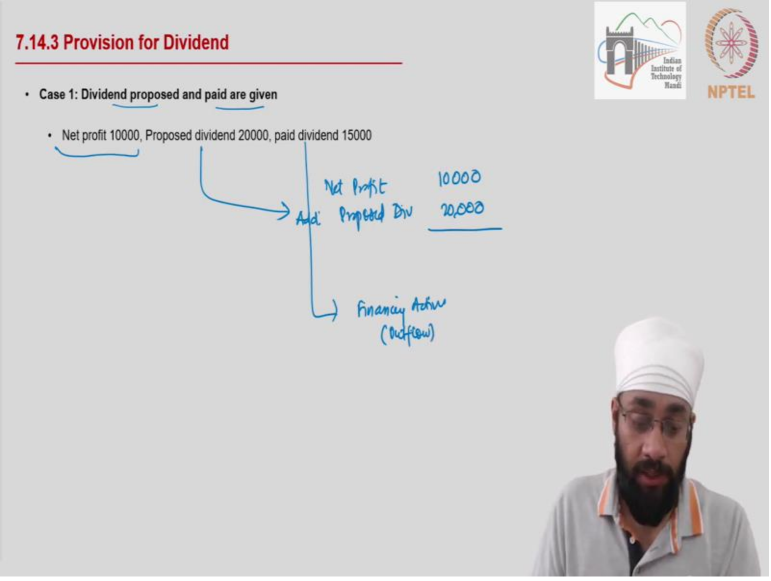
# Financial Accounting
**Dr. Puran Singh**
**School of Humanities and Social Sciences**
**Indian Institute of Technology, Mandi**

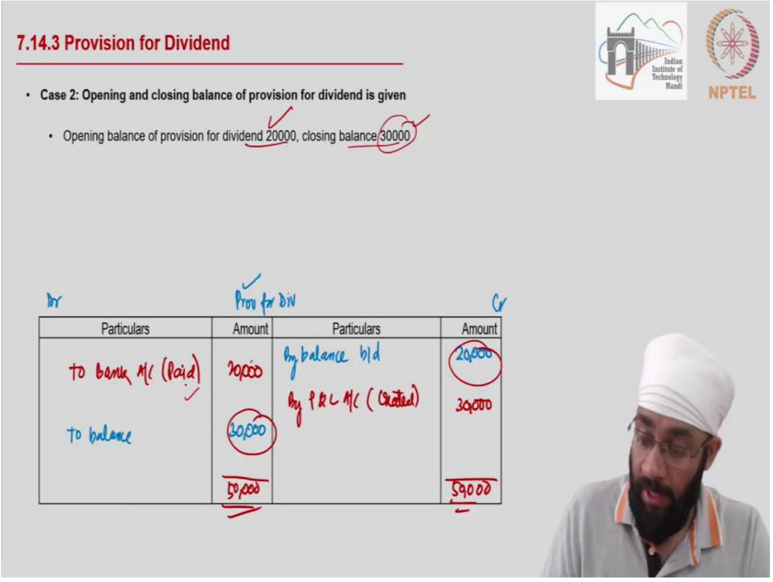
**Lecture – 104**
**7.14 Identifying hidden information (Part 3)**

(Refer Slide Time: 00:16)




In this video, we are going to talk about the proposed dividend and the dividend expenses which are actually made during the year. We will look at three cases again. So, case 1 is that proposed dividend amount and the paid dividend amount is given to you. You have a net profit of 100. So, in the first section, where you show the profit during the year, you are going to add to it the proposed dividend, which is 20,000. So, this is the first treatment, the proposed dividend. And the paid dividend is going to go to the financing activities. Financing activities as an outflow, the dividend actually being paid; this is what we have been doing till now.

(Refer Slide Time: 01:06)

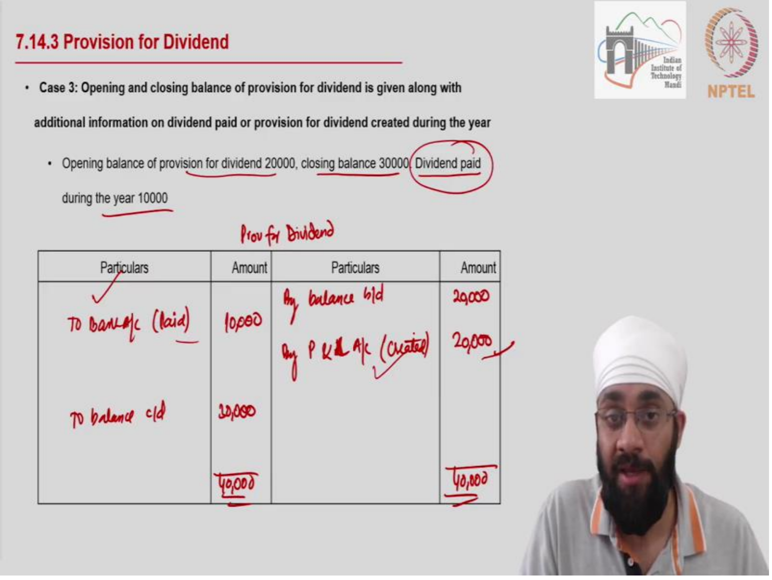



Let us look at a more complicated case. Case 2, where you have an opening and closing balance of the provision for dividend. Provision for dividend is by the way same as the provision for tax; very similar treatment credit and debit. Since, this is the provision, this is the liabilities account, we are going to write the opening balance on the credit side: By balance brought down, the opening balance is 20,000 and the closing balance is 30,000.

In this case, we are going to assume, just like we did in the case of the provision for tax, the opening balance is the amount of dividend which is actually being paid. This is the dividend being paid 20,000 and the closing balance is the new amount which was transferred into the provision account from the profit during the year. So, 30,000, this is the provision created and the total has to come out to be equal.

So, from the opening and closing, we assumed that the opening balance is going to be paid during the year. Closing balance is going to be the provision created during the year. Accordingly, the provision is added back into the profit and the actual dividend paid is taken to the financing activities in the last, the third subsection, in the cash flow statement.

(Refer Slide Time: 02:44)



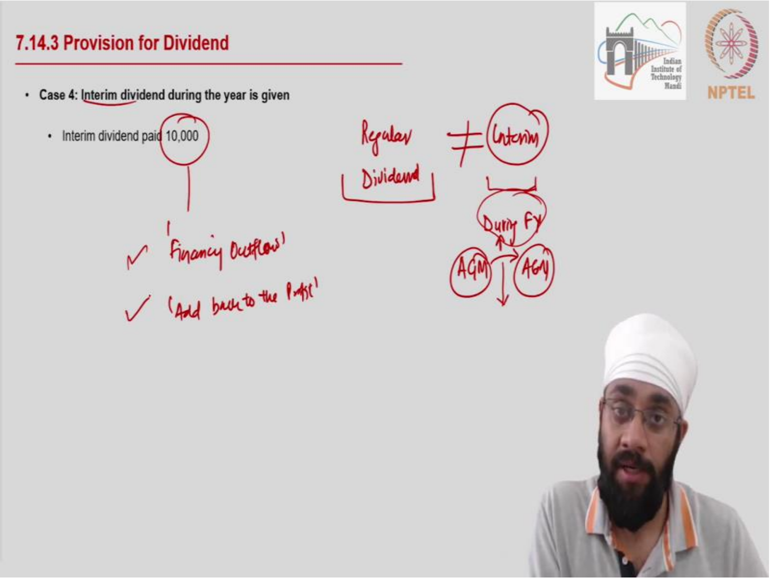

Let us look at the third case, where you have the opening balance and the closing balance plus information on dividend payment has also been given to you. So, provision for dividend account and provision for dividend or proposed dividend, we keep them as the same account.

This is opening balance: By balance brought down. This is 20,000 and there is a closing balance, To balance carried down 30,000. Now, instead of us making any assumptions, clear cut information has been given that the dividend paid during the year is 10,000. The journal entry is Provision account debit, To bank.

So, I am going to write, To bank account here. This is the dividend paid during the year 10,000 and you have a total of 40,000 on both sides. There is clearly a balancing figure here of 20,000. What is this amount? This is the amount of provision profit and loss account; this is the provision created during the year.

20,000 was taken out of the profit and loss account and put into provision for dividend account or proposed dividend account. So, similar to provision for taxes account, we look at the hidden information, we figure out the hidden information. Again, a zero-sum game, if you have this number, you can calculate this number and vice versa, that is it.

(Refer Slide Time: 04:15)




That is what I wanted to discuss, but there is one more case: interim dividend. This is different from the regular dividend. So, a regular dividend is different from an interim dividend. Regular dividend is typically proposed at the end of the financial year by the board and then, an approval is granted and then payment is made.

Interim dividend refers to a dividend which is paid during a financial year. The reason it is called interim is because there are annual general meetings of the company. So, at the end of the year an annual general meeting is held and that is where the dividend is decided.

However, if a decision is taken during the financial year, which means that this is between the two annual general meetings of the company, then it is called interim. Between the two annual general meetings, the board decides to pay the dividend and it actually pays the dividend. There is no provision which is created.

The reason for this is that sometimes you need to support the share price of the company, you need to return money to the shareholders, maybe you have excess money or you want to boost the confidence of the investors. So, during the year, an interim dividend is also paid. There is no provision that is created for this dividend.

So, whenever you have this information of interim dividend being paid, we just take it to the financing activities and you show it as an outflow; outflow and of course, it is paid out of profit. So, in the operating activity, you have to add it back to the profit; profit and loss account during the year. So, these are the two treatments that you have to do for the interim dividend; that is it.

I will see you in the next video.