

What legal
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the amount of
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What legal restrictions may limit the amount of dividends to be paid? One of the major decisions made by the managers is to decide the amount of dividends to be paid out of its profits and for this purpose understanding to dividend policy is necessary. The companies act provides guidance to the managers for declaration and payment of dividends. It is up to the companies how much they pay dividends to the stockholders but within the limits of law. The companies act doesn't mention who should declare the dividends and similarly do not require to announce the dividend by the stockholders. It might be possible to be mentioned in the company's article to declare the dividend. But in articles it provides that the final dividends should be declared by the company in their general meeting but the amount of dividend shouldn't exceeds the amount decided by the directors. When companies declared the amount of dividend then the same amount should be paid to the stockholders. It is a common law that companies distributes dividends out of its profits only but not from out of their profits and to pay the dividend the company should have cash and a positive balance in its Retained earnings. This restricts the amount of payment of dividends strictly. The amount of dividends is totally depending on the volume of net profits. The companies retain some portion of the net income for further investment and some of the portions distributed to their shareholders as dividends. But no dividend can be paid to the shareholders if the company is declared as insolvent (Weiner and Bonbright, 1930). If the company is declared as an insolvent then he has nothing to pay dividends as it is unable to pay their liabilities then how can that company pays dividends. So dividends can be paid from profits of the company only and not also from the loans because it also increases the risk of insolvency. These dividends are only to be paid

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from the current profits of the companies and dividends are a part of profits only. The other legal restriction that limits your amount of dividend is the type of shares you have, if you have the proffered shares then you will be paid first and according to the rate decided at the time of purchasing these shares. The preferred shares are not affected by the volume of the net profits. It should be paid according to the decided rate but the common stock depends on the profits. If greater the profits, greater is the chance of more dividends. If the organization declares more profits than it may cause of more dividends but it on the company's management to decide the rate of dividends. The amount of dividend for common stock holders will affects by the number of the shares they hold, the more they have shares, the more they will affect the amount of the dividend. Work Cited Weiner, Joseph L. and Bonbright, James C. " Theory of Anglo-American Dividend Law: Surplus and Profits" Columbia Law Review Association, Inc. 30. 3 (1930): 330-358