Forms of Dividend Payment

Dividend is a portion of the profit which is distributed among the shareholders in the form of their return against their investment in the form of share capital. It is payable to the shareholders by the company .There are two types of dividend , one is Final dividend and other is interim dividend . Generally by dividend we mean final dividend only which is also known as regular dividend dividend is generally declared in Annual General Meeting of the shareholders which is held at the end of the year. Hence, it is called final dividend but sometimes the company earns some abnormal profit which needs to be distributed before the declaration of the final dividend during the interim period which is between the period of two Annual General Meeting of the shareholders, hence, this dividend is known as interim dividend or extra dividend for interim period. This profit is distributed as interim dividend where the company does not like to enhance the rate of final dividend .Once,the rate of final dividend will be increased, the company has to maintain it in future also.Thus, if the company is not sure about this level of earning in future, it prefers to distribute in the interim period in the place of increasing the rate of final dividend.

Now the question is whether it is the case of final dividend or interim dividend ,how it is given to the share holders .There are different ways through which the dividend is paid to the shareholders but only two forms are important which are generally followed throughout the world. One is cash dividend and other is stock dividend or bonus shares .In addition to these two forms, some other forms are also existing in different parts of the world which are generally as follows:

(1)Cash dividend: This is the most common method of dividend payment where the amount of the dividend is paid to the shareholders through cheque. This shows the outflow of cash from the company. Hence, it needs proper cash planning. By making payment of dividend in cash, the liquidity position of the country needs to be analysed very carefully. There should not be adverse impact on the liquidity of the concern by making payment of dividend in cash. As per the provisions of the Companies Act, every concern is bound to make the payment of dividend in cash. There is no alternative at all, except in some exceptional situation where provision for making payment of dividend in the form of shares is permitted.

(2)Stock dividend: This is also known as bonus shares where dividend is paid by issuing fresh equity shares to the shareholders .It has been seen that generally dividend is paid in the form of cash but in every exceptional situation where liquidity position of the company is not satisfactory and making payment of dividend in cash goes to affect the liquidity and profitability position very adversely ,in such a situation, the company may be permitted to make the dividend payment in shares. This permission is generally given after presenting the financial statement for the period of six months where

the company has to certify and justify that the financial position is very satisfactory but the liquidity position is questionable .Hence, permission for dividend payment may be given in shares. This is also known as bonus shares .This bonus shares are issued by capitalising the profit ,Hence, balance sheet remains intact, there is change in the share capital and reserves and surplus of the company.

(3) Scrips or Bonds dividend: This form is adopted when the company does not want to pay cash dividend due to poor liquidity and lack of sufficient fund during the period .Scrips dividend bears interest and accepted as a Collateral security.

(4) Property dividend :This dividend is paid in the form of some assets other than cash .It is distributed among the shareholders in certain ratios . This is followed in a very exceptional situation but it is not popular anywhere.

(5)composite dividend :When dividend is paid partly in cash and partly in kinds it is known as composite dividend .Extra dividend or additional dividend is generally paid in excess of the regular dividend usually in prosperous years when earnings are very high.

Thus,these are the different forms through which dividend is paid but practically dividend is paid either in cash or in shares .Other forms of dividend payments are generally not followed anywhere in the present world but they may be adopted in a very exceptional situation .Even a stock dividend is also paid in the exceptional situation where liquidity is very poor .This stock dividend and its payment is specially permitted by the competent authority.