



RAMA UNIVERSITY

www.ramauniversity.ac.in

FACULTY OF COMMERCE AND MANAGEMENT

COURSE: B.COM V SEM.

SUBJECT: FUNDAMENTAL OF FINANCIAL MANAGEMENT

SUBJECT CODE: BCH 505

LECTURE: 27

NAME OF FACULTY: DR. PALASH BAIRAGI

LECTURE-27



MEANING OF DIVIDEND

Dividend refers to the business concerns net profits distributed among the shareholders. It may also be termed as the part of the profit of a business concern, which is distributed among its shareholders. According to the **Institute of Chartered Accountant of India**, dividend is defined as “a distribution to shareholders out of profits or reserves available for this purpose”.

TYPES OF DIVIDEND/FORM OF DIVIDEND

(A) Cash dividend: A cash dividend is a usual method of paying dividends. Payment of dividend in cash results in the reduction out flow of funds and reduces the net worth of the company. The share holders get an opportunity to invest the cash in any manner, they desire. Hence, the ordinary share holders prefer to receive dividends in cash. In case of companies having cash dividends, the firm must have adequate liquid resources, so that its liquidity position is not adversely affected on account of cash dividend.

(B) Scrip (or) Bond dividend: A scrip dividend promises to pay the share holders at a future specific date. In case a company does not have sufficient funds to pay dividends in cash, it may issue notes or bonds for amounts due to the share holders. The objective of scrip dividends is to postpone the immediate payment of cash. A scrip dividend bears interest and is accepted as collateral security.

(b) Property Dividend: Property dividends are paid in the form of some assets other than cash. They are distributed under exceptional circumstances and are not popular in India.

(c) Stock Dividend: Stock dividend means the issue of the bonus shares to the existing share holders. If a company does not have liquid resources, it is better to declare stock dividends. Stock dividend amounts to capitalization of earnings and distribution of profits among the existing share holders without affecting the cash position of the firm.

BONUS SHARE: A company can pay bonus to its share holders either in cash or in the form of shares. Many a times a company need not in a position to pay bonus in cash, in

spite of sufficient profits, because of unsatisfactory cash position or because of its adverse effects on the working capital of the company. In such cases, if the Articles of

Association provide any conditions, then it can pay bonus to its share holders in the form of cash. The dictionary meaning of bonus shares is a premium or gift, usually a stock, by a corporation to share holders. A Bonus share is neither dividend nor a Gift