Subject :- Financial Management(COMCC-7)

Class :- M.Com Semester2

Unit :- 4(Management of Income)

Topic :- Concept and Types of Dividend

Meaning and Concept of Dividend

The term ‘Dividend’ refers to that portion of profits(after tax) which is distributed among the owners/shareholders of the firm. In other words, Dividend is that part of the profits of a business concern which is distributed among its shareholders.

Dividend may be defined as divisible profit which is distributed amongst the members of a company in proportion to their shares in such a manner as is prescribed by the Memorandum and Articles of Association of a company.

According to The Institute of Chartered Accountant of India :- “Dividend is defined as distribution to shareholders out of profits or reserves available for this purpose.”

The dividend decision is one of the three basic decisions which a financial manager may be required to take, the other two being the investment decisions and the financing decisions. Dividend decision of the business concern is one of the crucial parts of the financial manager, because it determines the amount of profit to be distributed among shareholders and amount of profit to be treated as retained earnings for financing its long-term growth. Hence, Dividend decision plays very important part in the financial management.

Types of Dividend / Forms of Dividend

The forms of dividend are as follows :-

1. **Cash Dividend**

   A cash dividend is the most common form of the dividend. The board of directors announces the dividend amount in cash to those investors holding the company’s stock on a specific date.

2. **Property Dividend**

   A company may issue a non-monetary dividend to investors, rather than making a cash or stock payment. The company makes the payment in the form of assets in the property dividend. The asset could be any of this equipment, inventory, vehicle or any other asset.

The value of the asset has to be restated at the fair value while issuing a property dividend.

3. Scrip Dividend

Scrip Dividend is a promissory note to pay the shareholders later. This type of dividend is used when the company does not have sufficient funds for the issuance of dividends.

4. Liquidating Dividend

When the board of directors wishes to return the capital originally contributed by shareholders as a dividend, it is called a liquidating dividend, and may be a precursor to shutting down the business.

5. Share Repurchase

Share Repurchase occurs when a company buys back its own shares from the market and reduces the number of shares outstanding. This is considered as an alternative to the dividend payment as cash is returned to the investors through another way.

6. Bonus Share

Bonus Share is also called as the stock dividend. Bonus shares are issued by the company when they have low operating cash, but still want to keep the investors happy. Each equity shareholders receives a certain number of additional shares depending on the number of shares originally owned by the shareholder. For example, if a person possesses 10 shares of company A, and the company declares bonus share issue of 1 for every 2 shares, the person will get 5 additional shares in account. From company's angle, the number of shares and issued capital n the company will increase by 50%(1/2 shares). In this case, company shall retain earning also at the same time shareholder gets dividend. An investor who desires cash return, can sell investment in secondary market. It is also called capitalization of earning.

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