the payment of a dividend, the company, in general meeting has no power to declare dividend. Again, directors can not distribute dividends, they can only recommend the quantum to the company in general meeting. If notwithstanding sufficient profits, the Board refuses to recommend a reasonable percentage by way of dividend, the company, in general meeting, cannot interfere with the Board's discretion by way of deciding to pay higher dividend. Nor can an article take away this power of the directors.

In the matter of declaration and payment of dividend the management of the company has to work within the framework provided by the corporate laws, contractual and internal constraints and restrictions. Different provisions of the Companies Act and some legal pronouncements may now be discussed.
Companies Act, 1956

Under Section 205(I) - no dividend shall be declared or paid by a company for any financial year except (i) out of the profits of the company for that year arrived at after providing for depreciation in accordance with the provision of subsection (2) of the section 205 or (ii) out of the profits of the company for any previous financial year or years arrived at after providing for depreciation in accordance with those provisions and remaining undistributed or (iii) out of both or (iv) out of moneys provided by the Central Govt. or State Govt. for the payment of dividend in pursuance of a guarantee given by that Govt. provided that -

(a) if the company has not provided for depreciation for any previous year or years which falls or fall after the commencement of the companies (Amendment) Act, 1960, it shall, before declaring or paying dividend for any financial year provide for the same 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 loss or an amount which is equal to the amount provided for depreciation for that year or those years which ever is less, shall be set off against the profits of the
company for the year for which dividend is proposed to be declared or paid or against the profits of the company for any previous financial year or years, arrived at in both cases after providing for depreciation in accordance with the provisions under section 205(2) or both.

(c) the Central Govt. may, if it thinks necessary so to do in the public interest, allow any company to declare or pay dividend 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 is declared or paid out of profits of any previous financial year or years which falls or fall before commencement of the companies (Amendment) Act, 1960.

For the purpose of Section 205(1) depreciation shall be provided under Section 205(2) as follows:

(a) to the extent specified in Section 350 or

(b) in respect of each item of depreciable asset for such an amount as is arrived at by dividing ninety five percent of the original cost thereof to the company by the specified period in respect of such asset, or

(c) on any other basis approved by the Central Govt.
which has the effect of writing off by way of depreciation ninety five percent of the original cost to the company for each such depreciable asset on the expiry of the specified period, or

(d) as regards any other depreciable asset for which no rate of depreciation has been laid down by the Indian Income Tax Act or the rules made thereunder on such basis as may be approved by the Central Govt. by any general order published in the official Gazette or by any special order in any particular case.

Provided that where depreciation is provided for in the manner laid down in Clause (b) or Clause (c), then, in the event of depreciable asset being sold, discarded, demolished or destroyed the written down value thereof at the end of the financial year in which the asset is sold, discarded, demolished or destroyed, shall be written off in accordance with the proviso to Section 350.

No dividend shall be payable except in cash. Provided that this Section 205(1) does not prohibit the capitalisation of 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 company.

Nothing in this Section 205(1) shall be deemed to affect in any manner the operation of Section 208 regarding power of company to any interest out of capital in certain cases.
Compulsory Reserve Section 205(2A) - Subsection (3) of Section 205-A imposes certain restrictions on the declaration of dividends from accumulated profits. Distribution of entire profits for the year may be detrimental to the interest of the company as well as of its shareholders. For this reason, this section makes it obligatory on the part of the company to transfer to its reserves certain percentage of profits, not exceeding ten percent, which would be available to the company for ploughing back for expansion of the activities of the company or would also be available for declaration of dividends in a lean year, subject to rules as may be made by the Central Govt. as envisaged in the proposed Section. The rules, relating to the percentage of profits to be transferred to reserve before declaring dividend in a given year, is called "The Companies (Transfer of profits to Reserve) Rules 1975".

Under these Rules no dividend shall be declared or paid by the company for any financial year out of profits of the company for that year arrived at after providing for depreciation in accordance with the provision of Section 205 (2), except after the transfer to the reserves of the company of a percentage of its profits for that year as specified below

(1) where the dividend proposed exceeds 10 percent but not 12.5 percent of the paid-up capital, the amount to be transferred to the reserves shall not be less than 2.5 percent of the current profits.
(ii) where the dividend proposed exceeds 12.5 percent but does not exceed 15 percent of the paid-up capital, the amount to be transferred to the reserves shall not be less than 5 percent of the current profits.

(iii) where the dividend proposed exceeds 15 percent but does not exceed 20 percent of the paid-up capital, the amount to be transferred to the reserves shall not be less than 7.5 percent of the current profits and

(iv) where the dividend proposed exceeds 20 percent of the paid-up capital, the amount to be transferred to reserves shall not be less than 10 percent of the current profits.

Nothing in the Rule shall be deemed to prohibit the voluntary transfer by a company (Rule (3)) of a percentage higher than 10 percent of its profits to its reserves for any financial year, so however that:

(i) where a dividend is declared -

(a) a minimum distribution sufficient for the maintenance of dividends to shareholders at a rate equal to the average of the rates at which dividend declared by it over the three years immediately preceding the financial years, or

(b) in a case where bonus shares have been issued in the financial year in which the dividend is declared or in the three years immediately preceding the financial year, a minimum distribution sufficient for the maintenance of
dividends to shareholders at an amount equal to the average amount (quantum) of dividend declared over the three years immediately preceding the financial year, is ensured.

Provided that in a case where the net profits after tax are lower by 20 percent or more than the average net profits after tax of the two financial years immediately preceding, it shall not be necessary to ensure such minimum distribution as mentioned in (a) or (b) above.

(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.

According to Department Circular No. 20/76, dated 26/7/1976, in 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 and the case will be governed by provisions of Rule(2) that is, the company is prohibited from transferring more than 10 percent of its profits to reserves.

**Declaration of Dividend out of Reserves** - Where, owing to inadequacy or absence of profits in any year, any company, under section 205-A (3) as inserted by the companies (Amendment) Act, 1974, proposes to declare dividend out of the accumulated profits earned by the company in previous years
and transferred by it to reserves, subject to rules framed by Central Govt. in this regard, the expression "profits earned by the company in the previous year(s) and transferred by it to reserves" means the aggregate of net profit (after deduction of tax) actually transferred to reserve and in computing the said amount, the appropriations out of the amount transferred from the Development Rebate Reserve (at the expiry of the period specified under the Income Tax Act, 1961) shall be included and all items of capital reserves including reserves created by revaluation of assets shall be excluded.

For the purpose of the Section 205-A, the rules so framed are called companies (Declaration of Dividend out of Reserves) Rules, 1975. These Rules are as follows -

(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 from the accumulated profits earned in the previous years and transferred to reserves shall not exceed an amount equal to one-tenth of the sum of its paid-up capital and free reserves and the amount so drawn shall first be utilised to set off the losses incurred in the financial year before any dividend in respect of preference or equity shares is declared; and
(iii) the balance of reserves after such drawal shall not fall below fifteen percent of its paid-up share capital.

**Bonus Share (Stock Dividend)** - Dividend must be paid in cash under section 205(3). But if the Articles of Association of the company permit then a company can issue fully paid-up bonus shares (also known as stock dividend) to its existing shareholders by utilising realised accumulated profits which is free from any liability, after approval of the controller of capital issues under section 3 of the Capital Issues (control) Act, 1947. Under this Act prior approval must be taken by the company for issue of share capital including bonus shares. The Central Govt. has reviewed the existing guidelines in this regard through Ministry of Finance, Department of Economic Affairs, Office of the Controller of Capital Issues, New Delhi, by Press Release, dt. 18/3/1985, the guidelines are as follows -

(1) There should be provision in the Articles 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 provisions 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 the 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 the genuine profits or share premium collected in cash only.

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

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

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

(8) The residual reserves after the proposed capitalisation should be at least 40 percent of the increased paid-up capital.

(9) 30 percent of the average profits before tax of the company for the previous three years should yield a rate of dividend on the expanded capital base of the company at 10 percent.
(10) Declaration of bonus issue in-lieu of dividend is not allowed.

(11) There is to be a minimum time lag between two bonus issues as per Government notification through press release from time to time.

(12) Bonus issue are not permitted unless the partly paid shares, if any existing, are made fully paid up.

(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) General 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 computation of the residual reserves of 40 percent for the purpose of bonus issue.

(15) At any one time the total amount permitted to be capitalised for issue of bonus shares out of free reserves shall not normally exceed the total amount of paid up equity capital of the company.

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

All applications for bonus issue should be signed by a person not below the rank of Directors/Secretary together with a certificate.

A certificate from auditors of the company relating to bonus issue should also be furnished. Proforma of this certificate is given below:

"We have verified that the information furnished by the company for issue of bonus shares and find the same as correct. We also certify that we have received all the information required by us for the verification.

"We hereby certify that the proposal contained in the application for the issue of bonus shares meets all the requirements of the bonus issue guidelines in force issued by the Govt. in this regard according to the information furnished to us and to the best of our knowledge".

Besides, the following certificates should also be enclosed with the application for bonus issue:

(i) A certificate from the auditors of the company that adequate provision for depreciation has been made in the accounts of the company as allowable under the Income Tax Act.

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

**Interim Dividend** - It is a dividend which is declared before the final dividend between two annual general meetings. This is a good practice by which shareholders can use their money as soon as it is earned by opting for different alternative investment proposals or for meeting consumption needs. Sometimes they can reduce their tax burden by dividing the dividend income in two different assessment years.

Legal aspect of interim dividend can now be discussed.

A. Ramaiya, a leading authority on company law is of view that section 205 of the Companies Act does not permit declaration of interim dividend by the companies in India. Under this section no company can declare and pay interim dividend unless before such declaration or payment it has already provided for depreciation not proportionately for any fraction of a year but for that whole year. The prohibition contained in this section is absolute and not relaxable however good the profit position of the company may be. Again section 205(2A) of the Companies (Amendment) Act, 1974, requires that dividend may be declared out of profits arrived at after providing for depreciation and transfer to reserve the prescribed percentage of profits. Hence under this section payment of interim dividend is very difficult.
On the other hand, it is held by many noted experts that no restriction has been imposed by the Act on declaration of interim dividend by a company. Under Regulation 86 of Table 'A' to Schedule I of the Companies Act, 1956, the Board of Directors may from time to time pay to the members such interim dividend as appears to it to be justified by the profits of the company. If Table 'A' has not been adopted, the Articles of Association may permit the payment of such dividend. If the Articles are also silent, they must be altered to enable the Directors to take such a step. Authorisation by Articles of Association is necessary. In no case interim dividend should be paid if the Articles do not permit.

The position of the accounts should be considered at a Board meeting to ascertain whether there is sufficient profits in accordance with Section 205 to declare dividend and Directors must satisfy themselves that payment of dividend is warranted by the financial position of the company. A resolution should be passed in this respect.

Justice A.N. Ray, observed in Raghunandan Neotia's case (1964) that "the dividend referred to in section 205 to 207 does not refer to interim dividend. Dividend can be declared only by the members and none else. The payment of interim dividend is an interim payment by the administrators of the company if in their opinion, the position of the company justifies such a payment and is subject to scrutiny and approval by the masters".
The distinction between interim and final dividend is that, a final dividend once declared by the company in general meeting is a debt and creates an enforceable obligation to pay to the shareholders. But it is a settled law that in case of an interim dividend which the directors have resolved to pay, they have an option at any time before payment to review their decision and resolve not to pay (Lagunas Nitrate Co. Vs. Schroeder and Co. and Schmidt. (1901)). The Supreme Court in J. Dalmia Vs. Commissioner of Income Tax (1964), following the Lagunas Nitrate Case, held that the interim dividend is not a debt and, therefore, not an enforceable obligation. Comparing and contrasting final dividend with interim dividend, Shah, J, said -

"Therefore, a declaration by a company in general meeting gives rise to an enforceable obligation, but a resolution of the Board of Directors resolving to pay interim dividend or ever resolving to declare interim dividend pursuant to the authority conferred upon them by the Articles of Association gives rise to no enforceable obligation against the company, the resolution is always capable of being rescinded".

If an interim dividend is paid out of capital by a bona-fide mistake such an amount can be recovered from the recipient shareholders provided he has retained the money as was held in the case of Towers Vs. African Tug Co. (1904). Similarly, if shareholder knows that the dividend has been paid
out of capital, the money can be recovered from him as was decided in the case Maxham Vs. Grant (1900). The Directors may be personally liable if any dividend exceeds the total profits for the year, unless either adequate divisible or revenue balance exists.

Generally interim dividend is declared by the directors and, no meeting of the shareholders need be held to sanction it. However, the approval of the Central Govt. is necessary when it is proposed to pay interim dividend.

Again, if the directors do not propose any further dividend at annual general meeting, they are obliged in view of the scheme of the Act, to propose the interim dividend as final dividend and, if the same is confirmed, the members can be said to have declared the dividend and the application of provisions of section 205, 206 & 207 come into play. If the payment of dividend based on the estimated position of the company does not leave sufficient profits in accordance with the section 205(1) & 205(2A) of the Act, the members would not be in a position to declare the same but would be obliged to reduce the same so as to confirm the requirements of the section 205. The excess dividend paid would be deemed to have been paid by the directors at their risk who will be liable to make good to the company the loss on that account to the extent, the members do not refund the same - (Naik, I.C. "Illegality of Interim Dividends" in Economic Times (Bombay) (July-1978)).
Companies (Temporary Restriction on Dividends) Act, 1974

To control the purchasing power of the dividend recipients and to increase the internal resources for the formation of assets of the company, certain restrictions were imposed by the Central Govt. by introducing a new Act, called companies (Temporary Restrictions on Dividends) Act, 1974. This Act was effective only for two years and ceased to operate with effect from 6th July, 1976.

Under this Act, for a period of two years from the appointed day (i.e. 6th day of July, 1974), companies mentioned in this Act were debarred from declaring or paying dividends for any financial year in excess of the least of the following:

(i) one-third of the net profits of the company for that financial year or,

(ii) an amount required to pay 12 percent dividend on the face value of equity shares of the company and dividend payable on its preference shares.

This Act also stated that such companies shall not be allowed to pay or declare interim dividend without the prior approval of the Central Govt.

Subsequently, however, such companies were allowed to declare dividend in excess of 12 percent during the pendency of the Act but the excess was to be paid after the 6th July,
1976 with interest @ 8% per annum in two equal instalments.

Declaration of Dividend by Foreign Companies - Under Section 26(2)(iii) of the Foreign Exchange Regulation Act, 1973, Central Govt. or Reserve Bank of India may by a notice under section 26(1) of the Act direct a foreign company to declare and pay such dividends as may be specified in the notice.

The companies referred to in this section as mentioned above are companies not incorporated under any law in force in India and in the case of which any of the following conditions is fulfilled:

(a) that the company is one in which the non-resident interest is forty-nine percent or less or

(b) that more than one half of the sums which, on a liquidation thereof would be receivable by holders of share or loan capital and would be receivable directly or indirectly, by or for the benefit of, persons resident in India, or

(c) that more than one half of the sums which, on a liquidation thereof, would be available for distribution after the payment to creditors, would be receivable directly or indirectly, by, or for the benefit of, persons resident in India, or

(d) that more than one half -
(i) of the interest payable on its loan and loan capital, if any, or

(ii) of the dividends payable on its preference share capital, if any, or

(iii) of the dividends payable on its share capital, if any, not being preference share capital, is receivable directly or indirectly by, or for the benefit of, persons resident in India.

Declaration of Dividend - Apart from paying interim dividends which the Board of Directors may do at their discretion where the company's profits warrant such payment before the holding of the annual general meeting, a final dividend for any financial year can, as a rule, be declared and paid only 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 is thus the prerogative of the board of directors to recommend the amount of dividend to be distributed. It is however the right of the members at the annual general meeting to approve the recommended rate of dividend or lower the same, but in no case they can increase the amount. Though it is usual to declare the dividend at the annual general meeting there is nothing in the Act prohibiting the declaration of the dividend at subsequent general meeting, if for
any reason, it could not be declared at the annual general meeting. In this connection, Regulation 85 of Table A of Schedule I also may be noted, at it only says that dividends may be declared at general meetings and not necessarily, annual general meeting.

According to Circular No. 22, Deptt. of Company Affairs dated 25/10/1975. "Where a company had declared dividend at a general meeting, neither the company nor its directors can declare a further dividend for the same year".

However, the cumulative effect of all the provisions in the Companies Act is that the declaration of dividend is the business of the annual general meeting. Dividend can not be declared retrospectively with reference to previous years, the accounts of which are closed at the annual general meeting held for those years.

**Dividend as a Debt** - A dividend, when declared, becomes a debt, and a shareholder is entitled to sue at law for recovery of the same after expiry of the period prescribed by Sec. 207. It is only an ordinary unsecured debt of the company to its shareholders. By reason of the declaration of dividend the company does not, however become a trustee for the shareholders.

Note, however, that when a company goes into liquidation, a declared dividend though remaining due as an arrear or debt will not rank with other debts due to creditors, but
will only be taken into accounts for adjustment of the rights of shareholders as contributions (Sec. 226(1)(g)) where a special fund for the satisfaction of the dividend claims of the shareholders is established, it would appear that, if the company becomes insolvent, the shareholders will have a preferential claim over the fund amount.

Revocation of Declared Dividend - Ordinarily, a dividend once declared, can not 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 a fire destroying the company's property, or the outbreak of a war, or the imposition of a new killing tax burden, or other cause(s) diminishing the assets of the company, it appears advisable to conserve the remaining assets, the Board of Directors will be justified in revoking the declaration of dividend.

In case of 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.

The directors are personally liable (jointly & severally) to account for illegal payment of dividends to the extent to which it has caused loss to the company or its
creditors or where the payment is in breach of any statutory provision, to the extent to which the liability is determined by such provision.

Where the directors presented accounts in which debts known to be "bad", were shown as assets of the company and the shareholders acting on the basis of these accounts approved the declaration of dividend the directors were held personally liable in winding up to repay the amounts distributed by way of dividend.

Payment of Dividend - Section 206 of the Companies Act 1956 provides that dividends are not to be paid except to registered shareholders or to their order or to their bankers -

(1) No dividend shall be paid by a company in respect of any share therein, except

(a) to the registered shareholders of such share or to his order or to his bankers, or

(b) in case a share warrant has been issued in respect of the share in pursuance of Sec. 114, to the bearer of such warrant or to his bankers.

(2) Nothing contained in subsection (1) shall be deemed to require the bankers of a registered shareholder to make a separate application to the company for the payment of the dividend.
Mode of Dividend Payment - Under Section 205 (3) no dividend shall be payable except in cash. According to Sec. 205(5)(b) any dividend payable in cash may be paid by cheque or warrant sent through the post directed to the registered address of the shareholders entitled to the payment of the dividend, or in the case of joint shareholders, to the registered address of one of the joint shareholders which is first named on the register of members, or to such person and to such address as the shareholders or the joint shareholders may in writing direct.

The dividend shall be paid by the company within a period of 42 days from the date of declaration of dividend. According to Sec. 207 of the Company Act, 1956, where a dividend has been declared by the company, but it has not been paid, or warrant in respect thereof has not been posted, within 42 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, be punishable with simple imprisonment for a term which may extend to seven days and shall also be liable to fine.

Provided that no offence shall be deemed to have been committed within the meaning of the foregoing provision in the following cases, namely -

(a) Where the dividend could not be paid by reason of the operation of any law,
(b) where a shareholder has given direction to the company regarding the payment of dividend and those directions cannot be complied with,

(c) where there is a dispute regarding the right to receive the dividend,

(d) where the dividend has been lawfully adjusted by the company against any sum due to it from the shareholder, 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.

Transfer of Unpaid Dividend to a Special Dividend Account - Section 205(A) of the Companies (Amendment) Act, 1974, provides that the amount of unpaid dividend should be transferred to a special dividend account in a scheduled bank.

(1) Under Section 205A(1) where, after the commencement of the Companies (Amendment) Act, 1974, a dividend has been declared by a company but has not been paid or the warrant in respect thereof has not been posted within forty two days from the date of declaration, to any shareholder entitled to the payment of the dividend, the company shall, within seven days from date of expiry of the said period of forty two days, transfer the total amount of dividend which remains unpaid or in relation to which no dividend warrant has been posted within the said period of forty two days, to a special account to be opened by the company in that behalf in any
scheduled bank, to be called "Unpaid Dividend Account of .... Company Limited/Company (Private) Limited".

This section has been amended by the (Amendment) Act of 1988 to provide that all dividends remaining unpaid/unclaimed whether dividend warrants have been posted or not, must be deposited in the unpaid Dividend Account. It is now made abundantly clear that any dividend warrant which has not been enclosed within 42 days from the date of declaration of dividend or has not been paid or remained unclaimed within the aforesaid period, for whatever reasons, has to be transferred to the special account in any schedule bank.

(1) Under Section 205-A(2) where the whole or any part of the dividend, declared by a company before the commencement of the Companies (Amendment) Act, 1974 remained unpaid at such commencement, the company was under obligation, within a period of six months from such commencement, to transfer such unpaid amount to the account referred to in subsection (1).

(2) Under Section 205-A(4) - If the default is made in transferring the total amount referred to in, subsection (1) or any part thereof to the unpaid dividend account of the concerned company, the company shall pay, from the date of such default, interest on so much of the amount as has not been transferred to the said account, at the rate of twelve percent per annum and the interest accruing on such amount
shall accrue to the benefit of the members of the company, in proportion to the amount remaining unpaid to them.

Transfer of Unpaid Dividend to the General Revenue Account of the Central Govt.

(1) Under Section 205-A(5), where any money transferred to the unpaid dividend account of a company, in pursuance of this section remains unpaid or unclaimed for a period of three years from the date of such transfer, the same shall be transferred by the company to the general revenue account of the Central Govt. But a claim to any money so transferred to the general revenue account may be preferred to the Central Govt. by the person to whom the money is due and it shall be dealt with as if such transfer to general revenue account had not been made, the order, if any, for payment of the claim being treated as an order for refund of revenue.

(2) Under Section 205-A(6), the company shall, when making any transfer under subsection (5) to the general revenue account of the Central Govt. any unpaid or unclaimed dividend, furnish to such officer as the Central Govt. may appoint in this behalf a statement in the prescribed form setting forth in respect of all sums included in cash transfer, the nature of the sums, the names and last known addresses of the persons entitled to receive the sum, the amount to which each person is entitled, and the nature of his claim thereto, and such other particulars as may be prescribed.
(3) Under Section 205-A(7), the company shall be entitled to a receipt from the Reserve Bank of India for any money transferred by it to the general revenue account of the Central Govt., and such receipt shall be an effectual discharge of the company in respect thereof.

(4) Under Section 205-A(8), if a company fails to comply with any of the requirements of this Section, the company and every officer of the company who is in default, shall be punishable with fine which may extend to five hundred rupees for every day during which the failure continues.

Payment of Unpaid or Unclaimed Dividend - Section 205-B provides that, any person claiming to be entitled to any money transferred under subsection (3) of section 205-A to the general revenue account of the Central Govt., may apply to the Central Govt. for an order for payment of the money claimed, and the Central Govt. may, if satisfied whether on a certificate by the company or otherwise, that such person is entitled to the whole or any part of the money claimed, make an order for the payment to that person of the sum due to him after taking such security from him as it may think fit.